US Market Wrap

19th April 2022: Yields and stocks rally as housing shows no slowing and sanguine corporate commentary

- **SNAPSHOT**: Equities up, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Russia begins Donbas attack; Fed's Evans pushes back on >50bps hikes; US housing starts and building permits surprisingly strong; Improved oil supply out of Libya; IMF cuts global growth forecast; More headwinds for Musk's TWTR deal; JNJ suspends COVID sales guidance.
- **COMING UP**: **Data**: Japanese Trade Balance, German Producer Prices, EZ Industrial Production, Canadian CPI, US Existing Home Sales **Events**: French Election TV Debate, PBoC LPR **Speakers**: Fed's Daly & Evans **Supply**: UK, Germany & US **Earnings**: ASML, Carrefour, Danone, Heineken, Sandvik; Abbott, Procter & Gamble, United Airlines.
- **WEEKLY US EARNINGS ESTIMATES**: [TUES] 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

A solid performance for major indices Tuesday, with NDX and Russell 2k outperforming SPX, as many participants returned from the holiday weekend, with Ukraine an afterthought to the bounce in housing data and lack-of-concerning macro commentary from corporates. Treasuries bear-flattened (2s +15bps, 30s +4bps) as the surprise rise in US housing starts and building permits added weight to Bullard's latest hawkish deviations from consensus, with some chunky profit-taking seen on last week's steepeners. In FX, the DXY made new peaks (101.03) as USD/JPY approaches 129 with Japanese officials providing little verbal support for the Yen. The Chinese Yuan was also pressured ahead of the potential LPR cuts on Wednesday, with views mixed after it refrained from cutting the MLF last week and the smaller than expected RRR cut. Oil prices tumbled through the session with IMF's global growth downgrades adding to the improved supply backdrop out of Libya. Energy was the underperforming stock sector, with particular pressure in nat-gas exposed names as prices tumbled even harder than oil.

GLOBAL

GEOPOLITICS: Ukraine/Russia updates continued to be of a negative nature on Tuesday with the majority of updates surrounding Russia’s eastern Ukraine attack. Outlets noted Russian and Ukrainian forces engaged along a 300-mile front line in the eastern Donbas region, as the long-awaited Russian offensive in the east began late on Monday, with Moscow claiming it struck more than 1,000 targets. A senior US official said they see Russia carrying out a prelude to a larger attack, saying Russia is still adding to its military capabilities to prepare for the offensive. Ukraine said events in Mariupol have made the negotiation process with Russia "even more complicated" and it is hard to say when the next direct peace talks will be possible as Russia is "seriously betting" on the second stage of “special operation”. Meanwhile, the White House said there could be new sanctions on Russia this week, which follows Adeyemo on Monday saying the next phase of sanctions on Russia will be to disrupt the military industrial complex and supply chains.

FED: **Evans (2023 voter)** said there is good reason to think the economy will do very well even as rates rise and his expectation is that the Fed will need to raise rates above neutral. But said if we see inflation coming down, then neutral rates could be about right. The Chicago President said it is a bit too glib just to say the Fed wants balance sheet to be on autopilot. Evans later added he doesn't see the need for bigger than 50bps rate hikes, where two 50bp rate hikes to get to 2.25-2.5% neutral rate by year-end could make sense. **Bostic (2024 voter)** said it is important to get to neutral rate (2-2.5%) expeditiously, whilst caveating that real wages are in retreat, so there is a case to be made that the Fed will not have to push as hard. Regarding rates, he added any action possible though a larger 75bps hike is "not on the radar".

US HOUSING STARTS/BUILDING PERMITS: US housing starts unexpectedly rose in March to 1.793mln from 1.788 mln, and printed above the expected 1.745mln, rising 0.3% M/M. Building permits rose 0.4% M/M, above forecasts at 1.873mln (exp. 1.825mln) and surpassing the previous month of 1.865mln. Looking into the report, single-family homebuilding and permits fell in March as rising mortgage rates increased costs, but residential construction remains underpinned by a severe shortage of houses. Moreover, the data also showed a record backlog of homes approved for construction, but yet to be started. Furthermore, the chief US economist at High Frequency Economics added "a lack of existing inventories should be positive for building activity", but "high input costs and shortages, of both labor and materials, remain headwinds for builders. Rising mortgage rates that crimp demand will also be a consideration for building activity going forward."

