US Market Wrap

11th April 2022: Steeper yields weigh on risk ahead of CPI; China's lockdown dims global growth outlook

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up
- **REAR VIEW**: Evans says 50bps is worth considering and highly possible; unconfirmed reports suggest Russian use of chemical weapons; lacklustre 3yr auction; AMZN issues USD 12.75bln seven-part debt offering; Musk no longer joining TWTR board.
- **COMING UP**: **Data**: German CPI & ZEW, UK Unemployment/Claimant Count, US CPI **Speakers**: Fed's Barkin & Brainard **Supply**: Netherlands, UK, Germany & US **Earnings**: LVMH.
- **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

Stocks were lower Monday with the NDX leading the losses in major indices, weighed on by rising yields. The index futures spent most of the NY session hovering at lows, eking out new troughs in late trade. Energy led the weakness in sectors with oil tumbling, while Industrials outperformed (relatively) at the unchanged mark. The spec asset weakness extended into the crypto space with Bitcoin falling back beneath USD 40k for the first time since mid-March. Treasuries reversed their APAC session bear-flattening into the NY session as Amazon's (AMZN) seven-part debt offering added to the duration-heavy, Treasury supply this week. 2s10s tested +30bps, where it hasn't been since early March, capped by the lacklustre 3yr auction. However, EGBs remained pressured throughout the whole session in wake of the French election uncertainty. US inflation breakevens were wider despite the oil tumble as participants position for another high-single-digit headline CPI print on Tuesday. No signs of easing in China's no COVID/lockdown policy continues to hit the cyclical commodity demand outlook, seeing Brent settle beneath USD 100/bbl for the first time since mid-March. The downbeat risk tone saw precious metals prosper – Gold and Silver spent time above USD 1950/oz and 25.00/oz, respectively – and the Swissy catch a bid, although the Yen found no respite as the freefall continued to see USD/JPY make new highs above 125.00. DXY was slightly firmer with EUR/USD flat, although the Euro prospered against most cyclical/commodity currencies.

US

FED: Fed's Evans (2023 voter) stated the Fed needs to position monetary policy much closer to neutral, a rate that he sees between 2.25-2.5% (Fed median 2.4%). Evans said he had thought we would be at neutral by March 2023 but if we got there by December that would be okay too (current Fed median view sees rates at 1.9% by year-end). Evans suggested not going too far, too quickly is crucial for optionality, but said a 50bps rate hike is worthy of consideration for May and possibly "highly likely". Evans added the real discussion is how you want rates to be positioned by year-end, he does not at the moment expect to see the need for restrictive policy to rein in inflation, but there is a risk this will be required. Evans expects high prices will persist longer than he initially thought, but does not expect it to be permanent. Supply pressures are more intense than he expected but by year-end, we will know a lot more about how persistent inflation is and is hopeful it will be receding. Evans noted at the end of the year will be able to make choices about more or less restrictiveness.

US CPI PREVIEW: Headline consumer prices are seen rising 1.2% M/M in March, which should push the annual rate up to 8.4% Y/Y from 7.9%; headline measures will likely be driven by higher gasoline prices. Core inflation is seen rising 0.5% M/M, matching the pace in February, lifting the annual rate to 6.6% Y/Y from 6.4%; food prices were likely supported by higher underlying commodity prices in the month. The data is not expected to be too influential in altering expectations of Fed policy in the near term; money markets are now assigning an over 90% probability of a 50bps rate rise at the May meeting, as the Fed looks to tackle high inflation pressures; over the course of 2022, money markets fully price rates rising to 2.25-2.50%, with some risks of 2.50-2.75%; the Fed's latest projections had pencilled in rates rising to 1.75-2.00 at the end of this year.

