



US Market Wrap

5th April 2022: Stocks and Treasuries fall after Brainard drops balance sheet hints ahead of FOMC minutes

- **SNAPSHOT:** Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW:** Ukraine/Russia talks would be 'very challenging'; Large EU sanctions package on Russia coming; Brainard gives nod to May B/S reduction; George said a 50bps move will be an option we have to consider; US looking to boost oil imports from Canada, but not via Keystone XL pipeline; Mixed ISM services, headline slight miss, prices paid rose, but employment back into expansion territory; US/UK/Aus announce hypersonic weapons deal, China issues warning in response; JBLU bid to acquire SAVE; TWTR to appoint Musk to the board.
- **COMING UP: Event:** FOMC Minutes **Speakers:** ECB's Lane, Schnabel, Panetta, de Guindos; Fed's Harker.

MARKET WRAP

Equities trundled lower throughout the whole session (despite some very shortlived optimism at the open), where selling pressures extended led by the Nasdaq after Fed's Brainard sounded more hawkish than her usual dovish self setting the tone for the session. The upcoming Fed Vice-Chair spoke for the first time since the March FOMC where she remarked on the balance sheet and gave the nod to a May commencement of B/S reduction and said it will be "significantly larger" and at a more "rapid pace" than the prior normalisation cycle, while also sounding rather concerned on inflation. The Dollar hit its highest level since May 2020 in wake of the remarks while yields also surged, led by the belly. Further balance sheet details will be eyed Wednesday in the FOMC minutes for March. Elsewhere, more sanctions were imposed from the US, EU and G7 as a whole on Russia with the EU to focus on energy import bans, primarily on coal with Germany concerned an embargo on Russian gas imports would do more harm to Germany than Russia. However, France is pushing for an oil and coal import ban. Sectors were primarily lower, led by losses in the big tech space (Consumer Discretionary, Tech, and Communications) while Defensives (Utilities, Health Care, and Consumer Staples) were the relative outperformers. Twitter (TWTR) continued its post Musk rally after it was confirmed he will be joining their Board of Directors, while Spirit Airlines (SAVE) surged on reports it is to be acquired by JetBlue (JBLU). Looking ahead, Wednesday's focus lies heavily on the FOMC minutes (preview below).

FED

FED: Brainard (voter) spoke on the balance sheet, which appeared to confirm the expectation we will get a balance sheet reduction announcement in May but she also told us it will be "significantly larger" and at a "rapid pace", with a phase in period to be "much shorter" than the prior normalisation cycle, which for a dove sounded quite aggressive, which was coupled with concerns on high inflation. She said it is of paramount importance to bring it back down, adding it is currently far too high and subject to upside risks. Brainard also said the Fed is prepared to take stronger action if inflation and inflation expectations suggest the need to do so. Brainard noted the combined impact of rate hikes and balance sheet reduction will bring policy to a more neutral position later in 2022, and then from there the extent of further tightening will be dependent on the evolving outlook for inflation and employment. On wages, Brainard said they have been increasing considerably over the past year and most low wage workers have seen wage growth that exceeds average inflation, but for most workers, wage gains have been outstripped by inflation. **George (2022 voter)** said a 50bps move will be an option the Fed has to consider, adding the current conditions argue in favour of going faster than before. George also added the Fed may need to go above neutral to bring inflation back down. **Daly (2024 voter)** said Fed projections do not show a lot of 'overshooting' on rates while they can begin balance sheet reduction as early as May. Daly believes the Fed will be able to get inflation moving down year end while avoiding a recession. She noted many of the imbalances are COVID related while the consumers are remarkably resilient. Do not think we'll have stagflation, but says growth will slow but expects it to be a short-lived event.

FOMC MINUTES PREVIEW: SUMMARY: The FOMC Minutes will be critical for gauging the parameters of the balance sheet runoff process after Fed Chair Powell told us more details would be available within the release. Details eyed include the pace of the runoff, where expectations for the maximum monthly caps lie between USD 60-100bln per month of Treasuries and MBS. Whether the caps start small and grow or begin immediately at the max will be key, particularly for signalling, given the formal announcement will likely be made alongside an expected 50bps rate hike at the May FOMC. Other details include the asset composition of the runoff, any size or calendar guide for completion, and the Fed's appetite for outright asset sales. On rates, with market pricing for a 50bps May hike at 80%, and probabilities of



more 'double' hikes at future meetings also growing, commentary on the debate for the larger increments will be eyed given the appetite seen in some Fed Speak in recent weeks. To download the full preview, please click [here](#).

