newsquawk

US Market Wrap

15th March 2022: Growth stocks rally into FOMC while Brent tumbles beneath $100/bbl

- **SNAPSHOT**: Equities up, Treasuries down/flat, Crude down, Dollar flat.
- **REAR VIEW**: Putin says Kyiv is not serious about finding a mutual solution; Russia/Ukraine talks to continue; Saudi Arabia mulling accepting Yuan instead of Dollars; NY Fed big miss, soft PPI a welcome relief; Trafigura seeks PE funding as commodities soar; Raskin withdraws from Fed consideration; Airlines surge on positive commentary; LME sets Nickel trading limit at 5% (prev. 15%) ahead of reopen.
- **COMING UP**: **Data**: US Retail Sales, Export/Import Prices, Canadian CPI **Events**: FOMC Policy Announcement & Press Conference; IEA OMR **Speakers**: Fed's Powell; ECB's Elderson, Panetta **Supply**: Germany.

MARKET WRAP

Stocks were well bid Tuesday with a duration bias and closed at highs after a late session ramp (chunky buyside imbalance for the MoC orders) solidified the NDX's >3% gain with attention drifting to Wednesday's FOMC. Fundamentals have been on the bearish side for cyclical assets, with Putin talking pessimistically about a compromise with Ukraine while the NY Fed Mfg. Survey saw a big miss, although soft PPI is an incremental relief around the inflation outlook. Regardless, that didn't stop the grind higher in US stocks, and noteworthy that was led by growth stocks on the eve of the FOMC's rate liftoff. The Growth ETF (IVW) rallied 3% while the Value ETF (IVE) trailed at just +1.25%. Energy was the only sector in the red, with oil prices tumbling further to see both WTI and Brent futures settle beneath USD 100 /bbl for the first time since February. The downside was supported by optimism touted by Russia around the Iranian nuclear deal, in addition to the dimming global demand outlook on the back of the spiking COVID outbreak in Asia. Treasuries were little changed (10s +1bp) and slightly steeper (2s10s flirted above 30bps for the first time since Mar 4th) where earlier strength on the oil tumble and soft data reversed as stocks continued to rip and positioning into the FOMC rate decision and accompanying Dot Plot. The DXY was little changed around the 99 handle after reversing higher (with yields) off earlier lows of 98.62.

GEOPOLITICS

ON THE GROUND: Updates on Russia’s advancements are getting somewhat more sporadic. Though Sputnik reported, citing the MoD, that Russian forces have taken full control of Kherson and Ukraine. Whilst in Mariupol, the Deputy Mayor said Russian troops are holding 400 people, including doctors and patients, "like hostages" inside a hospital, but earlier in the session it was reported about 2,000 cars carrying civilians managed to leave the city, which has been devastated by intense Russian bombardment. Additionally, on Kyiv, Mayor Klitschko announced a 35-hour curfew in the city which will last from Tuesday evening until Thursday morning, warning of "a difficult and dangerous moment". Lastly, the Ukrainian air force claimed that a Russian drone crossed into Poland before returning to Ukraine and was shot down by air defences. Elsewhere, there was a WSJ article reporting on the workers in Chernobyl who haven't been off their shifts in weeks as they remain hostages of Russian forces.

DIPLOMACY: Russia and Ukraine conducted their fourth round talks on Tuesday, but updates were few and far between, with Ukraine negotiator stating talks with Russia have resumed and are discussing ceasefire withdrawal of troops, but this was more-or-less it. However, the notable remark was made by Russian President Putin who said Kyiv is not serious about finding a mutually acceptable solution. Regarding talks, a Ukrainian presidential adviser said Russia's territorial claims are unacceptable and Ukraine is ready to continue negotiations on remaining issues, adding that a peace agreement could be signed within 1-2 weeks at the earliest and May at the latest, according to CCTV. Finally, Russia issued further retaliatory sanctions on Tuesday and imposed personal sanctions on US President Biden and US Secretary of State Blinken, according to Russian news outlet IFX. Sanctions also apply to US Defence Minister, National Security Adviser, CIA head, as well as others. Looking ahead, the Turkish Foreign Minister is to conduct talks with Moscow and Kyiv this week.

