US Market Wrap

6th April 2022: Stocks hold losses in wake of hawkish FOMC Minutes

- **SNAPSHOT**: Equities down, Treasuries mixed, Crude down, Dollar up.
- **REAR VIEW**: Hawkish FOMC minutes; IEA to release 60mln bbls extra alongside US; Russia sanctions intensify; Banks weigh using Zelle to challenge V and MA; Harker committed to methodically raising rates.
- **COMING UP**: **Data**: EZ Retail Sales, US IJC **Event**: ECB Minutes (March) **Speakers**: Fed's Bullard & Evans; BoE's Pill **Supply**: France & Spain.

MARKET WRAP

Markets sold off throughout the session in another session led by the upside in yields weighing on the rate-sensitive large-cap tech names. Equities stabilised at lows while Treasuries moved off their morning lows ahead of the FOMC Minutes, either as traders took chips off the table or were profit-taking on shorts ahead of the key event. The minutes were hawkish, as expected after Brainard's balance sheet remarks on Tuesday, although even so the monthly caps were towards the top end of analyst expectations while its remarks on 50bps were also hawkish. Many participants would have chosen to hike by 50bps in March, but the Ukraine war saw them opt for a 25bp move instead, while many also expect one or more 50bp hikes in the upcoming meetings. The reaction saw two-way trade, initially, the hawkish pricing unwound seeing equities and Treasuries rise, while the dollar sold off, although the move failed to sustain with the e-mini S&P rejecting a test of 4,500 while Treasuries saw selling pressure, but eventually calmed to pre-announcement levels. The curve remained steeper on the session with the front end yields lower, although yields in the belly and long end remained firmer. The dollar briefly touched a fresh YTD high in wake of the minutes with participants eyeing 100 in the DXY as resistance. Equity sectors were mixed, with Tech, Consumer Discretionary and Communication (large caps) lagging once again while Utilities, Health Care, Real Estate and Consumer Staples outperformed due to their defensive nature. Crude sold off heavily on reports US allies are to release 60mln bbls of oil to help ease prices, which will be on top of Biden's 180mln bbl announcement recently which saw WTI fall to lows of USD 95.73/bbl while Brent fell to USD 100.54/bbl.

FED

FOMC MINUTES: The FOMC Minutes, as expected, revealed their discussion on their plans for the balance sheet. The Fed generally agreed on monthly caps of roughly USD 60bln for Treasury securities and USD 35bln from holding of MBS, taking the total cap to USD 95bln, which was towards the higher end of a general consensus between USD 60-100bln, although some had been looking for over USD 100bln. They also generally agreed the caps could be phased in over a three month period, or modestly longer if market conditions warrant. On MBS, they also generally agreed that after the balance sheet runoff was "well underway" it would be appropriate to consider outright sales of MBS, something which would be announced well in advance. The Fed also confirmed a May commencement for the runoff process to begin ("Participants agreed Fed was well placed to begin balance sheet reduction as early as after the Fed's May meeting." while noting that all options reviewed features a more rapid pace of the prior 2017-2019 runoff, as expected. Note, several participants remarked that they would be comfortable with relatively high monthly caps or no caps. On rates, many participants noted they would have preferred a 50bps increase in March, but a number of them indicated due to the uncertainty around Ukraine, they judged a 25bp move would be appropriate. Meanwhile, looking ahead, many participants noted that one or more 50bps increases in the target range could be appropriate at future meetings, particularly if inflation pressures remain elevated or intensified. Overall, the Fed minutes were hawkish with the monthly caps on Treasuries and MBS towards the top end of a wide range of expectations, albeit not at the most extreme levels although it appears MBS sales will be considered at a later date, something that has been hinted at by several Fed officials in recent remarks. The language on rates was also hawkish, where many would have preferred a 50bps move in March, but the Ukraine war saw them move in 25bps instead. While also strongly hinting at one or more 50bps moves at future meetings. The hawkishness was somewhat to be expected after Brainard's speech on Tuesday, particularly around the balance sheet, while market pricing has been increasingly looking towards a 50bps move in May (currently 85% priced), while future moves on 50bps is to be "data dependent" but some hawks have suggested 50bps moves until the neutral rate is reached, but it is telling that "many" participants suggested one or more 50bps hikes could be appropriate.

