



US Market Wrap

20th April 2022: NDX suffers on woeful NFLX report with lower yields an afterthought

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude flat/up, Dollar down.
- **REAR VIEW:** Awful NFLX report, strong PG; Record strong 20yr auction; Bullish EIA report; Russia to test launch ICBM; Hawkish ECB rhetoric; Hot CAD CPI; Fed's Evans and Daly affirm need for neutral.
- **COMING UP: Data:** EZ CPI (Final), US IJC & Philadelphia Fed, EZ Consumer Confidence (Flash) **Speakers:** Fed's Powell, ECB's Lagarde, BoE's Bailey & Mann **Supply:** France & Spain **Earnings:** Meggitt, Nestle; American Airlines, AT&T, Phillip Morris.
- **WEEKLY US EARNINGS ESTIMATES:** [THURS] DHR, T, PM, NEE, UNP, ISRG; [FRI] AXP, VZ. To download the full report, [please click here](#).

MARKET WRAP

Mixed trade for indices where the SPX Equal-Weight (RSP) was up 70bps but the traditional index was flat with particular pressure on Netflix (NFLX), -35%, after a horror-show earnings report. The tech/discretionary focused NDX underperformed, -1.5%, with the lower yield environment an afterthought. Treasuries bull-flattened amid BofA's latest long 10yr recommendation accentuated by the record strength US 20yr bond auction; 2s +0.7bps, 10s -6.9bps, 30s -10.4 bps. Non-voters Daly and Evans were both on wires affirming the need to get to neutral, while money markets went above 100% pricing for a 50bps May hike, with 75bps chances rising after Bullard's comments earlier this week. Oil prices were choppy on the back of the bullish EIA report, although heads were scratched after a flurry of selling saw WTI test beneath 100/bbl before paring back losses into the NY afternoon. DXY fell towards 100 as Yen leads strength on lower US yields and positioning correction, while CAD outperforms as hot CPI added to the broader Dollar weakness.

GEOPOLITICS

Ukraine/Russia tensions continue to mount on Wednesday, with Russian President Putin highlighting the negative tone of talks by saying, "our military operation will continue until full security is provided to the residents of Luhansk and Donetsk". On Mariupol, some civilians trapped for weeks in the city have been able to leave, but officials say there were far fewer than hoped, and this comes as a Russian deadline for the last Ukrainian defenders in Mariupol to lay down their weapons has passed. A Ukrainian marine commander in the last stronghold in the city, a steelworks plant, said his men might have only hours left. On discussions between the two nations, Russian Kremlin stated the ball is in Ukraine's court re. peace discussions, after Russia passed a document to them, but the speed of peace discussions leaves much to be desired, whilst also adding Russia has lost its confidence in the Ukrainian negotiators. Following this, Ukraine President Zelenskiy declared he has not seen or heard about any document from Russia. Lastly, Russia is test launching a new intercontinental ballistic missile, Sarmat, where Putin added the missile will provide food for thought for those who try to threaten Russia. Note the Pentagon later said Russia had previously notified the US ahead of the ICBM test launch and the test was seen as routine.

US

FED: Daly (2024 voter) on Wednesday said it would be "prudent" to raise the FFR to 2.5% by year-end, saying that getting to neutral is a top priority. Daly said once neutral is reached, financial conditions and inflation will be assessed to see what more needs to be done, but it's too early to tell whether restrictive policy is necessary. The San Fran President also said the case for a 50bps hike in May is now "complete" and can make the announcement on the balance sheet reduction "as early as May". Said new data post-March meeting supporting evidence that the expansion is self-sustaining, whilst warning that if there were a recession, it would be mild and short, but that's not her base case. **Evans (2023 voter)** was on wires again, and said he believes there's good reason to think the special factors causing high inflation will stop rising. He affirmed his view that the Fed will probably end up with a restrictive stance. The Chicago Fed President also said there is no appetite for a higher inflation objective amid concerns over when/if Fed can get back to the 2% target. Even **Kashkari (2023 voter; dove)** was out warning the Fed's job will get harder and will need to do more if supply chains don't improve as he hopes.



BEIGE BOOK: The latest [Fed Beige Book](#) was largely status quo, exhibiting strong inflationary pass through trends, a tight labour market, and recent commodity spikes on the back of the Ukraine war. Although there were some contrarian snippets, such as "some contacts reported early signs that the strong pace of wage growth had begun to slow" and "a few Districts noted negative sales impacts from rising prices".

