US Market Wrap

31st January 2022: Stocks rally and Dollar sold after SPX posts biggest monthly drop since March 2020

- **SNAPSHOT**: Equities up, Treasuries flat/up, Crude up, Dollar down.
- **REAR VIEW**: Daly sees rate hike early March, touts 1.25% rate by year-end; George expresses concern over yield curve; Bostic says 50bps in March not his preferred action; Barkin wants Fed to get better positioned; Lavrov-Blinken to talk Tuesday; Strong Chicago PMI; China believes no basis might be war over Ukraine; OPEC compliance for January +132% (prev. 127%); CTXS to be acquired by Elliot and Vista.
- **COMING UP**: **Data**: German Retail Sales, EZ, UK, US Manufacturing PMIs, EZ Unemployment, US ISM Manufacturing PMI, New Zealand HLFS Unemployment **Events**: RBA Policy Announcement, OPEC JTC **Supply**: Germany **Earnings**: Alphabet, Exxon Mobil, EA, Gilead, AMD, PayPal, General Motors; UBS **Holiday**: Chinese New Year.
- **WEEK AHEAD**: Highlights include US jobs report, ISM; ECB, BoE , OPEC+. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing the BoE, ECB, RBA; Reviewing FOMC, BoC, SARB. To download the report, please click here.
- **US WEEKLY EARNINGS ESTIMATES**: UPS, XOM, SBUX, GOOGL, PYPL, AMD, TMO, ABBV, QCOM, TMUS, FB, LLY, MRK, HON, EL, COP, AMZN, BMY. To download the report, please click here.

MARKET WRAP

Stocks rallied into month-end with a chunky buyside order for the market close taking NDX to gains of c. 3%, while Spooz (+1.75%) flirted above 4,500. The strength grew into the NYSE open and carried through to the close. Fresh market-moving catalysts were thin, and instead, technicals around month-end/rebalancing were the cited main culprit for the moves after recent heavy selling in risk assets. Treasuries caught a bid into the latter NY session, where the front-end had entered the session underperforming on the back of Bostic touting potential 50bps rate hike moves in the FT, but flatteners were unwound in latter trade, despite some more hawkish Fed speak. The Dollar index fell by over half-a-percent, finding support just above 96.50, while the Euro and Antipodeans both saw solid gains. Commodities enjoyed the Dollar weakness, while oil traders await Wednesday's OPEC+ confab. Russia remains a key theme, although note many desks were noting an incremental easing of the situation, at least for markets, amid no material escalations over the weekend. Datawise, Chicago PMI was strong despite the Omicron headwinds, while the market looks to the NFP print on Friday for the main data event, although ISM surveys are due before then. Otherwise, Fed speak and earnings will saturate the calendar.

GLOBAL

FED: **Daly (2024 voter, dove)** appears more concerned about the tension between the dual mandate objectives compared to Powell last Wednesday, who said he doesn't believe they are in tension because a threat to further strengthening in the labour market, in the form of higher participation over time, is high inflation. Powell said high inflation is taking away the benefits of some of those large wage increases that we’re seeing now. Daly however noted she feels the dual mandate is somewhat in tension, inflation is too high and is not comfortable with it, and the labour market for disadvantaged groups is stronger than it has been in a long time, while she doesn't want to be too quick to declare victory on maximum employment. On rates, she reiterated a policy shift should be gradual, she doesn't want to ratchet up the rates so quickly that it bridles growth too much but we absolutely need to adjust the rate. She stated that even if the Fed gets to 1.25% by year-end, that is quite a bit of tightening but it is still supporting the economy. Looking ahead, she stated making proclamations of a specific rate path would be misinformation but she is comfortable making interest rate adjustments this year, but is open about 2023. Daly reiterated balance sheet policies will be predictable and will take place in the background, but it will be adjusted if needed, but it will not be on a meeting by meeting basis. **George (2022 voter, neutral)** said the current very accommodative stance of monetary policy is out of sync with economic outlook, more aggressive reduction on the Fed balance sheet could allow for a shallower rate path. On the balance sheet, she stressed potential costs associated with an excessively large Fed balance sheet should not be ignored and it could be appropriate to move earlier on the balance sheet relative to the Fed's last tightening cycle. George also noted the steep path for rate hikes with modest reductions of the balance sheet could lead to more financial risk; could flatten the yield curve and lead to a "reach-for-yield" behaviour. **Bostic (2024 voter, hawk)** over the weekend suggested that a more aggressive approach is possible if the data warranted it, which would mean rate hikes at every remaining policy meeting this year, adding that a 50bp hike is possible if inflation remains stubbornly high. However, that is not his base case as he maintains his call for three 25bps hikes in 2022. He suggested the Fed should get a few rate moves in hand and then reduce the size of the balance sheet and he sees inflation at 3% for 2022, above the Fed median view. He wants the balance sheet unwind underway as soon as possible, and noted they can be more robust than the last time. On yields, he said the Fed should manage to avoid any undue flattening of the yield curve. **Barkin (2024 voter)** said he wants the Fed to be better positioned and the pace of rate hikes will depend on the pace of inflation. He expects to see goods prices ease but he is focused on labour wage pressures but he did note that the US is at "interim" full employment, but there is still upside ahead.

