US Market Wrap

1st April 2022: NFP supports case for Fed tightening while stocks claw back losses in late trade

- **SNAPSHOT**: Equities up, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: NFP miss offset by strong revisions, wages slightly above expected, supporting Fed normalisation; Russia blames Ukraine for the oil depot fire in Belgorod, Ukraine denies involvement; China mulls giving US full access to the audits of most firms; Evans expects to see 175bps of hikes tightening this year; US ISM manufacturing weak, with prices paid notably rising; SHEL cannot use Gazprom's Rouble payment method due to sanctions; NFLX tells employees to be careful with spending and hiring.
- **CENTRAL BANK WEEKLY**: Previewing FOMC Minutes, RBA, RBI; reviewing BoJ Tankan. To download the report, please click here.
- **WEEK AHEAD PREVIEW**: Highlights include FOMC Minutes, Services ISM, RBA, RBI. To download the report, please click here.

MARKET WRAP

Equities managed to claw back losses on Friday in late trade to start Q2 in the green, albeit there was a downside bias throughout the afternoon as the Nasdaq underperformed, while the Russell closed firmly in the green. The majority of sectors were green, led by defensives Real Estate, Utilities and Staples, while Industrials, Financials and Tech were the greatest laggards. The latest NFP report was overall, in line with expectations with a miss on the headline offset by higher revisions while wages were slightly on the hot side and slack measures improved, all which would support aggressive tightening from the Fed with markets pricing in over a 70% chance of a 50bps move at the May meeting. Geopolitics continues to remain very fluid with reports overnight suggesting Ukraine attacked an oil Depot in Belgorod, Russia, although Ukraine has denied these Russian claims. The Dollar trended higher after the NFP report, while its haven demand was also supported as equities sold off in the afternoon, although as equities came off lows, the buck came off highs. Treasuries had flattened to see the 2s10s invert once again while the 2s30s also briefly inverted after the jobs report supported Fed hike expectations, albeit the Fed is primarily focused on bringing inflation back to target, but the slightly hotter wages could have sparked some wage price spiral concerns. Meanwhile, concerns remain about the impact of growth from the Fed's tightening process. Crude prices were choppy, but ultimately settled only slightly lower but WTI settled beneath USD 100/bbl for the first time since February 28th, as the crude complex battles the geopolitical risk premium with extra supply from the SPR release. China ADR's were outperformers on Friday after Bloomberg sources suggested China is considering handing over full audits of the majority of the over 200 NY stocks, helping to ease delisting concerns. Meme stocks were also in focus after GameStop (GME) announced it intends to implement a stock split, although its initial rally completely unwound and it closed in the red.

GEOPOLITICS

One of the main Ukraine/Russia talking points on Friday was regarding an oil depot in Belgorod which was on fire, and many separate reports circulated the area. Firstly, according to ELINT news, the Governor of Belgorod confirmed the fire was caused by a Ukrainian helicopter attack inside of Russia, which was later supported by the Russian Defence Ministry who said two of Ukraine's MI-24 helicopters hit an oil depot in the region, according to Interfax. However, Ukraine's top security official denied this and said the Russian allegations are not correct. Note, Ukraine's Foreign Ministry said it can not confirm or deny whether its forces attacked an oil depot in Russia, but if confirmed, it would be the first known time Ukraine has flown into Russian airspace to attack. Elsewhere, the Governor of Ukraine's Northern Chernihiv region noted Russian troops are withdrawing from the Chernihiv region, but there are still some Russian troops located there and Russian missile strikes are still possible. Moreover, regarding withdrawals, the Head of Kyiv regional administration said Russia is still withdrawing some forces from north of the city and towards Belarus as well as Russian forces have left Hostomel (an airport is in the area). Finally, Russia's Foreign Minister Lavrov said Russia is preparing a response to Ukraine's proposals, and declared there has been movement forward. Lavrov continued by saying Russia has seen "much more understanding" of the situation in Crimea and Donbass from the Ukrainian side.