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 17 TICKS LOWER AT 119-03+

Treasuries bear-flattened as the surprise rise in housing starts and building permits added weight to Bullard's latest hawkish deviations from consensus. 2s +12.5bps at 2.585%, 3s +11.8bps at 2.803%, 5s +10.2bps at 2.898%, 7s +7.9bps at 2.941%, 10s +5.9bps at 2.921%, 20s +4.7bps at 3.186%, 30s +4.0bps at 2.993%. 5yr BEI -0.6bps at 3.349%, 10yr BEI +0.2bps at 2.954%, 30yr BEI +0.7bps at 2.622%.

TOKYO/LONDON: Quiet trade through the APAC Tuesday session, with T-Notes rising a few ticks to hit resistance at 119-26+ ahead of the London handover as the front-end led the strength, despite Bullard's latest hawkish deviation (not ruling out 75bps hikes and called for 3.5% FFR needed), although perhaps the lagging long-end was a factor of Bullard's touting of more aggressive balance sheet reduction. However, better selling picked up into the European session with the back-end leading, adding more steepening pressure to the curve as participants returned from the long weekend; T-Notes found interim support at 119-09, with the cash 10yr yield at 2.91% and the 30yr eclipsing 3.00%. Note, Barclays recently closed its long 10yr recommendation, citing uncertainty "about how far the Fed is willing to go to contain inflation. This has raised the expected level of long-term rates, as well as the embedded term premium." Bullard's comments are an example of that.

NEW YORK: There was a slight paring of London's losses in T-Notes as US participants returned. That proved short-lived. A pick-up in curve flatteners accompanied the move higher in belly yields, with several blocked buys in 2yr futures against sales in the Ultra Bonds. Those blocks came both before and after the unexpected rise in US housing starts to the fastest pace since 2006, and perhaps some profit-taking of the chunky steepener flow seen last week. The pick-up in IG Dollar supply also added rate-lock related swap paying/Treasury selling. T-Notes found fresh support at 119-02+. However, fresh selling to new lows was made later into the settlement with the cash 10yr yield above 2.93%, coinciding with stocks rising to fresh highs. While cash 10yr TIPS rose above positive for the first time since March 2020. Traders now look to Wednesday's 20yr Bond auction.

STIRS: Reds led the selling in Eurodollars. EDM2 -3.0bps at 98.30, U2 -7.5bps at 97.575, Z2 -9.5bps at 97.045, H3 -12.5 bps at 96.725, M3 -14.5bps at 96.51, U3 -15.5bps at 96.515, Z3 -15.5bps at 96.615, M4 -14.5bps at 96.795, Z4 -12.5bps at 96.855, Z5 -9.5bps at 96.965. In bills, US sold USD 38bln of 1yr at 1.870% (prev. 1.590% on March 22nd), covered 3.31x. NY Fed RRP op demand rose to USD 1.817tln across 80 bidders (prev. USD 1.738tln across 82 bidders) amid bill paydowns.

CRUDE

WTI (K2) SETTLED USD 5.65 LOWER AT 102.56/BBL; BRENT (M2) SETTLED USD 5.91 LOWER AT 107.25/BBL

Oil prices tumbled through the Tuesday session with IMF's global growth downgrades adding to the improved supply backdrop out of Libya. The benchmarks are now back to where they traded prior to the Thursday NYT report of an EU embargo on Russian oil gaining traction. Energy participants now look to the weekly inventory data with the private release due later Tuesday. Current expectations (bbls): Crude +2.5mln, Gasoline -1.0mln, Distillate -0.8mln.

IMF said it expects global growth to slow significantly this year (3.6% vs Jan f/c of 4.4%) due to the war in Ukraine adding to the COVID-19 pandemic struggles, rising inflation, and interest rates. Russia's GDP is seen falling 8.5% amid a sharp reduction in energy exports. While lockdown-plagued Chinese GDP is seen rising 4.4%, beneath the government's 5.5% forecast. Even the US economy, which has had relatively fewer economic headwinds, saw its GDP estimate cut to 3.7% from 4%.

LIBYA: Oil prices extend their selling in the NY morning after Libya's NOC said current oil production is at 800k BPD. It had recently warned of closures and declared a force majeure on some of its output and exports due to an expanded blockade.

