US Market Wrap: Blow-out NFP raises fear of +50bps March Fed move, but stocks still finish higher

4th February 2022:

- **SNAPSHOT**: Equities , Treasuries , Crude , Dollar .
- **REAR VIEW**: NFP surprise beat, wages rise; Blowout AMZN & SNAP earnings; Canada jobs disappoint; Russia & China discuss national currency trade.
- **WEEK AHEAD**: Highlights include US CPI, geopolitics, UK GDP, Riksbank, RBI, CBR. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing RBI, Riksbank, Banxico, CBR; Reviewing ECB, BoE, RBA. To download the report, please click here.
- **US WEEKLY EARNINGS**: [MON] AMGN; [TUES] PFE, SPGI; [WED] CVS, DIS; [THURS] PEP, LIN, KO, PM. To download the report, please click here.

MARKET WRAP

A choppy session where the initial set was defensive as traders awaited the key January jobs report. That jobs report surprised to the upside, with a blow-out headline number as well as surging wages, which saw the market react with a note of caution as traders reasoned that the report could see the Fed conform to some of the market's more hawkish monetary policy expectations, potentially lifting the Federal Funds rate target by a 50bps increment on March 16th. Next week's CPI report will be eyed to see how inflationary pressures are progressing within the official data: the Fed is very likely to lift rates in MArch regardless, but the question is by what increment, and how aggressive it lifts rates this year amid a growing number of analysts arguing that the central bank is behind the curve. Amazon's (AMZN) earnings, as well as those from Pinterest (PINS) and Snap (SNAP) helped ease some of the fears about the health of large cap tech companies, particularly after the weak reports seen from Meta Platforms (FB), PayPal (PYPL) and Netflix (NFLX). Next week's events could offer more on this front, with earnings due from Disney (DIS) and Twitter (TWTR). Stocks gained after the European close in quiet trading conditions, with the VIX easing back and growth outperforming value, although traders noted that liquidity conditions were poor. For the week, the S&P 500 was +1.6%, the Nasdaq Comp +2.4%, and the Dow +1.0%

GLOBAL

NFP: Headline nonfarm payrolls surged above expectations, printing 467k against an expected +150k. The wages metrics were also strong, rising +0.7% M/M (exp. +0.5%, lifting the Y/Y rate to 5.7% (exp. 5.2%). CapEco says the data will further fuel expectations that the Fed will fire a 50bps rate hike at its March meeting, although it warns that a sharp economic slowdown in Q1 may give officials second thoughts. The headline was even stronger than it looks, Capital Economics said, as it comes despite the rise in absenteeism driven by Omicron, and was accompanied by significant upward revisions to the gains over the preceding couple of months. The data revealed strong gains in professional & business services, retail and transportation & warehousing -- sectors that would usually have been expected to be impacted by Omicron. The strength of wage growth is puzzling, particularly since the unemployment rate is still above the pre-pandemic level. "The surveys suggest wage growth may soon level off, but with labour demand seemingly still exceptionally strong, a material slowdown in wage growth is unlikely any time soon." The employment report also saw a +709k upward revision to the November and December data, which was offset by lower revisions to data for the middle of 2021. While updated population estimates saw larger upwards revisions to the household survey, where the labour force is now estimated to about +1.5m higher. "While those revisions aren't applied to previous months' data, it nevertheless means that the labour force is not far below its pre-pandemic level after all," CapEco said, "all that time wasted discussing whether workers would return when, in reality, it was just a statistical illusion.

RUSSIA/UKRAINE: Russia stated it is still reviewing the US' response to their security demands while Russian Foreign Minister Lavrov described the allegation that they are preparing a fake video as a pretext for war in Ukraine as 'nonsense', and the Russian Embassy in Washington called on Washington to abandon propaganda and engage in serious work to enhance European security. Despite Lavrov's claims, UK PM Johnson's spokesperson said they have high confidence Russia is seeking to engineer a pretext to invades Ukraine. Looking ahead, French President Macron is to travel to Russia on February 7th then Ukraine on February 8th.

RUSSIA/CHINA: Russia stated it opposes Taiwanese independence in any form, whilst China supported Russia saying it opposes further expansion of NATO. On Russia/China relations, Russian President Putin told Chinese President Xi that China-Russian trade will reach USD 200bln, and Russian oil firms have prepared plans for supplies to China. Meanwhile, the Kremlin said Russian and Chinese leaders discussed broadening trade in national currencies due to the unpredictability of the USD trade, and the two countries will deepen strategic coordination. Lastly, Russia and China condemned US' withdrawal from the arms control pact and their desire to deploy missiles with Europe/APAC.

FIXED INCOME

T-NOTE (H2) FUTURES SETTLE 28 TICKS LOWER AT 126-24+

Treasuries saw pronounced bear-flattening amid the big jump in Jan jobs added and above-forecast earnings growth ramping pricing of Fed hawkishness. At settlement, 2s +13.0bps at 1.322%, 3s +13.5bps at 1.5511%, 5s +12.5bps at 1.7864%, 7s +11.2bps at 1.9036%, 10s +10.1bps at 1.9284%, 30s +8.4bps at 2.2289%.

