US Market Wrap

15th February 2022: Russian troop withdrawal reports propel risk assets despite Western pushback

- **SNAPSHOT**: Equities up, Treasuries down, Crude down, Dollar down.
- **REAR VIEW**: Russia reportedly withdraws troops, yet to see Western confirmation; Biden will not send US troops to fight in Ukraine and warns of responses if Russia cyber-attacks; Hot US PPI; Disappointing NY Fed Mfg.; Senate Banking Committee do not proceed with Fed nominee votes; ECB's Villeroy said APP purchases could end in Q3; TSEM to be acquired by INTC.
- **COMING UP**: **Data**: Canadian, Chinese & UK CPI; EZ Industrial Production, US Retail Sales, Export/Import Prices, Japanese Trade Balance **Event**: FOMC Minutes, ECJ Rule of Law Judgement **Speakers**: Fed's Kashkari **Supply**: Germany & US **Earnings**: Heineken, Swedish Match, Carrefour; Barrick Gold, Garmin, Shopify, NVIDIA.
- **US WEEKLY EARNINGS ESTIMATES**: [TUES] ABNB; [WED] ADI, AMAT, EQIX, CSCO, AIG, PXD, NVDA; [THURS] SO, WMT; [FRI] DE. To download the the report, please click here.

MARKET WRAP

Stocks, and the broader risk tone, were firmer across the board Tuesday after reports in the European morning suggested Russia had withdrawn troops from the border. There was relative outperformance in the NDX and Russell 2k vs the SPX, but all index futures remained near highs through the NY session, even when taking into account the little stumble in risk assets late doors as Biden gave his press conference, pushing back on reports of Russian troop withdrawal. There was strength across both tech/growth and cyclical/value, while defensives were relative underperformers. The flight out of havens saw the Treasury curve bear-steepen, with little impetus from the smaller than expected fall in Jan PPI, nor the downbeat NY Fed Mfg. survey for February. Oil prices tumbled as the geopolitical risk premium diffused, but somewhat recovered into the NY afternoon amid reports citing Western officials that suggested Russia had not actually withdrawn troops, albeit this had no broader market impact until Biden himself said the troop removals had not been verified, even then the reaction was fleeting. Note that the softer Dollar (DXY < 96) didn't provide much support for oil with geopols clearly in the driving seat. Although in FX, note the strong Euro performance, while other high-beta currencies enjoyed the upswing in sentiment and paring Russia risk, particularly CE3. Traders now look to Wednesday's busy calendar with US retail sales and Jan FOMC minutes the highlights.

GLOBAL

GEOPOLITICS: US President Biden spoke late session Tuesday stating that a Russian attack of Ukraine is still a possibility, but him and Putin both agreed they should engage in negotiations, but warned NS2 would not proceed if Russia invades Ukraine. On the troop withdrawal, Biden said they have not yet verified whether some Russian troops are pulling back, which means we still await an official Western confirmation. Moreover, Biden said if Russia attacks through cyber-attacks or other asymmetrical means, US and allies will respond, which is of importance given the earlier reports that Ukraine's cybersecurity center noted websites of the Defence Ministry, Privatebank, and Oshadbank (both large Ukraine banks) were under DDOS attack. Biden concluded by adding the US would not send troops to fight in Ukraine. Prior to Biden, the tone on Tuesday stood more on the constructive side, which began with Russia stating in the European morning that some Western and Southern units are set to return to bases and followed by Lavrov noting Russia will continue dialogue with the West and results are achievable. Despite this, NATO Sec-Gen stated there had been any signs of de-escalation on the ground although there are grounds for cautious optimism, and Russian movement of forces doesn't represent a real de-escalation if equipment is left behind. Interfax said later that the Russian army had moved tanks and armed vehicles from Crimea, which followed the prior comments in addition to Putin saying a decision on a partial withdrawal of troops has been taken. Putin also added he does not want war in Europe hence why the security proposals were put forward. Furthermore, despite the apparent improvement in tone of talks, a Guardian journalist, citing "Western officials", added "There is no sign of a de-escalation, We see the opposite", who say they have seen reinforcement of combat and other capabilities close to the Ukraine border. Some cynics have suggested the troop withdrawal announcements from Russia could be an attempt to gain leverage the same day German Chancellor Scholz visits Moscow.

