US Market Wrap

26th April 2022: Stocks plunge deeper on global growth woes while Nasdaq 100 sees biggest decline since Feb 3rd

- **SNAPSHOT**: Equities down, Treasuries up, Crude up, Dollar up.
- **REAR VIEW**: Russia's Lavrov warned against NATO aiding Ukraine; Russia halts gas supplies to Bulgaria and Poland; Germany authorises tank deliveries to Ukraine; Hawkish ECB Kazak; Mixed US data; Strong US 2yr notes auction; Brainard wins Senate confirmation for Vice-Chair; Mixed earnings, SHW strong but GE falls on cautious outlook.
- **COMING UP**: **Data**: Australian CPI, German GfK, Weekly EIA Inventories, New Zealand Trade Balance **Speakers**: ECB's Lane, Lagarde, SNB's Zurbruegg, BoC's Macklem **Supply**: Germany, US **Earnings**: Deutsche Bank, Iberdrola, Mercedes-Benz, STMicroelectronics, Credit Suisse, GSK, LSE, Meta, Boeing, Ford, PayPal, Qualcomm, T-Mobile.
- **WEEKLY US EARNINGS ESTIMATES**: [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 tumbled (SPX -2.8, NDX -3.9%) Tuesday as Monday's late-session rebound proved a dead-cat in wake of renewed global risk aversion. There were a few factors at play, with Tesla (TSLA) seeing heavy selling (-12%) on the back of Musk's financing plans for Twitter (TWTR). But at the same time, the broader cross-asset gauge on risk sentiment was no bueno. The DXY surged to new peak of 102.36 while high-beta currencies felt the pressure, with Sterling and Euro testing multi-year lows, while the haven flows and lower US yields supported the Yen. Treasuries bull-steepened (2s -14bps, 10s -9bps, 30s -6bps) in anticipation of the strong 2yr auction, with an eye to month-end. Despite a rally in oil prices, inflation breakevens still tumbled, with growing concern over China and ramifications for world demand growth. Earnings reports were mixed, with General Electric (GE) and United Healthcare (UNH) tumbling, while Sherwin-Williams (SHW) was one of the few outperformers after a solid report/outlook.

GEOPOLITICS

Ukraine/Russia tensions continued to mount on Tuesday, with many focusing on Russian Foreign Minister Lavrov's comments. He warned NATO against supplying military aid to Ukraine, saying there was a risk of the conflict escalating into World War Three. Further from Lavrov, he added it is difficult to have talks with Ukraine while the flow of arms into Ukraine continues, but he remains committed to a diplomatic path. Meanwhile, after meeting the UN's secretary-general in Moscow, Russian President Putin reiterated his justifications for invading Ukraine but said he has hopes for a diplomatic solution. He said there is no more fighting in the southern Ukrainian city of Mariupol, which has seen heavy fire by Russia. Finally, from the Russian side, Defence Ministry said London's direct provocation of Kyiv to strike targets on Russian territory would immediately lead to a proportional response. Elsewhere, in a significant policy alteration, Germany's government authorised the supply of about 50 anti-aircraft tanks to Ukraine. The decision comes as the US and its allies meet at in Germany to pledge further weapons for Ukraine.

US

NEW HOME SALES: US new home sales fell 8.6% to 763k from an upwardly revised 835k in February and also fell marginally short of the expected 765k. The sales of new homes fell to a four-month low, with purchases falling in four regions, which was led by the South. As such, the data set indicates high prices and surging borrowing costs are putting more of a squeeze on the market. Moreover, mortgage rates have sharply escalated as the Fed signals aggressive steps to combat decades-high inflation, illustrated by the average for a 30-year loan climbed to 5.11% last week, up two full percentage points from the end of last year and the highest since 2010. Finally, the fast rise in borrowing costs, tied with high prices across markets, is putting potential buyers on the side-line.

DURABLE GOODS: US durable goods orders rose 0.8%, slightly below the expected 1.0%, but surpassing February's revised -1.7% print. Orders ex-transport rose 1.1%, also surpassing the consensus 0.6% and prior revised -0.5%, while core capital goods rose 1% (exp. 0.5%, prev. -0.3%). Pantheon Macroeconomics note, "the net revision was +0.4% for the headline but only 0.1% for orders ex-trans". Total orders were hindered by a fall in orders for Boeing aircraft and a 26% drop in orders for defense aircraft, which was offset by a 5.0% bounce back in the autos/parts component. Moreover, "transportation orders rose by a trivial 0.2%. The rebound in orders ex-transportation was a bit smaller than we had hoped; and the March increase did not reverse all the hit." The consultancy adds, "core capital goods orders rose by a solid 1.0%, but this followed a 0.3% seasonally-afflicted drop in February and, again, the rebound did not recover all the hit. Still, the trend in core capital goods orders continues to rise". Pantheon concludes the data highlights that the trend in orders remains fairly strong, despite the downshift in some of the survey evidence. As such, the most recent issues in China are not helping, but domestic demand for durable goods is robust, so the recovery in manufacturing output is set to continue. "The whole sector will be boosted over the next few months by rising well-drilling activity, which needs to rise very substantially in order to catch up with the surge in oil prices."

