



## US Market Wrap

### 3rd May 2022: Stocks choppy and yields flatten on the eve of FOMC

- **SNAPSHOT:** Equities up, Treasuries mixed, Crude down, Dollar down.
- **REAR VIEW:** RBA hike by more than expected; ECB's Schnabel says hike in July is possible; Macron and Putin speak; JOLTS hit record high and quits rate rises to 3.0%; Factory orders above expectations.
- **COMING UP: Data:** EZ & US Composite/Services PMI (Final), EZ Retail Sales, US ADP, ISM Services **Events:** FOMC Policy Announcement & OPEC JTC **Speakers:** Fed's Powell Supply: Germany & US Quarterly Refunding **Earnings:** Volkswagen, Siemens Healthineers, Ferrari, Moncler, EDF, Telecom Italia, Hugo Boss; Swatch **Holidays:** China & Japan
- **WEEKLY US EARNINGS ESTIMATES:** [WED] MRNA, CVS, BKNG; [THURS] ZTS, COP; [FRI] CI. To download the full report, [please click here](#).

## MARKET WRAP

Equities were choppy throughout the session on the eve of FOMC, although at the close, the Nasdaq and Dow Jones closed marginally green while the S&P was bid, but the Russell outperformed with gains led by value stocks. Breadth was decent, with the majority of sectors green and strong gains in the equal weighted S&P. The only sectors in the red consisted of Consumer Discretionary and Consumer Staples. The Treasury curve flattened with desks noting steepener unwinds ahead of FOMC and Refunding while front end yields were supported after the RBA's aggressive hike (25bps hike vs 15bps expected). The Dollar saw selling pressure but was off the lows heading into the end of the day as all eyes turn to the FOMC. Oil prices were lower, slipping modestly through the session in choppy price action as desks tout prolonged China lockdowns despite the approaching embargo on Russian oil in the EU. Data was mixed, US Jolts hit a record high while the quits rate ticked up to 3.0% but factory orders were stronger than expected. Earnings were mixed, Pfizer (PFE) had a strong quarter although guidance disappointed but vaccine revenue was strong. NXP Semiconductors (NXPI) saw a mixed report but revenues were strong, helping the Semiconductors ETF (SOXX) gain, as did the rally in Western Digital (WDC) after Elliott wrote to them calling for a full review and a separation of the flash business; Elliott even offered USD 1bln of equity capital to help with the separation. Estee Lauder (EL) was slammed after it cut guidance and warned of a larger impact in China in the following quarter due to the China lockdowns, which also had a knock-on effect on Nike (NKE).

## GLOBAL

**FOMC PREVIEW:** The FOMC is seen lifting its target Fed Funds Range by 50bps to 0.75-1.00% in its second hike post-COVID. The Fed is also set to formally announce its balance sheet reduction plans (quantitative tightening, 'QT') with maximum monthly caps expected at USD 60bln and 35bln of Treasuries and MBS, respectively, with a three-month phase-in. While there are some glimmers of peaking inflation, the Fed will not want to leave it to chance and has work to do in bringing policy up to neutral (largely seen a 2.25-2.5%, potentially lower when including QT) so as not to worsen supply-side constraints with excess demand. Powell's presser/Q&A will be gauged for guidance on the rate path with estimates looking at another 50bps hike at a minimum, and debate on whether / when the Fed will hike rates above neutral into 'tight' policy, something which markets are pricing in for as soon as Q4 - Powell will likely stick to his "if appropriate" at the time stance. While some Fed officials have touted a potential 75bps hike, it's not seen as the consensus but remains a tail risk. If Powell keeps the possibility open for future meetings, markets have shown they are happy to test that boundary. Full preview is [available here](#).

**US JOLTS:** March US JOLTS printed a record high and rose to 11.549mln, from 11.344mln, and also above the expected 11mln, whilst the quits rate marginally rose to 3.0% (prev. 2.9%), which comes as the Omicron COVID variant effect started to wane. Looking into the report, Job openings increased in retail trade, +155k, and in durable goods and manufacturing, +50k, while they decreased in transportation, warehousing, and utilities, -69k, and also state and local government education -43k. Elsewhere, desks note, US employers saw record levels of job openings and workers quitting in March, which points towards intensifying labour-market tightness that will continue to keep edging wages higher at a decent pace. Furthermore, analysts note that vacancy figures indicates that employers' requirement for workers remained strong in March as they look to meet solid consumer demand for goods and services. Additionally, businesses are still noticing difficulties to recruit qualified workers, which has put further upward pressure on wages and led to a surge in job openings.



