



US Market Wrap

20th May 2022: Spooz fall for a 7th straight week into May's option expiry

- **SNAPSHOT:** Equities flat/down, Treasuries up, Crude up, Dollar up.
- **REAR VIEW:** Bullard said Fed can be cut rates in 2023 or 2024 if inflation controlled; Gazprom halting Finland gas deliveries from Sat morning; PBoC LPR cut; Hawkish ECB rhetoric; Shocking ROST report adds to retail troubles.
- **CENTRAL BANK WEEKLY:** Previewing FOMC Minutes, RBNZ, BoK, CBRT; Reviewing PBoC, ECB minutes, SARB. To download the report, [please click here](#).
- **WEEK AHEAD PREVIEW:** Highlights include FOMC minutes, PCE, Flash PMIs. To download the report, [please click here](#).
- **WEEKLY US EARNINGS ESTIMATES:** [TUES] NTES, INTU; [WED] NVDA; [THURS] MDT, BABA, COST. To download the full report, [please click here](#).

MARKET WRAP

Stocks had a turbulent session (SPX flat, NDX -0.3%, R2K -0.5%, DJIA flat) after the SPX returned towards the unchanged mark after a ramp into the close, aided by a chunky Market on Close buy-side imbalance. Stock futures had entered the NY morning on the front-foot, with the latest monetary easing in China aiding the risk-on tone. That unwound after the opening bell in NY, however, as losses accumulated (some point to May option expiries); retail concerns at the fore-front again after Ross Stores (ROST) earnings, despite some better reports from Foot-Locker (FL) and VF Corp (VFC). The selling extended past mid-day after the SPX troughed into technical bear market territory (down 20% from Jan 5th intra-day record highs), printing lows at 3810, before recovering into later trade on little obvious catalyst - short-covering into the weekend likely a factor. Cross asset, Treasuries were all bid (10yr -7bps on close) with the long-end leading as stocks tumbled. Oil prices were choppy but settled slightly firmer. DXY was modestly firmer, sitting just above 103 after printing earlier highs of 103.26; Euro was weaker against all major pairs, with growth concerns trumping hawkish ECB commentary. Fed's Bullard (voter) was on Fox News, reaffirming his 50bps base case and call for 3.5% Fed rate by year-end, although he did raise some eyebrows after saying the Fed could cut rates next year if inflation is under control.

GLOBAL

GEOPOLITICS: Sweden and Finland's NATO accession remained the key theme, with Turkish President Erdogan saying they will not approve terrorist organisations entering NATO, and as such will hold talks with Secretary-General Stoltenberg and Finland on Saturday. Moreover, US State Department added US remains confident that Turkey's concerns will be addressed and will be able to reach consensus on Sweden and Finland's accession. Looking at the other side, the Russian Defense Minister said military threats near Russia's Western borders are on the rise due to NATO and US actions, citing Sweden and Finland's NATO applications. Moving to the ground, the commander of Ukraine's Azov regiment said the evacuation of civilians and wounded soldiers from the Azovstal plant in Mariupol is complete, whilst Ukraine's military noted Russia has advanced in the areas of Lysychansk and Severodonetsk, in Luhansk, and has intensified its bombardment of the Donbas. Lastly, G7 finance ministers said they have mobilised USD 19.8bln of budget support for Ukraine, including USD 9.5bln of recent commitments.

FED: Bullard (2022 voter) spoke and had a mixed tone to some of his language as he said the Fed can be lowering rates in 2023 or 2024 if they get inflation under control after front-loading hikes. He reaffirmed his view for 50bps as a good plan for now and should try and get to 3.5% by year-end. Moreover, the St Louis President added market repricing is partly due to the Fed and partly due to prices before the downturn, and said the Fed have to get inflation under control and have a good plan to do so. Looking to the year ahead, Bullard does not see anything stopping getting unemployment below 3% by year-end and sees US growth between 2.5-3% this year, while he does not see a recession this year or next year and it is not his base case.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 13+ TICKS HIGHER AT 120-04



Treasuries were all bid with the long-end leading (2s30s -3bps) as stocks tumbled; 2s, 5s, and 7s auctions loom. T-Note Jun/Sep futures roll 10% complete. 2s -3.5bps at 2.577%, 3s -5.2bps at 2.725%, 5s -5.3bps at 2.796%, 7s -6.6bps at 2.811%, 10s -7.9bps at 2.776%, 20s -8.1bps at 3.171%, 30s -7.9bps at 2.986%.

