US Market Wrap

12th May 2022: Volatile session sees SPX test bear market territory; DXY hits fresh YTD high

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude flat/up, Dollar up
- **REAR VIEW**: Mixed PPI; IJC slightly above expected; Daly supports 50bps hike at next two meetings; IEA & OPEC reports revise down 2022 oil demand growth projections; Finland hope to submit NATO application in coming days; North Korea Missile landed outside of Japan's EEZ; Banxico hikes by 50bps, as expected, but with one hawkish dissenter; Strong US 30yr auction; Awful BYND earnings & DIS numbers disappoint.
- **COMING UP**: **Data**: US Export/Imports Prices, Uni. of Michigan (Prelim.) **Speakers**: ECB's Schnabel, de Guindos; Fed's Kashkari **Earnings**: Orpea, Deutsche Telekom.

MARKET WRAP

It was another volatile session with equities trending lower throughout the session, which saw the S&P 500 test entering a bear market at 3,855 but hence acted as support. Nonetheless, the largely red day almost reversed in the final hour of trade with a strong rally in US equities which took the Russell back into the green and to close up over 1% higher, while SPX, NDX and DJIA were still lower by 0.1-0.3%, but well off session lows. Highlights of the day saw a mixed US PPI report, but overall showed that pricing pressures were easing, but not as fast as hoped on some measures. Fed speak saw Daly add to the list of those pushing back on 75bps and suggesting there is no reason to alter course from 50bps for the next couple of meetings. Treasuries bull steepened in choppy trade in wake of the PPI report, a strong 30yr auction and predominantly risk off trade throughout the most of the session to see T-Notes settle at session highs of 120-00. However, amid the final hour equity rally, the move was felt in Treasuries which saw Treasuries move off highs to see the longer end flat on the session while the curve remained steeper. Crude prices sold off overnight after the strong gains on Wednesday, but geopolitical concerns around Russia, as well as North Korea, added some support to help WTI settle slightly firmer and Brent flat, although futures saw continued gains as stocks attempted to recoup their earlier losses, boosting sentiment. The Dollar drove price action in FX to see the DXY print a fresh YTD high, driving EUR/USD to 5.5 year lows and USD/CHF to parity.

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FED: **Daly (2024 voter)** said she would like to see a continued tightening of financial conditions, and the debate between 50bps and 75bps is not a primary consideration. Meanwhile, in fitting with her colleagues, stated there is no reason to alter the course for 50bps at the next two meetings and going up in 50 bps increments makes quite a bit of sense. Moreover, Daly still wants to reach a neutral rate of 2.5% by end of year, whilst the economy has lot of momentum and the labour market is "very" strong. Lastly, on Wednesday's CPI report, says it was not especially surprising.

PPI: US PPI Final Demand rose +0.5% M/M in April (exp. 0.5%, prev. 1.6%), though the annual rate eased to 11.0% Y/Y (exp. 10.7%, prev. 11.5%). The core measure rose 0.4% M/M, less than expected (exp. 0.6%, prev. 1.2%), and the annual core measure eased to 8.8% Y/Y from 9.6%, a slightly deeper fall than the 8.9% the street was modelling. The decline in annual core prices was the first meaningful decline since April 2020, Pantheon Macroeconomics said, and its analysts said that the rate was likely to fall further over the coming months, though much will depend on what happens to margins, which account for 30% of the core. "A surprise 0.5% drop in the trade services component, which measures retail and wholesale margins, constrained the April core M/M," Pantheon says, and that resulted in overall core services prices remaining unchanged. "The decline in margins in April was broad, including healthcare, furniture retailing, auto dealers, and hotels," Pantheon writes, "the trend in margins seems still to be rising, but the rate of increase has slowed from the peak last spring and summer, so the Y/Y rate is set to decline." The consultancy argues this is what matters given the hefty margin expansion in the pandemic era has been a key part of driving consumer inflation. "A sustained decline in margins would change the overall inflation picture, but a decline in one-month is not definitive." In the autos component, autos prices continue to rise, as do capital equipment prices, which accounts for a lot of the rise seen in core goods prices in the month. Ahead, PM notes that the downshift in China's PPI metrics for manufactured goods suggests that there will also be downward pressure on the US numbers over the coming months. Meanwhile, data for the services sector showed airlines prices rising 2.9%, but this was less than the 18.7% described in the CPI report. PM points out that both of these measures are calculated using different methodologies, but do tend to trend together over time.

