# US Market Wrap

## 19th May 2022: Risk fluctuates after Wednesday bloodbath while Dollar dives

- **SNAPSHOT**: Equities down, Treasuries up, Crude up, Dollar down
- **REAR VIEW**: Shanghai gradually eases restrictions again; US initial jobless claims rise, Philly Fed survey heavily disappoints, Existing home sales decline; Poor retail earnings, TWTR say Musk deal is proceeding as expected; China in talks with Russia for oil purchases; Fed's George notes Fed might not need to do as much if consumption changes; ECB Minutes in line with commentary; SARB hikes 50bps in 4-1 decision.
- **COMING UP**: **Data**: Japanese CPI, UK Retail Sales, EZ Consumer Confidence (Flash) **Events**: PBoC LPR; S&P reviewing South Africa **Speakers**: ECB's Lane & BoE's Pill **Earnings**: Deere.

## MARKET WRAP

Stocks were lower in choppy conditions Thursday with a mid-session push into the black ultimately failing to sustain. European trade saw a nasty tumble in the major indices, although that was accompanied by a bid for bonds, more evidence of returning hedging properties (negative correlation) that have been absent for a while but appear to be returning this week. The US data didn't make much of a dent on stocks despite the Philly Fed survey tumble and the spike higher in initial jobless claims, with stock futures already making a recovery from their London lows. The NY session saw indices flirt on either side of flat, but ultimately dipping lower into the close. In sectors, Staples, Tech, and Industrials led losses, while Materials outperformed with firmer metals prices, followed by Health and Discretionary. Treasuries bull-steepened after long-end yields rose off lows as stocks recovered while Fed's George (voter) kept the front-end propped after keeping her dovish options open. The Dollar was decimated to see DXY fall sub 103 as activity, EM and haven currencies all rose. Oil prices were firmer but choppy, gyrating to the whims of the broader risk tone, while reports that China is in talks with Russia for oil purchases were in focus.

## US

**FED**: **George (2022 voter)** spoke for the first time since the May FOMC, who stated she does not know where the neutral rate is as it is just an estimate and the rate will depend on the effects of policy and where inflation is. She is comfortable with 50bps hikes and she would need to see something "very different" to support larger hikes. George added it is too soon to pinpoint how high rates will need to rise, where if consumption changes, for example, she said the Fed may not need to go as far. On the stock market, George noted it is an important price signal and it's not surprising to see volatility, saying it is not to be dismissed as a sign of tighter financial conditions. On consumers, George said Households have been in pretty good shape, but people seem to be feeling the trade-offs now with higher prices.

**JOBLESS CLAIMS**: Initial jobless claims rose to 218k from 197k and printed above the expected 200k. Continued claims fell to 1.317mln (prev. 1.342mln) and marginally beneath the expected 1.32mln. Looking into the report, Pantheon Macroeconomics note, 'the increase in jobless claims is strange; out of the blue, unadjusted claims rose 6.9% week-to-week; claims usually fall in the second week of May, so the seasonally adjusted reading rose.' Nonetheless, looking ahead the consultancy adds, trends in claims do not move that fast, so they expect a correction next week, but cannot rule out the chances that some firms have reacted to the soaring energy prices by laying off staff, albeit in quite small numbers.

**PHILLY FED**: Philly Fed headline index disappointed expectations and fell to 2.6, from 17.6, way beneath the consensus 16.0. Looking at the subcomponents, new orders rose to 22.1 (prev. 17.8) as did shipments 35.3 (prev. 19.1). Meanwhile, employment fell to 25.5 (prev. 41.4), but prices paid remained elevated but fell to 78.9 (prev. 84.6). Moreover, for the second straight month capex fell, to 9.6 (prev. 19.9), which analysts at Pantheon Macroeconomics suggest may just be a temporary reaction to the rise in energy prices, but if it is maintained and replicated throughout the country, it would send a clear signal of a potential softening in capex. The survey notes, 'responses suggest continued overall expansion for the manufacturing sector. Although the indicator for current activity fell, the new orders and shipments indexes rose. The firms continued to indicate overall increases in employment and widespread increases in prices paid and received.' Looking ahead, the report adds 'survey's future indexes suggest muted optimism for growth over the next six months.' Comparing to the NY Fed, both printed mixed reports and missed on the headline, with the notable difference being new orders and employment, as in the NY Fed Survey the New Orders dipped into negative territory and while employment rose, which was the opposite of Philly Fed. Looking ahead, the Philly Fed pointed towards limited optimism as the 6month index fell, whilst the NY Fed highlighted potential optimism ahead. However, it is worth remembering analysts note the NY Fed's gauge of manufacturing is not a reliable indicator of the National ISM index, but nonetheless the headline of both surveys was appalling.

