Yen Surge Halts Equities Rebound: Market Update

Description

(Bloomberg) -- The global stock market rally began to lose momentum once again as the yen strengthened, reigniting concerns about the unwinding of carry trades. This comes after a tentative recovery fueled by the resilience shown in the US labor market.

European stocks saw modest gains at the conclusion of a volatile week marked by historic spikes in volatility. US equity futures retreated after the S&P 500 recorded its strongest daily gain since November 2022. Despite this, the benchmark is still heading towards its fourth consecutive weekly decline. Treasury yields dipped, and the dollar index also saw a decline.

The resurgence of the yen poses a threat to the revival of risk appetite, particularly following a more positive US jobless claims report that helped quell fears of a recession triggered by disappointing employment data from the previous week. The upcoming US data releases, particularly on consumer inflation and retail sales, will be crucial in providing reassurance to investors looking for signs of a soft landing.

UBS Global Wealth Management's Chief Investment Officer, Mark Haefele, warned that market volatility could persist for an extended period. He noted that further unwinding of carry trades could lead to increased selling of risk assets, given the prevailing economic uncertainties.

According to Bob Savage, Head of Markets Strategy at BNY Mellon Capital Markets, there is still room for the unwinding of carry trades, with short-yen positions likely to be reduced as the Japanese currency continues to strengthen. He believes that investors are overly bearish on the yen and anticipates that it could appreciate towards 100 per dollar in the future.

In Japan, the Topix index saw its gains narrow from an initial 2% to 0.9% as the yen strengthened against the dollar. A stronger yen has the downside of diminishing Japan's export competitiveness and thereby affecting the country's stock market negatively.

Elsewhere, Chinese equities flattened out after an initial uptick, with indications emerging that the better-than-expected inflation data was influenced by seasonal factors rather than underlying economic strength.

Mixed messages from US Federal Reserve officials also contributed to caution among investors. Federal Reserve Bank of Kansas City President Jeffrey Schmid's comments, indicating hesitancy towards interest rate cuts due to inflation levels above target, added to the uncertainty in the markets.

The global repricing following these statements has been so drastic that at one point, interest-rate swaps implied a 60% chance of an emergency rate cut by the Fed before its scheduled meeting in September, although current pricing suggests around 40 basis points of cuts for that month.

Oil prices stabilized after a previous rally, against the backdrop of escalating tensions in the Middle East, while gold prices experienced a decline.

Key events in the upcoming week include crucial US economic data releases that will likely influence market sentiments and investor decisions.

--With contributions from Richard Henderson.

Vocabulary List:

1. **Momentum** /məˈmɛn.təm/ (noun): The strength or force gained by motion or by a series of events.
2. **Resilience** /rɪˈzɪl.jəns/ (noun): The capacity to recover quickly from difficulties; toughness.
3. **Volatility** /ˌvɒl.əˈtɪl.ɪ.ti/ (noun): The quality of being prone to rapid and unpredictable change.
4. **Appetite** /ˈæp.ɪ.taɪt/ (noun): A strong desire or inclination to do something.
5. **Reassurance** /ˌriː.əˈʃʊə.rəns/ (noun): The action of removing someone's doubts or fears.
6. **Pristine** /prɪsˈtiːn/ (adjective): In its original condition; unspoiled or immaculate.

Comprehension Questions

Multiple Choice

1. What factor reignited concerns about the unwinding of carry trades in the global stock market rally?

   Option: Strengthening of the yen
   Option: US labor market resilience
   Option: Historic spikes in volatility
   Option: Treasury yields dip

2. After recording its strongest daily gain in November 2022 the S&P 500 was still heading towards its _____ weekly decline.

   Option: Second consecutive
   Option: Third consecutive
   Option: Fourth consecutive
   Option: Fifth consecutive

Gap-Fill

2. After recording its strongest daily gain in November 2022 the S&P 500 was still heading towards its

________________ weekly decline.

3. Who warned that market volatility could persist for an extended period?

Option: Mark Haefele
Option: Bob Savage
Option: Richard Henderson
Option: Jeffrey Schmid

4. What negative impact does a stronger yen have on Japan's stock market according to the content?

Option: Increases export competitiveness
Option: Improves economic strength
Option: Negatively affects export competitiveness
Option: Stabilizes market fluctuations

5. Which US Federal Reserve Bank president expressed hesitancy towards interest rate cuts due to inflation levels above target?

