US Market Wrap

2nd May 2022: Stocks rebound higher in late trade after earlier YTD SPX low was made in holiday-thinned market depth

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Hungary opposes Russian oil embargo; Poor US Mfg. ISM, large drop in employment, slight fall in prices paid; AAPL facing EU regulators charge; Chinese PMI's feel lockdown's wrath; Mixed Eurozone PMI's.
- **COMING UP**: **Data**: South Korean CPI, German Unemployment, EZ Producer Prices & Unemployment, US Factory Orders, New Zealand Unemployment **Speakers**: ECB's Lagarde **Earnings**: AMD, Pfizer, Starbucks; BP; BNP Paribas, Deutsche Post, Uniper **Holidays**: China and Japan.
- **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**: [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

It was a choppy session on Monday with China and the UK away for market holidays while many are positioning into Wednesday's FOMC. Equities finished the day firmer with a late tailwind, led by the Nasdaq, taking the indices into the black after the S&P 500 printed a fresh YTD low of 4,062 earlier on. A chunky buy-side imbalance on the close saw Spooz reclaim 4,150. Sectors were mixed, but the gains in the large caps (Communication, Technology and Consumer Discretionary) did a lot of the heavy lifting while defensives were the laggards (Real Estate, Staples, Utilities, Health Care). The upside in stocks came despite a surge in US yields which saw the US 10yr yield rise above 3.00% for the first time since 2018 while the 10yr TIPS yield re-entered positive territory. The move in yields supported the buck ahead of the Fed on Wednesday and weighed on cyclical currencies, havens and the Euro as well as EMFX. Crude prices were initially lower although managed to settle firmer as losses unwound as Europe's Russian oil embargo started to take shape, although Hungary remained resistant after Germany said they would support it. Over the weekend, China's PMI data disappointed expectations and sparked global growth concerns as we start to see the impact of China's Zero-COVID policy. Eurozone PMI's were mixed but overall the bloc fared better than expected while the US ISM Manufacturing PMIs disappointed after a large drop in the employment component ahead of Friday's NFP report – pricing pressures eased somewhat, but still remain elevated. Note, there was a flash crash in the European morning which was later revealed by Bloomberg to be a result of an error at Citigroup's (C) London trading desk.

GLOBAL

US MANUFACTURING ISM: April ISM manufacturing index fell to a 20-month low of 55.4 from 57.1, and also printed beneath the expected 57.6. Looking at the subcomponents, the inflationary gauge of prices paid fell to 84.6 (prev. 87.1, exp. 87.5), while there was also a sharp drop in the employment index to 50.9 (exp. 56.3, prev. 56.0). Additionally, new orders marginally declined to 53.5 (prev. 53.8). Looking into the report, Capital Economics note, “the headline drop is mostly due to weakening demand amid a broader slowdown in global manufacturing, rather than a renewed supply crunch.” Elsewhere, the notable fall in the employment index was responsible for the majority of the fall in the headline. On this, ahead of the NFP report on Friday, CapEco adds, “the employment index is consistent with manufacturing payrolls stagnating”. Moreover, new orders and production indices held consistent, the consultancy states, “that is a relative disappointment given both fell sharply in March. The production index is consistent with declines in manufacturing output over the coming months.” Elsewhere, new exports orders index fell to 52.7 (prev. 53.2), its lowest level since July 2020, and the comments coming with the survey noted lockdowns in China were beginning to restrain production in the US. The supplier delivery times index rose to only 67.2 (prev. 65.4), the same range it has been over the past six months. Looking ahead, with demand still weakening in the rest of the world, CapEco suggests the manufacturing sector will probably slow further from here.

GEOPOLITICS: A Senior US Defense Official stated the US sees "minimal at best" progress by Russia in Donbas over the past several days with the Russian forces showing aversion to risk. Moreover, US officials continued saying the US has no indications that Russia is planning an imminent invasion of Moldova. Furthermore, according to NYT, as the first large-scale evacuation of civilians continued from the city of Mariupol, Western leaders were working on Monday to put their increasingly aggressive promises of aid to Ukraine into action. However, a Ukraine aide to the Mariupol city mayor said Russia resumed shelling of the Azovstal steelworks on Sunday as soon as evacuation buses departed. Elsewhere, the critical EU embargo on Russian oil and gas remains divisive, as the German economy minister said the EU remains unable to agree on ending supplies of Russian oil and gas, as Hungary has made it clear it will block consensus whilst Germany said it could bear a phased-in oil embargo. For a more thorough overview, refer to the crude section below.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 26 TICKS LOWER AT 118-11

