US Market Wrap

7th April 2022: Stocks mixed, Treasuries steepen with Fed and Geopolitics in focus

- **SNAPSHOT**: Equities mixed, Treasuries mixed, Crude down, Dollar up.
- **REAR VIEW**: Lavrov said Ukraine presented Russia new draft agreement, but are unacceptable on Crimea and Donbas; Ukraine noted Lavrov is not directly involved and statements are of "purely propagandistic significance"; Hawkish ECB minutes; Bullard said FFR of around 3.5% needed to fight high inflation and nodded to May balance sheet reduction; IJC printed a new-cycle low; HPQ surged on BRK 11.4% stake; CAG disappointing guidance.
- **COMING UP**: **Data**: Canadian Labour Market Report **Speakers**: ECB's Panetta.

MARKET WRAP

Equities finished the day green although the Russell was the laggard in the red while growth outperformed value but the S&P was the outperformer on the closing bell sparked by an afternoon rally. There was no specific catalyst for the afternoon rally although perhaps the recent selling pressure had been over done with key risks out the way with the FOMC minutes now behind us, although market attention will turn to US CPI next week. Initial Jobless Claims saw a strong improvement although it garnered little market reaction. The Treasury curve continued to steepen with steepeners piling on in wake of remarks from Bullard who also gave the nod to a May balance sheet reduction, noted by a couple of definitions the Fed is "behind the curve", while also calling for FFR at 3.5% by H2 22. Geopolitics remains fluid, Russian Foreign Minister said Ukraine presented a new draft agreement to Russia on Wednesday but they are unacceptable on Crimea and Donbas. Elsewhere, the ECB minutes was deemed as hawkish where a large number of members held the view high inflation and its persistence called for immediate further steps, while some members preferred to set a firm end date for APP net purchases in the Summer, clearing the way for a possible rate rise in Q3. Oil prices continued their collapse on Thursday to see Brent fall beneath USD 100/bbl for the first time since March 17th, helping ease inflationary /recessionary concerns. In stocks, sectors are mixed with Real Estate, Communication Services, Utilities and FInancials lagging while Health Care, Energy, Consumer Staples saw strong gains - Tech and Consumer Discretionary also closed green after recent underperformance. HP Inc (HPQ) surged after Buffet disclosed a stake while Conagra Brands (CAG) and Constellation Brands (STZ) closed well in the green despite disappointing guidance.

CENTRAL BANKS

FED: **Bullard (2022 voter, 50bps dissenter)** said even with financial markets tightening, the Fed remains behind the curve in the inflation fight, adding even a generous reading of monetary policy rules show FFR of around 3.5% is needed to fight high inflation, a level he would like to reach in H2 22. Bullard added it is important the Fed now ratify the guidance it has given with interest rate increases at coming meetings. Bullard, in fitting with the minutes, said the Fed is about to start asset run-off at the May meeting, adding he will "lean into" a 50bps hike in May, but he is watching the data. Bullard suggests most of the balance sheet decision is already priced in and there is no reason for it to influence the pace of rate hikes and he does not think the Ukraine conflict should be a reason to avoid taking action on US inflation. Bullard was concerned about affordable housing with demand high and supply having trouble keeping up. On the labour market, he said it is not clear how the US will meet labour demand as he does not expect recent retirees to return and others may be slow in coming back. **Bostic (2024 voter)** said it is going to take longer than he thought for supply chain issues to resolve. Bostic added it is fully appropriate we move policy closer to neutral but to do so in a cautious way and he favours moving Fed policy to neutral in a 'measured way'. **Evans (2023 voter)** said we are probably going to get to the neutral setting by the end of this year or early next. He is optimistic we can get to neutral, look around and think there's not much more to go. Evans added the Fed is trying to be careful, noting you do not want to preempt the best possible labour market we can achieve.

