US Market Wrap

22nd April 2022: Growth woes and hawkish CBs stoke the S&P's worst day session since March 7th

- **SNAPSHOT**: Equities down, Treasuries mixed, Crude down, Dollar up.
- **REAR VIEW**: Mester rules out 75bps hike; Moldova reportedly next Russia target; Mixed US Flash PMIs; China set to face biggest oil demand shock since early '20; Germany set to downgrade growth forecast; Lagarde touts early Qe APP end and rate hikes; Kuroda affirms accommodative BoJ; Soft VZ guidance; Woeful HCA earnings.
- **CENTRAL BANK WEEKLY**: Previewing BoJ, Riksbank, CBR; reviewing PBoC, RBA minutes. To download the report, please click here.
- **WEEK AHEAD PREVIEW**: Highlights include US PCE, US Employment Costs, US Advance GDP, EZ Flash CPI, Aussie CPI, BoJ, Riksbank, CBR. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [MON] KO; [TUES] UPS, PEP, RTX, TXN, GOOGL, V, MSFT; [WED] AMT, TMUS, BA, AMGN, QCOM, FB, PYPL; [THURS] TMO, LLY, MRK, CAT, MCD, CMCSA, MA, INTC, AMZN, AAPL; [FRI] AZN, HON, CVX, BMY, XOM, ABBV. To download the full report, please click here.

MARKET WRAP

Stocks leaked lower (SPX -2.7%, NDX -2.6%) through the whole NY session Friday, topped off with a massive sell-side imbalance into the close, as global risk-off on a slew of global growth alarm bells. IMF warned of more downgrades, Germany set to cut its own forecasts (BBG), the Pound slammed on dire UK retail sales, and China set to face biggest oil demand drop since 2020 (BBG). The US saw flash PMIs for April, where manufacturing was strong but services saw signs of weakness as prices continued to soar. Stock indices hit lows not seen since mid-March, while the VIX rose closer to 30. Oil was hit too. All stocks sectors were hit with Healthcare and Materials the worst off, with the former particularly on the weak HCA Healthcare (HCA) and Intuitive Surgical (ISRG) guidance/commentary. Treasuries were mixed with the belly firmer and wings weaker in broader risk-off. STIRs traders were attentive on a two consecutive 75bps Fed hike call from Nomura, although Mester (voter) saying on CNBC she is against 75bps quelled some of the aggressive pricing. elsewhere, Ukraine/Russia tensions continue to mount with reports on Friday adding Moldova is the next target of Russian invaders. BoJ's Kuroda affirmed the BoJ's easy policy, causing turbulence for the Yen, while German 10yr yields approached 1% after Lagarde said rate hikes this year are likely and APP to end in early Q3.

CENTRAL BANKS

FED: **Mester (2022, 2024 voter)**, who was the last speaker before the May FOMC, spoke in a relatively dovish tone after saying she would support 50bps hike in May and a few more after, but crucially, when asked about 75bps, replied "we don't need to go there at this point". Said the shock of a 75bps hike is not needed. In essence, the Cleveland President essentially ruled out 75bps, from her point of view, coming after Bullard, Daly, and Evans opened the door to it earlier in the week. Mester added she would like to get too neutral of 2.5% by year-end and an outsized move to FFR "not right way to go", rather be more consistent. On inflation, Mester noted it will take a couple of years to get inflation down to 2%, and balance sheet reductions will also reduce accommodation.

BOJ: **BoJ Governor Kuroda** was on the wires heading into the NY afternoon where he said the Japanese economy is not so vulnerable as to need more easing, and the BoJ must keep ‘aggressive' easing, even as Yen drops. In a reaction to these remarks, the Yen saw weakness with the BoJ affirming the accommodative policy in Japan, "even as Yen drops". However, later headlines clarified that Kuroda noted he did not mention Yen in the context of easing, which saw USD/JPY retrace some of its earlier losses. Elsewhere, Kuroda said until CPI reaches and stays above 2% in a stable manner, BoJ will continue easing and will remain committed to overshooting.

ECB: **President Lagarde** leaned more hawkish than her usual tone, where she said there is a strong chance rates will be increased this year, and APP is likely to end early in Q3. Lagarde had only recently underscored a likely gap between ending APP and tightening, which was absent from her comments Friday.

