



US Market Wrap

4th April 2022: Dollar and stocks rise amid thin newsflow as geopolitical tensions heighten

- **SNAPSHOT:** Equities up, Treasuries mixed, Crude up, Dollar up.
- **REAR VIEW:** West readies further Russia sanctions after alleged atrocities in Bucha; Musk reports 9.2% passive stake in TWTR; Chinese ADRs gain on transparency measures; City council of Mariupol said Russia has appointed its own mayor; Constructive developments in Yemen.
- **COMING UP: Data:** EZ, UK & US Composite/Services Final PMIs, US ISM Services PMI **Event:** RBA Policy Announcement **Speakers:** Fed's Williams, Kashkari **Supply:** UK.
- **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 rose and bonds were mixed in a quiet start to the week. News flow was thin, with many updates centering on Ukraine, where Western Allies are reportedly readying further sanctions to be announced Wednesday in response to alleged atrocities in Bucha, Ukraine. In terms of the market dynamics, stocks gained, although desks noted that equal weighted versions of the SPX underperformed – megacap tech outperformed after news that Tesla (TSLA) CEO Musk had taken a 9% stake in Twitter (TWTR), sending its shares higher by around 30%. Growth outperformed value. The Treasury curve was mixed, with shorter-dated yields slightly positive, but 5s through 30s selling-off by 1-5bps (long-end under pressure), with major curve spreads steepening. The main event this week is the FOMC meeting minutes, where desks will be looking for clues on the balance sheet plans, given that the aggressive rate trajectory has largely been discounted by markets. There is also the ECB meeting minutes due Thursday which will be eyed for clues on the timing of a rate hike after asset purchases end in Q3. Meanwhile, in FX, there was a generally range-bound tone, although the USD was underpinned by geopolitical developments and a steeper yield curve. Commodity FX also gained amid higher prices. Crude traded higher, looking through the constructive geopolitical developments in Yemen, where a two-month ceasefire has been declared; the complex was also looking through last week's announcements that IEA members would coordinated a massive reserve release; analysts said the focus was on tight supply dynamics, where the IEA's measures would do little to offset Russian supply, which buyers have voluntarily been shunning.

GEOPOLITICS

Ukraine/Russia updates on Monday were more sporadic than what we have seen of late, but the tone remains pessimistic and continues to wane from the optimism from last Tuesday. Russia was accused of committing human rights atrocities in Bucha region of Ukraine, amongst other regions, and Western Allies are said to be readying sanctions, which could be announced on Wednesday. The Kremlin declined to comment on how these allegations will impact peace discussions. Ukraine President Zelenskiy, on a visit to Bucha, accused Russian forces of genocide. Senior US Defense Official said they could not independently confirm reports of these atrocities within Bucha, but had no reason to refute them. On Mariupol, Ukraine said evacuation buses were being prevented from being allowed into the region, and the Russian forces were blocking international Red Cross efforts to reach the area. The City council of Ukraine's Mariupol also said that Russia had appointed its own mayor of the region. A senior US Defense Official said the US sees a repositioning of two-thirds of Russian forces from Kyiv, and many were consolidating in Belarus; the US assessed that these forces would likely be redirected toward east Ukraine, but this was unconfirmed. Later, US President Biden called Russian President Putin a war criminal, and said he was going to continue adding sanctions on Russia. The State Department said that the US was supporting a multi-national team of prosecutors to visit Ukraine regions to collect and analyse the evidence, at Ukraine's request.

FIXED INCOME

T-NOTE FUTURES (M2) SETTLED 4+ TICKS LOWER AT 122-03



Treasuries steepened Monday in light trade, partially paring Friday's moves, with Russian trade/sanction angst driving some haven demand ahead of FOMC minutes Wednesday. At settlement, 2s -1.0bps at 2.422%, 3s -0.7bps at 2.605%, 5s +0.1bps at 2.550%, 7s +1.6bps at 2.507%, 10s +3.3bps at 2.408%, 20s +5.0bps at 2.639%, 30s +4.9bps at 2.472%. 5yr TIPS +23.5bps at -0.635%, 10yr TIPS +2.8bps at -0.412%, 30yr TIPS +2.8bps at 0.007%. 5yr BEI +0.2bps at 3.240%, 10yr BEI +0.8bps at 2.831%, 30yr BEI +1.6bps at 2.469%.

