US Market Wrap

27th April 2022: Stocks pause and DXY firms amid China lockdowns, peak earnings season, and the EU gas crisis

- **SNAPSHOT**: Equities mixed, Treasuries lower, Crude up, Dollar up.
- **REAR VIEW**: Russian halts gas supplies to Poland and Bulgaria amid Rouble payments; Putin says Ukraine military operations will continue; Bullish IEA inventory report; Flat 5yr auction; Mixed earnings, BA & GOOGL poor but MSFT & V strong; Algeria threatens gas supply to Spain.
- **COMING UP**: **Data**: Japanese Retail Sales, German State and National CPI, US GDP and PCE Advance **Events**: BoJ and Riksbank announcements **Speakers**: ECB's de Guindos and Elderson, Riksbank's Ingves **Supply**: US **Earnings**: Sabadell, Clariant, Saint-Gobain, Evolution Gaming, Barclays, Sainsbury's, Amazon, Apple, Intel, Twitter, Mastercard , McDonalds.
- **WEEKLY US EARNINGS ESTIMATES**: [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 were choppy and mixed on Wednesday (SPX +0.2%; NDX flat; R2K -0.35%) as earlier strength faded into the close, aided by a chunky sell-side MOC imbalance. SPX 4170-4200 is seen as key support ahead of 4100. There hasn't been any clear market drivers Wednesday with continued themes on the radar: earnings season, China growth, Ukraine, central bank tightening, etc... Boeing (BA) tumbled after a bigger loss than expected with more delays on its 777X, while Microsoft (MSFT) surged after its cloud-boosted report. Note, index futures are bouncing at pixel time after hours as Meta (FB) leads, despite revenue miss. Elsewhere, Treasuries bear-steepened (10yr +7bps at 2.84%) as the bid out of Europe reversed through NY as stocks held their ground and ahead of the 5yr auction, which tailed. Oil prices were choppy/flat after dipping into the NY session only to reverse into the black on Algerian/Spain supply risk headlines, whilst the bullish EIA inventory report and Germany supporting oil embargo headlines saw a fleeting spell of strength. The DXY was much firmer, again, printing yet another new YTD peak of 103.280, with Euro suffering amid the gas Rouble payment crisis.

GLOBAL

GEOPOLITICS: Russian President Putin reiterated Wednesday that Russia will fulfil its military goals in Ukraine. Putin added military operations in Ukraine will continue to ensure the security of Russia and the republics of Donetsk and Lugansk. Putin continued with more punchy rhetoric, saying any country interfering in Ukraine will be met with a "lightning-fast" response, and Russia will use "tools no one else can boast of having" if anyone "creates unacceptable threats". Elsewhere, on Transnistria, Ukraine President Zelensky accused Russian special services of carrying out attacks in the breakaway region of Moldova, while the Interior Ministry of Moldova's Transnistria added shots have been fired towards the village of Cobasna from Ukraine territory. This comes amid ongoing concerns that Russia could use the region as a launchpad for attacks on Moldova. On talks, Ukrainian negotiator noted no agreement has been reached on any meeting between Ukrainian and Russian Presidents. Finally, Russian energy giant Gazprom declared it had cut gas supplies to Poland and Bulgaria over their refusal to pay in Roubles. However, four European gas buyers already paid for gas supplies in RUB, and ten buyers opened accounts with Gazprom Bank, with Eni confirmed as one, according to Bloomberg.

BOJ PREVIEW: BoJ is expected to keep policy settings unchanged with the central bank likely to maintain rates at -0.10% and its QQE with yield curve control to flexibly target 10yr JGB yields at 0.0%, while it will release its latest Outlook Report in which a cut in growth forecasts and higher inflation estimates are anticipated due to effects from the Ukraine war and China's COVID outbreak. For the Newsquawk preview, please click here.

US

PENDING HOME SALES: US pending home sales fell 1.2% in March, slightly shallower than the expected 1.6% fall but not as large as the prior month's 4% fall. Nonetheless, it is the fifth straight decline in pending home sales, which have now fallen by 15% from their October peak. Looking into the report, Pantheon Macroeconomics note, "the March decline was modest, but much bigger drops are coming. Pending home sales lag mortgage applications, and the message from the mortgage data is grim." Elsewhere, the consultancy adds, "purchase applications are on course for a 10% m/m drop in April. Potential homebuyers are responding to surging rates, which have driven up the monthly payment on a median existing home by about 51% since last August's level." Pantheon warns, "the fall in mortgage demand cannot continue at its recent pace forever, but it probably has some way yet to run. Home sales will catch up, which means that big, sustained declines are coming."

