US Market Wrap

29th April 2022: Spooz's take a month-end haemorrhaging for their biggest loss since June 2020

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar down.
- **REAR VIEW**: ECI stokes wage spiral fears; PCE in line; Poor AMZN report; Cautious AAPL outlook on supply constraints; CBR cuts rates 300bps, more than consensus; China to ease crackdown on big tech.
- **CENTRAL BANK WEEKLY**: Previewing FOMC, BoE, RBA, Norges Bank; Reviewing BoJ, Riksbank, CBR. To download the report, please click here.
- **WEEK AHEAD PREVIEW**: Highlights include FOMC, BoE, RBA, Norges, OPEC+; ISM, NFP, US Quarterly Refunding. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [MON] MCO, NTR; [TUES] EL, PFE, SPGI, ABNB, SBUX, AMD; [WED] MRNA, CVS, BKNG; [THURS] ZTS, COP; [FRI] CI. To download the full report, please click here.

MARKET WRAP

Stocks bled out through the session Friday as the NDX (-4.5%) led the losses (SPX -3.5%, R2K -2.8%) with earnings and month-end the culprit. On the one hand, the 14% drop in Amazon (AMZN) post-earnings, it's biggest daily fall since July 2006, set the tone despite the strong Apple (AAPL) report, -3.6%. But month-end selling took the reins as the session developed. Traders noted the monthly JPMorgan Asset Management macro hedge largely behind the USD 7bln+ MoC order that saw Spooz print lows of 4119, exceeding the March low at 4129.50, and opening up the late Feb contract low of 4094.25. Meanwhile, Treasuries (10yr +7bps at 2.93%) bear-flattened again on the back of the concerning Employment Costs Index jump and better long-end support for month-end. The lofty Q1 +1.4% ECI affirmed concerns around lingering inflation and justification for the Fed's hawkishness/50bps moves. The Dollar saw heavy selling to see the index hit a low of 102.80 but recovered above the 103 level as the risk tone deteriorated further. Oil prices were lower, reversing their strength into the settlement. The crescendo of pessimism was highlighted by Bespoke Investment, "There's only been 4 other times since 1971 that the Nasdaq was down more than 2.5% for 4 or more straight weeks. The longest streak was 5." The Nasdaq has now posted its worst monthly performance since the 2008 crisis. All eyes to Powell next Wednesday to make good on rate hikes.

GLOBAL

US EMPLOYMENT COST INDEX: US ECI rose 1.4%, above the expected 1.1%, as the headline gain was boosted by an outsized 1.8% jump in benefits spread across most sectors of the economy. On benefits, no detail is provided in this release, so you cannot know if the rise in benefits is propelled by a particular factor or reflects increases in all benefits. The Q1 number is alarming but could be a one-time spike. Delving into the data print, private sector wages and salaries rose 1.3%, following a revised 1.1% in Q4, and 1.6% in Q3, with the surge in Q3 seemingly capturing the peak chaos in the labour market due to several factors. Pantheon Macroeconomics notes, "once these factors ended, wage growth slowed, but it remains a bit too fast for comfort. If productivity growth stabilises at 2-2.5%, as we expect, the Fed will want to see wage gains slowing to 4-4.5% in order to be consistent with inflation at the target in the medium-term; the annualised Q1 increase was 5.2%. This is consistent with some moderation in core-core inflation, but it is not enough." Looking ahead, the consultancy adds notes the data has no immediate policy implications because the Fed has long been set on a 50bps hike in May, but at the margin, it makes a second 50bps hike in June more likely. Finally, Pantheon concludes, "'after that, all bets are off, and the pace of tightening could easily be slowed by the meltdown in the housing market, now in its early stages, and the coming rapid decline in inflation."

US PERSONAL INCOME AND SPENDING: US personal income rose 0.5% in March, marginally higher than the expected 0.4%, and a slight dip from the prior 0.7%, which was revised higher. Core PCE deflator rose 0.3%, in line with the consensus and unchanged from the prior. Core PCE Y/Y rose 5.2%, slightly beneath the expected 5.3%, and marked the first decline since October 2020, which should only be the beginning of the declines thanks to favourable base effects over the coming months. Real spending was up 0.2% M/M, stronger than the expected -0.1%, while adjusted spending lifted 1.1%, well above analysts forecast of 0.7%. Looking into the report, analysts note confidence of a boost in spending in April, with the profile of personal spending encouraging as service sector spending finally fully recovered back to pre-pandemic levels. Looking ahead, ING notes, "with wages and employment both rising strongly, this gives us a bit more confidence that we will get a decent rebound in Q2 GDP after yesterday's surprise 1.4%

decline." ING adds, "early indications are pointing to 2Q GDP likely in the 2.5-3.0% range, which combined with the elevated inflation pressures should ensure a 50bp rate hike next week from the Fed and a further 50bp in June and July as a minimum." Finally, ING notes, "even if supply chains improve and we see geopolitical tensions ease a little, we doubt this inflation measure will be below 4% before early next year."