GLOBAL

GEOPOLITICS: Ukraine/Russia rhetoric continued to beat the ominous drum to end the week with the newest development regarding Russia moving into a breakaway region in Moldova, pointing to the fact they may attempt to move further than the Donetsk region. The Ukrainian President Adviser noted Moldova is the next target of Russian invaders, which came after the Russian military said control of the south of Ukraine will present Russia with another gateway to breakaway the Transnistria region of Moldova, according to Tass. The comments appeared to indicate that Russian President Putin has more ambitious targets than previously thought. A senior Russian military commander declared they plan to take full control of Donbas and southern Ukraine as part of the second phase of military operations. On Mariupol, the Russian Defence Ministry said Russia was prepared to introduce a "regime of silence" to allow civilians and fighters to leave the Azovstal plant, but later reports from Ukraine Separatists said they have resumed bombing the positions of the Ukrainian forces at the Azovstal plant after they didn't take advantage of the corridor opened by Russia forces. On Russia/Ukraine talks, Russian Foreign Minister Lavrov said talks had stalled after Kyiv decided not to respond to Russian proposals handed to it. On aid, UK PM Johnson added they are looking at sending tanks to Poland but could divert part of them to Ukraine. Meanwhile, an EU diplomat expects the next (sixth) round of Russian sanctions package to be presented to EU countries as soon as Monday, after which EU ambassadors could discuss it during the week and potentially adopt it by Friday, according to Politico. The package is to include some form of an oil import ban and may ban more banks from SWIFT, in line with the previous reporting. For the calendar, more than 20 countries will attend the US-hosted Ukraine defence talks in Germany next week. The meeting is to look at Ukraine's long-term defence relationships once the war has finished, according to the Pentagon.

US FLASH PMIS: US Flash PMIs for April were mixed, with Manufacturing printing a 9-month high and rising to 59.7 (prev. 58.8), and above the expected 58.2, whilst Services fell to a 3-month low of 54.7 (prev. 58.0), and beneath the consensus 58.0. Composite dropped to 55.1 from the previous 57.7. The report noted, "overall growth was dampened by a softer rise in service sector output following pressure on customer spending as prices continued to increase markedly. Manufacturers, on the other hand, indicated a stronger expansion in production on the back of rising demand." Furthermore, "the April PMI surveys point to the upturn losing some momentum compared to the strong rebound seen in March, when services activity, in particular, had been buoyed by loosened pandemic restrictions in the US and abroad." On services, "some companies also stated that surcharges were added to selling prices to account for more frequent upticks in operating expenses". The report detailed, "higher wage and input bills stoked the increase in costs. In response, service providers hiked their selling prices at the steepest rate on record in an effort to pass through greater cost burdens". On manufacturing, "contributing to the overall upturn were faster rises in output and new orders during April. Despite another marked deterioration in vendor performance, firms were able to increase production amid stronger client demand and the acquisition of new customers. Total new sales growth was supported by a steep increase in foreign client demand, as new export orders rose at the fastest pace in almost a year." Looking ahead, "these headwinds, plus increased concerns over the economic outlook and tightening monetary policy, meant business confidence about the outlook slipped sharply lower in April. However, with the overall pace of economic growth and hiring remaining relatively solid, for now, the focus from a policy perspective is likely to remain firmly on the need to rein in the record high inflationary pressures signalled by the survey."

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 6 TICKS HIGHER AT 118-30

Treasuries were mixed with the belly firmer and wings weaker in broader risk-off as global growth alarm bells ring louder. 2s +1.0bps at 2.703%, 3s -1.0bps at 2.882%, 5s -3.2bps at 2.947%, 7s -2.5bps at 2.957%, 10s -1.1bps at 2.906%, 20s +1.9bps at 3.158%, 30s +2.2bps at 2.955%. 5yr BEI -4.3bps at 3.479%, 10yr BEI -4.5bps at 3.064%, 30yr BEI -4.1bps at 2.637%.

THE DAY: T-Notes had a choppy session with gyrations along the curve throughout. The contracts rose off their session lows in the Tokyo morning (118-08) to hit resistance at 118-28 at the London handover, which was then sold into. Dip buyers emerged into the NY handover, with Gilts and EGBs leading the strength. There was some pause ahead of the NYSE stock open, but as indices extended losses, T-Notes found another lift to find session highs of 119-04+ (cash 10yr yield low of 2.864%). Comments from ECB's Lagarde about ending APP ending in early Q3 and that there is a strong chance of rate hikes this year hit EGBs (DE 10yr approaching 1%) and capped the bid in Treasuries. Note there was a mild bid, led by the front-end, in post-settlement trade after Fed's Mester (voter) pushed back on 75bps.