FED SPEAK: **Fed's Harker (2022 temp voter)** said he is committed to raising rates methodically back to neutral at rates of 2.5%. Fed wants to slow the economy in a way that is not so aggressive that it risks tipping the economy into recession. Harker reiterated inflation is far too high and is concerned that inflation expectations could become unmoored. Harker also confirmed other officials that the Fed will start to reduce the size of the balance sheet soon. He does not see inflation going away quickly and does not expect food prices to come down any time soon. **Barkin (2024 voter)** said it is time to start normalising rates and suggests it would take 9-10 rate hikes to get to neutral. Barkin believes the Fed has "some time" to get rates to neutral due to the impact of the pandemic on jobs and inflation. Barkin noted the fed will start to raise rates modestly from balance sheet shrinkage, and also acknowledged Barkin added while the Fed could move faster, it is already having an impact, as seen in the move higher in bond yields. Barkin added retailers suggest there is not much "trade down" among consumers to cheaper goods despite price rises, while on housing he said supply is tight and it will take a while to meet strong demand.

GEOPOLITICS

GEOPOLITICS: Sanctions were at the forefront, where Senior US Official said the US is "dramatically escalating" the financial shock on Russia, by cutting off its largest banks, and is to impose full blocking sanctions on Sberbank and Alfabank. The US also imposed sanctions on President Putin's adult daughters. The sanctions were implemented in wake of allegations of Russian war crimes in Ukraine. President Biden is to sign an executive order prohibiting US investment in Russia, but US officials did note if Putin was to change course within Ukraine, sanctions could slow and possibly reverse. On its Asian relations, US remains hopeful it will have alignment with India on actions against Russia, whilst China is not openly indicating any intention to circumvent Russian sanctions and is watching this subject closely. Moving to the ground, Ukraine urged civilians to leave eastern Kharkiv, Donetsk and Luhansk regions as it braced for a major new Russian offensive following Moscow's withdrawal from the north of the country, according to WSJ citing Ukrainian officials. On Kyiv, Senior US Defense Official noted Russian forces near Kyiv have completed their withdrawal from the area but US has indications Russian troops are being refit and resupplied in Belarus. Lastly, on talks, Russian Kremlin added work is continuing on when the next round of peace discussions with Ukraine would take place, but the process is not going as fast as they would like, which is largely in-fitting with prior rhetoric we have heard.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 7+ TICKS LOWER AT 120-22

Treasuries steepened throughout the US session heading into the hawkish minutes resulting in choppy trade as initial hawkish pricing was unwound before paring. At settlement, 2s -0.2bps at 2.502%, 3s -1.3bps at 2.685%, 5s +0.7bps at 2.702%, 7s +3.4bps at 2.700%, 10s +5.7bps at 2.611%, 20s +6.2bps at 2.817%, 30s +5.2bps at 2.634%. 5yr TIPS +2.5bps at -0.481%, 10yr TIPS +6.4bps at -0.225%, 30yr TIPS +6.0bps at 0.158%. 5yr BEI -2.6bps at 3.236% 10yr BEI -1.1bps at 2.846% 30yr BEI -0.9bps at 2.482%.

TOKYO/LONDON: Tuesday's selling in Treasuries continued overnight to see lows of 120-05+ as US players arrived, with the Brainard overhang continuing to weigh on Treasuries across the curve as participants await any further details on the balance sheet runoff from the FOMC minutes, which came after Brainard gave the nod to a May start. Overnight volume was decent, with 500k 10yr futures trading by midday London/07:00EDT. Major curve spreads were steeper to start the day and was led by dealer sales of 10yr and longer end paper. Meanwhile, fixed income selling was seen elsewhere too, with Bunds and JGBs also taking a hit. Moreover, heading into the APAC session traders should be cognizant of the 10yr JBG yield topping the BoJs 0.25% cap (yields hit a high of 0.259%), which may lead to some overnight intervention. The Treasury selling saw numerous yields hit cycle highs: the 10yr rose to the highest since March 2019 at 2.66%, while the 2yr saw the highest since January 2019, 5yr highest since December 2018 and the 30yr highest since May 2019, which briefly saw the 10s30s curve test inversion.

NEW YORK: Treasuries stabilised throughout the US morning and saw a slight move off the lows, perhaps as traders took chips off the table ahead of the FOMC Minutes or perhaps in response to an overreaction from the Brainard commentary Tuesday, Additionally, even just profit-taking after the heavy selling pressures seen in Treasuries recently. The downside in oil prices was also supportive after reports suggested the IEA will release an additional 60mln bbls of oil, on top of Biden's 180mln bbls, which helped take WTI beneath USD 100/bbl again, easing some inflationary fears. The reversal throughout New York saw an extension of the steepening with shorter ended yields turning negative on the session while the longer end yields moved off highs. The minutes saw two-way price action, the hawkish tone was to be expected after Brainard's remarks on the balance sheet on Tuesday, which initially saw Treasuries rise to session highs of 121-01+ as the hawkish pricing was unwound, albeit as the dust settle Treasuries trended back lower into the settlement. Focus in the minutes saw the Fed in favour of a USD 95bln cap of Treasury and MBS, while many would have preferred a 50bps move in March, but the Russian invasion of Ukraine saw them opt for a 25bp move instead, in fitting with thinking from Fed's Waller, who leans hawkish.