ECB MINUTES: The account of the March meeting focused on the initial fallout from the Russian invasion of Ukraine and the need to recalibrate monetary policy in the midst of rampant inflation. On the former, there was broad agreement on the direction of the initial effects of the war on the euro area economy, namely upwards on inflation and downwards on economic growth, which was best characterised as yet another negative supply shock. It was noted that this could have inflationary or disinflationary impacts in the longer term. On inflation, the Governing Council judged that it could no longer afford to look through higher inflation, even if it was driven by an adverse supply shock. As such, a large number of members called for immediate further steps towards monetary policy normalisation. Therefore, the view was taken that APP purchases had by now fulfilled the stated objective of reinforcing the monetary policy accommodation provided by the ECB's negative interest rates. On rates themselves, the decision was taken to de-link the date of an initial rate rise from the duration of asset purchases on the basis that it would provide the Governing Council with optionality and flexibility. As such, any adjustments to the key ECB interest rates will take place "some time after" the end of net asset purchases under the APP. The reference to "some time" conveyed the notion that the time interval between the end of net asset purchases and lift-off was not predetermined. The account provided insight into the decision-making process at the time, however, the developments in the Ukraine/Russia conflict, the above-expected March inflation print and comments from policymakers at the Bank suggest that the landscape has continued to evolve ahead of next week's meeting. Commentary this week has shown a divide between the doves and the hawks on the Governing Council with Wunsch calling for the deposit rate to hit 0% by year-end, whilst Panetta suggested that asking the ECB to bring down high inflation in the near-term would be extremely costly. In the minutes, it also noted that among those calling for action at the meeting, "some members preferred to set a firm end date for APP net purchases during the summer and not to make that date conditional on unfolding events", which could clear the way for a possible rate rise in Q3. However, others expressed a preference for adopting a wait-and-see approach at the present meeting in view of the exceptionally high uncertainty created by the Russia-Ukraine war.

GLOBAL

UKRAINE/RUSSIA: The situation between Ukraine/Russia remains fluid, the focus centred around Russian Foreign Minister Lavrov's comments who said Ukraine presented a new draft agreement to Russia on Wednesday, different from Istanbul ones, but they are unacceptable on Crimea and Donbas. Following this, Ukraine negotiator Podolyak dismissed Lavrov's comments, suggesting Kyiv presented Moscow with a draft peace deal that contained unacceptable elements. Podolyak added Lavrov is not directly involved in talks and therefore his statements are of "purely propagandistic significance" and should be seen in the light of Russian efforts to divert global attention from events in Bucha. Moreover, Lavrov continued Russia will maintain talks with Ukraine, promoting its own agreement, but Ukraine is trying to stall and undermine Russia talks. However, once again in a contradictory tone, Podalyak replied by saying Russia talks must continue to prevent more atrocities, with the battle for Donbas underway with heavier fighting every day. Further on talks, moving onto the respective Presidents, Putin has discussed Ukraine peace talks with the Russian security council, and has also discussed Russian military operations in Ukraine, while Zelenskiy said Russian leadership is not serious about peace talks. Lastly, the US congress voted to ban Russian oil imports and revoke Russia's trade status, while the Kremlin declared Russia will respond to the latest US sanctions, and that the US sending weapons to Ukraine is not contributing to the success of peace talks.

US/CHINA: After reports House Speaker Pelosi was set to visit Taiwan in her trip to Asia, China warned the US it would take strong measures if she visited Taiwan adding that any such visit would severely impact US/Sino relations. The possible visit was not confirmed, but she is expected to take a trip to Asia, although after she tested positive for COVID-19, that trip is to be delayed. China's Foreign ministry strongly opposed any interaction between Taiwan and the US and said the trip should be cancelled.

US JOBLESS CLAIMS: Initial jobless claims fell to 166k from the prior 171k, which was revised lower from 202k, and also beneath the expected 200k. Continued claims rose to 1.523mln (prev. 1.506mln) and exceeded the consensus of 1.311mln. Looking at the data, Pantheon Macroeconomics notes, 'the revision to last week's reading is so large because of the annual revisions to the seasonal adjustments.' On this, during the pandemic, Pantheon adds, 'the seasonal methodology changed to try to address the huge swings in the numbers, but the Labor Department now judges that the distortions have faded to the point where the prior process can be reinstated.' As a result of this change, the result of the revisions is that initially reported surge in claims last fall, and the subsequent drop, have been greatly smoothed. Moreover, the consultancy notes, the new data reveals that the sliding trend has been steadier since the waning COVID Delta wave, but it is now slowing. As such, claims cannot fall to zero; as some firms struggle even at the peak of booms. Pantheon concludes, the obvious note here is that the bar for layoffs is extremely high, due to the extreme tightness of the labor market.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 4+ TICKS LOWER AT 120-17+

