



US Market Wrap

9th May 2022: SPX closes below 4k for first time since March 2021 as May sell-off continues

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW:** Bostic pushes back on 75bps, and sees two-three 50bps hikes as baseline; Germany prepares crisis plan for abrupt end to Russian gas; EU Russian oil embargo ban continues to face resistance; Putin speaks at Russia's victory day but less eventful than some had previously thought; F to sell 8mln shares in RIVN; Strong TSN earnings.
- **COMING UP: Data:** German ZEW, Chinese M2 **Speakers:** Fed's Williams, Waller, Bostic, Barkin, Kashkari, Mester; ECB's de Guindos; BoE's Saunders **Supply:** Netherlands, UK, Germany & US **Earnings:** Bayer, Porsche; Norwegian Cruise Line, Warner Music.
- **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](#).

MARKET WRAP

The May sell-off continued with the S&P 500 falling beneath 4,000 into the close while the Vix rose above 35. The downside was more a continuation of ongoing concerns, including recession fears, supply chain issues in China with its zero-COVID policy, global central bank tightening, and geopolitical woes rather than fresh newsflow. Losses were broad based with almost all sectors in the red, although Consumer Staples managed to close marginally in the green thanks to strong earnings from Tyson Foods (TSN) on higher food prices, which supported its competitors (K, NWL, CPB, SJM, CAG). Crypto was also slaughtered, seeing Bitcoin fall beneath USD 31k. The Dollar was choppy, but eventually flat, as it initially printed a fresh YTD high before paring into the red as yields declined with the curve bull steepening ahead of US CPI and supply this week. Commentary from Fed's Bostic was in focus: 75bps is not his base case, and he is going to stay open to the possibility inflation will be approaching target at a faster pace than his colleague's project. His baseline is for two-three 50bps hikes. Crude prices tumbled throughout the session as EU Russian oil embargo plans face resistance from Hungary, while the ongoing global demand woes and cuts to Saudi's June OSP's all weighed.

GLOBAL

FED: Bostic (2024 voter), who in previous times has been one of the more hawkish Fed officials, is adding to the chorus of those pushing back on 75bps hikes, and also suggests "two or three" 50bps hikes before assessing the inflation/economy's response. By end-2023, Bostic thinks the Fed needs to be somewhere in the neutral range, between 2-2.5%. Moreover, Bostic later added he sees two-three 50bps rate hikes as a baseline, and while that is what he expects, he is open to adjusting his stance. He reiterated a 75bps rate hike is not his baseline and is a low probability, but he is not taking anything off the table, as if things turn, it may be required. Additionally, he is going to stay open to the possibility that inflation will be approaching the policy target at a faster pace than other colleagues' projects; if so, the Fed would not need to do as much. **Kashkari (2023 voter)** added little new to his Friday comments, highlighting that wage growth is strong but could see it soften, whilst saying the wealth effect may be pushing up consumption and inflationary pressures.

GEOPOLITICS: May 9th in Russia is Victory Day, and as such Russian President Putin spoke although it was relatively uneventful, as opposed to what people had been considering. Nonetheless, Putin said a Special Military Operation was needed in a timely measure and it was the only right decision, adding Russia is fighting for the security of Russia now. He continued, NATO was creating threats at our borders and the West did not listen to Russia and had other plans. On the ground, battles are continuing in Donbass, as well reportedly serious battles to be taking place around the towns of Rubizhne and Bilohorivka. On talks, the A Russian Negotiator stated peace talks with Ukraine have not stopped and they are being held remotely, whilst the Ukrainian Presidential aide Zhovkva reiterated readiness to meet Putin for talks. Meanwhile, the US Treasury has issued fresh Russia-related sanctions. Additionally, the EU has dropped plans to ban the EU shipping industry from carrying Russian oil after failing to get key partners (Malta and Greece) on board but still



aims to ban insurance, according to the FT. Moreover, the Hungarian Foreign Minister reiterated that Hungary will not vote on the European Commission's initiative on sanctions against Russia because it is a problem for the country and does not contain a proposal for a solution.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 12+ TICKS HIGHER AT 118-06

