US Market Wrap

4th May 2022: SPX posts largest gain since May 2020 after Powell refutes 75bp move

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Fed hikes 50bps, as expected; To start trimming balance sheet June 1st, with slightly more aggressive starting caps than expected; Powell says they are not actively considering 75bps hikes; Poor ISM Services report; Treasury makes smaller auction cuts; US ADP short of expectations; EU sanctions package to ban all Russian oil, but some countries want a longer phase out period; AMD & ABNB post strong earnings; LYFT report weak outlook.
- **COMING UP**: **Data**: Chinese Caixin Services PMI, German Industrial Orders **Events**: OPEC+; BoE & Norges Bank Policy Announcements **Speakers**: ECB's Lane **Supply**: Spain & France **Earnings**: Stellantis, UniCredit, AXA, Airbus, Deutsche Lufthansa, Credit Agricole; Barratt Developments; Swiss Re, Adecco; ConocoPhillips.

MARKET WRAP

Stocks ripped higher Wednesday (NDX +3.4%, SPX +3.0%, R2K +2.5%) after the Fed's 50bps rate hike and lack of 75bps appetite in Powell's presser/Q&A. Not only did Powell brush aside future 75bps hikes, but he also suggested just two more 50bps hikes; there were some expectations that he could have guided more 50bp hikes into Q4 as a next 'hawkish shift'. Powell didn't provide any further tightening shocks to financial conditions today and markets made the most of it. The Treasury curve bull-flattened in wake of, while the DXY tumbled to lows of 102.48, providing some relief in the near-term as aggressive central bank tightening outlooks receded. In the real economy, oil and broader energy prices rallied hard through the session after the EU unveiled its sixth round of sanctions on Russian oil, which some suggest has more teeth than anticipated, but potentially at its own downfall given a growing roster of EU member states that are requesting exemptions to the measures. Anyway, Thursday provides some pause in the US ahead of Friday's NFP, with wage-price spiral concerns back on the radar, while in the UK the BoE rate decision on Thursday will be the highlight.

CENTRAL BANKS

FOMC STATEMENT: The Fed Funds target range was hiked by 50bps to 0.75-1.00% as expected with the statement affirming expectations of "ongoing increases"; administered rates (IOER and RRP) were hiked by 50bps. The balance sheet reduction was formally announced, but with a June start, as Fed's Brainard had indicated - many had been looking for a May start. While the maximum monthly caps of USD 60bln and 35bln of Treasuries and MBS, respectively, with a three-month phase-in, was what had been anticipated, the USD 30bln and 17.5bln starting caps were a bit more aggressive than the expected USD 20bln and 15bln. The commentary in the statement acknowledged the two-way risks (high inflation/low growth) from the Ukraine war, whilst also warning about the supply-chain problems due to China's lockdown. On the negative Q1 GDP print, the statement caveated that household spending and business fixed investment remained strong.

POWELL PRESS CONFERENCE/Q&A: The highlight of Fed Chair Powell's presser saw him cool expectations for an upcoming 75bps hike, noting that if things play out as they expect, the next two meetings should be 50bps (there had been some expectations that 50bps hikes could be carried out through into Q4). Powell said the committee was not actively considering a 75bps hike, adding it is the broad sense among the Fed that additional 50bps hikes should be on the table for the next couple of meetings. Powell was constructive on the economy, saying it could handle tighter monetary policy while there is a good chance for a "softish" landing, although noted several times it will not be easy. However, he dismissed many times the chances of a recession, saying nothing in the economy suggests being close to one but that's not to mean there won't be some slowing growth. Powell fancied the Fed's chances of bringing inflation down without significant increases in unemployment but did stress he wants to see more evidence of progress on inflation and wages, while noting both Russia and China are negative shocks and both will likely add to headline inflation. On the neutral rate, Powell said it is certainly possible the Fed will need to move policy into restrictive levels, which is something they will not hesitate to do if it is required, but stressed that is not a decision for now. The Fed Chair leaned on the ambiguity of where exactly neutral is, suggesting an appetite to slow down on hikes as the FFR approaches the zone (largely estimated between 2.00-2.50%). On the balance sheet, Powell said that the June 1st start date was just the date they chose and "nothing magic". Said the effects of balance sheet reduction are uncertain, but there are estimates it would deliver the equivalent of a 25bps hike over the course of a year, perhaps biasing the neutral rate to the lower end of forecasts.

