US Market Wrap

12th April 2022: Dollar sees gains into the close as risk assets stumble, fading the dovish CPI reaction

- **SNAPSHOT**: Equities mixed/down, Treasuries up, Crude up, Dollar up.
- **REAR VIEW**: Putin says talks with Ukraine at a dead end, which Ukraine denies; Mixed CPI, headline Y/Y hotter with energy but core softer than consensus; Russian oil output falls beneath 10mln BPD to lowest since July '20; Brainard alludes to delayed June B/S reduction despite May announcement; Awful US 10yr auction; OPEC MOMR and EIA STEO cut world oil forecasts; KMX bearish on the consumer.
- **COMING UP**: **Data**: Chinese Trade Balance, UK CPI, US PPI, New Zealand Manufacturing PMI **Events**: BoC & RBNZ Policy Announcement, IEA OMR **Supply**: US, Germany & Italy **Earnings**: BlackRock, Delta Air Lines, JPMorgan; Tesco.

MARKET WRAP

SPX and NDX were both down c. 30bps Tuesday after paring their morning strength into the close on the post-CPI dovish market reaction. Treasuries saw pronounced bull-steepening (2s30s +13bps) after the softer than expected core CPI print reduced aggressive terminal Fed hike pricing, while the awful US 10yr auction saw little follow-through selling. Inflation breakevens fell, led by the front-end (5yr BEI -8.5bps at 3.286%). While the CPI report took some of the heat off how high the Fed needs to hike above the neutral (lower terminal), it hasn't changed the need for the Fed to get to neutral in the near term. Meanwhile, Fed's Brainard raised some eyebrows Tuesday after refusing to go into details around hike increments or the rate path, whilst also suggesting that reductions in the balance sheet would likely begin in June (vs current expectations for May). The Vice-Chair nominee struck a more dovish tone to her Volcker-quoting speech last week. In stocks, CarMax (KMX) painted a very downbeat macro outlook for auto sales/consumer health after a poor earnings report, something which the decline in March used vehicles index in the CPI report echoed. On the other hand, food prices remained firm in CPI, and supermarket name Albertsons (ACI) CEO said it sees elevated food inflation through September, saying it hadn't seen any big changes in consumer behaviour. Crude futures were bid, reversing Monday's losses, with desks citing OPEC's Monday warning it will fail to replace lost Russian supply and reports Russia's production is falling fast in lack of other clear catalysts. Both WTI and Brent are back above USD 100/bbl. In FX, the DXY tumbled initially post CPI but eventually reclaimed 100 later on as risk assets stumbled. Euro was particularly weak ahead of Thursday's ECB and the souring Ukraine/Russia backdrop.

CENTRAL BANKS

FED: Only **Brainard (voter)** spoke on Tuesday, where the Vice-Chair nominee mostly focused on core inflation for assessing the path of monetary policy, and said she is to decide on balance sheet reductions in May and could see reductions as soon as June (market expectations have been leaning towards reductions beginning in May as of lately so this would be a bit later). Whilst on rates, she dodged the question on 50bps, noting the Fed will move towards neutral "expeditiously". Moreover, on the balance sheet, Brainard added runoff could be worth two to three additional rate hikes through the entire course of the rundown, and the tightening in financial conditions will help moderate demand, particularly in areas such as durable goods. Finally, and on Russia, she noted Russian invasion skews inflation risk to the upside, and it is too early to have great confidence in what the post-pandemic and post-Russia/Ukraine new normal may be. In all, Brainard struck a relatively dovish tone to her Volcker-quoting speech last week.

BOC PREVIEW: The BoC is expected to hike rates by 50bps to 1.0%, although the survey was not unanimous with 11/29 expecting a 25bp move, but market pricing is more or less fully priced in for 50bps in April. The Central Bank will also likely announce the details of their Quantitative Tightening (QT) process after hints from Governor Macklem and Deputy Governor Kozicki where they are expected to announce the end of the reinvestment phase. The balance sheet runoff is expected at a relatively fast pace as roughly 40% of their bonds are set to mature within the next two years. The meeting will be accompanied by the Monetary Policy Report, which will likely see inflation for the year revised higher following the spike in commodity prices, but it is expected to cool next year, albeit it is still not seen returning to target until at least 2024. Some analysts also expect a revision higher to the neutral rate forecasts, perhaps to 2.75% from 2.25%, but others suggest it will be left unchanged. The rate decision will be accompanied by a press conference with Governor Macklem where commentary will be eyed on the magnitude of the rate hike as well as details about the QT process. For full Newsquawk preview, please click here.

