US Market Wrap

28th April 2022: DXY prints 20yr highs, NDX surges, and first US GDP contraction post-2020 brushed aside

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: BoJ keeps policy unchanged; Riksbank unexpected 25bps hike; US Q1 GDP fall pinned on trade deficit, not consumer; Jobless claims inline; Germany drops opposition to EU embargo on Russian oil; Mixed 7yr auction; FB report 'good enough'; Stellar QCOM earnings but woeful TDOC.
- **COMING UP**: **Data**: EZ Flash CPI and GDP, US March PCE, US Chicago PMI **Events**: CBR Announcement **Speakers**: SNB's Jordan **Supply**: Italy **Earnings**: BBVA, BASF, AstraZeneca, NatWest, AbbVie, Exxon, Chevron, Bristol-Myers, Colgate-Palmolive.
- **WEEKLY US EARNINGS ESTIMATES**: [FRI] AZN, HON, CVX, BMY, XOM, ABBV. To download the full report, please click here.

MARKET WRAP

Stocks posted a solid session Thursday (SPX +2.5%, NDX +3.5%, R2K +1.8%) after morning wobbles on the back of the surprise decline in US Q1 GDP subsided through the session. SPX again respected the 4180/4200 support zone, paving the way for a technical bounce, aided by Meta's (FB) "good enough" report, seeing the shares surge 18% in relief, driving the NDX outperformance. The tech-led strength likely also found some impulse from the decline in real yields in wake of the export- and inventory-driven contraction in US GDP (rather than flagging consumption trends). Treasuries bear-flattened after hot German inflation data and hawkish Riksbank saw spillover weakness from EGBs, which sustained after the mixed US 7yr auction and oil rally. The energy strength was solidified after WSJ reports Germany was prepared for a Russian oil embargo. In FX, the DXY made 20yr highs at 103.930 at expense of the majority of G10 peers, particularly Yen as the BoJ stayed put.

GLOBAL

US GDP: US Q1 GDP posted a shock contraction of 1.4%, way beneath the expected 1.1% growth, while the deflator rose at 8.0% rate, above the expected 7.2%. Delving into the headline print, ING note, whilst the number looks bad, especially as inflation is running at 40-year highs, it wouldn't get too carried away since the details are not as poor as the headline figure suggests. Domestic demand held up pretty strongly, especially when you factor in the impact to economic momentum caused by the Omicron wave late last year. As such, consumer spending grew 2.7%, while non-residential investment expanded 9.2% and residential investment posted a 2.1% gain. Nonetheless, the fall in GDP is caused by a fall in exports amid lacklustre foreign demand due to COVID restrictions, and a surge in imports resulted in net trade subtracting a full 3.2ppt from headline GDP growth. Additionally, ING adds, inventories run downs amid ongoing supply chain disruptions while government spending fell in consecutive Qs hindered the print. In summary, major trade and inventory swings masked decent underlying domestic demand, with Q2 activity set to be much better. Looking to Q2, ING states, 'we are confident the growth number will be better despite fiscal and monetary policy becoming less supportive. While inflation is hurting spending power, nominal incomes are rising strongly and there are decent employment gains that in combination can keep spending firm.'

US JOBLESS CLAIMS: Initial jobless claims printed 180k, bang in line with consensus, and marginally lower than the previous figure of 185k. Continued jobless claims trivially fell to 1.408mln from 1.409mln, and came in marginally above the forecasted 1.403mln. Briefly looking at the data set, Pantheon Macroeconomics note, 'the trend in jobless claims is flattening at about 180K; that's extraordinarily low but claims can't keep falling to zero. Even at the peak of a boom, some firms downsize or close.'

GEOPOLITICS: On the ground, there were various reports of explosions where two large explosions were heard in Kyiv, according to Reuters witnesses, whilst a differing two witnesses added two powerful blasts were heard in the Russian region of Belgorod bordering Ukraine. Regarding Mariupol, Governor of Ukraine's Donetsk region stated Russia is not agreeing to any evacuation of wounded Ukrainian soldiers from the Azovstal steel works. The US DoD stated some Russian forces have been leaving the Mariupol area towards the northwest even as the fight for it continues. Nonetheless, on the prospect of talks, Russian Foreign Minister Lavrov said Russia has not yet received a response from Ukraine on its proposals for a potential agreement. In The West, Germany dropped opposition to the EU embargo on Russian oil provided there is a phase-in period, and as such, the EU oil ban announcement is expected shortly, which paves the way for the next round of EU sanctions. Lastly, on Ukrainian aid, White House officials are to ask Congress for USD 33bln in Ukraine supplemental package, including USD 20bln in military assistance, USD 8.5bln in economic assistance, and USD 3bln in humanitarian aid.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 14 TICKS LOWER AT 119-11+

