newsquawk

US Market Wrap

April 28th: Fed sticks to the script; Big Tech earnings, Biden ahead

- **SNAPSHOT**: Equities mixed, Treasuries flat, Crude up, Dollar down
- **REAR VIEW**: Fed sticks to the script; markets tread water ahead of Biden announcement; bullish EIA
- **COMING UP**: **Data**: German Unemployment & CPI (Prelim), EZ Economic Sentiment, US GDP (Advance), PCE Prices (Advance) & Initial/Continued Jobless Claims **Event**: President Biden's Joint Address **Speakers**: Fed's Williams, Quarles; ECB's de Guindos, Elderson **Supply**: Italy **Earnings**: Amazon, Merck, Caterpillar, Altria, McDonald's, Gilead, Mastercard; Airbus, BASF, Lufthansa, Nokia, Shell, Standard Chartered, STMicroelectronics, Total, Logitech

MARKET WRAP

Stocks were mixed, Treasuries little changed, and the DXY lower after the FOMC stuck to the script and Chair Powell pushed back on early tapering expectations. There were idiosyncrasies within sectors: Google benefitted after a solid earnings report, while Microsoft suffered, as its beats weren't as impressive as those from the search-engine monopoly; AAPL and FB are the next big tech names to report after the bell. More broadly, there was a dovish reaction to Powell as he said it was too early to think about tapering, seeing bonds reverse earlier losses, while stocks moved higher, though ultimately faded into the close. Oil prices continued their momentum higher from Tuesday, with the more bullish than expected EIA data providing additional tailwinds; entry stocks were buoyed too, with additional support from a solid Hess report. Ahead of Thursday's Advanced GDP data, AMZN earnings and Friday's PCE print, participants will be keeping an eye on Biden's tax-funded fiscal plan to be revealed at 21:00EDT, although a lot of the details have already been released and traders are taking it with a big pinch of salt given the monstrous political hurdles it will need to pass.

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FED: The Fed made small changes to its policy statement, tweaking some of the language about activity and inflation to reflect the better tone of incoming activity data, as well as inflation picking up. These changes should merely be seen as a mark-to-market, rather than any upgrade of its outlook. The Committee now characterises economic activity as having “strengthened” (previously it noted that it had “turned up recently”); inflation meanwhile, is judged to have “risen, largely reflecting transitory factors” (previously it said inflation was continuing to run below the 2% target). In terms of the risks to the outlook, the Fed still sees “risks to the economic outlook” (previously it saw “considerable risks” to the outlook). There is no new signal on scaling back asset purchases. The FFR target range and IOER rates were both maintained, as was the current pace of asset purchases. In his press conference, Powell continued to push the status quo line, stating that the recovery remains incomplete, although it has happened far quicker than expected and labour market conditions continued to improve. He reiterated the transitory nature of inflation, and that it was unlikely that a persistent rise in inflation will be seen while there is still slack in the labour market. Crucially, Powell again said it would take “some time” for “substantial further progress” to be achieved, and it was still not time to talk about tapering asset purchases, which would be telegraphed in advance; he did state that the Fed would not need to get all the way to its goals to initiate a taper – something that analysts have assumed, since it is the rates guidance which requires max employment and average inflation above target, and it is assumed that the normalisation sequencing would involve tapering well before rate hikes. Powell seemed to link what “substantial further progress” is to the path of the virus, stating that it was likely that to achieve this progress, there will have been progress made on the virus. He said the Fed does not see wages moving up, something that would be seen in a tightening labour market; he added that it might take “some months” to get back to an equilibrium between labour supply and demand, though the US was still a long way from full employment. Asked about the risks of runaway inflation, Powell reiterated the Fed’s inflation guidance and new framework, but added that if expectations materially moved above 2%, the Fed would use tools to bring it down. Powell again made the argument that inflation was likely to see a transitory spike due to base effects, supply bottlenecks, pent-up demand, and energy prices (as has been argued previously). The Fed chair argued these base effects would linger for “a few months” but it was hard to predict how long they would linger. Powell also said that the Fed did not have any test for tapering or lifting rates. The Fed Chair also stated that the Fed was concerned about the prospects of long-term scarring on the labour market, though we have not experienced the level of scarring that the Fed had feared a year ago. On the consequences of policy looser for longer, Powell did not see any financial stability concerns, and attributed the buoyant housing market to low inventories and strong demand conditions. For equity markets, however, Powell saw parts that were a “bit frothy,” while there were some funding issues in money markets, but they are not systemic, adding that the financial stability picture is mixed but manageable, and the Fed did not see a need to tweak the IOER, though could do so if deemed necessary. Overall, the message from Powell was dovish, providing no signals that the Fed was on the cusp of scaling back asset purchases, or pointing to any signposts that we are travelling in that direction. The 'lower-for-longer' message supported equities and Treasuries.

