



## US Market Wrap

### 16th May 2022: Stocks choppy and Treasuries supported on mounting growth concerns

- **SNAPSHOT:** Equities down/flat, Treasuries up, Crude up, Dollar down.
- **REAR VIEW:** Fed's Williams notes number one issue is inflation; Poor Chinese activity data; Shanghai starting to reopen gradually; Sixth round of EU sanctions on Russia still hitting stumbling blocks; Turkish PM Erdogan will not approve Sweden & Finland joining NATO; BoE's Bailey not happy with inflation outlook; NY Fed manufacturing headline disappoints; JBLU launches new SAVE offer; Musk notes viable TWTR deal at a lower price is "not of of question".
- **COMING UP: Data:** UK Unemployment, EZ GDP (Flash, Estimate), US Retail Sales, Industrial Production, Business Inventories **Speakers:** Fed's Powell, Bullard, Harker, Mester, Evans, Kashkari; ECB's Lagarde **Supply:** UK & Germany **Earnings:** Imperial Brands, Vodafone; Daimler Truck.
- **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

It was a choppy session to start the week. Nonetheless, stocks closed predominantly lower across the board with underperformance in the tech-heavy Nasdaq 100 while the DJIA closed marginally green - Value (IVE) also closed green while Growth (IVW) was red. The majority of sectors were lower, led by losses in Consumer Discretionary, Technology and Real Estate, defensives were green, including Health Care, Consumer Staples, and Utilities, while Energy was the outperformer as it tracked crude prices higher. Crude prices surged throughout the afternoon on prospects of reopening in Shanghai, which helped offset some of the demand fears in wake of the April activity data in China. The disappointing China data supported Treasuries throughout the session on worrying growth signs, which added more fuel to the fire after Goldman Sachs cut their US growth forecasts over the weekend, which was only further buoyed by a weak NY Fed Manufacturing survey. The downside in yields weighed on the Dollar while some of the upside in the Euro was seen in wake of commentary from ECB's Villeroy who reiterated he expects a decisive June meeting followed by action in July, but he also warned a weak Euro could threaten their inflation goal. Fed's Williams spoke where he mainly reiterated Powell and himself in expecting 50bps rate hikes at the next couple of meetings while nothing he said suggested a change of view towards the normalisation process in wake of the April CPI report. Attention on Tuesday turns to US retail sales, a plethora of Fed speak from namely Chair Powell speaking to the WSJ, as well as Bullard, Harker, Kashkari, Mester, followed by Evans after-hours. Moreover, marking the unofficial end of earnings season, Walmart (WMT) and Home Depot (HD) report their latest quarterly figures.

## US

**FED: Williams (voter)** reiterated he sees 50bps hikes for the upcoming meetings, noting inflation remains high and persistent and the goal is to bring the economy back into balance. He also said he is not seeing signs of market dysfunction within the Treasury market which also suggests he is not seeing any reasons to dial back on normalisation. His remarks follow the April CPI data last week, which saw a hotter than expected M/M core print, but the headline figures and Core Y/Y eased from the prior month, albeit not as much as hoped. However, nothing was said in his remarks that this has changed his views on the normalisation process. Moreover, analysts have suggested several ways the Fed could inject some dovishness while still taking action to manage inflation in the short term as they normalise monetary policy. Firstly, the Fed could attempt to dial back some of the hawkishness if required by firmly pushing back on a 75bps move, something which has been implied by the Fed Chair and Board of Governors, although some hawks like Mester have refused to completely rule it out. Secondly, the Fed could also start to imply a lower neutral rate, perhaps aided by the argument that the balance sheet reduction will be the equivalent of 25bps worth of tightening over a year. Lastly, they could also imply a rate hike "pause", something only Bostic has spoken of recently, where they would



put rate hikes on hold after the 50bps hikes to assess the economy before acting, although many expect the Fed will hike by 50bps for the next 2-3 meetings, and then move to 25bps increments. For a full summary of the NY Fed President's remarks on Monday, [please click here](#).