EXISTING HOME SALES: Existing home sales fell to 5.77m, from the prior 5.93m, and printed beneath the expected 5.8m, which comes after Tuesday's surprisingly strong building permits and housing starts. ING notes, "with affordability a huge issue in terms of both home prices and monthly mortgage payments we expect to see a further moderation in the number of transactions in the months and quarters ahead. In turn, this could also feed through into lower prices and weaker household sentiment and potentially be a catalyst for a change in stance from the Federal Reserve further down the line." Moreover, the bank says house prices in the US have risen in excess of 30% since the start of the pandemic, and with surging inflation throughout the economy, real incomes are being squeezed and confidence has been suffering. On top of this, Wednesday's mortgage application numbers for home purchases fell again in response to mortgage rates hitting 12-and-a-half year highs.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 12+ TICKS HIGHER AT 119-16

Treasuries bull-flattened amid BofA's latest long 10yr reco accentuated by the record strength US 20yr bond auction. 2s +0.7bps at 2.582%, 3s -0.5bps at 2.787%, 5s -2.4bps at 2.865%, 7s -4.7bps at 2.885%, 10s -6.9bps at 2.846%, 20s -10.2bps at 3.077%, 30s -10.4bps at 2.887%.

TOKYO/LONDON: T-Notes continued to leak lower into the Tokyo session Wednesday to eventually find support at 118-19+ before recovering into the APAC afternoon, perhaps some spillover bids from JGBs after the BoJ announced it would be defending its 10yr 0.25% yield target by an unlimited amount. As European trade got underway, futures continued to drive higher on volume, although dealers noted cash trade was more subdued. In lack of other catalysts, the BofA 10yr long recommendation to 2.25% caught attention.

NEW YORK: Interim highs were made at 119-17+ as US participants arrived, with cash 10yr yield low at 2.86% and the long-end leading the curve strength. But selling picked up in the NY pre-market, with the front-end leading alongside a slew of bearish block trades in SOFR contracts as traders baked in further aggressive hike pricing (over 100% chance of 50bps in May now priced); the hot CAD CPI emboldened the moves. The long-end was also sold with an eye on the approaching 20yr auction, albeit to a lesser degree. Better buying soon re-emerged as the selling flurry saw real money BTD into the NYSE open, IFR noted. Support for USTs was aided by the soft US existing home sales data for March, offsetting Tuesday's strong starts and building permits, and enough to keep T-Notes rangebound into the 20yr auction. The record 3bps stop-through saw T-Notes break to new peaks at 119-20+, before paring back within range into the settlement.

STIRS: Eurodollars flattened as the front-end fully priced a 50bps May hike. EDM2 -5.0bps at 98.25, U2 -5.0bps at 97.525, Z2 -2.5bps at 97.02, H3 -2.0bps at 96.705, M3 -1.0bps at 96.50, U3 +1.5bps at 96.53, Z3 +1.5bps at 96.635, M4 +2.0bps at 96.82, Z4 +2.5bps at 96.88, Z5 +6.5bps at 97.035. NY Fed RRP op demand at USD 1.867tln across 93 bidders (prev. USD 1.817tln across 80 bidders). Rise comes with market repo rates under pressure Wednesday, with desks citing the monthly influx of GSE cash to the money markets adding to the fixed income sales seen yesterday that also need a home for their cash.

CRUDE

WTI (M2) SETTLED USD 0.14 HIGHER AT 102.19/BBL; BRENT (M2) SETTLED USD 0.45 LOWER AT 106.80/BBL

Oil prices were choppy Wednesday on the back of the bullish EIA report, although heads were scratched after a flurry of selling saw WTI test beneath 100/bbl before paring back losses into the NY afternoon.

US INVENTORIES: Crude stocks declined a chunky 8m, larger than the private data-indicated 4m draw and street expectations for a 2m bbl build; Cushing stocks drew 0.2m. Products saw gasoline stocks draw 0.8m bbls and distillates draw 2.7m. Crude production rose to 11.9m BPD from 11.8m. Refinery utilisation rose 1% (exp. +0.8%). Meanwhile, the US exported a record amount of crude and products, surging above 10m BPD for the only 2nd time ever, "The US is acting as the barrel of last resort to a global energy market hungry for oil", Bloomberg's Blas commented.