CONSUMER CONFIDENCE: US consumer confidence fell marginally to 107.3 from the revised higher, 107.6, and beneath the expected 108.0. Looking into the details, the Present Situation Index fell to 152.6 from 153.8, while the Expectations Index ticked up to 77.2 from 76.7. Moreover, the Present Situation Index declined but remains relatively high, indicating the economy continued to expand in early Q2. On Expectations, albeit still weak, it did not worsen more amid high prices, especially at the gas pump and the war in Ukraine. Furthermore, holiday intentions cooled but intentions to buy big-ticket items such as automobiles and many appliances rose somewhat. Moreover, the report adds, “purchasing intentions are down overall from recent levels as interest rates have begun rising. Meanwhile, concerns about inflation retreated from an all-time high in March but remained elevated.” The report concludes, “inflation and the war in Ukraine will continue to pose downside risks to confidence and may further curb consumer spending this year.”

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 14 TICKS HIGHER AT 120-01+

Treasuries bull-steepened in anticipation of the strong 2yr auction while stocks tumbled, with an eye to month-end. At settlement, 2s -10.7bps at 2.523%, 3s -10.2bps at 2.705%, 5s -8.0bps at 2.782%, 7s -7.5bps at 2.797%, 10s -6.4 bps at 2.763%, 20s -4.3bps at 3.044%, 30s -3.9bps at 2.856%.

INFLATION BREAKEVENS: 5yr BEI -11.4bps at 3.265%, 10yr BEI -3.2bps at 2.945%, 30yr BEI -3.3bps at 2.523%; noteworthy that breakevens fell despite the c. USD 3/bbl rally in oil prices.

THE DAY: T-Notes had leaked lower into the Tokyo Tuesday session, printing session lows of 119-07+, only to rebound into the London handover with the front-end leading through the rest of the session. Dealers noted better real money buying in the overnight session at the front-end of the curve ahead of the 2yr auction, but otherwise, activity had been rather sluggish. T-Notes hit a brief period of resistance at 119-28 at the NY handover before the bull-steepener extended as risk assets soured. IFR noted there was a degree of real money buying with pension funds in the belly and long-end, "possible early month-end related rebalancing". Index duration extension for this month is expected at +0.07yr (BBG). But the front-end still outperformed, with desks pointing to fresh steepening bets and some front-running ahead of the 2yr auction; note two big-block buys in the 2yr futures in the NY morning (10k + 13.7k). T-Notes hit session highs of 120-13 as London began departing, paring a few ticks into the auction. The solid demand reception saw little follow-through for the curve. Attention now looms on Wednesday's 5yr auction.

2YR AUCTION: A strong 2yr auction saw the first stop-through (1.1bps) since January (six-auction avg. 1bps tail), while the 2.585% stop is the highest since Jan 2019 and over 20bps cheaper than March's 2.365%. The 2.74x covered ratio exceeds both the prior 2.46x and avg. 2.59x. Dealers took 12.6%, well beneath the prior 19.4% and avg. 23.4% as Indirects took a massive 66%. Bullish factors for the auction include growing calls for "peak Fed pricing", which should lead to more buyers stepping into the front end. Meanwhile, with RRP facility usage close to peaks, and bill supply light, it's possible that we are seeing some demand seep out the curve. Also worth mentioning the continued USD 2bln M/M size cuts to the 2yr sector without QT having started yet.

STIRS: Eurodollars rallied with the reds strongest. EDM2 +2.5bps at 98.14, U2 +5.0bps at 97.375, Z2 +6.5bps at 96.96, H3 +9.5bps at 96.755, M3 +13.0bps at 96.635, U3 +14.0bps at 96.70, Z3 +13.5bps at 96.795, M4 +11.5bps at 96.94, Z4 +8.0bps at 96.985, Z5 +1.5bps at 97.12. Meanwhile, NY Fed RRP op demand at USD 1.819tln across 84 bidders (prev. USD 1.784tln across 82 bidders), net cash add to accounts with more bills maturing than settling.