DATA

NY FED MANUFACTURING: Headline NY Fed manufacturing slumped to -11.8, falling a long way short of the expected +7 and dropped considerably from the prior +3.1, and as such printed its lowest level since May 2020. Looking into the subcomponents, new orders, -11.2, and shipments, -7.4, both fell into negative territory from positive prints, previously. Additionally, inventories, 21.5, and delivery times, 32.7, both rose significantly from 11.7 and 21.6, respectively. Furthermore, the inflation gauge component of prices paid encouragingly fell to 73.8 from 76.6, but still remains elevated, whilst the number of employees also dropped to 14.5 from 23.1. The survey was conducted between March 2nd-9th and as such many are noting the drop appears to be a knee-jerk reaction to the Russian invasion of Ukraine and the accompanying surge in oil and other commodity prices, so whilst the headline is expected to rebound next month, the uncertainty around the data will continue until the conflict has concluded. Looking ahead, the report notes, "firms were generally optimistic about the six-month outlook. The index for future business conditions climbed eight points to 36.6. Longer delivery times, higher prices, and increases in employment are all expected in the months ahead, and capital spending plans remained firm."

PPI: Headline PPI M/M rose 0.8%, marginally short of the expected 0.9%, and fell from the prior which was revised up to 1.2%, whilst Y/Y printed 10%, in line with the consensus and the previous figure. Looking at the core figures, M/M rose only 0.2%, well beneath the forecasted 0.6% and January's 1.0%, whilst Y/Y also was short at 8.4% (exp. 8.7%, prev. 8.5%). Looking into the report, Pantheon Macroeconomics notes February headline PPI was driven up by a 14.8% rise in gasoline prices and a 1.7% lift in food prices, and further chunky increases are coming in March. Meanwhile, Pantheon adds, "the core by contrast, is a pleasant surprise; we thought there was a bit of downside risk, but not this much. All the surprise in core services, where prices were unchanged; core goods prices rose by 0.7%, matching the January increase. Services prices were constrained by a sharp slowing in the rate of increase of profits margins - trade services - which rose by only 0.2%, after three straight increases averaging 1.5% per month, and retail auto dealers' margins fell by 3.4%, after 12 straight increases." Looking ahead, the consultancy adds, "core PPI inflation is now close to peaking, though February's low m/m print is unsustainable at this point. The y/y rate could easily nudge up a bit in March, from February's 8.4%, but after that, favorable base effects mean it will fall quite rapidly after a huge overshoot."

CENTRAL BANKS

FOMC PREVIEW (WED): The Fed Funds target range is expected to be lifted by 25bps in the first hike since COVID-19 with inflation running hot and the labour market widely considered close to full employment. The accompanying SEPs are expected to signal a string of hikes to follow this year in wake of ramped inflation forecasts, countered with lower growth forecasts. The guidance will be gauged to see whether FOMC is moving towards the market pricing of front-loaded hikes (seven this year), or a more measured three/four hikes. The uncertainty around the Ukraine invasion has pushed back on the chances of 50bps hikes, but the door is still open. Powell could provide more details around balance sheet reduction, but plans/launch are not to be finalised until mid-2022.To download the full preview, please click here.

BOE PREVIEW (THURS): After hiking rates by 15bps in December and 25bps in February, the BoE is set to come to market with another 25bps worth of tightening. Recall, the decision to raise rates at the prior confab was unanimous, however, there was a split of views in terms of the magnitude with five policymakers voting for a 25bps increase and the remaining four preferring a 50bps increase. This time around after failing to pull the trigger on a 50bps move, the consensus is firmly towards a 25bps hike. The backdrop to the upcoming meeting is once again characterised by rampant inflation in the UK, and the Russian invasion of Ukraine is likely to further fan the flames of inflation whilst cooling growth. UBS highlights that further advances in inflation will likely increase the MPC's concerns about second-round effects via higher wages with the Bank's Agents report suggesting that there are signs of significant increases in wage growth this year. Looking beyond the upcoming decision, markets currently price in around five additional rate hikes (excluding March) by year-end. UBS, as well as several other desks, suggest that such pricing will likely prove to be too aggressive. UBS expects that after raising the Bank rate to 1% in May, policymakers will hold off from lifting rates further. Note, the upcoming meeting will not be accompanied by economic projections. To download the full preview, please click here.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 5 TICKS LOWER AT 124-21

