US Market Wrap

18th May 2022: Spoos records worst day since June 2020 while Treasuries and Buck soar

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar up.
- **REAR VIEW**: Harker inline with peers as expects 50bps in next meetings; Mixed housing data, starts fell short of expected while permits beat; Poor retailer reports led by TGT; AMZN cutting back hiring targets due to high costs and slowing growth; Surprise crude EIA draw; Flurry of Treasury block sales and average 20yr auction.
- **COMING UP**: **Data**: Japanese Trade Balance, US IJC, Philadelphia Fed, New Zealand Trade Balance **Events**: ECB Minutes, SARB Policy Announcement **Speakers**: Fed's Kashkari, ECB's de Guindos **Supply**: Spain, France **Earnings**: Generali; Richemont.
- **WEEKLY US EARNINGS ESTIMATES**: [THURS] AMAT; [FRI] DE. To download the full report, please click here.

MARKET WRAP

It was very risk-off on Wednesday with stocks slaughtered as major indices closed lower by 3.5-5% and the VIX rising above 30 while the Nasdaq underperformed as Tech and Consumer Discretionary took a beating after the worrying Target (TGT) earnings report, only adding to the woes seen after Walmart (WMT). Target's (TGT) EPS missed due to rising costs and saw the co. cut its operating margin guidance for the year. Note, after the closing bell Cisco (CSCO) posted an awful report where it cut guidance. Treasuries bull steepened in haven fashion to reverse the flow-driven sales in the NY pre-market while the latest 20yr auction was ok against recent averages, but the prior auction saw much more demand. The Dollar and Yen were also supported on haven flows, while EUR, EM's, Scandis and activity currencies took a hit. Crude prices tumbled in fitting with risk sentiment and a stronger Dollar, while the latest EIA inventory report saw a surprise crude draw, but it was not enough to fight off the pressures from the macro-environment despite an initial knee jerk reaction higher in crude. Meanwhile, Fed speak saw Evans and Harker both mention two more 50bps hikes before reverting to a more measured approach of 25bps, which appears to be the consensus among the Fed currently. US Housing data was mixed, building permits fell slightly less than expected while housing starts fell by more than expected.

GLOBAL

FED: **Evans (2023 voter)** said the Fed should hike rates to a 2.25%-2.50% neutral range expeditiously and he favours front-loaded interest rate hikes. After front-loading rate hikes, he is hopeful the Fed can shift to a more measured pace to give time to monitor supply chains and evaluate the impact of tighter policy. Moreover, he suggested the short-term neutral rate may be higher than the long-run rate and he expects they will have to go beyond neutral, where he would then look for a point where he is comfortable sitting and assessing the impact of restrictive rates. The Chicago Fed Chair is optimistic inflation will be 3% or lower over 2023. Evans foresees that by July or September, they will be talking about transitioning to 25bps hikes and expects any 50bps hikes from the Fed would be completed by December and they would have put in place at least a few hikes of 25bps. He sees a 50bp move at the next meeting, and probably one more thereafter. He is confident the Fed can manage inflation lower, but he is less confident about gas prices, which might take more restrictive policy to bring those down. **Harker (2023 voter)** expects 50 bps rate hikes in June and July, and after that he anticipates a sequence of 'measured' rate hikes until we are confident inflation is moving toward 2%. Moreover, Harker sees 3% US GDP growth this year with the job market tight through 2022. On inflation, said it is a scourge, and an urgent problem while elevated energy prices could be with us for a while.

US HOUSING STARTS/BUILDING PERMITS: Housing starts declined 0.2% in April to 1.724mln from 1.728mln in March, which was revised lower from 1.793mln, and also below expectations of 1.765mln. Building permits declined 3.2% M/M to 1.819mln from 1.879mln, above expectations of 1.812mln. Analysts at ING highlight that recent data in the US points to a rebound in Q2 but the medium term outlook is tougher due to higher borrowing costs as the Fed hike rates. Meanwhile, on housing, the desk adds that it is looking more vulnerable with a possible price correction which would result in weaker consumer confidence, but would help with falling inflation and thus help the Fed move to a more neutral position.

