US Market Wrap

13th April 2022: Large caps lead rally as yields fall while the market looks through hot PPI

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Zelenskiy has evidence Russia is using phosphorous bombs; BoC hikes 50bps, as expected, & begins QT starting April 25th; RBNZ surprises with 50bp hike; Fed's Waller supports 50bps in May, possibly more in June & July; Top oil traders to cut Rosneft purchases from May 15th; Hot PPI; Disappointing JPM earnings; DAL returned to profitability in March; Average 30yr auction; Large EIA crude build; AMZN to charge sellers 5% fuel & inflation surcharge.
- **COMING UP**: **Data**: Australian Unemployment, US IJC, Retail Sales, Business Inventories & Uni. of Michigan (Prelim.) **Events**: ECB & CBRT Policy Announcements **Speakers**: ECB's Lagarde; Fed's Harker & Mester **Earnings**: Morgan Stanley, Goldman Sachs, UnitedHealth.
- **DAILY US EARNINGS ESTIMATES**: TSM, UNH, WFC, GS, MS, C. To download the full preview, please click here.

MARKET WRAP

Equities soared on Wednesday to snap a three-day losing streak with Nasdaq rallying 2% led by gains in Consumer Discretionary and Technology as the large caps were supported by lower yields across the curve, which led to outperformance in growth vs value. The majority of sectors closed green, although Utilities lagged on its defensive nature while Financials closed slightly lower with losses in JPMorgan (JPM) following a miss on EPS and higher loan loss provision, which hit the stock as earnings season is now underway. Delta Airlines (DAL) posted a shallower loss per share than expected, but missed on revenue, whilst its accompanying commentary was encouraging and it announced it returned to profitability in March, which was the best cash sales month in history. Furthermore, Delta is not seeing hesitancy in bookings following fare increases, which saw the Airlines ETF (JETS) close with gains north of 5%. Treasuries were supported across the whole curve, despite rampant PPI, an average 30yr bond auction while the front-end was supported by touted short-covering. The Dollar sold off tracking the move lower in yields while crude prices were supported by ongoing geopolitical concerns and the latest IEA forecasts warning of large Russian production cuts, while the 9mln bbl rise in US crude stocks was offset by product draws. US March PPI data was hot on all accounts although it failed to garner much market reaction despite concerns about company margins. Geopolitics is very fluid but the situation continues to deteriorate with Russia reportedly positioning for a renewed offensive push and warned if attacks on Russian territory continue they will strike places where the decisions are made, including Kyiv. Looking ahead, more bank earnings on Thursday will be key to see if they follow a similar pattern to JPM while the ECB is also in focus where traders will be mindful of any hints of an early-end to APP and a potential 2022 rate hike.

GLOBAL

US PPI: Producer prices rose 1.4% M/M, above the expected 1.1%; the annual rate rose by 1.0% M/M, above the expected 0.5%. Food and energy prices did much of the heavy lifting, while the core was buoyed by trade services. Pantheon Macroeconomics' analysts said "margins account for 30% of the core PPI, and the sustained surge in some sectors -- notably auto dealers, but also retailers of furniture, hardware, and apparel -- explains much of the increase in both producer and consumer inflation in these components," adding that "mean reversion in margins as consumers switch their spending from goods to services, post-Covid, therefore will be a big part of the coming downshift in inflation." Outside of margins, Pantheon notes that the core PPI rose 0.9% in March, but that follows a below-trend 0.2% increase in February. "The trend is running close to 7% on both a three-month annualised and Y/Y basis, and it appears to have peaked." PM expects to see a modest slowing over the next few months, but says it will be much less marked than the slowing in Core CPI inflation.

GEOPOLITICS: The Ukraine/Russia situation continued to deteriorate. In the European morning, Ukraine President Zelenskiy stated he has evidence that Russia is using phosphorous bombs against Ukraine, which was later followed by remarks from Zelenskiy's Chief of Staff adding Russia talks about possible missile strikes on Kyiv and that Ukraine is ready. Further to movements on the ground, Ukraine's armed forces command said Russian forces are ready to attack in Donetsk and Kherson regions. Meanwhile, according to the WSJ citing officials, the US is moving to "significantly" expand the intelligence it is providing to Ukraine's forces so they can target Moscow's military units in Donbas and

Crimea and potentially take back territory. On the other side, Russia said that if attacks on Russian territory continue then Russian forces will strike at the places where such decisions are made, including Kyiv. Russian press RT also reported Russia will consider US and NATO vehicles carrying weapons on Ukrainian territory as legitimate military targets, citing the Russian Deputy Foreign Minister. Moving to the US, the US envoy to OSCE noted the report by OSCE "Moscow Mechanism" mission of experts "documents the catalogue of inhumanity perpetrated by Russia's forces in Ukraine, which includes evidence of direct targeting of civilians, attacks on medical facilities, and more. Lastly, on aid, US President Biden said the US is authorising an additional USD 800mln in weapons, ammunition and other security assistance to Ukraine.

