US Market Wrap

8th April 2022: Rise in yields hits large-cap and growth stocks as eyes turn to US CPI

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW**: Ukraine said negotiations with Russia continue constantly, but the mood changed after Bucha events; ECB is reportedly crafting a crisis tool if bond yields jump; CBR cuts rates to 17% and is to relax some FX regulation rules; LPPM suspends Russian refineries from its good delivery lists; Kremlin does not understand EU concerns with European countries paying for Russian gas in RUB; Canadian jobs slightly short of expected; FB struggling to develop own chips, will use QCOM.
- **CENTRAL BANK WEEKLY**: Previewing ECB, BoC, RBNZ, BoK; Reviewing FOMC minutes, RBA, RBI, CBR. To download the report, please click here.
- **WEEK AHEAD PREVIEW**: Highlights include US CPI, Retail Sales; ECB, BoC, RBNZ; French Presidential Election; China data. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [WED] BLK, JPM; [THURS] TSM, UNH, WFC, GS, MS, C. To download the full report, please click here.

MARKET WRAP

Equities were mixed in quiet newsflow on Friday with the Dow Jones up, S&P and Russell down with the Nasdaq underperforming while Growth (IVW) names lost 1% while Value (IVE) stocks were bid - the equal weighted S&P (RSP) closed slightly firmer. There was no tier 1 data or Fed speak on Friday, but the price action was driven by the yields which were firmer across the curve to see 10 and 30yr yields print fresh cycle highs which also supported the Dollar index to help it briefly rise above 100 for the first time since May 2020. Crude prices were bid as Brent reclaimed USD 100/bbl, despite the initial upside in the greenback with a pre-settlement rally buoying the complex as we head to the weekend. Attention remains on geopolitics and Fed speak, although next week's March CPI data will be key in gauging Fed expectations for both the rate path and balance sheet, although a lot of the details of the balance sheet were revealed in this week's FOMC minutes. The latest geopolitics saw the EU announce their sanctions on Russian oligarchs and President Putin's family members, in fitting with action with allies. Meanwhile, the CBR started to reverse some key measures by cutting its key rate to 17% from 20% while it also relaxed some FX regulation rules. The ECB rate decision is next week, while the latest sources on Friday suggested the Central Bank is crafting a crisis tool if bond yield jump, but it is still in the design stage and it is yet to make up its mind if the backstop would be unveiled pre-emptively, but it did provide support to EZ bonds. Note, Palladium surged after the London Platinum and Palladium Market suspended Russian refineries from its good delivery lists.

GLOBAL

GEOPOLITICS: Ukraine/Russia updates were of less frequency on Friday, but nonetheless from what we heard were still of a very pessimistic tone and continues to emphasise the ever-worsening relations. Firstly, on attacks, Ukraine said at least 50 people are dead and dozens wounded after rockets hit a train station in the city of Kramatorsk in eastern Ukraine, when thousands of people were at the station at the time as they fled Russian attacks. Following this report, Russia denied involvement, with a Kremlin spokesman saying its forces had no scheduled missions in the area, and added its special operation in Ukraine could be completed in the foreseeable future, given aims are being achieved and work is being carried out by peace negotiators and the military. On talks, Ukrainian official Podolyak said negotiations with Russia continue online constantly, but the mood changed after the Bucha events. Moving to sanctions, according to a Bloomberg reporter, “EU has already started working on the 6th package -- and I really struggle to see how further energy sanctions can be avoided. Next objectives could be uranium and/or oil sanctions (perhaps monthly reductions, tariffs or escrow accounts, or a combination)". Moreover, the EU added Sberbank Chief Gref and other oligarchs to the sanctions list as well as Russian President Putin's daughters. Lastly, the Kremlin noted it does not understand EU concerns about European countries paying for Russian gas in Roubles, and adds EC President von der Leyen probably needs more information. While on the planned EU ban of Russian coal, declared coal is in high demand.

CANADA JOBS: Canada jobs fell slightly short of expectations in March at 72.5k, beneath the 80k expected, albeit it is nothing to worry about given the large jump in February. All the gains were made by full-time employees but part-time employees declined by 20.3k, leaving the full-time job gains at 92.7k. The unemployment rate fell to 5.3% from 5.5%, in line with expectations while the participation rate was unchanged at 65.4%, as expected. Wages rose to 3.7% from 3.3%. The jobs report comes ahead of the BoC next week where it is expected to hike rates by 50bps, although there is some risk of a 25bps move. The March jobs report will likely do little to influence the BoC given the jobs market has been above pre-pandemic levels for quite some time while their main focus is on bringing inflation back to target. However, the rise in wages could trigger some wage-price spiral concerns. Analysts at RBC write "With (extremely) tight labour markets and above-target inflation, there is no reason for the Bank of Canada to leave interest rates at emergency low levels. We look for the central bank to hike rates next week to build on a 25 basis point increase in March, with a 50 basis point hike this time more likely."