GEOPOLITICS: Russia Deputy PM stated Russia will restore all 'freed' territories in Ukraine and this decision has been made, but the amount of necessary funds is still being estimated, according to Russian press Ria. Meanwhile, Russian

Economy Minister Reshetnikov said it is impossible to isolate Russia from abroad, we have withstood the first hit of sanctions. On NATO, Turkish President Erdogan's Advisor held calls with Sweden and Finland counterparts regarding NATO membership and said progress is only possible if Turkey's expectations are met. Furthermore, US National Security Adviser Sullivan is confident Finland and Sweden will have effective NATO accession rights, and the US is talking with Turkey to facilitate this process. Regarding talks, in fitting with Tuesday's rhetoric, the Russian Kremlin said there is no movement in peace talks with Ukraine and Ukraine is showing a total lack of will to continue. Finally, regarding ground movements, a Senior US Defense Official noted Russia is reducing the scale of its Ukrainian war objectives, and Russia's defence ministry said that 959 Ukrainian fighters from the Mariupol steelworks have been taken to Russian-controlled territory since Monday.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 18+ TICKS HIGHER AT 119-14

Treasuries bull-flattened as stocks tumbled, reversing the flow-driven sales in the NY pre-market; 20yr bond auction was ok when compared averages, but not as strong as the prior.

THE DAY: T-Notes dipped to 118-20+ in late Tuesday trade at the Tokyo handover, after extending weakness post-Powell, before a mild paring lasted through into the NY handover (barring a slight dip in early London trade) to resistance at 118-31. There was a dip just before US players started arriving, something which coincided with a flurry of block sales across the 5yr and 10yr futures. IFR commented, "The series of block sales in 5k lots of 30k FVM2 (or DV01 $1.4mn) and 20k TYM2 (or DV01 $1.45mn) was linked to a large overseas bond fund shedding duration".

NEW YORK: The selling saw cash 10s and 30s rise briefly above 3.00% and 3.20%, while T-Notes made session lows of 118-16 before stabilising amid the soft US April housing starts and building permits data (adding to the NAHB index tumble on Tuesday). There was a healthy roster of corporate issuance building up in the morning, but given several of the deals were expected to swap, the duration impact was net neutral. A poor open for NY stocks (consumer concerns at the forefront after Target's inflation-troubled report) saw the bid for govvies pick-up and ultimately extend comfortably above 119-00, while the USD 17bln 20yr bond auction didn't stop the curve bull-flattening either, but the bidding came to a halt and T-notes settled just off the 119-17 highs

AUCTION: The 20yr auction was slightly better than average, but not as strong as the prior 20yr auction. The high yield stopped through by 0.2bps at 3.290% although it was less than the six auction average of a 0.4bps stop through, and nowhere near the prior 3.0bps stop through. The Bid-to-Cover was somewhat disappointing in comparison to the prior 2.8x and average 2.56x. Meanwhile, the takedown was mixed seeing weaker than average direct demand, but indirect bidders were strong enough to take up the leftover demand from the Direct bidders, leaving the dealers with a smaller take down than the average. Although, when compared to the prior auction, there was not as much appetite this time around for either directs or indirects.

AHEAD: Thursday sees the Phlliy Fed mfg. survey, jobless claims, and existing home sales on the US data front, while Fed's Kashkari (2023 voter) is due to speak (again). Rates traders also have attention on the 10yr TIPS auction, in addition to the 2s, 5s, and 7s auction announcements for next week.

STIRS:

- EDM2 +0.5bps at 98.178, U2 +1.0bps at 97.325, Z2 +2.0bps at 96.810, H3 +3.0bps at 96.650, M3 +4.0bps at 96.595, U3 +4.0bps at 96.685, Z3 +4.0bps at 96.780, H4 +4.0bps at 96.870, M4 +4.0bps at 96.930, U4 +4.0bps at 96.960, Z4 +5.0bps at 96.985, Z5 +6.5bps at 97.080.
- US sold USD 30bln of 119-day CMBs at 1.250% (prev. 1.160%), covered 3.05x; sold USD 39bln of 1yr bills at 2.100% (prev. 1.870%), covered 3.12x.
- NY Fed RRP op demand at USD 1.973tln across 91 bidders (prev. USD 1.877tln across 90 bidders).