Treasuries bear-flattened after hot German inflation and hawkish Riksbank set the tone out of EGBs and sustained after mixed 7yr auction and oil rally; contraction in US Q1 GDP was brushed aside. 2s +6.3bps at 2.640%, 3s +7.0bps at 2.802%, 5s +5.8bps at 2.870%, 7s +4.7bps at 2.891%, 10s +3.1bps at 2.849%, 20s +1.3bps at 3.114%, 30s +0.4bps at 2.913%. 5yr BEI +10.2bps at 3.408%, 10yr BEI +8.2bps at 3.060%, 30yr BEI +7.1bps at 2.614%.

THE DAY: Treasuries entered the NY session on a slightly firmer footing with the belly leading. T-Notes printed a session high of 120-01 at the Tokyo/London handover, although the surprise 25bps Riksbank hike capped bids. Selling built into the London/NY handover, seemingly spillover from EGBs after hot regional German inflation data saw T-Notes break to new lows, although the front-end was leading. IFR attributed leverage funds as adding to the sales from the CME open in reaction to another decline in Japan's Treasury holdings as seen in the MoF data, for what it's worth. The surprise contraction in US Adv. Q1 GDP saw a brief relief rally, although a return to new lows in govvies soon arrived as desks pointed to falling inventories and trade deficits, rather than slacking consumer behaviour, for the GDP decline. T-Notes made session lows of 119-06+ soon after the US data, then hovered a few ticks above for the remainder of the session. The mixed 7yr auction (1.7bps tail, but stronger underlying metrics) did nothing for market direction either, while hot commodity prices kept the inflation pressure on. Rates traders now look primarily to Friday's ECI, with an eye on next week's FOMC and quarterly refunding. Meanwhile, month-end flows are in focus with +0.07yr duration extension is expected, according to Bloomberg.

7YR AUCTION: A mixed 7yr auction after the 2.908% stop (highest since Nov. 2018) marked a 1.7bps tail, the largest since December last year and above avg. 0.4bps. Last month's auction stop was 40bps richer and tailed by a smaller 1.3 bps. However, the 2.41x covered ratio was still above avg. 2.34x, while Dealers (15.2%) took slightly less than avg. as Indirects took a lofty 65% (prev. 60.9% and avg. 61.6%). That marked another strong showing from Indirects (a proxy for end-user demand), as seen in recent Treasury auctions since the April 30yr that came the day after March core CPI printed softer than expectations.

STIRS: EDM2 -3.5bps at 98.115, U2 -5.5bps at 97.305, Z2 -7.5bps at 96.85, H3 -9.5bps at 96.625, M3 -11.5bps at 96.465, U3 -10.0bps at 96.55, Z3 -9.5bps at 96.655, M4 -9.5bps at 96.81, Z4 -9.0bps at 96.87, Z5 -7.5bps at 97.005. NY Fed RRP op demand at USD 1.818tln across 83 bidders (prev. USD 1.803tln across 82 bidders).

CRUDE

WTI (M2) SETTLED USD 3.34 HIGHER AT 105.36/BBL; BRENT (N2) SETTLED USD 2.31 HIGHER AT 107.26/BBL

Oil prices were firmer Thursday, growing into the session after reports Germany was prepared for a Russian oil embargo, offsetting demand concerns post-weak US GDP. Prices had entered the NY session choppy/subdued alongside the broader risk tone. The surprise decline in US Q1 Adv. GDP provided little help for bulls, but little selling could be sustained either, with Wednesday's reported draws in US products keeping an element of bullishness as the US export market roars. The WSJ article that Germany had dropped opposition to an EU oil embargo on Russian oil, provided it had time to secure alternative supplies, saw benchmarks spike, despite the reports largely echoing Wednesday's. The strength was sustained through into the futures settlement. WTI (M2) and Brent (N2) are now approaching their April (18th) highs of USD 109.20/bbl and 113.61/bbl.