JOBLESS CLAIMS: US initial jobless claims fractionally rose to 203k, from 202k, and above the expected 195k. Meanwhile, continued jobless claims fell to 1.343mln, the lowest since January 1970, from the prior 1.387mln, and also beneath the expected 1.38mln. Looking into the report, the rise, albeit marginal, in jobless claims for the second consecutive week is mostly due to seasonal adjustment issues. Pantheon Macroeconomics note, ‘the trend probably is about flat; it was never as low as the 170K-ish in late March, it’s probably about 200K.’ Moreover, the consultancy adds today’s print is a bit lower than we expected, and looking ahead, we’re looking for a temporary dip to 190K next week.

GEOPOLITICS

UKRAINE/RUSSIA: Russia's Kremlin stated attacks on the Russian region bordering Ukraine means that further measures are required to secure the security of regions, and the Finnish entry to NATO is definitely a threat to Russia. On this, Kremlin said, everyone wants to avoid a clash between NATO and Russia and a NATO expansion will not make the world or Europe more stable. As such, the Kremlin noted Finland taking unfriendly steps is a subject for regret and reason for a symmetrical response, adding Russia will be forced to take retaliatory steps, both military, technical and otherwise. Moreover, Russia is prepared to give a decisive response to any side which tries to get involved in Ukraine and hinder the special military operation. Meanwhile, Finnish PM Marin and President Niinisto stated that they should submit an application to join NATO and hope national steps still needed for the decision to apply will occur in the next few days. Additionally, the White House said it would support Finland and Sweden joining NATO. Lastly, European Commission President von der Leyen said Russia is the most direct threat to world order.

US/ASIA: North Korea reportedly fired a ballistic missile, according to the Japanese Coast Guard, and the missile landed outside of Japan's Exclusive Economic Zone (EEZ). On this, US military stated the North Korean ballistic missile launch does not pose an immediate threat to US personnel or territory, or to US allies, but does assess they could be ready to conduct a test this month. The White House added North Korea could be preparing a new test and it is considering whether President Biden will visit Korea's Demilitarized zone. Elsewhere, satellite images ‘suggest China is practising missile strikes on targets in Taiwan and Guam’, according to China's SCMP. As such, analysts said new images of mock targets in the Taklamakan desert suggest the PLA is refining its strike capacity to hit smaller ships, and one of the mock targets is described as resembling a base in northeast Taiwan that would be a key target in the event of conflict

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 23+ TICKS HIGHER AT 120-00.

Treasuries bull steepened by settlement in wake of mixed PPI, a strong 30yr auction and overall risk off trade. At settlement, 2s -9.0bps at 2.539%, 3s -8.2bps at 2.731%, 5s -7.6bps at 2.801%, 7s -8.0bps at 2.855%, 10s -7.4bps at 2.839%, 20s -3.5bps at 3.227%, 30s -3.4bps at 3.008%. 5yr TIPS +3.7bps at -0.092%, 10yr TIPS +3.7bps at 0.238%, 30yr TIPS +6.4bps at 0.578%.