Treasuries bear-steepened in thin liquidity conditions with positioning ahead of Wednesday's FOMC and Refunding making its mark on the tape. 2s +2.3bps at 2.723%, 3s +6.2bps at 2.920%, 5s +9.1bps at 3.003%, 7s +10.6bps at 3.036%, 10s +10.4bps at 2.989%, 20s +11.2bps at 3.266%, 30s +11.2bps at 3.058%. 5yr BEI -13.5bps at 3.218%, 10yr BEI -12.0bps at 2.901%, 30yr BEI -9.7bps at 2.493%.

THE DAY: Light trade was seen in both APAC and Europe Monday with several regions on holiday, while Japan is set to join the Golden Week holidays from Tuesday through Thursday. T-Notes found strength in the European morning as Bunds led on the back of the disappointing German PMI data, then going on to eke highs of 119-02 at the handover to NY. But sellers emerged from the CME open. The majority of the move lower occurred early on, with no obvious catalysts aside from "Fed and Refunding positioning" in thin liquidity conditions, but the paring back higher in oil prices from there kept the pressure on govvies anyway, seeing T-Notes settle at lows.

US FINANCING ESTIMATES: Ahead of Wednesday's Quarterly Refunding announcement, the Treasury said its Q2 borrowing estimate assumes a June-end cash balance of USD 800bln (up from 700bln in the prior estimate), which assumes a debt pay-down of USD 26bln in net marketable debt in April to June 2022 period, down from the prior estimate of USD 66bln issuance. Treasury said the decrease in the borrowing estimate is primarily due to increases in receipts. The USD 800bln June-end TGA balance will require a smaller T-Bill paydown than the prior USD 700bln target would have, providing some incremental easing on the supply shortage in the bill market, particularly after the latest bill size cuts after the April tax receipt surge.

STIRS: The front of the Eurodollar strip was firmer on the session, but the rest of the curve bear-steepened. EDM2 +2.5bps at 98.10, U2 +1.5bps at 97.255, Z2 -0.5bps at 96.765, H3 -3.0bps at 96.515, M3 -4.5bps at 96.345, U3 -6.5bps at 96.425, Z3 -7.5bps at 96.535, H4 -9.5bps at 96.62, M4 -10.5bps at 96.675, Z4 -11.0bps at 96.74, Z5 -12.5bps at 96.865. Meanwhile, NY Fed RRP op demand declined sharply to USD 1.796tln across 84 bidders from the month-end and record USD 1.906tln across 92 bidders, with USD 29bln net settlement flows Monday adding to month-end factors too.

CRUDE

WTI (M2) SETTLED USD 0.48 HIGHER AT 105.17/BBL; BRENT (N2) SETTLED USD 0.44 HIGHER AT 107.58/BBL

Oil prices were just about firmer Monday in what was quite the turnaround as European losses (German data and China lockdowns cited) unwound into the NY afternoon as Europe's Russian oil embargo takes shape. WTI (M2) and Brent (N2) futures dipped lower in the European morning, accentuated by the weak German mfg. PMI data, before trundling to session lows of 100.28/bbl and 103.10/bbl at the NY handover. The recovery was gradual but did coincide with Reuters reporting a lack of increased OPEC production in April and WSJ noting Austria was prepared to accept a Russian oil embargo (after previous opposition), before gaining traction alongside metals as Europeans began departing. Note the UK holiday has reduced liquidity conditions.

EU EMBARGO: There has been opposition to the Russian oil embargo from some EU member states, particularly Hungary. In response, Germany has said they are not there yet on a boycott while sources via BBC’s Parker surmised that a ban on such oil imports by end-2022 looks tricky. However, Politico indicated that it is possible a compromise could be sought, which would look to seek some form of exemption for the likes of Hungary and Slovakia. Meanwhile, WSJ reported that Austria was ready to accept a Russian oil embargo after weekend reports it had loosened its stance on the issue. In Germany, Finance Minister Lindner said Monday an immediate embargo is possible, according to local press (Welt). Weekend reports had suggested Germany could end its dependence on Russian oil by the end of summer.