RUSSIAN OIL: Russian April 1st-19th oil output averaged 10.11mln BPD, "dropping further despite higher exports", according to Bloomberg. Reuters reported on April 12th that output had been falling also, noting some instances of daily production dipping beneath 10mln BPD. Meanwhile, the latest schedule for May 1st-10th shows Russian Urals oil loadings from Baltic ports set at 2.2mln T, unchanged from the same period in April, although Urals and Siberian Light loadings from Novorossiisk falls to 0.34mln T from 0.6mln T.

MIDDLE EAST: Libya's NOC said the country has lost more than 550k BPD (prev. 500k BPD reported on Tuesday) in production due to oil shutdowns. The US expressed its concerns about the Libyan supply shortfalls. Meanwhile, Bloomberg reported Qatar is exploring raising LNG expansion.

EQUITIES

CLOSES: SPX -0.05% at 4,459, NDX -1.49% at 13,998, DJIA +0.72% at 35,160, R2K +0.38% at 2,038.

SECTORS: Real Estate +1.85%, Consumer Staples +1.46%, Health +1.34%, Utilities +0.8%, Materials +0.69%, Financials +0.69%, Industrials +0.54%, Energy +0.41%, Technology -0.13%, Consumer Discretionary -1.36%, Communication Services -4.07%.

EUROPEAN CLOSES: Euro Stoxx 50 +1.72% at 3,896; FTSE 100 +0.37% at 7,629; DAX +1.47% at 14,362; CAC 40 +1.38% at 6,624; IBEX 35 +0.87% at 8,769; FTSE MIB +1.03% at 24,878; SMI +0.23% at 12,310.

EARNINGS: **Netflix (NFLX)** plummeted 35% after a woeful earnings report. NFLX reported subscriber losses for the first time in more than a decade and Q2 streaming paid subscribers is seen falling by 2mln, against the expected gain. Moreover, said it was looking to create a cheaper, ad-supported tier, adding that advertising was an exciting opportunity. **Disney (DIS), Paramount (PARA), and Roku (ROKU)** slipped in excess of 5%, in sympathy with Netflix poor report. **Procter & Gamble (PG)** beat on EPS and revenue alongside raising FY revenue view and expects share buybacks of USD 10bln during FY22. PG added it saw its biggest year-over-year sales gain in two decades as demand remained high for household products, even in the face of higher prices. **IBM (IBM)** surpassed consensus on top and bottom line, while revenue from the software segment also beat. CEO said it now sees revenue growth for FY22 at the high-end of our model (prev. saw mid-single digit growth). **Anthem (ANTM)** posted a strong report and raised its forecast for FY earnings, as lower-than-expected medical costs due to the waning impact of the pandemic helped it beat consensus. **Baker Hughes (BKR)** fell short on EPS and revenue; Co. added its results reflected a volatile operating environment. **M&T Bank (MTB)** was firmer after beating on EPS and anticipates to restart USD 800mln share buyback programme. MTB said 2022 non-interest income view +11-13%.

STOCK SPECIFICS: **Tesla (TSLA)** and **Panasonic** are rumoured to be behind a multibillion-dollar battery factory project with USD 700mln in incentives on the line in Oklahoma, according to Electrek. **Boeing (BA)** told airlines and suppliers 787 deliveries to resume H2 22, according to Reuters sources. **Lululemon (LULU)** announced five-year growth plan to double revenue to USD 12.5bln by 2026. **Teva Pharmaceutical (TEVA)** was lower after the FDA sent a rejection letter in response to an NDA for schizophrenia treatment. Teva said it is studying possible next steps and will work with the FDA to address the agency's concerns. **Coinbase (COIN)** is launching an NFT marketplace as part of a search for growth. **Sonoco (SON)** raised dividend by roughly 9% to USD 0.49/shr (prev. USD 0.45/shr). **Novavax (NVAX)** phase 1/2 clinical trial of COVID-19-influenza combination vaccine candidate indicates vaccine is well-tolerated and immunogenic. **Shopify (SHOP)** is reportedly in talks to buy tech start-up Deliverr for more than USD 2bln, according to Bloomberg. **Amazon (AMZN)** CEO Selipsky said no plans to spin off AWS, and AWS is open to acquisitions of all sizes.

