US Market Wrap

16th March 2022: Stocks close at highs as dust settles post Fed

- **SNAPSHOT**: Equities up, Treasuries mixed, Crude down, Dollar down.
- **REAR VIEW**: Fed hike 25bps as expected, accompanied by hawkish dot plots; Powell sticks to the script in presser, says it will be a steady normalisation process, but they can move faster if needed; Conflicting reports on Ukraine/Russia developments; China to support Chinese stock market, alongside progress on US listing developments; Japan earthquake, but all tsunami alerts since been lifted; Retail sales miss in February, but revisions were strong.
- **COMING UP**: **Data**: Australian Employment, EZ CPI (Final), IS IJC, Industrial Production, Japanese CPI **Events**: BoE & CBRT Policy Announcements **Speakers**: ECB's Lagarde, Lane & Schnabel **Supply**: France & Spain.

MARKET WRAP

Stocks were firmer, led by the NDX again, as indices shook off the kneejerk hawkish reaction in wake of the 25bps Fed hike and aggressive 2022 hike path seen in the Dot Plots. The seven hikes in 2022 median dot forecast was the hawkish highlight (economists surveyed expected the median to be four/five hikes for 2022), seeing stocks tumble at the time, while the Dollar caught a bid back to flat on the move higher in US yields, particularly at the front-end. However, as the dust settled, and Powell's presser/Q&A gave little new details (aside from that balance sheet normalization plans could be finalised in May) risk assets recovered towards highs going into the close, while long-end yields moved higher again and the DXY reversed back lower. Crude benchmarks were lower and weren't reacting to the Fed, with China's COVID woes overhanging the demand outlook while more tentative signs of Ukraine/Russia progress removed some of the geopolitical risk premia. Heading into APAC Thursday, Japan is on watch after numerous earthquakes which prompted initial Tsunami warnings, although those have since been lifted. There have been reported injuries but so far not much more damage reported.

FED

RATE DECISION, FORECASTS SUMMARY: The FOMC raised rates by 25bps to 0.25-0.50%, as the market had expected; Bullard dissented, calling for a larger 50bps rate rise. The updated rate forecasts now see the FFR target rising to 1.75-2.00% by the end of the year (previously it had foreseen 0.75-1.00%), and sees rates rising to 2.75-3.00% next year, staying at that level in 2024, before falling; the Fed did lower its estimate of the terminal rate by one-tenth to 2.4%, implying a front-loaded rate hike cycle. The Committee has introduced language specifically referring to the Ukraine situation, noting the uncertainties it presents to the economy, but could present upwards risks to the inflation profile. Inflation forecasts were raised in the short-term (core to 4.1% this year from 2.7%; headline PCE to 4.3% from 2.6%), but the committee still sees long-term inflation at 2.0%. The median growth profile for 2022 has been slashed from 4.0% to 2.8%, but forecasts for next year and beyond were left unchanged. There were no meaningful updates on the balance sheet, but the statement now states that the "Committee expects to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities at a coming meeting." In wake of the decision, there was a sell-off seen in the front of the rates curve, the dollar caught a bid, and stocks gave back some of the gains on the session, though still remain in positive territory.

PRESS CONFERENCE SUMMARY: At his press conference, Chair Powell gave an upbeat view of the US economy, noting that although growth forecasts in the near-term were cut, GDP growth would still be above trend rates. Powell said that the Fed was prepared to slow demand to get it into better alignment with supply to bring down inflation, and the Fed was prepared to use tools as needed to restore price stability, conceding that it would take longer to return to inflation goal than previously expected. On wage pressures, he noted that wage increases were running above levels with what is consistent with 2% inflation, though he does not see entrenched wage increases, adding that the labour market can handle tighter monetary policy. When Chair Powell was asked about potential 50bps rate hike increments, he noted that there were seven meetings this year and seven rate hikes pencilled in; he said that the FOMC had not made any decision on front-loading policy or going steadily through the year, but pointed out that a good number of participants see more than seven 25bps rate hikes this year. Powell did go on to say the plan was to raise rates steadily over the course of the year. The Fed chair stated that the central bank would be looking at incoming inflation data, and inflation outlook to decide rate moves, and every meeting was live; if Fed feels that rates should be raised more quickly, it will do so, and it will take steps to ensure high inflation does not become entrenched. On the balance sheet plans, Powell said the Committee made excellent progress in its discussions, and could finalise balance for reduction as soon as the May meeting–it could look very similar to its previous balance sheet reduction, but faster. Powell assured that the Fed would be mindful of broader financial context, and wants to avoid adding to uncertainty.

