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US Market Wrap

17th February 2022: Risk assets tumble with Ukraine headlines in the driving seat

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar flat
- **REAR VIEW**: Reports of Shelling in Eastern Ukraine; West concerned about invasion "in days", Russia pushback on escalation worries; Bullard still sees 100bps of tightening, says intermeeting rate hike is not imminent; Jobless claims rise, continued claims fall; Philly Fed disappoints; Mixed housing data; awful 30yr TIPS auction; Strong CSCO, WMT, DASH earnings; NVDA earnings good, but not good enough.
- **COMING UP**: **Data**: UK Retail Sales, Swedish CPIF, US Existing Home Sales, EZ Consumer Confidence (Flash) **Speakers**: Fed's Williams, Brainard, Evans; ECB's Elderson, Panetta **Earnings**: NatWest; Allianz, EDF; Deere.
- **US WEEKLY EARNINGS ESTIMATES**: [FRI] DE. To download the the report, please click here.

MARKET WRAP

Stocks were lower across all major indices with the tech and cyclicals leading the losses amid the risk aversion brewing out of Ukraine. Russia has expelled a key US diplomat from Moscow, while US officials continue to tout an expected invasion in the coming days; reports of heavy troop additions continue, as do additional reports of fire/shelling in eastern Ukraine. Treasuries were well bid across the curve – belly strongest – amid the fragile Ukraine situation and downbeat US data; long-end struggled after a 6.5bps 30yr TIPS auction tail. The Dollar was flat as it battled geopolitics, lower yields, hawkish Fed speak, and mixed data. Havens such as Yen and Swissy were well bid, as were precious metals with Gold rising above USD 1900/oz. On US data, the building permits print was the only growth-positive surprise, where housing starts, jobless claims, Philly Fed Mfg., and initial jobless claims all came in worse than expectations. Oil prices were lower amid follow through from late Wednesday optimism around an Iranian nuclear deal, which managed to overshadow the heightened Ukraine headlines. In earnings, Walmart (WMT) rallied after its earnings beat and guidance affirmed above estimates, Cisco (CSCO) did well after a beat with shareholder capital return announcements, while both Nvidia (NVDA) and Applied Materials (AMAT) fell despite strong quarters, although analysts warn NVDA margins may be peaking while AMAT guidance was softer than expected on supply chain woes.

GEOPOLITICS

UKRAINE: Following overnight reports in Russian press of shelling in eastern Ukraine, the latest escalation saw Russia expel US Deputy Chief of Mission Bart Gorman. Russia said it was a tit-for-tat move following an earlier expulsion of Russian diplomats from Washington, but US Secretary of State Blinken said the US would respond. Meanwhile, US President Biden said Thursday that the threat of Russian invasion into Ukraine is very high and believes Putin will invade Ukraine in a matter of days.Blinken echoed that to the UN Security Council, saying Russia plans to manufacture a pretext for its attack which could include a fake or real attack using chemical weapons. Blinken said he had sent a letter to Russian Foreign Minister Lavrov that proposes an in-person meeting for next week. Meanwhile, Russia told the US in an official response that its counterproposals on security were not constructive and ignored Russia's key concerns, saying the ultimatums for Russia to remove troops from parts of its own territory and accompanied by sanctions threats are unacceptable and undermine chances of reaching a deal. Russia warned it will be forced to respond by implementing military technical measures in absence of the US negotiating legally binding security guarantees, although Russia simultaneously said there is no Ukraine invasion and none is planned (those words clearly open for interpretation). Meanwhile, The Guardian reported that the UK believes nearly half of the Russian forces that have massed near Ukraine are now within 30 miles of the border. It's not quite clear what the current situation on the ground in eastern Ukraine is, where there have been follow-up reports through Thursday suggesting sounds of artillery fire. Fox News' correspondent reported that there was indication shelling has resumed in the region late Thursday.

