



# US Market Wrap

## 10th May 2022: Tech and bonds firmer amid ambiguous Fed Speak and calls for a market reprieve

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude down, Dollar up.
- **REAR VIEW:** Mester refuses to rule out 75bps in the future; Williams says 50bps hikes in next two meetings base case; Ukraine halts gas flows through Donbas; EIA STEO sees global oil demand forecast cut; Decent 3yr auction; TSLA halts Shanghai plant due to supply issues; PFE to acquire BHVN; PTON and UPST struggle after earnings.
- **COMING UP: Data:** US CPI, Chinese CPI/PPI **Speakers:** Fed's Bostic; ECB's Lagarde, Schnabel, Elderson, de Cos, Centeno, Vasle, Muller **Supply:** UK, Germany, US **Earnings:** Ubisoft, Siemens Energy, Poste Italiane, E.ON, Continental; ITV, Compass; Beyond Meat.

## MARKET WRAP

Stocks were mixed with the SPX and R2K little changed, while the NDX firmed with duration strength. It was another session of chop after lows were made at noon in NY for the major indices before paring. There was a slew of Fed speak from Williams, Waller, and Mester (all voters this year), where the latter caught the most attention after suggesting 75bps hikes were still on the table if inflation doesn't show evidence of coming back down later this year. Meanwhile, a pre-market bounce in the index futures coincided with CNBC reporting David Tepper had closed his Nasdaq short position, for what it's worth (liquidity is thin right now and thus leaves the tape vulnerable to headline risk). The Treasury curve bull-flattened as duration caught another bid (10yr -9bps at 2.99%) through the NY morning, with approaching CPI Wednesday and auctions capping further upside. Mester's 75bps comments kept further front-end short-covering limited. The Dollar was ultimately bid ahead of pivotal US CPI on Wednesday as US yields hit lows earlier on. Oil prices were lower, extending on Monday's sharp declines with ongoing global demand headwinds in the limelight, as is the EU's struggle in implementing an oil embargo. Gas prices are on watch after Ukraine halted Russian supply through the Donbas region, demanding Russia reroute the significant share of European supply through Ukraine operated territory; Gazprom has said it won't be doing such given it's "impossible".

## FED

**Williams (voter)** said a base case of 50bps rate hikes at the next two meetings makes sense, in fitting with Fed Chair Powell. Williams noted a need for data dependence whilst saying the Fed would move expeditiously in bringing the Fed Funds rate back to more "normal levels" this year. On the neutral rate, he said it is difficult to suggest where the real neutral rate is but added that de-globalisation will reduce the neutral rate of interest in the long run. Williams had previously said the neutral rate is seen in the low 2.0-2.5% range but added the Fed may need to go a bit above that depending on inflation. However, his view on the real rate is 0-0.5% with 2.0-2.5% inflation. Williams believes the Fed will achieve a 'soft' or 'softish' landing. He sees Core PCE near 4% in 2022 before falling to around 2.5% in 2023 and close to the 2% longer run goal in 2024. He expects GDP growth around 2% this year and the unemployment rate to remain around its current low level.

**Mester (2022 voter)** said she would be comfortable with moving at 50bps for another couple of meetings, in fitting with Powell and Williams, but she added they will need to evaluate if the Fed needs to speed up or slow down rate hikes. Mester said she is not ruling out 75bps if inflation does not ease. She called for a more neutral policy stance, and then to evaluate how much further is needed - in her opinion more tightening will be needed. Mester wants to see compelling evidence of inflation coming down. On the balance sheet, Mester said the Fed needs to consider selling MBS, but warned potential losses on Fed holdings would raise communications issues over the merits of shrinking the balance sheet.

**Waller (voter)** said it is time to raise rates now and front-load them as the economy can take it. Waller believes rates can be raised and not have a big impact on unemployment, while the Fed does not need to tank the economy to bring down inflation.

## GEOPOLITICS



US Director of National Intelligence Haines said the next few months could see Russian actions escalate and become more unpredictable, and Russia President Putin is preparing for a long conflict in Ukraine. Said Putin is likely counting on US and EU resolve in Ukraine to weaken, and he may step up efforts to block Western weapons. Regarding Russia's invasion, Haines said Putin would only authorise use of nuclear weapons if he perceived an existential threat to Russia. A separate, unnamed US official warned that Russia's invasion of the Donbas and South Ukraine is about two weeks behind schedule and the current trend increases the likelihood that Putin will turn to more drastic means.