ADVANCE GOODS TRADE BALANCE: US advance goods trade balance fell to an all-time high deficit of USD 125.3 bln from the prior deficit of USD 106.35bln in February, as imports surged. On this, exports for March rose 7.2% to a record USD 169.3bln, which was pushed higher by sales of industrial supplies and capital goods. Nonetheless, imports rocketed 11.5% higher to a record USD 294.6bln, driven by purchases of industrial supplies, including petroleum products and consumer goods, including motor vehicles and capital goods.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 8 TICKS LOWER AT 119-25+

Treasuries bear-steepened Wednesday as the O/N bid reversed through the session as stocks held their ground and with an eye on the 5yr auction, which tailed. 2s +1.5bps at 2.597%, 3s +2.8bps at 2.752%, 5s +2.4bps at 2.823%, 7s +3.6bps at 2.848%, 10s +4.6bps at 2.818%, 20s +4.2bps at 3.102%, 30s +3.7bps at 2.907%. 5yr BEI +3. 0bps at 3.300%, 10yr BEI +1.8bps at 2.969%, 30yr BEI +1.1bps at 2.538%.

THE DAY: Treasuries entered the NY session on a firmer footing, on their way to a fourth consecutive day of declining yields. A wider US trade deficit aided the bid on US growth concerns. IFR noted real money was a buyer across the curve. While some block buys in 2yr futures again, alongside more curve steepening bets, accentuated the bull-steepening further. T-Notes hit local highs of 120-14+ in the NYSE pre-market (10yr lo of 2.73%), failing to make a run on their APAC session highs of 120-18+. As stocks held their ground as NY cash trade commenced, rates sellers emerged, with the long-end leading but also concession in the belly ahead of the Treasury auctions. T-Notes had pared to the unchanged mark going into the 5yr auction. The lacklustre auction saw little follow-through in the immediate aftermath but contracts went on to leak into the red at settlement. Attention now on Thursday's 7yr and Friday's ECI and PCE data.

5YR AUCTION: A flat 5yr auction as the 2.785% stop, the highest since November 2018 and over 20bps cheaper M/M, still marked a 0.9bps tail, worse than last month's 1bps stop-through and the six-auction avg. 0.6bps stop-through. The 2.41x covered ratio was also lower than prior and average. The breakdown was more encouraging, seeing Dealers take a below avg. 16.5%, with Directs taking a more than avg. share again. The auction comes after Tuesday's robust 2yr and ahead of Thursday's 7yr, with participants looking towards the May 4th FOMC and quarterly refunding.

STIRS: Eurodollars were sold with the reds weakest, reversing earlier strength with broader rates. EDM2 +0.5bps at 98.145, U2 -1.0bps at 97.355, Z2 -3.5bps at 96.915, H3 -4.0bps at 96.705, M3 -5.0bps at 96.565, U3 -5.5bps at 96.63, Z3 -5.0bps at 96.73, M4 -4.0bps at 96.89, Z4 -3.0bps at 96.95, Z5 -3.0bps at 97.085. Meanwhile, NY Fed RRP op demand fell slightly to USD 1.803tln across 82 bidders from USD 1.819tln across 84 bidders. US sold USD 24bln of 2yr FRNs at a high discount margin of -0.075%, covered 2.51x; sold USD 30bln of 119-day CMBs at 1.110%, covered 3.56x.

CRUDE

WTI (M2) SETTLED USD 0.31 HIGHER AT 102.02/BBL; BRENT (N2) SETTLED USD 0.34 HIGHER AT 104.95/BBL

Oil prices were choppy Wednesday after dipping into the NY session only to reverse into the black on Algerian/Spain supply risk headlines, whilst the bullish EIA inventory report and Germany supporting oil embargo headlines only saw a fleeting spell of strength. Futures pared to flat in pre-settlement trade. Prices had been on a firmer footing through the APAC session, coming on the back of the gas flow halting news to Poland and Bulgaria Tuesday. Meanwhile, China suggesting lockdown restrictions could be eased in areas with no COVID transmission provided a slither of hope for improving Chinese oil demand. But as risk assets dipped into the NY handover, oil followed suit. The smaller crude stock build than the private data indicated saw a brief bounce alongside headlines Germany was prepared to support a Russian oil embargo, although a more sustained rally was seen in later trade after Algeria threatened to tear up supply contracts to Spain.

