US Market Wrap

May 7th: Stocks rise as weak jobs report affirms need for continued support

- **SNAPSHOT**: Equities up, Treasuries mixed, Crude up, Dollar down
- **REAR VIEW**: NFP disappoints; US/China tensions continue to boil; Monetary and Fiscal powers highlight need for accommodative policy
- **WEEK IN FOCUS**: *Highlights include* US CPI, Retail Sales; China CPI; ECB mins; German ZEW; monthly oil market reports; Aussie budget; UK GDP; Banxico. *To download the report, please click here.*
- **CENTRAL BANK WEEKLY**: *Previewing* Banxico, Riksbank minutes; reviewing BoE, Norges, RBA, BCB, CBRT. *To download the report, please click here.*

MARKET WRAP

Equities were bid today with tech leading the gains after a dismal jobs report affirmed the need for continued support from both monetary and fiscal authorities, and only helped the Fed's argument that it is still too early to discuss tapering. The headline NFP rose by 266k, beneath all analyst expectations and sparked a hefty bid in bonds, taking the 10-year yield to lows of 1.469%, a level not seen since early March, which sent the Nasdaq 100 flying. However, as trade progressed the initial reaction reversed with many citing potential seasonal factors for the reason for today's miss, while the decline in temporary jobs may lead to a benefit in the future as it could indicate workers are looking for more permanent workers. The bid in bonds reversed and the 10-year yield was actually firmer by settlement, and the Nasdaq 100 closed roughly 100 points of its intraday highs, SPX and DJIA were more resilient however and both printed fresh record highs today. Elsewhere, US/China tensions continue to boil with NYSE affirming delisting decisions of three major China telecoms after reports yesterday noted the US will go ahead with the Chinese investment ban, a policy initiated by former President Trump. Senators today also drafted a bill to help bolster US tech R&D efforts to tackle China competition. JCPOA talks are ongoing with some progress being made, although neither side is committing to an outcome. Earnings start to quieten down next week with 3-4% of the index reporting with highlights on consumer, industrial and energy names. So far 438 of the S&P 500 have reported earnings, and more companies are beating EPS estimates for Q1 than the average; and by a wider margin. FactSet highlight that 86% of the 88% that have reported posted EPS above estimates, above the five year average of 74%. If this holds for the remainder of the season, it would be the best quarter for EPS beats since 2008. Next week's earnings calendar and estimates are available here.

US

NFP: The headline NFP posted a sizable miss, rising 266k, well under all analyst forecasts with the consensus looking for around 1mln jobs. The unemployment rate rose to 6.1% from 6.0%, above the expected 5.8%, although the participation rate rose by 0.2% to 61.7%. The Employment-Population Ratio, a metric the Fed have been keeping an eye on, rose slightly to 57.9% from prev. 57.8% (pre-pandemic was 61.1%). The headline noted, "In April, notable job gains in leisure and hospitality, other services, and local government education were partially offset by losses in temporary help services, couriers and messengers." Note, some analysts highlight the reduction in temporary workers may indicate that employees are looking for more permanent hires, which could benefit the future. At the same time, many commentators suggest the large miss could be due to seasonal factors. Analysts at Pantheon Macroeconomics note from numerous surveys, labour demand is very strong, but firms are finding it challenging to recruit people, despite a 6.1% unemployment rate and 3.5mln people permanently out of a job. PM further notes, the NFP data has made it easier to debate that the raising of unemployment benefits by USD 300/week in the March relief bill has hindered the labour supply. The consultancy does note, however, that studies last year found little evidence of avoiding work to rather sit and take the benefits, and the benefits last year were higher at USD 600/week. Additionally, with these benefits set to end in September, people may think jobs will be just as easy to find then as they are now. Other factors could be the potential COVID distress while Children returning to school may be another factor. Looking ahead, there is little doubt the NFP figure will rise over the coming months as the re-opening continues, Pantheon writes, but, if the job resistance continues to persist at the current wage rate, wages will have to rise quicker. Note, analysts are cognizant of a downturn in wages, but it will be driven through the return of lower-skill workers as social distancing and restrictive measures continue to ease. Following the NFP jobs report, President Biden noted the American Rescue Plan was set out to support the country over a year, not 60 days, suggesting not all the support has taken effect yet. He added, the US economy is moving in the right direction but has a long way to go, and today's jobs report shows how important its economic actions are. Following this, US Treasury Secretary Yellen spoke who said April’s job report highlights the long climb back to US economic recovery but reiterates her view the US will reach full economic employment next year. In addition to this, she does not think greater unemployment benefits is keeping workers out of the labour force and it is apparent some people, especially parents, are not ready to return to the labour force. Yellen also noted, you cannot take one-month data as an underlying trend. However, shortly after the release, the US Chamber of Commerce announced it is calling on lawmakers to end the USD 300 supplemental boost in Unemployment Insurance benefits.