CRUDE

WTI (M2) SETTLED USD 3.16 HIGHER AT 101.70/BBL; BRENT (M2) SETTLED USD 2.67 HIGHER AT 104.99/BBL

Oil prices were back to the upside on Tuesday as Russia's cut in gas flows to Poland brought supply risk back to the forefront. The benchmarks had lacked direction out of APAC/Europe before rising through the NY session. Note June Brent options expire Tuesday, so flow-driven trade could have been a factor. Bloomberg reported that with 253mln bbls expiring, the most-held nearby contracts were the USD 105/bbl puts, which seemingly had a pinning effect into settlement. Traders now look to this week's energy inventory data with the private release due Tuesday. Current expectations (bbls): Crude +2.2mln, Gasoline +0.5mln, Distillates -0.6mln.

RUSSIAN GAS: Polish gas giant PGNiG warned Russia's Gazprom is to halt gas deliveries starting Wednesday. Gazprom claims it is not suspending supplies but that Poland has to pay according to the new payment procedure, aka, in Roubles via an account at Gazprombank. Poland has said it will not do such and will rely on other sources and its 76% full reserves. Officials in Warsaw said they had intended to terminate the Gazprom contract in December anyway.

ELSEWHERE:

- Kazakhstan has restored output over the last few days after the CPC pipeline and Black Sea terminal returned to full capacity on April 23rd, according to Reuters.
- German Economy Minister Habeck said Russian oil now accounts for 12% of German supply, and a complete exit will hopefully come in a matter of days. Germany wants to develop an alternative import route for oil via deeper cooperation with Poland.
- India's Oil and Natural Gas Corp (ONGC) is struggling to find a vessel that it could get insurance for to ship 700k bbls of crude oil from Russia's far east in a sign of sanctions impacting trade flows, Reuters reported.
- Italy is mulling temporary nationalisation of the Lukoil-owned refinery in Sicily, Reuters reported.

EQUITIES

CLOSES: SPX -2.81% at 4,175, NDX -3.87% at 13,009, DJIA -2.38% at 33,240, R2K -2.99% at 1,895.

SECTORS: Consumer Discretionary -4.99%, Technology -3.71%, Communication Services -3.16%, Financials -2.55%, Industrials -2.19%, Health -1.9%, Materials -1.55%, Real Estate -1.49%, Consumer Staples -1.48%, Utilities -1.04%, Energy +0.05%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.96% at 3,721; FTSE 100 +0.08% at 7,386; DAX -1.20% at 13,756; CAC 40 -0.54% at 6,414; IBEX 35 -1.58% at 8,439; FTSE MIB -0.95% at 23,681; SMI -1.26% at 11,933

STOCK SPECIFICS: **General Electric (GE)** beat on EPS and revenue, but issued FY guidance at the lower end of the forecast as persistent supply chain disruptions, rising freight and raw material costs take a toll on the Co. Lastly, board authorised up to USD 3bln in buybacks in Q1. **UPS (UPS)** topped Wall St. consensus on both EPS and revenue and doubled buy-back target to USD 2bln. Reaffirmed guidance, but CEO Tome said on a conference call that e-commerce growth was slowing relative to the boom during COVID. **PepsiCo (PEP)** posted a strong report, where it topped consensus on top and bottom line alongside raising FY22 organic revenue growth. **3M (MMM)** was lower despite strong earnings, where EPS and revenue topped alongside raising FY22 EPS view. Note, 3M were inline with the general market direction. **JetBlue (JBLU)** posted a narrower loss per share and looks to return to profitability in H2 '22. Analysts note despite the commentary being very bullish, the cost outlook is a bit worse than peers and will probably weigh a bit on the stock. **Raytheon Technologies (RTX)** cut its FY sales view due to the impact of Russian sanctions. In its earnings, RTX beat on EPS but missed on revenue. **Archer-Daniels-Midland (ADM)** posted a decent report, highlighted by EPS and revenue beats. However, do note, looking ahead ADM expects reduced crop supplies for the next few years. **Sherwin-Williams (SHW)** surged after a strong report where it surpassed analyst expectations on both EPS and revenue. **Warner Bros. Discovery (WBD)** saw losses after it warned its 2022 profit would be lower than expected, and CFO cited “unexpected projects” and weaker Q1 operating profit. **Waste-Management (WM)** posted a top and bottom-line beat. **Qiagen (QGEN)** raised FY22 adj. EPS view to at least USD 2.14/shr (prev. at least USD 2.05). **Coca-Cola (KO)** probed hackers' cyberattack claims, according to bleepingcomputer. **Apple (AAPL)** slows hiring of genius employees at some retail stores, according to Bloomberg. **United Natural Foods (UNFI)** and Oak Street Real Estate Capital exploring bids for **SpartanNash (SPTN)**, according to Reuters sources.