THE DAY: T-notes grinded higher throughout the European session in risk-off trade, as the equity rout continued with ongoing geopolitical concerns. On this, there was punchy rhetoric from Russia about Finland joining NATO, which saw them state it would require a technical-military response, meanwhile North Korea ballistic missile launches only made matters worse. Growth concerns were also rife throughout Europe after the UK Growth disappointed expectations and the March GDP estimate contracted by 0.1%, while output and trade data also disappointed seeing Gilts open higher. Treasuries sold off in wake of the US PPI report which saw a hotter than expected print Y/Y on the headline, while the core was a touch softer, but both had cooled from the previous. The M/M was in line with expectations on the headline and the core was a touch softer than expected. Although it was a mixed report, it showed inflation pressures slowing from the previous report, which is a welcome sign, but perhaps not as fast as some had hoped on the headline, which saw a revision higher. IFR highlighted that dealers were moving the lead lower in wake of the data, but more for concession ahead of the 30yr auction. IFR also noted a small algo sell programme that was triggered on the break of the 3.01% support in the 30yr bond yield. The 30yr auction was strong and added some support to the longer end bonds. Meanwhile, as the equity rout continued throughout the NY session Treasuries grinded higher with the 10yr T-Note hitting a session high of 120-00+ at settlement.

AUCTION: Overall a decent auction. The 0.9bps stop through is a strong sign of demand in comparison to the average tail of 1.4bps and the prior 0.9bp tail. Bid-to-cover was also stronger than average. The demand was mainly seen in indirects (foreign buyers) which rose to 69.66% which helped offset the weaker direct (domestic) demand for the 30yr bond. The strong take up from indirect bidders helped dealers (forced buyers) take home less than the prior 30yr auction and less than the six auction average. Click here for full results.

STIRS:

- EDM2 +1.0bps at 98.175, U2 +5.5bps at 97.435, Z2 +7.5bps at 96.975, H3 +12.5bps at 96.845, M3 +15.0bps at 96.770, U3 +15.5bps at 96.840, Z3 +15.0bps at 96.920, H4 +14.0bps at 96.995, M4 +13.5bps at 97.040, U4 +12.5bps at 97.060, Z4 +11.0bps at 97.065, Z5 +7.0bps at 97.115.
- NY Fed RRP op demand at USD 1.900tln across 85 bidders (prev. USD 1.876tln across 91 bidders).
- US Sells USD 39bln of 4-week bills at 0.600%, B/C 2.70x; Sells USD 33bln of 8-week bills at 0.755%, B/C 3.02x.

CRUDE

WTI (M2) SETTLED USD 0.42 HIGHER AT 106.13/BBL; BRENT (N2) SETTLED USD 0.06 LOWER AT 107.45/BBL

Crude prices were volatile through Asia, Europe and US sessions amid downbeat risk sentiment as well as ongoing geopolitical and China-COVID concerns, while the IEA and OPEC oil reports sparked little reaction. Crude prices started on the back foot and futures sold off overnight reversing some of the rally seen on Wednesday. The initial downside was led by the risk aversion across Asia, which saw a red close in equities after the downbeat Wall St. performance. Downside in crude was also sparked by COVID concerns in Shanghai, again, after it reported virus cases outside of the quarantine zone. However, as Europe trade was underway downside started to reverse amid aggressive rhetoric from Russia and North Korea firing a possible ballistic missile. Crude extended to the upside as cash markets opened to see WTI hit a high of USD 107.37/bbl and a Brent high of USD 108.71/bbl, with both back in the black. However, as NY trade progressed the downbeat risk sentiment returned with the equity rout continuing which weighed on the crude complex to see WTI settle only marginally firmer thanks to a pre-settlement bid, while Brent settled flat.

MOMR'S: The IEA revised down its oil demand growth projections for 2022 by 70k BPD, amid China lockdowns and elevated prices. On Russia, it expects an overall decline of Russian supply by 1.6mln BPD in May and 2mln BPD in June, which could expand to circa 3mln BPD from July onwards. Despite sanctions, total Russian oil exports increased MM in April by 620k BPD and Russia shut in nearly 1mln BPD of oil in April. The IEA added that new embargoes could accelerate a reorientation of trade flows of Russian oil towards Asia and it does not expect an acute supply deficit amid the deteriorating Russian supply situation. OPEC revised down its forecast by 300k BPD from its April report, which also cited China's COVID and geopolitical developments, taking overall demand in 2022 to 3.4mln BPD. The report noted in April, OPEC-13 crude oil production was increased by 153k BPD M/M, to an average 28.65mln BPD, according to available secondary sources. Crude oil output increased mainly in Saudi Arabia, Iraq and the UAE, while production in Libya declined.