FED: Following the jobs report, Kashkari (2023 voter) said he is not surprised by the low jobs report and noted there are lots of ups and downs to the recovery. The known-dove stated today's payroll report validates the Fed's outcome-based approach, and noted with the fiscal and monetary measures already present, there shouldn't be a need for more Biden fiscal stimulus.

FIXED INCOME

T-NOTE (M1) FUTURES SETTLES 2+ TICKS HIGHER AT 132-24

Treasuries were mixed on Friday after a sloppy jobs report saw the belly bid hard while approaching refunding supply kept duration cheaper, seeing 5s30s rise by over 6bps. 2s -1.2bps at 0.145%, 5s -2.4bps at 0.773%, 10s +1.6bps at 1.577%, 30s +3.6bps at 2.272%; TYM1 volumes were solid. 5yr TIPS -4.9bps at -1.922%, 10yr TIPS -2.8bps at -0.919%, 30yr TIPS -0.4bps at -0.038%. EDU2 +0.025 at 99.720, EDU3 +0.060 at 99.225, EDU4 +0.055 at 98.600. SOFR and EFFR unchanged at 1bp and 6bps. NY Fed RRP demand rises to USD 161.856bln across 28 bidders (prev. USD 154.92bln across 20 bidders).

Bonds were offered out of APAC on the back of decent Chinese economic data, and no signs of seasonal, post-Golden Week buying ahead of the US jobs report. There was also some spill-over weakness in the European morning on the back of some comments from ECB commentary about the potential for purchase tapering in June ahead of the central bank reaching its full PEPP remit. The action for the day arrived, unsurprisingly, on the back of the 266k US jobs added print, well below the expected 978k, while unemployment saw a surprise rise to 6.1% from 6.0%. There was a knee-jerk drop lower in yields, seeing cash 10s hit an intra-day low of 1.47%, a support level from early March, before paring half the move within the space of 10 minutes - there were close to 800k TYM1 contracts traded in the 30 minutes after the release. As the session progressed and the dust settled (shorts finished covering) weakness in duration resumed, with next week's refunding (2s, 10s, and 30s) on the horizon and dealers likely on the defensive to make concession, seeing 5s30s steepen by over 6bps on the day as the belly held firmer.

The belly was the hardest bid part of the curve on the back of the jobs report, both in USTs and Eurodollars, as the latter saw traders pare back rate hike expectations in the mid-curve. It is perhaps no surprise the belly would be most reactive to the paring of expectations for a hawkish policy shift. The market has over months been embedding risk premium from a few years out the curve forward on the notion that after a couple of years of the Fed's ZLB policy (under the AIT framework), while the economy runs hot, the Fed will likely have to make up for that in the medium-/long-term with a more aggressive rate hike cycle. Thus, as today's report showed that the path to recovery will likely be bumpy, traders have somewhat downgraded the need for the tightening (hikes) in the future as the immediate years ahead might not run as hot as imagined, making it harder to achieve 2% average inflation. Traders today noted that rates vol in the front-end (swaptions) have come down, reflective of a Fed on hold for longer view.

CRUDE

WTI (M1) SETTLES USD 0.19 HIGHER AT 64.90/BBL; BRENT (N1) SETTLES USD 0.19 HIGHER AT 68.28/BBL

Crude futures were modestly firmer in yet another choppy and rangebound session, with the benchmarks holding onto weekly gains - WTI and Brent opened the week at 63.64/bbl and 66.70/bbl, respectively. The disappointing labour market report saw some volatility in the energy complex, although ultimately, it appeared that oil prices took their cues from the rally in stocks, reversing earlier losses. The geopolitical landscape remains little changed. We had some comments from Iranian officials that can be boiled down to "talks ongoing" and "differences remain", following Thursday's comments from a US official that the pace of talks would need to speed up to reach a deal in the coming weeks. Over in America, Colonial Pipeline, the US' largest refined products pipeline, reported Friday afternoon that it is experiencing network issues that have impacted its system, where the team is currently working to restore service ASAP. Elsewhere, the latest Baker Hughes US rig count saw Oil +2 at 344, Nat Gas +7 at 103, and Total +8 at 448; note that Nat Gas rigs rose the highest amount in a week since December 2018 to their highest level since March 2020, seeing some marginal downside in prices. More broadly, one could argue that for oil to hold firmer on the week and brush new cycle peaks is a reflection of solid support. Especially in a week of disappointing US data, and the COVID situation in India which is yet to cool off. Energy bulls will be keeping attention on the region in the week ahead in hope of a declining COVID burden. Meanwhile, there could be some wobbles if the EIA, IEA, and OPEC monthly reports show demand forecasts knocked as a result.