STIRS: Eurodollars were flatter with whites sold, albeit off worst levels post-Mester, with Nomura's latest call for two consecutive 75bps hikes in June and July weighing. Note a chunky white Dec, green Dec block flattener for 20k was made. At the close, EDM2 -7.0bps at 98.105, U2 -8.5bps at 97.295, Z2 -5.5bps at 96.81, H3 +0.5bps at 96.56, M3 +3.5bps at 96.39, U3 +5.5bps at 96.46, Z3 +6.5bps at 96.575, M4 +7.0bps at 96.765, Z4 +8.5bps at 96.855, Z5 +9.5bps at 97.035. Meanwhile, NY Fed RRP op demand at USD 1.765tln across 81 bidders, falling from USD 1.855tln across 80 bidders, with market repo rates trading a little firmer than Thursday. Note SOFR printed a new post-liftoff low of 26bps.

newsquawk

CRUDE

WTI (M2) SETTLED USD 1.72 LOWER AT 102.07/BBL; BRENT (M2) SETTLED USD 1.68 LOWER AT 106.65/BBL

Oil prices were lower Friday with China demand headwinds accentuated by stumbling global economic data. The majority of selling in the benchmarks began during APAC, then again in the European morning to print session lows of 101.22/bbl and 105.80/bbl in WTI and Brent, respectively. Prices then chopped around near lows for the remainder of Friday. The losses Friday cement the losses on the week for the futures.

DEMAND: The headline-mover Friday came from Bloomberg after it reported China is facing the biggest oil demand shock since early 2020. Meanwhile, IMF officials warned that their global growth forecasts could be cut even further if sanctions on Russia are expanded further. Soft UK retail sales and Bloomberg reporting the German government is to cut its own growth forecasts all added to the demand pessimism.

SUPPLY: Reuters reported that the Russia-Kazakh CPC pipeline, which has faced disruptions for a month, is seen completing repair works on loading facilities and will resume full exports from April 22nd; the pipeline accounts for over 1% of global oil demand. Elsewhere, US Baker Hughes Rig Count (w/e Apr 22nd): Oil +1 at 549, Nat Gas +1 at 144, and Total +2 at 695.

EQUITIES

CLOSES: SPX -2.72% at 4,274, NDX -2.65% at 13,356, DJIA -2.82% at 33,811, R2K -2.54% at 1,940.

SECTORS: Materials -3.73%, Health -3.63%, Communication Services -3.3%, Financials -3%, Technology -2.79%, Industrials -2.49%, Energy -2.43%, Consumer Discretionary -2.37%, Real Estate -1.78%, Utilities -1.68%, Consumer Staples -1.59%.

EUROPEAN CLOSES: Euro Stoxx 50 -2.24% at 3,840; FTSE 100 -1.39% at 7,521; DAX -2.48% at 14,142; CAC 40 -1.99% at 6,581; IBEX 35 -1.84% at 8,652; FTSE MIB -2.12% at 24,279; SMI -0.44% at 12,247.

EARNINGS: **American Express (AXP)** beat on the top and bottom line alongside affirming FY22 revenue growth. AXP added it reached pre-pandemic levels globally for the first time in March, driven by continued strength in consumer travel and entertainment spending. **Verizon (VZ)** EPS printed inline while revenue marginally heat. However, analysts point weakness to VZ lowering FY guidance, where wireless service revenue growth and EPS, amongst others, are forecast at the lower end of the prior ranges. **HCA Healthcare (HCA)** plummeted after missing on EPS and cutting FY22 EPS and revenue view. **Kimberly-Clark (KMB)** issued strong earnings. Surpassed Wall St. expectations on EPS and revenue, whilst raising FY22 revenue growth. CEO said it is taking "necessary actions to mitigate macro headwinds" and was able to deal with a volatile and inflationary environment. **Schlumberger (SLB)** firmed after it topped on top and bottom line in addition to raising its Q dividend 40% to USD 0.175/shr. SLB noted rising oil prices boosted the demand for oilfield services and equipment needed to drill and raise production. Looking ahead, sees the outlook for H2 22 "shaping up very well". **Snap (SNAP)** was choppy after results Thursday evening, which were mixed, where DAUs beat but SNAP issued a cautious Q2 outlook. **Cleveland-Cliffs (CLF)** surpassed consensus on the top and bottom line. Expects to set another FCF record in 2022 and is raising its FY22 average selling price expectation by USD 220 to USD 1,445 per net tonne. **SVB Financial (SIVB)** saw pronounced gains after strong earnings, highlighted by beats on EPS and NII.

STOCK SPECIFICS: **Gap (GPS)** sank after it cut Q1 sales growth to "low-to-mid-teen decline" blaming execution challenges at its Old Navy brand and "macro-economic dynamics". Moreover, GPS announced Old Navy President and CEO Nancy Green is leaving this week. **JD (JD)** saw gains following the board noting it is considering the declaration and payment of a special dividend in cash. EMA marketing authorisation for **Biogen's (BIIB)** Aduhelm was withdrawn. A group of 18 House Republicans asked **Twitter (TWTR)** to preserve all records regarding Musk's offer to buy the Co. It sets the grounds for a potential congressional probe should the party win back the majority this fall, CNBC reports. **Boeing (BA)** is readying for another notable delay in the 777X programme with intentions to move the jet's certification target to Q4 '24, according to The Air Current. **Bed Bath & Beyond's (BBBY)** Buybuy Baby draws buyer interest, according to WSJ sources. Suitors for the baby-gear chain include PE firm Ceberus Capital and Tailwind Acquisiton.

