US Market Wrap

6th May 2022: NFP changes nothing; SPX posts smallest weekly loss in five weeks

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW**: NFP just above consensus, wages just under; Hawkish ECB chorus grows; US visits China for 'late-stage' audit talks; Fed's Kashkari tilts away from Dovetopia; Evacuations from Azovstal continue; Awful UAA & DISH earnings, decent DASH and DKNG reports but stocks lower; CI up after report.
- **CENTRAL BANK WEEKLY**: Previewing Banxico, RBNZ Inflation Survey; reviewing FOMC, BoE, RBA, Norges Bank, BCB, RBI. To download the report, please click here.
- **WEEK AHEAD PREVIEW**: Highlights include US CPI, China CPI, UK GDP, RBNZ Inflation Survey, Banxico. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [MON] DUK, SU; [TUES] OXY; [WED] DIS. To download the full report, please click here.

MARKET WRAP

Stocks were lower Friday (SPX -0.5%, NDX -1.2%, R2K -1.8%) with a great degree of market chop and not a lot of rationale. The US jobs report was largely in line with expectations: 428k jobs added (f/c range +188-517k), while M/M hourly earnings rose +0.3% (exp. +0.4%), alongside a fall in the labour force participation rate to 62.2% from 62.4%. Little to change expectations around the Fed with year-end money markets priced at 2.75-3.00% still. The market is a technically driven one right now, chopping from highs to lows throughout the session in lack of major catalysts. JPM wrote on Thursday's sell-off, "it is clear systematic selling, short gamma positioning mixed with poor market depth led to the exacerbated move lower in equities", and those factors no doubt remained Friday. in rates, more Treasury curve steepening (2s30s +9bps) as duration comes for sale into next week's Treasury auctions, while post-FOMC flows see front-end shorts take profit (note buying interest in upside protection in Eurodollar futures seen both Thursday and Friday as puts take profit). In FX, DXY closes flat just below 103.70, while high-beta currencies close lower with stocks. Oil prices were ultimately firmer, but very choppy, gyrating to the whims of broader risk assets in lack of major energy updates to drive price action.

GLOBAL

NFP: Headline NFP rose above expectations, printing 428k above the expected 391k, while the prior was revised lower slightly from 431k to 428k. However, the two-month net revision was -39k from +95k. The unemployment rate was unchanged at 3.6%, but above the 3.5% expectation, although the labour force participation did decline to 62.2% from 62.4% and the U6 underemployment ticked up to 7.0%, seeing the measures of slack rise slightly in April. Wages M/M rose by 0.3%, a touch beneath the 0.4% expected while the Y/Y print rose by 5.5%, in line with expectations, and will be something the Fed keeps an eye on in the coming months in case of a wage-price spiral. Pantheon Macroeconomics suggest if wage numbers continue to signal meaningful slowing, they believe a 50bps hike in July is not a done deal, despite Powell's guidance on Wednesday for two 50bps hikes in June and July, but also suggests to bear in mind inflation will fall sharply over the next three months and they also expect a housing market downturn too. On the jobs, PM notes it is not clear whether the slowdown in payroll growth is a temporary hit from the Ukraine war and rising energy prices, a consequence of employment recovering most of the pandemic dip, or "a more alarming downshift caused by the tightening of financial conditions", although it says the latter is unlikely as it is too soon. The consultancy also writes " It’s hard to see hiring intentions changing unless oil prices drop sharply, and that seems an unlikely near-term prospect."

FED: **Kashkari (2023 voter, dove)** was the first to speak post-FOMC, saying the Fed must follow through on its forward guidance on hikes and balance sheet reduction while noting his estimate of the neutral rate remains 2%, but the Fed needs to continue to assess where it is. Kashkari said the Fed needs to get to "at least" neutral and moderately above by the end of this year/early next, while how much further than neutral depends on incoming data. Moreover, the Minneapolis Fed President said if supply constraints unwind quickly, the Fed may only need to take policy back to neutral or go just modestly above to bring inflation down, but the war in Ukraine and lockdowns in China are likely delaying any improvements in the supply chain. The dove warned that if there is no relief on supply chains, more will be required via monetary policy. Kashkari also suggested the neutral long-term real rate may have risen, which would require an even higher Fed rate to reach a restrictive stance and put the economy in balance. Note, **Daly (2024 voter)** and **Bullard (2022 voter)** are scheduled to speak after-hours.