OPEC: OPEC's April oil monthly output stood at 28.58mln BPD, +40k BPD M/M, falling short of the 400k BPD plus figure pledged, a Reuters survey showed. That would take the OPEC+ output compliance to 164% from 151%. Note that the official OPEC+ meeting takes place on Thursday where the group is expected to pledge another c. 400k BPD M/M increases - something which the market takes less and less at face value.

EQUITIES

CLOSES: SPX +0.59% at 4,156, NDX +1.72% at 13,075, DJIA +0.26% at 33,063, R2K +1.06% at 1,881.

SECTORS: Communication Services +2.43%, Technology +1.56%, Energy +1.37%, Consumer Discretionary +1.36%, Industrials +0.17%, Financials +0.02%, Materials -0.33%, Health -0.68%, Utilities -1.04%, Consumer Staples -1.29%, Real Estate -2.55%.

EUROPEAN CLOSES: Euro Stoxx 50 -1.85% at 3,732; DAX -1.13% at 13,939; CAC 40 -1.66% at 6,425; IBEX 35 -1.73% at 8,436; FTSE MIB -1.63% at 23,857; SMI -1.25% at 11,977.

STOCK SPECIFICS: **Apple (AAPL)** is facing a charge from EU regulators for abusing its dominant market position for mobile wallets. The EU said AAPL restricted competition by limiting access to standard technology for contactless payments. **Moody's (MCO)** EPS and revenue printed more-or-less inline but cut its FY22 EPS guidance. **JetBlue (JBLU)** submitted its enhanced superior proposal to acquire **Spirit Airlines (SAVE)** for USD 33/shr in cash. SAVE determined JBLU's offer does not constitute a superior proposal and intends to continue moving towards completion with Frontier Airlines; expected in H2 22. **Berkshire Hathaway (BRK.A)** posted a mixed report; EPS beat but revenue fell short and noted earnings were down from a year ago due to stock market turbulence and a rise in insurance claims. **Activision (ATVI)** firmed after **Berkshire (BRK.A)** raised its stake in the Co. where it now owns 9.5%. Jefferies cut **Bilibili's (BILI)** price target, citing BILI's recent cut in its revenue outlook due to the resurgence of COVID cases in China. **ON Semiconductor (ON)** beat on EPS, revenue, and gross margins. Additionally, ON issued solid guidance for Q2 which topped analysts' expectations. **Volkswagen (VWAGY)** is to rely on **Qualcomm (QCOM)** chips for automated driving. **Fincantieri (FCT IM)** is in talks with **Norwegian Cruise Line (NCLH)** over an order worth USD 4bln to build new ships, according to Reuters sources. **Sonoco (SON)** announced price hikes for uncoated recycled paperboard; USD 50 /T price hikes for all grades of paperboard. **Ford (F)** F-150 lightning will start to ship to customers in the coming days, beginning with the pro series. **Vertex Pharmaceuticals (VRTX)** saw losses after the FDA placed a study of Vertex's treatment for type 1 diabetes on hold. **Moderna (MRNA)** stated its COVID vaccine for children under 6 years old will be ready for review by an FDA panel when it meets in June. **General Motors (GM)** CEO stated the semiconductor shortage could last into 2023 and the US requires a more robust supply chain. **Stellantis (STLA)** intends to invest USD 2.88bln in Windsor and Brampton EV plants as well as expand its auto research and development center. **Amazon (AMZN)** clinched a victory over the union in the second NYC election. Elon Musk is reportedly in talks with investment firms regarding financing a new **Twitter (TWTR)** deal that would tie up less of his wealth, according to Reuters sources. Brookfield is reportedly considering takeover of **Switch (SWCH)**.

FX WRAP

DOLLAR: The Dollar was bid on Monday in holiday conditions with China and UK away for holidays. The buck was supported by the risk off tone and higher Treasury yields which saw the 10yr yield briefly rise above 3% for the first time since 2018, which helped the DXY rise above last Friday's high of 103.63 to highs of 103.65 with technicians eyeing 103.93 as the next level of resistance. Focus this week lies heavily on the FOMC on Wednesday, as well as the NFP report on Friday. Meanwhile, the ISM data saw the headline fall to 55.4 from 57.1, beneath the expected 57.6, while the prices paid cooled to 84.6 from 87.1, beneath the 87.5 expected. Employment also declined, and the New Orders only saw a slight dip.

