US Market Wrap

16th February 2022: Stocks shake losses as less-hawkish FOMC minutes usurp attention from Ukraine woes

- **SNAPSHOT**: Equities flat, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Lack of hawkish surprise in FOMC minutes; NATO's Stoltenberg says yet to see Russian de-escalation; ECB's Kazaks says rate hike quite likely this year; Strong US data, IP, retail sales; Decent 20yr auction; Blinken says Russian units continue to be built; Positive rhetoric on Iran nuclear deal; Estonia says Russia moving units near Ukraine and eastern Ukraine invasion highly likely.
- **COMING UP**: **Data**: Australian Employment, US IJC, Japanese CPI **Event**: CBRT Policy Announcement **Speakers**: ECB's Lane, Schnabel, de Cos; Fed's Bullard & Mester **Supply**: Spain, France & US **Earnings**: Standard Chartered; Airbus, Orange, Commerzbank; Walmart.
- **US WEEKLY EARNINGS ESTIMATES**: [WED] AMAT, EQIX, CSCO, AIG, PXD, NVDA; [THURS] SO, WMT; [FRI] DE. To download the the report, please click here.

MARKET WRAP

Stocks closed little changed after earlier weakness pared in wake of the FOMC minutes, which gave little new for hawks to feast on. Losses picked up for stocks in the NY handover as US' Blinken warned on MSNBC that Russia was adding more troops. Those comments came right after a solid Jan US retail sales, the highest since 2021's Q1 stimulus boom, which surprisingly failed to cause a reaction. Treasuries bull-steepened amid supply and the renewed Ukraine woes, while Fed speak and minutes provided little impetus for aggressive rate hikes. The Dollar tumbled further beneath 96.00 post-FOMC minutes, while high-beta currencies prospered. Precious metals were well bid. Oil prices had initially rallied through the session after the West refuted reports of Russian troop withdrawal, alongside tailwinds from the softer Dollar, but in post-settlement trade, the futures completely reversed to see WTI currently find support at USD 90/bbl after Iranian and American officials suggested close proximity to a return to the Iran nuclear deal.

GLOBAL

FOMC MINUTES: The Jan FOMC minutes saw little new information that markets were not aware of, and are made rather stale given how fast the data has moved since the confab. The release was framed more as a lack of hawkish surprises, rather than any outright dovish surprises. We did not get any clarity on a 50bps rate liftoff, nor did we get much new regarding balance sheet reduction rather than its expected by "a number" of participants "later this year". There was some attention on the comment that the Fed Funds rate could increase at a faster pace than the post-2015 period, but given where markets are priced and the recent Fed speak projections, that's not so surprising. On QE, there were a "couple" who favored ending net asset purchases sooner. The minutes also reinforced the data dependence mode from the Fed, particularly around inflation where "most" said "if inflation does not move down as they expect", it would be appropriate to "remove policy accommodation at a faster pace than they currently anticipate". Click here for full release.

RUSSIA/UKRAINE: Geopolitical commentary was of a more constructive tone initially on Wednesday after Russia said it is preparing to withdraw additional military columns from Crimea following military drills, according to Reuters citing Interfax. However, these comments were followed by NATO Secretary General Stoltenberg noting they are yet to see any Russian de-escalation and Russia is continuing with its military build-up. Moreover, US Secretary of State Blinken on MSNBC said the US continues to see critical Russian units moving towards the border and not away and there is no evidence of Russian pullback. Later in the session, notable comments came from the Estonian Foreign Intelligence Service Chief who said Russia is moving circa 10 battle groups towards an area near Ukraine, where 100 groups already are, and an added an escalation of fighting out of Ukraine's eastern breakaway provinces is "highly likely". But, additional reporting citing Estonian officials said Russia doesn't have enough forces in place for a full-scale invasion of Ukraine and full occupation, but a limited attack is considered "likely".

DATA

US RETAIL SALES: The January retail sales were strong, rising 3.8% from a revised 2.5% decline and above the expectation of a 2.0% increase. Core retail sales saw a strong 3.3% rise, above the 0.8% expected, and above the prior revised decline of 2.8%. The Retail Control measure, which can be used as a more accurate gauge for consumer spending, which is a large component of GDP, rose by a hefty 4.8%, topping expectations of a 1% rise and paring the prior 4% decline. After a disappointing December amid Omicron, the January figures show a sharp rebound which will likely support Q1 GDP metrics. Analysts at Oxford Economics highlight that high inflation and the Omicron variant were not enough to deter consumers from spending in January, which saw the strongest gain since March 2021, when the stimulus cheques were arriving in bank accounts. OxEco writes "The rapid improvement in the public health situation is setting the stage for robust consumption growth in the months ahead, with the rotation of spending towards services likely to regain some traction". The consultancy notes that the Child Tax Credit expiration and steep price increases could act as a headwind, however.