CHICAGO PMI: Chicago PMI for January rose to 65.2 (prev. 63.1), well above the expected 61.7, and topped the upper forecast range of 63.0. Looking into the sub-components, new orders and production slowed, but still printed a very healthy 65.3 and 60.6, respectively. Inventories rose but also at a slower pace, which is largely due to the continued supply chain challenges, whilst prices paid still remains extremely high, but did fall M/M to an eight-month low. Finally, into the subcomponents, employment fell at a slower pace but still remains in contractionary territory. Looking into the data, which was stronger than expected, Pantheon Macroeconomics notes it is raising its forecast for Tuesday's ISM manufacturing index by a point to 57, down from 58.8 in December. Moreover, Pantheon continues, "the first January survey to be released—the Empire State report—appeared to point to a rollover in manufacturing activity, but other regional surveys have been less weak, and the Chicago numbers move the needle up a bit further." Looking ahead, "the big picture for manufacturing is still favorable, but the sector is nonetheless susceptible to disruptions from the Omicron wave, both at home and overseas, so a couple months of slower growth in activity and employment in the sector seem a decent bet."

GEOPOLITICAL: There were a plethora of Ukraine/Russia updates on Monday, from a range of places, which began with TASS reporting Russian Foreign Minister is to speak with US Secretary of State Blinken over the phone on Tuesday. Firstly, comments from US President Biden stated he had productive talks with Ukraine President Zelensky last week, and continue to engage in diplomacy, whilst at the UN on Monday, they laid out the full threat to Ukraine. Biden warned that if Russia chose to walk away from diplomacy and attacked Ukraine, it would face "swift and severe consequences". Additionally, a senior Biden official noted individuals to be targeted for possible sanctions, in or near the Kremlin inner circle, or those complicit in destabilising behaviour. Meanwhile, Russia told the UN that there is no proof Russia is planning military action against Ukraine, and Russia has frequently deployed troops within its own territory without causing hysteria. China weighed in and added there is no basis to believe there might be a war over Ukraine; calls on all sides to remain calm, not aggravate the situation, urges the abandoning of "Cold War mentality". Many had expected China to support Russia at the UN. Moving to Europe, EU's Dombrovskis stated European Commission intends to approve EUR 1.2bln of financial aid to Ukraine on Tuesday. Finally, Russian President Putin and French President Macron discussed Ukraine in phone talk, according to reports; and have agreed to consider a meeting in person.

FIXED INCOME

T-NOTE (H2) FUTURES SETTLED HALF A TICK HIGHER AT 127-31

The Treasury curve is a few bps steeper after the front-end reversed earlier weakness into the NY session with month-end at play. Futures volumes were below recent averages, although note APAC conditions are thin amid holidays. At settlement, 2s -0.3bps at 1.169%, 3s -1.1bps at 1.374%, 5s -0.4bps at 1.618%, 7s +0.2bps at 1.751%, 10s +0.7bps at 1.787%, 20s +2.6bps at 2.177%, 30s +2.6bps at 2.109%. 5yr TIPS -5.6bps at -1.155%, 10yr TIPS -0.3bps at -0.672%, 30yr TIPS +1.6bps at -0.128%. 5yr BEI +0.0bps at 2.782%, 10yr BEI +0.0bps at 2.463%, 30yr BEI +0.5bps at 2.251%.

OPS & SALES: Fed bought USD 8.401bln 2.25-4.5yr Treasuries; offer-to-cover 2.96x (prev. 2.72x on Jan 13th for USD 6.301bln). US sold USD 68bln of 3-month bills at 24bps, covered 2.84x; sold USD 58bln of 6-month bills at 50bps, covered 2.74x. NY Fed RRP op demand at USD 1.655tln across 88 bidders for month-end (prev. USD 1.615tln across 81 bidders).

THE DAY: USTs had entered the session mixed with the wings both weaker, and the belly holding up better, where the front-end had found pressure on the back of Bostic's weekend remarks in the FT on a 50bps hike which add to the slew of brokers raising their Fed hike forecasts. T-Notes hit session lows of 127-21+ at the NY handover before recovering gradually through into the settlement. While the front-end saw a bout of short-covering later on amid touted flattener unwinds, despite some hawkish rate path commentary from dove Daly (non-voter, however). Although note George (hawk, voter) came out expressing greater interest in more aggressive balance sheet reduction amid concerns of curve inversion from hiking too aggressively. Bostic (non-voter) also spoke again on Yahoo saying the 2s10s spread has narrowed due to uncertainty about how policy will play out, and that the Fed should manage to avoid undue flattening of the yield curve. That is at odds slightly with Powell and Daly who have suggested the Fed doesn't control longer-term rates; Powell said they observe the yield curve. Aside from Fed speak, highlights for the week include (Tues) ISM Mfg, JOLTS, (Wed) ADP, Quarterly Refunding, (Thurs) ISM Services, (Fri) NFP.