**EXISTING HOME SALES**: Existing home sales declined for the third consecutive month by 2.4% to 5.61mln from 5.75 mln, beneath the expected 5.65mln. Meanwhile, with slower demand, the inventory of unsold existing homes climbed to 1.03 million by the end of April, or the equivalent of 2.2 months worth of supply from a prior 1.9mths, the highest since November last year. The National Association of Realtors Chief Economist noted that the higher home prices and much higher mortgage rates have reduced buyer activity and suggests more declines are imminent in the upcoming months. The chief economist added "we'll likely return to the pre-pandemic home sales activity after the remarkable surge over the past two years." Analysts at Pantheon Macroeconomics also expect sales will likely fall beneath the pre-COVID trend of 5mln by June.

## GLOBAL

**ECB MINUTES REVIEW:** The account of the ECB's April meeting was always likely to be deemed as stale by the market given how far the narrative surrounding the Bank has evolved since with a July 1st conclusion for APP and July 21st deposit hike very much the consensus. In terms of the content of the minutes, concerns were voiced over the inflationary outlook whereby it was noted that "there were increasing signs that the current high inflation was becoming entrenched in expectations, with a number of indicators of longer-term inflation expectations at least starting to become unanchored from the ECB's inflation target". Accordingly, some members viewed it as important to act without undue delay in order to demonstrate the Governing Council's determination to achieve price stability in the medium term. In terms of specific policy actions, it was noted that if the upside risks to the inflation outlook were confirmed in the June Eurosystem staff macroeconomic projections, the Governing Council would face the question of whether continuing net purchases beyond June could still be seen as proportionate. From a rates perspective, some members viewed the higher-than-expected inflation figure in March and inflation expectations moving above the 2% target as requiring an adjustment of the monetary policy stance towards a neutral position sooner rather than later. As such, an increase in interest rates was touted as a possibility shortly after the conclusion of APP. In terms of the pace of hikes, it was recalled that the expected path of the nominal key ECB interest rates would approach a neutral level only at a very late stage of the policy normalisation process. From a growth perspective, it was underlined that, overall, the incoming data suggested that the Ukraine war would slow the recovery but not derail it, unless a less likely "tail" scenario materialised.

**RUSSIA/UKRAINE**: NATO remains the focal point, and Secretary General Stoltenberg said they are expressing the concerns that Turkey has expressed regarding Finland and Sweden's accession to NATO. Reminder, Turkey has pushed back against their effort to join NATO due to alleged terror groups being active within the Scandi nations. Furthermore, Finnish President Niinisto stated he is open to discussing concerns with Turkey and they will continue in the coming days. Note, to join NATO it requires a unanimous decision of all 30 members. Moving to the ground, the Kremlin stated Russia will demilitarise regions near Donbas and forces will take all of Donetsk and Luhansk regions, while Russia added if it is to open access to Ukrainian ports in response to UN appeal, the removal of sanctions on Russia would also need to be looked at. Additionally, Chief of Russian General Staff held a phone call with his US counterpart, but no further details are known. Continuing from the US, it is actively working to secure supplies to Ukraine of long-range anti-ship missiles to help defeat Russia's Black Sea blockade, according to US officials cited by Reuters.

**GEOPOLITICS**: US Congress is considering a plan to provide several billion dollars of financial support to Taiwan so the island can procure weapons, according to Nikkei sources. Within this, the arms could include anti-ship missiles and surface-to-air missiles to target Chinese warships and fighter jets, while drones to collect information might also be included. Meanwhile, there were several reports regarding potential meetings, firstly, White House is working towards the first Presidential meeting with Saudi Arabia, which could happen as soon as next month. Elsewhere, China is to send a special envoy to Brussels next week in bid to salvage souring ties with EU, according to the SCMP. On the meeting, the visit will follow last month's virtual summit where Beijing's stance on Ukraine and alleged coercion of Lithuania emerged as major sources of tension, while Brussels remains concerned about human rights, particularly in Xinjiang and Hong Kong, and recently moved to enhance ties with Japan and Taiwan. Meanwhile, Satellite photos reportedly suggest China is training to attack Japan's aircraft, according to Nikkei.