THE DAY: Treasuries had been lightly bull-flattening going into the NFP report, where expectations were skewed towards a disappointing headline print given the read from the ADP report earlier in the week (-300k) and official commentary earlier this week warning of the Omicron headwinds. Bids across the curve evaporated as the +467k printed, well above the expected +150k, with a big upward revision to the prior to 510k from 199k, in addition to the surprise rise in M/M Average Earnings of +0.7% vs the prior +0.6% and exp. +0.5%. While many point to a heavy seasonally affected headline number, the wage growth will no doubt ruffle feathers at the FOMC amid its newly stated lack of tolerance for any further inflation pressures which a wage spiral dynamic could cause. There was some head-scratching given the wage gains were accompanied by a big rise in the participation rate to 62.2% from 61.9%, but analysts suggest the downward wage pressures associated with more labour supply can take some time to play out. Taking its cues from the front-end, 10yr T-Notes fell from 127-22 (cash 10s at 1.82%) to the 127-00 area (1.90%) in an immediate reaction. That figure is pivotal for the contracts given a massive amount of puts open at the strike. Those were put in the money as the session developed as better selling held to take the contracts to session lows of 126-23+ as Europe started to depart, and sit a few ticks firmer going into the NY afternoon.

CURVE: It was a similar situation across the curve, where all yields failed to retreat meaningfully from highs. Note that 2s30s steepened back close to pre-NFP levels as the dust settled, where long-end selling gradually caught up to the front-end. Putting price action to the narrative, perhaps there was some contemplation in the bond market that capacity isn't as low as feared after the improvement in slack measures (justifying higher long-term rates), despite the imminent wage concerns. Note also the big moves in real yields, which were driving the selling across the curve, as the 10yr TIPS hit its highest level since June 2020 and the 30yr TIPS rose above 0% for the first time since H1 2021.

NEXT WEEK'S AUCTIONS: US Treasury is to sell USD 50bln of 3yr notes on Feb 8th, USD 37bln of 10yr notes on Feb 9th, and USD 23bln of 30yr bonds on Feb 10th; all to settle on Feb 15th. Aside from auctions, January CPI on Thursday will be the data highlight for traders and the Fed, who we expect to hear from throughout the week, gauging any changes on their appetite for a 50bps liftoff which markets themselves have priced in further.

STIRS: Heavy selling in wake of NFP across the Eurodollar strip with the reds (2nd year out) leading the selling, seeing the curve over the next year steepen but from the reds and out there was flattening. Markets are now beginning to flatten out Fed Funds pricing in the 2.00-2.25% at the back-end of 2023 from the 1.75-2.00% seen not long ago. Note the Fed's long-run/terminal forecast is 2.5%, and markets are getting there, but perhaps sooner than imagined (flattening the curve from an earlier point).

CRUDE

WTI (H2) SETTLES USD 2.04 HIGHER AT USD 92.31/BBL; BRENT (H2) SETTLES USD 2.16 HIGHER AT USD 93.27 /BBL

Crude futures continued the climb on Friday, ending the week at fresh 7yr highs but fading from the best levels of the day. WTI was said to be supported amid concerns about the cold snap in Texas potentially weighing on production, but authorities have thus far said the the grid is performing as expected, and pipelines have not been disrupted. Brent, meanwhile, was supported after Libya's NOC said that the Es Sider port had been closed due to bad weather, while storage limitations had reduced oil output by 100k BPD. On the price action itself, analysts are still constructive, and have noted calendar spreads continuing to move bullishly. Analysts at Citi said while it has its doubts regarding the strength of the underling fundamentals, and the sustainability of current valuations, the internal price strength argues that it is too soon to sell.

EQUITIES

CLOSES: S&P 500 +0.58% at 4,503.60, Nasdaq-100 +1.33% at 14,694.35, Dow Jones +0.00% at 35,110.70.

SECTORS: CONS DISC +3.74%, CONS STPL -1.2%, ENERGY +1.58%, FINANCIALS +1.66%, HEALTH -0.41%, INDUSTRIALS -1.07%, MATERIALS -1.72%, REAL ESTATE -1.27%, TECHNOLOGY +0.47%, COMMUNICATIONs +0.14%, UTILITIES -0.8%

EUROPEAN CLOSES: EURO STOXX 50 -1.3% at 4,086, FTSE 100 -0.2% at 7,516, DAX 40 -1.8% at 15,099, CAC 40 -0.8% at 6,951, FTSE MIB -1.8% at 26,603, IBEX 35 -1.2% at 8,589, SMI -0.7% at 12,148.