FIXED INCOME

T-NOTE FUTURES SETTLED 13+ TICKS LOWER AT 120-04

Treasuries sold off throughout the session while early flattening was reversed to see major spreads steeper, albeit only slightly ahead of US CPI and supply next week. At settlement, 2s +6.2bps at 2.524%, 3s +8.2bps at 2.734%, 5s +7.3bps at 2.764%, 7s +7.1bps at 2.792%, 10s +6.9bps at 2.723%, 20s +8.1bps at 2.950%, 30s +6.4bps at 2.753%. 5yr TIPS -0.2bps at -0.495%, 10yr TIPS +2.8bps at -0.157%, 30yr TIPS -1.7bps at 0.189%. 5yr BEI +7.1bps at 3.303%, 10yr BEI +4.4bps at 2.896%, 30yr BEI +8.7bps at 2.568%.

TOKYO/LONDON: Treasuries were sold overnight on lighter volume than recent averages at just over 200k to see 10yr T-note hit a low of 120-03 just after midday London as volume picked up as US players started to arrive. The sell-off was led by the front end of the curve in thin markets to see the curve flatter after pronounced steepening in recent sessions after Fed’s Brainard and the FOMC minutes. There was little major news overnight in thin volumes while the RBA Financial Stability Review reiterated the Central Banks' hawkish shift, by noting it is important borrowers are prepared for an increase in interest rates. European equities had a decent open, playing catch up to the rise in US equities heading into the close on Thursday which likely helped extend some of the Treasury selling.

NEW YORK: The story wasn’t much different after US players arrived with selling pressures continuing to see fresh cycle highs for the 10 and 30yr yields although the long end caught up and major curve spreads turned steeper in afternoon trade, albeit only marginally, but the 2s10s spread steepened by c. 27bps on the week, the most since 2013. The 10yr T-Note printed a low of 119-29 which coincided with a 10yr yield of 2.73%, the highest since March 2019. Treasuries moved off the lows led by a 5k block trade in the 10yr T-note while technicians also highlighted algo selling paused as yields failed to find a sustained break above 2.72% in the 10yr and 2.75% in the 30yr. However, in thin trade Treasuries gradually sold off to settle off session lows with attention turning to US CPI next week to gauge the Fed’s response, alongside US supply in 3, 10 and 30yr paper.

STIRS: Short term interest rates continue to price in a hawkish Fed with Fed Funds Futures pricing in an 85% chance of a 50bps move from the Fed in May after the FOMC Minutes on Wednesday and Fed’s Brainard on Tuesday. Further direction will be sought from US CPI next week. EDM2 -2.5bps at 98.330, U2 -3.0bps at 97.635, Z2 -6.0bps at 97.095, H3 -9.0bps at 96.760, M3 -11.0bps at 96.535, U3 -12.5bps at 96.525, Z3 -13.0bps at 96.630, H4 -12.5bps at 96.755, M4 -11.0bps at 96.855, U4 -10.5bps at 96.915, Z4 -10.0bps at 96.960, Z5 -9.0bps at 97.175. NY Fed RRP op demand at USD 1.750tln across 85 bidders (prev. USD 1.7731tln across 86 bidders).

CRUDE

WTI (K2) SETTLED USD 2.23 HIGHER AT 98.26/BBL; BRENT (M2) SETTLED USD 2.20 HIGHER AT 102.78/BBL

Oil prices were choppy on Friday but were eventually firmer, following a day of rangebound trade as both WTI and Brent traded within a daily range of USD 3.50/bbl amid a spike higher heading into the final settlement of the week. Regarding the week, Brent lost circa USD 2.50/bbl, with highs seen of USD 109.90/bbl, in contrast to lows of USD 98.41/bbl, as it slipped beneath USD 100/bbl for the first time since March 17th, but in contrast to what we have seen in recent weeks, the volatility has somewhat lessened. As a recap, the key highlight for the week was the IEA release, where US allies are to release 60mln bbls from oil stockpiles to ease prices, adding to the 180mln bbl release announced by US President Biden. Nonetheless, back to Friday, catalysts were few and far between as the crude complex lacked general market direction on a quiet Friday. However, it is worth noting Qatar set May marine crude OSP at USD 8.40/bbl premium to Oman/Dubai and land crude at a USD 9/bbl premium, according to pricing documents. Elsewhere, in March OPEC+ production stood at 38.06mln BPD, -190k BPD, according to Argus Media; as such, was 1.48mln BPD below the March target, and was the first production retreat since February 2021. Regarding the fall, the majority of the drop was Nigeria, Kazakhstan and Russia; though, 15/19 members produced below target. Lastly, Baker Hughes Rig Count, (w/e Apr 8th), saw the total rise 16 to 689, with the breakdown of oil rising 13 to 546 and Nat Gas +3 to 141.