Treasuries were all firmer in a bull-steepener Monday as a spurt of short-covering at the front-end seeped out the curve to a lesser extent ahead of supply. At settlement, 2s -10.2bps at 2.594%, 3s -11.0bps at 2.804%, 5s -9.9bps at 2.947%, 7s -9.1bps at 3.040%, 10s -7.6bps at 3.048%, 20s -4.9bps at 3.402%, 30s -4.2bps at 3.179%. 5yr TIPS +6.4bps at -0.126%, 10yr TIPS +2.6bps at 0.276%, 30yr TIPS +2.5bps at 0.669%, 5yr BEI -14.4bps at 3.087%, 10yr BEI -9.1bps at 2.828%, 30yr BEI -6.1bps at 2.515%.

NEW YORK: The front end of the curve found a lift at the NY handover, which extended after comments from Fed's Bostic (2024 voter), who pushed back on 75bps hikes and after "two or three" more 50bps hikes to assess how the economy responds. The strength extended out the curve to take T-Notes above their APAC highs (117-27), but the bounce was less pronounced than at the front end to affirm the curve's steepening that gained traction in the wake of the FOMC (2s30s above 60bps for the first time since mid-March, steepening 40bps alone post-FOMC). T-Note futures hit session highs of 118-15+ (10yr session low at 3.04%) just after the settlement, above their Friday peak at 118-09+.

AHEAD: Participants look to the 3yr, 10yr, and 30yr new issue auctions on Tuesday, Wednesday, and Thursday, respectively, with concession considerations more pronounced given concerns over less foreign FX-hedged demand and the approaching balance sheet reduction by the Fed. Otherwise, US CPI Wednesday remains the key data point of the week, while there is a slew of scheduled Fed speakers throughout the week, including Williams, Barkin (2024 voter), Kashkari (2023 voter), Waller, Mester (2022 voter), and Bostic (2024 voter) all on Tuesday.

STIRS:

- Eurodollar whites (1st yr of quarterlies) and reds (2nd year) saw the biggest bid Monday, gaining some traction on further short-covering and comments from Fed's Bostic who pushed back against 75bps hikes and called for an assessment before deciding to hike above neutral.
- EDM2 +3.5bps at 98.195, U2 +11.0bps at 97.460, Z2 +15.5bps at 96.975, H3 +19.0bps at 96.750, M3 +20.0bps at 96.610, U3 +18.0bps at 96.670, Z3 +16.5bps at 96.755, H4 +15.5bps at 96.825, M4 +15.0bps at 96.865, U4 +14.0bps at 96.875, Z4 +13.0bps at 96.875, Z5 +9.0bps at 96.895.
- SOFR fell to 78bps from 79bps as of May 6th.
- NY Fed RRP op demand at USD 1.859tn across 88 bidders vs Friday's USD 1.862tn across 84 bidders.
- US sold USD 51bln of 3-month bills at 0.900% (prev. 0.910%), covered 3.18x; sold USD 48bln of 6-month bills at 1.385% (prev. 1.420%), covered 2.72x.

CRUDE

WTI (M2) SETTLED USD 6.68 LOWER AT 103.09/BBL; BRENT (N2) SETTLED USD 6.45 LOWER AT 105.94/BBL

Oil prices tumbled back into their April ranges on Monday with ongoing global demand woes, slim progress on the EU embargo, and cuts to Saudi's June OSPs. The lack of any escalation from Russian President Putin's Victory Day speech took some of the geopolitical risk premia out of the equation heading into the session, with many continuing to focus on the lack of progress on the China COVID situation. China's latest April trade data saw crude oil imports up 7% Y/Y at an average 10.5mln BPD, up from March's 10.06mln, coming amid the lockdown-induced sharp declines in Chinese refinery activity. Meanwhile, Saudi Arabia lowered its June Arab Light oil prices to Asia and Europe for June, whilst maintaining its OSPs to America.