BIDEN INFRASTRUCTURE: US President Biden will be unveiling the American Families plan aftermarket tonight at 02:00BST/21:00EDT. Many of the details have been unveiled; he plans to ask Congress to pay for the entirety of the USD 1.8trln in new spending, while the economic team is reportedly planning to refrain from increasing the estate tax in the upcoming tax-hike proposals as the proposed capital gains tax increase was already viewed as dramatic enough and Democrats are said to be among those that have doubts regarding US President Biden's plans to tax the rich. President Biden has reportedly called on Congress to eliminate the carried-interest loophole and plans a range of tax hikes on the rich to fund spending, the proposal involves a peak income tax rate of 39.6% and suggests that the tax break for real estate exchanges is to be phased out; it includes USD 1trln in new spending over 10-years and USD 800bln in tax cuts. Reports also suggest top White House officials have quietly been meeting with Republican Senators who drafted the counterproposal to President Biden's infrastructure plan, according to multiple sources.

FIXED INCOME

T-NOTE (H1) FUTURES SETTLED 2 TICKS HIGHER AT 132-03

By settlement, 2s -1.4bps at 0.166%, 5s -1.6bps at 0.862%, 7s -1.0bps at 1.311%, 10s -0.4bps at 1.618%, 20s -0.3bps at 2.177%, 30s -0.3bps at 2.290%; volumes were decent compared to recent averages. 5yr TIPS -5.8bps at -1.694%, 10yr TIPS -2.9bps at -0.799%, 30yr TIPS -1.8bps at -0.016%; 5yr BEI +3.3bps at 2.616%, 10yr BEI +1.3bps at 2.405%, 30yr BEI +0.4bps at 2.311%. NY Fed RRP demand at YTD peak of USD 166.732bln across 33 bidders (prev. USD 142.172bln across 31 bidders). SOFR unch. at 1bps. US sold USD 35bln of 119-day CMBs at 2.5bps, covered 3.56x.

On the day, Treasuries were marginally firmer in choppy trade after earlier losses were reversed as Powell pushed back on QE tapering. USTs were best offered overnight on decent volume out of Europe. The climb higher in US yields above last week's peaks was seemingly spillover from EGBs - with supply from the continent weighing - alongside positioning ahead of the FOMC, and potentially some jitters ahead of the Biden tax-fuelled fiscal plan. There was also attention on a newswires report from Tuesday evening on a big hawkish Eurodollars bet, where an undisclosed investor has built a 100k+ sized option wager (via risk reversals) targeting the pricing of >2% FFR/seven rate hikes by September 2024 against the currently priced >1.5%/five hikes, but interestingly, the bet expires this September, seemingly targeting a policy shift signal from the Fed at the August Jackson Hole event (which is still to be confirmed). Back to today, as NY players arrived sovereign yields pared from their peaks, with analysts noting likely short-covering/profit-taking pre-FOMC, with perhaps some tech buying on the basis that Bunds held above 170.00 and T-Notes just over a 50% Fib at 131-25. yields were choppy up into the FOMC, with some chunky block trades seen in steepeners, and lots of activity around 5yr USTs and in the Eurodollar strip, perhaps some of that flow was a result of several corporate deals today. The Fed decision gave no curveballs, affirming its easy stance/QE clip, with yields muted in the wake of that. Front EDs pared earlier losses too as the Fed made no hike to its IOER/RRP rates, as some traders had speculated beforehand it might. Treasury yields went into futures settlement ultimately little changed, after a dovish reaction was seen in the Powell presser/Q&A after the Fed Chair said it is not time to start talking about QE tapering. The rates market now looks to US Advanced GDP on Thursday, followed by PCE data on Friday. At the same time, month-end is in vogue, and current estimates see 0.09yr Treasury duration extension due.

CRUDE

WTI (M1) SETTLED USD 0.92 HIGHER AT 63.86/BBL; BRENT (N1) SETTLED USD 0.85 HIGHER AT 67.27/BBL

Crude futures rose throughout the session, catching tailwinds from the latest EIA data - which printed more bullish than Tuesday's private release - and looking past the OPEC+ decision to go ahead with pre-planned output hikes. The EIA report saw crude stocks +0.09mln (exp. +0.66mln), Cushing +0.72mln (exp. +1.1mln), gasoline +0.09mln (exp. +0.51mln), distillate -3.34mln (exp. -0.65mln); production fell 100k BPD to 11mln; refinery utilisation +0.4% (exp. +0.6%). Prices were very much rising before the EIA regardless, with momentum extending higher after the breakout higher on Tuesday afternoon. Otherwise, energy newsflow was pretty light today. There were some more geopolitical woes, however. Reports overnight suggested that the US Navy fired warning shots at Iranian boats in the northern Persian Gulf, in the vicinity of the Strait of Hormuz chokepoint. Further, Russia has returned to its punchy rhetoric as per Foreign Minister Lavrov's comments which stated that the West is delusional for thinking that Russia has retreated following the end of military exercises, and added that a war in the Donbass region is possible, but must be avoided; he also said US/Russian relations are worse than they were in the Cold War. Regarding JCPOA talks, a Russian delegate said working groups continue to work on lifting sanctions on Iran.

