US Market Wrap

13th May 2022: Stocks rally but fail to snap 6-week loss streak

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar down.
- **REAR VIEW**: Powell & Mester reiterate 50bps is appropriate at the next two meetings; Shanghai aims to have no community spread of COVID by mid-May; Musk still committed to TWTR deal, despite saying it is on temporary hold; Turkey 'not positive' on Sweden & Finland NATO entrances; Ukraine's Head of Military Intelligence says Russia war is going so well and be over by year-end; Samsung considering hiking chip prices 20%; Superb AFRM earnings.
- **CENTRAL BANK WEEKLY**: Previewing ECB Minutes, SARB, PBoC; reviewing Banxico. To download the report, please click here.
- **WEEK AHEAD PREVIEW**: Highlights include US retail sales, EU Foreign Ministers meeting, China data. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [TUES] HD, WMT; [WED] LOW, TGT, ADI, TJX, CSCO; [THURS] AMAT; [FRI] DE. To download the full report, please click here.

MARKET WRAP

Equities rallied to end the week after a gruesome performance Monday-Thursday to see stocks still close lower for the sixth consecutive week. Gains were led by the Nasdaq, which was up over 4% at the highs underpinned by strong gains in Consumer Discretionary and Technology. All sectors closed in the green, with the "underperformers" being the defensive Health Care and Utility names, but still closed with gains above 1%. The broad equity upside saw the S&P 500 reclaim 4k, while growth stocks saw very strong gains after its recent drop. The upside in stocks was more a result of oversold conditions throughout April and first half of May, although some of it being technically driven after a test (and bounce) from the bear market territory level Thursday afternoon. There were also encouraging signs out of China, after Shanghai announced it is aiming to have zero community spread of COVID by mid-May, which suggests there could be an easing of restrictions. Fed speak saw Mester talk of a September assessment to see whether policy normalisation needs to be accelerated or eased depending where inflation is at after another two 50bps hikes in June and July. Powell spoke after the close Thursday where he also reiterated the case for two more 50bps hikes. The UoM data was dismal, with the sentiment, conditions and expectations all falling beneath expectations due to falling stock prices and high gas prices. However, the 1 and 5yr consumer inflation expectations were unchanged. Treasuries bear steepened as equities rallied with selling pressures observed after Mester spoke of a September assessment, unwinding the post UoM rise. Crude prices were also supported by risk sentiment, while the China COVID situation was also positive. Focus next week will remain on Fed speak, ECB minutes, Geopolitics, particularly with Sweden and Finland looking to join NATO, while earnings turn to the retailers, with focus on Walmart (WMT) to mark the unofficial end of earnings season.

US

FED: Last night, **Fed Chair Powell** reiterated the Fed thinks it's appropriate for there to be additional 50bps hikes at the next two meetings. On a soft landing, he said execution depends on factors the Fed cannot control but they do have the tools to get inflation under control. Powell added if things get better than expected, they are prepared to do less, but also prepared to do more if the situation worsens. **Mester (2022, 2024 voter)** also said she sees 50bps hikes at the next two meetings, bar any large surprises, before taking a moment in September to assess whether price increases are increasing or decreasing and how policy should react to that, noting the Fed needs several months of inflation moving down before comfortably concluding a peak. **Kashkari (2023 voter)** largely reiterated recent rhetoric, but noted we are normalising at a pace the market can handle, but they do have to monitor the market, especially as the balance sheet shrinks.