ELSEWHERE:

- OPEC+ is likely to stick to gradual output increases at the May 5th meeting with +432k BPD in June, according to Reuters.
- Exxon (XOM) downsizes staff and operations from its Sakhalin-1 project in Russia amid plans for an exit, Nikkei reported.
- Elliott Management calls for change at Canada's Suncor Energy (SU), with an eye on benefitting from an ex-Russia oil market (FT).
- China's CNOOC refuted reports that it plans to exit investments in the UK, US, and Canada over sanction fears.

- China's Sinopec expects demand for oil products to recover in Q2 as COVID-19 is gradually controlled; sees full year oil demand reaching positive growth.

EQUITIES

CLOSES: SPX +2.47% at 4,287, NDX +3.48% at 13,456, DJIA +1.85% at 33,916, R2K +1.79% at 1,917.

SECTORS: Technology +4.04%, Communication Services +3.89%, Energy +3.14%, Consumer Discretionary +2.32%, Real Estate +1.85%, Materials +1.56%, Consumer Staples +1.43%, Health +1.35%, Financials +1.3%, Industrials +1.14%, Utilities +1.11%.

EUROPEAN CLOSES: Euro Stoxx 50 +1.13% at 3,777; FTSE 100 +1.13% at 7,509; DAX +1.35% at 13,979; CAC 40 +0.98% at 6,508; IBEX 35 +0.41% at 8,512; FTSE MIB +0.95% at 24,055; SMI +0.14% at 12,068.

EARNINGS: **Meta (FB)** surged 17% after beating on EPS, and saw DAUs grow following a decline in the prior Q. Do note, FB reported its slowest revenue growth in at least a decade. **Qualcomm (QCOM)** saw gains ~10% following a stellar report where it beat on the top and bottom line. Looking ahead, QCOM raised Q3 EPS and revenue view. **Teladoc (TDOC)** plummeted 40% after it cut guidance and revenue fell short. Co. said the revised outlook reflected dynamics currently experienced in the direct-to-consumer mental health and chronic condition markets. **McDonalds (MCD)** surpassed street consensus on EPS and revenue, with SSS growth 3.5% in the US, and even higher in global markets. **Merck (MRK)** beat on EPS and revenue, alongside raising FY revenue view. On its key pharma sales breakdown, it topped on all major drugs. **Dominos Pizza (DPZ)** was lower following a poor report, highlighted by profit and revenue misses. Alongside this, US SSS declined roughly 3.5%, as DPZ added it faced a number of headwinds during the Q1, from the Omicron surge to staffing shortages to unprecedented inflation. **Mastercard (MA)** beat on EPS and revenue, and said data from sanctioned Russian banks not included in Q1. **ServiceNow (NOW)** topped Wall St. estimates on top and bottom line, while it backed Q2 and FY22 subscription revenue view. **Eli Lilly (LLY)** profit jumped nearly 40% in Q1, helped by strong demand for its top-selling diabetes drug and higher sales of its COVID-19 therapies. Alongside this, boosted Q1 and FY revenue view. **PayPal (PYPL)** beat on revenue and saw a marginal rise in payments volume. Looking ahead, guidance was poor. Q2 EPS view was light and cut guidance for TPV. Lowered FY22 outlook as Russia, Ukraine and China are contributing to increased global uncertainty and incremental inflationary and supply chain pressures. **Southwest (LUV)** issued a positive outlook, and expects Q2 revenue +8-12% against 2019 levels.

STOCK SPECIFICS: **Apple (AAPL)** to face fresh antitrust charges in Brussels. EU will accuse the tech giant of blocking financial groups from its Apple Pay mobile system; set to be announced next week, according to FT. Elliott Management sent a letter to the board of **Suncor Energy (SU)** calling for five new independent directors, alongside strategic and management review. Elon Musk's failure to comply with rules regarding disclosure of his initial 9% **Twitter (TWTR)** stake is under FTC scrutiny, according to The Information citing sources. **Activision (ATVI)** shareholders approve proposed **Microsoft (MSFT)** transaction; more than 98% voted in favour. **Raytheon Technologies' (RTX)** Pratt & Whitney engines are taking longer than expected to repair, and **Lockheed Martin's (LMT)** F-35 readiness undercut by lack of replacement engines, according to Government Accountability Office (GAO). Goldman offers its first bitcoin-backed loan in crypto push.