RUSSIAN OIL: Russia's Surgutneftegaz has delayed maintenance of its Kirishi refinery (21.7k T/day) CDU-6 unit in northwest Russia by a month to mid-May due to its struggles exporting oil, according to Reuters. The refinery is the second-largest refinery in Russia, and the CDU-6 unit accounts for over 40% of the plant's capacity. Meanwhile, the Swiss government said it will decide case by case on the EU's "strictly necessary" clause for Russian commodity deals after last week's reports that oil traders were confused about what that actually means.

EQUITIES

CLOSES: SPX +1.63% at 4,463, NDX +2.15% at 14,210, DJIA +1.45% at 34,911, R2K +2.04% at 2,030.

SECTORS: Consumer Discretionary +2.91%, Real Estate +2.12%, Communication Services +2.07%, Technology +1.84%, Industrials +1.81%, Consumer Staples +1.47%, Financials +1.32%, Materials +0.93%, Health +0.93%, Utilities +0.61%, Energy -0.96%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.47% at 3,830; FTSE 100 -0.20% at 7,601; DAX -0.07% at 14,153; CAC 40 -0.83% at 6,534; IBEX 35 -0.06% at 8,694; FTSE MIB -0.96% at 24,624; SMI -1.64% at 12,271.

EARNINGS: **Johnson & Johnson (JNJ)** beat on EPS but missed on revenue. Looking ahead, JNJ suspended COVID-19 vaccine sales guidance and lowered its FY EPS and revenue view due to a global supply surplus as well as demand uncertainty. **Lockheed Martin (LMT)** fell short on revenue, but EPS slightly beat, whilst most revenue segments were also light on consensus. Looking ahead, LMT reaffirmed the 2022 financial outlook. **Prologis (PLD)** posted a strong report as it beat on core FFO, EPS and revenue. In addition, FY EPS view surpassed consensus. **Travelers (TRV)** topped Wall St. expectations on EPS and revenue alongside raising its Q dividend, while net premiums written rose from the prior. However, Piper Sandler noted Cos. “underlying margins were worse than expected”. **Citizens Financial (CFG)** was firmer after it beat on top and bottom line alongside net interest margin also beating analyst expectations.

STOCK SPECIFICS: Large buyout groups, **Blackstone Group (BX), Vista Equity Partners and Brookfield Asset Management (BAM)**, rule out writing equity a cheque for Musk's USD 43bln **Twitter (TWTR)** bid as the groups are concerned about the profitability of Twitter, according to FT. Follows earlier reports Musk is scrambling to find backers for the Twitter takeover, according to NY Post sources, and he is planning to launch the tender offer for Twitter in 10 days or so. Separately, **Apollo (APO)** has held talks about backing a possible Twitter bid and could provide equity to private-equity firm Thoma Bravo, or could even offer debt to support an offer, according to WSJ. **Checkmate Pharmaceuticals (CMPI)** surged over 300% after announcing **Regeneron (REGN)** is to acquire the Co. for USD 10.50/shr. Note, CMPI closed Monday at USD 2.41/shr. **Plug Power (PLUG)** announced an agreement with **Walmart (WMT)** for an option to deliver up to 20 tonnes per day of liquid green hydrogen. **Blackstone (BX)** agreed to buy **American Campus Communities (ACC)** in a deal worth USD 12.8bln, including debt, according to WSJ. **Zendesk (ZEN)** is exploring a potential sale and has hired adviser Qatalyst Partners to reach out to potential buyers. **Netgear (NTGR)** reported weaker-than-expected prelim results, and cut its current-Q revenue view, pointing to a weaker US market for Wi-Fi equipment. **Tesla (TSLA)** Gigafactory in Shanghai officially restarted production with reportedly 8k employees sleeping at the factory with a slow production ramp expected, according to Electrek. **Spirit Airlines (SAVE)** said it is cutting back on flights in the Spring and Summer to head off disruptions after weather disruptions caused cancellations, reports WSJ. **WeWork (WE)** surged after Piper Sandler initiated coverage with an overweight rating. Analysts said WE is nearing profitability as it focuses on its balance sheet and the popularity of flexible work continues to grow.

FX WRAP

THE DOLLAR extended on fresh multi-year highs on Tuesday (DXY peak of 101.020) as EU and UK players returned from the Easter holiday with price action driven higher alongside US yields with the front-end leading. Housing data in the US was stronger than expected, failing to show any signs of cracks just yet from the higher mortgage rate environment. Bullard on the closing bell Monday stated he will not rule out a 75bps move in the future, but it is not his base case, which provided hawkish market momentum to grow off after the strong data.

