



US Market Wrap

18th April 2022: Stocks mixed while crude and yields rise in holiday-trade

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** Russia advances on eastern Ukraine; Bullard said Fed has a good plan in place and base case is not for more than 50bps at any meeting; Decent BAC earnings but poor SCHW report; NAHB inline with consensus; TWTR adopts 'poison pill', PE firms look at joining Musk bid; Production halt at Libya's NOC.
- **COMING UP: Data:** US Building Permits & Housing Starts **Events:** RBA Minutes, IMF World Economic Outlook **Speakers:** Fed's Evans **Supply:** Germany **Earnings:** L'Oreal; Halliburton, Johnson & Johnson, Netflix, IBM.
- **CENTRAL BANK WEEKLY:** Previewing RBA minutes, China LPR; Reviewing ECB, BoC, BNZ, BoC, BoK, CBRT. To download the report, [please click here](#).
- **WEEK AHEAD PREVIEW:** Highlights include China data, PBoC LPR, Flash PMIs. To download the report, [please click here](#).
- **WEEKLY US EARNINGS ESTIMATES:** [TUES] JNJ, LMT, PLD, NFLX, IBM; [WED] ASML, ANTM, PG, ABT; [THURS] DHR, T, PM, NEE, UNP, ISRG; [FRI] AXP, VZ. To download the full report, [please click here](#).

MARKET WRAP

Markets returned from the long weekend in a choppy environment with low volumes amid EU, UK and HK market closures; US equities finished mixed on the session. Earning season continued with Bank of America (BAC) finding a bid which helped support other banks after a profit and revenue beat while its trading metrics were above expectations and provisions for credit losses were smaller than feared. However, Charles Schwab (SCHW) tumbled on a profit miss while Bank of New York Mellon (BK) were also lower. Twitter (TWTR) added to recent gains amid the Musk buyout bid where the Tesla CEO is reportedly considering bringing in partners on the bid, although the TWTR board did implement its poison pill, which serves as a defense tactic to prevent or discourage hostile takeover attempts. Sectors were mixed, Health Care, Consumer Staples and Utilities were the laggards although Financials and Energy outperformed, with Financials supported by BAC while Energy was supported by the gains in crude and natgas. Crude was bid on further supply issues after a production halt from Libya's NOC due to blockades, while natgas surged to highs not seen since 2008. The latter's gain was seen on cold weather forecasts along with the ongoing geopolitical implications, which remain very fluid, with the latest being the official commencement of Russia's second phase of its operation, focusing on Eastern Ukraine. The move higher in crude prices weighed on Treasuries with yields printing fresh cycle highs, albeit on very low volumes, which helped support the Dollar index to levels not seen since April 2020.

GLOBAL

GEOPOLITICAL: The updates surrounding Ukraine and Russia deteriorated on Monday, with the bulk of updates circling around Russian movements on the ground as it officially launched its new offensive operation in the east. Highlighting this, Ukraine's armed forces command said Russia's main military focus is on taking full control of Donetsk and Luhansk regions. Meanwhile, Ukraine's Security Council Secretary noted that Russian forces on Monday tried to break through defences almost all along Donetsk, Luhansk and Kharkiv fronts, but believe Ukraine forces in Donetsk and Luhansk can withstand this new Russian assault. From the other side, the Russian Defence Ministry stated Russia carried out an air strike at a logistics centre of the Ukrainian army near Lviv, and destroyed foreign-made weapons stored there, according to Tass, although the US said it has no confirmation of this. Lastly, and on sanctions, US Deputy Treasury Secretary Adeyemo noted the next phase of sanctions on Russia will be to disrupt military industrial complexes and supply chains.

FED: Bullard (2022 voter, 50bps dissenter) spoke on the closing bell where he reiterated that inflation is far too high for comfort but he added the Fed has a good plan in place and is hopeful the balance sheet runoff is to begin in May. Bullard reiterated that the Fed should try to get above neutral as early as Q3, but said they are to take it one step at a time as he does not want to disrupt markets, but the Fed must move quickly, again suggesting a FFR of 3.5% is needed. He also reiterated others on the FOMC that the Fed wants to get to neutral rates expeditiously. He was asked about a 75bps move, and although he stressed it is not his base case, he does not want to rule it out.