BOE PREVIEW: The BoE is expected to continue its hiking cycle at the upcoming meeting by delivering another 25bps hike, taking the Base Rate to 1.0%. In terms of market pricing, 27bps of tightening is factored in for the upcoming meeting with an additional five hikes priced in by the end of the year. The previous decision was subject to dovish dissent from Cunliffe. This time around, the vote split is expected to remain 8-1. The meeting comes amidst the backdrop of rampant inflation in the UK, and a hot labour market, however, March's retail sales report was a cause for concern. With this in mind, Governor Bailey has cautioned that the BoE is walking a tightrope between tackling inflation and avoiding a recession. With a rate hike a near given for the Bank, focus will turn towards signalling for the coming months. In the previous statement, the Bank tweaked guidance so that it reads “modest tightening in monetary policy may be appropriate in the coming months” as opposed to the February statement which noted it is “likely to be”. Any further softening of forward guidance on rates will be of note given how aggressive market pricing remains. Elsewhere, current guidance from the BoE suggests that it will actively start selling Gilts when the Bank Rate hits 1%. However, policymakers have stated that selling Gilts when the Bank Rate hits 1% will not be an automatic process. ING thinks now is not the best time to sell bonds and therefore will hold off and instead opt to lay out details of how the policy could work when implemented. In the accompanying MPR, inflation and growth forecasts are set to be revised higher and lower respectively. For the full Newsquawk preview, please click here.

GLOBAL

US ADP: The ADP’s gauge of private payrolls was soft relative to expectations, printing 247k against an expected 395k–below the 300-585k forecast range–although the March data saw an upward revision to 479k from 455k. Analysts at Pantheon Macroeconomics were dismissive about the relevance of the data, noting that it is just a model-driven forecast with a "patchy record". The consultancy says that the "ADP talk about how they incorporate data from firms which use their payroll processing services, but that’s not the core of their model, which also includes regular macro data and the lagged official payroll numbers," adding that its estimate "is not statistically significant when incorporated into a payroll model using the Homebase numbers, so we aren’t changing our 300K forecast for Friday’s official headline reading."

US SERVICES ISM: ISM services fell to 57.1 from 58.3, and below the expected 58.5. Looking into the subcomponents, business activity rose to a three-month high of 59.1 (prev. 55.5), but new orders and employment fell to 54.6 and 49.5, respectively, with the latter dropping into contractionary territory. Additionally, the inflationary gauge of prices paid rose to 84.6 (prev. 83.8). Delving into the report, Pantheon Macroeconomics write the Google mobility data pointed to a notable increase in the index as the Omicron hit faded, whilst adding, ‘we hope the rebound in the business activity index will be mirrored in the headline index next month, but for now the index is in the doldrums.’ On reasoning, Pantheon assumes the rise in gas prices after the invasion of Ukraine is some of the story but sees no obvious hit in the near-real-time data, so the ISM numbers are something of a puzzle. Regarding the employment index specifically, Pantheon states, the drop is consistent with the message from the Homebase numbers, namely, payroll growth seems to have moderated last month to about 300K. Finally, the consultancy concludes, ‘in the supply chain data, the order backlog fell but delivery times rose, while prices paid nudged up marginally. The picture is broadly similar to the manufacturing survey; supply chain problems remain acute, but they seem to be stable, more or less.’