CENTRAL BANKS

FED: **Fed's Waller** (voter, hawk) reiterated his view that data supports 50bps and he prefers a 50bps rate hike in May, and possibly more in June and July. Waller wants to get above neutral by the latter half of this year and is not worried about a recession or the impact on jobs. Waller assured us we are not in a Volcker moment and said this is a good time to do aggressive actions because the economy can take it. On housing, he said higher mortgage rates will have a bite on how much people can pay for houses, and will see downward pressure on prices in the coming months.

BOC: The Bank of Canada hiked rates by 50bps taking its target for the overnight rate to 1.00%, in line with expectations, although some had expected a smaller 25bps move, while markets had fully priced in the 50bps move heading into the meeting. The BoC also announced it is ending its reinvestment phase and will begin quantitative tightening (QT), starting on April 25th. The BoC also announced it expects inflation to return to the 2% target in 2024, in line with expectations. However, it noted there is an increasing risk that expectations of elevated inflation could become entrenched. The Bank noted that the policy rate remains its primary tool and QT will complement rate increases. It also reiterated that policy will be determined by its ongoing assessment of the economy and its commitment to bring inflation to its 2% target. The MPR saw inflation forecasts revised higher to see it return to 2.1% in 2024, while growth forecasts were revised higher for 2022 after the economy weathered Omicron better than initial fears, although the 2023 GDP forecast was cut slightly. The Output Gap was estimated between -0.25% and 0.75% from -0.75% and 0.25%. The estimate of the natural rate was also lifted by 25bps to a midpoint of 2.5% from 2.25%. The MPR, statement and press conference told us little new on the balance sheet other than the Bank's balance sheet will shrink over time, with roughly 40% of the Bank's GoC bond holdings maturing within the next two years. Although a statement was released which reiterated it is not actively considering selling bonds as part of its QT process but it will continue to implement monetary policy via a floor system that will remain in place even after QT is over. During the Press Conference Governor Macklem noted if demand responds quickly to higher rates and inflationary pressures moderate, it could be appropriate to pause hikes once we get closer to neutral but also suggested they may need to take rats modestly above neutral for a period of time. Macklem said that we can expect rates to continue to rise towards more neutral settings of between 2-3% while he noted that the 50bps hike shows that monetary policy needs to be normalised fairly quickly. Macklem added higher rates are needed and the economy can handle them, noting they will act forcefully if needed. Analysts at RBC expect 25bps hikes going forward until the overnight rate hits 2% in October but it does believe another 50bp increase will be an option on the table in June.

ECB PREVIEW: After pivoting its APP at the March meeting in a more hawkish direction, the upcoming announcement is expected to be more of a stock-take on how the Eurozone economy is responding to the fallout from the Ukraine /Russia crisis and subsequent impact on inflation. As it stands, the Eurozone is facing a deteriorating growth outlook given the economic reverberations from the Russia and Ukraine conflict whilst trying to tame rampant inflation which saw Y/Y HICP jump to 7.5% in March from 5.9% in February. The possibility of stagflation in the Eurozone will naturally lead to a split in views between the doves and the hawks on the Governing Council with the former represented by the likes of Panetta who suggests that asking the ECB to bring down high inflation in the near-term would be extremely costly. At the more hawkish end of the spectrum, Belgium's Wunsch expects the deposit rate (currently -0.5%) to reach 0% by year-end. The ECB will ultimately most likely not be forced into making a policy decision at the upcoming meeting with uncertainty surrounding Ukraine providing some cover. However, various desks expect that by June, the Bank will need to offer greater guidance on how it intends to navigate the current economic climate. ING suggests that one compromise that might be sought on the Governing Council would be a more explicit distinction between policy normalisation and monetary policy tightening whereby the former would include an end to net asset purchases and bringing the deposit rate back to zero whereas tightening would be the start of a longer rate hike cycle. In terms of the latest polling, Reuters reported that of the 41/53 respondents who forecast the deposit rate to rise from a record low of -0.50% this year, 31 expect it to do so in Q4, 10 say it will happen as soon as July-Sep. To download the full preview, please click here.

