



US Market Wrap

25th April 2022: China COVID sends global tremors as DXY ravishes to new peaks

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar up.
- **REAR VIEW:** Beijing mass testing worsens China lockdown fears; PBoC cuts FX RRR by 1ppt; Russia sees no point of Ukraine ceasefire; Fears of Russian false flags in Moldova; BoC's Macklem refuses to rule out >50bps hike; Elon Musk acquires TWTR; Solid KO earnings.
- **COMING UP: Data:** Japanese jobs data, US Durable Goods, Private Crude Inventories **Events:** NBH Policy Announcement **Supply:** Italy and US **Earnings:** Santander, Michelin, Orange, HSBC, Novartis, UBS, Alphabet, Microsoft, General Motors, Visa, 3M and more.
- **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:** [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

Stock indices were ultimately firmer (SPX +0.6%; NDX +1.3%; R2K +0.6%) Monday after risk assets recovered from their NY morning lows. The earlier descent in indices, commodities, yields, and non-Dollar FX all took cues from the growing demand shock in China as it has now expanded its COVID testing to Beijing, not to mention reports Russia is abandoning diplomacy with Ukraine. The recovery into later trade wasn't a result of any particular newsflow with desks instead pointing to a near-term oversold tape after the heavy losses at the end of last week. Some even pointed to the TWTR/Musk buyout confirmation for the positive sentiment. Moving on, Treasuries (10yr -8bps at 2.82%) bull-steepened amid touted flattener unwinds; 2yr Treasury auction next up on Tuesday. The DXY closes off best levels after hitting a peak of 101.86 earlier. The Euro took a hit despite the French election reprieve as EUR/USD found support at 1.07. Yuan pared from its worst level after the PBoC announced it would be cutting its FX RRR by 1% after raising it 2% in December. Oil prices were on track for their biggest decline in a month as WTI and Brent breached beneath USD 100 /bbl before paring significantly later on. The commodity weakness was evident in metals with the likes of Palladium particularly hit, while Gold traded sub-1900/oz.

GLOBAL

CHINA LOCKDOWN: Fears continue to grow over further targeted lockdowns after daily deaths in Shanghai rose, again, whilst Beijing is concerned about its rising case count. As such, it was confirmed Beijing would expand mass testing for COVID to 12 districts out of 16 from April 26-30th. Over the weekend, Beijing's Chaoyang district announced it would require residents and workers to undergo three COVID tests this week, while Beijing ordered residents in a specific COVID-affected area in Chaoyang not to leave the area.

GEOPOLITICS: Ukraine/Russia updates leaned on the negative side, emphasised by Russian First Deputy Envoy to the UN suggesting no point in a ceasefire at the moment, via RIA. Moreover, Russia's TASS reported explosions close to a Government building in Moldova's breakaway region of Transnistria. Note Friday the Russian military said control of the south of Ukraine would present Russia with another gateway to breakaway the Transnistria region of Moldova, which raised alarm bells given the indication that Russian President Putin has more ambitious targets for the latest offensive than previously outlined. Moreover, Russian MoD noted earlier Monday that one of the goals is establishing contact by land with Transnistria. This all led to speculation whether the reports of explosion were a false flag, similar to those seen in Donbas that were used as pretexts for invasion in Ukraine. On Mariupol, there were contradicting reports, as Ukrainian Deputy PM said no agreement had been reached with Russia on a humanitarian corridor, in contrast to Russia saying via interfax it would open a corridor for the Azovstal plant for civilians to leave on Monday. On sanctions, the EU is preparing "smart sanctions" against Russian oil imports designed to minimise economic damage to the European economy, according to The Times citing a senior Brussels official, in fitting with last week's reporting on the sixth round of EU sanctions.



FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 21+ TICKS HIGHER AT 119-19+

Treasuries bull-steepened amid touted flattener unwinds and global risk-off as China lockdowns send global tremors; yields closed off lows with stocks and commodities. 2yr auction next up. 2s -10.0bps at 2.615%, 3s -10.5bps at 2.790%, 5s -11.1bps at 2.838%, 7s -11.1bps at 2.846%, 10s -10.3bps at 2.803%, 20s -8.1bps at 3.071%, 30s -6.8bps at 2.877%. 5yr TIPS -1.5bps at -0.446%, 10yr TIPS +0.0bps at -0.110%, 30yr TIPS -0.1bps at 0.300%.

TOKYO/LONDON: T-Notes rallied into the APAC Monday session with China lockdowns taking the driving seat and with it, cuts to the global growth outlook. The downbeat risk tone extended at the London open and saw T-Notes break to session highs, ultimately finding resistance at 119-25+, while the curve saw the back-end lag the strength at the front-end and belly.

NEW YORK: T-Notes initially traded choppy and sideways as US participants returned from the weekend before the NYSE stock open - desks noted some chunky, profitable flattener unwinds. A shaky open for stocks coincided with a breakout higher in USTs. There was a slew of blocks across the front and belly of the futures curves (touted buyers) to see T-notes hit session highs of 120-06 as Europe departed, coinciding with the lows in stocks. The contracts then pared into the NY afternoon as stocks and commodities came off their lows.