EU EMBARGO: FT reported the EU has dropped its plans to ban the EU shipping industry from carrying Russian oil after failing to get key partners (Malta and Greece) on board, but still aims to ban insurance. Followed BBC weekend reports that EU officials met on Sunday and failed to agree on a Russian oil ban deal. Be aware of comments from WSJ's Norman that EU officials have a "sense of confidence" that EU Commission President von der Leyen will return from Budapest, Hungary with a deal on the oil embargo. However, she latter Tweeted that progress was made but further work is needed. Separately, Reuters reported that Germany is preparing a crisis plan for any abrupt, unilateral end to Russian gas supplies in which would allow the state to take control of critical firms and provide financial support to energy firms. Separate reports suggested that Germany and Qatar are at an impasse over key conditions in talks to secure a long-term LNG supply deal.



RUSSIAN PRODUCTION: Russian Deputy PM Novak suggested Russian oil output was up in early May vs April and said the situation with Russian oil has stabilised. Novak added that Russia is considering expanding the capacity of oil-exporting ports and expanding East Siberia-Pacific Ocean Oil Pipeline. Russian press also reported that the Russian government sees the number of new Russian crude buyers growing.

EQUITIES

CLOSES: SPX -3.12% at 3,994, NDX -3.98% at 12,187, DJIA -1.99% at 32,245, R2K -4.24% at 1,761.

SECTORS: Energy -8.3%, Real Estate -4.62%, Consumer Discretionary -4.26%, Technology -3.94%, Materials -3.24%, Health -2.57%, Financials -2.46%, Communication Services -2.44%, Industrials -2.4%, Utilities -0.77%, Consumer Staples +0.05%.

EUROPEAN CLOSES: Euro Stoxx 50 -2.82% at 3,526; FTSE 100 -2.32% at 7,216; DAX -2.15% at 13,380; CAC 40 -2.75% at 6,086; IBEX 35 -2.20% at 8,139; FTSE MIB -2.74% at 22,832; SMI -2.44% at 11,444.

STOCK SPECIFICS: Elon Musk claimed he can increase **Twitter's (TWTR)** annual revenue to USD 26.4bln by 2028, up from USD 5bln last year. **Ford (F)** is reportedly selling 8mln of its 102mln share stake in **Rivian (RIVN)** after the insider lockup period expired on Sunday. **JPMorgan (JPM)** also planned to sell a block of 13-15mln shares for an unknown seller, CNBC said, both blocks are priced at USD 26.90/shr, a 6.7% discount to the USD 28.79/shr close on Friday. **Uber (UBER)** is to cut spending on marketing and incentives and treat hiring as a "privilege". Uber will now focus on achieving profitability on an FCF basis rather than adj. EBITDA. The US Department of Commerce is weighing a ban on American cos. selling advanced chip-making equipment to Chinese firms, according to The Information citing sources. The potential ban is in early stages and could take months to draft. Particularly of note for **Applied Materials (AMAT)**, **Lam Research (LRCX)**, and **KLA Corp (KLAC)**. **Apple's (AAPL)** MacBook Pro shipments were seriously delayed by China lockdowns, according to DigiTimes sources. **Philip Morris (PM)** is in talks to buy **Swedish Match (SWMA SS)** for USD 15bln, in a deal that could be announced as soon as this week, according to WSJ sources.

EARNINGS: **Palantir (PLTR)** tumbled after mixed results, highlighted by missing on EPS while revenue marginally beat, despite slowing growth in its government business. Its Q2 revenue forecast was slightly light of expectations. **Tyson Foods (TSN)** beat on EPS and revenue, alongside raising FY revenue view. **Coty (COTY)** posted a strong report, as it beat on the top and bottom line alongside raising FY EPS view on resilient demand for its high-end fragrances and skincare products. **BioNTech (BNTX)** smashed Wall St. expectations on EPS and revenue for FY22 and backed its R&D expenses, CapEx and COVID vaccine revenue outlooks.