STOCK SPECIFICS: **Amazon (AMZN)** was firmer following a massive beat on EPS, which was helped by a roughly USD 12bln gain from Rivian; it also increased its Prime prices. However, AMZN did miss on revenue, which saw headwinds from inflationary pressures and disruption. **Snap (SNAP)** saw significant gains after posting a very strong Q, where SNAP beat on top and bottom line as it posted its first ever quarterly profit. Elsewhere, the DAUs and ARPU also surpassed street estimates. Finally, SNAP issued an upbeat outlook. **Pinterest (PINS)** firmed after reporting a strong Q, where the Co. was helped by strengthening ad-revenue, however shares remain below the pre-**Meta (FB)** hit, while SNAP shares have more than recovered the post FB losses. **Clorox (CLX)** was lower in the wake of missing on EPS and Gross Margin falling to 33% from 45% Y/Y. CLX also cut its FY22 EPS view. Note, it did beat on revenue but said it was hit by considerably lower profit margins due to a “challenging” cost environment. **Bristol-Myers (BMY)** had a mixed report, where EPS beat but revenue missed. BMY announced it is to bring forward USD 5bln of share repurchases to Q1 of 2022; it also reaffirmed its long-term targets. **Ford (F)** missed on EPS with the Co. hindered by the chip shortage and other supply constraints hurting production. Looking ahead, CFO said they still see challenges on volumes in Q1 due to the chip shortage and COVID-19 but improving significantly after that, especially in H2. Note, Ford announced it will idle its assembly plants in Chicago and Wayne, Michigan due to the shortage. **Kohl's (KSS)** board stated that valuations within the expressions of interest it has received do not adequately reflect the Co's value. **Alibaba (BABA)** filed a F-6 with the US SEC to register an additional 1bln ADRs. **Royal Caribbean (RCL)** missed on EPS and revenue, and expects to return to profitability in H2 2022. **Tegna (TGNA)** reportedly in advanced talks to be acquired by Standard General, according to Bloomberg sources. **Apple (AAPL)** is making plans for its first 2022 product launch in March which would see the release of a low-cost 5G phone and iPad, according to reports.

WEEKLY FX WRAP

Hawkish central bank bonanza ends with an NFP bang

DXY: The DXY saw a rollercoaster week which kicked off on Monday with what was seemingly an un-wind of the month-end bid seen last week, whilst Fed’s Bostic and George also stuck to hawkish tones, although the latter suggested that a faster rundown of the balance sheet could allow the FOMC to embark on a shallower rate path. Harker and Barkin also hit the wires and reiterated the broader Fed sentiment. Price action remained subdued for the Buck mid-week, with an uninspiring ADP report also not helping, whilst hawkish ECB and BoE releases (see below) took the index to its weekly low of 95.136 during the subsequent APAC session. Friday’s blowout US labour report revived the Buck as headline nonfarm payroll surged above expectations, printing 467k against an expected +150k. The wages metrics were also strong, rising +0.7% M/M (exp. +0.5%, lifting the Y/Y rate to 5.7% (exp. 5.2%). CapEco suggested the data will further fuel expectations that the Fed will fire a 50bps rate hike at its March meeting, although it warns that a sharp economic slowdown in Q1 may give officials second thoughts. Ahead, next week sees a myriad of Fed speakers alongside US CPI data.

EUR, GBP: The single currency was the clear G10 outperformer this week after Lagarde propelled the Euro when she opted not to say - when questioned - whether it remains the case that tightening in 2022 is highly unlikely, and she was given several opportunities to do so if desired. Further, sources suggested the ECB is said to prepare for a potential March policy recalibration. EUR/USD is poised to end the European week well off its 1.1138 weekly low and closer to its 1.1432 weekly pinnacle. Across the channel, Sterling was firmer after the BoE voted to hike rates by 25bps to 0.5%, but it was split 5-4 as four board members voted to hike rates by 50bps; the BoE also announced it would cease reinvestments of its asset holdings. Upside however was capped as Governor Bailey and Chief Economist Pill both pushed back on aggressive rate hikes in the medium-term. Cable looks to end the European week around the middle of its 1.3386-3628 weekly parameter. More interestingly, EUR/GBP rebounded off support (~0.8281 – matching the Feb 2020 low) before recoiling to a weekly high around 0.8470.

AUD, NZD, CAD, JPY: Antipodeans saw a varied week and largely piggy-backed commodities. The Aussie early in week tackled a more-dovish-than-expected RBA – which held its cash rate at 0.10% and announced an end to its bond purchases, as expected but the RBA's dovish tone caught markets off guard after recent hawkish calls by several banks who brought forward rate hike expectations. AUD/USD looks to end the European day between its 0.6987-0.7168 weekly range. NZD was supported by the AUD/NZD cross rising back above the 1.0700 level. The Loonie moved with crude prices for the first half of the week, but thereafter the Buck took over and the Canadian jobs report provided additional headwinds in which the unemployment rate rose whilst employment change fell more than expected. USD/CAD heads to the European close unchanged on the week to and towards the top of its 1.2650-2787 weekly range. The Yen heads to the European close relatively flat on the week, but after a choppy Dollar-dictated week. USD/JPY printed a 114.14-115.59 weekly band with a bulk of the price action occurring on super-Thursday – with the volatile action in yields throughout the week also influencing the Japanese currency.