Post FOMC minutes steepening continues after Bullard comments while falling oil prices helps ease inflationary /recession fears. At settlement, 2s -3.6bps at 2.466%, 3s -2.4bps at 2.658%, 5s -0.5bps at 2.699%, 7s +2.9bps at 2.726%, 10s +4.7bps at 2.656%, 20s +5.6bps at 2.869%, 30s +5.6bps at 2.688%. 5yr TIPS -2.1bps at -0.484%, 10yr TIPS +10.8bps at -0.181%, 30yr TIPS +10.6bps at 0.204%, 5yr BEI +0.0bps at 3.232%, 10yr BEI +0.7bps at 2.850%, 30yr BEI +0.7bps at 2.487%.

TOKYO/LONDON: The rebound that started ahead of the FOMC Minutes on Wednesday continued overnight to see 10yr T-notes hit a high of 121-06+ in the European morning. There was a kneejerk lower in Treasuries at midday on brief optimism signalled on Russia/Ukraine talks after new proposals were presented by Ukraine to Russia, although Lavrov said shortly after they are unacceptable on Crimea and Donbass, completely unwinding the initial risk-on move. The curve was steeper across major spreads with outperformance in notes in the short-end and belly while longer end bonds were slightly lower. Bunds were higher as they tracked the move in Treasuries although peripherals were outperforming ahead of the ECB minutes, although in wake of the release Bunds sold off across the curve, particularly in the short end in a hawkish reaction. However, little new was mentioned but price action appears to be driven by commentary that a large number of members held the view current high level of inflation and its persistence called for immediate further steps toward monetary policy normalisation. Nonethless, it was argued they can afford to be patient due to stable long-term inflation expectations. The minutes also noted some wanted to set a firm date for the end of APP net purchases during the summer which could clear the way for a possible hike in Q3. The move in bunds did see a follow through to USTs, taking 10yr yields back into positive territory.

NEW YORK: The curve remained steeper throughout the session with the 30yr yield rising above 2.72%, levels not seen since May 2019. The 10yr also saw the highest level since March 2019 and was unphased by a call from Barclays, which appears to be the first bank to recommend going long 10yr Treasuries, suggesting the balance sheet runoff from the Fed is already fully priced. Note, Fed's Bullard said most of the balance sheet decision is already priced in and there is no reason for it to influence the pace of rate hikes. Steepening extended after Bullard said he was calling for FFR at 3.5% in H2 22 while suggesting by one definition the Fed is still behind the curve but via another definition, it is not as far behind as it may seem. Bullard also gave a nod to a May start on the balance sheet, in fitting with the FOMC minutes. There was a pause in the steepening as oil prices tumbled to see both WTI and Brent back beneath USD 100/bbl which helped ease some recession/inflationary fears. Treasuries had been selling off throughout the afternoon printing fresh lows from overnight as the risk tone improved in the US with the S&P returning to positive territory after heavy selling pressure this week. Some pressure could also be due to supply next week where the US is to sell USD 46bln of 3yr notes on April 11th, USD 34bln of 10yr notes on April 12th, and USD 20bln of 30yr notes on April 13th, albeit all was as expected.

STIRS: At settlement, EDM2 +0.5bps at 98.355, U2 +2.0bps at 97.665, Z2 +3.0bps at 97.150, H3 +4.5bps at 96.845, M3 +5.5bps at 96.640 U3 +5.5bps at 96.645, Z3 +6.0bps at 96.755, H4 +6.0bps at 96.875, M4 +4.5bps at 96.960, U4 +3.5bps at 97.015, Z4 +2.0bps at 97.055, Z5 -2.5bps at 97.260. NY Fed RRP op demand at USD 1.734tln across 85 bidders (prev. USD 1.731tln across 86 bidders).