GEOPOLITICS: Ukrainian forces accused Russia of firing during the civilian evacuation of the Mariupol steelworks, which chimed with reports from UK MoD who tweeted, "Russian forces in Mariupol have continued their ground assault on the Azovstal steel plant for a second day, despite Russian statements claiming they would seek only to seal it off". Ukraine's Deputy PM said 50 civilians had been evacuated from the plant on Friday and the operation will continue on Saturday. Elsewhere, there were unconfirmed reports from Odesa noting a Russian Krivak-class frigate is on fire in the Black Sea after being hit by Ukraine and the US is conducting surveillance in the region, according to a Kyiv Independent Journalist. Meanwhile, the Russian Foreign Ministry said Russia would not use nuclear weapons in Ukraine, but the Kremlin noted hostile rhetoric out of Poland, which could be a source of threat. Lastly, Reuters reported that US President Biden is set to sign a weapons package of at least USD 100mln for Ukraine in the coming days.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 8+ TICKS LOWER AT 117-25+

More Treasury curve steepening as duration comes for sale into next week's refunding/post-FOMC while front-end shorts take profit as NFP keeps Fed on track. 2s -0.1bps at 2.723%, 3s +2.0bps at 2.938%, 5s +3.7bps at 3.062%, 7s +4.7bps at 3.137%, 10s +5.6bps at 3.125%, 20s +7.2bps at 3.451%, 30s +6.3bps at 3.224%.

INFLATION BREAKEVENS: 5yr BEI +1.3bps at 3.243%, 10yr BEI -0.2bps at 2.934%, 30yr BEI +1.6bps at 2.580%.

TOKYO/LONDON: T-Notes were choppy through APAC Friday on Japan's return, making highs of 118-09 in the Tokyo morning before selling pressure saw interim lows made just a few ticks above Wednesday's 117-26 low, then recovering into the London handover. Selling in EGBs was pronounced through the European morning, particularly on the back of the hawkish ECB speak, which saw some spillover into T-Notes but not enough to threaten the APAC lows.

NEW YORK: T-Notes found some bidding momentum ahead of the NFP report. The largely in line with expectations jobs report saw two-way flows, with T-Notes initially spiking to fresh session highs of 118-09+ before better duration selling developed to take the contracts to new lows of 117-19+; cash 10yr and 30yr yields marked new yield highs of 3.13% and 3.22%, respectively. The steepening trend was supported by block buys in the 2yr T-Note future and a 60k lift of September Eurodollar futures at a 2.69% Libor equivalent. However, T-Notes reversed back towards their session highs as stocks took another knock at the NYSE cash open, but yields levelled out within ranges as Europe departed for the weekend and then, later on, edged back towards highs with an eye on next week's refunding.

REFUNDING: US to sell USD 45bln of 3yr notes on May 10th, USD 36bln of 10yr notes on May 11th, and USD 22bln of 30yr bonds on May 12th.

STIRS:

- The Eurodollar strip steepened with the whites and reds firmer and greens-outwards in the red.
- EDM2 +0.5bps at 98.15, U2 +2.5bps at 97.325, Z2 +2.0bps at 96.795, H3 +2.0bps at 96.53, M3 +3.0bps at 96.385, U3 +1.5bps at 96.46, Z3 +1.0bps at 96.565, H4 flat at 96.645, M4 -1.0bps at 96.69, Z4 -3.5bps at 96.725, Z5 -7.0bps at 96.79.
- Eurodollar options activity echoed Thursday: put profit-taking and building interest in calls in the whites.
- NY Fed RRP op demand rises to USD 1.862tln across 84 bidders (prev. USD 1.845tln across 86 bidders).

CRUDE

WTI (M2) SETTLED USD 1.51 HIGHER AT 109.77/BBL; BRENT (N2) SETTLED USD 1.49 HIGHER AT 112.39/BBL

Oil prices were firmer Friday in choppy trade, gyrating to the whims of broader risk assets in lack of energy market updates to drive price action. The futures benchmarks rallied in the London morning before selling back to their session lows at the NY handover, only to advance to new highs later, and back off highs in pre-settlement trade, tracking movements in stocks. On the week, prices sit firmer from their open levels in WTI (M2) and Brent (N2) of 104 /bbl and 106.30/bbl, respectively, and the weekly highs made on Thursday of 111.37bbl and 114.00/bbl marked the highest prices seen since the end of March - following rangebound April trade. Resistance is seen next at the March 24th peaks of 113.51/bbl and 115.76/bbl for WTI (M2) and Brent (N2), and then the cycle peaks from March 7th at 121.17/bbl and 129.94/bbl.

US PRODUCTION: Baker Hughes US Rig Count (w/e May 6th): Oil +5 at 557, Nat Gas +2 at 146, and Total +7 at 705. Meanwhile, Pioneer Resources (PXD) commented Friday that oilfield labour tightness is similar to the 2017-18 period, saying that in order to grow, there will be a need for workers from outside the Permian Basin. The shale producer said that it wouldn't be able to see incremental growth for at least 18 months if it wanted to, citing supply chain difficulties, and more broadly said that it's not seeing private companies ramping up a lot of activity.