FX WRAP

THE DOLLAR was notably lower Wednesday and fell to lows of 100.210, retracing some of its gains seen in recent times, with all G10 currencies strengthening against the Greenback. The Dollar suffered a setback from its recent strength on a number of factors, with yields slipping from recent highs, alongside hawkish ECB rhetoric and German PPI printing 30.9% Y/Y reinforcing the need for ECB to hike rates. Moreover, DXY touching and failing to breach Tuesday's peak may have contributed to a fade even before USTs gathered recovery momentum in pursuit of their EU debt peers. Elsewhere, Fed's Beige Book noted inflationary pressures remained strong since the last report, with firms continuing to pass swiftly rising input costs through to customers, while Fed speakers suggested the Fed's on a path to get its policy rate to neutral by year-end, but are not expecting inflation to retreat to the Fed's average inflation target of 2% this year. On the data front, existing home sales fell short of the expected after Tuesday's surprisingly strong housing data. Looking ahead, Fed Chair Powell speaks at an IMF panel on Thursday, while on the data docket there is jobless claims and Philly Fed.



ACTIVITY CURRENCIES, CAD, AUD, NZD, were the G10 outperformers and saw gains of around a percent against the flagging Buck. Firstly, the Loonie saw gains following Canadian CPI data, which printed much hotter than expected (more-or-less) across the board and reached a 31 year high, and such the Loonie took this impetus into the NY afternoon. Highlighting this, USD/CAD hit lows of 1.2473, a level not seen since early April, after the CAD initially struggled to maintain its momentum to break beneath the key 1.2500, but once it did it maintained a sustained break of the level with technicians noting the April 5th low of 1.2400 is the next key support level. Antipodeans made the most of the softer Dollar, with NZD/USD hitting a peak of 0.6813, surpassing the key 0.6800, whilst AUD/USD breached 0.7450 and topped out at 0.7457. The respective strength in the antipodes comes ahead of New Zealand Q1 CPI Thursday, which may be the next catalyst for trade.

HAVENS, JPY and CHF, were firmer against the Buck, with Yen seeing more pronounced upside than its Swissy counterpart. For the Yen, during the APAC Wednesday session, there was familiar jawboning from Japanese officials highlighted by the Japanese Deputy Chief Cabinet Secretary noting FX stability is important and closely watching FX moves with a sense of urgency, adding excess FX volatility and disorderly FX moves can harm the economy and financial stability. Nonetheless, on Wednesday USD/JPY fell from its 20-year high, 129.40, to lows of 127.47 to correct a little portion of its exceptionally overbought condition. Moreover, analysts note the cross pullback is partly tied to 10yr Treasury yields nearly reaching 3% on Tuesday, causing shorts to take some profits and real money to bid, driving the yield down more than 10bps from the high. Looking ahead, analysts highlight the debate on how much further Treasury-JGB yields spreads can rise with Fed pricing looking topy, not to mention whether Japanese policymakers will take steps to support the Yen. The next scheduled major event for the Yen watchers is Japanese CPI on Friday to end the week.

GBP & EUR, as previously mentioned, saw upside against the Dollar but were the relative G10 underperformers. Despite saying this, the single-currency observed gains with the cross hitting a peak of 1.0866, after bouncing off a 1.0785 low, which came irrespective of hawkish remarks from ECB's Nagel and Kazaks, where Kazaks said a rate increase in July is possible amid significant inflation risks. Moreover, technicians note monthly techs remain bearish. The Dollar still holds a significant yield advantage over the EUR, and as such a corrective rally for the cross is likely to run into longer-term bears that will sell strength, whilst EUR/USD longs will need to see the ECB adopt an increasingly hawkish stance, to add confidence in any rally extending. Sterling's gains were mainly in tandem with its peers' profit-taking off the broader Dollar pullback rather than any fundamental newsflow benefitting the Pound. Looking ahead, data-wise, there is Eurozone CPI and consumer confidence on Thursday, while ECB's Lagarde and BoE's Bailey are scheduled to speak at the IMF. More imminently, the final French election debate will be followed by an exit poll late Wednesday.

CNH extended declines from a lower CNY reference rate that overshadowed unexpectedly unchanged LPRs on the basis that it infers intent by the PBoC to let the Yuan depreciate.

EMFX was mixed. TRY, RUB, ZAR all saw losses against the Buck, but BRL outperformed and firmed against the falling DXY. Highlighting the BRL outperformance, LatAm currencies were led by the Real which saw benefits from the oil rebound on Wednesday, as the complex reversed losses to see mild gains on the session. Finally, note BRL is on course for its sixth consecutive month of gains due to a rise in commodity prices, tight monetary policy, and a lack of direct exposure to the Ukraine war. RUB continues to be hampered by further sanctions on Russia and the ever-worsening Ukraine/Russia picture.

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