UOM: The preliminary UoM headline for May printed 59.1, well beneath the expected 64.0, and the prior 65.2. Expectations, the forward-looking gauge, also dropped and notably missed at 56.3 (exp. 63.0, prev. 62.5), as did current conditions 63.6 (exp. 70.5, prev. 69.4). Meanwhile, the 1yr and 5yr inflation expectations remained unchanged at 5.4% and 3.0%, respectively. Looking into the report, Pantheon Macroeconomics note, ‘the Michigan index has weakened much more than the Conference Board survey in recent months, likely because the survey puts more weight on personal finances, which have been hit hard by higher inflation and, now, falling stock prices.’ Moreover, Pantheon adds, ‘the expectations component is now so low that under normal circumstances it would be consistent with zero year-over-year growth in real consumers' spending". However, as households are sitting on roughly USD 3.5tln in excess cash compared to the pre-pandemic, the consultancy expects people will run down savings in order to maintain spending. Looking ahead, PM states, whilst inflation expectations were unchanged both measures should fall over the next few months as current inflation drops.

GLOBAL

CHINA COVID: The Shanghai Vice Mayor stated they aim to have no community spread of coronavirus by mid-May and is considering expanding the scale of production resumption and will aim to open up an ease traffic restrictions and open shops in an orderly manner. Officials also noted that over 9,000 large-scale enterprises are now operating at nearly 50% capacity in Shanghai. Global Times noted Shanghai prioritises resuming classes for grades 9, 11 and 12, while supermarkets, convenience and department stores will resume offline operations in an orderly manner and other services such as hairdressing will open gradually, according to Global Times.

GEOPOLITICS: Rhetoric around NATO applications, was the main source of updates to end the week. Firstly, Unit of Russia's Inter Rao will stop electricity supply to Finland on May 14th, as tensions rise over Helsinki's NATO bid, while reports suggested Russia could cut off gas supplies to the country in response, which the Kremlin later suggested were false. Moreover, the Swedish Defence Minister said if Sweden were to apply to join NATO, there are risks of a Russian reaction, and as a reminder Russia threatened a proportional response against Finland following the announcement of its bid to join NATO. Sweden and Finland are to discuss their NATO bid with Turkey in Berlin Saturday. However, Turkish President Erdogan said Turkey is "not positive" on Sweden and Finland's NATO's entrances, and added Scandinavia countries have become a safe haven for terrorism. Erdogan continued that Turkey will not repeat the same mistake which it has done during Greece's accession to NATO. Further on NATO, Estonian Defence Minister, speaking to Nikkei, asked NATO for command centers capable of overseeing more than 10K troops and the bloc's military operations in the Baltics to counter Russia amid the ongoing war in Ukraine. Elsewhere, Ukraine's Head of Military Intelligence, via Sky News, noted the war with Russia is going so well that it will reach a turning point by mid-August and be over by the end of the year. Regarding talks, Ukraine Foreign Minister said he sees no appetite from Russia for peace talks or food security talks. Whilst Russia President Putin spoke with German Chancellor Scholz, where the former reportedly said talks with Ukraine have essentially been blocked by Kyiv. Scholz, in his call, later stated there must be a ceasefire in Ukraine as soon as possible and he highlighted Russia's responsibility for the global food situation. Finally, EC VP Sefcovic added the EU is 'determined' to sway Hungary over Russian oil sanctions, according to FT.

FIXED INCOME

T-NOTE FUTURES (N2) SETTLED 26+TICKS LOWER AT 119-05+

Treasuries bear steepened as equities rallied after a grim month, while selling was observed as Mester spoke of a September policy assessment, which unwound the gains seen in wake of a dismal UoM survey. At settlement, 2s +7.7bps at 2.599%, 3s +8.2bps at 2.797%, 5s +10.4bps at 2.886%, 7s +11.5bps at 2.950%, 10s +11.8bps at 2.935%, 20s +12.6bps at 3.329%, 30s +12.3bps at 3.094%. 5yr TIPS -6.2bps at -0.143%, 10yr TIPS -1.5bps at 0.221%, 30yr TIPS +0.7bps at 0.576%. 5yr BEI +12.8bps at 3.037%, 10yr BEI +9.5bps at 2.769%, 30yr BEI +9.8bps at 2.541%.