US

NFP: The report was more-or-less inline with expectations. Headline NFP printed 431k, beneath the 490k consensus, but saw an upward revision to 750k from 678k, offsetting the headline miss. The unemployment rate ticked lower to 3.6% from 3.8%, and beneath the 3.7% expectation while the participation rate rose to 62.4% from 62.3%, remaining beneath pre-pandemic levels of 63.4%. Note, the Fed sees the unemployment rate at 3.5% by the end of 2022 and 2023, before rising to 3.6% in 2024. The U6 underemployment metric fell to 6.9% from 7.2%, taking the rate to beneath pre-pandemic levels of 7.0%. The employment to population ratio increased 0.2% to 60.1%, but remains beneath pre-pandemic levels of 61.2%. However, the Fed is much more focused on inflation at the minute, rather than slack/jobs, but nonetheless will be a welcome sign. The average earnings saw the Y/Y print rise by 5.6%, above the 5.5% consensus but within the 5.0-5.8% forecast range, while the M/M saw a 0.4% gain, in line with expectations, which could increase the fears of a wage price spiral, but it was by no means hugely above expectations. Both priors were revised higher by 0.1%. Given the Fed's focus on inflation, this overall, in line report is unlikely to change the Fed's thinking on normalisation and will continue ahead while the case for normalisation could be emboldened after a in line headline figure, improved slack measures and improvement in unemployment, although not a priority for the Fed, it will still be seen as a welcome sign, while a slightly larger than expected wages print, with upward revisions, could embolden wage price spiral fears. Analysts at ING write "Jobs growth remains impressive despite the obvious challenges firms are facing in finding suitable workers. This is pushing up pay pressures, which will keep inflation higher for longer and supports the view that the Fed is set to embark on a series of 50bp rate hikes through to the summer", ING sees 50bps hikes in May, June and July, before turning to 25bp increments.

ISM MANUFACTURING: Headline ISM manufacturing for March fell to 57.1 from 58.6, and below the expected 59.0. Looking at the subcomponents, new orders fell to a 22-month low of 53.8 (prev. 61.7), while the employment index rose to 56.3 (prev. 52.9). However, prices paid soared to 87.1, well above the expected 80.0 and prior 75.6, once again highlighting the inflation concerns. Looking into the report, the fall in the headline number is largely due to a steep decline in new orders. As such, Pantheon Macroeconomics note, ‘it is a big drop, but it’s not clear if it’s a knee-jerk reaction to the war in Ukraine and the accompanying surge in energy and other commodity prices, or a reflection of China’s latest COVID restrictions, or both.’ Moreover, the consultancy adds, the manufacturing recovery is now under pressure from numerous angles at the same time, and the China downturn in particular suggests that the ISM has further to fall. On the employment index, Pantheon rebuttals this and takes little comfort in the jump, as it looks like a seasonal adjustment quirk. Regarding prices paid, the steep rise reverses a lot of the fall in the prior three months, but is largely due to a spike in oil prices, and Pantheon states it is likely to dip a bit in April. Delving into the other areas of the report, the consultancy says, ‘the survey’s measures of supply chain stress - order backlogs and supplier delivery times - both dipped, but they remain very elevated.’ Finally, and a point just worth noting, the strong regional PMI and Fed surveys were misleading to the national index, which is likely as none of the regional reports cover the economy west of the Rockies, which is more directly exposed to problems in China.

FED: **Evans (2023 voter)** was the only Fed speaker on Friday, and he reiterated he expects to see the equivalent of seven quarter-point rate hikes this year, and three in 2023, in line with the Fed median. Moreover, the Chicago President did note developments could result in a change of his view, and will learn more through the year meaning he is prepared to adjust policy as needed. Evans spoke again later, where he added, raising rates to just under 2.5% by March 2023 gives Fed 'optionality', and not a big risk if rate-hike path includes 'some' 50bps hikes to get to neutral sooner. Finally on rates, he stated raising rates quickly 'puts a premium on communicating' how far rates may ultimately need to rise. On the jobs report, he said it is not indicative of overheating, and looking ahead, monthly inflation reports should start to be lower in H2 22, but rhetoric won't change until 2023.

FIXED INCOME

T-NOTE FUTURES (M2) SETTLED 20+ TICKS LOWER AT 122-07+

Treasuries saw more bear-flattening to start the Japanese fiscal year, with the "good enough" NFP report emboldening aggressive Fed action. At settlement, 2s +15.2bps at 2.436%, 3s +15.9bps at 2.615%, 5s +13.4bps at 2.554%, 7s +9.3bps at 2.498%, 10s +5.9bps at 2.384%, 20s +0.4bps at 2.601%, 30s -1.0bps at 2.436%. 5yr TIPS +22.7bps at -0.643%, 10yr TIPS +13.2bps at -0.431%, 30yr TIPS +4.5bps at -0.013%. 5yr BEI -2.2bps at 3.252%, 10yr BEI -0.3bps at 2.827%, 30yr BEI +1.6bps at 2.454%.