DATA

US RETAIL SALES: US Retail Sales rose by 0.3% in February, cooling from the prior 4.9%, which was revised higher from 3.8%, and beneath the 0.4% consensus. The core measure (ex-autos) rose by 0.2%, missing the 0.9% expectation and cooling from the prior 4.4%, which was also revised higher from 3.3%. The super core print (ex gas/autos) fell by 0.4% from a prior 5.2% gain, which was also upwardly revised from 3.8%. The downbeat report (despite higher revisions) comes amid a spike higher in energy costs, analysts at ING write the spike in gasoline is starting to hurt the consumer and is leaving less cash in pockets to spend on other goods and services and warns "Household consumption could become a drag on economic growth in the coming months unless pump prices drop quickly".

NAHB: NAHB housing market index for March fell to 79 from the prior 81, printing a six-month low, and was also light of the expected 81. Delving into the report, Pantheon Macroeconomics note, ‘the dip in the headline index is mostly due to an eye-catching 10-point drop in expected future sales, to the lowest level since June 2020. Homebuilders are responding to the surge in mortgage rates, up by more than 100bp since September, with most of that increase coming this year, and they likely are nervous too about the impact of soaring gas and food prices on people’s willingness to buy new homes'. Looking ahead, Pantheon adds, ‘we think this is just the start of a sustained drop in the NAHB index, and we expect all measures of housing activity to weaken markedly over the next few months, ultimately slowing the rate of increase of home prices.’ As such, this shall ease the upward pressure on CPI rent inflation, but not until much later in the year.

GLOBAL

GEOPOLITICS: There were a range of varying reports on Wednesday, which gathered pace after the FT, citing sources, said Ukraine and Russia have made significant progress on a tentative 15-point peace plan, including a ceasefire and Russian withdrawal if Kyiv announces neutrality and accepts military limits. Moreover, the piece noted the proposed deal would include Ukraine renouncing ambitions to join NATO and agreeing to not host foreign military bases/weaponry, and it declared such a deal was discussed between negotiators for the first time on Monday. In response to the article, Ukraine's Presidential Office Adviser Podolyak said it only represents the Russian position, and Ukraine seeks a ceasefire and withdrawal of Russian troops. From the Russian point of view, a Kremlin spokesperson, when asked about the FT report, stated its too early to disclose any set of potential agreements on resolving the Ukraine conflict, according to RIA. On talks, a Ukrainian official stated negotiations have not yet progressed significantly, and the more positive tone from Russia was more about Moscow wanting sanctions pressure eased, calling it a “smoke curtain”, according to Bloomberg's Hordern. Additionally, Russian Foreign Minister Lavrov exclaimed peace talks with Ukraine are not easy but there is some hope for a compromise, and the Kremlin added the idea of creating a demilitarised Ukraine, like an Austria /Sweden model, could be seen as a compromise. A Ukrainian adviser, however, said only the "Ukrainian" model with security guarantees is to work. On a possible Swedish/Austrian demilitarised model, Ukraine said any model would need absolute and legally-binding guarantees. Lastly, Russian President Putin mentioned they did not have any other option but to have a special military operation and repeated he does not want to occupy Ukraine. He concluded by reiterating that all of Russia's aims of its operations will be achieved and the special operation is going to plan.