GEOPOLITICS

RUSSIA/UKRAINE: Ukraine/Russia rhetoric continued to worsen with little, to no, positive updates to report on Monday with the focus surrounding updates on the ground. Ukrainian President Zelenskiy said Russia is concentrating tens of thousands of soldiers for its next offensive in eastern Ukraine, whilst the Head of the Russian Republic of Chechnya said there will be an offensive not only on Mariupol but on other Ukrainian cities including Kyiv. Moreover, and continuing to emphasise the growing fears, US Senior Defense Official added they have seen indications of Russia resupplying and reinforcing its troops in Donbass, and Russia appears to be reinforcing positions north-west of Donetsk. On Mariupol, Donetsk People's Republic (DPR) leader claimed that their forces and Russian forces have control of the Ukrainian port, but Mariupol's Deputy Mayor later said Ukrainian forces are holding out against Russia. Elsewhere, further adding to the bleak picture, Russian Foreign Minister Lavrov declared there will be no pause in its military operation in Ukraine before the next round of talks, but he sees no reasons not to continue talks with Ukraine. On sanctions, the EU added 20 Russian airlines to the EU air safety blacklist. Finally, Austria's Chancellor Nehammer became the first EU leader to meet Russian President Putin since the start of the war, but he declared he had no positive impression from the talks, and it was not a friendly visit. Note, there were reports that "Ukraine's Azov regiment reported the use of chemical weapons by Russian forces in Mariupol. Via Telegram, they say unknown substances were dropped from drones, and troops are struggling with respiratory issues.", according to Telegraph's Barnes. However, an independent journalist said "The only source reporting this so far is the Azov regiment. No independent/credible journalists are working in Mariupol now, so very difficult to verify. There were a lot of warnings earlier over Russia's potential use of chemical weapons in Ukraine". The claim would be an escalation in the war and it is something the US has said it would respond too if chemical weapons were used.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLE 12 TICKS LOWER AT 119-24

Treasuries reverse APAC bear-flattening as Amazon (AMZN) seven-parter adds to the duration-heavy, Treasury supply; 2s10s tests +30bps. At settlement, 2s -1.6bps at 2.504%, 3s -0.5bps at 2.726%, 5s +2.8bps at 2.785%, 7s +4.8bps at 2.830%, 10s +6.3bps at 2.778%, 20s +6.5bps at 3.008%, 30s +7.2bps at 2.818%. 5yr BEI +5.6bps at 3.359%, 10yr BEI +3.8bps at 2.937%, 30yr BEI +2.4bps at 2.561%.

TOKYO/LONDON: Treasuries entered the US Monday session on the back foot, with the curve bear-flattening into the NY handover. Central bank tightening expectations were amplified in the APAC session after the firm Chinese PPI data. T-Notes hit session lows of 119-17 in Tokyo trade before paring a few ticks into the London session. While T-Notes traded sideways through the European morning, EGBs and Gilts saw selling pressures accumulate on the back of the uncertainty stoked around the French election.

NEW YORK: The NY handover saw better US front-end buying/steepeners ahead of the front-loaded Treasury auctions this week; the tumble in oil likely cooled some of the central bank tightening outlook incrementally too. Adding to the duration pressure was the Amazon (AMZN) 7-part deal announcement that saw hedging flows in Treasuries. Steepeners carried through into the NY afternoon, with the front-end moving into the black, aided by a massive block trade: 49k 2yr T-Note Futures (ZTM2) bought at 105-192 vs 11.1k 5yr T-Note Futures (ZFM2) sold at 113-017 and 3k Ultra Bond Futures (UBM2) sold at 165-00. The cash 2s10s spread hit highs of 29.3bps just before the 3yr auction, the steepest since March 16th, although the lacklustre offering (details below) capped the front-end bid in late trade. Traders now look to Tuesday's CPI, with expectations for another hot print, followed by the 10yr Treasury auction.

3YR AUCTION: A fairly decent 3yr auction, with the cut-size offering (USD 46bln vs prev. 48bln) stopping at 2.738%, the highest since Dec 2018. The 0.1bps stop-through is better than the avg. 0.1bps tail and prior 1.2bps tail while the 2.48x B/C ratio beats both the prior 2.39x and avg. 2.41x. The breakdown was less encouraging with Dealers taking 29%, above the prior 26.3% and the avg. 26.8%. That increase was again driven by the diminished participation of Indirects which took 53.5%, below the prior 55.1% and avg. 56.5%. Directs were more healthy, taking 17.6%, above the avg. 16.7% but not as large as March's 17.6%.

OPS & SALES: US sold USD 46bln of 3yr notes at 2.738%, stops-through 0.1bps, covered 2.48x. US sold USD 64bln of 3-month bills at 0.785%, covered 2.64x; sold USD 54bln of 6-month bills at 1.220%, covered 3.32x. NY Fed RRP op demand rises for sixth straight session to USD 1.759tln across 85 bidders (prev. USD 1.750tln across 84 bidders). Amazon (AMZN) sells USD 12.75bln seven-part debt offering (2yr out to 40yr).

STIRS: Eurodollars saw similar action to cash Treasuries after whites and particularly reds reversed APAC weakness into the NY session, while greens/blues remained more pressured as steepeners prospered. EDM2 +0.5bps at 98.335, U2 -1.0bps at 97.63, Z2 +0.0bps at 97.095, H3 +1.5bps at 96.78, M3 +3.5bps at 96.575, U3 +6.0bps at 96.59, Z3 +5.0bps at 96.685, H4 +2.5bps at 96.79, M4 +1.0bps at 96.87, Z4 -2.5bps at 96.94, Z5 -8.5bps at 97.10.