BREAKEYEVENS: 5yr BEI -8.8bps at 2.891%, 10yr BEI -9.2bps at 2.583%, 30yr BEI -7.1bps at 2.366%.

THE DAY: T-Notes had been choppy and rangebound through APAC and Europe Friday as it appeared risk assets were set to close the week on a high, aided by the latest monetary stimulus out of Beijing. Session lows were made at 119-16 as US players arrived before better bidding emerged, although as stock futures had held gains ahead of the NYSE open, the bond bidding initially lacked momentum with two-way flows observed, particularly with the 5yr 5k block seller (suspected same participant) reentering the market again for the third morning in a row (30k's total worth across Friday). However, as stocks tumbled after the cash open (and May OpEx), T-Notes pushed above 120-00, and as the SPX entered technical bear-market territory session highs of 120-08+ were printed just after midday in NY (cash 10yr yield low of 2.77%), before hovering just beneath as stocks troughed into the futures settlement. Fed's Bullard was on Fox News in the afternoon but didn't say too much new (reaffirmed 50bps base case and call for 3.5% by year-end), although did raise some eyebrows after saying the Fed could potentially cut rates next year if inflation is under control; market reaction was limited.

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 bid on light volumes with reds and greens strongest; Bullard reaffirmed his 3.5% FF by year-end but also touted potential 2023 cuts.
- EDM2 +1.0bps at 98.195, U2 +2.5bps at 97.39, Z2 +2.0bps at 96.88, H3 +3.5bps at 96.735, M3 +6.5bps at 96.715, U3 +8.5bps at 96.845, Z3 +10.0bps at 96.965, H4 +10.0bps at 97.065, Z4 +9.0bps at 97.15, Z5 +7.0bps at 97.18.
- In options, more bullish exposure on whites seen with a block 20k EDU2 97.50/97.75 call spreads for 6.5, which adds to the 60k+ OI jump in EDN2 97.375 calls Thursday. Activity seen in upside mid-curve options too.
- NY Fed RRP op demand at USD 1.987tln across 89 bidders, a new record (prev. USD 1.981tln across 92 bidders).

CRUDE

WTI (N2) SETTLED USD 0.39 HIGHER AT 110.28/BBL, BRENT (N2) SETTLED USD 0.51 HIGHER AT 112.55/BBL

Oil prices were choppy on Friday but settled slightly firmer, on a day quiet for headline-driven energy newsflow. WTI and Brent traded in narrow ranges, highlighted by WTI and Brent July futures hitting highs of 111.04/bbl and 113.15/bbl, and lows of 108.13/bbl and 110.52/bbl, respectively. Note, WTI June futures expire Friday, so some final book squaring is likely present.

RUSSIA: Gazprom Export said it will defend its interests in arbitration proceedings with Finland's Gasum, according to Interfax; and confirmed it is halting gas deliveries to Finland from Saturday morning. Moreover, Russia's offline primary oil refining capacity revised up for May by 5.2% to 6.522mtn tons (vs 5.75mtn tons in April), according to Reuters sources.

NORWAY: Norway's prelim April oil production fell to 1.66mtn BPD (exp. 1.86mtn BPD, prev. 1.74mtn BPD in March) with gas production 9.8bln CU metres (prev. 10.4bln CU metres). On this, Citi notes the miss was more likely due to oil field maintenance work than any more serious intermediate-term issue. The decline may be a support for market sentiment, but it shouldn't be considered a bullish fundamental shock.

BAKER HUGHES: US Rig Count (w/e May 20th): Oil +13 at 576, Nat Gas +1 at 150, and Total +14 at 728.