**GEOPOLITICS:** Russian President Putin, in the call with French President Macron, said the West could help to end the atrocities by Ukrainian security forces, via Ix; adding, Russia is still open to a dialogue with Kyiv. Following this, Macron said he told Putin he wants to discuss with international organisations lifting Russian embargo on Ukraine and food exports in the Black Sea, but added a ceasefire was needed in Ukraine. Elsewhere on talks, Russian Deputy Chair of the Security Council Medvedev stated Ukraine President Zelenskiy does not seek any peace treaty, seeks money and weapons. Moreover, regarding ground movements, fresh Russian missile strikes hit across multiple regions of Ukraine, with targets including Kyiv, Odesa, Dnipro and Lviv. As such, in Lviv, two power substations were damaged as a result of the missile strike with no electricity in part of the city. Furthermore, a Ukrainian commander said, Russian forces have launched a "powerful assault" on the industrial site, Azovstal, the last hold-out of Ukrainian defenders. On sanctions, EU Energy Commissioner stated we have reached out to all major gas suppliers to help replace Russian gas with alternatives, and later on Tuesday the sixth package against Russia is expected to be unveiled.

## FIXED INCOME

### T-NOTE (M2) FUTURES SETTLED 5+ TICKS HIGHER AT 118-16+

**The Treasury curve flattened after a grab for duration in the NY morning – steeper unwinds pre-FOMC – came on the back of the RBA's aggressive hike that kept selling pressure on the front-end.** At settlement, 2s +4.3bps at 2.774%, 3s +2.9bps at 2.954%, 5s -0.2bps at 3.008%, 7s -1.3bps at 3.032%, 10s -2.7bps at 2.969%, 20s -5.8bps at 3.222%, 30s -4.3bps at 3.019%. 5yr TIPS +0.1bps at -0.211%, 10yr TIPS -4.2bps at 0.124%, 30yr TIPS -7.0bps at 0.493%. 5yr BEI +1.0bps at 3.233%, 10yr BEI +2.7bps at 2.933%, 30yr BEI +3.8bps at 2.530%.

**THE DAY:** It was quiet and choppy for most of APAC Tuesday given the Golden Week holidays. But, the chunky RBA hike (+25bps) saw a wave of bear-flattening into the London handover (return from the long weekend return in the UK) to see T-Notes print session lows of 118-04+ before better bidding developed, led by the belly and long-end. For reference, note JPM's rates trading desk saying that despite the move higher in long-end yields in the prior few sessions, "we have actually seen better real\$ interest to buy bonds (not sure if it's delayed month end type buying or not)." That strength accelerated as the US session got going, with desks noting steeper unwinds ahead of FOMC/Refunding. Some block buys in the 2yr and 5yr futures coincided with moves. The strong US factory orders and JOLTS data, albeit March data (stale), saw the bid capped for the session, with the front-end pulling back the most into the NY afternoon. Traders now position for Wednesday's quarterly refunding and FOMC, with an eye on Friday's NFP.

**STIRS:** Eurodollar whites were sold ahead of expected rate path guidance at the FOMC, while the rest of the curve bull-flattened similar to the Treasury curve. EDM2 -0.5bps at 98.095, U2 -5.5bps at 97.195, Z2 -5.5bps at 96.705, H3 -5.5bps at 96.455, M3 -3.5bps at 96.310, U3 -1.0bps at 96.415, Z3 +0.0bps at 96.530, H4 +1.0bps at 96.630, M4 +1.5bps at 96.690, Z4 +2.5bps at 96.765, Z5 +5.5bps at 96.920. NY Fed RRP op demand was flat at USD 1.796tln across 83 bidders (USD 1.796tln across 84 bidders on Monday). Meanwhile, US SOFR rose to 30bps from 28bps as of Monday, the highest print since April 11th after the RRP facility usage tumbled as month-end flows abated and the large net coupon settlement.