EQUITIES

CLOSES: SPX -0.20% at 4,491, NDX -1.41% at 14,327, DJIA +0.40% at 34,721, R2K -0.82% at 1,993.

SECTORS: Energy +2.76%, Financials +1.01%, Health +0.58%, Materials +0.55%, Consumer Staples +0.40%, Real Estate +0.33%, Utilities +0.30%, Industrials -0.6%, Communication Services -0.74%, Consumer Discretionary -0.97%, Technology -1.43%.

EUROPEAN CLOSES: Euro Stoxx 50 +1.48% at 3,858; FTSE 100 +1.56% at 7,669; DAX +1.46% at 14,283; CAC 40 +1.34% at 6,548; IBEX 35 +1.64% at 8,606; FTSE MIB +2.13% at 24,819; SMI +1.21% at 12,521.

STOCKS SPECIFICS: **Meta (FB)** is struggling to develop its own device chips and has decided to go with an alternative chip from **Qualcomm (QCOM)**, according to The Information citing sources. **Intel (INTC)** CEO made a short visit to Taiwan and met with **TSMC (TSM)** to seek additional capacity support, according to DigiTimes. **Spirit Airlines (SAVE)** announced that **JetBlue Airways (JBLU)** proposal could reasonably be likely to lead to a "Superior Proposal" as defined in Spirit's merger agreement with **Frontier (ULCC)**. **CrowdStrike (CRWD)** secured authorisation to protect critical assets of the US DoD, a landmark milestone for its expanding public sector business. **WD-40 (WDFC)** gained ~7% after strong earnings where it beat on EPS and revenue, while YTD sales were tracking +14%. However, WDFC cut its FY22 EPS view and lowered its FY22 gross margin view due to inflationary challenges. **Designer Brands (DBI)** raised FY22 EPS view and is to reinstate a quarterly dividend of USD 0.05/shr. **Tesla (TSLA)** said it will make a dedicated self-driving taxi that will "look futuristic", but no timeframe was provided. Moreover, CEO Musk tweeted they have built and delivered their first Giga Texas production cars and its humanoid will likely be in production next year. **Robinhood (HOOD)** fell over 5% after it was downgraded to “Sell” from “Neutral” at Goldman Sachs. Goldman believes consensus estimates for Robinhood are too high and it sees a high bar for the Co. to achieve profitability in 2023. **Kroger (KR)** saw slight gains following an upgrade at Bank of America, and said elevated food inflation will be among several upside earnings drivers. **Tesla (TSLA)**, **Block (SQ)** and Blockstream team up to mine bitcoin off Tesla solar power plant in Texas, according to CNBC. **AIG (AIG)** is looking at cutting insurance cover for businesses in Russia and Ukraine, according to Reuters sources. **EPAM Systems (EPAM)** surged after Co. said it would terminate its operations in Russia, with Stifel analysts adding they interpreted the decision as “positive as it removes the most visible overhang.” **United Airlines (UAL)** confirmed it has removed **Boeing (BA)** 777 planes with Pratt & Whitney 4000 engines (RTX) from its schedule through May 12th, according to a spokesman. Buyout firms GTCR and Clayton, Dubilier and Rice LLC are looking to acquire **Merit Medical Systems (MMSI)**, according to Reuters sources. Elsewhere for **Tesla (TSLA)**, and mining names, CEO Musk tweeted that "Tesla might actually have to get into the mining & refining directly at scale, unless costs improve." adding, "There is no shortage of the element itself, as lithium is almost everywhere on Earth, but pace of extraction/refinement is slow."

WEEKLY FX WRAP

Central Bank hawks fly, yields soar and curves re-steepen

USD - It took a while, and certainly not at the first time of asking, but the DXY eventually crossed the 100.000 threshold with the thrust of even higher US Treasury yields and significant re-steepening along the curve after several segments inverted quite appreciably earlier in the week. The catalyst, albeit belatedly, was a combination of hawkish Fed rhetoric either side of FOMC minutes that struck the same tone, and in short signalled that rates are set to be hiked faster, starting with a 50 bp rise in May when the balance sheet will begin to unwind at a rapid monthly pace. To recap, Brainard set the ball rolling and her comments were notable as a prior dove, while the account of the last policy meeting revealed that many were close to joining Bullard with a half point hike vote, but only held back due to uncertainty over the impact of Russia’s special military operation in Ukraine. Subsequently, the dissenter himself upped the stakes with a view of what needs to be done to tackle inflation, beyond catching up as he deems the Fed to be well behind the curve, suggesting a terminal rate of 3.5%. Back to the Dollar and index, broad gains were posted ahead of the weekend, as rival currencies caved in, bar the Rouble somewhat strangely given the fact that the invasion continues and the CBR slashed Russia’s key rate by 300 bp. The DXY reached 100.190 compared to a 98.517 low, while 10 year cash hit 2.73% vs 2.37% or so at one stage.