TOKYO: After the dip lower into the month-end close Thursday, the Treasury selling continued Friday as Tokyo trade began for the new fiscal year. IFR cited dealers that saw "aggressive" selling across the belly from Japanese accounts. Futures activity into Europe was already on the strong side.

LONDON: The selling picked up into the European morning. That came with stocks tentatively paring some of their Thursday losses, but also some catch up from EGBs in anticipation of the Eurozone-wide inflation data. T-Notes found support at 121-28+ ahead of the print. The above analyst expectations figure saw a "buy the fact" reaction in govvies after the hot regional data earlier this week that had already swayed expectations in the hot direction.

NEW YORK: The cautious paring off the lows in T-Notes into the NY handover saw the contracts enter the March jobs report at the 122-08 figure, although the curve was still very much in a bear-flattener on the session. The slightly below forecast headline jobs added, countered with the upward revisions, firm inline wage growth, and improving slack metrics helped to embolden aggressive Fed expectations. The front-end led the selling. T-Notes made session troughs of 121-24 going into the NYSE stock open, with cash 10yr yields marking highs of 2.456%. The disappointing ISM Manufacturing print kept T-Notes supported a few ticks of the lows going into the London close. However, there was continued action along the curve with the front-end hitting new lows, while various curve spreads saw deeper inversions.

STIRS: Eurodollars were all sold with steepening across whites and reds, but flattening from reds and out. EDM2 -4.0 bps at 98.430, U2 -10.0bps at 97.720, Z2 -13.0bps at 97.210, H3 -15.0bps at 96.890, M3 -17.5bps at 96.695, U3 -18.5 bps at 96.695, Z3 -17.5bps at 96.795, H4 -17.0bps at 96.905, M4 -16.5bps at 97.000, U4 -16.5bps at 97.070, Z4 -15.5 bps at 97.140, Z5 -8.0bps at 97.530. SOFR as of quarter-end rose to 29bps, the highest since March 21st, and up 2bps from the prior session. Market repo rates Friday opened a little firmer after the Treasury settlement Thursday, with 2yr OTRs now trading much less 'special'. NY Fed RRP op demand at USD 1.666tln across 77 bidders (prev. USD 1.872tln across 100 bidders).

CRUDE

WTI (K2) SETTLED USD 1.01 LOWER AT 99.27/BBL; BRENT (M2) SETTLED USD 0.32 LOWER AT 104.39/BBL

Crude prices were lower with WTI settling lower by more than its Brent counterpart, which was ever so slightly lower. The losses and price action was relatively contained to end the week and start the new quarter after a big week of volatility amid geopolitics, SPR releases and Russia gas payment questions, alongside an uneventful OPEC+ decision. On Friday, WTI lost the USD 100/bbl mark to see a low overnight of USD 97.78/bbl and settled beneath USD 100/bbl for the first time since February 28th. Brent saw a low of USD 102.35/bbl, although both benchmarks had rebound shortly after to reach highs of 101.75/bbl and 106.24/bbl, respectively. The highs were made overnight after reports that an oil depot in Russia's Belgorod, near the Ukraine border, was on fire, with Russia later claiming it was attacked by Ukraine, although Ukraine said these claims are false.

The IEA held a meeting, IEA nations are committed to another coordinated oil release, according to the Japanese Industry Ministry, who noted volumes and timing could be agreed as early as within seven days. US DoE later confirmed the emergency notice of sale of Crude oil to fulfil the SPR release where the first 90mln bbls will be released between May and July, and a further 90mln bbls between August and October.

OPEC: The Reuters survey saw March oil output from OPEC rising 90k BPD M/M to 28.54mln BPD, while the Bloomberg survey saw it also rising 90k BPD to 28.6mln BPD. Bloomberg noted that OPEC struggled with a modest supply boost during the Russia tumult, while Reuters highlighted that compliance with the OPEC+ output cut pledges had risen to 151% from 136% M/M.

RUSSIA: Westward gas flows via the Yamal-Europe pipeline have been reduced, according to Gascade data, although it was reported later that Eastward gas flows have resumed and some gas capacity was booked for April 1st, and some gas capacity had been booked for April 2nd. On the payment system, Shell (SHEL LN) announced it cannot use Gazprom's Rouble payment method due to sanctions while Orsted, Uniper and others noted they have received demands from Gazprom to pay for gas supplies in Roubles, but they have no intention of doing so. The risk remains if Russia decides to cut off European gas or not. The Kremlin said that gas-for-roubles measures are not reversible but noted Russia will not turn off gas supplies to Europe on April 1st.