GEOPOLITICS: On the ground, Ukrainian officials noted Russia has launched a major assault on the besieged Azovstal steelworks in Mariupol, and they have the territory of the plant. Moreover, the Russian Defence Minister stated the Russian military will continue fulfilling all tasks set by Russian President Putin. Further, the Russian Kremlin, on speculation of a May 9th national mobilisation announcement, said it is untrue and nonsense, and regarding the EU ban on oil, declares Russia is looking at different options. As a reminder, there is speculation that May 9th could see an official declaration of war against Ukraine as opposed to the "special military operation". On talks, the Kremlin added, "there is no movement in the Russian-Ukrainian negotiations, and we note the statements about Kyiv's desire to withdraw from the negotiation process", via Al Jazeera. Elsewhere, Belarus announced the commencement of emergency military exercises on Wednesday, via journalist Elster, although Belarus claims they do not pose a threat to its neighbours. Regarding EU sanctions, EU Commissioner President von der Leyen stated there will be a complete import ban on all Russian oil; seaborne, pipeline, crude and refined, and intends to ban Russia's Sberbank from Swift. For a more thorough breakdown, check out the crude wrap below. Lastly, US President Biden noted the US is always open to further sanctions on Russia and is talking to G7 leaders this week about possible additional actions.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 20+ TICKS HIGHER AT 119-05+   Treasuries bull-steepened after the Fed's lack of 75bps appetite took right tail pricing off the table. 2s -10.8bps at 2.662%, 3s -10.1bps at 2.847%, 5s -7.7bps at 2.926%, 7s -5.4bps at 2.970%, 10s -2.4bps at 2.934%, 20s +1.2bps at 3.223%, 30s +0.4bps at 3.010%. 5yr TIPS -10.9bps at -0.321%, 10yr TIPS -5.8bps at 0.055%, 30yr TIPS -3.4bps at 0.448%.

THE DAY: T-Notes traded sideways through the Wednesday APAC session in a 118-09+/118-15 range with Japan and Tokyo still absent. The London handover saw T-Notes dip to lows of 118-06 in sympathy with EGBs, before gradually reversing course to highs of 118-18+ ahead of the US quarterly refunding announcement. The largely as expected refinancing plans saw no noticeable market reaction, and better selling crept in afterwards, led by the front-end. T-Notes tested their overnight lows (118-06/cash 10yr above 3%) before stock selling after the NYSE cash open capped the sovereign selling ahead of FOMC. T-Notes rose by a few ticks in wake of the 50bps hike, and the lack of 75bps tail risk, and then really caught traction higher into the futures settlement after Powell said in the Q&A the Fed is not actively considering 75bps and that two more 50bps hikes seem appropriate, citing signs of peaking core inflation. 119-00 was surpassed although it was the front-end driving the bid as hawkish tail pricing was taken off; interest in T-Note 119.75 weekly calls had picked up ahead of FOMC. Traders now look to Friday's NFP.

STIRS:

- Eurodollars ultimately bull-steepened as the white pack unwound some of the lofty 75bps hike pricing. EDM2 +5.5bps at 98.15, U2 +9.5bps at 97.295, Z2 +10.0bps at 96.81, H3 +10.0bps at 96.56, M3 +9.0bps at 96.405, U3 +8.5bps at 96.500, Z3 +8.0bps at 96.61, H4 +7.5bps at 96.705, M4 +6.0bps at 96.755, Z4 +5.0bps at 96.82, Z5 +2.5bps at 96.945.
- Pre-FOMC flow saw some chunky profit taking (60k) in the Eurodollar Sep. expiry 97.75/97.50 put spread for 18.5, while vol selling was also observed on the back of some blocked put flys and condors.
- NY Fed RRP op demand at USD 1.816tln across 87 bidders, up slightly from 1.796tln across 83 bidders; SOFR stable at 30bps.