GEOPOLITICS: Russian Foreign Minister Lavrov said Ukrainian attacks on Russian territory show the goals of Moscow's special operation should be achieved as quickly as possible. Moreover, he added Russia does not consider itself at war with NATO, and such a development would raise risks of nuclear war and cannot be allowed, adding Moldovans should be worried about their future, as they are being dragged into NATO. On talks, Lavrov noted Moscow and Kyiv could have already achieved major results, but Kyiv is altering its position under orders from US and Britain. MEanwhile, Ukraine President Zelenskiy stated there is a high risk that peace talks with Russia will end and blames the actions of Russian troops during the war. On sanctions, the EU is reportedly likely to approve a phased embargo on Russia as early as next week; the package will also include sanctions against Sberbank and further measures on high profile Russians, according to NYT (confirming other recent reporting). Lastly, on the ground, heavy fighting is continuing in eastern Ukraine, where Russian forces are trying to take the entire Donbas region, where a Senior US official believes Russia is behind on that operation.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 6 TICKS LOWER AT 119-05

Treasuries bear-flattened again Friday on the back of concerning employment costs data and better long-end support for month-end. 2s +7.2bps at 2.719%, 3s +6.4bps at 2.880%, 5s +5.9bps at 2.941%, 7s +5.4bps at 2.956%, 10s +4.5bps at 2.908%, 20s +4.4bps at 3.170%, 30s +3.7bps at 2.966%. 5yr BEI -3.1bps at 3.372%, 10yr BEI -1.8bps at 3.034%, 30yr BEI -2.8bps at 2.580%.

THE DAY: T-Notes rose modestly into the early Tokyo session to print session highs of 119-24, but note Japan was on holiday and activity was lighter than usual. The contracts eventually crossed into the red in the late London morning ahead of the NY arrival, with Bunds leading the selling at the time. T-Notes found support at 119-08 ahead of the US data slate, a strike which saw over 44k weekly puts expire at Friday (IFR noted a large bond fund bought 33k on Thursday for 7 ticks). The lofty Q1 ECI of +1.4% affirmed concerns around lingering inflation and justification for the Fed's hawkishness/50bps moves, and saw the front-end lead a leg lower across the curve. The above forecast March personal consumption data with energy-induced headline PCE figures supported the move too, albeit the core PCE came in light (just as core CPI did). T-Notes found session lows at 118-24 shortly after the release, although pared in wake of the well-beneath forecast Chicago PMI. T-Notes hovered between 119-00 to 119-08 area through into the settlement.

STIRS: EDM2 -4.0bps at 98.07, U2 -8.0bps at 97.225, Z2 -9.0bps at 96.76, H3 -8.5bps at 96.53, M3 -7.5bps at 96.38, U3 -6.5bps at 96.48, Z3 -5.0bps at 96.60, M4 -3.0bps at 96.770, Z4 -2.0bps at 96.84, Z5 -2.0bps at 96.975. Meanwhile, NY Fed RRP op demand at USD 1.906tln across 92 bidders (prev. USD 1.818tln across 83 bidders), marking a record-high usage as month-end adds to the surge.

CRUDE

WTI (M2) SETTLED USD 0.67 LOWER AT 104.69/BBL; BRENT (N2) SETTLED USD 0.12 LOWER AT 107.14/BBL

Oil benchmarks were lower Friday after reversing their strength into the close as risk assets more broadly fell through the session. Headlines seemingly weren't driving oil prices, with the benchmarks roughly tracking the macro sentiment. WTI (M2) and Brent (N2) hit highs of 107.99/bbl and 110.00/bbl, respectively, in the NY morning before sliding into the futures settlement. The benchmarks are still firmer on the week, however, and sit comfortably in their post-Ukraine invasion trading ranges. Note that June Brent futures expire Friday, so some final book-squaring could have been at play in the tape action.

US PRODUCTION: US Baker Hughes Rig Count (w/e Apr 29th): Oil +3 at 552, Nat Gas unch. at 144, and Total +3 at 698. US drillers added oil and natgas rigs for sixth week in a row, while adding oil and gas rigs for a joint-record 21 months in a row. Meanwhile, ExxonMobil (XOM) and Chevron (CVX) posted their biggest profits in a decade Friday. At the same, White House's Deese called on US oil companies to ramp production. Note Chevron said it was doing its part with its Permian production at record highs, also saying its discussing LNG expansion in the Middle East and the US.