US INDUSTRIAL PRODUCTION: Industrial Production printed at 1.4%, above the expected 0.4%, and up from the prior -0.1%. Pantheon Macroeconomics notes, "headline production was hugely flattered by weather effects; colder-than-usual temperatures, which triggered a huge increase in demand for utility energy, and output jumped by 9.9%. Mining output rose too, by a less-startling 1.0%. The modest increase in manufacturing output is a bit better than we expected, and the net revision to prior data was a hefty 0.5%." Additionally, Pantheon notes manufacturing appears to have softened in the prior two months, but it is impossible to know if it is just a hit from worker absenteeism during the Omicron wave or the start of a softer trend. As such, auto production has fallen for the last two months. The consultancy adds, "auto output jumped by a total of 13% in October and November, prompting an 11.3% leap in retail auto inventories in the final two months of the year and triggering a surge in sales in January." On the recent pullback, PM says, "we're hoping that the recent softening is Omicron-driven and temporary, rather than a signal of renewed chip supply problems."

CANADA CPI: Canada CPI rose 0.9% in January, hotter than the expected 0.6% while the Y/Y metric rose by 5.1%, hotter than the 4.8% expected and prior. Core CPI rose 0.4%, up from the prior -0.1%, but the Y/Y rose 4.3%, up from the 4.0% prior. The average of the BoC measures (Trim, Median, Common) rose by 3.2%, up from the prior 2.93%. Analysts at RBC Economics highlight "growth in gas prices, along with further disproportionate gains in home purchase costs and vehicle purchase/rental prices accounted for more than half of the January headline year-over-year CPI gain". The desk also notes that the broadening of price pressures is expected to persist, but it is not yet as dramatic as what is being seen in the US. The Bank of Canada is widely expected to hike rates at its March meeting, which RBC suggests could be followed up with another hike in April.

FIXED INCOME

T-NOTE (H2) FUTURES SETTLED 2+ TICKS HIGHER AT 125-26

Treasuries bull-steepened amid supply and renewed Ukraine woes, while Fed speak and minutes provides little impetus for aggressive rate hikes. At settlement, 2s -5.2bps at 1.517%, 3s -4.8bps at 1.750%, 5s -3.0bps at 1.905%, 7s -2.1bps at 2.010%, 10s -0.9bps at 2.036%, 20s -0.7bps at 2.413%, 30s -0.5bps at 2.356%. 5yr TIPS -1.7bps at -0.915%, 10yr TIPS +0.3bps at -0.442%, 30yr TIPS -0.3bps at 0.180%; 5yr BEI -0.3bps at 2.836%, 10yr BEI -0.4bps at 2.491%, 30yr BEI -0.0bps at 2.211%.

OPS & SALES: No Fed buyback. US sold USD 40bln of 119-day CMBs at 55bps, covered 2.99x; sold USD 19bln in 20yr bonds, on the screws, covered 2.44x. NY Fed RRP op demand at USD 1.644tln across 87 bidders (prev. USD 1.608tln across 81 bidders). Another handful of IG USD issuance, including several big banks and a five-parter from PG&E (PCG).

THE DAY: Treasury curve entered the NY session mildly bull-flattening on light activity ahead of the data, 20yr auction, and FOMC minutes. T-Notes hit session highs of 126-01 in the NY morning, finding spillover strength from EGBs, and rallying despite a strong US retail sales print, with attention instead on Blinken saying on MSNBC that Russia was adding more troops; cash 10s failed to break back beneath 2.00%. But, the strength was reversed not long after amid pressure on the back-end into the 20yr auction and ahead of the FOMC minutes; some desks cited Harker calling for 25bps liftoff alongside Kashkari saying the Fed should not overdo it on rate hikes as providing support for the steepening. There was little reaction to the decent 20yr bond auction, and as the FOMC neared more selling occurred out the curve. That was reversed after the FOMC minutes sat more on the neutral side, failing to provide any hawkish bombshells or further clarity on key topics such as 50bps or QT, seeing T-Notes rally back above 126-00 before paring back most of the move into settlement. Traders now look to Thursday's 30yr TIPS auction and Fed speak.

20YR AUCTION: A decent auction for the cut-sized 20yr issue with the highest on record stop rate of 2.396% coming on the screws, compared to the six-auction average 0.8bps tail. The B/C ratio of 2.44x came in above avg. 2.39x, while Dealers took a lower-than-avg. 16.1% thanks to a Directs record participation of 21%.

