US Market Wrap

21st April 2022: Dollar bid as stocks fall victim to intrusive bond selling

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Powell says 50bps on the table for May, Bullard and Daly tout 75bps; Mixed reports on Russian progress in Mariupol; Hawkish BoE and ECB rhetoric; Musk seeks further Twitter deal; Strong airlines outlook from UAL and AAL; Strong TSLA earnings; Jobless claims prints new low; Philly Fed falls short of expected with prices paid rising.
- **COMING UP**: **Data**: Australian, EZ, UK & US Flash PMIs, Japanese CPI, UK Retail Sales, Canadian Retail Sales **Speakers**: ECB's Lagarde **Earnings**: Renault, SAP; American Express, Verizon.
- **WEEKLY US EARNINGS ESTIMATES**: [FRI] AXP, VZ. To download the full report, please click here.

MARKET WRAP

Major stocks indices were lower (SPX - 1.4%, NDX -2%, R2K -2.3%) Thursday as they reversed their earlier strength throughout the session as bond selling took the reins. Stock indices initially opened on the front foot in New York with the NDX leading after Wednesday's NFLX-induced losses. Airlines (AAL, UAL) and Tesla (TSLA) were the standout outperformers after earnings reports, with consumer demand outlooks strong. Data was a negative, however, with jobless claims and Philly Fed showing labour tightness, inflation and supply chain pressures, and perhaps a factor into the weakness that built through the session. However, the stock weakness looked more a result of yields as the day developed. Treasuries bear-flattened (2s +10bps, 30s +5bps) as Fed's Powell and Daly gave weight to 50bps, adding to the hawkish comments from ECB and BoE. Fed swaps went on to price a third 50bps hike in July. Oil prices were firmer with early strength unwinding into the NY afternoon alongside risk assets, aided by Yellen speaking out against an EU oil embargo, only to bounce again into settlement. DXY flipped firmer as cyclical currencies dipped with stocks while the Yen suffered on higher yields on hawkish western CB speak.

GEOPOLITICS

Ukraine/Russia updates on Thursday centred around Russia's invasion of Mariupol and the conflicting reports regarding their success. Russian Defence Ministry Russia informed President Putin that Russia had captured Mariupol, but there were still over 2k Ukrainian fighters in the Azovstal plant. Following this, Ukrainian President Zelenskiy declared Russia controls most of Mariupol, but Ukrainian forces remain in a part of it, whilst US President Biden noted it is questionable whether Putin controls Mariupol and there is no evidence Mariupol has completely fallen. Further supporting Zelenskiy's claims, the US State Department said it understands Ukraine's forces continue to hold their ground in the city. Meanwhile, the Kremlin noted that Russia-Ukraine talks are ongoing but are still waiting for a response to their latest proposals from Ukraine and are puzzled by Zelensky claiming he has not seen the proposals. Finally, Biden announced his heavily touted USD 800mln security assistance package for Ukraine, which includes heavy artillery weapons, ammunition and tactical drones, which will be sent "directly to the frontlines of freedom".

US

FED: **Chair Powell** said it is appropriate to move a little more quickly and a 50bps hike will be on the table for the May FOMC meeting. Powell said the Fed is going to be raising rates expeditiously to more neutral and then to tight policy if appropriate. The Fed Chair wants to see actual progress on inflation coming down, and is not going to count on the supply side situation resolving, setting forth the Fed's job in quelling demand. Powell commented on the Ukrainian war, saying the US economy is a bit more remote from the effects but will feel upward inflation. **Daly (2024 voter)** struck a hawkish tone and said we will likely be raising rates by 50 bps at a couple of Fed meetings, but also gave an exclusive mention to 75bps by saying the Fed will deliberate with colleagues whether require rate hikes of "25bps, 50bps or 75bps". **Bullard (2022 voter)** continued to echo the hawkish tone by adding 75bps hike has been done and the world has not come to an end, and said the Fed is behind the curve and will not have a hard landing while inflation expectations threatening to become unmoored. Elsewhere, Chicago Fed announced President Charles Evans is to retire in early 2023, where he was set to become a voter.

JOBLESS CLAIMS: Initial jobless claims marginally fell to 184k from 186k and were more or less in line with consensus of 180k, which indicates April was another month of solid job growth as firms continue to retain workers in the tight labour market. Following suit, continued claims printed 1.417mln, beneath the prior 1.475mln and the consensus of 1.455 mln. Oxford Economics notes, "we expect initial claims to remain below 200k in the weeks ahead, as employers, who continue to struggle to attract and retain workers, will keep layoffs to a minimum." Moreover, the consultancy adds, "even as the economy slows in response to high inflation and rising interest rates, we expect employers will be more likely to slow the pace of hiring than to let go of workers."