AHEAD: The inflation data Friday (ECI & PCE) are probably the most important US economic releases of the week. However, rates traders have their eyes on Treasury supply with 2s, 5s, and 7s due Tuesday, Wednesday, and Thursday, respectively.

STIRS:

- Eurodollars were bid Monday with the reds strongest as the front-end of the strip bull-flattened and reds outwards bull-steepened; all close off highs. With the FOMC on blackout, the curve has reduced headline risk. EDM2 +4.0bps at 98.115, U2 +7.5bps at 97.33, Z2 +12.5bps at 96.90, H3 +14.5bps at 96.67, M3 +16.0bps at 96.52, U3 +14.5bps at 96.575, Z3 +13.5bps at 96.68, M4 +10.5bps at 96.845, Z4 +9.0bps at 96.93, Z5 +9.0bps at 97.12.
- US sold USD 58bln of 3-month bills at 0.890% (prev. 0.860%), covered 2.96x; sold USD 51bln of 6-month bills at 1.370% (prev. 1.250%), covered 2.99x.
- SOFR rose to 27bps from its post-liftoff low of 26bps.
- NY Fed RRP op demand rose to USD 1.784tln across 82 bidders from USD 1.765tln across 81 bidders.
- After the big increase in the TGA post-April tax receipts, Wrightson writes, "The Treasury will be significantly overfunded this spring and summer, but our guess is that the Treasury will not cut its gross bill offerings any further in the very short run."

CRUDE

WTI (M2) SETTLED USD 3.53 LOWER AT 98.54/BBL; BRENT (M2) SETTLED USD 4.33 LOWER AT 102.32/BBL

Oil sold through the session as China's burgeoning COVID situation, and subsequent cuts to demand outlooks, offset the supply/geopolitical premia out of Russia. The benchmarks were on track for their largest declines since late March before paring into the settlement from their troughs at USD 95.28/bbl and 99.48/bbl for WTI and Brent, respectively.

RUSSIAN SUPPLY: Rosneft failed to award its sell tender for 6.5mln tonnes of oil loading from Russian ports in May-June due to a lack of bids after the company asked for Rouble payments, according to traders cited by Reuters. Meanwhile, Siberian Light exports scheduled for May are at an 11yr high.

EMBARGO: The Times reported that the EU is preparing "smart sanctions" against Russian oil imports as part of the widely flagged sixth round of sanctions that are expected to be announced this week. The Times reports echoed last week's from Reuters and Politico that the EU could use a gradual phasing-out approach or tariffs on exports beyond a certain price cap.

KUWAIT: Kuwait's KIPIC said Monday that the first Al Zour complex refinery would begin operations in a few weeks. The project has been in the works for over a decade, and prior reporting noted it is set to be the largest refinery complex in the Middle East with a full capacity of 615k BPD.



EQUITIES

CLOSES: SPX +0.64% at 4,299, NDX +1.32% at 13,533, DJIA +0.70% at 34,049, R2K +0.59% at 1,952.

SECTORS: Communication Services +1.53%, Technology +1.44%, Consumer Discretionary +0.78%, Health +0.66%, Consumer Staples +0.41%, Financials +0.16%, Industrials unch. Materials -0.29%, Real Estate -0.48%, Utilities -0.72%, Energy -3.34%.

EUROPEAN CLOSES: Euro Stoxx 50 -2.15% at 3,757; FTSE 100 -1.88% at 7,380; DAX -1.54% at 13,924; CAC 40 -2.01% at 6,449; IBEX 35 -0.90% at 8,574; FTSE MIB -1.53% at 23,908; SMI -1.41% at 12,084.

STOCK SPECIFICS: **Twitter (TWTR)** is to be acquired by Elon Musk for USD 44bln or 54.20/shr in cash, whereby upon completion of the transaction, Twitter will become a privately held company. **Coca-Cola (KO)** was firmer after a strong report, where it beat on EPS and revenue. Regarding the Ukraine/Russia war, Co. said 1-2% impact to revenue and operations due to suspension of Russian business. Looking ahead, the CEO said "we are confident in our FY guidance". **Otis (OTIS)** topped Wall St. consensus on EPS alongside raising its quarterly dividend almost 21%. Looking ahead, OTIS raised FY22 adj. EPS view. **Activision (ATVI)** missed on top and bottom line, but analysts note the results are likely to have a limited impact on the Co. as it is to merge with **Microsoft (MSFT)** by the end of June. **Apple (AAPL)** supplier **Foxconn (FXCOF)** suspended output at two factories in China's eastern city of Kunshan, which puts Apple's China supply chain on edge, according to SCMP. **PS Business Parks (PSB)** surged following the announcement it is to be acquired by **Blackstone (BX)** for USD 7.6bln. **Verizon (VZ)** was lower following a Goldman Sachs downgrade. GS said VZ is situated well for 5G growth but offers a lower potential return compared to peers like **AT&T (T)**. **Deere (D)** saw losses after BofA downgraded the stock. BofA added it remains cautious on the farm economy and agricultural equipment space amid ongoing supply chain issues and other macro trends. **Meta (FB)** added it will introduce Meta store, its first retail physical space and is adding a new shop tab to Meta.com. JCPenney reportedly offered to acquire **Kohl's (KSS)** for USD 8.6bln or USD 68/shr, according to NY Post, lifting the US retail space. **Lucid Air (LCID)** is reportedly launching in Europe in June or July, with plans to expand into China come 2023, according to InsideEVs.