**NY FED MANUFACTURING:** The headline Empire Fed manufacturing survey disappointed expectations in May, falling from +24.6 to -11.6, missing expectations of 17.0. The New Orders component plunged to -8.8 (prev. 25.1). Prices Paid pared back to 73.7 from 86.4. The Employment sub index rose to 140 from 7.3. Six-Month Business Conditions rose to 18.0 from 15.2. "The Empire State index has been even more erratic than usual in recent months but the unexpected leap in April never looked sustainable; the only question was the size of the correction," wrote Pantheon Macroeconomics. "In the event this steep drop reversed the entire March increase, so the index is back to its post-Covid low." The indices were mixed, but PM concludes that it is all consistent with soft activity numbers, while warning that the supply-chain readings had the potential to worsen in the months ahead as disruptions from China begin filtering through. This was the first regional data for May that came through, which analysts often use to begin shaping expectations of how the broader ISM Manufacturing report will look in the month (the May ISM report is released on June 1st). However, Pantheon Macroeconomics tells us that the NY Fed's gauge of manufacturing is not a reliable indicator of the ISM index -- on average, the ISM manufacturing data has been weaker than the NY Fed components in the last year; "That's probably because the ISM sample includes the China-facing west coast of the US," Pantheon says, "so the gap is likely to widen as the full impact of China's zero-Covid policy emerges in the data."

## GLOBAL

**GEOPOLITICS:** The main updates to start the week surrounded NATO rhetoric, where Sweden confirmed its application to join the alliance, a day after Finland confirmed it also wanted membership. However, for this to happen it needs full NATO agreement, and Turkish President Erdogan stated Turkey will not approve Sweden and Finland joining NATO. Erdogan added the delegations should not bother coming to Turkey to convince Turkey to approve their NATO bids, after announcing diplomats would go to address Ankara's objections. Elsewhere, Russian President Putin said the Collective Security Treaty Organization (CSTO) will sign a joint declaration on cooperation in military and defense, and the expansion of international coordination. Moreover, the members will conduct joint military exercises soon. Note, CSTO currently has six members — Russia, Armenia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan. Furthermore, Putin added there is no threat to Russia from the Nordic states joining, but new military infrastructure on their territory would provoke a response. On sanctions, Hungary said it has not received any serious new proposal from the EU on Russian sanctions since the Commission President's recent visit to Hungary. Later, EU's Borrell added no agreement yet on the sixth package of sanctions against Russia as difficulties remain regarding the required unanimity on the proposed oil ban.

**CHINA DATA:** China activity data for the month was soured by the impact of Beijing's zero COVID policy which dragged activity to the worst levels since the pandemic began. The data showed industrial output falling to a rate of -2.9% Y/Y in April (exp. 0.4%, prev. 5.0%), while retail sales for the month printed -11.1% Y/Y (exp. -6.1%, prev. -3.5%). "The April data were even weaker than expected and are consistent with a sharp contraction in economic activity," Capital Economics said, "provided that the virus situation continues to improve, the economy should begin to rebound this month, but the recovery is likely to be tepid."

## FIXED INCOME

### T-NOTE FUTURES (M2) SETTLED 16 TICKS HIGHER AT 119-21+

**Treasuries were bid throughout the session on growth concerns with outperformance in the belly ahead of a plethora of Fed speak alongside US retail sales on Tuesday.** At settlement, 2s -2.5bps at 2.572%, 3s -4.7bps at 2.747%, 5s -6.6bps at 2.820%, 7s -6.5bps at 2.882%, 10s -5.3bps at 2.880%, 20s -1.4bps at 3.312%, 30s -0.1bps at 3.091%. 5yr TIPS -14.2bps at -0.223%, 10yr TIPS -5.2bps at 0.184%, 30yr TIPS +3.1bps at 0.600%. 5yr BEI -2.2bps at 3.055%, 10yr BEI -5.5bps at 2.729%, 30yr BEI -2.6bps at 2.516%.