TOKYO: Relatively quiet trade to start the week in Asia, at least from a futures volume perspective, although dealers noted some better buying of the front-end by real money accounts in cash. T-Notes opened lower from Friday's 122-07+ settlement, trading around the 122-00 handle ahead of Europe's return. After the noticeable selling in Tokyo into the fiscal year-end, activity can be expected to be a bit lighter from here. BMO notes that although Japanese accounts can be expected to sell duration into the fiscal year-end (as we saw), there's nothing certain about when/if they buy it back.

LONDON: Bunds led broader bid for sovereigns with Russia sanction uncertainty supporting the haven demand. T-Notes hit resistance at 122-08+ just as stocks in Europe opened for trade before paring back towards the round figure gradually ahead of the NY handover. While on the curve, it was the front-end that led the strength after Friday's pronounced flattening.

NEW YORK: Better bidding resumed into the NY morning for T-Notes. Session highs were made of 122-12+ just ahead of the NYSE cash stock open, failing to break Friday's post-NFP highs of 122-13. Again, it was the front-end leading the strength, paring some of last week's flattening/inversion; likely some profit taking. T-Notes pulled back from the highs in the late morning, falling victim to the weakness stemming from the long-end. The contracts briefly lost 122-00 before reclaiming the figure into the afternoon. With a rather catalyst-lite week (at least from a scheduled perspective), traders are looking to Wednesday's FOMC minutes as the highlight. The minutes are expected to give details on the parameters of the Fed's looming balance sheet reduction.

CRUDE

WTI (K2) SETTLED USD 4.01 HIGHER AT 103.28/BBL; BRENT (M2) SETTLED USD 3.14 HIGHER AT 107.53/BBL

Oil prices rose on Monday, shrugging-off constructive geopolitical developments in Yemen as well as last week's news of reserve releases by IEA members; instead, the focus remains on tight market dynamics. Prices rose into the London open, taking WTI back above USD 100/bbl before losing the figure again. The return of US participants from the weekend saw a more sustained bid to ultimately drive prices to fresh session highs in the NY morning before fading into the latter session.

YEMEN: The crude complex has seen diminished geopolitical risk premium as a two-month long ceasefire in Yemen begins constructively and oil shipments reaching the port of Hodeida. However, analysts said that tight market conditions (last week, for instance, reports noted Russian oil and gas production fell to 11.01mln BPD in March from 11.08mln in February, according to Reuters sources), and reserve releases do not offset Russian barrels, which many buyers are avoiding.

SANCTIONS: Given emerging reports/evidence of suspected war crimes in Ukraine, there are growing calls for tougher action from the EU/RoW on Russian trade. While nothing has been decided, there has been a return of the risk premium. FT reported that EU ambassadors are to meet on April 6th to discuss further sanctions, adding that an oil and gas embargo is part of the discussion. German Finance Minister Lindner was reluctant to speculate on that to press on Monday, while France is promoting tariffs instead as a "more efficient" method.

SAUDI: While the upside had already got going into the NY session, the reports that Saudi Arabia has hiked again its OSPs for May to all regions added support; Arab Light's premium over Dubai-Oman was raised by USD 4.40/bbl to USD 9.35, a new record. In Citi's view, "this is the latest data point suggesting Saudi Arabia is taking a short-term approach to maximize revenues now rather than worrying about the impact on consumers."

IRAN: The Iran nuclear talks continue to show signs of stumbling. But elsewhere, Sky Arabia reports that Iran had announced the return of oil production to pre-sanctions levels.

EQUITIES

CLOSES: SPX +0.84% at 4,584, NDX +2.01% at 15,159, DJIA +0.30% at 34,922, R2K +0.60% at 2,096.



SECTORS: Consumer Discretionary +2.33%, Communication Services +2.28%, Technology +1.91%, Energy +0.07%, Materials -0.04%, Industrials -0.18%, Real Estate -0.31%, Consumer Staples -0.32%, Financials -0.48%, Health -0.75%, Utilities -0.79%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.83% at 3,951; FTSE 100 +0.27% at 7,557; DAX +0.50% at 14,518; CAC 40 +0.70% at 6,731; IBEX 35 +0.17% at 8,518; FTSE MIB +0.03% at 25,171; SMI +1.33% at 12,340.