## FIXED INCOME

**T-NOTE (M2) FUTURES SETTLE 8+ TICKS HIGHER AT 119-22+ Treasuries bull-steepened after long-end yields rose off lows in NY trade as stocks recovered while Fed's George leant dovish**. 2s -4.3bps at 2.624%, 3s -5.2bps at 2.786%, 5s -3.9bps at 2.852%, 7s -3.6bps at 2.879%, 10s -3.1bps at 2.853%, 20s -0.4bps at 3.252%, 30s -0.8bps at 3.063%. 5yr BEI -8.5bps at 2.983%, 10yr BEI -8.7bps at 2.673%, 30yr BEI -10.7bps at 2.438%.

**TOKYO/LONDON**: T-Notes hit APAC peaks of 119-20 in the Tokyo morning, before selling gradually to 119-06 at lunchtime, a level which would mark session lows. Strong bidding developed across the curve for govvies at the London handover as stocks took a dive. T-Notes swiftly surpassed their earlier peaks to hit resistance at 119-30+ at the NY handover. Note that the block seller was seemingly back in the market again in the London morning Thursday, with 25k worth of 5k clips in the 5yr future again for a combined DV01 of USD 1.175mln, Citi noted. But, given the velocity of price action that flow was gobbled, rather than Wednesday where it made a mark.

**NEW YORK**: Treasuries hovered beneath highs before the abysmal Philly Fed survey and spike in initial jobless claims let off another leg lower in yields. T-Notes hit resistance and session highs at 120-10 ahead of the NY stock open, aided by a chunky 8.1k block buy in the Ultra 10yr futures, but regardless of block activity, futures trading was robust with 1mln+ traded already before the opening bell. A recovery in the risk tone saw T-Notes pare from highs through the NY session, finding support at 119-24 in later trade, before dipping under into the futures settlement. Note that the front-end didn't pare as much, steepening the curve after Fed's George (2022 voter) who, to cherry-pick, toyed with the idea on CNBC of not hiking as much if consumption changes, whilst saying some "very different" would need to happen to support a larger than 50bps hike. While in TIPS, the USD 14bln 10yr reopening from the Treasury saw weak demand, tailing over 3bps.

**AHEAD**: Note that June Treasury options expire Friday, so position unwinding/rolling is likely bolstering trading activity, not to mention calendar future rolls ahead of First Intention day for June contracts on May 27th (T-Note roll 5% complete so far). A very quiet Friday from a US calendar perspective, although that clears the way for any concession into next week's auctions: USD 47bln of 2yr notes on May 24th, USD 48bln of 5yr notes on May 25th, and USD 42bln of 7yr notes on May 26th; all to settle on May 31st.

**STIRS:**

- Eurodollars were all bid with reds (2nd year of quarterlies) strongest as the front-end (1yr/2yr) flattened, whilst reds-outwards bull-steepened, similar to USTs.
- EDM2 +0.5bps at 98.185, U2 +3.5bps at 97.365, Z2 +4.0bps at 96.86, H3 +3.5bps at 96.695, M3 +4.5bps at 96.65, U3 +7.0bps at 96.76, Z3 +8.0bps at 96.865, H4 +8.5bps at 96.965, Z4 +7.0bps at 97.06, Z5 +2.5bps at 97.110.
- In options, July expiry ATM 97.375 calls stood out in high buying activity (volume over 55k on OI of 4k entering the session).
- US sold USD 38bln of 1-month bills at 0.640% (prev. 0.600%), covered 3.07x; sold USD 33bln of 2-month bills at 0.900% (prev. 0.750%), covered 2.90x.
- NY Fed RRP op demand at USD 1.981tln across 92 bidders, a new record (prev. USD 1.973tln across 91 bidders).

## CRUDE

**WTI (N2) SETTLES USD 2.85 HIGHER AT 109.89/BBL; BRENT (N2) SETTLES USD 2.93 HIGHER AT 112.04/BBL**

**Oil prices were firmer but choppy on Thursday, gyrating to the whims of the broader risk tone, while reports that China is in talks with Russia for oil purchases were also in focus**. WTI and Brent July futures hit highs of 108.55/bbl and 111.00/bbl in the Tokyo morning before the dip in risk assets. The selling was gradual but carried through all the way into the NY morning where lows were made for the pair at 103.24/bbl and 105.70/bbl. The recovery in stocks brought prices back above their APAC session highs into the futures settlement. Note that WTI June futures expire on Friday.

