



US Market Wrap

23rd May 2022: Stocks rally in wake of China commentary, Fed speak, M&A activity; hawkish Lagarde supports Euro

- **SNAPSHOT:** Equities up, Treasuries down, Crude flat/up, Dollar down.
- **REAR VIEW:** Biden considers easing Trump-era tariffs, Biden sends mixed signals on Taiwan but White House says position has not changed; Lagarde talks of exiting NIRP by end of Q3; Bostic says Fed may need to go 'super hard' on rate hikes, but also may make sense to pause in September; Mixed China COVID reports; EU continues to struggle on implementing Russian oil embargo; Decent JPM outlook as raises NII guidance; AVGO in talks to acquire VMW.
- **COMING UP: Data:** EZ, UK & US Flash PMIs **Event:** US ISM Semi-annual Economic Forecast **Speakers:** Fed's Powell, George; ECB's Lagarde, Villeroy **Supply:** UK (I/L) & US.
- **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 started the week on the front foot in wake of commentary from US President Biden that he was looking at removing some Trump-era tariffs on China, although senior US officials are in disagreement about the idea. Financials outperformed after an encouraging outlook provided by JPM while the firmer yields also helped the sector. Energy and Tech also outperformed, while Consumer Discretionary, Health Care and Utilities 'underperformed', but still saw decent gains. Dovish Fed commentary had also been cited for the equity upside after the rate cut commentary from Bullard on Friday, although given he wants rates at 3.5% by year-end, any easing in 2023 or early 2024 would be from very tight levels. Meanwhile, Fed's Bostic on Monday once again spoke of a potential pause after a couple of 50bps hikes to assess how the economy is responding. However, so far, he is the only one on the FOMC to suggest such a pause with the broad consensus being for a return to 25bps hikes after two or three 50bps moves. The Fed/ECB policy divergence saw some more narrowing on Monday after ECB's Lagarde confirmed market expectations and suggested an exit of NIRP by the end of Q3, implying a 25bps hike in July and September. Treasuries bear-steepened as stocks recovered further and hawkish ECB speak saw transatlantic pressures which helped the Euro rally, weighing on the DXY while activity currencies enjoyed the tailwinds in equities and EM's were mixed. Oil prices were choppy throughout the session but ultimately settled flat/up. WTI and Brent saw highs of USD 111.96/bbl and 114.34/bbl, respectively, before paring throughout the afternoon on reports the stalemate on the Russian oil embargo has deepened, while the White House was also talking about heating oil reserve releases. M&A was rife, Broadcom (AVGO) is reportedly looking at purchasing VMWare (VMW) for USD 60bln or USD 140/shr according to the WSJ. Electronic Arts (EA) is reportedly looking to sell or merge. Parker-Hannifin (PH) has signed an agreement to divest its Aircraft Wheel and Brake Division to Kaman Corporation (KAMN). Take-Two (TTWO) successfully completed its acquisition of Zynga. Spirit Airlines (SAVE) is to discuss Board's decision to reject JetBlue (JBLU) offer but the Board continues to recommend shareholders vote for a merger with Frontier (ULCC).

FED

FED: Bostic (2024 voter) stated it may be the case that the Fed needs to go "super hard" on rate hikes, but did caveat that it is not the baseline and 25 or 50bps is on the table in September if inflation is too high, alongside reiterating he is comfortable with 50bps hikes at the next couple of meetings and he is open to moving more aggressively if inflation is higher. However, and as Bostic has previously touted, it may make sense to pause in September depending on the economy. Additionally, the Atlanta Fed President noted it is pretty clear that the economy can stand on its own feet and they have 'a little more to go' on raising interest rates in the coming months.