OPEC+: There is some chatter US President Joe Biden may include a visit to Saudi Arabia during a possible visit to the Middle East. Citi notes, "this prospect may increase the odds Saudi Arabia boosts oil production, although we continue to view that as a long shot. The kingdom still seems unlikely to risk its OPEC+ alliance with Russia as a longer-term strategic partner."

EQUITIES



CLOSES: SPX +0.04% at 3,902, NDX -0.344% at 11,835, DJIA +0.02% at 31,260, RUT -0.46% at 1,774.

SECTORS: Consumer Discretionary -1.53%, Industrials -1.07%, Communication Services -0.23%, Materials -0.19%, Financials -0.12%, Technology +0.14%, Consumer Staples +0.26%, Utilities +0.28%, Energy +0.42%, Real Estate +1.19%, Health +1.26%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.45% at 3,657; FTSE 100 +1.19% at 7,389; DAX +0.72% at 13,981; CAC 40 +0.20% at 6,285; IBEX 35 +0.93% at 8,484; FTSE MIB +0.12% at 24,095; SMI +0.06% at 11,316.

EARNINGS: **Ross Stores (ROST)** tumbled following a poor report, as EPS and revenue missed alongside lowering its FY profit outlook. Co. said inflationary pressures have been exacerbated by the Ukraine conflict and that it is issuing conservative guidance due to uncertain macroeconomic conditions. **Palo Alto (PANW)** was firmer after beats on top and bottom line while next Q guidance was decent; both EPS and revenue view surpassed expectations. **Applied Materials (AMAT)** fell short on EPS and revenue alongside guidance being light. Exec said demand has never been stronger but remains constrained by ongoing supply chain issues. Shanghai lockdowns were hurting supply, and even now, some suppliers were operating at less than 50%. **Foot Locker (FL)** beat on EPS but marginally missed on revenue. SSS declined 1.9%, but less than analyst expectations. **Deckers Outdoor (DECK)** surged after beating on EPS and revenue. However, FY23 EPS view fell short of expectations but revenue view marginally topped. **VFC (VFC)** missed on top and bottom line, but strength was ascribed to raising its FY earnings forecast, based on expectations that there will be no additional COVID lockdowns that impact production and inflation will not worsen.

STOCK SPECIFICS: **DoorDash (DASH)** board authorised USD 400mln share buyback programme and said the move will offset dilution stemming from its employee stock compensation programme. BofA downgraded **Hewlett Packard Enterprise (HPE)** to 'Neutral' from a 'Buy' as it faces worsening supply chain issues. CD&R and TPG to offer to buy **Covetrus (CVET)** for USD 21/shr in cash. **Tesla (TSLA)** reportedly agreed to build a battery and electric vehicle factory in Indonesia, according to the country's head of investments cited in local press. German court banned **Ford (F)** from producing and selling cars unless it takes a mobile phone license, according to WiWo; injunction to take effect in two weeks. **3M (MMM)** ordered to pay USD 77.5mln to a veteran who claimed a defective earplug caused hearing damage, according to Reuters, seeing shares dip lower.

WEEKLY FX WRAP

Topsy-turvy trade and technically ominous for the Greenback

USD - The charts will show several bearish turning points for the Buck, including a breach of the 21 DMA most recently (103.325 today), but pinpointing a defining moment for a fundamental change in direction is less clear cut. US macro releases were somewhat mixed, as retail sales, ip and manufacturing sales all matched or bettered consensus in contrast to weekly jobless claims for this month's NFP report and business surveys from the NY and Philly Fed. So, the downfall depicted by the DXY's descent from 104.64 peak on Monday to 102.65 trough yesterday probably had just as much to do with a combination of long liquidation, profit taking and consolidation after specs bought a few more Dollars in the latest IMM accounting period, than anything else. However, the pendulum also swung in terms of safe-haven positioning when Wall Street took a drubbing on Wednesday and risk aversion resulted in Yen outperformance, the Franc regaining its allure and Gold securing a firmer foothold above Usd 1800/oz to subsequently breach the 200 DMA before a test of Usd 1850. Meanwhile, guidance from Fed officials left little residual doubt about the plan to continue with expeditious tightening via two more 50 bp hikes at the June and July FOMC meetings, but some alluded to a pause after that or return to 25 bp increments depending on inflation developments. In sum, nothing really new and Treasuries flitted between bull/bear-steepening or flattening in line with broad sentiment, though ultimately culminating in a softer 10 year yield towards the base of a 2.772-3.015% range, and less supportive for the Greenback from an outright and relative standpoint.