EU EMBARGO: Hungarian PM Orban stated his desire for a 5yr exemption for Hungary in the EU's ban on Russian oil, according to Hirado Via Hirado. Bloomberg reported that the EU is looking for a ban on Russian oil shipping services in three months, whilst it has proposed an oil ban exemption for Hungary and Slovakia through 2024 and Czech until June 2024. Meanwhile, Spain announced it has sent a proposal on a gas price cap to the EU.

EQUITIES

CLOSES: SPX -0.53% at 4,124, NDX -1.22% at 12,693, DJIA --0.30% at 32,899, R2K -1.77% at 1,838.

SECTORS: Materials -1.36%, Consumer Discretionary -1.31%, Communication Services -1.31%, Real Estate -1.02%, Technology -0.79%, Financials -0.72%, Industrials -0.65%, Health -0.3%, Consumer Staples -0.04%, Utilities +0.8%, Energy +2.91%.

EUROPEAN CLOSES: Euro Stoxx 50 -1.82% at 3,629; FTSE 100 -1.54% at 7,387; DAX -1.64% at 13,674; CAC 40 -1.73% at 6,258; IBEX 35 -1.34% at 8,322; FTSE MIB -1.20% at 23,475; SMI -1.53% at 11,702.

STOCK SPECIFICS: **Under Armour (UAA)** plummeted 24% after it missed on top and bottom line. Looking ahead, UAA issued a weaker-than-expected outlook for its FY profit as it absorbs the impact of higher costs and supply chain disruptions. **DraftKings (DKNG)** beat on revenue, as well as increases in monthly unique paying customers and average revenue per customer. Moreover, DKNG raised FY22 revenue view. **Zillow (ZG)** saw losses on weak guidance as the Co. cited an uncertain real estate environment. Note, revenue beat, and the board approved a USD 1.0bln buyback. **Cigna (CI)** issued a strong report as it beat on top and bottom line as well as raising FY outlook. Results were helped by growth in its health services unit that includes the pharmacy benefits management business. **Dish (DISH)** slumped roughly 19% after it missed on EPS and revenue, while the major subscriber metrics also fell short of the consensus. US regulatory officials arrived in China for "late-stage" audit deal talks, according to Reuters sources. Officials from the China Securities Regulatory Commission are considering allowing US regulators to conduct on-site inspections of the audits of some Chinese companies. Vale signed a deal to supply **Tesla (TSLA)** with nickel, long-term deal with the nickel sourced from Canada. **Radius Global (RADI)** reportedly to mull options including a sale, according to Bloomberg sources. **Peloton (PTON)** is exploring a sale of 15-20% stake in an effort to shore up its business as its stock continues to sink, WSJ reported, as the Co. has struggled with post-pandemic demand on top of brand issues, supply chain challenges and a change in CEO. **IDEX (IEX)** raised quarterly dividend to USD 0.60/shr (prev. USD 0.54 /shr). **Virgin Galactic (SPCE)** said it would delay the launch of its commercial space flight service until Q1 '23, blaming labour and supply chain issues. Analysts are also concerned about Virgin Galactic's cash burn levels. **Johnson & Johnson (JNJ)** is limiting the use of the COVID-19 vaccine for adults due to the risk of a rare blood clotting syndrome.

WEEKLY FX WRAP

Extreme volatility in currencies as yields soar and curves steepen

USD - Another roller-coaster ride for the Greenback and its peers as the battle to tackle raging inflation saw several more global Central Banks tighten monetary policy, and some much earlier than planned or before the next scheduled meeting. For the FOMC, it was pretty orderly in terms of a 50 bp hike and confirming the start of QT from June 1 via initial caps on reductions set at Usd 30bn for Treasuries and Usd 17.5bn for MBS, before rising to Usd 60bn and Usd 35bn respectively after three months. However, the Dollar was initially miffed in buy rumour, sell fact fashion, as Fed chair Powell revealed that 75 bp tightening moves are not currently under consideration, while he also sees evidence that price pressure might be peaking. Nevertheless, two further half point increases are on the agenda for both the June and July FOMC gatherings and in the Q&A section of the press conference Powell also reiterated that the Fed is raising rates expeditiously to a broad range and plausible levels of neutral, adding there is no bright red line regarding what neutral is and it will not hesitate to go above neutral if required. Hence, the first and somewhat less hawkish take was probably due in part to overly hyped market expectations rather than the actual event, and this is backed up by price action as the DXY quickly erased losses to set another new 2022 and multi-year peak between very wide 104.070-102.340 extremes. In terms of US data, inconclusive or conflicting releases sums it up, but the key NFP metrics were close enough to consensus for more pronounced bear steepening in Treasuries and debt counterparts with the 10 year benchmark holding near the upper end of its 3.128%-2.901% range and 30 year cash a fraction shy of 3.21% at one stage.