EQUITIES

CLOSES: SPX -0.13% at 3,930, NDX -0.18% at 11,945, DJIA -0.33% at 31,730, RUT +1.38% at 1,739.

SECTORS: Health +0.92%, Consumer Discretionary +0.8%, Real Estate +0.75%, Communication Services +0.51%, Industrials +0.14%, Energy +0.1%, Consumer Staples -0.06%, Materials -0.19%, Financials -0.71%, Technology -1.14%, Utilities -1.16%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.94% at 3,613; FTSE 100 -1.56% at 7,233; DAX -0.64% at 13,739; CAC 40 -1.01% at 6,206; IBEX 35 -1.35% at 8,200; FTSE MIB -0.67% at 23,566; SMI -0.41% at 11,506.

EARNINGS: **Disney (DIS)** earnings disappointed where it missed on EPS and revenue, with Disney+ growth in H2 to be impacted by the Ukraine war. Looking ahead, reaffirmed longer-term target of 230-260mln Disney+ subscribers in 2024. **Tapestry (TPR)** rose after beating on the top and bottom line, while the board approved a USD 1.5bln share buyback programme. However, TPR cut its FY22 outlook partly due to the impact of COVID-related shutdowns in China. **Beyond Meat (BYND)** tumbled following a deeper loss per share than expected and missing on revenue. Exec said the operating environment continued to be affected by near-term uncertainty related to macroeconomic issues, meanwhile the CEO said the results were impacted by costs associated with strategic launches that he said would pay off over the long term. **Bumble (BMBL)** soared after the co. posted a surprise profit per share and beat on revenue. Co. said COVID-19 resurgence helped dating apps keep the users they gained during the pandemic. **Dutch Bros (BROS)** posted a surprise loss per share but beat on revenue. Q2 SSS view flat to slightly negative. FY22 revenue view short and lowered FY EBITDA view. **Rivian (RIVN)** EPS printed in line while revenue missed. It also maintained its 2022 production forecast and said it expected supply chain issues to ease later this year.

STOCK SPECIFICS: **Lordstown Motors (RIDE)** surged after the EV company completed a deal to sell various assets to contract manufacturer Foxconn. Lordstown will receive USD 260mln in proceeds from the deal. **Ford (F)** and **General Motors (GM)** fell after Wells Fargo downgraded both stocks to "Underweight" from "Overweight." Wells Fargo said 2022 could represent a profit peak for legacy automakers, with the shift toward electric vehicles eroding profits in the years ahead. **General Electric (GE)** CFO stated we remain confident in recovery in Co. businesses in H2 '22; expects closer to about 55% of revenue and 75-80% of net earnings in H2 '22. Expects 'significant' growth in aviation and healthcare businesses in H2. **Twitter (TWTR)** CEO told employees in email that Head of Consumer, Product, and Revenue will leave, and it is pausing most hiring, effective this week, and rescinding some offers. **Alphabet (GOOGL)** CEO said inflation is going to take some time to work through, the war in Ukraine and a sluggish economy could add to Google's challenges this year. The GOOGL CEO added, on Musk's plans for **Twitter (TWTR)**, said 'I think there is value in investing in it for the long term', according to CNBC. Elon Musk reportedly seeks to scrap **Tesla (TSLA)** margin loan with new Twitter funding and is discussing up to USD 6bln in preferred equity for Twitter. **Micron (MU)** raised quarterly dividend 15% to USD 0.115/shr. **Nutrien (NTR)** said it is assessing ramping up additional potash capacity. United Airlines (UAL) expects 2.6mln travellers on Memorial day and 5.3mln on 4th July, adding it continues to see a rise in demand as destinations in APAC loosen travel restrictions.