## FIXED INCOME

### T-NOTE (M2) FUTURES SETTLED 19 TICKS HIGHER AT 118-25

**The Treasury curve bull-flattened as duration caught another bid out of Europe through the NY morning, with approaching CPI and auctions capping further upside.** 2s +0.3bps at 2.623%, 3s -2.2bps at 2.815%, 5s -6.5bps at 2.918%, 7s -8.0bps at 2.995%, 10s -9.4bps at 2.985%, 20s -10.9bps at 3.324%, 30s -9.8bps at 3.110%. INFLATION BREAKEVENS: 5yr BEI -10.2bps at 2.943%, 10yr BEI -8.4bps at 2.709%, 30yr BEI -5.4bps at 2.438%.

**TOKYO/LONDON:** Another spurt of buying for Treasuries seen in the Tokyo morning Tuesday saw T-Notes make an interim high of 118-30, aided by a cluster of block buys. The contracts then unwound their strength through into the London handover where session lows of 118-08 were made. Better buying resumed from there; Citi's rates desk noted a pick-up in activity/buying in the European morning, noting hedge funds had been adding 2s7s and 2s10s flatteners.

**NEW YORK:** The bull-flattener extended as the US session got going. Fed's Williams was on wires providing little surprises for traders, calling for front-loaded hikes without going into too much detail (he later suggested a few more 50bps hikes are likely). CNBC also reported that investor David Tepper had covered his shorts in stocks, which did coincide with a pick-up in major indices and a pullback from session highs in T-Notes (119-06). The growing roster of IG Dollar deals (ten issuers according to BBG) kept likely added pressure too. T-Notes contracts then traded sideways above support at 118-28 for most of the remainder of the session, with strength capped after Mester said she wasn't ruling out 75bps. The strong 3yr auction had little follow-through, although T-Notes did break slightly lower in late trade, perhaps with an eye to Wednesday's CPI and 10yr note auction, followed by the long bond auction Thursday.

**3YR AUCTION:** The cut-size USD 45bln 3yr auction stopped at 2.809%, the highest since November 2018, and just under 10bps cheaper than April's 2.738%. The auction marked a 0.3bps stop-through the WI, better than April's 0.1bps stop-through and the six-auction avg. tail of 0.2bps. The 2.59x B/C was stronger than prior/average, while Dealers took 20%, significantly below avg. 25.4% with above avg. takings from both Directs and Indirects.

### STIRS:

- Eurodollars bull-steepened with earlier strength at the front-end of the strip unwound as Mester left the door open for 75bps.
- EDM2 -1.0bps at 98.18, U2 -3.0bps at 97.42, Z2 -1.0bps at 96.945, H3 +2.5bps at 96.745, M3 +4.0bps at 96.61, U3 +5.0bps at 96.675, Z3 +4.5bps at 96.76, H4 +4.0bps at 96.83, M4 +4.5bps at 96.87, Z4 +6.5bps at 96.905, Z5 +11.5bps at 96.985.
- NY Fed RRP op demand at USD 1.864tln across 87 bidders (prev. USD 1.859tln across 88 bidders).
- SOFR unchanged at 78bps.

## CRUDE

### WTI (M2) SETTLED USD 3.33 LOWER AT 99.76/BBL; BRENT (N2) SETTLED USD 3.48 LOWER AT 102.46/BBL

**Oil prices were lower in choppy trade Tuesday, extending on Monday's sharp declines with ongoing global demand headwinds in the limelight, as is the EU's struggle in implementing an oil embargo.** Note the latest [EIA STEO report](#) saw global oil demand forecasts cut, albeit hardly surprising given China's lockdowns, while the cuts in global supply forecasts were to be expected too on the back of Russia's slowdown. Traders now look to the weekly US energy inventory data with the private release due Tuesday evening ahead of the official EIA data Wednesday. Current expectations (bbls): Crude -0.5mln, Gasoline -1.6mln, Distillates -1.3mln.