US

FED: **Bullard** (2022 voter, hawk) said an unscheduled FOMC is not imminent but is something to think of (note he hasn't mentioned the possibility much since he suggested it was on the table last week). Bullard said his target of 100bps hikes by July 1st could be managed many ways. Said the Fed may have to go beyond the neutral rate to control prices (said on Feb 1st that the Fed is not that far from reaching the neutral rate if you consider both rates and balance sheet together). Bullard noted that the 2yr note is already pricing a lot of normalisation whilst reiterating his desire for the Fed to play the balance-sheet card (reduction) as soon as possible. The St Louis President said several times that the Fed is at risk of dangering its credibility, noting that the 2.6% yr-end median staff forecast for inflation is optimistic, with risks leaning towards inflation not dissipating as forecast.

JOBLESS CLAIMS: Initial jobless claims rose above the consensus to 248k (exp. 219k, prev. 225k) during the week that coincides with the BLS survey period. Continued claims were better than expected, falling to 1.593mln (exp. 1.605 mln, prev. 1.619mln). Firstly, initial claims, Oxford Economics note that ‘despite the latest uptick, the surge in claims spurred by the Omicron wave is in the rear-view mirror. We expect initial jobless claims to migrate back to the 200k level or lower amid tight labor market conditions.’ Looking ahead, OxEco expects this year the labour market is to stay on a robust path, with the economy anticipated to add almost 4mln jobs alongside the unemployment rate falling towards 2.5% by the end of 2022. Continuing claims, which lags initial claims by a week, fell yet again and as such for the previous six weeks it has remained beneath the pre-pandemic average of 1.71mln. Moving ahead, Oxford anticipates continued claims to remain at recent levels or even fall further, due to health conditions improving and a greater quantity of workers returning to the labour force. Finally, and as such OxEco expects the labour force participation rate to rise to 62.6% over the remainder of the year from 62.2% in January - pre-pandemic it was 63.6%.

PHILLY FED: Philly Fed in February fell to 16.0 from 23.2, and also short of the expected at 20.0. Delving into the subcomponents, and a large contribution to the disappointing report was new orders dropping to 14.2 (prev. 17.9) alongside shipments subsiding to 13.4 (prev. 20.8) which was its lowest reading since August 2020. Elsewhere, the employment index rose, and the price indexes remained elevated, albeit prices paid did slow M/M. Moreover, all the measures of supply chain pressures, unfilled orders, delivery times, and the aforementioned prices paid, all eased slightly in this months reading. Additionally, the future indexes continue to indicate that the firms expect growth over the next six months.

HOUSING STARTS/BUILDING PERMITS: Housing starts fell 4.1% to 1.638mln, beneath the expected 1.7mln, and also fell from the prior 1.708mln. Pantheon Macroeconomics note ‘starts likely were depressed by severe weather and, perhaps, worker absenteeism due to the Omicron wave, which peaked in the middle of January.’ Building permits rose 0.7% to 1.899mln, above the forecasted 1.76mln and exceeded the previous print of 1.885mln. Looking into the report, Pantheon adds, building permits is far less sensitive to outside factors and are as such driven mostly by the path of new home sales, which have increased strongly in the past few months. Nonetheless, the consultancy adds, ‘both starts and permits are running well above the level implied by the new home sales numbers, presumably because homebuilders are trying to take advantage of the record-low inventory position in the existing homes market, offering frustrated would-be homebuyers the chance to buy something.’ Looking ahead, PM states, starts are likely to rebound in next months data, but the whole outlook for the housing market is quickly darkening, and anticipate sales to be falling by the end of Q1.

FIXED INCOME

T-NOTE (H2) FUTURES SETTLED 19+ TICKS HIGHER AT 126-13+ Treasuries were well bid across the curve – belly strongest – amid the fragile Ukraine situation and downbeat US data. At settlement, 2s -5.1bps at 1.479%, 3s -6.2bps at 1.704%, 5s -7.2bps at 1.847%, 7s -7.8bps at 1.943%, 10s -7.5bps at 1.970%, 20s -5.2bps at 2.356%, 30s -5.4 bps at 2.310%. 5yr TIPS -8.7bps at -0.985%, 10yr TIPS -4.0bps at -0.485%, 30yr TIPS +0.4bps at 0.188%; 5yr BEI +4. 4bps at 2.850%, 10yr BEI -0.7bps at 2.470%, 30yr BEI -4.6bps at 2.160%.