Treasuries were little changed and slightly steeper Tuesday where earlier strength on the oil tumble and soft data reversed as stocks continued to rip into Wednesday's FOMC. 2s +0.2bps at 1.851%, 3s +0.8bps at 2.047%, 5s +1.5bps at 2.107%, 7s +0.8bps at 2.164%, 10s +1.1bps at 2.151%, 20s +1.2bps at 2.578%, 30s +1.6bps at 2.492%. 5yr TIPS +13.9bps at -1.270%, 10yr TIPS +9.7bps at -0.718%, 30yr TIPS +10.9bps at -0.030%. 5yr BEI -6.5bps at 3.404%, 10yr BEI -8.0bps at 2.877%, 30yr BEI -7.9bps at 2.526%.

THE DAY: Treasuries were sold in the Tokyo morning Tuesday, extending losses seen Monday, to take T-Notes to new lows of 124-18, with cash 10yr yields making a new cycle peak at 2.17%. Bidding returned into the London handover to see T-Notes hit resistance at 125-08+, with stock futures taking a dip amid Asia COVID woes and uncertainty ahead of

Ukraine talks. Selling then resumed to push T-Notes back down to support at 124-27+ at the NY handover as stocks recovered, with front-end yields lagging the move higher in back-end yields. But, the continued dip in oil prices saw the futures fall back beneath USD 100/bbl and aided the resumption of Treasury bidding as inflation pressures eased. That was accentuated by the soft PPI and disappointing Empire State Mfg. survey, supporting a stealth bull-flattener into the NYSE stock open. T-Notes hit session highs of 125-12 before oil selling lost momentum, and stocks continued to rally, with fresh bear-steepening on the curve taking 2s10s back above 30bps for the first time since March 4th, although it fell back beneath in later trade. The selling continued through the rest of the session, taking T-Notes back down towards the APAC lows at settlement, although the front-end kept up with the back-end selling in latter trade with participants now gearing up for Wednesday's FOMC, and perhaps half an eye on Retail Sales too.

STIRS: Another rise in 3m Libor fixing, while OSI rates declined, led to wider FRA-OIS spreads. Eurodollars mildly bear-steepened after earlier strength was unwound ahead of the FOMC. EDH2 +1.0bps at 98.51, M2 +0.0bps at 98.205, U2 +0.5bps at 97.86, Z2 +0.0bps at 97.63, H3 -0.5bps at 97.435, M3 -1.5bps at 97.39, U3 -1.5bps at 97.435, Z3 -2.0bps at 97.525, Z4 -1.5bps at 97.675, Z5 -1.5bps at 97.72, Z6 -1.0bps at 97.675. NY Fed RRP op demand at USD 1.583tln across 82 bidders, down from USD 1.608tln across 83 bidders amid settlements.

CRUDE

WTI (J2) SETTLED USD 6.57 LOWER AT 96.44/BBL; BRENT (K2) SETTLED USD 6.99 LOWER AT 99.91/BBL

Oil prices continued lower Tuesday, with Asia lockdown woes applying pressure, but pessimistic Putin comments saw a recovery from the lows into the NY afternoon. Prices had been tracking lower out of APAC, where WTI broke the USD 100.00/bbl support, as concerns on global demand were amplified in wake of the surging COVID cases in the region. Selling sustained into the London/NY handover, with some constructive noise regarding the Iranian Nuclear Deal after Russia's Lavrov said an agreement on the revival of the deal is on the home straight. Lows for WTI and Brent were printed at USD 93.53/bbl and USD 97.44/bbl, respectively. The late NY morning comments from Putin saying Kyiv is not serious about finding a mutually acceptable solution saw prices bounce. Although the bounce was faded in pre-settlement trade. Traders now look to the weekly US inventory data, with the private release due later Tuesday. Current expectations (bbls): Crude -1.4mln, Gasoline -1.6mln, Distillate -1.8mln.