ECB: **Villeroy** said that keeping net asset purchases open-ended from October would not be appropriate and that APP purchases could end in Q3. Villeroy said that a decision on hikes is not needed before the June meeting, while speculation on the calendar of lift-off is premature at this stage. The official stressed the importance of full optionality being retained regarding the pace of normalisation; also stressed that policy changes are normalisation, not tightening. The French member said that optionality would mean that lift-off could possibly take more time if warranted, and give the ECB more time to consider the latest inflation outlook before deciding about the calendar of rate hikes. Note the latest ECB Reuters poll saw 31 out of 45 surveyed expect APP to be wound down by September 2022, that's compared to the current ECB guidance of EUR 40bln in Q2, EUR 30bln in Q3, and EUR 20bln in Q4 onwards. The Reuters survey also sees the deposit rate hiked to -25bps from -50bps by 2022-end, while markets themselves are priced at 0%. Elsewhere, ECB's **Schnabel** said in the FT late Tuesday that the Bank "cannot ignore" the house price surge in its inflation assessment when deciding how fast to tighten monetary policy.

US

FOMC MINUTES PREVIEW: The Jan FOMC took place before both the rock-solid Jan NFP print and the above-forecast Jan CPI, so the Minutes will not reflect any hawkish shifts in sentiment driven by the most recent data. But, we will be looking out for any more conditions/guidance set out by the FOMC on key topics such as the rate path, increment of initial lift-off in March, and details or strategies around balance sheet reduction. To download the full preview, please click here.

NY FED: The data out of the US saw a disappointing NY Fed Manufacturing headline, which rose to 3.1 from -0.7 but missed the expected 12.15. The report notes that 34% of respondents report an improvement in conditions, but 30% said they had worsened. Prices Paid saw a similar rise to the prior month at 76.6 remaining near its peak while the prices received saw a new record high, signalling ongoing substantial increases in both input prices and selling prices. New Orders re-entered positive territory to 1.4 from -5, and employment rose to 23.1 from 16.1. Six-month business conditions fell to 28.2 from 35.1, the lowest level since early stages of the pandemic with higher prices and longer delivery times weighing. The delivery times index was unchanged at 21.6, suggesting that delivery times continued to lengthen significantly, and inventories increased modestly.

PPI: Headline PPI rose 1% M/M in January, above the expected 0.5% while the Y/Y saw a 9.7% rise, in line with the prior although that was revised higher to 9.8% and it was above the 9.1% expected. Core metrics were also hotter than expected, seeing a 0.8% M/M gain (exp. 0.5%, prev. 0.6%), with Y/Y rising 6.9% (exp. 6.3%, prev. 7.0%). Pantheon Macroeconomics highlight that headline was lifted by the rise in food and energy prices, but they are surprised by the core metric being driven by rises in goods and services with Goods prices higher on a jump In capital equipment prices, double the prior trend pace so PM expect to see a correction in February's data. Services were buoyed by a 1.2% rise in hospital charges, 4x higher than the prior trend and suggests this could be due to the higher Medicare reimbursement rates so an increase is possible in March. Pantheon also highlighted that car prices are trending down Y/Y which have been a key source of inflation pressures since the start of the pandemic and the consultancy now expects them to fall as inventories return to normal. Pantheon concludes "Overall, this is a disappointing report, but we remain of the view that core inflation is close to peaking and will be much lower by the end of this year as supply pressures ease and some of the huge increase in margins in some sectors is reversed by a return to more normal market conditions."

FIXED INCOME

T-NOTE (H2) FUTURES SETTLED 8 TICKS LOWER AT 125-23+

Treasuries bear-steepened as reports of Russian troop withdrawal saw haven demand diminish amid mixed data, coming ahead of 20yr auction, FOMC minutes, and Retail Sales. At settlement, 2s -2.2bps at 1.567%, 3s -1.1 bps at 1.799%, 5s +1.5bps at 1.933%, 7s +3.2bps at 2.028%, 10s +4.7bps at 2.043%, 20s +5.2bps at 2.418%, 30s +5. 8bps at 2.360%. 5yr TIPS +4.9bps at -0.899%, 10yr TIPS -1.8bps at -0.447%, 30yr TIPS +4.5bps at 0.181%; 5yr BEI -2.7 bps at 2.850%, 10yr BEI -1.7bps at 2.502%, 30yr BEI +1.4bps at 2.215%.

OPS & SALES: Fed bought USD 3.225bln in 4.5-7yr Treasuries; offer-to-cover 5.13x (prev. 3.37x); the last 4.5-7yr buyback, and a record high offer/cover ratio. NY Fed RRP op demand fell to USD 1.608tln across 81 bidders (prev. USD 1.666tln across 80 bidders) amid settlement flows. Note a small handful of IG primary issuers including USD 6bln from Bristol-Myers across 10yr, 20yr, 30yr, and 40yr paper.