BOE PREVIEW: 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 13+ TICKS LOWER AT 124-07+

Treasuries were flatter with heavy selling at the front-end in wake of the aggressive Fed hikes forecasted in the Fed's Dot Plot. At settlement, 2s +11.4bps at 1.971%, 3s +11.5bps at 2.167%, 5s +8.7bps at 2.201%, 7s +5.4bps at 2.228%, 10s +2.7bps at 2.187%, 20s -2.4bps at 2.563%, 30s -4.6bps at 2.457%. 5yr BEI -13.3bps at 3.263%, 10yr BEI -6.4bps at 2.797%, 30yr BEI -3.4bps at 2.480%.

THE DAY: T-Notes dipped lower out of the APAC session Wednesday ahead of the FOMC, with a strong rebound in China stocks and some tentative signs of compromise in Ukraine negotiations supporting risk appetite. Lows of 124-10+ were made in the London morning, before recovering a few ticks into the session. The soft US retail sales Feb print was contrasted with upward revisions to the Jan data, with T-Notes edging moderately lower in wake of the report, although that was already the direction of travel beforehand. The moves were also all within the day's ranges too. The contracts were anchored within a few ticks either side of 124-16 before dipping to lows right before the FOMC, while on the curve, the front-end was already creeping lower into the NY session, reducing the steepness seen in the London session. T-Notes were at 124-10 before the FOMC statement/SEPs, where the 25bps rate liftoff and chunky rises in rate forecasts saw the front-end lead the curve lower again, seeing the 5s10s invert, while the 2yr yield hit 2.00%. T-Notes found support around 123-30 ahead of Powell's presser/Q&A, but as that progressed with little incremental information, risk assets unwound their losses as did the losses in duration, but the front-end remained more weighted into futures settlement.

AHEAD: Traders now look to Thursday's Philly Fed Mfg., Jobless Claims, and the 20yr Treasury bond auction announcement for next week. Fed's Bowman (voter) and Barkin (2024 voter) are on the schedule for Friday, but we could see other speakers come out the woodwork as the blackout period ends.

OPS & SALES: US sold USD 35bln of 119-day CMBs at 66.5bps, covered 3.68x. NY Fed RRP op demand at USD 1.614 tln across 84 bidders (prev. USD 1.583tln across 82 bidders).

STIRS: Eurodollar/SOFR futures were already creeping lower into the FOMC before diving lower on the front-loaded rate hike forecasts seen in the SEPs, with the 1.9% year-end FFR dot confirming the pre-FOMC market pricing, seeing STIRs go on to start pricing eight hikes by year-end in reaction. The reds kept up to the selling in whites post-FOMC, although further out the strip there was relative outperformance, with attention on the lower terminal rate dot (2.4% from 2.5%), which was lower than the 2023 and 2024 forecasts for 2.8%, raising hard landing concerns. Heading into settlement, EDM2 -2.0bps at 98.495, U2 -10.0bps at 98.105, Z2 -13.5bps at 97.725, H3 -16.0bps at 97.47, M3 -15.0bps at 97.285, U3 -13.5bps at 97.25, Z3 -12.5bps at 97.30, M4 -10.5bps at 97.485, Z4 -8.5bps at 97.535, Z5 -4.5bps at 97.655, Z6 -4.5bps at 97.665.