RBNZ PREVIEW: RBNZ is expected to deliver a fourth consecutive rate hike at its meeting on Wednesday with OIS fully pricing in the central bank to increase the Official Cash Rate by 25bps to 1.25%, although some anticipate a greater move of 50bps to address the nation's high inflation. For full Newsquawk preview, please click here.

GLOBAL

GEOPOLITICS: The situation regarding Ukraine/Russia continued to worsen on Tuesday, with further rhetoric from the respective Presidents highlighting they are no closer to reaching an agreement or settlement. Russian President Putin said there is no doubt that the military operation in Ukraine will achieve its objectives and it is going to plan, whilst stating the end of military operations depend on the intensity of the fighting. Moreover, Putin added talks with Ukraine are at a dead end and Ukraine has deviated from the agreements reached in Istanbul. In retaliation, a Ukrainian Presidential advisor stated negotiations continue and Russia is attempting to put pressure on peace discussions with its public statements. On talks, the Ukraine official said they were tough, but they are continuing at the level of working sub-groups. Putin, meanwhile, added that if Russia's partners worsen the situation, they will feel the consequences themselves and the Russian economy will adapt to the situation. Moving to the ground, Ukraine's Governor of Donetsk region said shelling in the region is non-stop, whilst Russia is in the final stage of regrouping its forces as evacuations continue. On fighting, UK military intelligence noted Russian attacks are focused near Donetsk and Luhansk, with further fighting occurring around Kherson and Mykolaiv, in addition to a renewed effort towards Kramatorsk. Looking ahead, UK military intelligence believes fighting in eastern Ukraine will intensify over the next two/three weeks, as Russia refocuses efforts there. Regarding the reported use of chemical weapons, US Senior Defense Official added it still cannot confirm the use of chemical weapons by Russia which US Secretary of State Blinken later reiterated by noting the US is not in a position to confirm anything regarding reports of chemical weapons usage in Ukraine.

US CPI: Overall, CPI was mixed with cooler core prints relative to expectations but with a slightly hotter Y/Y headline print at 8.5% (exp. 8.4%, prev. 7.9%). The 8.5% will likely mark the peak for headline inflation, providing energy prices stay around current levels. The M/M print rose by 1.2%, in line with expectations from 0.8%. Energy prices were a huge factor for the gain, rising 32% Y/Y & 11% M/M with a 70% Y/Y & 22.3% M/M rise in fuel oil prices and a 48% Y/Y & 18.3% M/M gain in gasoline. However, the core metric (ex food and energy) rose by 0.3% M/M, beneath the consensus and prior of 0.5% while the Y/Y rose 6.5% from 6.4% but beneath the 6.4% expectation. The cooler M/M shows that some of the other broader price pressures outside food and energy have started to cool although a lot of it was due to the large 3.8% decline in Used cars and trucks. Pantheon Macroeconomics highlight this decline is because dealer margins are re-compressing after spiking in 2021 when dealers were starved of inventory due to excessive rental fleet buys which saw dealers add extra margins. Pantheon's Shepherdson adds "even a modest increase in inventory is enough to start the reversal" and a "full mean reversion in dealer margins would be a huge downward force on core inflation". In new vehicles, price pressures slowed to 0.2% from 0.3% while apparel slowed to 0.6% from 0.7% and medical care commodities to 0.2% from 0.3% M/M. The services inflation however picked up, particularly in medical care and transportation services while shelter was unchanged at 0.5% M/M. The report will unlikely do little to change the Fed's thinking going into the May meeting given it remains at an elevated level although the hopeful peak will be a blessing for the Fed as future prints will likely slow thanks to the large base effects that started in Spring 2021. Meanwhile, with the Fed's Balance Sheet reduction looking at a cap of USD 95bln (USD 60bln treasuries and USD 35bln of MBS) per month alongside rate hikes throughout the year will also help cool inflation expectations.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 24 TICKS HIGHER AT 120-16

Treasuries saw pronounced bull-steepening (2s30s +13bps) after the softer than expected core CPI print saw aggressive terminal Fed hike pricing reduced, while the awful 10yr auction saw little follow-through selling. At settlement, 2s -12.5bps at 2.383%, 3s -14.6bps at 2.600%, 5s -11.9bps at 2.667%, 7s -10.0bps at 2.734%, 10s -6.3bps at 2.719%, 20s -0.3bps at 3.006%, 30s +0.5bps at 2.826%. Inflation breakevens fell: 5yr BEI -8.5bps at 3.286%, 10yr BEI -5.6bps at 2.888%, 30yr BEI -2.8bps at 2.538%.