THE DAY: Treasuries bear steepened on Friday with selling pressures gradually continuing throughout the session as equities grinded higher. The risk on trade was likely primarily a function of oversold conditions after the huge sell off seen in April and May, with the S&P 500 testing bear market territory on Thursday. However, encouraging developments from China after Shanghai announced it is aiming to have no community spread of COVID by the middle of May supported risk assets. Meanwhile, after market on Thursday Fed Chair Powell reiterated the case for 50bps, something the Fed have been really hammering home to show 75bps is not something they are looking at for now. Aside from Powell, Mester and Kashkari spoke, where the latter spoke on supply chains, stating there are no short term fixes apparent and the Fed will have to carry more of the load on fighting inflation. Meanwhile, Mester noted that September will be the turning point after two 50bps rate hikes, and it will be then when they can assess inflation and see how policy should respond. The commentary from Mester applied pressure on Treasuries which unwound the gains seen after a dismal UoM survey for May, as a result of falling stock prices and rising gasoline prices.

STIRS:

- EDM2 -1.0bps at 98.165, U2 -7.0bps at 97.375, Z2 -8.5bps at 96.900, H3 -9.0bps at 96.760, M3 -9.0bps at 96.685, U3 -8.0bps at 96.765, Z3 -8.0bps at 96.840, H4 -8.5bps at 96.910, M4 -8.5bps at 96.955, U4 -9.0bps at 96.970, Z4 -9.5bps at 96.975, Z5 -12.0bps at 97.000.

- Eurodollars opened lower in response to the equity rally although in wake of the poor UoM data ED's tracked Treasuries higher before Mester reversed the upside.
- NY Fed RRP op demand at USD 1.865tln across 86 bidders (prev. USD 1.900tln across 85 bidders).

CRUDE

WTI (M2) SETTLED USD 4.36 HIGHER AT 110.49/BBL; BRENT (N2) SETTLED USD 4.10 HIGHER AT 111.55/BBL

Crude prices were bid throughout the session as Europe arrived to risk on conditions while there were also positive developments overnight on the China COVID situation. The Shanghai Vice Mayor said they aim to have no community spread of COVID by the middle of May, implying an end to restrictions. Geopolitical risk remains rife with Finland and Sweden looking at NATO membership, something Russia is highly against, while Turkey also said they view their applications as "not positive", and given NATO requires a unanimous decision, it puts their application at risk. The risk on conditions also led to a weaker Dollar, in turn further supporting crude prices to see WTI hit a high of USD 110.60 /bbl while Brent hit a high of USD 111.50/bbl. Although the Russian oil embargo in the EU failed to clear, it appears the bloc is not giving up yet after the EC VP Sefcovic said the EU is determined to sway Hungary over Russian oil sanctions, despite earlier reports that EU diplomats were of the view it could be time to consider a delay in the embargo.

GAS: With Finland looking to join NATO, reports suggest Russia could cut off gas supplies to the country in response, however the Kremlin suggested reports were false and noted Gazprom is a reliable gas supplier. Meanwhile, Gazprom said it continues shipping gas to Europe through Ukraine while Russian gas nominations for Slovakia have increased. The German Federal Agency says gas supply within Europe is stable, and it is closely monitoring possible effects of gas transit reduction via Ukraine and the current Russian sanctions on Gazprom Germania.

EQUITIES

CLOSES: SPX +2.41% at 4,024, NDX +3.70% at 12,387, DJIA +1.47% at 32,195, RUT +3.63% at 1,792.

SECTORS: Consumer Discretionary +4.1%, Technology +3.44%, Energy +3.38%, Real Estate +2.55%, Communication Services +2.51%, Materials +1.53%, Consumer Staples +1.42%, Financials +1.37%, Industrials +1.24%, Utilities +1.09%, Health +1.05%.