CRUDE

WTI (K2) SETTLES USD 3.97/BBL LOWER AT 94.29/BBL; BRENT (M2) SETTLES USD 4.30 LOWER AT 98.48/BBL

Oil prices tumbled lower Monday as China's lockdowns show no signs of abating while the market adjusts for the IEA reserve releases. The selling began during the APAC session and extended further as US participants returned from the weekend. Lows were made for WTI and Brent front-months at 92.93/bbl and 97.57/bbl, respectively, the lowest since early March. The dimming demand outlook has been the main driver as of late, with Shanghai completely locked down and no real signs of China walking back on its zero COVID policy. But desks also continue to point towards the historic IEA collaboration of reserve releases. The group collectively released an additional 60mln bbls over the next six months on top of the 180mln bbls the US said it would release.

OPEC: Reuters reported the OPEC Secretary-General saying there could potentially be losses in excess of 7mln BPD of Russian oil and other liquid exports due to current and future sanctions or other voluntary action. The official said it would be almost impossible to replace a loss in volumes of this size given the current demand outlook, saying the crisis is beyond OPEC's control. That comes amid the EU calling on OPEC to look at options to expand its oil deliveries.

RUSSIAN EMBARGO: European Foreign Ministers met Monday. Politico reported, citing diplomats, that one proposal under consideration is some form of tariff on Russian oil, but sharp divisions remain on the issue.

EQUITIES

CLOSES: SPX -1.63% at 4,415, NDX -2.35% at 13,990, DJIA -1.19% at 34,308, R2K -0.75% at 1,980.

SECTORS: Energy -3.11%, Technology -2.6%, Health Care -1.97%, Consumer Discretionary -1.89%, Communication Svs. -1.68%, Utilities -1.39%, Real Estate -1.35%, Financials -0.48%, Consumer Staples -0.47%, Materials -0.45%, Industrials -0.29%

EUROPEAN CLOSES: Euro Stoxx 50 -0.49% at 3,839; FTSE 100 -0.67% at 7,618; DAX -0.64% at 14,192; CAC 40 +0.12% at 6,555; IBEX 35 -0.25% at 8,585; FTSE MIB -0.28% at 24,749; SMI +0.16% at 12,527.

STOCK SPECIFICS: **Twitter (TWTR)** CEO said Elon Musk has decided not to join the board of directors, but Musk may engage in talks with Twitter, including on strategy and governance. Note, the SEC filing had removed the phrase that would limit Musk to a 14.9% ownership as Director, but as he is no longer set to become a director, those terms have changed. **Apple (AAPL)** reportedly faces an additional EU antitrust charge in the coming weeks as part of a music streaming probe triggered by a **Spotify (SPOT)** complaint, according to a Reuters source. **Nio (NIO)** suspended production due to supply chain disruptions, where a recent COVID cases surge has disrupted its operations. **Amazon (AMZN)** announced it Is to sell USD 12.75bln in a seven-part bond deal. Elsewhere, AMZN is calling for an election re-run after workers at a Staten Island warehouse voted to create the Cos. first US union, alleging the labour board and worker-organisers suppressed turnout. **NVIDIA (NVDA)** board recommended voting to approve the proposed amendment to increase the number of authorised shares of common stock from 4bln to 8bln shares, which would give NVDA the flexibility to take actions such as stock splits and issuing equity incentives without a further shareholder vote. Separately, Baird downgraded the stock noting concerns about order cancellations driven in part by a slowdown in consumer demand for PCs. **SailPoint (SAIL)** surged 30% after Thoma Bravo announced it is purchasing SailPoint for USD 6.9bln, via FT citing sources; paying USD 62.50/shr. Note, SAIL closed Friday at USD 49.59/shr. **Shopify (SHOP)** plans a 10 for 1 stock split of class A and B shares. **Veru (VERU)** gained roughly 200% following positive results and “overwhelming” evidence of efficacy for its experimental drug for treating hospitalised COVID patients. VERU will now meet with the FDA to seek EUA for the treatment. **Datto (MSP)** to be acquired by Kaseya for USD 35.50/shr in cash. China said to approve its first round of gaming licenses following a nine-month suspension, according to Bloomberg. Of note for names such as **BILI, NTES, TCEHY**. **AT&T (T)** and **Discovery (DISCA)** closed their transaction to combine the WarnerMedia business with Discovery, and the merger creates standalone Co. **Warner Bros. Discovery (WBD)** and began trading on the Nasdaq at the start of trading on Monday, April 11th. **JetBlue (JBLU)** said it would reduce flights in May and throughout the summer due to staffing limitations, in an attempt to limit flight disruptions throughout the summer, after cancelling more than 300 flights over the weekend, according to WSJ.