TOKYO/LONDON: T-Notes were sold into the Tokyo Tuesday session. Citi's rates desk noted Aussie 10yr syndication-related hedge activity during Asian hours. T-Notes made session lows of 119-10+ at the Tokyo/London handover. However, better buying returned into the European session, although benchmark govvie futures were still lower on the session and the curve flatter, albeit off lows before US players returned.

NEW YORK: The NY handover saw cautious bidding to take T-Notes back into the black. That strength was touted as short-covering ahead of the CPI print in lack of other key drivers. Shorts that didn't cover will have been envious given the softer than expected core CPI print was enough to jolt higher the sovereign complex, taking yields well below their Monday lows. The curve saw bull-steepening, led by the belly, in wake of the report as the tentative signs of "peak inflation" were enough to take some of the aggressive Fed terminal rate pricing off the table. Those steepening flows were accentuated on the back of some chunky block trades: +6.4k 10yr vs -4k Ultra 10yr, then a massive +20.8k 10yr vs -5.7k Ultra Bond. 5s30s hit highs of 16.6bps, the highest since March 24th. That came not long after the disastrous 10yr auction that put a cap on Treasury strength after T-Notes hit highs of 120-26, with the cash 10yr yield hitting a low of 2.674%. While it was a very poor auction, there was still little follow through to the downside following the auction. It will be interesting to see how Tokyo and London react on their return.

10YR AUCTION: A very weak 10yr reopening from the Treasury, likely reflecting the acute buying seen post-CPI beforehand. The 2.720% stop was the highest since Jan 2019 and a marked cheapening from March's 1.920%, but the underlying metrics were still weak. The 3bps tail was the largest in years, much worse than the six-auction avg. 0.2bps stop-through and the prior 0.3bps tail. The 2.43x B/C ratio was also lower than the avg. 2.50x. The breakdown saw a big decline in Indirects participation, who took 64.3% vs avg. 70.9% and the prior 68.23%. That saw a significant step-up in Dealer participation to 18.7%, while Directs took 17%, slightly above avg. It will be interesting to see the investor allocation data in a few weeks to see if there has been another weak foreign demand base. Note that March's foreign investor cohort decreased to USD 7.371bln from February's 15.881bln, and lower than average USD 10.042bln. There has been chatter of Japanese investors likely being priced out amid the Yen's rapid weakening vs the Dollar, so that could be a factor. But also, the demand outlook for Treasuries is likely seeing headwinds from the approaching balance sheet reduction at the Fed.

OPS & SALES: US sold USD 34bln of 10yr notes at 2.720%, tailed by 3bps, covered 2.43x. NY Fed RRP op demand fell to USD 1.710tln across 85 bidders from USD 1.759tln across 85 bidders.

STIRS: Eurodollars largely bull-steepened after CPI, although note the white pack (1st-4th quarterly contracts) flattened with the near contracts staying anchored towards 50bps hike expectations. While the CPI report took some heat off how high the Fed needs to hike above the neutral rate (lower terminal), it hasn't reduced the need for the Fed to get to neutral in the near term. EDM2 +4.0bps at 98.375, U2 +9.0bps at 97.72, Z2 +13.5bps at 97.225, H3 +17.0bps at 96.95, M3 +20.0bps at 96.775, U3 +21.0bps at 96.80, Z3 +20.5bps at 96.89, M4 +19.5bps at 97.065, Z4 +17.0bps at 97.11, Z5 +11.0bps at 97.21.