EQUITIES

CLOSES: S&P 500 +2.2% at 4,263, Nasdaq 100 +3.2% at 13,458, Dow Jones +1.8% at 33,544, Russell 2000 +1.3% at 1,967.

SECTORS: Technology +3.4%, Consumer Discretionary +3.4%, Communication Services +2.3%, Consumer Staples +2.2%, Health +1.9%, Industrials +1.6%, Financials +1.3%, Utilities +1.3%, Materials +1.1%, Real Estate +0.7%, Energy -3.7%.

EUROPEAN CLOSES: EURO STOXX 50 -0.1% at 3,737, FTSE 100 -0.3% at 7,175, DAX 40 -0.1% at 13,922, CAC 40 -0.2% at 6,355, FTSE MIB +0.3% at 23,496, IBEX 35 +0.0% at 8,238, SMI +0.1% at 11,689.

STOCKS SPECIFICS: **Boeing (BA)** 737 MAX jet flew to the manufacturer's completion plant in China, two industry sources said; signalling the model is closer to returning to commercial flights there following a three-year halt. **Tesla (TSLA)** hiked prices in China and the US for its second time in less than a week. Note, CEO Musk recently warned of continued ongoing inflationary pressures they are facing. **Coupa Software (COUP)** tumbled as guidance disappointed expectations, with Q1 and FY23 view light of forecasts. Note, Q4 EPS and revenue both exceeded expectations. **Gitlab (GTLB)** was firmer after it printed a shallower loss per share than expected and revenue also beat. GTLB said it is seeing continued strong momentum and broad-based growth. **Toyota Motor (TM)** said it would make further production cuts in March due to a shortage of semiconductor chips. Note, comes days after TM cut its domestic production target by as much as 20% for the April-June Q. **Peloton (PTON)** saw gains after it was initiated with an "Outperform" rating at Bernstein; noted Peloton's healthy underlying business, new management and its recent stock price plunge. **Hormel (HRL)** fell after Goldman Sachs downgraded the stock to "Sell" from "Neutral,"; said its recent outperformance compared with the Staples group and pointing to worries about the impact of increasing inflationary pressures. **Intel (INTC)** announced initial investment of over EUR 33bln for Semiconductor R&D and manufacturing in the EU. Saudi Investment Ministry signed an MOU with **Amazon (AMZN)** to develop e-commerce. **Apple Car' (AAPL)** team dissolved and 2025 launch may be in doubt, according to Apple Insider citing an analyst. EU antitrust regulators clear without conditions **Amazon's (AMZN)** USD 8.5bln acquisition of **MGM (MGM)**. **Caterpillar (CAT)** continues to use Russia as a supply-chain route, even after it said it had suspended business with the country, according to Bloomberg. **Google (GOOGL)**

Domains are now out of Beta and have moved into general availability, of note for **GoDaddy (GDDY)**. **Nielsen (NLSN)** USD 15bln takeover deal is seeing buyers led by Elliot and Brookfield finalise their financing package, and could be announced within a week, according to FT sources.

AIRLINES: **DAL**, **LUV**, **AAL**, and **UAL** all closed notably firmer following positive reports throughout the day. As a brief summary, the respective Cos. raised current-quarter revenue forecasts, betting on a recovery in air travel following an Omicron-induced slump. Note, if you would like a thorough briefing into the Airline commentary, please click here.

FX WRAP

The Dollar initially sold off and failed to hold onto the 99 handle, and as such hit a low in the morning at 98.624 with the downside initially accompanied by marginal reversal in yields, but as we headed into the tail end of the NY session there was mild strength seen in yields which coincided with the Dollar breaching back above 99 and paring off lows. Moreover, the equity complex also saw a rebound which was led by heavyweight stocks. The moves all take place on the eve of the FOMC (preview here). Data on Tuesday was mixed, PPI was on the softer side of expectations, which may help cool fears about narrower company margins while the NY Fed Manufacturing survey for March disappointed, although prices paid eased somewhat while the outlook was encouraging.