STIRS: Eurodollar strip bull-steepened on the geopolitical woes and relative Fed dovishness, seeing whites and reds bid the hardest. EDH2 +2.8bps at 99.335, M2 +4.0bps at 98.79, U2 +5.0bps at 98.40, Z2 +4.5bps at 98.09, H3 +5.0bps at 97.905, M3 +4.5bps at 97.745, U3 +4.5bps at 97.685, Z3 +4.0bps at 97.67, H4 +3.0bps at 97.71, M4 +2.0bps at 97.76, U4 +1.0bps at 97.785, Z4 +0.0bps at 97.795, Z5 -0.5bps at 97.77, Z6 -1.0bps at 97.735.

CRUDE

WTI (H2) SETTLED USD 1.59 HIGHER AT 93.66/BBL; BRENT (J2) SETTLED USD 1.53 HIGHER AT 94.81/BBL

Oil prices rallied through Wednesday after the West refuted reports of Russian troop withdrawal, alongside tailwinds from the softer Dollar. There could also be some oil support out of Iran with Citi noting that Iranian nuclear talks may have stalled, "with Iran seeking Congressional assurances that the US won’t pull out of a new deal, which seems like a heavy lift from a political perspective. Perhaps as much as 1.0mln BPD in Iranian production and exports hangs in the balance." The French Foreign Minister said the nuclear deal is within reach and it will be a matter of days, but the deal requires political decisions to be made by Iran. US inventory data was mixed, with crude stocks bearish after building 1.1mln bbls (exp. -1.6mln; private -1.1mln), although the products were more bullish with gasoline -1.3mln and distillates -1.5mln, both more bullish than expected and deeper draws than the private data indicated. Elsewhere, OPEC's President was on the wires saying oil supply now is not enough, where there has been a quick rise in demand and OPEC needs to respond. The official noted that production has increased over the last few months but there is still a gap between targets and outputs, saying there is no immediate solution to high oil prices. Note that March WTI options expire Wednesday as interest rolls into the April futures, so book squaring could have been a factor in the tape action.

POST-SETTLEMENT TRADE: After the settlement positive rhetoric came via Iran's nuclear top negotiator Kani and the US State Department regarding the Iran nuclear talks. The former stated after weeks of intensive talks "we are closer than ever to an agreement", but caveats that nothing is agreed until everything is agreed, whilst the latter said the US is 'in the midst of' the very final stages in Iran nuclear talks. Following this, crude futures tumbled lower on Kani's tweets, highlighted by WTI and Brent continuing to sell since the aforementioned comments.

NATGAS: Nat gas surged higher as Ukraine tensions returned. On supply, Russian Deputy PM Novak said that even a partial refusal of Russian gas in Europe in favour of LNG could prompt a further wave of gas crises in Asia; said Europe should look at a return to long-term gas contracts to limit risks of entering a deficit. The Russian Finance Minister said that energy prices will move higher if the Russian energy sector is impacted by Western sanctions and that Russia would re-route energy supplies in the event. Meanwhile, EU's von der Leyen said the EU had received record levels of LNG imports in the last month, saying the EU is on the safe side this winter when it comes to energy supply.

EQUITIES

CLOSES: S&P 500 +0.1% at 4,475, Nasdaq 100 -0.1% at 14,603, Dow Jones -0.2% at 34,934, Russell 2000 +0.0% at 2,077.

SECTORS: Energy +0.8%, Materials +0.7%, Industrials +0.5%, Consumer Discretionary +0.3%, Real Estate +0.3%, Consumer Staples +0.2%, Utilities +0.2%, Health +0.1%, Financials +0.0%, Technology -0.2%, Communication Services -0.2%.

EUROPEAN CLOSES: EURO STOXX 50 -0.2% at 4,137, FTSE 100 -0.1% at 7,603, DAX 40 -0.3% at 15,370, CAC 40 -0.2% at 6,964, FTSE MIB +0.0% at 26,969, IBEX 35 +0.2% at 8,737, SMI +0.1% at 12,191.

STOCKS SPECIFICS: **Google (GOOGL)** plans to adopt new privacy restrictions to curtail tracking across apps on Android smartphones, following **Apple (AAPL)** in putting restraints on the advertising industry that has collected data across billions of devices, according to WSJ. **Moderna (MRNA)** announced it is expanding into Asia with four new subsidiaries. **SeaWorld (SEAS)** offer for **Cedar Fair (FUN)** was rejected. **Kraft Heinz (KHC)** executive stated that we are likely to see or expect inflation in low teens for the whole of 2022. **Zendesk (ZEN)** saw Jana Partners launch a proxy fight against it, with Jana nominating four directors to the board, according to a letter cited by Reuters. **Toyota Motors (TM)** said all North American plants operating normally after border protests. **Devon Energy (DVN)** noted it expects a 15% jump in costs compared to 2021 due to inflation and supply constraints. **Meta's (FB)** Nick Clegg has been promoted to President of Global Affairs as CEO Zuckerberg steps back from policy. **Lockheed Martin (LMT)** selected to prototype next generation US marine corps 5G communications. **Softbank (SFTBY)** is said to seek USD 8bln margin loan as part of Arm IPO. **BioNTech (BNTX)** will reportedly deliver an Omicron vaccine at the earliest in April, according to Bild. **Amazon (AMZN)** sees lawmakers advocate for Chinese labour rights activist.