**EU EMBARGO:** Hungary suggested Tuesday that the EU's time pressure for the Russian oil embargo is "artificial", Bloomberg reported. That followed EU's von der Leyen tweeting that progress was made with her visit to Hungary but further work is needed. French officials also said that a deal could be reached on a Russian oil ban this week.



**RUSSIAN GAS:** Ukraine's gas operator, GTSOU, announced it is halting Russian gas supplies through the Sokhranivka route (a key transit point) claiming Russian troops are interfering in the "technical process" at the Novoposkov compressor station in the Donbas region. Ukraine said it would temporarily shift the flow to the Sudzha point in Ukraine-controlled territory. Russia's Gazprom said later it was not technologically possible to switch to a different entry point.

**OPEC:** UAE and Saudi today criticised the 'NOPEC' bill, saying it could send oil prices surging, with UAE suggesting a potential 300% price surge and broader chaos in energy markets. The UAE's Energy Minister also said the numbers show the crude market is balanced. Meanwhile, the Libyan Oil Minister said domestic output is around 600k BPD (prev. around 800/900k BPD in April).

## EQUITIES

**CLOSES:** SPX +0.26% at 4,001, NDX +1.30% at 12,345, DJIA -0.26% at 32,160, R2K +0.26% at 1,761.

**SECTORS:** Technology +1.58%, Energy +0.93%, Communication Services +0.84%, Health +0.33%, Consumer Discretionary -0.3%, Materials -0.59%, Industrials -0.65%, Consumer Staples -0.76%, Financials -0.8%, Utilities -1.24%, Real Estate -2.29%.

**EUROPEAN CLOSES:** Euro Stoxx 50 +0.79% at 3,554; FTSE 100 +0.37% at 7,243; DAX +1.15% at 13,534; CAC 40 +0.51% at 6,116; IBEX 35 0.00% at 8,139; FTSE MIB +1.04% at 23,069; SMI +0.85% at 11,541.

**STOCK SPECIFICS:** **Tesla (TSLA)** halted production at its Shanghai plant due to supply issues. **Prologis (PLD)** proposed to buy **Duke Realty (DRE)** in a deal valued at USD 61.68/shr. PLD said DRE rejected the earlier proposal sent on May 3rd, 2022. DRE closed Monday at USD 47.71/shr. **Pfizer (PFE)** to acquire **Biohaven (BHVN)** for USD 148.50/shr in cash, for a total value of USD 11.6bn. Note, BHVN closed Monday at USD 83.14/shr. **TSMC (TSM)** plans another price hike citing looming inflation concerns, rising costs and its massive expansion plans to help alleviate the global supply crunch, according to Nikkei sources. Price increases will be about 5% to 8% for different process technologies. **EA (EA)** ends its two-decade video game partnership with FIFA, according to NYT. **Carvana (CVNA)** announced workforce reduction of c. 2,500 employees primarily in operational groups. Elon Musk spoke live with the FT and among numerous remarks he stated his **Twitter (TWTR)** deal is "not a done deal" when asked about the probability of it passing, and the best case scenario is the deal could be done in 2-3 months. Moreover, he added **Tesla's (TSLA)** goal to make 20mln vehicles by 2030 is an aspiration, not a promise, and he will stay at Tesla as long as he can be useful. Musk said buying a mining Co. was "not out of the question". **DigitalBridge (DBRG)** reportedly nears a deal to acquire **Switch (SWCH)**, according to Bloomberg sources, in-fitting with reports from Monday.

**EARNINGS:** **Peloton (PTON)** sank roughly 9% after another disappointing earnings report, where the Co. posted a deeper loss per share than expected and revenue missed. In addition, next Q guidance was light. **Microchip Technology (MCHP)** beat on EPS and revenue alongside boosting Q dividend 9.1%. Additionally, next Q EPS and revenue view slightly topped expected. **Upstart (UPST)** plummeted 55% after issuing poor guidance, the Co. stated the current macroeconomic environment is likely to negatively impact loan volume. Do note, UPST did beat on top and bottom line. **Vroom (VRM)** surged 32% after it reported a shallower loss per share than expected and revenue also beat. VRM named Tom Shortt as CEO and announced a business realignment plan to prioritise unit economics, reduce operating expenses and maximise liquidity. As such, restructuring will eliminate about 270 jobs. **Norwegian Cruise Line (NCLH)** missed on quarterly results but commentary was encouraging, 2023 bookings were now exceeding pre-pandemic levels and operating cash flow was slightly positive in March and expects to be operating positive cash flow in Q2 22.