GLOBAL

GEOPOLITICS: Ukraine/Russia rhetoric continues to worsen, with the seeming likelihood of some sort of agreement diminishing amid the suggested war crimes in Bucha. Regarding talks, Russia's Kremlin stated they do not reject the possibility of a meeting between President's Putin and Zelenskiy but it is only possible once a document has been agreed, whilst Ukraine President said the possibility of holding discussions with Russia is 'very challenging', but he has no other option. Elsewhere, and on sanctions, the US and G7 are to announce sweeping new Russia related sanctions on Wednesday, whilst a large EU sanctions package against Russia is coming, with the first tranche touching on energy (EU coal ban from Russia), if it is approved. Moreover, Russia's Foreign Minister Lavrov noted the West is trying to derail talks between Russia and Ukraine by fuelling hysteria over Bucha, according to Ria. Finally, US, Australia and UK earlier announced they are to co-operate on hypersonic weapons, in which the FT said it was as part of a response to China's swift military expansion. Following this, China's UN Envoy warned against "things which may lead other parts of world into crisis" like Ukraine.

US ISM SERVICES: Headline US ISM services for March rose to 58.3 from the prior 56.5, but printed beneath the expected 58.4. Looking at the subcomponents, prices paid rose to 838.8 from 83.1, while employment rose strongly to 54.0 (prev. 48.5), back into expansion territory, and more than reversing February's drop. Note, the index is still 3.0 points below its recent high, last November, but Pantheon expect a further increase here in April too. Moreover, business activity rose marginally to 55.5 (prev. 55.1), while new orders also increased to 60.1 (prev. 56.1). Delving into the report, Pantheon Macroeconomics note, 'this is a post-Omicron rebound. The index tends broadly to track shifts in Google mobility, which has recovered strongly from its January low; Omicron cases peaked in the middle of the month. The mobility data pointed to a bigger increase in the March ISM, so we now expect a further gain in April.' Moreover, and further into supply chains, Pantheon adds measures in the survey remain very elevated, however order backlog and supplier delivery times have fallen from their highs, late last year, whilst prices paid slightly rose, but we are relieved it was not significantly higher, given the surge in gas prices. Overall, the consultancy concludes, 'the survey confirms that spending on discretionary services is rebounding after the Omicron wave, echoing the message from a host of near-real-time indicators. Inflation pressures remain intense, but they seem no longer to be intensifying.'

FIXED INCOME

T-NOTE FUTURES (M2) SETTLED 1 POINT AND 5+ TICKS LOWER AT 120-29+

Treasuries were sold across the board Tuesday with the belly weakest after Brainard's QT offensive, adding to the RBA's hawkish pivot. At settlement, 2s +7.6bps at 2.504%, 3s +8.8bps at 2.696%, 5s +13.5bps at 2.690%, 7s +14.5bps at 2.657%, 10s +13.3bps at 2.545%, 20s +10.2bps at 2.744%, 30s +10.0bps at 2.574%. 5yr TIPS +11.3bps at -0.517%, 10yr TIPS +10.5bps at -0.303%, 30yr TIPS +7.8bps at 0.088%. 5yr BEI +3.2bps at 3.260%, 10yr BEI +4.6bps at 2.859%, 30yr BEI +3.7bps at 2.489%.

TOKYO/LONDON: T-Notes were holding modestly above the 122-00 figure for most of the APAC Tuesday session in uneventful Tokyo trade. But the figure was lost into the London handover on the back of the hawkish RBA, which opened the door to rate hikes after removing the "patient" language from its statement. The selling was extended through the European morning where T-Notes already sold for half a point from their Monday settle by the time US players arrived. There was pressure on European periphery debt too with Italian BTPs sold particularly hard. Some desks speculate potential portfolio adjustments at play after the chance of a Russian sovereign default rose amid the US blocking American banks from processing loan payments from Russian accounts.