**RUSSIAN OIL**: Bloomberg reported that China is in talks with Russia to purchase oil for its strategic reserves, although talks are at a preliminary stage with details on terms and volume not decided yet. Meanwhile, Russian Deputy PM Novak was on wires Thursday saying he thinks Russian oil production could be raised by 200-300k BPD in June after some success in marketing barrels that would have previously gone to Europe or the US. Note that US Treasury Secretary Yellen said after her G7 meeting that no obvious strategy has emerged in discussions on Russian oil price caps, tariffs, and embargoes.

## EQUITIES

**CLOSES**: SPX -0.58% at 3,901, NDX -0.44% at 11,876, DJIA -0.75% at 31,253, RUT +0.08% at 1,776.

**SECTORS**: Consumer Staples -1.98%, Technology -1.07%, Industrials -0.94%, Financials -0.7%, Communication Services -0.58%, Energy -0.28%, Utilities -0.22%, Real Estate -0.2%, Consumer Discretionary +0.13%, Health Care +0.22%, Materials +0.68%

**EUROPEAN CLOSES**: Euro Stoxx 50 -1.36% at 3,640; FTSE 100 -1.82% at 7,302; DAX -0.90% at 13,882; CAC 40 -1.26% at 6,272; IBEX 35 -0.83% at 8,406; FTSE MIB -0.09% at 24,065; SMI -2.32% at 11,310.

**EARNINGS**: **Cisco (CSCO)** tumbled after a weak report highlighted by missing on revenue and weak Q4 guidance. CSCO also cut its FY outlook as it sees its sales hit by COVID lockdowns in China and the war in Ukraine. **Kohl's (KSS)** was choppy but eventually closed green. Looking into the report, KSS missed on EPS, comp sales posted a surprise decline and it cut its FY22 guidance as it noted a tough sales environment as well as higher costs. But, GM's and revenue saw slight beats. Elsewhere, KSS is losing two top executives, as it searches for a potential buyer amid activist pressure to sell the business. **Synopsys (SNPS)** rose after surpassing Wall St. expectations on top and bottom line as well revenue guidance topping consensus. **Bath & Body Works (BBWI)** EPS and revenue beat, but downside is attributed to guidance after lowering FY22 outlook as it decides to accelerate investments in IT alongside projected increases in inflationary pressures. **BJ's Wholesale Club (BJ)** surged following a strong report, where it beat on top and bottom line as well as comparable sales grew faster than expected.

**STOCK SPECIFICS**: **Twitter's (TWTR)** executives said its deal with Elon Musk is proceeding as expected and they will not renegotiate deal price, adding there is "no such thing" as the deal being on hold, according to Bloomberg. **Under Armour (UAA)** CEO Frisk is to step down, with Colin Browne appointed interim President and CEO. Board has initiated a search for a permanent successor. **Spirit Airlines' (SAVE)** board of directors urged holders to reject the **JetBlue (JBLU)** offer. As a reminder, JBLU launched a tender offer for Spirit of USD 30/shr, but prepared to pay USD 33/shr if Spirit provides JetBlue with requested data. **Harley-Davidson (HOG)** is to temporarily suspends all vehicle assembly and shipments for a two-week period on compliance concern. US bipartisan group of Senators, led by Republican Lee, introduced legislation aiming at conflicts of interest within advertising, via WSJ, and force **Google (GOOG)** to split is online-ad business. **TSMC (TSM)** said it has no concrete plans to build a chip plant in Singapore. **Apple (AAPL)** shows its headset to a board which signals it is at an advanced stage, according to Bloomberg. **Meta's (FB)** CEO Zuckerberg says WhatsApp is to offer cloud API for businesses. **Altria (MO)** reaffirmed its EPS guidance. **Exxon Mobil (XOM)** is to sell its Barnett Shale assets for USD 750mln. **Tesla (TSLA)** investor, Leo KoGuan, called on TSLA to buy back shares after it took a hit from CEO Musk's deal to buy Twitter (TWTR), according to Reuters.

## FX WRAP

**The Dollar** was decimated Thursday in a choppy risk environment after Wednesday's heavy risk-off tone. Treasuries continued their bid and the curve bull steepened with a dovish Fed's George keeping the front-end propped, offsetting any bullish Dollar tailwinds from long-end yields rising. The turnaround appears to be driven by a reversal in the Euro after Wednesday's tumble. The Euro returned to its early May up-trend as the ECB has started to strongly hint at a 25bp rate hike in July with talks of rates returning to above zero by year-end helping narrow some of the policy divergences between the Fed and ECB. Meanwhile, the Yen is benefitting from its haven demand as E-Mini S&P futures tested a bear market once again earlier on Thursday, albeit stocks are now off the lows and the Yen off peaks. Meanwhile, US data releases were rather grim with a rise in initial jobless claims and a dismal Philly Fed survey.