INDIA: India announced it has started to purchase oil from Russia as supplies have reduced and prices spiked, and there were reports on Thursday that Russia is offering oil to India at a discount of USD 35/bbl. The commentary follows remarks from the US, which told India not to increase Russian oil imports significantly and that India will expose itself to a great risk if it raises Russian oil imports. Analysts at Citi write "India’s willingness to buy Russian crude oil at a discount is a bearish factor, since it helps Russia maintain exports and production. Sales to China would do the same. But the added volumes are unlikely to make up for reduced flows to the US, Europe, Japan and South Korea related to the sanctions on Russia, even as only the US has imposed a hard embargo".

EQUITIES

CLOSES: SPX +0.32% at 4,544, NDX +0.15% at 14,861, DJIA +0.40% at 34,818, R2K +0.87% at 2,089.

SECTORS: Real Estate +2.02%, Utilities +1.45%, Consumer Staples +1.25%, Materials +1.14%, Health +0.91%, Communication Services +0.89%, Energy +0.85%, Consumer Discretionary +0.21%, Technology -0.17%, Financials -0.21%, Industrials -0.7%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.41% at 3,918; FTSE 100 +0.30% at 7,537; DAX +0.22% at 14,446; CAC 40 +0.37% at 6,684; IBEX 35 +0.69% at 8,503; FTSE MIB +0.57% at 25,163; SMI +0.17% at 12,181.

STOCK SPECIFICS: **Netflix (NFLX)** informed employees to be more careful regarding spending and hiring, according to The Information. **Tesla (TSLA)** is reportedly expected to print record global vehicle deliveries for Q1. **GameStop (GME)** announced plans to implement a stock split and will request shareholder approval at the annual meeting. GME is proposing an increase to 1bln shares from 300mln. **Apple (AAPL)** had JPMorgan Securities remove Apple from its "Analyst Focus List," saying a moderation in consumer spending may limit benefits from the iPhone SE launch and the potential for upside in services revenue. **Qualcomm (QCOM)** were also removed from the list. **BlackBerry (BB)** posted a surprise profit but missed on revenue, which came as growth in its cybersecurity unit flattened. Looking ahead, BB sees 'minimal' licensing revenue in FY23. **Li Auto (LI)** reported strong deliveries sales where March rose 125.2% Y/Y and in Q1 +152.1% Y/Y. **Nio (NIO)** March 2022 deliveries rose just shy of 10k (+37.6% Y/Y); with Q1 deliveries at 25k (+28.5% Y/Y). In May, Co. will unveil NIO ES8, ES6 and EC6 with new digital cockpit hardware. Effissimo Capital Management, **Toshiba's (TOSYY)** largest shareholder, reportedly backed Bain Capital's efforts to take the Co. private, according to two sources. EU antitrust enforcers are to approve **Parker-Hannifin's (PH)** USD 8.3bln bid for UK's Meggitt, according to Reuters sources. PH reportedly offered to sell a factory in Ohio to address overlapping issues. **Google (GOOGL)** received May hearing dates in the AdSense antitrust case appeal. **PNC (PNC)** raised its quarterly dividend to USD 1.50/shr (prev. USD 1.25/shr). EU regulators reportedly have raised questions regarding **Microsoft's (MSFT)** cloud practices. The Union just won against Amazon's **(AMZN)** New York election. Much focus on Friday has surrounded Chinese ADRs, which are seeing notable gains, after Bloomberg reported China is considering giving the US full access to the audits of most of the 200 plus NY listed companies as soon as mid-2022, according to sources.

WEEKLY FX WRAP

negotiation, repatriation, intervention, inversion and stagflation

USD - The Dollar got a fillip from NFP as a modest miss in headline payrolls was more than offset by back month revisions, a lower than forecast jobless rate and slightly above consensus y/y average earnings, but in truth the latest labour report does not alter the narrative in terms of expectations that the Fed will likely go 50 bp at the May FOMC. Instead, the main talking points and market-movers revolved around the Yen again from a pure currency standpoint along with Russia's ongoing military operation in Ukraine amidst further attempts to forge a ceasefire agreement. On that note, the first face-to-face talks in Turkey appeared to be more constructive than previous discussions with both sides delivering positive initial assessments, but the tone swiftly changed from cautious optimism to candid realism. Indeed, Russia declared no breakthrough and Ukraine vowed not to be naive as the West questioned whether the apparent withdrawal of some Russian forces constituted a scale back of its offensive intentions or deployment in preparation for fresh angles of attack. Meanwhile, the bond rout continued through bouts of consolidation and corrective price action, particularly over month end when the duration demand was more extensive than normal due to Q1 and FY needs falling on the same day. However, curve flattening persisted for the most part and to the point that inversion spread across more sections against the backdrop of data/surveys showing higher inflation and slower economic growth. Back to the Buck, choppy trade ensued and largely at the whim of others or external influences as Fed officials mainly stuck to the median dot plot line and macro releases backed up policy guidance by and large. In DXY terms, another wide range panned out and the index settled above 98.500 within 99.377-97.681 extremes.