EARNINGS: **Kraft-Heinz (KHC)** beat on EPS and revenue and maintained its dividend of USD 0.40/shr. **Airbnb (ABNB)** beat on EPS, revenue and GBV's alongside positive commentary. **Paramount (VIAC)** missed on EPS; changed name to Paramount from Wednesday, ticker changes to PARA Thursday. **Roblox (RBLX)** shares plunged after Co. missed on top and bottom line, bookings, DAU's, and hours engaged. **Shopify (SHOP)** posted a solid quarter, but guidance & commentary disappointed; said revenue growth for 2022 would be slower than the 57% it achieved in 2021. **Analog Devices (ADI)** beat on EPS and revenue and raised dividend. **Upstart (UPST)** earnings topped Wall St. consensus alongside issuing strong guidance. **Generac (GNRC)** rallied following a strong Q, where it surpassed analyst expectations on EPS and revenue.

FX WRAP

The Dollar was softer on Wednesday amid a safe-haven rally as geopolitical tensions in Russia and Ukraine returned. The Buck extended on losses following the FOMC minutes, which saw Treasuries and Stocks rise on what appeared to be more a lack of hawkish surprises rather than anything explicitly dovish, where we also did not get any clarity on any appetite for a 50bps rate lift-off, nor did we get new details surrounding balance sheet reduction. Earlier losses were capped on the back of strong US data (retail sales, import/export prices, and industrial production) which kept the DXY in close proximity to the 96 handle, which it drifted further beneath into the latter session. Looking ahead, participants keep tabs on the geopolitical situation as well Fed's Bullard Thursday, followed by Brainard and Williams on Friday.

Activity currencies were all firmer and the G10 outperformers, which saw the Antipodeans seeing the greatest gains closely followed by the GBP and CAD. Firstly, the Pound overcame Wednesday's morning hot CPI print and also managed to shrug off the strong US retail sales print to eke out gains against the Buck, and as such, the cross hit a high of 1.3600 in post-minutes trade. Sterling watchers will be awaiting Friday's Retail Sales for Jan as the next key scheduled event. Kiwi saw highs of 0.6691 as it managed to extend its gains above 0.6650, whilst its Aussie counterpart saw a peak of 0.7205 after it initially faded heading into the round number but got a renewed bout of strength following the FOMC minutes. Aussie watchers now look to the Australian jobs report Thursday. Loonie saw the mildest gains of the bunch, in contrast to its likened peers, but still managed to fall back beneath 1.2700 to lows of 1.2665, which came in the wake of the Canadian January CPI report, which printed hotter than expected. However, following this CAD stalled, which coincided with WTI and Brent reversing in late trade on Iran nuclear deal progress headlines, but the currency still remained supportive.

CHF and JPY saw gains against the Buck, with the Yen the G10 relative underperformer. Initially, in the early morning, it appeared it was going to be a testing session for the safe-havens as the geopolitical commentary looked more upbeat and constructive, but after NATO Secretary General Stoltenberg stated they are yet to see any Russian de-escalation and Russia is continuing with its military build-up, the risk-on appetite retreated. Nonetheless, USD/JPY traded in a fairly narrow range, 115.78-36, but did manage to breach beneath the key 115.50, but technicians continue to keep an eye on the key Fib retracement of 115.67 and where the Yen is in relation to it. USD/CHF fell to lows of 0.9207, but the Swissy could not quite maintain the momentum to subside beneath the round 0.9200. **EUR also saw mild gains**, with the most notable update coming from Kazaks who said an interest-rate hike is quite likely this year, and echoing Villeroy on Tuesday by adding bond-buying could end in Q3.

EM's were mixed. RUB was flat against the weaker Dollar while the currency battles the ongoing geopolitical risk and choppy crude prices. CNH was flat against the buck after softer than expected Chinese CPI and PPI data in January while local press suggested the PBoC LPR will be maintained in February after it maintained the MLF rate. ZAR was an EM outperformer after gold prices caught a bid while the latest CPI data was in line with expectations, with Y/Y rising to 3.5% from 3.4%; SA retail sales in December were stronger than expected. BRL was also firmer; Reuters reported the Brazilian government is looking at tax exemptions for foreign investors in corporate bonds in an effort to lower financing costs for local firms amid higher interest rates. TRY was slightly weaker. There was more commentary from Turkish President Erdogan who reiterated price increases are "transitory" and they will see inflation decelerate every month. Erdogan announced Turkey will provide support to households for natgas payments and has widened the support for electricity prices.

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