EQUITIES

CLOSES: SPX +0.21% at 4,183, NDX -0.05% at 13,003, DJIA +0.19% at 33,301, R2K -0.35% at 1,883.

SECTORS: Materials +1.48%, Energy +1.48%, Technology +1.36%, Industrials +0.35%, Consumer Staples +0.27%, Consumer Discretionary -0.07%, Financials -0.1%, Health -0.12%, Utilities -0.46%, Real Estate -0.66%, Communication Services -2.61%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.36% at 3,734; FTSE 100 +0.53% at 7,425; DAX +0.27% at 13,793; CAC 40 +0.48% at 6,445; IBEX 35 +0.46% at 8,477; FTSE MIB +0.63% at 23,830; SMI +0.99% at 12,051.

STOCK SPECIFICS: **Boeing (BA)** was lower after missing on EPS and revenue; confirmed it has delayed 777x production and doesn't expect deliveries to begin until 2025. **Alphabet (GOOGL)** saw losses after it fell short on top and bottom line, with the Co. impacted by weak YouTube ad sales which was hurt by the war in Ukraine. Note, board authorised an additional USD 70bln share buyback programme. **Microsoft (MSFT)** was firmer after it topped on EPS and revenue, whilst guidance for all three of the Cos. business segments topped analysts' expectations. Forecast double-digit revenue growth for the next fiscal year, driven by demand for cloud computing services. **Visa (V)** saw gains after a strong report; highlighted by surpassing on profit and revenue. Added that the geopolitical environment remained uncertain, but expects continued growth driven by a robust travel recovery. **Kraft-Heinz (KHC)** had a stellar report alongside raising FY22 outlook. Note, KHC raised its FY22 inflation outlook to mid-teens from low-teens. **Texas-Instruments (TXN)** beat on EPS and revenue. Looking ahead, Q2 revenue and EPS view light of expected, as the outlook takes into account an impact due to reduced demand from COVID-19 restrictions in China. **Enphase Energy (ENPH)** reported record revenue, alongside raising Q2 view. Company said Europe will be a key growth area looking forward as Russia's invasion of Ukraine sends power prices soaring. **Juniper Networks (JNPR)** earnings were more-or-less inline but issued cautious commentary. JNPR said it is experiencing worldwide shortage of semiconductors and ongoing supply chain challenges. Believes that extended lead times and elevated costs will likely persist for the remainder of the year.

STOCK SPECIFICS: **Robinhood (HOOD)** CEO announced that it was laying-off approximately 9% of its full-time employees. JDPower issued cautious vehicle commentary saying it sees seasonally adjusted annualized rate (SAAR) for total new-vehicle sales seen at 14.5mln units (-3.9mln units from 2021). **WW Grainger (GWW)** raised quarterly dividend 6% to USD 1.72/shr (prev. USD 1.62/shr). **Apollo (APO)** and Mukesh Ambani's Reliance plan a joint bid for **Walgreens Boots Alliance's (WBA)** Boots unit, according to FT sources. The deadline for bids is May 16th. **Beyond Meat (BYND)** had a choppy session, after surging in excess of 30% at one point, on reports McPlant burger is to become a permanent menu item at **McDonald's (MCD)**. However, McDonald's spokesperson later came out and said Fast Company headline on Beyond Meat is 'misconstrued' and has no new plans with BYND to announce.