FIXED INCOME

T-NOTE (M2) SETTLED 9+ TICKS HIGHER AT 120-25+

Treasuries were bid across the whole curve, despite rampant PPI, an average 30yr bond auction while the front-end was supported by touted short-covering. At settlement, 2s -2.9bps at 2.360%, 3s -2.2bps at 2.581%, 5s -1.2bps at 2.662%, 7s -2.3bps at 2.716%, 10s -2.4bps at 2.703%, 20s -3.2bps at 2.979%, 30s -2.9bps at 2.798%

TOKYO/LONDON: Treasuries leaked lower into the Tokyo Wednesday session in the aftermath of the awful US 10yr reopening Tuesday (3bps tail was the largest in five years), with T-Notes finding support at 120-06+ ahead of the European arrival. However, selling resumed as London trade got going to take T-Notes to lows of 119-31, which previously served as resistance earlier this week before Tuesday's CPI. Out the curve, the Ultra Bond futures had already reversed their Tuesday strength with the curve steeper ahead of the 30yr auction.

NEW YORK: T-Notes pared from their London lows into the NY handover, with strength struggling to break above Tuesday's settle until data was in the rear-view. The much hotter-than-expected producer price inflation report saw T-Notes hit interim lows of 120-05+ in a knee-jerk before better buying soon took over again. The buying sustained for several hours through the NY morning, and was led by the front-end (duration struggled more ahead of the 30yr auction) with some massive block buys in the 2yr T-Note future; IFR note the block buys at the front-end in recent sessions have been linked to a large US money fund. As Europe closed shop, T-Notes drifted a few ticks off their 121-07 highs (highest since April 5th) into the long bond auction. The mixed auction saw little follow-through in either direction. Traders now look to Thursday's ECB and any other book squaring ahead of the long weekend.

30YR AUCTION: An average 30yr auction with the USD 20bln reopening stopping at 2.815%, significantly cheaper than last month's 2.375% and the highest yield since 2.892% in May 2019. Despite the yield pick-up, the auction still tailed by 0.9bps, although that is a tad better than the six-auction avg. 1bps tail, but not as impressive as March's 2.4bps stop-through. The B/C of 2.30x was just below avg. 2.31x and the prior 2.46x. The breakdown saw Dealers take 15.9% which is better than the avg. 16.4%, with Directs stepping up to take 18.9% from March's 16.4% and the avg. 17.2%, although Indirects took 65.2%, below the avg. 65.8% and a significant decline from March's 71.5%. In all, a relatively decent demand reception when contextualised against the 3bps tail and weak non-dealer participation at the 10yr auction on Monday. However, expectations of QT commencement in May/June are likely keeping some would-be buyers on the sidelines despite the cheapening of the long bond recently.

OPS & SALES: US sold USD 20bln of 30yr bonds at 2.815%, tailed by 0.9bps, covered 2.30x; sold USD 30bln of 119-day CMBs at 0.965%, covered 3.59x. Little IG USD supply. NY Fed RRP op demand rises just over USD 100bln to 1.816 tln across 83 bidders, with market rates well beneath the RRP 30bps floor amid touted cash looking for a home ahead of the holiday weekend.

STIRS: Eurodollars were bid amid further reduction in terminal Fed rate pricing. Bull-flattening seen across the whites (1st four quarterly contracts) but little curvature shape change seen from there onwards. Has been a notable decline in 1yr mid curve put open interest in recent sessions, while upside structures have gained interest. On the day, EDM2 -0.5 bps at 98.370, U2 +2.0bps at 97.735, Z2 +2.5bps at 97.240, H3 +3.5bps at 96.975, M3 +3.0bps at 96.795, U3 +2.5bps at 96.810, Z3 +3.0bps at 96.905, H4 +3.5bps at 97.015, M4 +3.0bps at 97.080, U4 +2.5bps at 97.105, Z4 +2.0bps at 97.115, Z5 +1.5bps at 97.215.

CRUDE

WTI (K2) SETTLED USD 3.65 HIGHER AT 104.25/BBL; BRENT (M2) SETTLED USD 4.14 HIGHER AT 108.78/BBL

Oil prices were firmer Wednesday, building strength out of the European morning as the latest IEA forecasts warned of large Russian production cuts, while the 9mln bbl rise in US crude stocks was offset by product draws.

IEA cut its 2022 global oil demand forecast by 260k BPD on COVID in China and lower OECD demand. The body warned that Russian supply is expected to fall by 1.5mln BPD in April and by around 3mln BPD from May (click here for more details).