**THE DAY:** Treasuries returned from the weekend in the green after abysmal China activity data which saw a miss on industrial production and retail sales. The data emphasised the ongoing global growth concerns after Goldman Sachs cut their US growth forecasts over the weekend to reflect Fed tightening. However, the downside in China's activity is primarily due to their zero-COVID policy, which looks set to ease somewhat in the coming weeks and will hopefully ease some of the global growth concerns. Treasuries saw some selling pressure in the European morning as it tracked EZ debt lower in wake of commentary from ECB's Villeroy who reiterated he expects a decisive June meeting and an active summer meeting, but also acknowledged an overly weak Euro could threaten the inflation goal. Nonetheless, as US players arrived the bidding returned in a choppy equity environment to see T-notes hit a high 119-27+ from the overnight lows of 119-01+. The upside picked up steam in wake of a dismal NY Fed manufacturing survey although prices paid



and employment saw improvements. Analysts at IFR note that new buy programmes took prices to highs after resistance levels in yields were broken while foreign speculative/day traders sold into the European close as they closed up for the day while dealers in the US capped the bid and sold across the curve. Treasuries were off highs heading into settlement which coincided with an afternoon rally in energy prices. Fed's Williams was the only Fed speaker on Monday, ahead of the plethora of speakers on Tuesday, including Powell. The NY Fed President largely reiterated Powell his remarks showing he has not had any change of tone regarding the Fed's normalisation process where he still sees 50bps rate hikes at the upcoming meetings and that MBS sales are not under consideration right now, but it could be an option in the future.

## STIRS

- EDM2 +0.5bps at 98.175, U2 +1.0bps at 97.385, Z2 +1.0bps at 96.910, H3 +2.0bps at 96.775, M3 +4.5bps at 96.730, U3 +5.5bps at 96.820, Z3 +7.0bps at 96.910, H4 +8.0bps at 96.990, M4 +10.0bps at 97.055, U4 +11.0bps at 97.080, Z4 +11.5bps at 97.090, Z5 +11.0bps at 97.115.
- US sold USD 52bln 3-mth bills at 1.050%, B/C 2.82x: sold USD 48bln in 6-mth bills at 1.490%, B/C 3.09x.
- NY Fed RRP op demand at USD 1.833tln across 92 bidders (prev. USD 1.865tln across 86 bidders).

## CRUDE

**WTI (N2) SETTLED USD 3.19 HIGHER AT 111.82/BBL; BRENT (N2) SETTLED USD 2.69 HIGHER AT 114.24/BBL**

Crude prices trended higher throughout the session primarily on the back of optimism out of China regarding its zero-COVID policy, although a softer Dollar was also supportive. However, overnight price action was not all smooth sailing after the latest China activity data heavily missed expectations which saw crude prices hit session lows. However, the COVID news saw prices turn away from the lows before marching upwards throughout the US session to see WTI futures (Jul22) hit a high of USD 112.47/bbl and Brent hit a high of USD 114.79/bbl. Within the industrial output data, it was noted that China processed 11% less crude in April, and daily throughput was the lowest since March 2020, therefore as parts of China start to reopen, these figures will likely see a strong rebound. Meanwhile, talk of a Russian oil embargo is still ongoing in Europe, but Hungary remain against it and the Bloc was not able to agree to a sixth round of sanctions. Commentary from OPEC officials saw Saudi Arabia state they are going to get to 13.2-13.4mln BPD, subject to what is done in the divided zone, by end-2026/start-2027, adding they can maintain production when if the market demands this. Bahrain noted they will continue with monthly output increases until September while Iraq aims to increase oil production to 6mln BPD by the end of 2027. Looking ahead, the private inventory report due Tuesday night is expected to show crude stocks -1.5mln, gasoline -1.3mln and distillates -0.8mln.

## EQUITIES

**CLOSES:** SPX -0.34% at 4,010, NDX -1.16% at 12,243, DJIA +0.08% at 32,223, RUT -0.31% at 1,784.

**SECTORS:** Consumer Discretionary -2.12%, Technology -0.91%, Real Estate -0.8%, Financials -0.78%, Communication Services -0.59%, Materials -0.19%, Industrials -0.17%, Utilities +0.33%, Consumer Staples +0.45%, Health +0.69%, Energy +2.62%.

**EUROPEAN CLOSES:** Euro Stoxx 50 -0.49% at 3,685; FTSE 100 +0.65% at 7,466; DAX -0.45% at 13,964; CAC 40 -0.23% at 6,347; IBEX 35 +0.19% at 8,353; FTSE MIB -0.06% at 24,033; SMI +0.33% at 11,688.

