US Market Wrap

5th May 2022: Stocks & Bonds crater as Dollar soars

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up
- **REAR VIEW**: BoE hikes 25bps but leans back on market pricing amid dire growth forecasts; Jobless Claims & Challenger Layoffs rise; Biden admin plans to buy back oil for SPR; ECB's Holzmann calls for June hike, Rehn joins pack for July hike; Weak online retailer earnings (EBAY, ETSY, SHOP).
- **COMING UP**: **Data**: US & Canadian Labour Market Reports **Event**: Riksbank Minutes **Speakers**: Fed's Williams, Waller, Bostic, Bullard, Daly & Kashkari **Earnings**: Adidas, Intesa Sanpaolo, ING; IAG.

MARKET WRAP

Stocks took a haemorrhaging (NDX -5%, SPX -3.5%, R2K -4.2%), and mostly during the NY morning, while the DXY saw a massive bid in light of sales seen across major asset classes. Treasuries saw pronounced bear-steepening (30yr cycle peak made at 3.21%), with concerns creeping in on whether Fed is doing enough to stop inflation while speculation over fund liquidations grows, especially given the magnitude of both stock and bond sales. The DXY matched its YTD high at 103.94, while the Pound plummeted after the BoE's 25bps hike was accompanied with a push back against further hawkish pricing and dire economic growth forecasts. Oil prices were slightly firmer, but way off highs, after a round trip that saw benchmarks peak in the NY morning on SPR replenishment plans before tumbling USD 4/bbl as part of the broader market liquidations. OPEC+ affirmed its +423k BPD June hike, but its output is yet to meaningfully rise as overcompliance with production quotas drifts higher each month.

GLOBAL

BOE: As expected, the BoE opted to hike the Bank rate by 25bps to 1.0%, taking it to its highest level since 2009. The decision was unanimous with Deputy Governor Cunliffe moving back into the hike camp after an unchanged vote in March. The decision over the magnitude of the hike was subject to hawkish dissent from Mann, Haskel and Saunders who voted for a 50bps increase on the basis that doing so would "help to bring inflation back to the target sustainably in the medium term, and reduce risks of a more extended and costly tightening cycle later". The decision to raise rates was in reaction to the current inflationary outlook, which now looks for CPI to "rise further over the remainder of the year, to just over 9% in 2022 Q2 and averaging slightly over 10% at its peak in 2022 Q4". This sentiment was reflected in the accompanying MPR which saw the 2022 CPI forecast lifted to 10.25% from 5.75%. With this in mind, the MPC judged that "some degree of further tightening in monetary policy may still be appropriate in the coming months"; a view which was not supported by all members on the basis that risks around activity and inflation over the policy horizon were more evenly balanced. With regards to market pricing, the MPC once again attempted to highlight that the implied rate path is too aggressive by stating that such a path would see the inflation rate pushed to 1.3% in three years, well below the target. Heading into the release markets had priced in a further five hikes (excluding today's) by end-2022, this has now fallen to four being fully priced in with around a 50% chance of a fifth. During the press conference, Bailey stated he does not agree with those who think that the MPC should be raising interest rates by a lot more. The realignment in market pricing could also be as a result of the gloomier growth outlook which saw the MPC revise lower its 2023 growth outlook to -0.25% from 1.25% with 2024 GDP seen at just 0.25%. Now that the Bank Rate has hit 1%, the MPC offered an update on the future of its balance sheet given that current guidance noted that Gilt sales will commence when its key rate hits this level. Accordingly, the MPC has asked Bank staff to work on a strategy for UK government bond sales, and would provide an update at its August meeting. This would allow the Committee to make a decision at a subsequent meeting on whether to commence sales. Overall, the Bank remains in a tight bind by trying to balance rampant inflation with a dour growth outlook. For now, the Bank is attempting to make sure that second-round effects from the former do not materialise. However, the latter suggests that the MPC will likely fall short of the current levels of market pricing for rate hikes. Accordingly, ING expects further hikes in June and August, but suggests the Bank is getting closer to a pause in its tightening cycle.

GEOPOLITICS: The updates centered around the updates regarding the Azovstal plant in Mariupol. On this, an Azov Battalion commander said Russian troops are thwarting attempts to evacuate civilians from the Mariupol steelworks, which followed Ukrainian Presidential Adviser noting renewed fighting. However, the adviser said he does not expect the Russian offensive to yield significant results before May 9th, a day highly touted Russia could alter the language of the 'special operation' which they have denied. Moreover, the Azovstal advances came after Moscow had pledged to implement a three-day ceasefire - beginning this morning - to allow civilians to escape the complex, however, the

Kremlin denied it is storming the Azovstal plant and added humanitarian corridors are functioning. Elsewhere, Russia noted that two villages on Russian territory have been shelled by Ukraine, with no casualties, whilst a Russian negotiator said negotiations with Ukraine are difficult, Ukrainian representatives are "rolling back" the agreements reached.