FX WRAP

The Dollar was firmly bid on Thursday, and hit another fresh YTD of 104.92, as the risk-off sentiment benefitted the Buck, which was aided by global macro themes, such as China COVID woes, geopolitics, as well as inflation and growth concerns. Additionally, it is worth noting, PPI was a mixed report where final demand was inline with the expected, though the annual rate eased from the prior, while the core M/M slowed to 0.4%, less than the 0.6% expectation. Moreover, IJC printed above the expected and marginally rose from the prior reading. Looking ahead, on Friday, Fed speak sees Fed's Kashkari (2023 voter) and Mester (2022, 2024 voter), whilst on the data front there is prelim May UoM and April import/export data.

JPY was the clear outperformer and was the only currency to see gains against the Greenback, and significant ones at that. JPY/USD saw massive ranges on Thursday, highlighted by a peak of 130.05 and a trough of 127.53. In terms of fundamentals, the Yen was helped amid rampant demand for the haven, amid the risk-aversion, as well as the narrowing Treasury-JGB yield spreads. Regarding levels, the cross fell through multiple technical 'support' levels along the way, like a Fib that aligned precisely with 128.00 (76.4% of the move from 126.97 to 131.35).

Activity currencies were lower across the board against the Buck, to differing degrees of weakness. CAD and GBP relatively 'outperformed, while antipodeans saw the greatest losses with AUD underperforming its NZD counterpart. Firstly, the Aussie, as well as general risk-aversion was hit hard by the collapsing metals, as iron-ore, precious metals, and copper all saw notable losses. As such, AUD/USD hit lows of 0.6830, a level not seen since June 2020, which was the same for NZD/USD as its trough was 0.6217. For the Kiwi, it fell victim to the surging Buck amid the aforementioned macro woes, which comes ahead of April New Zealand Manufacturing PMI on Friday.

CAD and GBP, aside from Yen, were the relative G10 outperforms, but still saw losses around 0.5% against the Greenback due to broad risk-off sentiment. In terms of levels, USD/CAD breached 1.3050 to highs of 1.3064, whilst Cable hit lows of 1.2166. For the Loonie, BoC Deputy Governor Gravelle spoke and said BoC will likely further lift its near-term inflation forecasts, given March CPI was above bank's projections, and current policy of 1% is too stimulative, especially when inflation is running significantly above the top of our control range. Additionally, Gravelle said it is possible the Bank may have to raise rates above neutral, because parts of the economy might be less sensitive to hikes than in the past. Regarding the Pound, it saw losses due to further post-Brexit growth concerns, where UK PM Johnson said no final decision has been taken on the N. Ireland protocol, will be further discussions in the coming days with the EU. Additionally, UK GDP March M/M fell into contraction territory, another factor causing headwinds for the Pound, alongside disappointing trade and manufacturing output.

EUR and CHF saw significant losses against the Greenback, with the former seeing greater losses. EUR/USD hit 1.0355, a five and a half year low, as analysts note concerns regarding global inflation and slower growth drove a surge in risk aversion while spreads, options and technicals suggest the euro has resumed its broader down trend. Moreover, analysts continue, yields fell broadly as investors sought safer assets, but German yields fell more rapidly than Treasuries as investors see slower global growth having a greater negative impact on the EZ than the US. As such, the dollar's yield advantage is increasing as German-US spreads widened and appear poised to widen further. Elsewhere, highlighting the Swissy's weakness USD/CHF hit parity for the first time since 2019.

EMFX was mixed across the board, with the RUB the clear outperformer, but it remains very difficult to tell the true value of the Rouble. ZAR, BRL were flat as TRY and CNH/CNY saw pronounced losses. MXN saw gains against the Buck, which came gradually in the wake of the hawkish Banxico decision, where they hiked by 50bps, as expected, but with one dissenter who voted for 75bps. It also added language that taking more forceful measures to attain the inflation target may be considered due to growing complexities in the environment for inflation and its expectations. Elsewhere, Indian inflation data was considerably higher than anticipated to justify the RBI jumping before its next scheduled policy meeting. Elsewhere, direct intervention to stem currency losses was the method employed by the HKMA and CNB, in contrast to the PBoC aided and abetted by the Chinese cabinet that promised more stimulus even though the CNY and CNH continued to depreciate to levels not seen since September 2020 against the greenback.