FX WRAP

USD: The Dollar was slightly bid on Monday, and the DXY briefly rose above the 100 before paring back beneath the monumental figure. The upside was driven by a further increase in yields, particularly the long end, as curve steepening continued. Technicians are eyeing the Friday high of 100.19 and a few fib retracement levels at 100.29 and 100.47 as key levels to keep an eye on ahead of US CPI on Tuesday and the ECB on Wednesday. Fed's Evans (2023 voter) spoke again where he gave the nod to 50bps in May, saying it is worthy of consideration and "possibly highly likely". Market pricing now suggests an over 90% chance of a 50bps move from the Fed in May. The Dollar was firmer despite the pronounced upside in the Euro too.

EUR: The single currency was supported by French election polls, which have Macron v Le Pen in the runoff round for the French election round, with Macron widening his gap according to the latest polls. EUR/USD hit a high of 1.0950 at its peak after the first round of the French election to test resistance at the 1.0945/55 area, which suggests to technicians the holding of this level adds to the downside risks for the cross. The move lower saw EUR/USD fall sub 1.09, and technicians eye 1.08 as a critical support level that could ignite stop-loss selling if broken. Attention now turns to the ECB Thursday to see if there has been a change in language regarding rate lift-off from 2022 or commentary around the conclusion of net APP purchases.

HAVENS: JPY was softer as the US yield curve continued to steepen taking USD/JPY to highs of 125.77, just shy of the 2015 peak of 125.85 with risks of further Yen depreciation amid an ever-widening yield divergence from the Fed and BoJ with the BoJ's 10yr JGB yield cap of 0.25% still in place while the 10yr UST yield hits cycle highs of 2.79%. EUR/JPY rose to 137.12 at the highs on Monday, with technicians eyeing the March highs of 137.52, which coincides with the 2018 high of 137.50. The soured risk tone in US equities failed to spur haven demand for the Yen, with participants instead buying CHF to see the Swissy firmer against both the Euro and the greenback. However, swiss sight deposits increased by CHF 8bln over the last three weeks, which could continue if CHF strength remains. XAU was relatively flat but off both the highs and the lows, trading between USD 1,969/oz and USD 1,940/oz. The highs were seen as momentum continued after a break above USD 1,950/oz, while other precious metals and base metals saw strength. However, the peaks failed to hold and saw a sharp reversal before trending lower in the session but managed to reclaim positive territory as the dust settled.

CYCLICALS: Cyclicals were generally softer, although GBP was flat. CAD fell victim to the falling crude prices while attention turns to the BoC on Wednesday, where they are expected to hike by 50bps and announce its QT process, although risks remain for a smaller 25bp move; full Newsquawk preview available here. Losses in the Loonie were capped as USD/CAD failed to break above the 200dma of 1.2637, which was Monday's high to the pip. GBP was a relative cyclical outperformer and was flat against the buck but marginally softer against the Euro after a raft of UK data which saw GDP rise 9.5% Y/Y in February, in line with expectations. However, manufacturing output data disappointed expectations, and the trade balance saw a larger deficit than expected while attention now turns to employment figures Tuesday and UK CPI on Wednesday. AUD was the laggard amid a downbeat risk environment and downside in base metals but printed highs in the AM of 0.7460 before fading throughout the remainder of the session to dip beneath the 21dma at 0.7444 to a low of 0.7412. NZD held up better from the AUD/NZD crosswinds ahead of the RBNZ early Wednesday morning UK time. NOK saw pronounced selling pressures after cooler than expected inflation metrics, while the downside in oil added to the NOK woes.

EMFX was mixed. TRY managed to find gains as it benefitted from the falling oil prices, while ZAR was supported by marginal gains in gold, which more than offset the Eskom woes. BRL and MXN were also firmer, although RUB saw weakness in a volatile/illiquid market. CNH was weaker despite hotter than expected CPI and PPI in March, with lockdown fears in Shanghai and easy commentary from officials driving price action. Chinese officials continued with their verbal intervention, and the China Securities regulator announced supportive policy measures. ILS was bid after the BoI hiked to 0.35%, above the 0.25% forecast from 0.1%, which saw initial strength to the Shekel, but USD/ILS was off lows as it announced it expects to act slower than other central banks in its normalisation path. The MXN may have been supported after President Obrador won a referendum that saw over 90% of voters say they wanted him to stay in the office, although the turnout was meagre at less than 19%, the BBC reported.