US

US NFP PREVIEW: The consensus expects 391k nonfarm payrolls to be added in April, with the pace easing from recent averages as well as the prior rate. It is likely that traders will place a great deal of emphasis on the average hourly earnings metrics given that the Fed is more focussed on the inflation part of its mandate. Proxies of labour market progress have been mixed in the month: the ADP's gauge of payrolls disappointed expectations and was below the analyst forecast range; although initial jobless claims inched up slightly comparing the reference periods for the March and April jobs reports, the four-week moving average has fallen, as have continuing claims; within the two ISM reports on business, the employment sub-indices both fell in the month, with the services sector down beneath the 50.0 neutral level. Meanwhile, other reports continue to note the tightness within labour markets, and there are some data points–like the Employment Costs Index–which continue to allude to strongly rising wages as consumer prices continue to rise. To download the report, please click here.

CHALLENGER LAYOFFS: US Challenger layoffs rose by 24.286k from the prior 21.387k, marking a 14% rise M/M and +6% Y/Y, and as such it is the first time this year job cuts were higher than the corresponding month a year earlier. The report notes, it is the lowest recorded January-April total since Challenger began tracking monthly job cut announcements in 1993. Nonetheless, looking into the specifics, the report adds, “job cut plans appear to be on the rise, particularly as companies assess market conditions, inflationary risks, and capital spending.” However, “despite this, job openings are still at record highs. Workers who are being cut will have lots of opportunities and will likely land quickly.” Which is in fitting with the recent JOLTS data for March where it printed a series high for number of job openings and the quits rate ticked up to 3.0%.

JOBLESS CLAIMS: US initial jobless rose 200k from the prior 181k and printed above the expected 182k. Continued claims fell to 1.384mln (prev. 1.403mln) and beneath the consensus 1.4mln. Looking into the report, Pantheon Macroeconomics noted “the uptick in jobless reflects lingering post-Easter seasonal adjustment problems; we expected the increase, but it is not significant.” Looking ahead, the consultancy adds, “the trend is stable at 180K-ish, a record low as a share of payroll employment, so it is unlikely to fall any further. Even in a boom, some firms fail or downsize, so claims can't drop to zero.”

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 1 POINT & 3 TICKS LOWER AT 118-02 Treasuries saw pronounced bear-steepening (30yr cycle peak at 3.21%), with concerns over whether Fed is doing enough to stop inflation while speculation over fund liquidations grows. 2s +10.6bps at 2.722%, 3s +11.8bps at 2.918%, 5s +13.3bps at 3.027%, 7s +15.0bps at 3.090%, 10s +15.1bps at 3.066%, 20s +16.4bps at 3.378%, 30s +15.5bps at 3.159%.

INFLATION BREAKEVENS: 5yr BEI +0.2bps at 3.252%, 10yr BEI +0.9bps at 2.964%, 30yr BEI +2.2bps at 2.588%.

NEW YORK: As the BoE moved into the rear-view the long-end of the Treasury curve came under selling pressure, taking T-Notes back towards session lows as the 30yr cash yield broke above its cycle peak of 3.07% from Monday. The reach higher in energy prices after CNN reported the US is looking to refill its SPR gave legs to the downside in bonds. However, the acute bear-steepening extended until Europe departed, with broad Dollar strength, despite oil unwinding its gains; stocks tumbled as the NDX led losses in excess of 5%. There were some chunky block sales in T-Notes during the selling spell, before the contracts found support at 117-28 and eventually notched session lows of 117-26 later, but pared a few ticks into the settlement. Attention now falls on Friday's six FOMC speaker deluge, all in the backdrop of the NFP report where average hourly earnings will be clued for wage-price spiral dynamics.

LIQUIDITY: Given the broader market moves, questions have been raised on liquidity conditions but as far as Treasuries are concerned, there are little observed abnormalities in futures market depth, while bid/ask spreads are contained on the cash curve. There is also debate on what is behind the large move higher in yields. Arguments largely revolve around fresh shorts piled on after Powell lacked enough bite to quell inflation concerns, also as the market digested the Fed's latest balance sheet reduction announcement. Speculation is also rife around liquidations, perhaps risk parity types given the magnitude of both stock and bond selling. Perhaps a mixture of all those factors.