EURO: The Euro fell victim to the stronger buck and higher treasury yields, with EUR/USD testing 1.0500 to the downside with Technicians eyeing the Friday low of 1.0490 and Thursday low of 1.0470 if 1.0500 was to break. The Eurozone PMI data was supported by beats in Germany and France despite the soft trend shown from Spain and Italy. However, the report noted, "Manufacturing output came to a near standstill across the eurozone in April, with production merely edging higher at the slowest rate since June 2020". Companies not only reported that ongoing problems with component shortages were aggravated by the Ukraine war and new lockdowns in China, but that rising prices and growing uncertainty about the economic outlook were also hitting demand. Meanwhile, Economic and Industrial sentiment and consumer confidence in Europe missed expectations, although consumer inflation expectations had cooled.

HAVENS: The Yen saw further weakness, driving USD/JPY above 130.00 to highs in Asia of 130.47, with the widening yield differentials continuing to drive price action in USD/JPY. As such, this comes ahead of the expected 50bp hike from the Fed on Wednesday; while the BoJ last week reinforced its 10yr JGB yield target of 0.00%; the BoJ overnight offered to buy an unlimited amount of JGBS with maturities of 5-10yrs at a fixed rate. XAU sold off hard with the move higher in yields weighing on the precious metal while the 10yr TIPS entered positive territory once again. CHF was also weaker on rate differentials and firmer greenback, although the Swissy was flat against the Euro.

CYCLICALS: Cyclicals had sold off in general with the downbeat risk tone in markets to start the month where they left off, as weak China PMI data over the weekend impacted sentiment on growth concerns amid their zero-COVID policy. The Aussie was softer and traded around 0.7050 throughout the session, with the weakness on Monday in fitting with the downbeat risk environment. AUD/NZD was firmer, however, ahead of the RBA tonight where the central bank is expected to hike by 15bps to 0.25% after its highest annual inflation in two decades. Also, above target preferred trimmed inflation spurred calls for a sooner lift off after the RBA also dropped its "patient" language from the prior meeting. However, the expectation for a hike is not unanimous; where some expect the RBA to wait for more wage data and after the election before hiking, with Australia's largest bank CBA, Goldman Sachs and HSBC among those calling for a hold; full preview available here. CAD was weaker in fitting with the risk tone while the reversal in oil prices failed to support the Loonie with USD/CAD above 1.29 while GBP weakness also continued with the equity sell off. GBP/USD fell beneath 1.2500 to lows of 1.2481 from highs of 1.2597, although many London players were away for the May Day bank holiday.

YUAN: CNH was softer against the rising dollar with concerns out of China regarding growth after disappointing PMI data over the weekend which sparked more talk of further support from China, including from the Securities Times, who wrote China may cut its RRR on two more occasions this year. Note, China markets are closed on Monday-Wednesday therefore the lack of liquidity may be influencing the price action. With the latest USD/CNH Upside, technicians are eyeing resistance at 6.6950-6.70 after rising above the 6.6750-80 resistance. If price action were to reverse, technicians eye support at 6.6450-6.65 and 6.63-6.6350.

EM's: EMFX was generally weaker, BRL saw pronounced weakness while local equity markets sold off, too, with the downbeat sentiment likely impacted by falling commodity prices after the weak China data. Meanwhile, the IBC-Br economic activity index rose, although it was not as high as forecasted, albeit it was for February, so it is rather stale data. CLP also saw weakness on the softer commodity prices. MXN was also weaker, albeit not to the same extent as the BRL. The latest manufacturing PMI for Mexico saw its 26th consecutive contraction at 49.3, albeit up from the prior 49.2 in March which was supported by gains in employment, although output and new orders contracted. However, analysts at Rabobank highlight that Latin America as a whole will be more or less trading on Dollar dynamics with the Fed on Wednesday rather than any local idiosyncrasies. ZAR saw pronounced weakness with weakness in gold prices weighing on the Rand, while TRY was also softer in fitting with the gains in the dollar and general risk tone. RUB was the only currency to firm against the Dollar, although it's hard to paint an accurate picture of the Rouble given the amount of measures in place. Nonetheless, Germany is now joining the push for a Russian oil embargo. However, Hungary is yet to budge and suggest they will not vote for EU measures that endanger the security of its oil or gas supply. Meanwhile, the EU Energy Commissioner Simson stated paying Roubles for energy through the Russian conversion scheme is a breach of sanctions.

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