PHILLY FED: Philly Fed business index for April fell to 17.6 from 27.4 and beneath the expected 21.0, largely offsetting its rise from the prior month. Looking at the subcomponents, employment rose to 41.4 (prev. 38.9) whilst new orders dropped to 17.8 (prev. 25.8). Lastly, the inflation gauge of prices paid rose to 84.6 from the prior 81.0, the highest figure since June 1979, highlighting the continued widespread issues. Looking ahead, in the special questions, most firms have reported adjusting their 2022 budgets for wages and compensation since the beginning of the year, and firms still expect higher costs across all categories of expenses in 2022. In summary, the report notes responses suggest "continued expansion in regional manufacturing conditions this month, and indicators for current activity, new orders, and shipments all decreased but remained positive. The firms continued to indicate overall increases in employment and widespread increases in prices. The indicators for future general activity and new orders fell notably, but the respondents continue to expect growth overall over the next six months."

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 24 TICKS LOWER AT 118-24

Treasuries bear-flattened as Fed's Powell and Daly gave weight to 50bps, adding to the hawkish comments from ECB and BoE. 2s +9.1bps at 2.670%, 3s +9.1bps at 2.870%, 5s +10.2bps at 2.959%, 7s +8.6bps at 2.964%, 10s +6.8bps at 2.904%, 20s +6.5bps at 3.132%, 30s +5.5bps at 2.931%. 5yr BEI +14.1bps at 3.505% 10yr BEI +15.1bps at 3.108% 30yr BEI +6.1bps at 2.680%.

TOKYO/LONDON: Treasuries trickled lower into the Tokyo Thursday session, with a chunky curve flattener overnight adding weight. Citi's rates desk said despite duration sales in the futures, "cash flows were a counter with real$ a better seller in 10's and the long-end during Asian hours, lifting the curve off its Asian lows into the London open." Selling pressure picked up in the European session with hawkish ECB speak continuing, with spillover from EGBs and some block sales noted in the UST belly.

NEW YORK: The front-end came under heavy selling pressure at the NY handover, with hawkish ECB and BoE supporting hawkish Fed bets too, although T-Notes held near resistance at 119-12 as flatteners kept duration supported. The belly soon joined in, however, with technicians citing key support levels breaking in cash 10yr and 30yr at 2.89% and 2.94%, respectively; a 15k blocks sale in FVM2 futures helped. The front-end continued to lead selling through the NY morning, aided further by Daly touting 75bps hikes. T-Notes levelled out after midday, finally eking out session lows of 118-14 in the afternoon, with Powell's "appropriate to move a little more quickly" emboldening market pricing. A strong USD 20bln 5yr TIPS auction provided some broader support into the settlement.

NEXT WEEK'S AUCTIONS: US to sell USD 48bln of 2yr notes on April 26th, USD 49bln of 5yr notes on April 27th, and USD 44bln of 7yr notes on April 28th; all to settle May 2nd.

STIRS: Hawkish ECB, BoE, and Fed comments Thursday saw further Eurodollar selling, particularly in whites, with desks noting a pick-up in downside options into strikes with little open interest; Fed swaps fully priced a third 50bps rate hike in July post-Daly comments. EDM2 -6.0bps at 98.195, U2 -12.5bps at 97.40, Z2 -14.0bps at 96.88, H3 -13.5bps at 96.57, M3 -13.5bps at 96.37, U3 -11.5bps at 96.42, Z3 -11.5bps at 96.525, M4 -11.5bps at 96.71, Z4 -10.5bps at 96.785, Z5 -9.0bps at 96.955. Elsewhere, SOFR fell to 27bps from 28bps, its joint-lowest since March lift-off, while GC opened 25bps bid Thursday as monthly GSE cash into money markets makes its mark. However, the NY Fed RRP op demand fell slightly to USD 1.855tln across 80 bidders from USD 1.867tln across 93 bidders, with no Treasury settlements or maturities Thursday.

CRUDE

WTI (M2) SETTLED USD 1.60 HIGHER AT 103.79/BBL; BRENT (M2) SETTLED USD 1.53 HIGHER AT 108.33/BBL

Oil prices were firmer Thursday with NY morning strength unwinding into the afternoon alongside risk assets, aided by Yellen speaking out against an EU oil embargo, only to bounce again into settlement. There wasn't any obvious catalysts for the strength entering the session aside from broader risk appetite, with Wednesday's bullish EIA report still fresh on minds, but the moves also appeared flow driven as strength built at the NY cash energy product open. Peaks for the day were just as cash stock trading got going with WTI (M2) and Brent (M2) hitting USD 105.42/bbl and USD 109.80/bbl. The slow bleed lower in risk appetite from there saw oil pare, and comments from Yellen warning that the EU needs to be careful about a complete ban on imports of Russian energy kept the pressure on. The benchmarks were set for a flat session until bidding emerged 15 minutes before the settlement to take benchmarks back towards the top-end of their trading ranges, on no obvious catalyst.