STIRS: Eurodollar strip bull-flattened on the geopolitical jitters, while Bullard's latest comments saw nothing new from the hawk. EDH2 +2.0bps at 99.353, M2 +3.5bps at 98.820, U2 +4.5bps at 98.445, Z2 +5.0bps at 98.140, H3 +6.0bps at 97.965, M3 +6.5bps at 97.805, U3 +7.0bps at 97.750, Z3 +7.5bps at 97.740, Z4 +7.5bps at 97.875, Z5 +9.0bps at 97.865, Z6 +9.0bps at 97.825.

OPS & SALES: Fed bought USD 1.6bln in 10-22.5yr Treasuries; offer-to-cover 3.52x (prev. 2.62x on Feb 3rd); final Fed 20yr buyback. US sold USD 53bln of 1-month bills at 8bps, covered 3.48x; sold USD 43bln of 2-month bills at 25bps, covered 3.12x; sold USD 9bln in 30yr TIPS, tailed by 6.5bps (biggest tail in years), covered 2.17x. NY Fed RRP op demand at USD 1.647tln across 79 bidders (prev. USD 1.644tln across 87 bidders). Amgen (AMGN) sold USD 4bln four-parter (7yr, 10yr, 30yr, and 40yr).

THE DAY: T-Notes hit highs of 126-15+ in APAC Thursday trade after reports gained traction around shelling breaking out in eastern Ukraine before gradually paring to lows of 125-28+ in the European morning, where they stood prior to the shelling news. But the contracts caught a bid going into the NY session. The decent Jan housing starts data was offset by misses on Feb Philly Fed Mfg. and higher than expected jobless claims, seeing incremental strength for govvies. Bidding was sustained through the morning amid US President Biden and Sec. of State Blinken warning they expect a Ukraine invasion in the coming days, in addition to Russia expelling a key US diplomat from Moscow. IFR noted, "trading account short-covering and algo buy programs dominated today's treasury action", noting that real money was a buyer, "pension funds and insurers were among them with those flows concentrated in the long end." But, note the long-end weakened into the NY afternoon, catching momentum after the awful 6.5bps tail in the 30yr TIPS auction, raising concerns over liquidity in duration just as the Fed pulls away support. On futures positioning, Citi's rates desk notes it sees short positioning becoming extended in T-Notes, but profits are vulnerable to richening above 126-16; while in the Ultra Bond future, Citi highlights resistance at 182-16 as a short-squeeze risk level.

CRUDE

WTI (J2) SETTLES USD 1.79 LOWER AT 90.04/BBL; BRENT (J2) SETTLES USD 1.84 LOWER AT 92.97/BBL

Oil prices were lower Thursday amid follow through from late Wednesday optimism around an Iranian nuclear deal, which managed to overshadow the heightened Ukraine headlines continue to jolt the broader macrosphere. On Iran, with Western officials saying talks are in the final stages, JPMorgan's energy desk said some participants/clients have been hesitant to add length in oil ahead of a deal, but highlighted that many believe Iran has already been smuggling between 800-1.3mln BPD of exports, so once a deal is reached and participants realize it won't have much impact on balances, JPM believes it will be time to add. Elsewhere, Pioneer (PXD) CEO Sheffield said to Bloomberg that oil demand erosion will come at USD 150/bbl, a level he believes prices could easily get to, and warned that shale can't respond even if Biden asks for more oil amid higher cost inflation inhibiting US shale growth. Otherwise, the market is vulnerable to headline risk amid the uncertainty around Ukraine.

EQUITIES

CLOSES: S&P 500 -2.14% at 4,379, Nasdaq 100 -2.96% at 14,172, Dow Jones -1.78% at 34,312, Russell 2000 -2.65% at 2,025.