**STOCK SPECIFICS:** Elon Musk said **Twitter (TWTR)** accused him of violating an NDA by revealing that the sample size for checks on automated users was 100. Musk added that he was yet to see evidence that Twitter less than 5% of its accounts are fake, and that there was some chance it might even be over 90% of DAUs. Musk later said a viable Twitter deal is "not out of question" at a lower price. **JetBlue (JBLU)** is to offer USD 30/shr for **Spirit Airlines (SAVE)** but is prepared to pay USD 33/shr if Spirit provides JetBlue with the requested data, according to WSJ sources. **SAVE** to review the unsolicited tender offer from JBLU and will devise a formal position within ten days. **Boeing (BA)** customer China Southern removed the MAX from its plans through 2024 due to delivery uncertainty of the jet. **McDonald's (MCD)** expects to record a charge of USD 1.2-1.4bln to write off its net investments in Russia; will retain trademarks, after announcing it is to exit Russia. **Tesla (TSLA)** delayed plans to restore Shanghai output to pre-lockdown levels. TSLA had intended to raise output in Shanghai to 2,600/day this week, but will this week stick to a rate of 1,200/day; now aims to raise output from May 23rd. **Carvana (CVNA)** forecasted significant core earnings for 2023, as the Co. announced plans to cut spending on advertising, expansion and other areas to offset waning demand. **Wedbush** upgraded **Netflix (NFLX)** to "Outperform" from "Neutral;" said the staggered release of shows like "Ozark" and "Stranger Things" will help reduce churn and that it believes Netflix is once again positioned to grow. **Carlyle (CG)** to acquire **ManTech International (MANT)**, with a deal valued around USD 4.2bln or USD 96/shr. **Diamondback Energy (FANG)** is to



acquire publicly held units of **Rattler Midstream (RTL)**. **Morgan Stanley (MS)** Infrastructure Partners is reportedly in talks to buy **WideOpenWest (WOW)**, according to Bloomberg. **Verizon (VZ)** is to increase prices for consumers and business customers, following a similar move by **AT&T (T)**. **Apple (AAPL)** partnered with podcast hosting platforms for subscriptions, however, **Spotify (SPOT)** was not on the list of partners for Apple products. **Xerox (XRX)** was awarded a USD 164mln contract by USDA to streamline practices and increase innovation. Byju is reportedly eyeing a US acquisition and is looking at either **Chegg (CHGG)** or **2U (TWO)**.

## FX WRAP

**The Dollar** was lower to start the week, and seemingly lost some momentum following NY Fed manufacturing data, where the headline printed a surprise fall. Nonetheless, the Buck was in a contained range on Monday, 104.640-104.130, although Fed's Williams did speak but offered little new. On this, there was nothing in his remarks to suggest that this has changed his views on the normalisation process, and he reiterated he sees 50bps hikes for the upcoming meetings, noting inflation remains high and persistent and the goal is to bring the economy back into balance. Looking ahead, there is a slew of Fed speakers on Tuesday, namely Chair Powell speaking to the WSJ, as well as Bullard, Harker, Kashkari, Mester, followed by Evans after-hours. Moreover, there is US retail sales for April and marking the unofficial end of earnings season, Walmart (WMT) and Home Depot (HD) report.

**EUR** was firmer, but within tight ranges, as the cross hit lows of 1.0390 and a high of 1.0442. Remarks from ECB's Villeroy supported EZ yields, where he reiterated he expects a decisive June meeting and an active summer meeting, noting the pace of further steps will account for actual activity/inflation data with some optionality and gradualism; but, should at least move towards the neutral rate. Villeroy added ECB will carefully monitor developments in the effective FX rate, as a significant driver of imported inflation. Meanwhile, ECB's de Cos said the central bank will likely decide at the next meeting to end its stimulus programme in July and raise rates very soon after that, while he added that they are not seeing second-round effects but it is something they are monitoring. The latest EC economic forecast saw GDP forecasts cut and inflation projections lifted. Nonetheless, analysts add EUR/USD remains at risk of hitting 19-year lows, 1.0332, and dropping to parity if Tuesday's US retail sales, industrial production and NAHB reports, along with Powell's speech, reinforce the Fed's tightening plans.