EQUITIES

CLOSES: SPX -0.05% AT 4,184, NDX -0.42% AT 13,901, DJIA -0.48% AT 33,823, R2K +0.01% AT 2,301

SECTORS: TECHNOLOGY -0.96%, HEALTH -0.35%, REAL ESTATE -0.34%, INDUSTRIALS -0.27%, UTILITIES -0.15%, CONSUMER DISCRETIONARY +0.00%, CONSUMER STAPLES +0.04%, MATERIALS +0.21%, FINANCIALS +0.28%, COMMUNICATION SVS. +1.21%, ENERGY +3.35%

EUROPEAN CLOSES: EUROPEAN PRELIM CLOSING LEVELS: EURO STOXX 50 +0.07% AT 4,015; FTSE 100 +0.25% AT 6,962; DAX +0.36% AT 15,304; CAC 40 +0.53% AT 6,307; IBEX 35 +0.47% AT 8,798; FTSE MIB +0.01% AT 24,475; SMI +0.08% AT 11,101

STOCK SPECIFICS: **Apple (AAPL)** reportedly plans to reduce AirPod output plans by 25%-30% this year, as sales lose steam, according to Nikkei citing sources. Note, AAPL earnings after-market. **Tesla (TSLA)** announced the fair market value of bitcoin it held has a fair market value of USD 2.48bln, suggesting it could make roughly USD 1bln on its initial investment. **Pfizer Inc. (PFE)** acquired Amplyx Pharmaceuticals which is developing a new treatment for drug-resistant fungal infections in patients with compromised immune systems; financial terms not disclosed. **Canadian Pacific (CP)** CEO says "we're not going to get into a bidding war" for **Kansas City Southern (KSU)**. Note, Canadian National Railway (CNI) made a USD 34bln bid for KSU on April 21st, topping the USD 31bln bid from CP. **General Motors (GM)** introduces ultium charge 360, integrating charging networks, GM vehicle mobile apps to simplify customer charging experience. Bausch Health (BHC) is said to explore a potential eye-care unit sale, according to sources. US Judge issues ruling denying Microsoft (MSFT) and the DoJ's request to dismiss Amazon (AMZN) allegations that the Trump administration interfered in the USD 10bln cloud computing contract.