EQUITIES

newsquawk

CLOSES: SPX +0.72% AT 4,231, NDX +0.78% AT 13,719, DJIA +0.66% AT 34,776, R2K +1.51% AT 2,267

SECTORS: ENERGY +1.88%, REAL ESTATE +1.22%, INDUSTRIALS +1.05%, MATERIALS +0.93%, CONSUMER DISCRETIONARY +0.8%, TECHNOLOGY +0.78%, HEALTH +0.72%, COMMUNICATION SVS. +0.61%, FINANCIALS +0.54%, UTLITIES +0.25%, CONSUMER STAPLES +0.01%

EUROPEAN CLOSES: EURO STOXX 50 +0.77% AT 4,030; FTSE 100 +0.80% AT 7,132; DAX +1.36% AT 15,404; CAC 40 +0.36% AT 6,380; IBEX 35 +0.92% AT 9,065; FTSE MIB +0.35% AT 24,582; SMI +0.55% AT 11,172

STOCK WRAP: Amazon.com Inc. (AMZN) Prime Day in Canada and India has been put on hold over COVID concern. Pfizer Inc. (PFE) and BioNTech (BNTX) have initiated the application process with the FDA for full approval of their COVID-19 vaccine, as expected. Tesla (TSLA) told a regulator in California it may not achieve full self-driving technology by year end. TSLA also raised its prices again for its Model 3 and Y. Oracle Corp. (ORCL) is reportedly still interested in a TikTok US deal, but the White House has not made any appointments at Treasury, State and DOJ, so there is no one to advance a policy about the future of the app, according to Fox. Walmart's (WMT) grocery business is "rapidly" losing ground to competitors, according to Recode citing a leaked memo. Amazon (AMZN) will add Tile tags to its Sidewalk device network next month, according to Engadget; Note, Apple (AAPL) recently unveiled their Apple (AAPL) air tags. YouTube (GOOG) announced an update to be available to all YouTube TV member on Roku (ROKU) over the next few days and it will expand to as many devices as possible over time; still working to come to an agreement with Roku to give access to mutual customers. The US Auto Industry and UAW union urged congress to use government funds to ensure automakers have a fair share of automotive chips (NXP), according to a letter to congress. Meanwhile, a US Senate Leaders draft a compromise for a USD 110bln measure to bolster US technology research and development efforts, in an attempt to address Chinese competition.

EARNINGS: Nike (NKE) caught a strong bid from Adidas (ADDYY) earnings which beat on net sales in Q1 and provided a significant top-line acceleration in Q2 and upgraded its FY outlook. Microchip (MCHP) beat on EPS and revenue was in line, while EPS guidance was above expectations. Peloton (PTON) figures were not as bad as feared; EPS -0.03 (exp. -0.12), Revenue 1.26bln (exp. 1.11bln). Subscription Revenue 239.4mln (exp. 238.6mln). Adj. EBITDA 63.2mln (exp. 18.3mln). Connected fitness subscribers 2.08mln (exp. 1.99mln, +135% Y/Y). Paid digital subscribers 891k (exp. 694k, +404% Y/Y). Q4 adj. EBITDA view -0.60mln; Peloton (PTON) noted the Tread recall will have over a USD 100mln revenue hit, and has thus cuts FY21 revenue view to 4bln (exp. 4.1bln, prev. 4.075bln). CIGNA Corp. (CI) posted top and bottom line beats and raised guidance; EPS 4.73 (exp. 4.38), Revenue 40.91bln (exp. 40.24bln). Raises FY21 adj. EPS view to at least 20.20 (exp. 20.26, prev. at least 20.00). Raises FY21 revenue view to at least 166bln from at least 165bln (exp. 165.77bln). Expedia (EXPE) loss per share beat expectations, as did revenue, while it's commentary was bullish, stating Summer looks strong particularly in the US and it is seeing booking trends well above levels seen in 2019; Adj. EPS -2.02 (exp. -2.31), Revenue 1.25bln (exp. 1.12bln). For a full list of relevant earnings, please access our Daily US Equity Opening News

FX WRAP

DXY - Whichever way you slice it or search for mitigating factors, April's BLS report was a major disappointment in headline terms as the 266k NFP gain fell a long way short of consensus and even more hyped up estimates, while the unemployment rate rose against expectations for a decline. However, the Dollar has regained some composure after succumbing to heavy all round selling and the index dumping from just under 91.000 to post a new low since late February at 90.209 vs 91.436 at best earlier in the week amidst a marked rebound in US Treasury yields and curve re-flattening as 10 year cash probed, but failed to stay below the psychological 1.50% level. Nevertheless, the Greenback's losing streak looks set to continue after a brief interlude and reprieve over month end, with the jobs data adding to the case put forward by FOMC doves along with misses in ISM manufacturing and services surveys, albeit both containing some stronger sub-components.