CRUDE

WTI (K2) SETTLED USD 6.31 HIGHER AT USD 100.60/BBL; BRENT (M2) SETTLED USD 6.16 HIGHER AT 104.64/BBL

Crude futures were bid through the Tuesday session, reversing Monday's losses, with desks citing OPEC's Monday warning it will fail to replace lost Russian supply and reports Russia's production is falling fast. Whether those factors actually drove the price actions remains debatable, but oil prices rose gradually from the Tokyo morning into the NY afternoon. Oil prices lost momentum alongside some of the pullbacks in risks assets more broadly, with the DXY rising off lows. Session highs in WTI and Brent were printed at USD 101.35/bbl and 105.60/bbl. Traders now look to the weekly US inventory data with the private release later Tuesday. Current expectations (bbls): Crude +0.9mln, Gasoline -0.4mln, Distillate -0.5mln.

RUSSIAN PRODUCTION: Reuters reported Tuesday that Russian oil output has fallen below 10mln BPD, the lowest since July 2020, "as sanctions and logistical constraints hamper trade". The sources noted Russia's average oil output fell to 10.32mln BPD on April 1-11th (prev. 11.01mln in March) and then fell further to 9.76mln BPD on Monday alone. Sources also said Rosneft, Russia's largest producer, has registered the largest decline in output, falling to 2.87mln BPD on April 1-11th from 3.35mln BPD in March.

OPEC MOMR/EIA STEO: The OPEC monthly report saw the 2022 world oil demand growth forecast cut by 500k BPD and reported production in Libya, Nigeria, and Congo all declined. There was little in terms of unknowns in the report against the fluid energy market backdrop. Meanwhile, the EIA STEO sees 2022 world oil demand rising 2.4mln BPD, lower than its March forecast of +3.1mln BPD, while the EIA sees 2023 world oil demand rising 1.9mln BPD to 101.7mln BPD, a lower total demand than March's 102.6mln BPD forecast.

EQUITIES

CLOSES: SPX -0.33% at 4,398, NDX -0.36% at 13,940, DJIA -0.26% at 34,220, R2K +0.38% at 1,986.

SECTORS: Financials -1.07%, Health -0.95%, Communication Services -0.81%, Technology -0.35%, Real Estate -0.34%, Industrials -0.14%, Consumer Staples -0.02%, Materials +0.03%, Consumer Discretionary +0.2%, Utilities +0.41%, Energy +1.72%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.21% at 3,831; FTSE 100 -0.55% at 7,576; DAX -0.48% at 14,124; CAC 40 -0.28% at 6,537; IBEX 35 -0.08% at 8,578; FTSE MIB -0.33% at 24,667; SMI -1.20% at 12,378.

STOCK SPECIFICS: **American Airlines (AAL)** lifted Q1 revenue guidance, as now prelim. Q1 view vs Q1 19 levels sees revenue -16% (prev. saw -17%). **Carmax (KMX)** missed on EPS, and the Co. added, "a number of macro factors weighed on our Q4 unit sales performance, including declining consumer confidence, Omicron-fuelled surge in COVID cases, vehicle affordability, and the lapping of stimulus benefits paid in the prior year period". Note, KMX did beat on revenue. **Albertsons (ACI)** beat on EPS and revenue, but FY22 adj. EPS view fell short of consensus. Looking ahead, CEO sees elevated food inflation through September. **Beyond Meat (BYND)** expands meatless chicken distribution to 8,000 new retail locations, according to CNBC. **Franchise Group (FRG)** entered into the bidding for **Kohl's (KSS)** with a USD 9bln indicative offer, or at least USD 70/shr, according to Reuters sources. Note, Hudson's Bay has already stated it is willing to pay at least USD 70/shr for Kohl's. **Lucid (LCID)** introduced New Lucid Air Grand Touring Performance Model with 1,050 Horsepower where US deliveries are to begin June 2022. **Cisco Systems (CSCO)** was lower after Citi downgraded the stock to ‘Sell’ from ‘Neutral’; adding competitors **Juniper Networks (JNPR)** and **Arista Networks (ANET)** are poised to gain market share from Cisco. **CrowdStrike (CRWD)** was firmer following a Goldman Sachs upgrade to ‘Buy’ from ‘Neutral’; said the Co. has shown strong execution while demand continues to ramp higher. **Boeing (BA)** March deliveries at 41; orders at 53; 15 cancellations; removes 141 aircraft from backlog due to war in Ukraine. **Toyota (TM)** plans 10% production cut in May on supply chain turmoil and as such intends to reduce global output to around 700k vehicles for next month, according to Nikkei.