The Euro was firmer but it failed to hold above 1.10 against the Greenback. ECB President Lagarde largely reiterated the ECB statement in her speech on Tuesday, while the German ZEW Economic Sentiment heavily missed expectations. Analysts highlights that option hedging costs for the cross are now above fair value ahead of the FOMC while 1mth implied volatility, although it has eased from last week's peak, it is now just above the realised vol measure with options showing a downside bias but not as bearish as last week after the Russia/Ukraine induced downside.

CNH was firmer against the buck after CNY closed lower despite strong retail sales and industrial production data for February. The strength in the offshore Yuan followed reports in the WSJ that China and Saudi are in talks, which have picked up pace recently, to purchase oil in Yuan rather than Dollars. Gains in the offshore were rather mundane, however, with Yuan risks remaining. Risk include a dovish central bank while the majority of other central banks look to tighten or are accelerating tightening plans, in addition to a fallout in wake of the Russian invasion of Ukraine which has sparked sanction talk among US representatives (albeit only a small amount) for China banks and businesses that deal with Russia. Lastly, on the risk front, regulatory risks from both US and China on Chinese stocks, heavily hampering confidence in the Chinese stock market. There had also been concerns about its zero-COVID policy, although it is reportedly looking to adjust that on fears of wider lockdowns.

HAVENS: The typical safe havens were mixed. JPY was flat against the buck although it remains around multi-year highs above 118.00, despite commentary from Japan's Finance Minister noting they are watching developments closely and desires stability. In addition, the Japan ruling party Fukuda called for a fresh stimulus package. USD/CHF rose back above 0.9400 from a low of 0.9373 while EUR/CHF rose above 1.03 from lows of 1.0260. XAU sold off with Gold printing a low of USD 1,907/oz from a high of USD 1,954/oz, but well off the peaks seen earlier in March of USD 2,069/oz. Additionally, geopolitics will continue to act as a primary driver, but the FOMC on Wednesday will also add volatility.

Cyclicals currencies were firmer and were supported by the move higher in equities while CAD was the relative outperformer. GBP was likely supported by the fall in oil prices, which saw Brent briefly dip beneath USD 100/bbl, although it reclaimed the psychological level later on, but nonetheless the move lower in oil prices helped ease some of the growth concerns the UK was facing. Meanwhile, UK data saw a disappointing employment print while wages rose by more than expected. Despite the downside in oil, CAD also saw gains, primarily following the rise in US equities. Analysts at Scotia think that equity volatility will continue to shape trends in the CAD in the short run. The desk also "feel that the solid growth picture that is emerging for the Canadian economy in Q1 should backstop the CAD near recent range lows against the USD". NZD saw gains against the buck, although AUD was the laggard and was flat after the March minutes signalled the RBA is still taking a patient approach to policy despite inflation shocks which sparked gradual selling pressures throughout the session, supporting NZD/USD.

EM's were mixed. RUB saw gains and dipped beneath 100 against the Dollar although trading remains illiquid. Note, the CBR has suspended purchasing gold from other banks as of March 15th and it also decided to continue offering one-day Repo auctions with a limit of RUB 3tln. Talks are ongoing between Russia and Ukraine, although there has been little updates on progress on Tuesday, while Russia President Putin sounded rather cautious, noting Kyiv is not serious about finding a mutually acceptable solution. TRY found comfort in the downside in oil prices. ZAR was softer, albeit only marginally, as the gains in equities helped the risk sensitive currency, but the downside in gold acted as a headwind. BRL was softer, while the latest update from Goldman Sachs sees Brazil GDP growing 0.6% in 2022 and 1.4% in 2023. The desk expects the 2022 year-end Selic rate to be 13% (currently 10.75%), and for Brazil inflation to be at 6.5% in 2022 and at 4% in 2023. MXN saw marginal gains, as did CLP, while COP underperformed with the Real.

SCANDI: It looks like hawkish Norges Bank dynamics and an upbeat regional report outweighed higher Swedish 1 year CPIF expectations, though a firm bounce in Brent to reclaim century+ status also helped the NOK claw back losses from around 9.9800 vs the EUR, as the SEK slipped from close to 10.5000 in the ongoing absence of any reaction from the Riksbank to Monday's strong inflation prints.