FX WRAP

THE DOLLAR was much firmer Thursday as it continued its WTD surge to a 20yr high of 103.930. In terms of catalysts, there were a few, namely continued China growth concerns, ever-worsening Ukraine/Russia picture, and central bank divergence. However, many traders were still left scratching their heads at the size of the move. Anyway, despite the Buck strength, it is worth noting the US GDP Q1 advance, which printed a surprise contraction, briefly stopped the Dollar in its track before later continuing on its ascent higher. Looking ahead, US earnings season continues with AAPL, AMZN, and INTC reporting after-hours Thursday, whilst on Friday, there US employment costs for Q1 and Core PCE for March looms. In addition, market participants also look to the May 4th FOMC, where the Fed is expected to hike rates by 50bps.

JPY was the clear underperformer Thursday, which followed in step from the BoJ meeting in the Tokyo session. The BoJ maintained its ultra-accommodative policy settings, retained guidance to keep rates at current or lower levels until inflation reaches 2% sustainably, and reinforced its intention to defend an unchanged YCT range with daily JGB operations of unlimited size every single day when bidding is expected, or vice-versa. Following the rate decision, Governor Kuroda said it is desirable for currencies to move stably, reflecting economic fundamentals, and 2% inflation will not be sustained as energy price hikes fade. USD/JPY hit new 20-year highs of 131.24, aided by the glaring divergence between the Fed's steep rate-hiking path and portfolio reduction plans and the aforementioned BoJ's accommodation. Looking ahead, desks note the divergence is not seen concluding any time soon, with Treasury yields toward the front of the yield curve higher, again, despite the below-forecast US GDP. In addition, safe-haven flows have reverted back to the Buck’s favour after a couple of days of favouring the oversold Yen. Renewed upside in energy prices are also a dent to the commodity importer.

ACTIVITY CURRENCIES, NZD, GBP, and AUD, all saw losses against the Greenback in descending order. Headwinds arose from the surging Buck instead of any independent headline. AUD/USD hit lows of 0.7056, which comes ahead of PPI Friday, where a hot print may raise prospects for an RBA hike next week, as opposed to June. Cable hit a multi-year low of 1.2412 as Sterling showed little sign of abating its recent slide with the broader global growth headwinds and policy divergence weighing. Analysts note the Pound is facing a dreary near-term outlook. Furthermore, the cable slide shows no sign of relenting unless the slowing US economy tempers Fed's tone on rate hikes next week with the widely expected 50bps hike, but markets are yet to pursue that notion. Next week, highlights for the currencies include the BoE announcement Thursday, RBA Tuesday, and the New Zealand jobs report Tuesday.

CAD, EUR, CHF: CAD was flat and the G10 outperformer, whilst EUR and CHF were lower, but fared much better than most of their G10 counterparts. The Loonie saw tailwinds from the crude complex, as WTI and Brent firmed in excess of USD 2/bbl, extending on gains after Germany dropped opposition to the EU embargo on Russian oil, the WSJ reported. Euro was lower, with EUR/USD bottoming out at 1.0472, a low since 2017. Although the single currency remained on the backfoot in the session, it gleaned some traction following German Prelim CPI, which surpassed expectations. ECB’s Visco also continued the hawkish central bank tone and said a Q3 rate hike could happen. On Friday, Eurozone flash CPI and GDP will be of interest, while the Loonie watchers will be awaiting Canadian GDP for February, albeit stale data.

SCANDIS: The SEK is off best levels, but still bid against the general G10 and EM grain in the wake of the surprise 25bps Riksbank rate increase, upwardly revised repo guidance to indicate a 1-1.25% peak by the end of the year and H2 asset purchase taper. Similarly, the NOK got some underlying support from Norges Bank Governor Olson, underlining the reasons why rates are rising.

EMFX was mixed. TRY and RUB saw the best performances against the Buck, whilst on Friday, the CBR rate decision and Naboillina press conference is due. Reuters' poll saw 31/32 economists surveyed forecast the CBR cutting to 15% from 17%. ZAR and MXN saw losses, whilst the BRL was flat. Again, ZAR came under heavy pressure on Thursday as the domestic woes weigh heavily on the Rand, as Eskom outages, flood damage, and risk aversion counteract the SARB hiking risks. Highlighting this, desks note USD/ZAR is set for the best month since March 2020, with ZAR set to relinquish all of its Q1 gains.