CRUDE

WTI (N2) SETTLED USD 2.59 LOWER AT 107.04/BBL; BRENT (N2) SETTLED USD 2.52 LOWER AT 109.11/BBL

Crude complex saw gradual downside throughout the NY session and settled just off lows, as WTI and Brent were impacted by the general risk-averse sentiment amid the rising Dollar. As such, WTI and Brent hit lows of USD 106.72/bbl and 108.61/bbl, respectively. Regarding the day, weekly EIA data saw a surprise draw in crude, which reciprocated the private inventories Tuesday night, whilst gasoline was a larger draw than expected. Moreover, refining utilisation rose to 1.8% (exp. 0.6%, prev. 1.6%) and crude production marginally upticked to 11.9mln from 11.8mln. In the wake up of the data oil moved slightly later, but soon later continued on its trajectory lower. Elsewhere, the Russian economy minister sees Russian oil output down 9.3% to 475.3mln tonnes in 2022. Further, in commentary, Pioneer Resources (PXD) expects oil prices at USD 100/bbl plus for several years.

NATGAS: Finland's Gasum stated it expects natural gas imports from Russia could end this week. Note, Gasum Oy said Tuesday that it won't switch to Rouble payments required by Gazprom Export of Russia, and would take its long-term contract into arbitration. On prices, Pioneer (PXD) stated it sees natgas reaching USD 10/mmcf.

EQUITIES

CLOSES: SPX -4.03% at 3,924, NDX -5.06% at 11,928, DJIA -3.57% at 31,490, RUT -3.53% at 1,775.

SECTORS: Consumer Discretionary -6.6%, Consumer Staples -6.38%, Technology -4.74%, Industrials -3.75%, Communication Services -3.41%, Materials -3.17%, Real Estate -2.95%, Financials -2.8%, Energy -2.75%, Health -2.6%, Utilities -1.03%.

EUROPEAN CLOSES: Euro Stoxx 50 -1.36% at 3,690; FTSE 100 -1.07% at 7,438; DAX -1.26% at 14,007; CAC 40 -1.20% at 6,352; IBEX 35 +0.01% at 8,476; FTSE MIB -0.89% at 24,085; SMI -1.35% at 11,572.

STOCK SPECIFICS: Leaked email shows **Amazon's (AMZN)** retail business is cutting back hiring targets this year as growth slows and costs rise, according to Business Insider. "One team is expected to reduce its hiring target by 7% this year, a person familiar with the matter said." Nikkei reported overnight that Chinese phone makers, **Xiaomi (XIACY)**, Vivo and Oppo, told suppliers to scale back orders for the coming quarters by around 20% amid lockdown and inflation woes. **Netflix (NFLX)** cancellations reportedly have risen among long-standing subscribers, according to The Information. **Tesla (TSLA)** has begun to offer its new Giga Texas-built Model Y to some customers as an option to accelerate delivery, according to Electrek. Separately, US NHTSA opened a special crash probe into the Tesla crash that killed three people. **Texas Instruments (TXN)** announced it breaks ground on new 300mm semiconductor wafer fabrication plants in Sherman, Texas. **Salesforce (CRM)** is slowing hiring and putting a hold on recruiting for some open roles to control expenses, according to Business Insider. **Disney (DIS)** CFO still expects 'strong' H2 22 Disney+ subscribers. BofA downgraded **Carrier Global (CARR)** to "Neutral" from "Buy"; said it is now more bearish on the residential HVAC market and CARR has the highest relative exposure of its peers to that market. **Warby Parker (WRBY)** fell after Goldman downgraded the stock to 'Neutral' from 'Buy'; cited a longer path to growth, as the Co. reported lower-than-expected quarterly earnings earlier this week.

EARNINGS: **Target (TGT)** plummeted 25% after a miss on EPS and weak guidance. Co. sees FY operating income margin rate "in a range centered around 6%" (prev. "8% or higher"). Looking into the bottom-line miss, higher costs seemingly ate into TGT EPS print. Note, revenue and comp store sales beat. **Analog Devices (ADI)** beat on EPS and revenue, while Q3 guidance topped expectations. ADI said it was able to increase output despite supply chain challenges, with demand remaining strong. **Lowe's (LOW)** posted a poor report, where it missed on revenue and SSS also fell short. Additionally, FY23 EPS and revenue view were also light. **TJX (TJX)** was firmer despite posting a mixed report, where it beat on bottom line but missed on top line. Looking ahead, FY EPS view was in line while Q2 outlook fell short. **Doximity (DOCS)** was softer after lowering guidance for the next Q. In the prior Q, DOCS beat on EPS and revenue and announced a USD 70mln share buyback.