**Safe havens** JPY and CHF were flat. However, the Swissy did see losses for the majority of the session against the Buck, but managed to pull them back in the tail end of the session as the DXY printed fresh lows. Nonetheless, for the Franc IMM specs raised short bets last week and Swiss sight deposits show SNB remaining on the sidelines, and as such USD/CHF rose above 1.0050 at one stage, to print a new YTD high of 1.0064. Regarding the Yen, USD/JPY was capped by bouts of risk aversion which came after earlier gains were wiped out as Chinese activity data triggered cautiousness in the region. Highlighting the rebound, USD/JPY saw highs of 128.71, beneath the pivotal 129.00, after earlier lows of 129.63 as US Treasury yields rebounded. In terms of scheduled events, Yen watchers will be awaiting Q1 GDP on Tuesday night/Wednesday morning.

**Activity currencies**, AUD, CAD, GBP, and NZD, were firmer against the Buck, noticing similar gains, as in the final few hours of NY trade gains picked up against the falling Greenback. Aussie hit a high of 0.6982, having fallen to lows of 0.6873, on the back of the worrying Chinese economic reports, where Y/Y retail sales and industrial output missed. Attention now turns to RBA minutes overnight following the Aussies gains in late NY trade. NZD was also supported like the Aussie while Westpac announced they now expect three more 50bp rate hikes from the RBNZ. The Loonie saw gradual gains throughout the NY afternoon due to the recovery seen in the crude complex as WTI and Brent noticed gains in excess of 2.50 /bbl. Additionally, Canadian data was strong, highlighted by housing starts, manufacturing sales, and wholesale trade all topping expectations. Cable traded between 1.2329-1.2218 parameters, with the key risk event for the Pound the BoE testimony, although little new was said to alter the dial. Although, BoE Governor Bailey stated he is not happy about the inflation outlook and it is a bad situation to be in, and hawk Saunders stressed his preference for getting to somewhere more neutral fairly fast. Moving to Tuesday, on the calendar focus may reside around UK average earnings and unemployment rate.

**SCANDIS**, NOK and SEK, initially traded on risk aversion, relative EUR strength, a pull-back in Brent, and a narrower trade surplus, but as the Buck lost momentum in the NY afternoon the respective currencies came off the lows to pare losses. Meanwhile, attention for SEK looks ahead to a speech from Riksbank's Ohlsson on monetary policy on Tuesday, while Swedish PM Andersson today announced it has formally decided to apply for NATO membership, although whether this comes to fruition or not is yet to be seen with opposition from Turkey.

**EMFX** was mixed. BRL, MXN, and RUB saw gains, whilst TRY saw losses, CNH/CNY and ZAR were flat. For the Real, BCB director Serra said we signal rate hikes for the next meeting, and after that, time will tell, as well as noting maintaining high interest rates for a longer period, instead of increasing and then decreasing, is good when it is possible to do so. Moreover, Economy Minister Guedes stated the government will look to reduce payroll taxes. Elsewhere, for



the ZAR, Eskom stated because of a further loss of generating capacity, loadshedding will increase to Stage Four between 17:00-22:00 on Monday. Looking ahead, it is the SARB rate decision on Thursday where they are likely to lift rates by a 50bps increment, taking its Repo Rate to 4.75%, as it looks to manage the impact of higher inflation and potential second round effects.

**CNH:** April activity data out of China was weak and missed expectations; Industrial output and retail sales tumbled while the unemployment rate picked up. However, China's stats bureau spokesman said economic operations are expected to improve in May and that China is steadily pushing forward production resumption in COVID-hit areas. Shanghai started to gradually reopen businesses on Monday following weeks of a strict lockdown and a Shanghai city official stated 15 out of the 16 districts in Shanghai achieved zero-COVID outside quarantine areas and the city's epidemic is under control. The official did add that risks of a rebound remain and they will need to continue to stick to controls. Elsewhere, the PBoC conducted a CNY 100bIn in 1-year MLF with the rate kept unchanged at 2.85% and stated the MLF and Reverse Repo aim to keep liquidity reasonably ample.

## Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited ("Newsquawk") on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.