NZD - The Kiwi bore the brunt of Friday’s Greenback exploits, but could get a fillip if the RBNZ decides to go 50 bp rather than the expected 25 bp next week as some pundits are anticipating. Prior to that, Nzd/Usd will be looking for anything constructive from NZIER Q1 confidence and cap u tonight as the pair hovers sub-0.6850 and down some 200 pips from best w-t-d levels.

AUD/GBP/JPY - Tuesday’s hawkish RBA hold and follow-up hawkish remarks from Deputy Governors Kent and Bullock seem a long way back for the Aussie that is struggling to keep sight of 0.7450 vs its US peer having topped 0.7660 at the other end of the spectrum. In fact, even a warning in the latest FSR to borrowers overnight along the lines of ‘be prepared’ for higher interest has hardly helped to prop up Aud/Usd. Elsewhere, Sterling lost all traction from better than expected UK PMIs, as it tumbled from around 1.3166 to circa 1.2982, but the Pound remains on course to outperform the Euro over the course of the week on balance as Eur/Gbp sits much closer to 0.8308 than 0.7430. Conversely, the Yen lost out on both counts, and with tacit approval from the BoJ, if not Japan’s MoF or import sector, as intervention to uphold the 10 year JGB ceiling continued and currency jawboning stuck to the speed of moves rather than the value. Hence, Usd/Jpy is nearer the upper end of 124.67-122.27 parameters and Eur/Jpy back over 135.00 within a 135.68-134.30 range.

CHF/EUR/CAD - The Franc took note of a big rise in sight deposit accounts at Swiss domestic banks before tracking Dollar moves in sync with UST-Conf differentials and Fed-SNB divergence, but gradually rebounded vs the Euro on risk grounds related to the ongoing war and French political uncertainty. Usd/Chf is in familiar terrain around 0.9350 vs a 0.9238 nadir and 0.9374 pinnacle, while Eur/Chf is well below 1.0200 having been down to 1.0132 and up at 1.0240. However, the single currency is staging a late comeback amidst source reports about the ECB crafting a crisis tool to deal with a jump in yields that appears rather strange given the fact that cash rates have already bolted and minutes published only yesterday were widely perceived to be on the hawkish side. For the record, two lines in the very lengthy account of the GC meeting stood out, including the one about a large number of members holding the view that the current high level of inflation and its persistence called for immediate further steps towards monetary policy normalisation. Additionally, 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, though this was offset by the caveat that even if the forward guidance criteria could be assessed as being met, uncertainty was high at the current juncture and fulfilment of the criteria was a necessary but not sufficient condition for a first hike in policy rates. On top of all that, polls are pitting current French President Macron against Le Pen in an increasingly tight decider on April 24 even before the first round of votes have been cast this Sunday, and her less ‘market friendly’ or not as well known agenda is keeping Eur/Usd depressed within a 1.1054-1.0837 band (along with technical impulses etc). On the flip-side, the Loonie might have run out of crude power, but the charts are providing some underlying traction along with a solid Canadian LFS that would have come with a better than consensus headline payroll tally if permanent placements were not accompanied by a decline in part time jobs. Usd/Cad is holding just beneath 1.2600 having respected the 200 DMA (at 1.2622 today), albeit well above the 1.2404 base that represented a fresh 2022 trough.

SCANDI/EM - A bounce in Brent off the psychological Usd 100/brl mark, or reclaim of the psychological level to be more precise, and buoyant risk appetite in general have underpinned the Nok more than the Sek as the week bows out. Nevertheless, the latter was also given a boost by Riksbank’s Floden along the way as the first Board member to openly say that rates need to be upped much sooner than previously planned given higher and longer-lasting price pressures and heightened risk of inflation overshooting official forecasts. Note, March data is due for release next Thursday. Conversely, a clean sweep of sub-50 Chinese Caixin PMIs and other evidence of a Covid-compounded slowdown in the economy has fanned further speculation about easing and stimulus, such as a Q2 PBoC RRR cut, while the CBRT remains sidelined as Turkish CPI and PPI continue to soar along with year-end inflation expectations, in stark contrast to CEE and Latam Central Banks that remain firmly in tightening mode. Indeed, the NBP opted to jack rates up by a full point vs the 50 bp expected and +75 bp hawkish side of the range.