REFUNDING: US is to sell USD 45bln of 3yr notes on May 10th, USD 36bln of 10yr notes on May 11th, and USD 22bln of 30yr bond on May 12th; all as expected. Somewhat surprising was the USD 1bln cuts to the 2yr, 3yr, and 5yr auctions after most dealers expected those tenors to remain unchanged. Full details available here.

CRUDE

WTI (M2) SETTLED USD 5.40 HIGHER AT 107.81/BBL; BRENT (N2) SETTLED USD 5.17 HIGHER AT 110.14/BBL

Oil prices were firmer Wednesday after the EU unveiled its sixth round of sanctions which included a far-reaching ban on Russian oil and related services; mixed China lockdown updates and US inventory data. Oil prices rallied hard through the European morning, finding some pause as US stocks posted a shaky start, before again finding new highs into the futures settlement. Beijing indefinitely extended the lockdown measures seen during the Labour Holiday, but on the flip side, Global Times reported Shanghai sees a "stable and improving epidemic situation". US inventory data saw a 1.3mln bbl build in crude stocks, vs the expected draw, while the products saw deeper draws than the private data had indicated.

EU EMBARGO: The sanctions package will involve a complete import ban on all Russian oil: seaborne, pipeline, crude and refined fuels, with a halt of crude purchases within six months and a halt to refined fuel purchases by year-end. Further, sources suggested Hungary and Slovakia will receive an extended phase-out period which will likely last until the end-2023 under existing contracts, according to sources via Reuters and chiming with reports via Bloomberg and CNBC. That precedent has seen Bulgaria say they too would seek an exemption, while the Czech PM said the country is in discussions for a two/three-year transition period. Thus, the EU Commission walks the fine line of getting the embargo in place swiftly without allowing too many exemptions.

EQUITIES

CLOSES: SPX +2.97% at 4,299, NDX +3.41% at 13,535, DJIA +2.82% at 34,061, RUT +2.53% at 1,949.   **SECTORS**: Energy +4.12%, Communication Services +3.68%, Technology +3.52%, Materials +3.25%, Financials +3.02%, Industrials +2.88%, Consumer Discretionary +2.85%, Utilities +2.23%, Health +2.21%, Consumer Staples +2.17%, Real Estate +1.1%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.96% at 3,724; FTSE 100 -0.90% at 7,493; DAX -0.49% at 13,970; CAC 40 -1.24% at 6,395; IBEX 35 -1.04% at 8,500; FTSE MIB -1.40% at 23,902; SMI -1.01% at 11,880.

EARNINGS: **Advanced Micro Devices (AMD)** beat on EPS and revenue, whilst guidance was also stronger than expected amid increased demand from data centers for its chips. **Airbnb (ABNB)** posted a shallower loss per share than expected, while revenue also topped. Executives said people were becoming increasingly confident in booking travel further in advance, with lead times even surpassing 2019 levels by the end of Q1. Ahead, ABNB sees strong sustained pent-up demand and as such Q2 revenue view topped expectations. **Moderna (MRNA)** had a strong quarter which notably beat on the top and bottom line. **Livent (LTHM)** surged after the Co. surpassed Wall St. consensus on profit and revenue alongside raising FY22 revenue guidance, noting it is benefiting from the strong demand for lithium used in EV batteries. **Lyft (LYFT)** shares tumbled as its outlook disappointed expectations and said it would increase spending to attract more drivers. **Uber (UBER)** posted a deeper loss per share than analyst expectations, but revenue beat. Net loss was attributable to a USD 5.6bln headwind relating to its equity investments related to Grab, Aurora & Didi stakes. **Tupperware (TUP)** fell by over 30% after top and bottom line misses, and the Co. withdrew its FY22 EPS guidance due its Q1 22 performance, the rapidly changing inflationary environment, and Russia/Ukraine conflict. **Akamai Technologies (AKAM)** were hit after weak guidance, where the Co. cut its FY22 and Q2 EPS and revenue view. The CEO noted the company faced a challenging global environment. **Starbucks (SBUX)** results printed more-or-less in line with consensus. Comp. sales in the US beat, but in China missed amid the COVID surge. CEO is to leave the role in Q1 ' 23. **CVS Health (CVS)** beat on EPS and revenue, alongside raising FY22 revenue view.