FX WRAP

THE DOLLAR was much firmer, again, Wednesday and printed yet another new YTD peak of 103.280, surpassing the pandemic low of 102.990 in March and, as such, reaching levels not seen since January 2017. In terms of catalysts, the factors are well-known, but in essence, the Greenback is surging from aggressive Fed tightening expectations, with 233.8 bps of rate hikes baked in by money markets by year-end, leaving the implied rate at 2.66%. As well as this, the Buck sees tailwinds from the increasing geopolitical uncertainty, as the US is much less affected by the Ukrainian war, highlighted by the limited implications for the US, in contrast to Europe, where Russia has cut oil supplies to Bulgaria and Poland. Lastly, rebalancing flows for the end of April. On month-end, Citi notes, "the preliminary estimate of month-end FX hedge rebalancing flows calls for USD buying across the board, as the model estimates that both international equity and bond investors will be USD buyers." Looking ahead, earnings season remains in view, with FB after the bell Wednesday, followed by AMZN, AAPL, and MA Thursday, whilst on the data front, there is PCE and Employment Costs on Friday.

AUD was the clear G10 outperformer and the only major currency in the green against the Buck, although the Aussie waned off highs seen earlier. Australian CPI printed hotter than expected and reached a 20yr high to push the AUD/USD cross to highs of 0.7190. RBA tightening expectations followed the data, as some desks now look to next week's meeting for a hike, as opposed to June. Besides RBA next week, there is Import/Export data Thursday, followed by Q1 PPI on Friday. **NZD** was subdued against the Buck, trading within a narrow range, touching high of 0.6591 and a low of 0.6528. Although the Kiwi saw headwinds from AUD/NZD, it mainly lagged just behind its peer, ahead of March trade data Thursday.

CAD was flat, while **GBP** saw mild losses against the surging Buck. Cable hit a 2022 low of 1.2504 and managed to just fend off the pivotal 1.2500 to the downside, as the cross hit lows not seen since July 2020. Techs note if 1.25 is breached, eyes will be on the mid 2020 low of 1.2463. In terms of catalysts, it is a familiar story, with uncertainties regarding the Ukrainian war and declining global growth expectations pressuring the risk-sensitive currency, which was hit further on a pick-up of safe-haven Dollar buying after Russia suspended gas to Bulgaria and Poland. Loonie slipped from highs as the NY session progressed due to the Dollar buying amid the aforementioned woes, and as such, the crude complex failed to provide support. The rest of the week sees a lack of scheduled risk events, but with month-end, continued China COVID lockdown angst, and Ukraine/Russia updates, market participants will likely take their cues from those.

EUR, CHF, and JPY were the G10 underperformers, with the latter seeing the most significant losses against the Buck. EUR/USD hit a five year low of 1.0515, as losses extended after Russia's Gazprom halted gas supplies to Bulgaria and Poland due to lack of payment in Roubles, and added supplies will be halted until RUB payments are made. Moreover, it continued to heighten the concerns regarding western Europe’s heavy reliance on Russian energy supplies and the potential implications ahead. Regarding levels, techs note the single-currency managed to stay afloat of 2017's 1.0494 low, but beneath that is 2016's 1.0340 low, which is the lowest since 2003. Elsewhere, German consumer sentiment hit a historic low as it missed expectations and plunged deeper into negative territory, with warnings that Germany would go into recession with a Russian energy embargo.

JPY saw losses and continued to eek towards the multi-year low. On this, USD/JPY downward correction from April 20th high of 129.40 has held above critical support, which has put that level back in play, a 20-year high. This is the case as Treasury yields rebounded with lingering global risk-aversion, unable to save the Yen from the broader Dollar bull run. Analysts note the correction came due to profit-taking and broader JPY short-covering amid global derisking related to China lockdowns, the Ukraine war and receding central bank stimulus. Moreover, all this comes ahead of BoJ on Thursday, that is widely seen maintaining current ultra-easy policy settings. **Swissy** saw losses, with USD/CHF hitting a low of 0.9701, albeit only fleetingly above the key 0.9700, as SNB Vice Chairman Zurbruegg provided no real interruption and stated it is assumed that current drivers of higher inflation are temporary; it is essential central banks bring inflation under control.

EMFX was mixed. BRL, MXN, and RUB saw gains, whilst the ZAR saw losses alongside the flat TRY. ZAR was the underperformer and saw headwinds from the yellow metal as Gold struggled to maintain the USD 1,900/oz level, whilst the PLN got some protection from the Russian gas stoppage as the NBP ramped up its hawkish rhetoric again via Kolchalski, who underlined room for more tightening and perhaps by another 100bps. Lastly, while the RUB outperforms, it is very tricky to identify the true value of the currency, alongside the geopolitical tensions still weighing.