FOMC MINUTES PREVIEW: The minutes will help to gauge Committee members' thoughts on how far rate hikes will need to go, and their views of the neutral rate, which is generally seen somewhere between 2-3%, although many speakers have suggested it is hard to pinpoint the exact level as it is an estimate and will depend on how inflation reacts



to the ongoing normalisation and to what extent supply-side pressures ease. The FOMC has broadly pushed back on the idea of a 75bps rate hike, including some of the hawks. The Fed is expected to raise rates by 50bps for the next couple of meetings (although markets are pricing 50bps rate rises at the next three meetings), before returning to more measured 25bps increments, and traders will be looking to the minutes for more colour. Meanwhile, once rates have hit neutral and likely above, some participants—like the hawkish Bullard—have already started talking about potential rate cuts in 2023 or 2024; therefore, any views on this within the minutes will also be eyed (it is worth stressing that Bullard wants rates at 3.5% by year-end, so it would be easing from very tight conditions). With the balance sheet rundown commencing in June, with a three-month phase-in via caps of USD 60bln and USD 35bln for Treasuries and MBS, respectively, any discussion around the balance sheet caps will be eyed while the topic of MBS sales will also be key, although the FOMC has told us that these are not under consideration at the minute, but could be a possibility in the future. To download the full Newsquawk preview, [please click here](#).

GEOPOLITICS

RUSSIA/UKRAINE: Russian Deputy Foreign Minister said that Moscow will be prepared to return to discussions with Kyiv when Ukraine demonstrates a constructive response, according to Interfax. Meanwhile, the Kremlin added the notion of placing weapons in Ukraine will not enhance security and stability in Europe. Further, on the food situation, the Kremlin agreed with the UN that there is a risk of famine from disruptions in food supplies. Additionally, Russian ally Belarus' President Lukashenko told Russia's President Putin they are concerned by moves to dismember Ukraine. Lastly, from the other side, Ukraine President Zelenskiy stated the nation is gradually pushing out occupiers from its territories, whilst in an address to the WEF said the world cannot be ruled by "brute force" and reiterated his desire for maximum sanctions against Russia, including an oil embargo. Meanwhile, Zelenskiy said it is getting harder and harder to arrange a presidential meeting with Russian President Putin.

ASIA: US President Biden said he would be willing to use force to defend Taiwan, but the White House later stated the policy towards Taiwan has not changed. Following, and as expected, China's Foreign Ministry noted it deplores and rejects the US comments from Biden that they are willing to use force to defend Taiwan, and that the US should not defend Taiwan's independence. As such, China's Foreign Ministry added it will take firm actions to safeguard its sovereignty and interests. Meanwhile, the Taiwanese Foreign Ministry stated the government will keep on increasing its defence and deepen cooperation with nations including the US and Japan to safeguard safety. Elsewhere, Biden said he is considering removing some of the Trump tariffs on China. However, NYT reported that US officials are divided about what to do on the matter, as some argue, including Yellen, that the full suite of tariffs serve little purpose and could be partially lifted, although other officials, such as the USTR and labour groups, argue removing the tariffs would constitute unilateral disarmament as Beijing is yet to address the policies that prompted the tariffs in the first place.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 17+ TICKS LOWER AT 119-18+

Treasuries bear-steepened as stocks recovered further and hawkish ECB speak saw transatlantic pressures. T-Note June/Sep roll is over 15% complete ahead of May 27th First Intention Day. At settlement, 2s +4.8bps at 2.631%, 3s +6.6bps at 2.797%, 5s +7.7bps at 2.883%, 7s +8.3bps at 2.905%, 10s +7.9bps at 2.866%, 20s +8.6bps at 3.266%, 30s +7.8bps at 3.074%. 5yr TIPS +2.5bps at -0.049%, 10yr TIPS +2.9bps at 0.253%, 30yr TIPS +3.2bps at 0.698%, 5yr BEI +3.8bps at 2.940%, 10yr BEI -1.6bps at 2.579%, 30yr BEI +3.1bps at 2.409%.

TOKYO/LONDON: T-Notes moved lower gradually through the APAC session on Monday as stocks regained some composure. Interim lows of 119-21+ were made at the London handover where yields had begun paring from highs in wake of President Biden simultaneously touting a China sanction easing whilst also suggesting the US would defend Taiwan with force (stocks focused on the former). But the upside was capped in wake of ECB's Lagarde calling for an exit from NIRP by the end of Q3 (insinuating 25bps hikes in July and September). The selling in EGBs spilt across the pond.