FX WRAP

DOLLAR: The Dollar saw two way trade and the index traded within 103.38 and 104.19 parameters, but did see a fresh YTD high, however as Treasury yields started to decline, the Dollar came off highs and into the red. Fed speakers on Monday saw Kashkari and Bostic speak, where the latter noted 50bps hikes are pretty aggressive and believes the Fed can stay at that pace and does not need to hike by larger increments. Bostic believes the Fed needs to be somewhere in the neutral range by the end of 2023 and he is open to tightening into restrictive territory if needed, but suggested an assessment to the economy after "two or three" more 50bps hikes. Kashkari added little new to his Friday comments, highlighting that wage growth is strong but could see it soften, whilst saying the wealth effect may be pushing up consumption and inflationary pressures. Technicians suggest if the intraday high of 104.19 is breached, it could open up levels as high as 107.16, 108.55 and 109.14, some key fibonacci levels. Attention this week turns to US CPI data for April.

EURO: The Euro was flat but traded within a near point range between 1.0496 and 1.0592 before trending back to c. 105.50 levels in the final few hours of US cash equity trade. There is a lot of attention on the EU Russian oil embargo, which failed to come to an agreement over the weekend as a deal was held up by Hungary's PM Orban. Meanwhile, Germany is reportedly preparing a crisis plan if there is an abrupt end to Russian gas supplies although it is said to be at an impasse with Qatar over key conditions in talks to secure a long-term LNG supply deal. An FT article citing a government adviser noted, Germany's economy faces losing c. 12% of its annual output if Russian gas supplies are halted, which only adds to concerns for the Eurozone economy with the latest EU Sentix Investor Confidence Index falling further into negative territory, and deeper than expected to levels not seen since mid-2020.

CNH: CNY and CNH were weaker against the buck after Chinese exports for April slowed by more than expected on COVID restrictions.



HAVENS: JPY saw marginal strength against the greenback although USD/JPY still remains above 130 but beneath Monday's intraday high of 131.34. The move lower in US yields was supportive of the Yen although the policy divergence gap remains very wide without the BoJ, again, offering to buy an unlimited amount of JGBs at a fixed rate with maturities of 5-10yr, as well as purchases in 1yr, 1-3yr, 3-5yr and 10-25yr JGBs. Technicians suggest a close beneath 130.00 could see a test of 128.62 (last week's low). CHF was weaker against the Dollar and the Euro with EUR /CHF testing 1.0500 to the upside, a likely welcome sign for the SNB.

CYCLICALS: The Aussie and Kiwi have been under heavy selling pressure for the most part as activity and commodity currencies have suffered. Although, the Aussie is lagging with a closer correlation to China and greater threat of contagion from the ongoing coronavirus crisis. AUD/USD crossed beneath 0.7000, AUD/NZD lost hold of 1.1000 and NZD/USD fell sub 0.6350 in advance of NZ electronic card retail sales. Disappointing Canadian building permits may have undermined the Loonie, but crude was the real reason for its downfall as WTI saw lows beneath USD 103/bbl, seeing USD/CAD test highs of 1.30000. GBP was flat against the buck and firmer against the Euro, and therefore the cyclical outperformer, albeit with no real catalyst aside from short-covering following last week's pounding. BoE's Saunders spoke, one of the three BoE 50 bp hike dissenters, who highlighted his preference to move relatively quickly and believes some further tightening may be required ahead, but caveated by stating that he may not definitely vote for a half point move next time.

SCANDI'S/EM: The NOK was hit on the collapse in Brent crude prices while the overall risk sentiment soured the SEK. EMFX was also hit by the soured risk sentiment, with downside in RUB, ZAR, TRY, BRL. MXN attention turns to the Banxico on Thursday, where 22/24 analysts expect a 50bp hike from the Mexican Central Bank to 7%. One analyst polled expects a 75bp hike, and the other expects rates to be left unchanged. Note, the latest Mexico inflation data hit a 21-year high on Monday but it was marginally beneath expectations in April. In Brazil, Petrobras announced it is raising its diesel prices. Meanwhile, analysts at Rabobank note the "BRL still stands below its fair value due to fiscal fragility and we think the USDBRL will still be traded at 5.25 by end-2022. Fed's hawkishness and the traditional electoral cycle will end up weighing on the BRL going forward."

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