STIRS

- Eurodollars bear-steepened the between whites (1st yr of quarterlies) and reds (2nd yr), but from reds outwards the selling was more or less just as pronounced; futures volumes light.
- Lots of blocks in ED options observed across the whites, with various put spreads and downside structures being sold (position closing touted).
- EDM2 -1.0bps at 98.14, U2 -2.0bps at 97.305, Z2 -8.0bps at 96.775, H3 -11.5bps at 96.51, M3 -13.0bps at 96.355, U3 -13.5bps at 96.445, Z3 -12.5bps at 96.555, H4 -12.0bps at 96.645, M4 -12.0bps at 96.70, Z4 -11.0bps at 96.76, Z5 -12.0bps at 96.86.
- NY Fed RRP op demand at USD 1.845tln across 86 bidders, up from USD 1.816tln across 87 bidders.
- Note we have seen the RRP facility see volatile usage in previous bouts of acute market stress (whether that's participants parking cash in it after selling stocks, or participants pulling their cash from it as they need instant Dollars), so will be keeping attention on it in the coming sessions.
- No major blow outs in FRA-OIS seen either.

CRUDE

WTI (M2) SETTLED USD 0.45 HIGHER AT 108.26/BBL; BRENT (N2) SETTLED USD 0.76 HIGHER AT 110.90/BBL

Oil prices were slightly firmer after a round trip that saw benchmarks peak in the NY morning on SPR replenishment plans before tumbling USD 4/bbl as part of the broader market liquidations. The OPEC+ meeting lasted just over ten minutes and saw the cartel affirm their +432k BPD June output hike, although given their actions are not meeting their words, markets aren't taking the plans for granted anymore. The highlight for oil instead were CNN reports in the NY morning that the Biden admin. is already seeking bids in the fall to replenish its SPR, stoking concerns that the market will still be under-supplied by that time, although the first delivery of oil back to the SPR would likely take place after fiscal year 2023. WTI (M2) and Brent (N2) went on to print peaks of USD 111.37/bbl and 114.00/bbl, respectively, in wake of the reports. However, a shaky open for US stocks and a big bid for the Dollar fed on each other, bringing commodities down too, taking oil prices into the red. The selling subsided as Europe closed shop, with oil climbing gradually back into the black.

EQUITIES

CLOSES: SPX -3.56% at 4,147, NDX -5.06% at 12,851, DJIA -3.12% at 32,998, RUT -4.04% at 1,871. **SECTORS**: Consumer Discretionary -5.81%, Technology -4.93%, Communication Svs. -4.09%, Materials -3.11%, Financials -2.91%, Industrials -2.66%, Real Estate -2.53%, Health Care -1.96%, Consumer Staples -1.89%, Energy -1.39%, Utilities -1.07%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.76% at 3,696; FTSE 100 +0.13% at 7,503; DAX -0.49% at 13,902; CAC 40 -0.43% at 6,368; IBEX 35 -0.77% at 8,434; FTSE MIB -0.60% at 23,759; SMI +0.04% at 11,884.

STOCK SPECIFICS: **STOCK SPECIFICS**: **Booking Holdings (BKNG)** saw gains after it beat on EPS, revenue and gross travel bookings. Executives said it has seen a continued strengthening of global travel trends so far in Q2 and is preparing for a busy summer travel season. **eBay (EBAY)** took a hit on weak guidance as despite the beat on the latest Q. Q2 and FY EPS and revenue view fell short of the expected as the Co. noted inflation and a return to pre-pandemic shopping habits are among the factors weighing on forecasts. **Etsy (ETSY)** EPS printed inline, while revenue beat. However, Q2 revenue view was weaker than expected amid a drop in disposable income for consumers. **Royal Caribbean Cruises (RCL)** posted a deeper loss per share than expected, while revenue also missed but it expects a return to profit in H2 22. **Shopify (SHOP)** had a weak quarter, where it missed on EPS, revenue and GMVs. SHOP gave a cautious outlook as lockdown-inspired growth slows amid the absence of new consumer stimulus money. **DataDog (DDOG)** topped Wall St. consensus on top and bottom line and raised FY guidance. **Kellogg (K)** beat on EPS and revenue, and the CEO said Kellogg had a better start to the year than expected. Kellogg also raised its FY Revenue growth view. **Tesla (TSLA)** CEO Elon Musk has filed an amended 13D on where it detailed USD 7.2bln in financing commitments for his deal, the SEC filing showed **Oracle (ORCL)** co-founder Larry Ellison and investor Ron Baron are among those committing funds. Binance is also investing while the Saudi Crown prince is retaining his investment in the social media co. Separately, Musk is expected to serve as the temporary Twitter CEO after the deal closes, according to CNBC. Musk is also facing an FTC Twitter (TWTR) antitrust review alongside a probe of his failure to report his stake earlier. **Zeta Global Holdings (ZETA)** received a negative report from BearCave. **Boeing (BA)** confirmed it will move its headquarters out of Illinois, but it will maintain a significant presence at its Chicago location and named its Northern Virginia office its global headquarters.