EUR - The Euro staged a late recovery from deeper post-Russia/Ukraine war lows amidst heightened concerns about economic contagion as EU member states debate a sixth package of sanctions against the aggressor including an energy embargo, with concessions for countries that are less than keen to cut off supplies even if they have to pay in Roubles. Eur/Usd pared a chunk of its declines between 1.0483-1.0641 parameters, primarily on the back of a growing number of ECB officials jumping on the bandwagon for multiple hikes before year end. Most recently, and hawkishly Villeroy and Vasle, as the former echoed Kazaks on the possibility of positive rates this year and the latter said it is apt to start tightening before the Summer. Note also, the French GC representative warned that excessive Euro weakness would work against ECB efforts to get inflation back to target.

CAD - In stark contrast to the above, Loonie losses stacked up again on Friday, with Usd/Cad approaching 1.2900 vs a 1.2714 trough and 1.2913 top, irrespective of WTI trading well in excess of Usd 10/brl over its worst levels not far from the century mark. The catalyst, a hefty Canadian payrolls miss and the smaller gain only made up of part time jobs.

JPY/CHF - Given the aforementioned ECB rotation towards a near term hike, the RBA following the Riksbank with a significantly speedier lift-off than previously signalled, the Yen and Franc are now the only G10 constituents left under the influence of dovish Central Banks. Therefore, yield differentials matter first and foremost, unless risk sentiment really deteriorates to the detriment of the US or the Eurozone respectively, and Usd/Jpy traded mostly firmer in a 130.80-128.64 band without Japanese participants during Golden Week, while Usd/Chf climbed from 0.9710 to 0.9890 and Eur /Chf to 1.0451 from 1.0229 regardless of fractionally firmer than forecast m/m Swiss CPI and a pick-up in the manufacturing PMI. For the record, SNB’s Maechler stated that even if market interest rates rise we remain in an accommodative financial environment, and the Federal Council appointed Martin Schlegel as Vice-Chair of the Governing Board to replace Zurbrugg from August 1.

AUD/GBP/NZD - The Aussie and Sterling are both barely changed against the Buck heading into the EU ‘close’, but this is no reflection of the week overall given the sharp reversal in Aud/Usd from 0.7266 to 0.7031 at worst and Cable to 1.2277 from 1.2638. Moreover, this belies a bigger than anticipated 25 bp RBA hike (vs 15 bp consensus), hawkish comments from Governor Lowe in the aftermath, significant upgrades in inflation projections and end-2022/2023 cash rate levels in the latest SOMP. Instead, the Aussie has been undermined by risk aversion, deep sub-50 Chinese PMIs and Yuan depreciation, while the Pound got caught out by what appeared to be a hawkish ¼ point BoE hike, but far from when taking into account the tone of the MPC minutes, official separation between the Bank rate and APF unwind, plus MPR GDP outlook. In short, no hike dissenter Cunliffe withdrew his vote, while Mann, Haskel and Saunders went against the consensus in favour of 50 bp, but some members (two per chief economist Pill) were not in agreement that further tightening in coming months may be warranted and actively selling Gilts could start in August at the earliest even though the Bank rate may be above the prior 1% trigger by then. Back down under, the Kiwi largely played follow wider moves or its Antipodean neighbour inversely against the Greenback, with a keen eye on Aud/Nzd developments, but next week could be more NZ specific with the release of the RBNZ inflation survey. Nzd/Usd hovers above 0.6400 having peaked at 0.6568 and based at 0.6394, while the Aud/Nzd cross is beyond 1.1000 between 1.1108-1.0932 bounds.

SCANDI/EM - What a difference a week makes for the Sek, as it completely lost all and more of the Riksbank’s repo hike and lofty rate path momentum amidst souring risk and minutes if the meeting showing division within the ranks, while the Norges Bank stuck to the script that reads next 25 bp rise likely in June and the Nok only got partial protection from the resurgence in Brent. Elsewhere, the Cnh was largely left to its own devices as China celebrated Labour Day with an extended break, so fell prey to Usd strength and more evidence of the toll taken by the coronavirus from abject PMIs. The Try suffered more inflation angst as Turkish CPI almost spiked to 70% y/y and PPI flirted with 122%, the Zar fell with Gold against the backdrop of negative technical impulses, SA’s fifth Covid way and ongoing Eskom load-shedding. On the flip-side, the CNB got a bigger than forecast 75 bp vs 50 bp CNB hike for support, the Brl 100 bp from the BCB and hawkish guidance, and the Pln received a degree of compensation for the NBP ‘only’ raising key rates ¾ point vs 100 bp expected via very hawkish-leaning rhetoric from Governor Klapinsky.