NZD - It's difficult to know where to start given such a lot of chop and churn, not to mention the fact that most major currencies benefited at the Buck's expense on balance, but the Kiwi has been lofty into the end of the week between 0.6416-0.6229 parameters awaiting the RBNZ for confirmation of an extension to the OCR tightening cycle - full preview of the policy event available in the Research Suite.

GBP - The Pound has not been able to emulate feats seen on Thursday and Tuesday when Cable topped 1.2500 and Eur/Gbp bottomed just under 0.8400, but remains on course to net gains vs the Dollar and Euro, as UK retail sales surpassed expectations to offset a minor CPI miss and compliment an all round stellar labour market report with particularly strong wages. On the flip-side, Sterling is still subject to further political fallout pending the full Gray findings and Brexit angst as the NI Protocol impasse with the EU persists.



AUD - Continuing the theme, election uncertainty appears to be weighing on the Aussie as latest polls suggest that the race will go down to the wire after Saturday's vote to see whether the current regime wins 4th term or Labor triumphs despite losing the bulk of its lead held since campaigning began. That aside, Aud/Usd retains a firm bid within 0.7073-0.6873 extremes with enough in May's jobs data to underpin RBA hike expectations for the coming month (via full time employment and the multi-year low unemployment rate), even if 40 bp is less likely following Q1 earnings coming in on the soft side (0.7% vs 1% used as a benchmark by some). To recap, minutes of May's meeting revealed that 15 bp and 40 bp were considered along with the 25 bp delivered, but the former discounted quite quickly.

JPY/CHF/EUR/CAD - As noted early on, the risk-off mood on global growth, inflation and geopolitical factors really favoured the Yen, but the Franc also came back to the fore as a refuge, regardless of BoJ and SNB persistence in pursuing ultra-accommodative policy stances, and President Jordan warning that it will continue to intervene. Conversely, members of the ECB's GC and minutes from last month's meeting underscore the likelihood that QE will be terminated at the start of July with a rate hike, probably 25 bp, just weeks away, while Knot shocked by implying half point may not be beyond the realms of possibility if incoming data shows price pressures accelerating further and becoming more widespread. On that note, forecast-topping Canadian inflation readings should cement a 50 bp hike by the BoC next time, especially when other economic indicators support additional tightening, like Monday's trio of housing starts, wholesale trade and manufacturing sales. Consequently, Usd/Jpy, Usd/Chf and Usd/Cad are all much closer to the lower end of 129.77-127.04, 1.0064-0.9695 and 1.2981-1.2777 respective bands, and Eur/Usd is nearer the pinnacle of its 1.0607-1.0390 boundaries.

SCANDI/EM - Volatile price action, and mostly downbeat vibes on Russia-Ukraine conflict and covid contagion effects have blighted the Nok, Sek and most EM currencies, with the notable exceptions of the Rub as Russia relaxes more capital controls and holds out for energy payments in Roubles, plus the Cnh/Cny that started the week under pressure before reversing course thereafter. To recap, Chinese data was bleak (retail sales and ip), but the authorities met with heads of tech firms amidst speculation that crackdowns on the sector may ease and the PBoC cut the 5 year LPR benchmark used as a reference for mortgages by 15 bp on Friday. Elsewhere, some traction for the Zar via Gold's performance and the SARB increasing rates by 50 bp with only one dovish dissent for 25 bp, in contrast to more toil for the Try as Turkish President Erdogan ended lots of toing and froing over applications to joining NATO put forward by Sweden and Finland with a rejection.

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