EUROPEAN CLOSES: Euro Stoxx 50 +2.49% at 3,703; FTSE 100 +2.55% at 7,418; DAX +2.10% at 14,027; CAC 40 +2.52% at 6,362; IBEX 35 +1.68% at 8,338; FTSE MIB +2.05% at 24,048; SMI +1.46% at 11,674.

STOCK SPECIFICS: **Tesla (TSLA)** CEO Elon Musk initially said the **Twitter (TWTR)** deal is temporarily on hold, pending details supporting the calculation that spam/fake accounts represent less than 5% of users. However, Musk later tweeted, he is still committed to the acquisition of Twitter. TWTR CEO later tweeted "while I expect the deal to close, we need to be prepared for all scenarios and always do what's right for Twitter." **Samsung (SSNGY)** is reportedly in talks to lift its chipmaking prices by up to 20%, Bloomberg reported. **Robinhood (HOOD)** rallied after the founder of cryptocurrency exchange FTX purchased a 7.6% stake; said the shares "represent an attractive investment" and he has no activist intentions. **Peloton (PTON)** is said to be introducing a new rower at a Homecoming event, via The Verge. **Walgreens Boots Alliance (WBA)** bidders will reportedly get extra time to lodge final offers for Boots, according to reports. **Apple (AAPL)** is testing iPhones that ditch lightning in favour of USB-C. The US FDA said the CDC announced its investigation of **Abbott's (ABT)** Nutrition's Strugis facility is closed, with no additional cases identified. The US FAA told **Boeing (BA)** that certification documents for 787 Dreamliner are incomplete, but it is too early to say whether FAA concerns over Boeing 787 documentation will lead to further delays, according to Reuters sources. **Ryder (R)** confirmed receipt of unsolicited USD 86/shr cash indication from HG Vora and will review the offer. FDA approved **Eli-Lilly's (LLY)** novel, dual targeted treatment for type 2 diabetes.

EARNINGS: **Motorola Solutions (MSI)** beat on EPS and revenue. Q2 EPS view was light but reiterated FY22 outlook. Expects pricing actions, targeted cost reductions, and a favourable product mix to result in higher operating margins in H2. **Affirm (AFRM)** spiked higher as it beat on revenue, posted a shallower loss per share than expected, and raised guidance. Additionally, it announced an extension of its multi-year partnership with **Shopify (SHOP)** in the US. **Endeavor Group Holdings (EDR)** rallied after Q1 metrics topped expectations and it raised guidance. **Toast (TOST)** was bid after revenue beat Wall St. forecasts, as well as raising its FY revenue guidance, as more restaurants adopt Toast's technology. **Duolingo (DUOL)** surged after surpassing the consensus on the top and bottom line alongside active users numbers reaching an ATH. Looking ahead, its Q2 and FY22 revenue view is strong. **Figs (FIGS)** tumbled after it missed estimates with its latest quarterly results and issued weaker than expected FY guidance.

WEEKLY FX WRAP

Risk rather than rates the overriding driver

USD - Carnage in crypto currencies that saw Bitcoin bite the dust, Ether almost evaporate, Tether on the verge of losing its rag and stablecoin defy definition, says a lot about the general state of sentiment and extent of aversion that largely dictated direction. From a mainstream standpoint, the Buck was a major beneficiary and only lost out to the Yen until US Treasuries reverted to bear-steepening from bull-flattening ahead of the weekend and provided the DXY with another source of encouragement to extend gains just beyond 105.000, at 105.010 compared to Wednesday's 103.370 low. Oddly, or perversely the index was at its worst w-t-d level when the dust settled on a CPI report that was softer than the previous month, but not as cool as forecast to leave markets in a quandary over the peak passed or yet to come conundrum. Nevertheless, Fed officials almost all fell in line with the back-to-back 50 bp hikes at the next two FOMC meetings guidance outlined by chair Powell, including arch-hawk Bullard, although Mester said 75 bp is not off the table and could be considered in H2 if inflation is still misbehaving. On the flip-side, Bostic said two or three more tightening moves may suffice before a pause to assess the economic situation, but Greenback strength came from safe-haven demand amidst heighted concerns about global growth, energy supplies and contagion from China's Covid-related slowdown.