## CRUDE

### WTI (M2) SETTLED USD 2.76 LOWER AT 102.41/BBL; BRENT (N2) SETTLED USD 2.61 LOWER AT 107.97/BBL

**Oil prices were lower Tuesday, slipping modestly through the session in choppy price action as desks tout prolonged China lockdowns despite the approaching embargo on Russian oil in the EU.** WTI (M2) and Brent (N2) hit interim lows of c. USD 102.70/bbl and 105.10/bbl in the NY morning, coming after Beijing warned citizens not to leave their residence unless necessary, before making new lows in pre-settlement trade. Traders now look to the weekly US inventory data with the private release due later Tuesday ahead of the official figures Wednesday. Current expectations (bbls): Crude -0.8mln, Gasoline -0.6mln, Distillate -1.3mln.

**EU EMBARGO:** At the time of writing we are still awaiting the formal announcement of the sixth round of EU sanctions, which were touted to be announced Wednesday. The EU Energy Commissioner Simson said the EU will present a plan this month to replace two-thirds of EU Russian gas used by year-end. Simson also said the EU had contacted gas suppliers to find alternative supplies, as well as plans to transition to more renewable sources or use more energy savings methods. Italy said Wednesday an immediate halt to Russian gas supplies would require much harsher savings measures; if supplies halted now the country could face a "critical" winter with a gas shortfall of 10-15BCM in early 2023.

## EQUITIES



**CLOSES:** SPX +0.48% at 4,175, NDX +0.11% at 13,090, DJIA +0.20% at 33,129, RUT +1% at 1,896

**SECTORS:** Energy +2.87%, Financials +1.26%, Real Estate +1.25%, Materials +1.12%, Industrials +0.7%, Communication Svcs. +0.54%, Utilities +0.37%, Health Care +0.34%, Technology +0.18%, Consumer Staples -0.24%, Consumer Discretionary -0.29%.

**EUROPEAN CLOSES:** Euro Stoxx 50 +0.77% at 3,761; FTSE 100 +0.22% at 7,561; DAX +0.72% at 14,039; CAC 40 +0.79% at 6,476; IBEX 35 +1.83% at 8,590; FTSE MIB +1.61% at 24,242; SMI +0.25% at 12,001.

**STOCK SPECIFICS:** **Western Digital (WDC)** received a letter from Elliott Investment management, who are calling for a full strategic review and a separation of the flash business at WDC and offered USD 1bln+ of incremental equity capital to facilitate the separation. WDC responded, saying it looks forward to engaging with Elliott Management and will carefully consider the proposals. Distributors agrees to an opioid settlement with Washington state;

**AmerisourceBergen (ABC), Cardinal (CAH), and McKesson (MCK)** reached an agreement to pay up to USD 518mln. **Welltower (WELL)** made an all-cash USD 5bln offer for **Healthcare Realty Trust (HR)**, according to WSJ sources; Welltower reportedly remains interested after its bid was rejected. **Apple (AAPL)** hired a 31-year **Ford (F)** veteran to ramp up its car project. **AT&T (T)** raised some mobile plan prices for the first time in three years. **Roku (ROKU)** has teamed with **Apollo Global Management (APO)** to bid for a minority stake in the pay-TV and streaming service **Starz (LGF.A)**, according to WSJ citing sources.

**EARNINGS:** **Biogen (BIIB)** missed on EPS missed but beat on revenue. Elsewhere, Co. is to substantially eliminate infrastructure for Aduhelm and have begun the search for a new CEO, with Vounatsos to stay as CEO for the interim. **NXP Semiconductors (NXPI)** beat on revenue, with revenue segments strong across the board. Looking ahead, next Q revenue view surpassed expectations and exec noted that it continues to see robust customer demand, especially in its company-specific accelerated growth drivers, adding that overall, demand continues to outstrip increased supply. **Estee Lauder (EL)** beat on EPS but missed on revenue. EL also cut its FY22 EPS and revenue growth forecast but said "we are confident that our business in China will rebound when COVID abates and accelerate our momentum." However, EL later stated current limitations in China to have greater impact on next Q results. **S&P Global (SPGI)** missed Wall St. consensus on EPS and revenue, alongside cutting its FY22 EPS view. **Chegg (CHGG)** plummeted 30% after it slashed guidance, but Q1 EPS and revenue beat expectations. Exec noted continued industry headwinds but expects these challenges to be temporary. **Nutrien (NTR)** saw gains after it beat on revenue and raised its FY forecast, as the world's largest fertilizer maker results were boosted by surging prices for crop nutrients. **Pfizer (PFE)** surpassed on top and bottom line, but FY22 EPS view fell short due to an accounting change. PFE expects to file for full US approval of Paxlovid in H2 22 for high-risk patients. **Devon Energy (DVN)** posted a strong report. Also raised its quarterly dividend 27% Q/Q to 1.27/shr and expanded share-repurchase authorisation +25% to USD 2bln.