THE EURO was flat despite the rising greenback where EUR/USD briefly rose above 1.08 although failed to hold above. The policy divergence between the Fed and ECB continues to be a driver of price action and we are set to hear from both ECB President Lagarde and Fed Chair Powell this week for any more policy hints. Meanwhile, the French election on April 24th will also be a risk but the polls recently have been showing greater support for President Macron, while the ongoing geopolitical risk between Russia and Ukraine is lingering. Analysts at ING suggest a "combination of these factors continues to argue against a recovery in the euro, in our view, and EUR/USD may test 1.0700 in the coming days".

HAVENS: The Yen saw further weakness on the ever-widening policy gaps between the Fed and BoJ as US yields continue to rise to see USD/JPY extend its double-decade highs. The move in the Yen has not gone unnoticed in Tokyo, Japanese Finance Minister Suzuki said the weakening brings more demerits than merits under the current circumstances, while he reiterated that FX market stability is important and will continue monitoring FX with a sense of vigilance. Japan's Chief Cabinet Secretary Matsuno provided no comment on specific FX levels, but noted stability is important and will take appropriate steps on FX policy whilst communicating closely with the US and other currency authorities. The commentary did little to support the Yen, however. CHF saw weakness against the greenback and the Euro as havens in general sold off while US equities soared despite high rates. SNB Chairman Jordan noted that Swiss inflation expectations are well anchored but there could be some risk to price stability in Switzerland, adding the SNB uses interventions when they think the exchange rate is too strong and having a negative impact on inflation. Gold fell victim to the higher rates and the broader commodity weakness, where the precious metal tumbled from highs of USD 1,981/oz to find support at USD 1,950/oz.

CYCLICALS were mixed as the AUD outperformed in wake of the RBA minutes that stated inflation picked up and a further increase was expected with the measure of underlying inflation in the March quarter expected to be above 3%. RBA stated that wage growth also picked up but in aggregate terms, had been below a level likely to be consistent with inflation being sustainably at the target and said the strength of the Australian economy was evident in the labour market, while it added that these developments brought forward the likely timing of the first rate increase. GBP, NZD and CAD were all relatively flat as they battled the risk on moves in equities although the higher dollar acted as a headwind. CAD also struggled amid falling oil prices. NZD was lower against the buck and Aussie perhaps on the hawkish RBA minutes which helped narrow the current policy divergence between the RBA and RBNZ although Governor Orr did outline rates are being lifted with the intention of anchoring inflation expectations. GBP was flat and traded either side of 1.30 against the buck while EURGBP rose above 0.8300 to hover around the level at pixel time. Note the IMF forecasted 2023 UK GDP to be the lowest amongst its G7 partners.

SCANDIS: Both the NOK and SEK firmed against the Dollar and Euro, primarily supported by the move higher in equities while NOK was also likely supported by an increase in the trade surplus although the fall in oil prices likely acted as a headwind.

CNH: The Yuan was weaker against the buck for both offshore (CNH) and onshore (CNY). USD/CNH rose to a 6mth high which appears to be driven by policy differentials with Treasury yields continuing their move higher. Meanwhile, the latest Reuters poll sees China is likely to cut its benchmark lending rates following the RRR cut on Friday, although it was a smaller cut by 25bps, rather than the usual 50 or 100bps cut. The poll sees 11/28 expect a 5bp cut to both the 1yr and 5yr LPR on Wednesday while 6/28 expect a reduction between 5 to 10bps but the remaining 11 see both rates being left unchanged.

EMFX: ZAR saw pronounced weakness and was an EM underperformer with more scheduled power outages from Eskom which were increased to Stage 4 which will impact operations on businesses in South Africa which will only add to its woes amid the floods seen in the eastern KwaZulu-Natal (KZN) province. BRL was softer, although Brazil Economy Minister Guedes commented on its recent strength, noting the Real was already rallying due to improved fiscal fundamentals while active BCB policy alongside high commodity prices also helped bring USD/BRL lower. RUB was firmer but it remains difficult to read into price action amid ongoing sanctions and efforts from the CBR. Nonetheless, the Russian Central Bank did ease FX currency control measures for Russian export-focused companies, excluding the energy and commodities sector, however. Note, the IMF released its world economic outlook where it cut its global GDP growth forecasts; although Brazil saw a 0.5% upgrade from the prior projection for 2022 but was downgraded 0.2% for 2023, while Mexico saw a 0.8% forecast cut in 2022 and 0.2% cut for 2023 from the IMF's prior projections.