EARNINGS: **Alphabet Inc Class C (GOOG)** posted a record profit with strong advertising revenue and announced a USD 50bln share repurchase programme; Analysts at Needham suggest spinning out YouTube would make sense. Q1 2021 (USD): EPS 26.29 (exp. 15.70), Revenue 55.31bln (exp. 51.55bln). Announces 50bln share repurchase programme of class C stock. REVENUE SEGMENTS: Google Segment: 51.18bln (exp. 51.10bln), Google Cloud: 4.05 bln (exp. 4.05bln), Google Network Members Properties: 6.80bln (exp. 6.05bln), Google Other (Inc. YouTube Non-Advertising): 6.49bln (exp. 5.88bln), Other Bets: 198mln (exp. 174.32mln). **Microsoft Corp (MSFT)** posted EPS and revenue beats although downside has been attributed to the slowdown of Azure growth. Note, while although the report beat expectations, it wasn’t by a huge amount – unlike GOOG.; Q3 2021 (USD): EPS 2.03 (exp. 1.78/1.77 GAAP). Revenue 41.71bln (exp. 41.03bln). Intelligent Cloud: 15.12bln (exp. 14.86bln). More Personal Computing: 13.04bln (exp. 12.47bln). Productivity and Business Processes: 13.55bln (exp. 13.49bln). Operating Income 17.05bln (exp. 15.94bln). Capital Expenditure 5.09bln (exp. 4.72bln). Azure growth slipped to 46% Y/Y growth from 48% in the prior quarter. **Amgen Inc (AMGN)** missed across the board; Q1 21 (USD): Adj. EPS 3.70 (exp. 4.05), Revenue 5.90bln (exp. 6.25bln). FY 2021 Adj. EPS View: 16.00-17.00 (exp. 16.80). FY 2021 Revenue View: 25.8bln-26.6bln (exp. 26.41bln). Sees ongoing COVID disruption for Q2, but less so in H2. **Boeing Co (BA)** posted a larger loss per share than expected with a miss in commercial airplanes and global services revenue, although defense space and security revenue was strong. Q1 21 (USD): Adj. EPS -1.53 (exp. -1.16), Revenue 15.2bln (exp. 15.08bln). Commercial Airplanes: 4.27bln (exp. 4.96 bln), Global Services: 3.75bln (exp. 3.93bln), Integrated Defense, Space and Security: 7.19bln (exp. 6.36bln), Total backlog grew to USD 364 billion; Commercial Airplanes added 76 net orders. Revenue primarily driven by lower 787 deliveries and commercial services volume, partially offset by higher 737 deliveries and higher KC-46A Tanker revenue. Boeing says it expects to see passenger traffic return to 2019 levels in 2023-2024; return to long-term trends thereafter. **Visa Inc (V)** beat on EPS and revenue but did not provide guidance; Q2 2021 (USD): EPS 1.38 (exp. 1.27), Revenue 5.7 bln (exp. 5.55bln). Cross-border volumes at constant currency -11% (exp. -14.9%). Total Visa processed transactions +8% (exp. +6.8%). Payment’s volume at constant currency +11% (exp. +9.21%). **Advanced Micro Devices Inc (AMD)** beat on EPS, revenue and computing and graphics and enterprise, embedded and semi-custom revenue all beat expectations; Q1 2021 (USD): Adj. EPS 0.52 (exp. 0.44), Revenue 3.45bln (exp. 3.21bln). SEGMENT REVENUE: Computing and Graphics 2.10bln (exp. 1.85bln) Enterprise, Embedded and Semi-Custom 1.35bln (exp. 1.25bln). **Texas Instruments Inc (TXN)** fell despite a strong quarter while Q2 guidance was in line with expectations. Q1 2021 (USD): EPS 1.87 (exp. 1.58), Revenue 4.29bln (exp. 3.99bln). Q2 EPS view 1.68-1.92 (exp. 1.68); Q2 revenue view 4.13-4.47 bln (exp. USD 4.16bln). REVENUE SEGMENTS: Analog: 3.28bln (exp. 3.03bln). Embedded Processing: 767mln (exp. 712.67mln). Other: 242mln (exp. 213.33mln). Mondelez (MDLZ) beat on EPS and revenue, Starbucks (SBUX) beat on EPS, missed on revenue but guidance was above expectations. .A full list of relevant earnings is available within the Daily US Equity Opening News.

FX WRAP

The dollar was sold post-Fed and once again failed to maintain gains above the 91 handle after breaching it early on. The Fed statement updated language on the economy to match the market but maintained its dovish language and guidance, seeing downside on the greenback as those looking for any “taper clues” were left in the dark. The press conference also expressed the view it is not the time to talk about tapering yet and maintained language it will take some time to meet its goals with full and maximum employment still a long way out. This morning, UBS research noted the buck is still expensive overall on its PPP model, although the inputs are volatile, while noting there is still room for euro gains and remain comfortable advocating a max long EUR exposure with an improving outlook as vaccinations speed up. EUR was flat ahead of the FOMC, while the dovish rhetoric saw EURUSD pick up and hold above 1.21 into the close. JPY was initially softer with USDJPY above 109, but the Fed's dovish reiterations, which disappointed those looking for taper clues, saw the buck and US yields sell-off, sending the cross further south from 109. XAU was slightly bid post Fed but within relatively contained price action as the broader metal complex came off recent highs.

Cyclicals were bid as the dollar sold off through the dovish Fed which also boosted equities, adding to the tailwind for the high beta currencies. Antipodeans were firm, although NZD outperformed the AUD after soft Aussie CPI overnight which only reinforces a dovish message from the RBA. AUDUSD tested 0.78 to the upside during the Fed press conference but failed to hold above the level, NZDUSD remained above 0.7250 ahead of New Zealand trade data tonight. GBP was slightly bid, primarily taking price action from the softer dollar. CAD had tailwinds of the softer dollar, firmer equities and firmer crude prices, helping USDCAD find a low of 1.2313, a level not seen since April 2018.

EMFX was mixed, BRL was a clear outperformer amid stronger than expected net payroll jobs while the Treasury increased its liquidity buffer by 20% to BRL 1.12trln, a new record. RUB was firmer tracking the gains in the crude complex and looking through renewed geopolitical concerns after harsh rhetoric; the Foreign Minister stated the West is delusional that Russia has retreated following the end of its military exercises, while adding its relationship with the US is worse than the days of the Cold War. MXN was also firmer amid gains in crude. TRY continues to recover, but more so from the softer dollar today despite cases of the Indian variant being reported in Turkey and as it is in the early days of its latest lockdown.