ELSEWHERE:

- Russian oil exports bound for EU member nations have increased to an average of 1.6mln BPD thus far in April vs 1.3mln BPD in March, according to tankertrackers and cited by WSJ.
- Oilfield service firms join Chevron (CVX) in a push for expanded US license to work in Venezuela, according to sources cited by Reuters.
- Russia's Novatek is facing issues implementing the Arctic LNG 2 project, according to Interfax.

EQUITIES

CLOSES: SPX -1.44% at 4,395, NDX -1.99% at 13,720, DJIA -1.05% at 34,792, R2K -2.30% at 1,991.

SECTORS: Energy -3.1%, Communication Services -2.41%, Technology -1.73%, Materials -1.68%, Utilities -1.59%, Financials -1.54%, Consumer Discretionary -1.23%, Health -1.11%, Industrials -1%, Real Estate -0.63%, Consumer Staples -0.11%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.80% at 3,928; FTSE 100 -0.02% at 7,627; DAX +0.98% at 14,502; CAC 40 +1.36% at 6,715; IBEX 35 +0.51% at 8,814; FTSE MIB -0.29% at 24,805; SMI -0.07% at 12,301.

EARNINGS: **American Airlines (AAL)** surged after posting a shallower loss per share than expected alongside beating on revenue. AAL noted for the first time post-COVID that revenue had surpassed 2019 levels. CEO said the Co. is looking at a record Q2 and expects demand to continue. **United Airlines (UAL)** sees double-digit gains despite slightly soft metrics as it gave an upbeat outlook, saying that the demand environment was the strongest seen in 30 years, and UAL is seeing clear evidence that Q2 will be a historic inflexion point. Expects return to profitability in Q2 on robust operating revenue outlook and expects to report profit for FY22. **Tesla (TSLA)** firmed after it surpassed Wall St. consensus and saw record revenues, vehicle deliveries, and operating profit. It warned that production would continue to be hampered for the rest of the year due to shortages of computer chips and other parts, but it expects to increase deliveries. **AT&T (T)** saw gains as it topped EPS and revenue, with the Co. supported from an increase in wireless revenue. **Blackstone (BX)** had a strong report, highlighted by EPS and revenue beats, as the Co. was helped by strong results from its real estate and credit operations. An executive in the FT warned of a slower dealmaking year-ahead, however. **Equifax (EFX)** fell despite a strong Q after guidance was poor, with FY22 EPS and revenue view both lowered on account of the large and rapid increase in US mortgage rates over the last several months. **Xerox (XRX)** tanked after posting a surprise loss per share, despite beating on revenue, with the Co. hindered by inflation pressures and supply chain issues.

STOCK SPECIFICS: Elon Musk is seeking to negotiate a definitive agreement for **Twitter (TWTR)** acquisition and is exploring tender offer at USD 54.20/shr in cash and has received c. USD 46.5bln in debt commitment letters for finance. Twitter said it has received Musk proposal and Board is committed to conducting "careful, comprehensive and deliberate" review to determine the best course of action, with WSJ sources later stating TWTR is still likely to reject Musk's "best and final" bid in the coming days. **Netflix (NFLX)** was further pressured after Ackman's Pershing Square liquidated a USD 1.1bln position, taking a loss of USD 430mln; said it has lost confidence in its ability to predict the company's future prospects with a sufficient degree of certainty. Separately, NFLX Co-CEO Hastings caught employees off guard when he revealed plans for an ad-supported tier, but execs indicated no decision had yet been made on the move, which had been the subject of internal debate, reports The Information citing sources. Hastings added one possibility is that Netflix could partner with **Roku (ROKU)**. **Warner Bros. Discovery (WBD)** is to shut down CNN+. China Securities Regulator stated it conducts talks with US regulators on a weekly basis over the China-US audits; expects a deal soon. Metal names (**AA, CENX, FCX, X, VALE**) were all notably lower on Thursday due to numerous factors. This week we have seen several reports from some of the major miners that they are struggling with diesel costs, steel costs, input costs in general, making it much more of a challenge to maintain production, whilst we also saw disappointing results from **Freeport McMoRan (FCX)** and **Alcoa (AA)** who both trimmed forecasts. Moreover, Chilean miner Antofagasta and Anglo American also announced a fall in production, weighing on the sector. Alternatively, **Steel Dynamics (STLD)** and **Nucor (NUE)** noted a robust steel environment and outlook.