FIXED INCOME

**T-NOTE FUTURES (M2) SETTLED 9+ TICKS LOWER AT 119-20+**

The Treasury curve bear steepened on Monday although volumes were extremely light with UK, EU and HK market closures, as price action was driven by the rise in oil prices while Friday's US data was digested. At settlement, 2s +1.4bps at 2.458%, 3s +1.6bps at 2.682%, 5s +3.6bps at 2.796%, 7s +4.6bps at 2.862%, 10s +5.4bps at 2.862%, 20s +4.7bps at 3.138%, 30s +3.5bps at 2.952%.

THE DAY: Treasuries bear steepened with yields finding an inflationary impulse from the rising oil prices amid further supply constraints from Libya. Although markets were shut Friday, there was some data to digest. The NY Fed Manufacturing survey rose to 24.6 from -11.8 and above the expectations for a 0.5 print. New orders and shipments grew strongly, and unfilled orders increased while employment pointed to a small increase and prices paid hit a record high, although the six month outlook was significantly less optimistic than in recent months. The April report was encouraging, although elevated prices and longer delivery times are weighing on the outlook. US industrial production rose 0.9%, a bit above the 0.4% expectation while manufacturing output also rose 0.9%, above the 0.6% estimate. On housing, the latest NY Fed Survey saw house prices rising another 7% by year-end and 2.2% over the next five years which gave further fuel to inflationary fears. The moves saw yields climb to new cycle highs with 10yr yields leading the gains to see a high of 2.88% which saw the 2s10s curve steepen to 40bps. There has been little Fed speak, although Bullard is expected to speak on the equity closing bell on Monetary Policy and the Economy, where we expect him to reiterate his hawkish tone. Note, former Fed's Dudley spoke over the weekend warning a hard landing for the US economy is inevitable but puts it down to the Fed whenever it happens in 2023 or 2024. Meanwhile, Central Bank chiefs, including Powell, are due to speak this week at the G20, IMF and World Bank meetings. Note, The Fed goes into the blackout period on April 23rd, so this is the final week to hear from the FOMC before going into the May meeting where a 50bps hike is expected alongside an official balance sheet runoff announcement. Note, with earnings season underway, there have been several corporate issuers, including from Morgan Stanley and Wells Fargo.

OPS & SALES: US sold USD 54bln in 6mth bills at 1.25%; B/C 3.29x. US sold USD 64bln in 3mth bills at 0.86%; B/C 2.72x. NY Fed RRP op demand at USD 1.738tln across 82 bidders (prev. USD 1.707tln across 79 bidders).

STIRS: EDM2 +0.5bps at 98.335, U2 -0.5bps at 97.660, Z2 -1.0bps at 97.145, H3 -1.5bps at 96.855, M3 -2.5bps at 96.660, U3 -2.5bps at 96.675, Z3 -2.0bps at 96.775, H4 -2.0bps at 96.880, M4 -2.0bps at 96.945, U4 -2.0bps at 96.970, Z4 -2.5bps at 96.980, Z5 -3.5bps at 97.065.

CRUDE

WTI (K2) SETTLED USD 1.26 HIGHER AT 108.21/BBL; BRENT (M2) SETTLED USD 1.46 HIGHER AT 113.16/BBL

Crude prices were firmer on Monday returning from the long weekend amid ongoing geopolitical tensions and supply woes out of Libya, which saw WTI and Brent briefly rise above USD 109/bbl and USD 114/bbl, respectively. Nat gas surged on cold weather expectations.

Libya's NOC warned of the closures and declared a force majeure on some of its output and exports due to an expanded blockade, which forced the announcement it cannot meet obligations for oil deliveries from its Zueitina terminal or the Sharara oil field. Following its announcement, over the weekend production at the El Feel oil field was halted.