FX WRAP

The Dollar eventually firmed Tuesday, despite being flat for a large part of the session before gaining into late NY trade. Following US CPI, where headline Y/Y printed hotter than expected, 8.5% (exp. 8.4%), but the core price gauges printed cooler than anticipated, the Buck fell tumbled in a knee-jerk reaction. The DXY fell beneath the key 100 level, before later reclaiming it and eventually hitting highs of 100.33 in the NY afternoon as broader risk assets stumbled. Fed’s Brainard (voter) was on wires again, and dovish if anything, saying the actual balance sheet reductions might not begin until June despite a May announcement, while she dodged questions on 50bps/hike increments, saying the Fed would move towards neutral "expeditiously". However, her comments did little to alter market pricing nor the Dollar. Lastly, while not the key driver in recent sessions, participants are keeping tabs on Ukraine/Russia with many expecting a renewed offensive push from Russia into southeast Ukraine. Russian President Putin said Tuesday that talks with Ukraine are at a dead end and Ukraine has deviated from the agreements reached in Istanbul. Something which Ukraine denied.

Antipodeans were the clear G10 outperformers and saw notable gains against the Buck, with the much-better than expected Australian NAB data providing impetus for the Aussie into Tuesday as did the rebound in commodity prices. Desks note technicals helped the antipodes also, especially the Aussie, which is highlighted by signals suggesting the AUD/USD corrective pull-back is complete, with technicals ringing alarms bells for shorts. AUD/USD surpassed its 21DMA of 0.7457 and also the April 8th high of 0.7492, to highs of 0.7493, with technicians noting the next levels in view are the round 0.7500, and past that the April 5th high 0.7535/40, which is viewed as resistance. Onto the Kiwi, the cross extended to highs of 0.6889 from a low of 0.6807, despite the poor NZIER data overnight. Participants now look to the RBNZ rate decision Wednesday where a fourth consecutive rate hike is expected, with OIS fully pricing the Cash Rate hiking by 25bps to 1.25%, although some anticipate a greater move of 50bps to address the nation’s high inflation.

Activity currencies, CAD and GBP, were slightly lower against the buck and traded within tight parameters, as cable traded between 1.3053-1.2995, and USD/CAD 1.2661-1.2582. For Sterling, analysts highlighted the softer US core inflation could provide a lifeline for the pound, where recent GBP weakness has come as markets increased hawkish expectations of the Fed and ECB while the BoE eased its hawkish signalling as it fears UK growth issues; attention now on UK March CPI on Wednesday. Secondly, the Loonie, analysts note ahead of the BoC on Wednesday, where they are expected to hike rates by 50bps to 1%, the central bank will probably require strong guidance to prevent USD/CAD from rebounding again, unless oil continues to come back to the boil, which saw WTI rise above USD 101/bbl and Brent USD 105/bbl.

Safe-havens, CHF and JPY, were also flat against the Buck on Tuesday, trading within tight parameters. The strength in USTs gave impetus to the Swissy and Yen. Regarding the latter, technicians are noting 125.70 as a key level and believe that is still likely to be a pivotal test of resistance.

EUR was the clear G10 underperformer. The single currency got a lift in the wake of US CPI, which resulted in Dollar weakness, but since the immediate aftermath it has been one-way traffic for the Euro as it fails to overcome the economic headwinds from the Ukraine/Russia situation. Separately, in contrast to those relying or waging on independent Central Bank props, the Euro heads for Thursday’s ECB policy meeting with little prospect of anything really supportive. Hence, EUR/USD is still technically heavy while unable to sustain momentum above 1.0900, and feeling contagion from the ongoing Russia-Ukraine conflict and feeling the heat from the latest squeeze in crude/energy prices.

EMFX predominantly saw gains against the Greenback, with the RUB underperforming. MXN gained, seeing tailwinds from the bounce back in the crude complex Tuesday. ZAR also firmed with the rising gold prices providing impetus, as the metal managed to top USD 1,975/oz, but could not continue its momentum to provide a challenge on USD 2,000/oz. Moreover, SARB said the continued domestic economic recovery is threatened by inflation and inflation risk is further titled to the upside, but did say its policy would remain accommodative, whilst South African utility Co. Eskom said stage two load shedding will be extended to Wednesday and Thursday nights from 17:00 until 05:00 on Friday.