STOCK SPECIFICS: **Twitter (TWTR)** soared 27% after **Tesla (TSLA)** CEO Musk reported a “passive” 9.2% stake in the social media giant, according to a SEC filing. **Starbucks (SBUX)** founder Howard Schultz returned as CEO and immediately suspended the stock repurchase plan, as it intends it will allow it to invest in future growth for the coffee maker. **Tesla (TSLA)** reported roughly 310k deliveries and 305k vehicles produced in Q1, which was more-or-less in line with the expected. Separately, Tesla is unable to restart Shanghai production on Monday, according to Reuters. **JPMorgan (JPM)** CEO Dimon said the bank could lose around USD 1bn over time from its exposure to Russia. **Hertz (HTZ)** and **Polestar** announced a new global partnership that includes purchasing up to 65k EV over five years. Note, Polestar previously announced its intention to list on Nasdaq New York in a proposed combination with **Gores Guggenheim (GGPI)**, which is expected to close in Q2. Canada announced support for **General Motors (GM)** multi-billion-dollar investment in two plants, including one that will produce electric commercial vehicles. **Logitech (LOGI)** was upgraded to “Buy” from “Neutral” at Goldman Sachs, with the bank encouraged by the recent strong financial performance. **Roku (ROKU)** reached multi-year agreement with **Amazon (AMZN)**, but the terms of agreement were not disclosed. US-listed shares of Chinese companies (**BIDU, JD, NTES, BABA, TME**) performed well as Chinese authorities removed audit barriers, meaning inspections of US-listed Chinese firms will no longer be restricted to Chinese regulators, reducing some risks of US-delisting. **Ollie’s Bargain Outlet Holdings (OLLI)** rallied on Monday after Wells Fargo upgraded the stock to “Overweight” from “Equal-Weight”; said the stock could prove to be a “coiled spring” after it worked through its pandemic-era disruptions. **Ford (F)** March total sales -25.6% Y/Y to 159,283 units, whilst March US retail sales +23.2% M/M. Moreover, as chip shortages continue to pose challenges, saw an improvement in March sales as in-transit inventory improved 74% over February.

FX WRAP

USD: The Dollar Index rose above 99.00 on Monday, underpinned by geopolitical tensions (more sanctions against Russia could come on Wednesday) and higher yields/curve steepening. Last week’s solid jobs data also bolsters the case for tight monetary policy ahead; money markets are assigning an 80%+ probability of a 50bps rate hike in May, and see rates rising to 2.25-2.50% by the end of the year. The minutes of the March meeting, released Wednesday, will be eyed for clues around its balance sheet plans, which many feel is the next major catalyst in US monetary policy, given that aggressive rate moves have already been priced. Long positions have been rebuilding, the weekly CFTC data showed, which some desks suggested might be a reason the buck may struggle to sustain gains.

EUR: The single currency slipped by almost a percent on Monday, giving up a positive (but fleeting) start to the week. Negative geopolitical developments have worked to the detriment of the EUR, and that was a reason cited by many desks on Monday, as Europe reportedly moves towards slapping more sanctions on Russia over alleged human rights atrocities in Ukraine (these could be announced on Wednesday, reports said). Technical factors have also played a role, with EUR/USD tripping beneath the 10- and 21-day moving averages, and subsequently beneath 1.10. Tech says 1.0945-50 is the next support region. In addition to geopolitical headline risk, ECB minutes on Thursday are the main event this week, where we will be on the lookout for any specifics on how soon a rate hike could come after the end of QE.

AUD: The Aussie is gaining ahead of the RBA rate announcement due overnight, where analysts expect the Cash Rate Target to be left unchanged at 0.10%. The focus will be on any rhetoric that guides towards the timing of rate hikes (markets have been raising their view of the rate hike trajectory course, of late), although there is an argument that there is scope for the central bank to retain a dovish tone amid the cloudy geopolitical outlook. Our preview can be accessed [here](#).

HAVENS: Havens were more mixed against the USD, with the CHF and JPY easing a touch, although gold rose likely on geopolitics rather than the yield environment.

COMMODITY FX: Rising commodity prices provided support, with the BRL notable in its outperformance, rising by almost 1 percent towards fresh two-year highs. Some desks have expressed concerns around visibility of Brazil data, given a strike at the central bank threatens impact release schedules. Other LatAm FX were also buttressed, but to a lesser extent; LatAm focussed traders are also watching events in Chile, where voters appear ready to reject the new constitution. EURNOK rallied on the combination of a lower EUR and higher crude prices.



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