The war in Ukraine and following sanctions continue to put upward pressure on oil prices, which has led to declining output out of Russia. Highlighting this, Interfax reported on Friday oil output declined 7.5% in the first half of April and output declined to 10.2mln BPD from 11.01mln BPD in March.

Natural Gas surged to highs not seen since 2008, rising above USD 8.00/MMBtu on cold weather expectations. Refinitiv estimated 156 heating degree days over the next two weeks in the Lower 48 US states, which is above the 129 norm for this time of the year, while analysts also highlight the strong demand out of Europe combined with a cold April is helping provide a bid to nat gas prices. Meanwhile, on Russian gas, Russian Deputy PM Novak said on Friday several buyers of Russian gas have agreed to switch to payments in Roubles and they expect the decision from other importers, but didn't mention which customers have already switched, according to Reuters. Comments from the Kremlin thereafter stated that settlements in roubles are expected some time next month.

EQUITIES

CLOSES: SPX +0.00% at 4,392, NDX +0.13% at 13,910, DJIA -0.11% at 34,411, R2K -0.84% at 1,989



SECTORS: Energy +1.51%, Financials +0.61%, Consumer Discretionary +0.34%, Technology +0.32%, Materials +0.08%, Communication Services -0.16%, Real Estate -0.28%, Industrials -0.38%, Utilities -0.49%, Consumer Staples -0.81%, Health -1.12%.

STOCK SPECIFICS: **Charles Schwab (SCHW)** was lower following poor earnings where both EPS and revenue missed, while daily average trades and revenue per trade fell Y/Y. **Synchrony Financial (SYF)** posted a strong report; surpassed consensus on EPS alongside the board approving share buyback programme of up to USD 2.8bn and boosting quarterly dividend 5% to 0.23/shr. **Bank of America (BAC)** beat on EPS and revenue, alongside most revenue segments. Moreover, CFO noted very minor direct exposure to Russia-based companies, while consumers spent 'at the highest level ever' in the Q, but the CEO added macro factors and Fed movements could slow share repurchases. **Twitter (TWTR)** board of directors adopted a 'poison pill' to protect itself from Musk's offer, which serves as a defense tactic to prevent or discourage hostile takeover attempts. Moreover, Musk is considering bringing in partners on Twitter bid, with one possibility Silver Lake, according to NY Post sources, whilst other Reuters sources note Thoma Bravo informed Twitter that it was exploring the possibility of putting together a bid. **DiDi (DIDI)** reported poor Q4 results, where revenue fell 13% Y/Y, and net loss also fell by a large 95% Y/Y. In other news, DIDI is to hold a shareholder meeting on May 23rd to vote on US delisting plans. **Southwest Gas (SWX)** announced a review of strategic alternatives, and said it would evaluate selling itself, among other alternatives, after an unnamed potential buyer showed interest "well in excess" of Carl Icahn's USD 82.50/shr offer. **Nektar Therapeutics (NKTR)** plummeted after announcing it has stopped all trials involving its key cancer drug following its failure in multiple studies. The trials that Nektar stopped included those involving a combination of its drug with **Bristol-Myers Squibb (BMY)** cancer drug Opdivo as well **Merck's (MRK)** cancer drug Keytruda. Morgan Stanley downgraded **Sirius XM (SIRI)** to "Underweight" from "Equal-Weight"; said auto market headwinds would negatively impact SIRI, and also noted the stock's outperformance over the past year. **Instagram (FB)** is expanding the ability to add product tags in feed posts to everyone in the US. 2022 **Ford (F)** Mustang Mach-E is no longer available for retail order due to high demand, according to Electrek. Workers organizing a union at **Apple's (AAPL)** Grand Central Terminal store are seeking minimum pay of USD 30 per hour, according to CNBC. **Amazon (AMZN)** is reportedly developing a 'new-to-world' AR product, according to Protocol. Separately, Amazon warehouse in New Jersey becomes next for union vote, according to WaPo. **Meta (FB)** shareholder group opposes re-election of two board members