STIRS: EDM2 -4.0bps at 98.350, U2 -0.5bps at 97.645, Z2 +0.5bps at 97.125, H3 +1.0bps at 96.800, M3 +0.5bps at 96.585, U3 +0.5bps at 96.590, Z3 +0.0bps at 96.690, H4 +0.5bps at 96.815, M4 +1.0bps at 96.915, U4 +0.5bps at 96.980, Z4 +0.5bps at 97.035, H5 -0.5bps at 97.110, M5 -1.0bps at 97.185, U5 -2.0bps at 97.245, Z5 -3.5bps at 97.280, H6 -5.0bps at 97.310, H7 -9.0bps at 97.320, H8 -12.0bps at 97.315. NY Fed RRP op demand at USD 1.7731tln across 86 bidders (prev. USD 1.711tln across 86 bidders).

CRUDE

WTI (K2) SETTLED USD 5.73 LOWER AT 96.23/BBL; BRENT (M2) SETTLED USD 5.57 LOWER AT 101.07/BBL

THE DAY: Oil prices were choppy early on Wednesday, but eventually settled lower, with the tone of trading coming as we headed into the NY morning, as oil turned negative after Bloomberg sources reported US allies are to release 60mln bbls from oil stockpiles to ease prices, adding to the 180mln bbl release announced by US President Biden. As such, it will bring the total amount of oil set to hit global markets to 240mln barrels. Following this, throughout the remainder of the session oil saw gradual, continued losses and hit lows of USD 95.73/bbl and USD 100.54/bbl in WTI and Brent, respectively. Adding tailwinds to the downside seen in the crude complex was the firmer Buck. Analysts at Citi noted 'panic over supplies that followed Russia's invasion of Ukraine and the first cycle of sanctions has eased. EU officials are talking about direct measures to limit Russian oil and gas imports "sooner or later," but no embargo seems imminent.' Elsewhere, Chinese state refiners are honouring existing oil contracts with Russia but are avoiding fresh ones despite steep discounts, according to Reuters sources, highlighting this Sinopec, CNOOC, PetroChina and SinoChem will shy away from trade with Fresh Russian cargoes for May loadings. Finally, UAE's ADNOC set May Murban crude OSP at USD 112.48/bbl, and Gazprom booked capacity for gas shipments to Germany via Yamal-Europe pipeline overnight and on Thursday, according to GSA platform.

US INVENTORIES: The weekly inventory data saw crude stocks post a surprise build of 2.42mln bbls, against an expected -2.1mln bbl draw. Elsewhere, distillates was a surprise build, cushing was a chunky build W/W, whilst gasoline drew -2.0mln bbls, again, a surprise from the expected marginal build. Overall, crude production marginally rose W/W, with refinery utilisation rising +0.4%.

EQUITIES

CLOSES: SPX -0.98% at 4,480, NDX -2.17% at 14,498, DJIA -0.42% at 34,496, R2K -1.30% at 2,016.

SECTORS: Consumer Discretionary -2.63%, Technology -2.55%, Communication Services -2.11%, Materials -1.12%, Industrials -0.76%, Financials -0.66%, Energy +0.54%, Consumer Staples +1.39%, Health +1.55%, Real Estate +1.55%, Utilities +2%.

EUROPEAN CLOSES: Euro Stoxx 50 -2.38% at 3,824; FTSE 100 -0.34% at 7,587; DAX -1.89% at 14,151; CAC 40 -2.21% at 6,498; IBEX 35 -1.64% at 8,482; FTSE MIB -2.06% at 24,447; SMI -0.42% at 12,325.

STOCK SPECIFICS: Banks are considering using Zelle to challenge **Visa (V)** and **Mastercard (MA)**, according to WSJ. The money-transfer service boomed amid the pandemic and some banks want to expand it to retail payments. **Intel (INTC)** suspended operations in Russia. **Array Technologies (ARRY)** posted a solid earnings report, where revenue beat, and the Co. FY22 revenue guidance topped expectations. Moreover, ARRY appoints Kevin Hostetler as CEO, succeeding Jim Fusaro. **Spirit Airlines (SAVE)** confirmed the unsolicited proposal from **JetBlue Airways (JBLU)**. Note, JetBlue bid USD 3.6bln or USD 33/shr to acquire Spirit. JetBlue expects the Spirit deal to be a very long regulatory process but strongly believes can secure antitrust approval; the deal provides a platform that will accelerate the transition to new engine technology. **Rivian (RIVN)** said it was on pace to achieve its previously stated production target of 25k EVs this year. **Tilray (TLRY)** reported a surprise profit for the latest Q, despite revenue falling beneath consensus. Spruce Point issued a Strong Sell opinion on **Stryker (SYK)**. **McDonald's (MCD)** Canada introduced its first-ever EV to the distribution fleet. **Toyota's (TM)** Woven Planet has joined **Tesla (TSLA)** in trying to advance self-driving technology without expensive sensors such as lidars, according to Reuters. **Google (GOOGL)** reportedly banned apps with hidden-data harvesting software, according to WSJ. **Tesla (TSLA)** is about to hold its 'Cyber Rodeo' event for the Gigafactory Texas opening Wednesday, and it might unveil a few surprises, reports Electrek. New York attorney general called on **JPMorgan Chase (JPM)**, **Bank of America (BAC)**, **US Bank (USB)**, and **Wells Fargo (WFC)** to eliminate all overdraft fees. SEC is investigating how **Amazon (AMZN)** disclosed business practices and the Cos. use of third-party sellers' data is a focus of the regulator's probe, according to WSJ citing sources.