NEW YORK: T-Notes found support at 121-17 for most of the NY morning, rising to interim highs of 121-25+ not long before Fed's Brainard hit the wires. While the Fed dove didn't give much away in terms of the rate path, it was striking she began her speech with a Paul Volcker quote and went on to all but confirm a May FOMC balance sheet runoff announcement, whilst sounding the alarm on the inflation front. She called for an aggressive B/S runoff, with larger caps (than before), and a quicker phase-in period; more details should be seen in the FOMC minutes Wednesday. The belly led the selling in wake of the speech, with several block sales seen in the 5yr future, re-steepening the front/belly spreads. Fed's George (2022 voter) was also speaking hawkishly at the same time, keeping the bearish momentum. IFR noted the 5yr, in particular, was "seeing further pressure applied by mortgage players amid Gamma hedging." The selling lost momentum as Europe began closing up, although T-Notes managed to eke out lows of 120-25+ into the NY afternoon (cash 10yr yield high of 2.565%).



STIRS: Eurodollars bear-steepened as the back-end (greens/blues) played catch amid Fed's Brainard steepening that part of the curve. EDM2 -2.0bps at 98.395, U2 -6.0bps at 97.650, Z2 -8.0bps at 97.120, H3 -9.5bps at 96.790, M3 -10.5bps at 96.580, U3 -10.5bps at 96.585, Z3 -10.0bps at 96.690, H4 -10.0bps at 96.810, M4 -10.0bps at 96.910, U4 -10.5bps at 96.980, Z4 -12.0bps at 97.035, Z5 -19.5bps at 97.325. NY Fed RRP op demand rises to USD 1.711tln across 86 bidders (prev. USD 1.693tln across 81 bidders). SOFR has stabilised at 30bps in recent sessions, while market repo rates have traded much less 'special' after last week's Treasury settlements increased the amount of collateral available.

CRUDE

WTI (K2) SETTLED USD 1.32 LOWER AT 101.96/BBL; BRENT (M2) SETTLED USD 0.89 LOWER AT 106.64/BBL

Oil prices were lower Tuesday after reversing earlier strength in a generally choppy session amid China's lockdown extension and more sanctions against Russia. The futures had been holding gains through into the NY morning, despite rising covid cases in China that continue to weigh on the demand outlook. The tape action was rather choppy, however, with not too many new fundamentals to drive the price action. The downside extended not long after the WSJ report in the NY morning that the US is considering additional ways to boost oil imports from Canada, but not via the Keystone XL pipeline. But prices did stabilise into the afternoon. Energy traders now look to the weekly US inventory data ahead of the private release later Tuesday and EIA official print on Wednesday. Current expectations (bbls): Crude -2.1mln, Gasoline +0.1mln, Distillate -0.8mln.

SANCTIONS: After civilian killings in Ukraine, The West is planning new sanctions against Russia. The EU has announced bans on Russian vessels and coal imports, with Germany noting coal would be followed by oil, and then gas. While the US has said new sanctions from the White House would be announced this week.

SPR: After the historic US SPR release announcement last week, Reuters reported Tuesday that the response from other IEA members has been less swift with discussion ongoing on how much to release.

EQUITIES

CLOSES: SPX -1.19% at 4,528, NDX -2.24% at 14,820, DJIA -0.80% at 34,641, R2K -2.22% at 2,045.

SECTORS: Consumer Discretionary -2.35%, Technology -2.19%, Energy -1.51%, Industrials -1.39%, Communication Services -1.38%, Materials -0.79%, Financials -0.75%, Real Estate +0.06%, Consumer Staples +0.07%, Health +0.18%, Utilities +0.67%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.84% at 3,917; FTSE 100 +0.72% at 7,613; DAX -0.65% at 14,424; CAC 40 -1.28% at 6,645; IBEX 35 +1.20% at 8,623; FTSE MIB -0.86% at 24,960; SMI +0.37% at 12,386.