CRUDE

WTI (K2) SETTLED USD 0.20 LOWER AT 96.03/BBL; BRENT (M2) SETTLED USD 0.49 LOWER AT 100.58/BBL

Oil prices on Thursday trundled lower throughout the NY session in line with the fading risk sentiment throughout markets, highlighted by stocks initially deepening their losses which seemed to be the signal for the crude complex. However, towards the latter end of the session WTI and Brent came off lows, but still in the red, in line with stocks moving into positive territory. WTI and Brent saw lows of USD 93.81/bbl and USD 98.41/bbl, respectively, with the latter falling through USD 100/bbl, for the first time since March 17th. Furthermore, the IEA released the contribution details to the 120mln barrel release, and as such Japan is to release 15mln/bbl, while the UK 4.41mln, Germany 6.48mln, and France 6.05mln bbls. For the full breakdown, please click here. For clarity, this takes total supply to the market at 240mln bbls, with 180mln bbls from the US and 60mln from the US allies within the IEA. 60mln of the US' 180mln release is part of the IEA's 120mln release overall. Following this, India said it was examining ways to support decisions by IEA member countries to release crude from their national inventories to help ease rising prices globally. Elsewhere, according to the industry ministry, China is to strictly control new production capacity in oil refining industry. Moreover, Deputy PM Novak said Russian oil output is to fall by 4-5% in April/March and Russia will cut oil refining volumes in April. Additionally, Russian Foreign Minister Lavrov said the Government sees it fit to move settlement in Chinese Yuan in sales oil and coal to China.

EQUITIES

CLOSES: SPX +0.44% at 4,500, NDX +0.23% at 14,531, DJIA +0.25% at 34,583, R2K -0.50% at 2,007.

SECTORS: Health +1.86%, Energy +1.36%, Consumer Staples +1.18%, Materials +0.63%, Consumer Discretionary +0.39%, Industrials +0.31%, Technology +0.23%, Financials -0.1%, Utilities -0.25%, Communication Services -0.73%, Real Estate -0.86%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.59% at 3,802; FTSE 100 -0.47% at 7,551; DAX -0.52% at 14,078; CAC 40 -0.57% at 6,461; IBEX 35 -0.17% at 8,467; FTSE MIB -0.59% at 24,302; SMI +0.42% at 12,372.

STOCK SPECIFICS: **Conagra Brands (CAG)** earnings for the Q were more-or-less inline, but issued a weaker-than-expected forecast for FY22. CAG noted results are being hit by higher transportation and raw materials costs. **Levi's (LEVI)** beat on EPS and revenue; noted strong consumer demand and solid momentum in Q1. Reiterated FY22 adj. EPS and revenue view. CFO said GMs started the year very strong, and are "up big time" Y/Y. **HP (HPQ)** surged after a filing showed **Berkshire Hathaway (BRK)** had accumulated an 11.4% stake in the company worth USD 4.2bln. **CDK Global (CDK)** is to be acquired by Brookfield for USD 54.87/shr in cash or USD 8.3bln. Note, CDK closed Wednesday night at USD 48.99/shr. **SoFi Technologies (SOFI)** cut guidance due to President Biden's directive to extend federal student loan payment moratoriums from May until the end of August. **JD (JD)** appointed President Xu Lei as CEO, replacing founder Richard Liu, who will remain chair. **Rite Aid (RAD)** slumped over 17% after it was downgraded at Deutsche Bank to “Sell” from “Hold”; said COVID hurried the decline of the retail pharmacy segment, and there’s a possibility that Rite Aid may not be able to generate enough earnings to continue as an operating company. **General Motors (GM)** is looking to boost production of its all-electric Hummer amid high demand, according to CNBC. **Delta (DAL)** cut Detroit and Seattle flights to Shanghai until April 11th and suspends four weekly Shanghai flights on COVID lockdowns. **Amazon (AMZN)** union won a decisive victory at the Staten Island facility, where Co. previously had until April 8th to appeal the result. **Accenture (ACN)** affirmed FY22 adj. EPS view of USD 10.61-10.81 (exp. 10.80). **Toyota (TM)** will join **Tesla (TSLA)** and General Motors (GM) in losing EV tax credit after it reaches sales cap, which is expected to be hit before the end of June. **Ford (F)** fell 2.8% after Barclays downgraded the stock to 'Equal Weight' from 'Overweight'; said the ongoing semiconductor shortage will keep Ford from rebounding after a rough start to 2022.