THE DAY: T-Notes hit highs of 126-06+ (cash 10s at 1.97%) in APAC before news hit in the European morning that Russia was withdrawing some troops and saw the curve offered, taking the contracts to support at 125-20 (2.04%), breaking Monday's low of 125-25 (2.026%). Citi's rates desk noted it saw light flows amid the move lower in London trade, however, while dip-buying was sporadic, overall cash Treasury volumes had been higher than average so far in the session. There was little follow-through reaction after the January PPI fell by less than expected, although that was offset by a big miss on the NY Fed Manufacturing survey for February. Trade direction was absent for the rest of the session with T-Notes meandering sideways, just edging to session lows of 125-18 not long before the cash stock open. There was little loss paring despite Western officials later noting the reporting around Russian troop withdrawal was not true. However, note that the curve did extend its steepening into the NY afternoon led by the front-end paring some of its losses while the back-end remained pressured, likely part a function of IG supply, particularly the USD 6bln Bristol-Myers (BMY) four-parter (10yr out to 40yr) coming ahead of Wednesday's Treasury supply. Looking ahead, December TIC flows are due later on Tuesday at 16:00EST, but otherwise, traders are preparing for Wednesday's USD 19bln 20yr bond auction, alongside the Jan FOMC minutes and Retail Sales data.

STIRS: Fronts/whites were lifted while the reds outwards were sold, steepening the whole Eurodollar strip; Sept and Dec '22 were the most active quarterly contracts. EDH2 +2.8bps at 99.31, M2 +6.0bps at 98.76, U2 +6.0bps at 98.36, Z2 +4.5bps at 98.055, H3 +2.5bps at 97.86, M3 +0.0bps at 97.70, U3 -0.5bps at 97.645, Z3 -0.5bps at 97.635, Z4 -0.5bps at 97.805, Z5 -4.0bps at 97.790, Z6 -6.5bps at 97.755. Meanwhile, note that after bid/ask spreads on T-bills widened significantly on Monday, those have mainly returned to normal levels Tuesday, calming concerns over potential government funding issues.

CRUDE

WTI (H2) SETTLED USD 3.39 LOWER AT 92.07/BBL; BRENT (J2) SETTLED USD 3.20 LOWER AT 93.28/BBL

Oil prices tumbled lower Tuesday after reports that Russia had withdrawn some troops removed some of the risk premium baked in over recent weeks. But note prices recovered somewhat into the NY afternoon as reports gained traction citing Western officials that suggested Russia had not actually withdrawn troops. Given the softer Dollar and bid for stocks, it made it fairly easy to isolate the oil losses as a geopolitical driver. Elsewhere, Argus reported that Libyan oil workers are threatening to shut down exports from the Marsa el-Hariga terminal in the east of the country at the end of this month if their pay demands are not met by state-owned NOC subsidiary Agoco. Guyana is mulling the formation of a national oil company to explore in its Atlantic waters which could be an alternative to holding auctions for offshore drilling rights; that's of note for Hess (HES) and Exxon (XOM) who are active drillers in the country's newly found oil reserves. Energy traders are now looking to the US energy inventory data on Wednesday, with the private release due later on Tuesday. Current expectations (bbls): Crude -1.6mln, Gasoline +0.6mln, Distillates -1.5mln.

EQUITIES

CLOSES: S&P 500 +1.6% at 4,471, Nasdaq 100 +2.5% at 14,620, Dow Jones +1.2% at 34,988, Russell 2000 +2.7% at 2,073.

SECTORS: Technology +2.7%, Consumer Discretionary +2.1%, Materials +1.9%, Industrials +1.5%, Financials +1.4%, Communication Services +1.3%, Health +1.1%, Real Estate +0.4%, Consumer Staples +0.2%, Utilities -0.6%, Energy -1.4%.

EUROPEAN CLOSES: EURO STOXX 50 +2.0% at 4,143, FTSE 100 +1.0% at 7,608, DAX 40 +2.0% at 15,412, CAC 40 +1.9% at 6,979, FTSE MIB +2.1% at 26,967, IBEX 35 +1.7% at 8,718, SMI +1.6% at 12,214.

STOCK SPECIFICS: **Monster (MNST)** talks are progressing with **Constellation Brands (STZ)** but a deal could still fall apart. **Tower Semi (TSEM)** is to be acquired by **Intel (INTC)** for USD 5.4bln. **Virgin Galactic (SPCE)** surged after the Co. announced it is to open ticket sales for spaceflight reservations to the public. Online sports betting firms **(DKNG, PENN)** said the recent Super Bowl saw a record number of first-time users sign up and that the event was the most bet on Super Bowl to date. **General Motors (GM)** extended production halt of EV Chevrolet Bolt through early April, will resume production of Bolt EV and EUV at Orion Township, Michigan plant on the week of April 4th. **Public Service Enterprise Group (PEG)** raised quarterly dividend to USD 0.54/shr (prev. USD 0.51/shr). **Netflix (NFLX)** is to partner 2K and **Take-two (TTWO)** on 'Bioshock' film adaption, according to Deadline. **MoneyGram (MGI)** to be acquired by Madison Dearborn for USD 11/shr in cash (prev. closing price USD 8.95). **Continental (CLR)** was lower, as alongside falling oil prices, it announced higher CapEx and lowered production guidance. **Delta Airlines (DAL)** issued travel waiver ahead of winter weather in the Midwest and Southern plains. SEC reportedly opened an investigation into the relationship between the US arm of Binance and two trading firms with links to Binance's founder, according to WSJ citing people familiar with the probe.