TREASURY FINANCING ESTIMATES: Ahead of the Wednesday quarterly refunding announcement, where coupon auction sizes are expected to be cut again, the Treasury released its total quarterly borrowing estimates. To issue USD 729bln in net marketable debt in Jan-Mar, up from Nov estimate of USD 476bln, assuming end-March cash balance of 650bln; increase in the borrowing estimate is due to lower beginning of quarter balance. Expects to issue USD 66bln in net marketable debt in April-June 2022, assuming a June-end cash balance of USD 700bln. Treasury official Harris gave some commentary on the economic outlook too (click here for details).

STIRS: Eurodollars rose by a few bps in the belly (red and greens): EDH2 +0.0bps at 99.485, M2 -1.5bps at 99.095, U2 -1.5bps at 98.79, Z2 +0.0bps at 98.535, H3 +1.5bps at 98.385, M3 +3.5bps at 98.240, U3 +2.5bps at 98.11, Z3 +2.5bps at 98.065, M4 +2.5bps at 98.05, Z4 +2.0bps at 98.025, M5 +0.5bps at 98.025, Z5 -0.5bps at 97.995 Z6 -1.0bps at 97.96. SOFR rose back to 5bps (day lagged) after falling beneath the Fed's leaky floor to 4bps in the prior two sessions.

CRUDE

WTI (H2) SETTLED USD 1.33 HIGHER AT 88.15/BBL; BRENT (J2) SETTLED USD 0.74 HIGHER AT 89.26/BBL

Oil prices were firmer to start the week but traded choppy, aided by the weaker Dollar into month-end. There weren't many fresh catalysts for the energy market but there remains some geopolitical premium, despite the seeming lack of escalation over the weekend in Ukraine. Attention this week is also on the OPEC+ meeting with the JTC slated for Tuesday and the decision-making OPEC+ confab on Wednesday. The group is expected to continue with its plans to up its output quota by 400k BPD, although whether it can fulfill that pledge is a different story. The latest monthly Reuters survey of OPEC oil output for January sees production rising 210k BPD M/M to 28.01mln BPD, led by rises in Saudi Arabia while output fell in Libya and Iraq, less than the pledged 400k hike seeing compliance rise to 132% from 127%.

EQUITIES

CLOSES: S&P 500 +1.9% at 4,513, Nasdaq 100 +3.3% at 14,930, Dow Jones +1.2% at 35,131, Russell 2000 +2.9% at 2,204.

SECTORS: Consumer Discretionary +3.8%, Technology +2.7%, Communication Services +2.4%, Utilities +1.9%, Materials +1.4%, Real Estate +1.3%, Industrials +1.1%, Financials +0.9%, Health +0.7%, Consumer Staples +0.5%, Energy +0.4%.

EUROPEAN CLOSES: EURO STOXX 50 +0.9% at 4,174, FTSE 100 -0.0% at 7,464, DAX 40 +1% at 15,471, CAC 40 +0.5% at 6,999, FTSE MIB +0.9% at 26,814, IBEX 35 +0.0% at 8,612, SMI +1.2% at 12,251.

STOCK SPECIFICS: **Walgreens (WBA)** begun the sales process for Boots as buyout firms, such as Sycamore, consider bids; could fetch USD 9.6bln, according to Bloomberg. **Citrix (CTXS)** confirmed it is to be acquired by Elliott and Vista for roughly USD 16.5bln or USD 104/shr, including debt, to take the Co. private. **Otis (OTIS)** beat on top and bottom line, with FY22 guidance more-or-less inline; added sales growth would slow this year. **L3 Harris (LHX)** marginally beat on EPS but missed on revenue, however FY22 guidance was soft, with both EPS and revenue falling short of the expected. **Spotify (SPOT)** took measures to address the controversy surrounding its Joe Rogan podcast, which has been accused of spreading COVID misinformation. Spotify publicized its platform policies and announced the creation of a coronavirus information hub. **Netflix (NFLX)** and **Spotify (SPOT)** were upgraded at Citi, who says that subscription tech stocks look cheap. Citi said that following the recent sell-off, prevailing equity values don't reflect material subscriber growth prospects or improving subscriber economics beyond 2023. **Beyond Meat (BYND)** was double-upgraded to "Overweight" from "Underweight" at Barclays, who cited Cos. growth potential, especially in US retail market. **BlackBerry (BB)** is to sell non-core patent assets to Catapult for USD 600mln. Patents primarily involve mobile devices, messaging and wireless networking. **Boeing (BA)** stated it expects negative operating cash flows in future quarters until deliveries begin to return to historic levels; may need to obtain additional financing to fund operations and obligations. Moreover, Qatar Airways is to place a provisional order for up to 50 Boeing 737 MAX airplanes including 25 options, according to Reuters sources. US Commerce Secretary said Qatar Airways is to launch Boeing 777x freighter; added Qatar Airways is to buy 34 777x freighters. **Sony (SONY)** is to acquire Bungie, leading independent videogame developer, for USD 3.6bln. When Sony shares were halted competitors such as **ATVI**, **TTWO**, and **EA** all spiked higher, however following the announcement the moves reversed. **Novavax (NVAX)** submitted request to the US FDA for EUA of its COVID-19 vaccine.