FX WRAP

THE DOLLAR continued its upward ascent on Tuesday and posted a new 2022 YTD peak of 102.36, with technicians keeping an eye on 102.990, which is the March 2020 high. The Buck was a beneficiary of the risk-aversion, which comes amid further concerns over COVID lockdowns in China and negative geopolitical commentary. Russia warned against NATO supplying military aid to Ukraine as there was a risk of the conflict escalating into World War Three.

Looking ahead, the US earnings season continues where large-cap names such as MSFT, GOOGL, and V report Tuesday after the bell, whilst on the data front, there is US PCE and Employment costs on Friday.

ACTIVITY CURRENCIES were hit, again, as a result of the surging Buck, with GBP seeing the most notable losses of over a per cent, while the AUD was the 'relative' outperformer. As such, CAD and NZD sit in between the two. Firstly, Cable hit a low of 1.2582, a level not seen since July 2020, as the Pound continued to be a victim of the rising Greenback, alongside Russia accusing NATO of creating a severe risk of nuclear war by arming Ukraine. Moreover, the risk-sensitive Sterling is already feeling the pressure from decreasing expectations for aggressive BoE rate hikes this year, and traders note should the BoE remain hesitant on rates, GBP/USD's fall could increasingly resemble USD/JPY's rise. Technicians note the next key support level for Cable is the June 2020 low of 1.2519. Loonie saw losses, despite the assistance from rising oil prices which saw help from reports that Russia has halted gas supplies to Poland from Wednesday. On this, desks note the negative geopolitical updates on Tuesday seemingly outweighed crude strength for the Loonie. In terms of levels, USD/CAD saw highs of 1.2827, and managed to breach the pivotal 1.28, but to the Loonie's relief fell short of the March 15th high of 1.2872 and 2022 high of 1.2901.

ANTIPODES were lower but coped better than the other activity currencies. AUD/USD saw lows of 0.7135, whilst NZD/USD bottomed out at 0.6570, as the general risk-aversion tone of trading, primarily due to continued China lockdown fears and rising Buck weighed. In terms of newsflow, the Kiwi and Aussie may have received some respite from the partial bounce in commodity prices, but market participants will await the key Australian Q1 CPI and RBI inflation metrics on Wednesday.

JPY was the clear G10 outperformer and the only currency in the Green against the Buck. The near-term technical outlook for the Yen looks increasingly constructive or less bearish, and a close below resistance vs the Greenback in the form of the 10DMA just under 127.50 could provide more recovery momentum as US Treasury yields continue to retreat. Additionally, the USD/JPY low on Tuesday was 127.04, where techs note the cross has not yet breached the pivotal April 19th low at 126.98. Moreover, risk appetite is wavering again to the benefit of safe havens and Japanese PM Kishida said the Government will attempt to stabilise the currency via economic policies that stem the outflow of domestic income while boosting the inflow of funds after joining the ranks of those expressing disapproval of undesirably rapid moves. Looking ahead, the BoJ rate decision on Thursday is the main event scheduled this week. USD/CHF was weaker, with the cross reaching a peak of 0.9625, but the Swissy managed to contain losses in contrast to some of its G10 peers due to its safe-haven nature and appeal amid the continued risk-off trade.

EUR/USD hit lows of 1.0643, a low since late-March 2020, despite hawkish rhetoric from ECB's Kazaks. On this, the Governor said two or three rate hikes priced by markets is quite reasonable and prefers the first-rate hike after APP ends, which is leaning towards July. Moreover, highlighting the hawkish rhetoric, he said there is no reason why rate hikes should pause at zero. On levels, the heavily flagged 2020 low of 1.0636 is front and centre of traders' view and is being tested at pixel time. ECB's heavy hitters Lagarde and Lane speak on Wednesday, ahead of a heavy data docket on Thursday.

EMFX was predominantly lower against the Buck, as the risk-off sentiment weighed with Real the underperformer, whilst the Yuan outperformed as it managed to retain a degree of its post-PBoC RRR ease mojo.

HUF, PLN, and CZK saw losses against the Euro, as the reports that Russia is to halt gas deliveries to PGNIG from Wednesday is likely weighing on the respective currencies. Elsewhere, NBH raised rates by 100bps, as expected, to 5.4% and noted it is to continue rate hikes and inflation expectations remain elevated. NBH continued by adding it is ready to intervene using every element in its toolkit to ensure financial market stability. Lastly, CNB Holub sees at least a 50bps hike in May and the Czech rate peak of around 6% as "fairly realistic".