CRUDE

WTI (J2) SETTLED USD 1.40 LOWER AT 95.04/BBL; BRENT (K2) SETTLED USD 1.89 LOWER AT 98.02/BBL

Oil prices were eventually lower on Wednesday in choppy trade around the USD 100/bbl region, with constructive Ukraine updates, mixed US inventory data, and uncertainty around the Asian demand outlook. It was an erratic session in general for oil prices with no one driver at play. Downside was supported by reports around further progress towards an agreement between Russia/Ukraine, with geopolitical risk coming out of the market, although officials warned publicly nothing is close. EIA inventory data saw a 4.3mln crude stock build, against expectations for a draw, although note the chunky 3.6mln draw in gasoline stocks, with refinery utilisation rising 1.1%, although a slower increase form last week's +1.6%. On the demand side, a sudden decrease in the reported pace of Chinese COVID case increases has incrementally alleviated some of the downward pressure on demand outlook; JPM wrote recently that the current lockdowns in China will put 0.2-0.4mln BPD of oil consumption at risk. Meanwhile, the latest IEA OMR saw it cut its 2022 world oil demand growth forecast by 950k BPD to 2.1mln BPD, for an average of 99.7mln BPD. On OPEC, Libya's PM urged the cartel to increase supply, noting that Libya has put in place quick plans to enable its NOC to raise output in the short and medium term. On the outlook, JPM's analysts note that "Without Europe joining the US in cutting back on its nearly 4mln BPD of Russian oil imports, the Russian supply risk that shot oil prices towards USD 130/bbl will not be sustained." The bank sees WTI averaging USD 101/bbl in 2022, with Q1 avg. at 95/bbl, Q2 at 111/bbl, Q3 at 99/bbl, and Q4 at 98/bbl.

EQUITIES

CLOSES: S&P 500 +2.2% at 4,358, Nasdaq 100 +3.7% at 13,956, Dow Jones +1.6% at 34,063, Russell 2000 +3.1% at 2,029.

SECTORS: Consumer Discretionary +3.4%, Technology +3.3%, Communication Services +2.9%, Financials +2.9%, Materials +1.6%, Industrials +1.3%, Health +1.2%, Real Estate +1.1%, Consumer Staples +0.1%, Utilities -0.2%, Energy -0.4%.

EUROPEAN CLOSES: EURO STOXX 50 +4.1% at 3,889, FTSE 100 +1.6% at 7,291, DAX 40 +3.8% at 14,440, CAC 40 +3.7% at 6,588, FTSE MIB +3.3% at 24,284, IBEX 35 +1.8% at 8,380, SMI +2.0% at 11,916.

STOCK SPECIFICS: Boeing (BA) was named a 'bullish fresh pick' at Baird following a recent sell-off and noted that 737 MAX deliveries to China are close to resuming. **Nvidia (NVDA)** was added to Wells Fargo list of 'signature picks'; anticipates upbeat announcements at its upcoming investor day, and also added the recent market downdraft has helped create a favourable risk/reward profile. **Starbucks (SBUX)** CEO Johnson is to step down and Howard Schultz is to return in an interim role, according to WSJ. In other news, SBUX stated it recommitted to returning another USD 20bln to shareholders by 2025 and confirmed plans to expand to 55,000 stores in over 100 markets by 2030. **Micron (MU)** was double-upgraded at Bernstein to "Outperform" from "Underperform". Bernstein said the Ukraine conflict won't result in any significant memory chip supply or demand destruction, while also noting the recent sell-off in Micron and other semiconductor stocks. **NortonLifeLock's (NLOK)** USD 8.6bln deal to buy **Avast (AVASF)** may receive an in-depth probe by UK regulators who say the deal raises competitive concerns. **Spotify (SPOT)** announced a long-term partnership with FC Barcelona, starting July 2022. **TuSimple Holdings (TSP)** is considering exploring the sale of its China business, according to Reuters sources. **Walmart (WMT)** is looking to hire 50k US workers by the end of April, with more workers for stores as well as advertising and health businesses, according to WSJ. **Intel (INTC)** is reportedly in talks for USD 5.5bln in German subsidies for its factory, according to Bloomberg. Sycamore and Hudson's Bay prepare **Kohl's (KSS)** bids, which is reportedly in high USD 60s/shr which values the Co. at roughly USD 9bln, according to WSJ. **Amazon (AMZN)** does not anticipate a significant disruption to its business due to COVID lockdown /restrictions in China, according to a spokesperson. **Avis Budget (CAR)** board approved USD 1bln increase in share buyback programme. **American Express (AXP)** affirmed FY22 EPS view, revenue growth view, and FY23 revenue growth view. **Netflix (NFLX)** to test launch pan that would force subscribers who share outside their household to pay more, according to Variety.