JPY - Friday's major laggard, but this hardly tells the full story as the Yen extended its slide across the board at the start of the week to 125.10 vs the Greenback alongside multi-year troughs via Jpy crosses before embarking on a recovery mission based on Japanese buying for March 31. Usd/Jpy snapped back to sub-121.50 at one stage, irrespective of strenuous BoJ efforts to curb soaring JGB yields in pursuit of its YCT goals and lots of MoF/Government jawboning about the cons of rapid and excessive currency moves. However, the tide turned again and promptly once all the repatriation requirements were satisfied and it's back to watching UST/JGB and other global debt differentials, like AGBs that has been very instrumental for Aud/Jpy and Aud/Usd indirectly. Moreover, the technical landscape has reverted to negative for the Yen as Usd/Jpy probes 123.00 and the latest from Finance Minister Suzuki perhaps telling as he underlined the fact that the BoJ has an inflation remit, but no red lines in FX.

CHF/NZD/EUR/GBP - The Franc has also been volatile, though quite divergent against its US and Eurozone peers after Swiss sight deposit balances showing a dip in domestic bank accounts that indicates no physical intervention. Usd/Chf tracked Treasury yields relative to Conf bonds as a carry or funding currency, but safe-haven dynamics drove Eur/Chf between circa 1.0201-1.0385 parameters with the high printed at the peak of Ukraine-Russian peace hype (hope) and the cross fading once the euphoria dissipated. Elsewhere, the Kiwi endured a turbulent flight and often faced headwinds via the Aud/Nzd cross as its Antipodean rival derived more from all the commodity supply chain disruptions, but a note from Westpac on the first day of the calendar week hampered Nzd/Usd as well as the bank contended that RBNZ hike pricing for this year and next may now be too aggressive. The Euro suffered a big fall from grace or false faith as it rode the wave of Russia-Ukraine getting closer to conflict truce on Tuesday only to be undermined as the reality of the situation set back in. Eur/Usd also lost momentum when it failed to extend above the 50 DMA in the high 1.1100 area and recoiled further as Russian President Putin pressed ahead with his plan to cancel gas contracts (and delivery) if payments are not made in Rouble (which lifted the Rub for obvious reasons). On the flip-side, Eurozone inflation was hotter than anticipated and scorching in some parts of the bloc to overshadow disappointing manufacturing PMIs or downgrades to preliminary readings and heightened concerns about stagflation or even recession, even though ECB members refrained from acknowledging the ‘s’ or ‘r’ threat. Sterling was left somewhat in limbo following non-committal comments from BoE Governor Bailey when quizzed on the May MPC policy verdict as he gave a curt situation very volatile retort, but UK macro news was rather mixed, so Cable roamed within a 1.3188-1.3052 band and Eur/Gbp from 0.8513 to 0.8323.

AUD/CAD - As noted above, the Aussie outperformed or held up better when risk sentiment soured/the Buck was in the ascendency, with traction from iron ore, copper etc and Yen weakness as an import-dependent unit. Hence, deviation in Aud/Usd was minimal and infrequent either side of 0.7500, in contrast to the Loonie that set a new 2022 pinnacle vs its US contemporary within 1.2429-1.2592 boundaries and was buffeted by extremely whippy crude prices.

SCANDI/EM - Contrasting fortunes for the Sek and Nok as the former got official recognition of the high inflation environment from the Riksbank when Deputy Governor Ohlsson conceded the need to adjust monetary in 2022, but the Nok suffered as Brent unwound another chunk of its war premium, partly in response to the US unleashing a huge 180 mn brls from the SPR and the IEA release more of its reserves. On top of that, the Norges Bank has opted to restart purchases of foreign currencies at a Nok 2 bn/day pace this month. Elsewhere, more hawkish rhetoric, intervention and an actual hike from the CNB, but the Cnh/Cny were undermined by a clean sweep of NBS and Caixin PMIs falling to sub-50 contractionary territory, a 7-day liquidity drain by the PBoC and more chat about RRR easing.