FX WRAP

DXY started Wednesday firmer and posted a fresh YTD peak in the early hours, but it soon retraced these gains to lows of 99.314, irrespective of further bear-steepening in USTs and broad risk aversion that might have been supportive from a safe haven standpoint. However, fresh highs were printed in wake of the hawkish FOMC minutes. The minutes noted participants generally agreed to monthly caps of roughly USD 60bln for Treasury securities and USD 35bln from holdings of MBS, while many participants would have preferred a 50bp move in march but the Ukraine war averted their decision. Many participants also said that one or more 50bps increases in the target range could be appropriate at future meetings, particularly if inflation pressures remain elevated or intensified. The minutes saw the DXY rise to new YTD highs of 99.778. Looking ahead there are few major catalysts left on the weekly schedule, but on Thursday Bullard (voter) and Evans (2023 voter) are on the docket.

EUR and **GBP** were the relative G10 outperformers against the Buck on Wednesday but were flat nonetheless after the hawkish minutes. For Sterling, analysts note the minutes emphasise the diverging Fed-BoE rate outlook supports further GBP weakness. Cable hit lows of 1.3046, with technicians noting support at 1.3036, which is the March 16th low, and beneath that 1.30 on the nose which is the 2022 low. For the EUR, ECB speak was mixed as Wunsch towed a more hawkish line than Lane or Panetta, whilst on the data front Eurozone construction PMIs slowed across the board. Market participants will turn their attention to Thursday's ECB minutes, whilst there is the ECB rate decision next week.

Activity currencies were notably lower. AUD underperformed, with losses close to a percent, while the CAD and NZD saw similar losses. The Loonie was undermined by the fall in the crude complex, as by settlement WTI had sunk in excess of USD 5/bbl, which began earlier in the session after the IEA announcement that it tapped 120mln barrel reserve release. On the data front, Canadian Ivey PMI printed 74.2, massively surpassing the expected 60.0. In terms of level, USD/CAD hit a low of 1.2480, but the Loonie could not hold beneath 1.2500, and later rose to highs of 1.2558. For the Aussie, there was little in terms of market stimulus which was behind the underperformance, but more a retracement which could not repeat Tuesday's exploits even with the added incentive of hawkish talk from RBA's Kent and Bullock to compound the shift in guidance from patient to a more prepared state to start normalisation. Regarding key levels, AUD /USD slipped beneath its 10DMA to lows of 0.7487, whilst NZD/USD similarly fell underneath the pivotal 0.6900, albeit only briefly. Across the pond, attention lies on the Australian AIG services index for March.

Safe havens were lower with CHF underperforming the JPY. For the respective safe-havens, desks note the worsening sentiment on yield, stagflation and general Russia-Ukraine war-related factors cushioned the Yen to a degree, but the Franc struggled for the large part of Wednesday's session due to divergence and perhaps some SNB action to curb the retracement in Eur/Chf towards 1.0100. USD/JPY briefly topped 124.00 to the upside, but never sustained the momentum to go further whilst USD/CHF topped out at 0.9350 on the nose.

EMFX was mixed. BRL and MXN were firmer and outperformed, whilst RUB was lower, and TRY was flat. Away from these, NBP did not hold back as it tightened 100bps, more than the expected 50bps, and the most hawkish call of a 75bps hike. Moreover, the accompanying statement highlighted the risk of CPI staying above target over the monetary policy horizon and reaffirmed a willingness to intervene in FX. On the opposite side of the spectrum, a deeply sub-50 Chinese Caixin PMI raises the probability of some form of easing and China's Cabinet acknowledged that new pressure on the domestic economy is increasing. Hence, it will roll out policies to stabilise market expectations in a timely way, according to State Media, including the use of various monetary policy tools at a proper time and flexibly.