SECTORS: TECHNOLOGY -3.07%, COMMUNICATION SVS -2.96%, CONS DISC -2.57%, FINANCIALS -2.41%, INDUSTRIALS -1.86%, MATERIALS -1.7%, HEALTH -1.6%, REAL ESTATE -0.97%, ENERGY -0.08%, UTILITIES +0.06%, CONS STPL +0.91%.

EUROPEAN CLOSES: EURO STOXX 50 -0.6% at 4,113, FTSE 100 -0.9% at 7,537, DAX 40 -0.7% at 15,267, CAC 40 -0.3% at 6,946, FTSE MIB -1.1% at 26,669, IBEX 35 -0.8% at 8,671, SMI -1.0% at 12,066.

EARNINGS: **Cisco Systems (CSCO)** beat on EPS and revenue. Announced an additional USD 15bln stock buyback and raised its dividend 3%. Product and service revenue topped expectations and gross margin was also beat. **Walmart (WMT)** beat on EPS, revenue while total US SSS were in line but Sam's Club beat. Expects to buy back USD 10bln of shares in FY23 and also raised its annual dividend. **Applied Materials (AMAT)** saw top and bottom-line beats with OM's above expectations but Gross Margins missed. Guidance was light due to supply shortages. **Nvidia (NVDA)** beat on EPS and revenue with a very strong Q, although some argue the beat should have been higher while its auto/robotics revenue fell short of expected. In addition, Summit Insights downgraded NVDA to hold on concerns that margins are peaking. **DoorDash (DASH)** posted a larger loss per share than expected while revenue beat. EBITDA also missed but orders and marketplace gross order value both topped expectations. MAUs reached an all-time high and guidance for marketplace GOV was strong.

STOCK SPECIFICS: **Micron Technology (MU)** notified customers that NAND flash chip contract prices are to rise between 17-18%, more than estimates, amid spot prices rising 25%, according to DigiTimes. **Intel (INTC)** pushed back the launch of standalone graphics chips for desktops to Q2, while those for laptops will be rolled out in Q1 as originally planned. **Visa (V)** and **Amazon (AMZN)** struck an agreement to accept Visa cards around the world. **Tesla (TSLA)** has been sued following an alleged suspension failure that resulted in a deadly Florida crash. **Upstart (UPST)** was double upgraded to Buy from Underperform at BofA. **Inspirato (ISPO)** saw market cap more than triple on the day; comes after Co. merged with SPAC Thayer Ventures Acquisition Corporation (TVAC) and began trading Thursday. **Peloton (PTON)** introduced Peloton Lanebreak, which is a new way to ride where fitness meets gaming, via Twitter. NTSB is investigating a **Joby (JOBY)** Drone Air taxi prototype accident. **BNY Mellon (BK)** CFO stated the bank would consider making a large acquisition in asset servicing space but the bar is high. **Coca Cola (KO)** raised its quarterly dividend to USD 0.44/shr (prev. USD 0.42); it also expects to repurchase USD 500mln of shares this year. **Amazon's (AMZN)** ambitious physical stores plans are reportedly falling short of expectations, with far fewer people using its cashierless grocery carts than predicted, according to Business Insider.

FX WRAP

USD: The buck was flat Thursday amid Ukraine escalations spurring haven demand, mixed data, and renewed hawkish Fed speak. Geopolitical woes with Russia and Ukraine escalated with reports of shelling in eastern Ukraine while Western Officials continue to believe the risk of an invasion is very high and an invasion imminent. US data has been mixed, jobless claims saw a surprise rise, which coincides with the survey week for the NFP report. The Philly Fed survey fell by more than expected while new orders, capex, and the 6m outlook slowed, prices slowed a touch but remained at elevated levels, while employment also saw a gain. Building permits were above expectations while housing starts were below. Bullard spoke numerous times, he did mention an intermeeting hike, but said it is not something imminent but it is something to think of. Nonetheless, geopolitics dominated, and that drove yields lower across the curve.