EARNINGS: **Zoetis (ZTS)** posted better than expected results. Fidelity (FIS) missed on revenue and EBITDA alongside weak guidance. **Allegion (ALLE)** exceeded Wall St. consensus on profit and revenue, whilst FY22 EPS view is inline. Note, current CFO is to retire effective from March 1st. **Marriott (MAR)** reported strong earnings and noted new booking across customer segments have rebounded to pre-omicron levels. **Arista Networks (ANET)** beat on EPS and revenue, whilst Q1 guidance also topped consensus.

FX WRAP

The Dollar was softer on Tuesday, in which was a choppy session for the Buck after a more constructive tone of comments on the geopolitical front, as Russian President Putin stated a decision on a partial withdrawal of troops has been taken, and Foreign Minister Lavrov added Russia will continue dialogue with the West and results are achievable, however, the West has pushed back on this reporting. On the data front, the NY Fed Manufacturing survey vastly missed expectations but failed to garner a reaction from the greenback as attention fell elsewhere, while PPI for January printed hotter than expected. Looking ahead, geopolitical updates remain of paramount importance, while on the calendar for Wednesday there is US retail sales, industrial production, FOMC minutes from January's meeting, and 20yr supply.

Safe havens underperformed, with CHF and JPY the G10 underperformers as the haven bid faded. Regarding key levels, USD/JPY hit highs of 115.87 as the Buck lost momentum as it approached the key 116.00, but technicians note it has spent a large part of the session circling around a key Fib retracement level of 115.67, whilst USD/CHF saw highs of 0.9273, but is just off that level at the time of writing. For the Yen, there is Japanese trade data approaching Thursday followed by CPI, but its likely external macro pressures will be driving action too.

Antipodeans were firmer and a beneficiary of the broad revival in risk tone, with the potential easing of Ukraine tensions the key driver. Nonetheless, the Kiwi did see some strength on the reports that China upgraded its free trade deal with New Zealand, with the NZD/USD cross hitting highs of 0.6648, just below the psychological 0.6650. Aussie cross hit a peak of 0.7156, but it was not helped by the RBA minutes as the AUD/USD saw modest downside with the patient message reiterated and no explicit mention to the plausibility of a rate hike this year. Looking ahead, Australian jobs report is due Thursday which is followed by New Zealand PPI due Friday. **GBP was choppy**, but is flat at pixel time as the GBP/USD cross flirted either side of 1.3500, with the Pound seeing earlier weakness which was highlighted by the cross hitting a two-week low of 1.3487, but it did later reclaim the 1.35 handle. Attention turns to Wednesday's CPI print for January.

CAD saw losses against the Buck but is off worse levels following the cessation of the selling in the crude complex. The Loonie was clearly struggling from the oil tumble which saw losses in excess of USD 4/bbl at session lows, seeing USD /CAD hit a peak of 1.2774, whilst poor housing starts data did nothing to aid the waning CAD.

EUR was the G10 outperformer and saw highs of 1.1368, above the key 1.1350, as the cross rose back above its 21DMA (1.1327), largely on the back of improved risk sentiment and due to the bloc's exposure to Russia/Ukraine tensions. ECB's Villeroy was later on the wires stating that keeping net asset purchases open-ended from October would not be appropriate and APP purchases could end in Q3. Villeroy continued saying a decision on hikes is not needed before the June meeting, whilst the speculation on the calendar of lift-off is premature at this stage.

EMFX was mixed, with TRY and ZAR softer against the Buck, but gains in MXN, BRL, and RUB with the latter outperforming, which comes amid the reduced geopolitical tensions between Russia and Ukraine, but market participants will be paying close attention to events and seeing how they unfold. CNH and CNY also rose after a PBoC liquidity injection and China's Cabinet pledging to promote steady industrial growth, according to state media, while continuing to stabilise commodity prices, like iron ore. Furthermore, Wednesday sees the vital Chinese CPI for January. Elsewhere, CE3 currencies were well bid, even against the flying Euro, as the region stands to benefit even more so from the Ukraine deescalation.