FX WRAP

The Dollar was firmer on Monday, in conditions with limited newsflow and light volume as UK and European markets remain closed due to the Easter holidays. Nonetheless, the Buck hit a high of 100.860, a new YTD peak and the highest level seen since April 2020. Little was scheduled for Monday, but for the record NAHB housing market index for April printed in line with expectations, whilst a NY Fed survey highlighted the intense inflation in housing, as households expect home prices to rise 7% in the year ahead and 2.2% on average annually for next five years. Looking ahead, Fed speak on Tuesday comes from Evans (2023 voter), and on the data front is Building permits/housing starts for March. Central bank speak will be key this week at the G20, IMF and World Bank meetings with eyes on Fed Chair Powell as the FOMC move to blackout period ahead of the May meeting on April 23rd.

Activity currencies were lower across the board against the Buck, aside from CAD, which was flat. As previously mentioned, newsflow and volume was thin to start the week with holidays still observed in UK and Europe, and as such fell victim to the stronger Buck. Nonetheless, the antipodes saw losses of circa 0.5% as global growth and China lockdown concerns weighed, in contrast to the Loonie which was supported by the gains in oil prices while it may still be finding some support after the 50bps hike last week from the BoC as we now look to the Fed to enact a 50bp move in May. Sterling also saw weakness against the Buck, but not as large as the antipodes, with cable hitting a low of 1.3006 and just managing to stay above 1.30. Moreover, desks note rising energy prices and the ever-worsening Ukraine war are seen hitting UK worse than the US. In terms of levels, technicians note a close below the key 1.30 would favour bears, whilst the next key support is the 50% Fib of 2020-21's rise at 1.2831, as the 38.2% was key support in December and capped March's high. Looking ahead, on Tuesday, for the antipodeans watchers there is Australian RBA minutes and New Zealand Business PSI for March.

Safe havens, CHF and JPY, saw losses against the Greenback with Yen weakness more pronounced than its Swissy counterpart. Firstly, USD/JPY saw highs of 126.96, a level not seen in the pair for 20 years. A few catalysts remain responsible for the rise in USD/JPY, with the widening Treasury-JGB yield spreads as the BoJ is accommodating due to its YCC programme, while the Fed looks to hike rates by 50bps in May. Analysts also note the rising oil and natgas prices, which hurts Japan's reliance on foreign fuel as opposed to US being a net exporter of natgas. Continuing, Reuters note, the mix of soaring energy prices and a falling Yen is creating further worry at Japan's MOF and to some extent at the BoJ, but the MOF is concerned FX intervention might be poorly received by the US and other trading



partners, while the BOJ is still dealing with a weak economic recovery and ex-food inflation only seen up 0.8% Y/Y in March. On Tuesday, SNB Chair Jordan is scheduled to speak to the Peterson Institute, whilst Japanese export data on Wednesday will have market participants attention.

EUR was lower on Monday, but within very contained ranges, alike its peers, with a lack of trading volume as Europe was still closed for the Easter break. However, do note EUR/USD hit its lowest since 2020 as the Buck's appeal broadened amid the worsening Ukraine/Russia situation, and technicians noting EUR/USD downside risks remain despite tight ranges.

EMs were mixed, where BRL and MXN outperformed and saw gains against the Dollar, in contrast to the RUB, ZAR, and TRY which all saw losses. For the BRL, Brazilian retail sales extended their strong start to the year in February, with the outlook for the Q1 data solid. ZAR saw losses, as the country continues to be impacted by floods with the South African President Ramaphosa adding the floods require huge relief effort. Further on this, the South African military announced that it will activate 10,000 troops as part of its response to recent flooding in the country's KwaZulu-Natal province. Lastly, the rising oil prices hindered the Lira whilst the bleak Ukraine/Russia picture continues to weigh on the Rouble as the sanctions on the country mount.

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