CAD - Having evaded the bulk of broad declines vs its US rival last Friday, the Loonie is lagging on the back of Canada's latest labour market update revealing a bigger than forecast drop in total employment and the lion's share due to full time job losses, while jobless rate rose more than anticipated as well. Regardless, Usd/Cad remains beneath 1.2200 and is not far from new multi-year lows sub-1.2130 having peaked on Tuesday circa 1.2352, with BoC/Fed policy divergence still the main driver and accompanied by upside in crude plus other commodity prices on bullish risk sentiment regarding COVID jabs boosting prospects of economies easing restrictions and lifting lockdowns.

AUD - Arguably the best G10 performer, or certainly among the most resilient given that the RBA maintained a dovish stance at the latest policy meeting and guidance was echoed in the latest SOMP, while relations between Australia and China have further deteriorated following the latter's decision to suspend the Strategic Economic Dialogue mechanism indefinitely. On the flip-side, building approvals beat consensus convincingly and RBA Deputy Governor Debelle declared that the economy recovery has exceeded even the loftiest expectations to back up decent upgrades to GDP projections, while the bull run in copper and iron ore etc is also underpinning the Aussie. Aud/Usd has now breached 0.7800 comfortably on the way through 0.7850 vs 0.7676 at one stage.

EUR - A rousing end to the week for the Euro that has struggled to recover recent losses and keep its head above 1.2000 at times, but is eclipsing late April highs around 1.2150 on a combination of Greenback depreciation, EGB/UST spread convergence, an improving Eurozone pandemic situation (on balance) and more QE taper murmurings from the ECB. On that note, GC member Kovaks became the latest to infer that asset purchases could be scaled back in Q2 if conditions are right, and this coincided with or perhaps prompted a large buy order in Eur/Usd on a break of 1.2070 and beyond the 100 DMA that was proving tough to scale until yesterday. For the record, EZ PMIs were underwhelming overall, while encouraging data has not really factored on grounds of being rather dated.

GBP - The Pound is also taking advantage of Dollar weakness to clear the 1.3950 hurdle, but Cable could run out of steam into the big figure above yet again after no material change in policy from the BoE, bar the technical adjustment in weekly APF Gilt purchases to taper the pace in accordance with the preannounced end of the QE remit in December. Accompanying MPC minutes and the MPR acknowledged brighter near term growth prospects and above target inflation, but GDP and CPI to fall back again later, and Governor Bailey responded to a question about sequencing by saying that the study on rate normalisation has yet to be concluded. Back to Sterling, but turning to the Eur/Gbp cross where trade has been volatile within 0.8713-0.8624 parameters, as the 50 DMA provided downside protection along with ongoing divisions post-Brexit on NI protocol and fishing rights.

NZD - Like its Antipodean peer, the Kiwi is making a lot of headway vs its US counterpart as the week draws to a close and extending towards 0.7300 at writing, but without such a close correlation to underlying commodities it has taken a more pronounced Greenback collapse to overcome upside barriers even though NZ fundamentals have been constructive via universally strong jobs data, building consents, firmer inflation expectations plus improvements in ANZ business sentiment and activity outlooks.

CHF/JPY - Still no sign of direct intervention via Swiss sight deposits, but it could be a totally different story when domestic bank balances are published next Monday given Franc outperformance this week, with Usd/Chf down towards 0.9000, while the Yen has more than made up for lost time in the absence of Japanese markets for Golden Week to trade up at 108.35 and take out a series of technical levels and decent option expiries along the way that had been keeping Usd/Jpy largely restrained between 109.50 and 109.00.

SCANDI/EM/PM - Everything prior to Friday almost seems irrelevant if not immaterial given the scale of Usd losses and gains in other currencies largely or solely as a result, but for good order's sake the Nok was not that impressed with the downbeat elements that came with the latest Norges Bank hold, but the Brl welcomed a back-to-back 75 bp BCB hike with added incentive as the Bank flagged another move of the same size at the next Selic rate meeting. Elsewhere, the Try took no change and pretty much repeat guidance from the CBRT in stride, while the Cnh/Cny have retraced sharply from pre-Chinese holiday lows with the aid of bullish trade data and Caixin PMIs as a counterbalance to heightened US tensions and the Zar has climbed on the coattails of Gold up over Usd 1840/oz following a stop-chase once the declining 100 DMA was breached and Usd 1800 in relatively quick order. Even the geopolitically and diplomatically challenged Rub has pared losses and the Mxn is back above 20.0000, albeit partly oil/commodity induced and thanks to the demise of its US neighbour.