RUSSIAN OIL: Reuters reported top oil traders are to cut oil purchases from Russia's Rosneft from May 15th amid uncertainty around EU and Swiss financial sanctions. Meanwhile, WSJ reported that Russian oil industry sources are concerned about keeping refineries running with access to Western infrastructure/tech being cut off. Separately, as storm damage repairs near completion, Black Sea CPC blend crude oil exports have been set back up to 5.56mln tonnes for May from 5.13mln T in April.

CHINA RETREAT: CNOOC (883 HK) is said to be considering exiting operations in Britain, US and Canada amid tensions with the West, Reuters reported. The Chinese oil major views assets in the regions as "marginal and hard to manage". Plans are driven by the view in Beijing that tensions with the West could block investments.

US INVENTORY DATA: EIA reported crude stocks +9.4mln bbls in the latest week, larger than the private data's +7.8mln bbl print. However, gasoline and distillates both drew 3.6mln and 2.9mln bbls, respectively, offsetting the kneejerk lower reaction in oil prices at the time of the release. US crude production remained unchanged at 11.8mln BPD, while refinery utilisation fell 2.5%.

EQUITIES

CLOSES: SPX +1.13% at 4,447, NDX +1.99% at 14,217, DJIA +1.01% at 34,564, R2K +1.86% at 2,023.

SECTORS: Consumer Discretionary +2.51%, Technology +1.59%, Materials +1.46%, Energy +1.36%, Communication Services +1.31%, Industrials +0.97%, Consumer Staples +0.69%, Health +0.43%, Real Estate +0.41%, Financials -0.08%, Utilities -0.17%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.10% at 3,827; FTSE 100 +0.05% at 7,580; DAX -0.30% at 14,082; CAC 40 +0.07% at 6,542; IBEX 35 +0.47% at 8,618; FTSE MIB +0.24% at 24,727; SMI +0.01% at 12,380.

EARNINGS: **JPMorgan (JPM)** missed on EPS but beat on revenue and authorised a USD 30bln share repurchase programme. Moreover, JPMorgan's profit was down 42% from a year ago as deal volume slowed, and trading revenue declined. **Delta (DAL)** missed on revenue but posted a shallower loss per share than expected. Co. saw a strong rebound in demand as Omicron faded, and as such returned to profitability in March, marking the first month of positive unit revenue vs. '19 since pandemic began. **Best Buy (BBBY)** reported poor earnings, highlighted by a surprise loss per share as well as missing on revenue. CEO said industry trends have worsened since February as macro market volatility and overall consumer uncertainty has surged. Lastly, a 'lack of available inventory' has been an obstacle to sales. **BlackRock (BLK)** posted a mixed report, where it topped on EPS but missed on revenue. However, CEO said positive flows across all product types in Q1.

STOCK SPECIFICS: **PayPal (PYPL)** CFO John Rainey is leaving the company to take the same role at **Walmart (WMT)**, effective June 6th, 2022. Separately, PYPL has reportedly laid off its emerging technologies research team. **Tesla (TSLA)** CEO Musk is being sued by former **Twitter (TWTR)** shareholders claiming they missed out on the recent upside in the stock since Musk waited too long in disclosing his 9.2% stake in the Co. **Sierra Oncology (SRRA)** surged 40% after announcement it is to be acquired by **GlaxoSmithKline (GSK)** for USD 55/shr (vs prev. close USD 39.52) in a USD 1.9bln deal. **Antares Pharma (ATRS)** saw gains close to 50% after it is approaching a near USD 1bln deal to be acquired by **Halozyme Therapeutics (HALO)**, according to WSJ sources. Morgan Stanley named **Charles Schwab (SCHW)** a "top pick," said SCHW will benefit from rising rates and that it has an attractive valuation compared to its peers. **Qualcomm (QCOM)** raised quarterly dividend to USD 0.75/shr from USD 0.68/shr. **Ford (F)** CFO said EV margins are not where they need to be and sees EVs becoming profitable by "relentless" cost cutting, with prices to come down as chip supply increases. **Toyota (TM)** recalls 460k vehicles for safety noncompliance. **BlackRock (BLK)** CEO said it is studying digital assets including crypto assets. **Amazon (AMZN)** is to charge sellers a 5% fuel and inflation surcharge; surcharge amounts to an average raise of USD 0.24 per product and it is not permanent. **Starbucks (SBUX)** CEO is ramping up the Cos. campaign against unionisation, warning that expanded benefits can't automatically go to unionised workers, according to WSJ. **Synopsys (SNPS)** probed on allegations it passed tech to Huawei and SMIC. **Apple (AAPL)** MacBook shipments delayed after lockdowns slow production

FX WRAP

The Dollar was choppy on Wednesday after testing the May 2020 highs at 100.56 and matching the highs from the morning of 100.52, which came in wake of the hot PPI data. However, gains were short lived and the Dollar sold off back beneath 100 to lows of 99.82, which was led by a move lower in US Treasury yields. Equities were also firmer but yields remained near session lows.