FX WRAP

The Dollar sold off Monday as markets took a risk on position with equities extending on the gains seen Friday. The dollar index fell from a high of 97.258 to lows of 96.512, and was perhaps supported by an unwind of the month-end price action seen with the dollar catching a nice bid last week, Barclays looked for USD buying across all majors. There was a lot of Fed speak to digest, Bostic reiterated his base case is for three hikes in 2022 although he did state that a 50bp move is possible if it is warranted by the data, although he stressed he does not think the Fed will hike 50bp in March. Daly said she is not comfortable with inflation this high and sees rate hikes as early as March. She sounded a bit more cautious about full employment and didn't want to declare victory yet and mentioned that Fed goals seem somewhat in tension. Daly also stressed the Fed needs to keep its options open and doesn't want to predetermined what the end of year interest rate level should be, but if it were to hit 1.25%, that would be a lot of tightening, but still supportive. George noted a more aggressive reduction on the Fed balance sheet could allow for a shallower rate path and noted a steep path for rate hikes with modest reductions on the balance sheet could lead to more financial risk.

Euro was bid thanks to the downside in the buck, helping EUR/USD reclaim 1.12 while all eyes will be on the ECB rate decision on Thursday with focus on the inflationary outlook as we while the statement and other tools are set to remain relatively unchanged. Market pricing has been leaning hawkish, with money markets now fully pricing in a 10bp hike by September, and over 25bps by December amid a hotter than expected inflation print for Germany across all metrics.

The Yen was also firmer against the buck, seeing USD/JPY fall beneath 115 to lows of 114.93, despite the rally in US equities. JPY was also likely supported as US Treasuries moved off lows as the FOMC cooled some of the hawkish takes from over the weekend. Although firmer, JPY was a relative underperformer following disappointing Japanese IP and retail sales.

CHF firmed against the buck, although EUR/CHF was firmer, seeing it rise above 1.04. Note, SNB Chair Jordan spoke, stating a strong Swiss Franc limits Swiss inflation and he sees no sign of a wage-price spiral. He expects inflation to come back down but noted it has to be taken seriously. He also noted that the Fed raising rates is a good thing for Switzerland. He also noted if inflation was stubbornly above 2%, it would lead to policy tightening.

Cyclical currencies were supported, particularly the AUD ahead of the RBA tonight thanks to gains in commodities such as copper and iron ore on the positive risk environment. The RBA tonight are expected to keep its rate unchanged and announce the end to its bond purchases, while focus will be on any language change from RBA Governor Lowe, who previously expected conditions for a rate hike will not be met this year (full preview here). NZD was also bid thanks to the dollar and risk tone, but also supported after Kiwibank now expects the RBNZ to lift the OCR to 2.5% by November. GBP was also firmer ahead of the BoE rate decision on Thursday where the bank is expected to raise rates by 25bps taking rates to 0.5% while the Sue Gray report was released but had little impact on UK assets. CAD was also supported by the move in equities and gains in oil

EMFX was generally bid with outperformance seen in TRY, despite initially ignoring more dovish rate pledges and personnel changes from Turkish President Erdogan before he conceded that the nation will have to live with the burden of inflation for some time. Note also, the CBRT penned an open letter to the Government confirming that it has initiated a comprehensive monetary policy process to review long-term price stability. ZAR was also bid, likely tracking moves in gold, while South Africa is also raising the grade 93 and 95 petrol pump prices by 53 cents per litre from Wednesday, while sulphur diesel price is to rise by 79.84 cents per litre. BRL was also firmer thanks to the weaker buck, although the December jobs report disappointed expectations but the encouraging risk tone and bid into iron and copper was supportive. MXN was bid, but a relative underperformer after the latest GDP contraction put the economy into a technical recession. RUB was also bid amid alack of escalation on the Ukraine crisis although more nations appear to be talking of sanctions, including the UK.

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