## FX WRAP

**DOLLAR:** The Dollar gave up some of its Monday gains as yields also reversed ahead of the FOMC on Wednesday, where the Fed is expected to hike rates by 50bps and officially announce the start of its balance sheet runoff process with caps expected of USD 60bln in Treasuries and USD 35bln in MBS; Full Newsquawk preview [available here](#). The downside in the buck was driven by the move lower in yields while a bid into equities was also likely supportive after fresh YTD lows were printed on Monday.

**EURO:** The Euro was bid although EUR/USD did briefly dip beneath 1.05 to lows of 1.0493 although it did see highs of 1.0577 as US players arrived. Data saw EU Producer Prices above expectations in March alongside a higher unemployment rate. Meanwhile, ECB's Schnabel also spoke of a potential July rate hike from the ECB, joining other members who have also suggested it is possible, such as Kazaks, Wunsch and de Guindos while source reports after the April ECB meeting noted that a July rate hike is still possible.

**HAVENS:** Havens were mixed, the Yen was flat and USD/JPY headed into the close above 130.00, although it did see a low of 129.71 after the US equity open. Gold was slightly firmer after Monday's slide on favourable yield and dollar dynamics, but these failed to support the Yen as much ahead of the FOMC on Wednesday, although it is the start of a Japanese bank holiday. CHF was marginally weaker against the Dollar and was weaker against the Euro which saw EUR/CHF reclaim 1.0300 to the upside.

**CYCLICALS:** Cyclical were mixed, with AUD outperforming after the RBA surprised with a larger 25bps hike which was more aggressive than the 15bps expectation, taking the cash rate to 0.35%. The larger than expected rate hike was accompanied by language that further increases are required in the months ahead, although Governor Lowe did note the board is not on a pre-set path. NZD was lower against the dollar and likely hit from headwinds in AUD/NZD after the RBA hike, while the rate differential between the antipodes narrows. GBP was flat, although Cable did rise above 1.2500



to highs of 1.2567 but it failed to hold onto those gains and dipped back beneath the round level as eyes turn to the BoE rate decision on Thursday; Newsquawk preview [available here](#). CAD saw mild gains in a choppy risk environment while crude prices were also lower. BoC's Deputy Governor Rogers spoke although she had little impact on CAD, however, she did state they cannot let demand get too far ahead of supply or Canada risks adding further to inflation, which is close to 7. She added rates need to move higher but they are not on auto pilot, and continued housing price growth is unsustainably strong in Canada and it would not be a bad thing for housing prices to moderate a bit.

**SCANDI'S:** Choppy price action for the SEK and NOK which both managed to see gains against the Euro, as well as the Dollar. Attention turns to the Norges Bank rate decision on Thursday where it is expected to keep its Key Policy Rate at 0.75%. Although, attention is on whether it sticks with its plan to hike by another 25bp in June or is prompted into earlier action by the Riksbank that upped the stakes with a much earlier than previously indicated 0.25% increase; Full Newsquawk Norges Bank preview [available here](#).

**EMFX:** EM's were mixed although the weaker dollar was generally supportive. BRL outperformed after a BCB FX swap auction while Industrial output in March was better than expected. MXN was also firmer but not to the same extent as the Real. Banxico's Heath spoke on price controls, noting they only work in the short-term and they must be used very carefully, Heath also said the government is within its right to implement price controls, but the Banxico can only offer advice and opinions on the subject. ZAR was supported by the move higher in gold prices and appeared little phased from the Phase Two loadshedding from Eskom that is set to last until Monday.

## Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited ("Newsquawk") on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.