FX WRAP

THE DOLLAR was much firmer to start the week in risk-off trade, printing a new 2022 YTD peak of 101.860 and at levels not seen since March 2020. Participants focused on the COVID endemic in China as Beijing will expand mass testing for COVID to 12 districts out of 16 from Apr 26-30th, alongside the Shanghai daily COVID death count rising. Looking ahead, participants remain wary of Ukraine/Russia updates as on Monday, according to RIA, Russian First Deputy Envoy to the UN sees no point in a ceasefire in Ukraine "at the moment". Furthermore, the US earnings season is well underway with large-cap names, such as AMZN, GOOGL, MSFT, and AAPL, all reporting this week which may provide some market direction as the Fed is on blackout ahead of the FOMC meeting on May 4th.

ACTIVITY CURRENCIES were lower against the surging Greenback, primarily on the risk-off sentiment. AUD was the clear underperformer, whilst its NZD counterpart was the relative 'outperformer', but still saw losses. CAD and GBP were somewhere between, with the Pound seeing more pronounced weakness. Firstly, the Aussie will be looking for some reprieve when market participants return from the ANZAC Day holiday, which kept markets very thin down under. Nonetheless, the AUD/USD hit a low of 0.7136, a level not seen since 24th February 2022, whilst NZD/USD reached a trough of 0.6583, a level not seen since 1st February 2022.

CABLE hit lows of 1.2698, with technicians noting the cross fell marginally short of the 61.8% Fibo at 1.2497. In terms of catalysts, weakening UK economic data last week, in the form of retail sales, continues to weigh on the Pound, which was primarily due to severe inflation and supply shortages, alongside the Fed overtaking the BoE in expected rate hikes this year. However, analysts note the currency is technically oversold and could be due a bounce.

CAD was hit by the floundering crude complex initially, as WTI and Brent hit lows of USD 95.28/bbl and 99.48/bbl, respectively, only to unwind losses in late trade. The oil losses were a result of China's burgeoning COVID situation and subsequent cuts to demand outlooks, offsetting the supply/geopolitical premia out of Russia. Elsewhere, BoC Governor Macklem was on the wires and spoke hawkishly as he reiterated that Canada needs higher interest rates. Macklem continued the Bank is committed to using the interest rate to return inflation to target. Moreover, he concluded by not ruling out raising interest rates more than 50bps, but it would be very unusual, and he expects the Bank will be considering another 50bps hike in June.

HAVENS, CHF and JPY, were mixed with the Yen the distinct G10 outperformer and only currency in the green against the Buck. The Yen benefited from the souring risk tone and the lower US yields, which came amid fears the Fed and other central banks' tightening to fight inflation will weaken risk assets and pandemic recoveries, particularly with China's



lockdowns. As such, USD/JPY hit a low of 127.53, with techs noting a close below the 10DMA of 127.216 and the 19th April low of 126.98 could target props by 125. Looking ahead, the critical BoJ rate decision on Thursday is due ([preview here](#)), where the central bank is likely to maintain rates at -0.10% and its QE with yield curve control to flexibly target 10yr JGB yields at 0.0% +/- 25bps. At the same time, it will release its latest Outlook Report.

EURO was lower on Monday irrespective of a surprisingly strong German Ifo, which surpassed expectations and hawkish-sounding rhetoric from ECB's de Cos. Additionally, French President Macron being re-elected had little impact on the single currency. The China demand shock drove the selling.

SCANDIS, SEK and NOK, saw losses as they were unable to cope with the losses seen in the crude complex and global demand outlook, although desks note the former maintained a degree of hawkish Riksbank premium.

EMFX was mixed. MXN was flat, while TRY, ZAR, and BRL saw losses, the latter the significant underperformer. RUB was the outperformer. For the ZAR, the catalysts for the losses seen were mixed between gold weakness, as it traded sub USD 1,900/oz and general risk aversion. Elsewhere, it remains to be seen whether the Yuan can retain recovery momentum following the preannouncement of a 100bps cut to China's reserve requirement ratio for foreign currencies with effect from May 15th, given reports that Beijing will expand mass testing for COVID to 12 districts out of 16 from April 26-30th amidst the latest spread of infections. However, the PBoC's move helped the CNH pare some losses from 6.6090 vs the USD and lifted the general market mood, albeit modestly, as stocks regained composure in contrast to oil and other commodities that continued to collapse.

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