Option: Mark Haefele
Option: Bob Savage
Option: Richard Henderson
Option: Jeffrey Schmid

6. What event caused interest-rate swaps to imply a 60% chance of an emergency rate cut by the Fed?

Option: Gold prices decline
Option: Oil prices stabilization
Option: Japanese currency strength
Option: Federal Reserve official statements

Answer

Multiple Choice: 1. Strengthening of the yen 2. Fourth consecutive 3. Mark Haefele 4. Negatively affects export competitiveness 5. Jeffrey Schmid 6. Federal Reserve official statements
Gap-Fill: 2. Fourth consecutive

Vocabulary quizzes

Multiple Choice (Select the Correct answer for each question.)

1. What is the term for the act of refusing or dismissing something?

   Option: Acceptance
   Option: Embrace
   Option: Rejection
   Option: Approval

2. What does the term "Deception" refer to?

   Option: Truthfulness
   Option: Honesty
   Option: Deception
   Option: Integrity

3. Which word means the process of gradual development or change?

   Option: Stagnant
   Option: Evolving
   Option: Static
   Option: Fixed

4. What word describes something that has never happened before?

   Option: Routine
   Option: Ordinary
   Option: Common
   Option: Unprecedented

5. To make something more complex or difficult is to?

   Option: Simplify
   Option: Clarify
   Option: Complicate
   Option: Ease

6. What is the action of postponing something called?

   Option: Swift
   Option: Instant
   Option: Delay
   Option: Accelerate

7. What term is used to describe disturbances or interruptions to a process?

   Option: Stability
   Option: Continuity
   Option: Disruptions
   Option: Consistency

8. What word refers to the ability to recover quickly from difficulties?

   Option: Fragility
   Option: Weakness
   Option: Resilience
   Option: Vulnerability

9. What term describes a strong desire or liking for something?

   Option: Aversion
   Option: Disgust
   Option: Appetite
   Option: Repulsion

10. In business terms what is the process of winding up a company called?

   Option: Expansion
   Option: Growth
   Option: Liquidation
   Option: Development

Gap-Fill (Fill in the blanks with the correct word from the vocabulary list.)

11. An ________________________ is where two or more roads meet or cross each other.

12. The skill of ________________________ a ship through rough waters is critical for sailors.

13. The team gained ________________________ after winning the first match of the tournament.

14. The company focused on ________________________ after facing a financial crisis.

15. The festival organizers decided to change their food ________________________ for better quality.

16. The flight was canceled due to a technical ________________________.

17. Their combined ________________________ led to the successful completion of the project.

18. The meeting point of two rivers is known as a ________________________.

19. There has been a ________________________ of interest in traditional art forms recently.

20. Investors are cautious due to the ________________________ in the stock market.

Matching Sentences (Match each definition to the correct word from the vocabulary list.)

21. The use of machines to perform tasks that normally require human intelligence is known as Artificial Intelligence (AI).
22. A conversation between two or more people is termed a Dialogue.
23. The train came to a sudden stop after the conductor signaled a Halt.
24. The computer malfunctioned right before the important presentation.
25. The doctor provided reassurance to the patient before the surgery.
26. The beach was untouched and in its pristine condition before the tourists arrived.
27. The chef was tempering the spices to enhance the flavor of the dish.
28. There was a surge in demand for the new product after the marketing campaign.
29. The discovery of a new species in the forest was a significant event for the scientists.
30. The merger of the two companies led to the consolidation of their resources.

Answer

Multiple Choice: 1. Rejection 2. Deception 3. Evolving 4. Unprecedented 5. Complicate 6. Delay 7. Disruptions 8. Resilience 9. Appetite 10. Liquidation
Gap-Fill: 11. Intersection 12. Navigating 13. Momentum 14. Recovery 15. Vendor 16. Delay 17. Efforts 18. Juncture 19. Resurgence 20. Volatility
Matching sentence: 1. Artificial Intelligence (AI) 2. Dialogue 3. Halt 4. Malfunctioned 5. Reassurance 6. Pristine 7. Tempering 8. Surge 9. Significant 10. Consolidation

CATEGORY

1. Business - LEVEL6

Date Created
2024/08/09
Author
aimeeyoung99