FX WRAP

USD: The Dollar surged above pre-FOMC levels and Wednesday highs to match DXY YTD highs of 103.94 as the "dovish" Fed reaction unwound and as investors sold GBP after the BoE. JPM's strats cautioned not to get carried away with the post-FOMC Dollar weakness on the 75bps pushback, noting the balance of risks still leans to the upside: Fed hasn't changed the narrative of US growth > RoW (Europe more exposed to Russia/energy, China lockdowns); still expecting consecutive 50bps hikes; 75bps not completely off the table (data could bring it back to the table).

GBP: Sterling drove a lot of the price action after the BoE rate decision, which saw a 25bps as expected to 1.00% although three members opted to lift the Bank Rate by 50bps while its guidance was altered slightly to show that *most* members judged some degree of further tightening in monetary policy may still be appropriate, while some judged that the risks around activity and inflation over the policy horizon were more evenly balanced and that such guidance was not appropriate at this juncture. Although the forecasts saw inflation peaking above 10% in Q4 2022 (prev. saw a peak of 8% in Q2, and perhaps later this year), it was also accompanied with the UK growth declining in 2023. The BoE pushed back on market pricing further out by suggesting the implied rate path would send inflation materially below 2% in three years time which sparked a strong dovish reaction. Cable moved to lows of 1.2326 to lows not seen since June 2020 from highs of 1.2635 with selling pressures seen throughout the session as risk assets took a nosedive and the Dollar a strong bid.

EUR: The Euro was no exception to the Dollar rally, but did find support against the Pound. EUR/USD hit lows of 1.0494 although stabilised above 1.05. EUR/GBP rose above 0.8500 from lows of 0.8407. There was more talk of upcoming rate hikes from the ECB, where Rehn said they should hike rates by 0.25% in July and then increase it to zero in the autumn, where normalisation would then continue gradually. Rehn's remarks supported core and periphery yields, although there was little follow-through to the Euro. Rehn is in the same camp as other policymakers, including Schnabel, Muller, Kazaks, de Guindos, and Wunsch. However, Holzmann leaned on the more hawkish side and suggested a June hike is also possible, stating the ECB is planning to raise rates, where they "will discuss and probably do it" at the June meeting.

HAVENS: USD/JPY rose above 130 ahead of the return from Japan on Friday, although sits at the level in late US trade. Gold prices were lower, falling from USD 1,909/oz at the highs before falling to USD 1,872 at the lows, a level it resided just above through the remainder of the session. CHF was weaker against both the Dollar and the Euro with higher rates in Europe and the US weighing on the Swissy.

CYCLICALS: Antipodeans were slammed as the equity rout hit the high beta currencies, particularly AUD and NZD. Before the risk asset nosedive, the China Caixin PMI disappointed expectations and entered further into contractionary territory although the Australian trade balance for March posted a wider surplus than expected. NZD also tumbled with stocks although it fared better than its Aussie counterpart with AUD/NZD seeing marginal downside helping it remain sub 1.11 after posting a weekly high of 1.1108. CAD fell victim to the firmer buck although it was the relative cyclical outperformer as upside in oil prices helped cap losses, although the crude space was very choppy on reports the US is to start buying back some barrels in August for delivery to the SPR after FY23; note prices closed well off highs as risk soured.

SCANDIS: NOK and SEK were weaker on Thursday against both the Euro and Dollar. For the former, The Norges Bank confirmed that it intends to hike again in June and left the NOK responsive to the choppy Brent prices but SEK outperformed NOK. The Norges Bank, as expected, was essentially a reiteration of guidance provided in March and thus it is expected to hike by 25bps to 1.0% in June and NOK was unreactive around the release. However, it did include two notable points. One is that the NOK has depreciated and is weaker than projected - a factor that could, if it was to continue in the months ahead, potentially add weight to a hawkish revision at a future point. Elsewhere, while the committee acknowledged the below-expected inflation reading for March (released after the March MPR), they continue to expect underlying inflation to increase, due to rising wage growth and imported goods inflation.

EMS: EM's were weaker in general from the Dollar rally while the risk tone only added to the downside. BRL saw the BCB hike by 100bps as expected but signalled a slowing of its normalisation process by indicating it expects to tighten at a slower pace, but still entering further into restrictive territory. MXN, COP, and CLP were also lower, but not to the same extent as BRL after the cautious tone from the BCB. TRY was weaker, albeit not as weak as LatamFX, the latest Turkish CPI came in hotter than expected, rising 7.25% M/M in April, or 70% Y/Y. In Europe, the Polish Zloty was slammed after the NBP hiked by 75bps, smaller than the expected 100bps while CZK was flat against the Euro after a larger than expected rate hike.

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