WEEKLY FX WRAP

Hawkish Central Bank vibes drive currencies and curves

USD - Broadly speaking, direction continues to be derived via divergence in yields and policy stances in terms of guidance or actual policy moves from those already in the process of normalisation, but it has taken a lot for the Fed to get the Buck banging. In fact, having posted a new 2022 (and multi-year) peak after the long Easter holiday weekend once European markets got back from an extended four day break, the DXY failed to extend further until Friday, and then gradually at 101.330 vs 101.030. However, this compared to a weekly low of 99.816 yesterday and came with the aid of a very hawkish US rate call from Nomura (forecasting a 50 bp hike in May and then back-to-back 75 bp increases at the June and July FOMC meetings), albeit teed up by the Fed's uber hawk Bullard who noted that three-quarter point tightening moves have been delivered in the past and the world has not ended. Moreover, chair Powell said the US economy is a bit more remote from the effects of the war, but will still feel upward inflation effects, so it is appropriate to move a little more quickly and a 50 bp hike will be on the table next month. Meanwhile, the Dollar also benefited at the expense of others that fell or underperformed in line with more dovish Central Bank policies, though not all remaining at emergency levels instigated at the height of the pandemic and compounded by the Russia-Ukraine conflict. On the data front, building permits and housing starts both strengthened against expectations of slowdowns amidst higher borrowing costs, jobless claims were upbeat and surveys somewhat mixed, as the Philly Fed business index missed along with the flash services and composite PMIs in contrast to the manufacturing headline.

AUD/NZD/GBP/CAD - Friday's biggest fallers on a combination of negative factors, such as weakness in commodities, wider risk aversion, macro news and contagion with currencies linked by close trade association. The high beta bloc was hit especially hard, as the Aussie retreated two+ big figures from around 0.7457 at one stage and lost all its momentum from RBA minutes underlining the probability of an earlier hike and firmer preliminary PMIs, while the Kiwi reversed from just over 0.6800 to the low 0.6600 zone in wake of NZ Q1 CPI coming in a tad less hot than anticipated. Similarly, Sterling fell foul of the morose market mood, but also slumped on UK fundamentals as Gfk consumer morale hit worst levels since 2008, ONS Retail Sales were much weaker than expected, Services and Composite PMIs were sub-consensus to more than offset a Manufacturing beat. Cable slumped from circa 1.3090 to under 1.2850 and Eur/Gbp soared to 0.8410 from 0.8274. Elsewhere, a net w-t-d decline in WTI crude hampered the Loonie irrespective of hawkish BoC fodder in the guise of Canadian CPI, PPI and Retail Sales, with Usd/Cad up to 1.2718 compared to 1.2459 at the opposite end of the spectrum.

CHF/EUR/JPY - All unable to evade the Greenback's clutches, and for the Franc and Yen this was understandable on relative SNB/BoJ vs Fed policy grounds, particularly as Governor Kuroda reiterated the need to maintain ultra and aggressive accommodation ahead of next week's meeting regardless of currency depreciation. Conversely, the Euro could have gleaned traction via further advances in EGB yields as 10 year Bunds got closer to 1%, while US and UK equivalents backed off from just under 3% and over 2% respectively, plus a growing hawkish ECB chorus, including notoriously dovish de Guindos and President Lagarde, but the overriding concern is still the threat of stagflation /recession as EU sanctions prohibit member states from meeting Russian demands for gas payment in Roubles. Usd /Chf is nearer 0.9600 than 0.9400, Usd/Jpy closer to 129.50 than 126.00 and Eur/Usd towards 1.0762 trough vs 1.0936 peak.

SCANDI/EM - With the Norges Bank already destined to continue its tightening cycle in June, or signalling another 25 bp increase at least, the Nok was more in sync with Brent, but the Sek outperformed on the premise that the Riksbank may surprise by either lifting the repo next week or flag a rise in June. Turning to the EM region, and it's a sea of red beyond the Rub that is being staunchly defended by the CBR via the prospect of FX controls, in stark contrast to the Cnh/Cny that has been steadily depreciating with daily PBoC midpoint and reference rate settings along with the spectre of easing in the offing complemented by stimulus/supportive measures from the Chinese Government. On the flip-side, intervention and hawkish guidance on interest rates has offered certain currencies layers or degrees of protection, with CNB's Holub contending there is no top, BCB chief Neto underlining that COPOM sees the need for further significant tightening, NBP's Wnorowski saying rates could increase to 7.50% and the NBH widely tipped to continue its hike cycle. However, CBRT minutes make it clear that traditional methods of tacking rocketing inflation are not available to the Turkish Central Bank and the CBR has hinted that another ease could be forthcoming at the end of April.