**The Euro** rallied against the buck but was flat against Sterling. EUR/USD rose to a high of 1.0607 as it attempted to hold above the round level after printing a low of 1.0462 in the early European morning. The latest ECB minutes added little new to the recent ECB commentary and just further cemented ECB language that if the upside risks to inflation were confirmed in the June projections, the ECB Council would face the question of whether continuing net purchases beyond June would still be appropriate. Meanwhile, on rates, some members viewed the higher-than-expected inflation figure in March and inflation expectations moving above the 2% target as requiring an adjustment of the monetary policy stance towards a neutral position sooner rather than later.

**HAVENS**: The Yen's recovery against the Dollar continued thanks to the weaker greenback and lower yields, with USD/JPY having started on the front foot seeing a low of 127.04 but now sits off lows and a relative underperformer to other currencies, particularly CHF. CHF was the outperformer in the choppy risk tone and particularly in wake of commentary from SNB Chair Jordan on Wednesday reiterating it is a safe haven currency, but also reiterated the SNB remains willing to intervene in FX as necessary, which may be required soon if the CHF strengthening continues. USD/CHF tested 0.9700 while EUR/CHF fell to lows of 1.0230 from highs of 1.0360. Gold prices were also bid, testing USD 1,850/oz to the upside at the highs before paring somewhat in the afternoon. Silver and palladium also saw pronounced gains.

**CNH**: Offshore Yuan and Onshore Yuan both appreciated on Thursday as the buck sold off while the further gradual easing of restrictions in Shanghai was also supportive. Shanghai is to gradually restore inter-district public transport from May 22nd and will require residents to show negative PCR tests taken within 48 hours before using public transport, while an economy official said Shanghai will reduce rents for small and medium-sized enterprises by more than CNY 10bln and the city extended CNY 72.3bln of loans to over 10,000 firms since March. Meanwhile, on supply chain woes, the Shanghai Vice Mayor said Shanghai port throughput recovered to around 90% of the levels a year ago and that Shanghai will expand work resumption in areas with no COVID risk in early June.

**Activity Currencies**, after being slammed on Wednesday, were revived on Thursday despite a mixed/choppy equity complex. The antipodeans saw similar gains with AUD/USD reclaiming 0.7050 from lows of 0.6953 while NZD/USD reclaimed 0.6400 from lows of 0.6292. The April Australian jobs report disappointed expectations, rising by 4k, beneath the expected 30k rise as part time employment tumbled, although full time employment saw a strong 92.4k gain. The unemployment rate was unchanged at 3.9%. After failing to successfully breach 1.2800 on Wednesday, the weak Dollar and rally in activity currencies, coupled with higher oil prices, USD/CAD fell to lows of 1.2784 from highs of 1.2893, albeit pared to c. 1.2800 at pixel time. GBP also saw an impressive rally to see Cable pop its head above 1.2500 from lows of 1.2339.

**Scandis** were bid against both the Dollar and the Euro while the NOK surged thanks to the gains in oil prices too. Meanwhile, Riksbank's Floden spoke, saying the Riksbank has not made a promise that it will be exactly 25bps at the next meeting and that it is urgent to hike rates one more or several times. He noted underlying inflation in April was broadly in line with the Central Bank's forecasts. He also said that the economy is still strong and they do not appear to be going into a recession.

**EMFX** was generally bid as a result of the Dollar decimation, but ZAR saw particular gains after the SARB rate decision which saw it hike by 50bps as expected to 4.75%, although one member opted for a 25bps hike in a 4-1 decision. Its forecasts saw CPI revised higher for 2022, 2023 and 2024, but Core CPI was revised lower in 2022, higher in 2023 and lower in 2024. Meanwhile, its growth forecasts for the year were also downgraded. However, on inflation, it warned higher diesel and coal costs may result in upward revisions to its electricity price forecast next year. LatAm FX was generally bid, with BRL, MXN, COP and CLP all firmer but CLP was the clear outperformer as copper prices rallied, meanwhile Chilean miner SQM noted they are already seeing strong lithium demand on China reopening. RUB also firmed, but not to the same extent as other EM's, with the CBR announcing banks may sell foreign currencies, apart from US Dollar and Euro, to Russian citizens without restrictions from May 20th. However, restrictions on sales of Dollars and Euros remain in place until September 9th.