FX WRAP

The Dollar was bid on Wednesday and the DXY saw a high of 103.87 as a function of haven demand as risk assets sold off while Treasuries and Yen were bid. It was the usual suspects behind the risk off move, hawkish central banks, inflation concerns (exacerbated by a profit warning from Target (TGT) earnings) and global growth concerns. S&P Global was the latest to cut its US GDP forecast by 80bps to 2.4%. Meanwhile, Fed's Evans spoke where he also called for front loaded rate hikes to reach the 2.25-2.50% neutral range expeditiously, adding the Fed may need to take rates somewhat above neutral to return inflation to target. On data, US Housing Starts was beneath expectations but Building permits were above.

Euro sold off with risk to see EUR/USD fall beneath 1.0500 to lows of 1.0467 while there was also commentary from ECB's Muller who reiterated he would not be surprised if rates above above zero in 2022 and clarified that gradual hikes mean 25bp increments, something which he supports in July. Meanwhile, Rehn stated the June forecasts are seen near the adverse scenario forecasts from March. No ECB speakers today mentioned a 50bps move after the commentary from Uber-hawk Knot on Tuesday.

Havens were somewhat mixed but JPY and Gold were bid supported by the risk off trade. The Yen tested 128.00 to the downside which was also supported by the moves lower in US yields. The cross failed to breach below 128.00 however after finding an intraday low of 128.02 from earlier highs of 129.53. Note, overnight Q1 Japan GDP was less bad than feared, contracting 1%, less than the 1.8% contraction expected, although the prior was revised down to 3.8% from 4.6%. XAU hit a high of USD 1824/oz but it was within a tight range from lows of USD 1,807/oz as the risk off attraction of the yellow metal was offset by the rise in the Dollar. CHF was the outlier, and was softer against the rising dollar but it did see strong gains against the Euro to see EURCHF hit a low of 1.0332 from highs of 1.0495. SNB's Jordan also spoke who reiterated the SNB is ready to intervene in FX when necessary, and that inflation is the largest global challenge and noted the CHF is a safe haven while negative rates and currency interventions are required for them to meet their mandate, but they are ready to act if inflation strengthens. Jordan expects Swiss inflation to temporarily rise above target, but then to reduce quickly.

Activity currencies were lower from the rising buck and as equity markets tumbled. Cable almost gave up its Tuesday gains, as did AUD and NZD. The antipodeans saw similar downside, although overnight AUD saw some selling pressures in wake of the Australian Wage Price Index, which came in at 0.7%, a touch beneath the 0.8% expectation. ANZ Bank recently noted that a 40bps RBA hike in June will likely be discussed but stated that WPI of +1.0% would be needed to trigger a 40bps move. Canada and UK saw inflation reports, where the UK CPI rose to 9.0% from 7.0% Y/Y in April, but it was a touch beneath the 9.1% expectation, but core CPI Y/Y was in line with expectations. Canada CPI was hot, rising above expectations for both Y/Y and M/M for both the core metrics and headline, while the average of the BoC measures rose to 4.23% from 3.77%, moving further away from the Central Bank's 2% target. USDCAD failed to find a sustained break of 1.28, seeing a low of 1.2796 before the cross returned to highs throughout the session with falling oil prices and poor equity performance.

The Scandis were weaker although SEK outbid NOK. Nonetheless, SEK was weaker against the Dollar and Euro on the risk off tone in markets, while NOK was also hit by the collapse in Brent prices to see it underperform its Scandinavian peer.

EM's were weaker in general on risk sentiment as the broader macro environment continues to dominate price action in FX as opposed to idiosyncratic events. Nonetheless, ZAR was weaker despite the marginal rise in gold prices although South Africa retail sales disappointed expectations while CPI was in line with expectations. MXN was weaker but Banxico's Borja was constructive on the economy, noting it has reactivated during Q1 and indicators show it could continue in this direction, and added Fed tightening, geopolitical uncertainty and China lockdowns imply the Banxico should consider a "robust" approach with its policy decisions. CLP saw similar losses to the MXN, although its latest GDP data disappointed. TRY found some reprieve from the drop in oil prices. BRL was also softer on the macro environment while BCB's Serra commentary did little to influence price action, but Serra did state if they need to hike a bit more due to rising global rates, the BCB is capable of doing so, adding getting inflation back to target should be a long process and the end of the hiking cycle is still dependent upon data.