STOCK SPECIFICS: **Twitter (TWTR)** suitor Elon Musk told potential investors he could return the Co. to public ownership after just a few years, according to WSJ. Separately, Musk reportedly urged to adopt a public benefit status and independent trust for Twitter. **Didi (DIDI)** was hit after US SEC officials reportedly opened a probe regarding the Didi IPO. A lawsuit said that **Netflix (NFLX)** misled investors ahead of its subscriber drop, according to Bloomberg. Activist investor Kimmeridge said it is in talks with **Chesapeake Energy (CHK)** to maximise shareholder value. **ICE (ICE)** entered into a definitive agreement to acquire **Black Knight (BKI)** for USD 85/shr or USD 13.1bln. **Meta (FB)** is reportedly paused hiring for the rest of the year, according to Business Insider.

FX WRAP

DOLLAR: The Federal Reserve meeting was more-or-less as expected after it hiked by 50bps and announced a three month phase in for the balance sheet reduction before monthly caps of USD 60bln and USD 35bln in Treasuries and MBS are met, and this will start in June. During the press conference, Fed Chair Powell spoke up about the economy and said many times nothing suggests it is close to a recession but you could see some slowing in the economy. He also noted it is possible the Fed will have to move to restrictive levels above neutral, but they will decide that closer to the time. The most important comment which spurred the dollar weakness was that the Fed is not actively considering 75bps and if everything plays out as expected, there will be 50bps hikes at the June and July meetings. The Dovish commentary (in relevance to market expectations) also saw a bid into Treasuries, particularly the short end although longer end yields (20yr and 30yr) remained firmer on the session with the curve re steepening after the flattening heading into the meeting.

EUR, JPY, XAU, CHF: EUR/USD rose to highs of 1.0626 from lows seen overnight of 1.0507 while USD/JPY saw some welcome downside, moving to lows of 128.64 although it did pare to c. 129.00 once the dust settled. The 75bps rebuttal from Powell will help narrow the rate differential expectations from Europe and Japan, although they still do remain very wide with Japan recently maintaining their 10yr JGB target while the ECB is yet to start lift-off. Although, recent commentary from officials suggests this is possible in July. XAU/USD also caught a bid thanks to the weakness in the buck and downside in yields, seeing the yellow metal hit a high of USD 1,890/oz. CHF saw strength against the dollar but the gains in the Euro outpaced the Swissy.

CYCLICALS & SCANDIS: Cyclical currencies found a tailwind from the rally in equities with relative outperformance seen in the Aussie as it continues to find tailwinds from the larger than expected RBA hike earlier in the week. NZD also saw solid gains. GBP and CAD also firmed, but not to the same extent as the antipodes with GBP watchers now turning to the BoE on Thursday, click here for a full preview. USD/CAD fell sub 1.28 in wake of the Fed but was also supported by a rise in oil prices with ongoing talks about an EU Russian Oil Embargo, although passing this through has not been a simple process with Slovakia and Hungary requesting special treatment which is yet to be accepted. Both the SEK and NOK appreciated against the weaker greenback in the wake of the FOMC and saw gains against the Euro, as well. NOK outperformed SEK amid the higher oil prices and as attention turns to the Norges Bank on Thursday, preview available here.

EMFX: EM's were bid in general amid the post Fed risk rally and dollar weakness with BRL surging ahead of the BCB Wednesday evening, where another 100bps hike is expected. ZAR rallied as the dovish Fed reaction buoyed gold prices while RUB saw solid gains to post a two-year high against the buck, although it remains hard to read too much into the Rouble moves given all the tools and measures in place by Russia to help prop up the currency amid global sanctions.

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