STOCK SPECIFICS: **JetBlue (JBLU)** reportedly bids USD 3.6bln or USD 33/shr to acquire **Spirit Airlines (SAVE)**, according to NYT. **Twitter (TWTR)** will appoint Elon Musk to the Cos. board to serve as a class II director, but as Director Musk will not become the owner of over 14.9% of stock; his term expires at TWTR's 2024 annual meeting. **Qualcomm (QCOM)** CEO told CNBC that it is focusing on dividends rather than buybacks to deliver shareholder value. **Carnival (CCL)** said the seven-day period from March 28 through April 3 was the busiest week for new cruise bookings in the company's history. **Nio (NIO)** is in talks with several automakers about licensing its battery-swapping technology, according to the FT. **Carvana (CVNA)** was lower after it was downgraded to "Sector Perform" from "Outperform" at RBC, who based its call both on valuation and potential difficulty in integrating its recent acquisition of a car auction company. **General Motors (GM)** said its new EV series is expected to go on sale in 2027, starting in North America. **Moderna (MRNA)** shares fell after COVAX rejected options to buy additional Moderna shots. **Boeing (BA)** factory problems disrupted productions of one of its new Air Force One planes earlier this year, according to WSJ citing sources. The EU Commission wants large online platforms to pay an annual supervisory fee of up to 0.1% of their global net income under new tech rules, according to an EU document. **Analog Devices (ADI)** expects to come in at 'high-end' of Q2 revenue guidance (exp. USD 2.7-2.9bln, prev. USD 2.81bln). **JetBlue (JBLU)** cut flying capacity 8% for May on higher fuel prices. US FDA stated **GSK (GSK)** and **Vir Biotechnology's (VIR)** Sotrovimab is no longer authorised to treat COVID in the US due to the increase in the Omicron ba.2 subvariant. **UnitedHealth Group (UNH)** and **Change Healthcare (CHNG)** agreed to extend the closing date of their merger by a further nine months to December 31st, 2022, more than a month after the DoJ sued to stop the deal. UnitedHealth's Optum unit will pay a USD 650mln fee to Change if the deal is not completed due to the court's decision. **Black Knight (BKI)** reportedly exploring a potential sale after receiving interest, and PE firms are said to be weighing bids, according to Bloomberg sources.



FX WRAP

USD: The Dollar hit its highest level since May 2020 at 99.494 which was supported by a move higher in yields after Fed's Brainard spoke of a "significantly larger" balance sheet reduction than 2017-2019 at a "rapid pace", with a phase in period to be "much shorter" than the prior normalisation cycle, which for a dove sounded quite aggressive, which was coupled with concerns on high inflation ahead of the FOMC Minutes on Wednesday, where we will be watching for clues on the balance sheet decision. The US ISM services data was mixed, rising to 58.3 from 56.5, but a touch short of the 58.4 expectation. Prices paid continued to rise while employment saw a welcome jump back into expansionary territory. New orders also rose, while business activity only saw a slight increase.

EUR: The upside in the Dollar added to the downside of the single currency, seeing a low of 1.0904 after falling through 1.0950 in wake of the Brainard comments. Meanwhile, Euro hedging costs have been rising on French election risks. Macron is still in the lead, but Le Pen has been closing the gap in recent weeks to 53/47 from 60/40.

JPY: The Yen was weaker following the move in the Dollar while the leg higher in yields only added to the Yen's woes after jawboning from the BoJ after Governor Kuroda said the Central Bank will offer to buy an unlimited amount of 10yr JGBs, adding it may not necessarily be a last resort. Kuroda added it is too early to discuss an exit strategy at this time, which emphasises the policy divergence between the Fed and BoJ.

CNH: The Yuan was only modestly weaker against the buck, reversing most of the losses seen in the offshore Yuan overnight. the USD/CNH low of 6.3623 found support at the 100dma at 6.3624 while a high was seen at 6.3806. Attention turns to the China Caixin services PMI due on Wednesday while the Shanghai city lockdown was extended which is adding to growth concerns.

Cyclical currencies were mixed. AUD outperformed after the RBA implemented a hawkish hold after it dropped the word patient from the statement in regards to rate hikes, seeing AUD rise to a high of 0.7661, the highest since June 2021. NZD was also firmer, albeit only marginally as the Dollar gains wiped out any initial gains in NZD/USD which saw a high of 0.7034 as it tracked Aussie higher throughout the morning. CAD saw marginal gains despite losses in the oil space, although the Loonie did print its highest level against the Dollar since November 2021 with USD/CAD printing a low of 1.2404 with support seen after reports noted the US is looking at ways to boost oil imports from Canada, although gains had pared after the commentary from Fed's Brainard. GBP was softer against the buck but stronger against the Euro; final UK services and Composite PMIs were better than expected.

EMFX was generally weaker amid the Dollar strength, particularly BRL, although LatAm currencies were softer in general on the overall risk tone and fresh sanctions on Russia. There were remarks from BCB board nominee Guillen, who expects inflation to be close to target within the relevant horizon of monetary policy and expressed the main goal is to bring inflation close to target. Meanwhile, Brazilian economic official Caio Mario Paes De Andrade is reportedly the most likely choice to lead Petrobras. TRY and ZAR were also softer, while RUB was flat, despite a fresh wave of sanctions as the currency remains very illiquid.

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