RUSSIAN OIL: Russian daily oil and condensate output -9% so far in April vs May, according to Interfax. Meanwhile, a schedule shows that Russian ESPO blend oil exports (popular with Chinese refiners) from Kozmino have been set as 3.1

mln/T for June, down from 3.3mln/T in May; that follows reports in early April that Chinese refiners were refraining from making new contracts. However, Reuters reported that Indian firms are seeking oil import deals with Russia, with three refiners looking to buy up to 16mln bbls per month.

ELSEWHERE:

- China is set to boost oil and gas reserves and production, as well as speed up construction of major projects such as pipeline network facilities, according to state press.
- US heating oil futures drop by over 11%, biggest daily percentage decline since March 2022.
- Petrobras (PBR) to raise natgas prices by 19% effective from May 1st, according to G1.

EQUITIES

CLOSES: SPX -3.54% at 4,135, NDX -4.447% at 12,854, DJIA -2.77% at 32,977, R2K -2.79% at 1,864.

SECTORS: Consumer Discretionary -5.92%, Real Estate -4.9%, Technology -4.14%, Communication Services -3.58%, Financials -3.41%, Utilities -3.01%, Consumer Staples -2.66%, Industrials -2.62%, Health -2.48%, Energy -2.47%, Materials -1.97%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.69% at 3,803; FTSE 100 +0.47% at 7,544; DAX +0.84% at 14,097; CAC 40 +0.39% at 6,533; IBEX 35 +0.85% at 8,584; FTSE MIB +0.82% at 24,252; SMI +0.74% at 12,158.

EARNINGS: **Amazon (AMZN)** closed lower by 14%, its biggest one-day drop since July 2006, following a big miss on EPS, which was largely due a USD 7.6bln loss on its investment into Rivian. Elsewhere, the underlying details were okay as revenue and AWS topped the expected. Looking ahead, Q2 net sales guide was light. Regarding growth, an executive on call said Prime members continued to be a key driver. **Apple (AAPL)** initially rallied after results, but then faltered as an exec noted challenges in the Q, including supply constraints which could hurt sales next quarter by USD 4-8bln. On earnings, AAPL beat on top and bottom alongside issuing a further USD 90bln in buybacks. Moreover, iPad, iPhone, and Mac revenue all beat analysts' expectations. **Honeywell (HON)** was firmer after it posted a strong report, highlighted as it beat on the top and bottom line. For the FY, HON raised its EPS and revenue view. **Intel (INTC)** saw losses after weak guidance for Q2 overshadowed the decent results for Q1. **Bristol-Myers Squibb (BMY)** surpassed Wall St. consensus on EPS and revenue, but the downside was attributed to the FY22 EPS guide as it was negatively impacted due to IPRD charges. **Exxon (XOM)** notably missed on EPS as well as revenue. XOM noted earnings include USD 3.4bln in Russian charges. **Robinhood (HOOD)** plummeted following a shocking report, where EPS posted a deeper loss per share than expected; revenue missed, as did MAUs. Also, HOOD cut its expense view for the FY. **Verisign (VRSN)** declined after it missed on EPS, and following earnings Baird downgraded the stock. **AbbVie (ABBV)** saw losses after it fell short on revenue and lowered its FY guidance.

STOCK SPECIFICS: US listed China stocks, such as **BABA, PDD, BIDU, JD** etc, surged after policymakers in China signalled an easing of the crackdown on tech companies. CEO Musk filed to sell around 2.26mln **Tesla (TSLA)** shares and an additional sale of 889.8mln shares; CEO Musk said no further Tesla sales are planned after today. Separately, Musk said FSD beta update "probably goes to wide release next week. This is a big one". **Intel (INTC)** CEO said overall semiconductor shortage can drift into 2024. **Toyota Motor (TM)** and Subaru, and other Japanese automakers are closing their factories longer than usual for the April-May holiday season amid chip shortage and other disruptions, according to Nikkei. **Paychex (PAYX)** raised quarterly dividend 20% to USD 0.79/shr (prev. USD 0.66/shr).