FX WRAP

THE DOLLAR was firmer Thursday, hitting a high of 100.630, reversing some of Wednesday's losses. US data saw weak jobless claims and Philly Fed fail to provoke a reaction from the Greenback, whilst Fed speak came via Chair Powell, Daly, and Bullard, where Powell noted it is appropriate to move a little more quickly and 50bps hike will be on the table for May FOMC meeting. Moreover, earlier in the session, Daly (2024 voter) continued the hawkish tone stating the Fed will likely be raising rates by 50bps at a couple of Fed meetings and will deliberate with colleagues whether require rate hikes of "25bps, 50bps or 75bps". Finally, Bullard stuck to his uber-hawkish script and said a 75bps hike has been done before without the world coming to an end.

ANTIPODEANS were the G10 underperformers with both AUD and NZD seeing losses of around 1% against the Buck. The pair appeared to be getting hit on the broader pullback in risk assets following the NY open, whilst yields differentials are likely a factor with desks citing AGB yields for earlier strength, but the later rise in US yields unwinding some of that. Additionally, technicians are pointing towards resistance too after AUD/USD failed to break above the 21DMA/key fib level of 0.7465, as it reached a high of 0.7457 before losing momentum. NZD/USD hit a high of 0.6809, but after the Kiwi ran out of steam ahead of its 50DMA at 0.6818, it fell to lows of 0.6728. On Friday, Aussie watchers look to April Flash PMIs.

GBP & CAD were lower, with the latter seeing greater losses but not the extent of the Antipodes. Initially, Loonie fluttered between mild gains and losses as it appeared to track the crude complex but eventually trundled lower throughout the NY afternoon to see lows of 1.2459. Cable was contained on Thursday, trading in a range between 1.3090 and 1.3024. BoE Governor Bailey hit the wires stating the BoE must ask if a series of price shocks affect inflation expectations and the scale of real income shock will result in a slowdown in UK growth, but it failed to generate a reaction in the cross. Despite saying that, BoE's Mann spoke earlier on the rate outlook, saying that she would need to look at whether an additional 25bps or more is required to keep inflation anchored. Mann said the Bank would receive more information before the May gathering, which temporarily halted the slide lower for GBP. Ahead, Friday sees UK Flash PMIs for April and Canadian retail sales, but the latter is for February, so somewhat stale.

HAVENS, CHF and JPY, saw losses against the DXY with the Yen remaining on the backfoot throughout the session as Japanese officials stuck to the script at the G7 in terms of keeping verbal intervention, whilst the latest round of unlimited JGB buying to protect the 10yr cash yield at 0.25% only provided currency headwinds. Looking into the final APAC session of the week, there is Japanese CPI for March, which may provide market participants with a direction heading into the weekend. Whilst looking to next week, the BoJ meeting looms on Thursday.

EUR was the clear G10 outperformer and flat against the Buck. The single currency received a boost from ECB's typically-dovish member de Guindos who flagged the feasibility of a hike in July, adding to the recent string of known ECB hawks who floated a similar scenario, whilst ECB's Wunsch even suggested policy rates could turn positive this year. The upside triggered by de Guindos extended throughout the morning, with EUR/USD notching a high at 1.0936. However, EUR/USD then waned from its best levels heading into the US open as it eyed mammoth EUR 3.3bln in OpEx between 1.0900-1.0905. Meanwhile, ECB's Lagarde only reiterated her recent remarks and avoided hinting at a more hawkish stance. Nonetheless, EUR/USD briefly topped a fib at 1.0921, the April 14th and 21 DMA at 1.0923, another Fib at 1.0932 before falling short April 7th high at 1.0938. ECB sources via Econostream suggested that a 50bp rate hike is not the baseline now but the council will have to discuss this – EUR was unfazed at the time. However, whilst the French election and ECB comments have helped cross extend its rally off the April 19th low, analysts warn longs heading forward given the implications from US employment, inflation data, and Fed expectations which add up to present downside risks to the pair.

EMFX was predominantly lower against the Buck, with the illiquid RUB the clear outperformer and only currency in the gree. ZAR was the underperformer as South Africa continues to see headwinds from the recent floods, as well as utility company Eskom stating loadshedding will be reduced to Stage 2 at 22:00 local time and remain in force until Friday evening. TRY saw mild losses after it shrugged off eventual CBRT minutes, and lastly, the focus in APAC Thursday was on the CNH weakness after China Securities Times noted the Yuan has room to decline due to weaker exports, possible fund outflows from EM, and faster rate increases by the Fed.