CHINA ADRs: After being hit heavily on US delisting concerns and the recent COVID lockdowns, the China State Council has agreed to keep stock markets stable and announced China will adopt effective policies to handle developer risks. Additionally, they also announced they will continue to support overseas share listings, adding talks between China and US regulators on Chinese-listed companies in the US have made positive progress and regulators are working on specific cooperation plans. Within the meeting, they also noted that Monetary policy should take initiatives to support the economy, they will take measures to boost the economy in Q1 and they will also step-up communication and coordination with Hong Kong regulators on financial markets. It also welcomes long-term institutional investors to increase stock holdings. KraneShares CSI China Internet ETF (KWEB) closed +39%, Invesco Golden Dragon China ETF (PGJ) closed +34%, iShares China Large-Cap ETF (FXI) closed +21%. In other news, Reuters report, **Tencent (TCEHY)** and **Alibaba (BABA)** are preparing to cut 'tens of thousands' of jobs.

FX WRAP

DOLLAR: The risk-on session out of APAC/Europe and into the NY Wednesday morning weighed on the Dollar although losses were reversed in reaction to the FOMC statement which saw the Fed hike by 25bps as expected in an 8-1 vote split where Bullard voted for a 50bp move, while little details about the balance sheet were revealed although it is to be reduced in "a coming meeting". The Fed now sees seven hikes in 2022 (including today's), up from the three seen in the December SEP's, which implies a 25bp hike at each remaining meeting, which is at the hawkish side of pre-meeting expectations. Market pricing leaned hawkish with pricing for a 50bp move in May rising to as high as 65% before paring to a 44% chance as the dust settled. Fed Chair Powell avoided any hawkish surprises during the press conference, but he did suggest we could get a balance sheet announcement in May, although details still remain light but he did note progress was made on balance sheet reduction. Fed Chair Powell also reiterated a commitment to a steady normalisation process, although he did note they are prepared to adjust at a faster pace if necessary, a familiar line from Powell. As market pricing came back in, the Dollar selling returned and extended as the Euro and cyclical currencies were bought while the Yen was bought from its lows.

USD/JPY rose to highs of 119.12 in wake of the statement on the wider policy divergence between the Fed and BoJ although as the initial moves reversed, the Yen moved sub 119.00 again, but remained weaker on the session against the Dollar, and Euro. Some weakness in the Yen may also have been derived from the 7.3 earthquake reported in Japan which prompted the following Tsunami warning.

The Euro saw lows of 1.0950 in wake of the FOMC statement but the market reversal saw the single currency reverse back above 1.10.

Gold saw initial downside to break beneath USD 1,900/oz, but in fitting with broader markets, also reversed throughout the press conference to take the yellow metal to positive territory at USD 1,920/oz.

Cyclical currencies saw a similar reaction, the initial bout of weakness post statement was pared during the press conference with relative outperformance seen in AUD, while GBP and NZD saw similar gains, and CAD was the relative underperformer as oil prices fell. Note, Canada CPI was hotter than expected, rising 5.7% in February Y/Y from 5.1% and above the 5.5% consensus, while the M/M rose 1.0%, above the expected and prior pace of 0.9%. The average of the BoC measures also ticked up, rising to 3.47% from 3.2%, an unwelcome sign for the BoC as inflation edges further above their 3% target. Attention for GBP turns to the BoE on Thursday, please click here for a full preview.

EMFX was firmer, in fitting with the weaker Dollar and rally in equities while downside in oil supported TRY. Note, the Turkish Finance Minister stated inflation will be brought down to single digits by June of next year and it will begin to fall as of summer. The Finance Minister added the TRY protection scheme is helping keep the exchange rate at a foreseeable level. ZAR enjoyed the upside in gold while retail sales were also strong. BRL was also an EM outperformer after solid Service Sector growth data. Note, Brazil President Bolsonaro says the government asked Petrobras (PBR) to delay the fuel hike for one day, says there is a chance to change the Petrobras CEO.

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