WEEKLY FX WRAP

Dollar dominant in the face of diversity and adversity elsewhere

USD - It might seem somewhat strange or ironic that the Buck plundered more gains without any Fed prompting during the pre-FOMC blackout, but it had plenty of incentive or encouragement beyond a positive month end rebalancing signal. First and probably foremost, the Greenback benefited from its relative remoteness and minimal reliance on Russian oil, as the invasion of Ukraine rumbled on and it started to enforce demands for gas payments in Roubles by suspending supplies to Poland and Bulgaria. Moreover, the Duma warned that other unfriendly nations could suffer the same fate for non-compliance and the conflict spilled over to Moldova where trouble flared in the region of Transistria. Meanwhile, China's coronavirus outbreak spread and reached parts of Beijing, a fifth wave of the pandemic is sweeping SA and the Dollar saw more supportive Central Bank policy divergence, as the PBoC announced a 100 bp RRR cut to take effect from May 15 and the BoJ retained its ultra-easy rate and QQE regime. On the US data front, a mixed bag overall, including a wider trade gap, dip in weekly jobless claims, unexpected advance Q1 GDP contraction, stronger than expected ECI, broadly in line core PCE inflation metrics and weaker than forecast Chicago PMI. Back to the Dollar, and using the DXY for reference a new multi-year high was posted on Thursday at 103.930 vs 101.05 low at the start of the week.

JPY/EUR/GBP - No particular order or reason for listing the Yen, Euro and Pound next, though they are major index components and the magnitude of their losses against the Buck are indicative of the general trend. Indeed, Usd/Jpy extended its already heady bull run to circa 131.25 compared to a w-t-d base just shy of 127.00 with only a couple of lapses along the way in lipservice to Japanese jawboning about undesirable excessive and rapid moves. However, the BoJ doubled down on its efforts to cap 10 year JGB yields around 25 bp via buying ops every single trading daybarring those when no bidding is anticipated rather than intermittently or a consecutive series in the run up to the latest policy meeting. On top that, Governor Kuroda maintained silence on specific currency levels in the press conference, as he deemed it inappropriate to comment on daily moves. Elsewhere, Eur/Usd plunged from around 1.0841 to 1.0471 or so at one stage, irrespective of several positive impulses, on paper, like hot Eurozone inflation readings, surprisingly upbeat German Ifo survey gauges (compared to the accompany commentary) and more ECB officials shifting towards a July rate hike coinciding with an end to the APP. Hence, the Euro's demise, also evident vs the Franc to an extent, was more war-related and predicated on the prospect of further fallout from Russia's retaliation against EU sanctions, with an inceasingly bearish technical backdrop. Sterling's woes stemmed from similar factors, but Brexit resurfaced as another stumbling bloc via the NI protocol impasse between the UK and EU. Cable tumbled to 1.2412 at worst having been been above 1.2850, while Eur/Gbp peaked above the 0.8450 chart pivot before reversing sharply on Friday, maybe on month end positioning and/or the premise that the BoE is widely expected to deliver another ¼ point hike next week. Nonetheless, the MPC vote split and guidance via the minutes and MPR will be key for the Pound going forward after recent rhetoric highlighting the dilemma between tackling hyper inflation and exacerbating the cost of living squeeze on household income.

AUD/CAD/CHF/NZD - All on couse to end the week/April narrowly mixed vs their US counterpart, but this fails to tell the full story outlined by broad depreciation within wide extremes that saw the Aussie top 0.7250 and bottom some 200 pips below, the Loonie trade either side of a 1.2685-1.2879 divide, the Franc sink from 0.9548 to 0.9758 and Kiwi descend to 0.6453 from 0.6645. The rationale, broad Greenback strength, weakness in crude and other commodities on Chinese demand destruction, but Aud/Usd derived some underlying traction from a sizzling Q1 CPI report that has upped the ante for the RBA to complete its shift from patience through plausible to unavoidable via a hike that pundits predict could be 15-25 bp.

SCANDI/EM - The Nok and Sek both outpaced the Eur, but the latter takes regional bragging rights thanks to the Riksbank ripping up its flat rate path and lifting the repo 25 bp, predicting another 2-3 of the same before 2022 bows out and deciding to slow the pace of asset purchases earlier from the end of Q2 this year. So, only the BoJ and SNB left in the nest housing G10 doves, and the CBR flew the EM flag with a bigger than anticipated 3 full point ease, albeit from still lofty emergency levels, in contrast to the trend that saw the NBH resume it 1 week depo rate tightening cycle with a 30 bp increase. On that note, NBP and CNB officials maintained hawkish guidance in the main, and the BCB is forecast to confirm another full point Selic rate hike, especially after an unexpected fall in Brazil's unemployment rate. Conversely, the Zar only has Gold resilience around Usd 1900/oz to underpin and cushion against various negatives, such as ongoing Eskom power problems and a fifth SA Covid wave.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com