JPY - As noted above, Friday's rebound in UST and other global bond yields against the backdrop of nuch improvied risk sentiment that included crude benchmarks, undermined the Yen to an extent, especially as the BoJ continued its JGB buying operations to preserve YCC and Governor Kuroda reiterated that the Bank must maintain monetary easing, adding that it is appropriate to retain current dovish forward guidance on rates. Hence, Usd/Jpy bounced towards 129.50 within a wide 131.35-127.52 range and may thwart bears that were gaining conviction from technical if not fundamental perspective after the headline pair closed below a Fib retracement level (128.64 representing 61.8% of the rally from 126.97 to 131.35).

AUD/CAD/NZD/NOK/SEK - At the opposite end of the G10 spectrum, on the final trading session of the week at least, high beta, activity and commodity-backed types all grasped the chance to claw back heavy losses, with the Aussie testing 0.6900 between 0.6830-0.7078 extremes and Aud/Nzd cross nearer the top of a 1.1061-1.0984 band. Aud/Usd also drew impetus from a recovery of sorts in the Yuan prompted by verbal intervention from China's Banking and Insurance Regulatory Commission, while the Loonie latched onto a virtual round trip in WTI from Usd 98.20/brl weekly trough to Usd 110+ and less than 50 cents away from Monday's peak. Usd/Cad shaved the 10 DMA having retreated through 1.1 bn option expiries at 1.3000-1.2990 before the NY cut to hover just under 1.2950 having been down to 1.2893 and up to 1.3076 during the course of the week, and following hawkish rhetoric from BoC Depeuty Governor Gravelle, signalling upward revisions to inflation expectations and remarking that the 1% key interest rate is too stimulative. Back down under, the Kiwi is above 0.6250 after holding in the low 0.6200 area, but well off a 0.6400+ apex, irrespective of rises in NZ inflation projections that will underpin 50 bp RBNZ tightening prospects. In similar vein, further Riksbank and Norges Bank policy normalisation is anticipated on the back of above consensus Swedish and Norwegian inflation metrics, a spike in 1 year CPIF money market expectations and hawkish rhetoric from Governor Ingves in response.

EUR/GBP/CHF - The Euro failed to derive much traction from the growing chorus of ECB members flagging an end to APP by Q3 and a July hike with one or two more likely to follow in 2022, as the fears of Russia-Ukraine conflict contagion and damage caused by imposing a ban on Russian oil and gas as part of a sixth sanction package posed a bigger threat. So, Eur/Usd remains heavy on the 1.0400 handle within 1.0592-1.0351 bounds alongside Eur/Gbp and Eur /Chf hugging bases of 0.8494-0.8619 and 1.0364-1.0515 respective bands, even though the Pound and Franc both succumbed to the reign of King Dollar. Indeed, Cable cratered to 1.2156 from 1.2406 at one stage and Usd/Chf flirted with 1.0050 having been down to 0.9873.

EM - Prior to the aforementioned words of warning on Cnh and Cny weakness from the CBRIC, the Renminbi seemed set for a further run on support levels amidst more PBoC and Chinese promises of support measures to prop up the economy. Meanwhile, physical intervention supplemented monetary tightening for the likes of the Czk, Hkd and Inr, with the former in particular need of sustenance given that the Czech President picked Michl as next CNB chief based on his dovish track record. On that note, the Try could not glean much from stronger than anticipated Turkish ip as the CBRT cut its RRR for finance firms to zero percent for a short period, in stark contrast to the Mxn that was cushioned by a hawkish Banxico hike and the Myr that got a degree of protection via the BNM lifting all key rates 25bp or Thb from hawkish guidance by the BoT, Huf and Brl from NBH and BCB minutes.

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