## FX WRAP

**DOLLAR** was ultimately firmer Tuesday in a choppy session. The Greenback came off highs earlier in the session following a retreat lower in yields. However, coming into the NY afternoon the Buck rose alongside short-term US Treasury yields following hawkish remarks from Fed's Mester (2022, 2024 voter) where she did not rule out 75bps hikes forever, in contrast to some of her colleagues who have said a few 50bps hike are necessary and then assess the situation. Highlighting this, both Barkin and Williams highlighted 50bps at the coming meetings makes sense as a base case. Participants now await the key US CPI report Wednesday, but as analysts note, with almost all Fed speakers since the last FOMC endorsing two or more 50bp rate hikes before reassessing the path of inflation and policy, it would most likely take a notable downside miss in monthly overall and core inflation to shift rate-hike expectations and push the Dollar lower.



**ACTIVITY** currencies were flat/lower against the Buck, but NZD was the clear G10 underperformer, as AUD, CAD, and GDP were more-or-less flat. Whilst there was no clear headline driver heading into the London fix at 16:00BST, high-beta FX fell victim to the DXY rebound, albeit to differing degrees. GBP continued to be weighed by Brexit pressures and Northern Ireland angst. UK ministers are said to be preparing to take unilateral action to override parts of the Brexit NI protocol "within weeks", according to The Times. In terms of levels, Cable hit a low of 1.2292, with Monday's low of 1.2262 deemed as the next support. Loonie saw headwinds from the crude complex, as USD/CAD grinded to fresh session highs, 1.3052, alongside WTI and Brent printing sessions lows. It is worth noting the cross never got close to huge option expiries at 1.2935 (3.34bln). NZD/USD and AUD/USD hit lows of 0.6277 and 0.6912, respectively, with the former falling beneath the psychological 0.6300, as it was heavily weighed on going into the London fix. Looking ahead, regarding scheduled risk events (aside from US CPI Wednesday) there is New Zealand inflation survey, as well as UK Q1 GDP and Manufacturing Output data all on Thursday.

**EUR** was lower, but within contained ranges highlighted by a peak of 1.0585 and a trough of 1.0526, despite, at least on paper, a supportive German ZEW sentiment print as well as ECB's Nagel stating they should hike rates in July if incoming data suggests that inflation is too high. Later remarks from de Guindos said the ECB need to be watchful for second round effects. Moreover, weighing on the single-currency is the Ukraine war and energy supply risks to Germany as the EU continues to struggle on implementing an oil embargo. On Wednesday there are a plethora of ECB speakers scheduled, with President Lagarde among those on the slate.

**HAVENS**, CHF and JPY, were flat. The Yen saw strength as Fed's Mester lifted short term Treasury yields with her hawkish tone, but the Yen later retraced some of this ground on the back of US stocks rebounding from earlier losses. Regarding levels, technicians note Monday's 131.35 and 20-yr peak is the nearby hurdle, while last week's 128.62 low is the level to look out should CPI be well below the forecast.

**EMFX** was mixed. TRY and RUB were the underperformers, while BRL, ZAR, and MXN saw gains against the Buck. Despite the gains in the Peso on Tuesday analysts note USD/MXN downside is likely limited with upside risk far greater due to the Fed's sharp tightening cycle and the Mexican economy slowing alongside inflation rising at a 21-year high. Elsewhere, individual Central Bank policy stances remain a driving force of independent direction for EM currencies as some opt to combat high inflation and currency depreciation via aggressive monetary tightening and direct intervention, in contrast to others adopting unconventional methods and focusing on growth instead. On that note, the PBoC set a weaker than expected CNY fix and has Chinese inflation data looming, while the BCB minutes underlined the prospect of more hikes, albeit in smaller size. CNB acknowledged hot Czech CPI reported Tuesday.

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