EUR: The single currency was marginally lower on geopolitical concerns while commentary from ECB's Lane was eyed. Lane said the size and frequency of rates move will depend on inflation regime; other increments aside from 25bps are possible - likely talking about smaller increments. Lane added the current inflation rate is mostly an imported inflation shock and no domestic demand boom, stating gradualism makes sense in this scenario. Lane also noted if inflation is expected to stabilise around 2%, the policy path is different from open-ended.

HAVENS: Havens were once again well supported with JPY, CHF, and XAU all firmer Thursday. USD/JPY briefly fell beneath 115.00 to lows of 114.86 on the ongoing geopolitical concerns with US President Biden stating the threat of an invasion is very high while Russia expelled the US Deputy Chief of Mission Gorman in a retaliatory move. XAU briefly topped above USD 1,900/oz. Both were supported by the geopolitical tensions but also as US yields fell. CHF was also bid on risk aversion grounds with an element of positivity from bull-flattening in bonds, as USD/CHF fell beneath 0.9200 to lows of 0.9189 while EUR/CHF held towards the bottom of a 1.0495-49 band.

CYCLICALS: Despite the down-beat risk tone on geopolitics, GBP and NZD fared well with the latter perhaps supported by positioning ahead of the RBNZ meeting next week where there is an outside chance of the OCR being hiked by 50bps rather than the 25bp consensus, while GBP could also be trading off BoE themes where markets are pricing in another 25bp hike in March. CAD was flat against the buck despite lower oil prices while the BoC is also expected to hike by 25bps at its March meeting with eyes on the QT process after Lane Wednesday said it's quite likely they will say something on the matter at the next rate decision, after in the January statement noting "The Bank will keep its holdings of Government of Canada bonds on its balance sheet roughly constant at least until it begins to raise the policy interest rate. At that time, the Governing Council will consider exiting the reinvestment phase and reducing the size of its balance sheet by allowing roll-off of maturing Government of Canada bonds." AUD was also flat and failed to garner much support from a better than expected jobs report, rising by 13k, despite expectations for a 15k decline while the unemployment rate was unchanged at 4.2% as expected, although full-time jobs fell by 17k, but the participation rate rose.

EM'S: CNH was flat against the buck but overnight the China's Securities Times citing analysts notes the CNY is expected to weaken slightly this year; an analyst cited in the piece suggests the recent strength matches fundamentals. TRY eventually saw some upside following the CBRT holding rates and reaffirming that the comprehensive review of the policy framework is being conducted with the aim of encouraging permanent ‘Liraization’ using all tools and available instruments. RUB was weaker on the further escalation with Ukraine while the downside in oil prices on JCPOA optimism only weighed further. MXN was also marginally weaker, as was BRL with both trading of the macro environment in a true risk-off session. Meanwhile, MXN was little phased after commentary from Banxico Deputy Governor Heath highlighted the problem the Banxico has with no economic growth engine for 2022 alongside persistent core inflation with a clear upward trajectory. Health also stated that monetary policy in Mexico cannot be counter to the US Fed's monetary policy due to the close relationship between economies and that the expected rate hikes from the Fed puts limits on Mexico's monetary policy. ZAR was weaker despite the rally in gold prices.

CBRT REVIEW: Turkey's central bank held its key one-week repo rate at 14.00%, in line with the analyst consensus, the second meeting where it held rates. Analysts have suggested that this could imply that Turkish President Erdogan -- who has pressured the central bank to adopt his brand of monetary policy, leading it to lower rates on several occasions last year, which resulted in inflationary pressures rising to almost +50% Y/Y -- is taking the inflation threat seriously, although this still doesn't fully imply that he will abandon his unorthodox policy views. Elsewhere, the central bank highlighted its focus on a stable currency, and said it was "encouraging permanent liraization in all policy tools of the CBRT," as had been flagged up by remarks from the finance minister to investors recently. Ahead, analysts at SocGen forecast that the CBRT will leave rates at 14.00% for the rest of the year, and sees the USDTRY rate hovering around 13.50, though notes the potential for strong downside risks to the TRY (upside risks for USDTRY) as geopolitical events in Russia /Ukraine threaten to escalate.

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