FX WRAP

The Dollar was eventually bid on Thursday after being choppy throughout the session as it appeared to take its lead from the yield environment whilst analysts also note the initial dollar pullback was also influenced by two-year Treasury yields, which corrected after hitting their highest since January 2019 on Wednesday, and as short and long-term index resistance came into play. Nonetheless, the Buck firmed but within a contained range, 99.390 and 99.833, on the back of the hawkish FOMC minutes on Wednesday. Thursday was more-or-less deja-vu from Wednesday, as the Greenback posted yet another YTD high, 99.833, but failed to test 100.00. Lastly, the Buck also saw strength on the back of Fed’s Bullard (voter) comments who said even a generous reading of monetary policy rules show FFR of around 3.5% needed to fight high inflation. Note, there was a brief blip of weakness earlier in the session on commentary from Russian Minister Lavrov that Ukraine presented a new draft agreement to Russia on Wednesday that were different to the ones in Istanbul, although the leg lower pared immediately after Lavrov noted proposals on Crimea and Donbas are unacceptable. There had also been some pressure after the ECB minutes which saw the Euro catch a bid while German yields, particularly the short end, had risen.

Antipodeans and the CAD were the G10 underperformers, all seeing similar losses against the Buck. Newsflow was thin for the aforementioned currencies, but the Loonie saw headwinds from the crude complex, where Brent dipped beneath USD 100/bbl for the first time since March 17th, and as such USD/CAD hit highs of 1.2611, surpassing the pivotal 1.2600 level, with technicians noting the cross breached the 21 DMA of 1.2589, but not quite 200 DMA of 1.2620. However, technicians do note if the cross passes above 1.2637, the 50% Fib of 1.2872-1.3404 momentum shifts to bulls. For the antipodes, the Aussie continued to reverse from its gains seen in the wake of the hawkish RBA, as AUD /USD broke beneath 0.7500 to lows of 0.7468, whilst the Kiwi could not hold onto support at 0.6900, to hit a bottom of 0.6882.

Safe-havens were mildly softer with both CHF and JPY posting mild losses against the Dollar. For the Yen, the BoJ continues to give Yen bears the go ahead, as long as they sell in a measured manner, although USD/JPY was capped by more supply at 124.00 that forms one of the triggers for Japanese exporters to implement hedges, whilst desks note the mild USD/JPY gains amid the rising 10-yr & falling 2-yr Tsy-JGB yield spreads. Overnight market participants will be on the look out for Japanese current accounts for February and March consumer confidence. CHF weakness occurred towards the end of the session as the risk appetite in US equities improved.

EUR was more-or-less flat on Thursday, but the single-currency did derive some impetus from the ECB’s minutes which were framed as hawkish. On the minutes, the catalysts were probably that a large number of members held the view that the current high level of inflation and its persistence called for immediate further steps towards monetary policy normalisation plus it was argued that, for all practical purposes, the three forward guidance conditions for an upward adjustment of key interest rates had either already been met or were very close to being met. Elsewhere, there were many chunky option expiries at the NY cut above the 1.0900 mark, while market participants attention on Friday will turn to ECB’s Panetta. GBP was the G10 outperformer, but still flat against the Buck, as the cross traded within tight parameters of 1.3106-1.3053

EM’s were mixed, highlighted by BRL and ZAR underperforming and softer against the greenback, while MXN, RUB saw gains against the Buck, as was TRY. For the BRL BCB Chief Neto said core inflation, despite being very high is a little better than of emerging peers, and the conflict in Ukraine is much larger than initially thought and have a supply shock mainly arising from the energy problem. Moreover, on USD/BRL, a Reuters poll noted the cross is expected to rise 10.8% to 5.22 in 12 months, albeit it is stronger than the 5.40 reported in the March poll. Penultimately, Banxico minutes derived little impetus for the Peso where the minutes noted all members stated that geopolitical conflict intensified inflationary pressures worldwide, whilst a Reuters poll said the MXN is expected to depreciate 2.7% to see USDMXN at 20.60 in 12 months, but stronger than the 21.2250 poll in March. Lastly, NBP's Glapinski declared further strengthening of the Zloty will be in line with economic fundamentals and high inflation is a threat to economic growth.

The Rouble continues its recovery momentum from the losses seen since the start of the war in Ukraine, which comes amidst the backdrop of further worsening of Russia/Ukraine rhetoric where on Thursday both sides claimed that the other is not serious about negotiating a ceasefire agreement. Additionally, Russian Finance Minister stated, together with the CBR, they are working on measures to make the RUB more predictable and less volatile. The White House reminds us that it's important to note that the Russian Central Bank is making extreme policy decisions to artificially prop up the rouble by barring banks from selling dollars to customers and Russian brokerages are not allowing foreign clients to sell securities while exporters are being forced to sell 80% of their dollar revenues and buy roubles.