The Euro was firmer as the dollar sold off after EUR/USD tested YTD lows of 1.0806 before rebounding to test 1.09 ahead of the ECB rate decision on Thursday, a preview is available here. Analysts at ING also suggested this morning that they doubt investors are yet ready to push EUR/USD below 1.0800 ahead of the ECB's meeting, but warns it could approach 1.05 this summer with front-loaded Fed tightening seeing the cross trade between 1.05 and 1.10.

HAVENS: The Yen saw continued depreciation despite the favourable yield dynamics and weaker greenback, although weakness was contained with USD/JPY only marginally firmer at pixel time. Nonetheless, the cross had reached as high as 126.31 rising above the June 2015 highs to levels not seen since 2002. CHF was flat against the Dollar, but weaker against the Euro although EUR/CHF did hit a low of 1.0086, matching Tuesday's low before it rebounded on the Euro strength. Gold prices took advantage of the lower greenback and lower yields to rise to highs of USD 1,981/oz from lows of USD 1,963/oz.

NZD was the standout activity currency. NZD/USD hit highs overnight of 0.6901 but failed to sustain a rise above that in wake of the hawkish RBNZ which raised rates by 50bps, more than the 25bps expected. The Committee agreed that their policy 'path of least regrets' is to increase the OCR by more now rather than later and that a larger move now provides more flexibility ahead in light of the highly uncertain global economic environment. However, the RBNZ said it remains comfortable with the outlook on the OCR as outlined in the February MPS which suggests that today's more aggressive move was just front-loading and that its view of the destination for rates remains unchanged. Nonetheless, in wake of the decision ANZ Bank and Kiwibank expect to hike the OCR by 50bps in May while Westpac said that nothing in the statement that explicitly argued against a consecutive 50bp hike in May and won't be surprised if the market moves to fully price that. Despite the hawkish rate decision and subsequent hawkish calls for the RBNZ, the Kiwi sold off throughout the session to lows of 0.6756 before finding some support as the Dollar took a hit although it failed to rally much on the rise in US equities. Perhaps the downside was due to the RBNZ stating their outlook on the OCR as outlined in February remains unchanged.

AUD was marginally lower as it tracked the losses in the NZD, albeit it was more supported from the move in US equities and the greenback after testing support at 0.7400, a level it only briefly dipped beneath.

CAD was firmer after the BoC hiked rates by 50bps, as expected, and announced the end of its reinvestment phase and announced the start of QT, which is likely to be conducted at a relatively fast pace as 40% of its holdings are due to mature within two years. However, other details remain light but they are not actively considering asset sales. It also raised its CPI and growth forecasts for the year while also raising its estimate of the neutral rate by 25bps to 2.50% at the midpoint. As the dust settled from the release, USD/CAD trended lower which also coincided with a move higher in oil prices, equities and a move lower in the Dollar, alongside a hawkish BoC to see the stars align for the CAD bulls.

GBP was bid thanks to the lower dollar and firmer equities which saw Sterling gain against both the Euro and Dollar. The GBP bid was likely also supported after hot CPI data which saw a 7.0% rise Y/Y, above the expected 6.7% with the M/M also rising above expectations of 0.7%.

SCANDIS: The general market tone was mostly negative for the NOK and SEK, but the latter held up better on the back of a slender uptick in Swedish 5 year CPIP money market expectations per Prospera. NOK underperformed the SEK despite the recovering Brent prices.

EMS: EMFX was mixed. **BRL** was marginally softer against the buck despite a retail sales beat for February, although uncertainty remains ahead of Brazilian elections in October with Lula's lead narrowing against Bolsonaro in recent months. **ZAR** was also weaker following weak retail sales data and on inflation concerns amid the rising oil prices, but weakness was limited by the softer dollar and higher gold prices. **TRY** was flat ahead of the CBRT on Thursday as the impact of higher oil prices on the net importing country was offset by losses in the greenback. **MXN** saw marginal gains thanks to gains in crude while **CLP** and **COP** also saw gains, with CLP benefitting from hawkish central bank minutes which signalled the Central Bank considered a larger 175bps hike at its latest meeting, but instead opted for a 150bps move.