NEW YORK: Trading was choppy as US players returned from the weekend before T-Notes found a spurt of upside momentum into the NY stock cash open, peaking at 120-02. The sustained strength for stock indices after the open saw better selling in Treasuries resume, although the front-end lagged the selling out the curve, steepening the curve. T-Notes broke beneath their APAC lows (119-21+) as Europe departed, going on to print session lows of 119-15+; cash 10yr yield peaked at 2.87%. There was continued pressure from EGBs after Bloomberg reported some ECB members believe Lagarde is behind the curve, while Villeroy was also on wires saying July and September hikes were done deals. Perhaps also some flow-driven pressure after the massive OTM T-Bond 124.00 put block in 19k went through.



Alternatively, there was a later buyer of over 10k Sep. T-Note 121 calls, and then a later 19.5k July 120.50/122.00 call spreads, providing a bullish offset towards the belly. Traders now look to Tuesday's Flash PMIs, New Home Sales, Richmond Fed survey, Powell remarks, and 2yr auction - otherwise Davos commentary looks set to flood newsflow.

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:

- US sold USD 51bln of 3-month bills at 1.060% (prev. 1.050%), covered 3.06x; sold USD 47bln of 6-month bills at 1.530% (prev. 1.490%), covered 3.07x.
- Eurodollars bear-steepened: EDM2 -0.5bps at 98.190, U2 -3.0bps at 97.360, Z2 -3.5bps at 96.840, H3 -5.0bps at 96.675, M3 -5.0bps at 96.655, U3 -6.0bps at 96.770, Z3 -7.5bps at 96.875, H4 -9.0bps at 96.965, M4 -9.5bps at 97.015, U4 -9.5bps at 97.040, Z4 -9.0bps at 97.050, Z5 -8.0bps at 97.085.
- In options, standout block of 26.5k EDU2 97.625 calls for 10, the calls saw OI rise by 22k to 58k on Friday.
- NY Fed RRP op demand at USD 2.045tln across 94 bidders, a new record (prev. USD 1.987tln across 89 bidders), while SOFR (as of Friday) fell again to 78bps from 79bps.

CRUDE

WTI (N2) SETTLED USD 0.01 HIGHER AT 110.29/BBL; BRENT (N2) SETTLED 0.87 HIGHER AT 113.42/BBL

Oil prices were choppy throughout the session but ultimately settled flat/up. WTI and Brent saw highs of USD 111.96 and 114.34/bbl, respectively, before paring throughout the afternoon on reports the stalemate on the Russian oil embargo has deepened, while the White House was also talking about heating oil reserve releases. This combined with a rally in equities and a fall in the USD resulted in choppy trading for the crude complex.

RUSSIAN BAN: The EU stalemate regarding the Russian oil embargo reportedly deepened as Hungary signalled that talks on an embargo could extend into June, according to Bloomberg sources. Meanwhile, German Economy Minister Habeck reiterated that he is hopeful that the EU will agree on a Russian oil embargo within days, and he added Germany wants to ban Russian oil, with or without Hungary, in fitting with commentary from the EU Parliament Vice President who said the remaining 26 EU member states should launch a Russian oil embargo without Hungary.

PRODUCTS: Reuters reported President Biden's admin is prepared to authorize a release from Northeast Home Heating Oil reserve if conditions deteriorate. The administration is monitoring diesel supply on the east coast and is preparing policy actions to mitigate supply challenges and noted the worrisome decline in diesel inventories in the Northeast in recent weeks. However, it has seen more indications that the diesel supply situation has stabilised and growth in diesel prices at the pump have moderated in recent days.

PRODUCTION: US President Biden reiterated he wants OPEC to raise oil production. Meanwhile, Saudi Arabia signalled it will stand by Russia as a member of OPEC+ amid mounting pressure from sanctions, according to FT. Elsewhere, Kazakhstan Energy Minister said the country is to produce 90-93mln T of oil in 2023, dependent on when the Tengiz expansion projects are completed, but the expansion may be delayed by a few months. As a reminder, it sees the first expansion completed by March 2023 and the second by November 2023 and as such Tengiz output is expected to rise to 1mln BOEPD from the current 850k BOEPD. Moreover, Kazakh energy minister sees no threat from Western sanctions to Kazakh oil transit through Russia.

NATGAS: Ukraine's gas operator said supplies to Donetsk and Luhansk regions are suspended after the main gas pipeline was damaged in Russian shelling.

EQUITIES

CLOSES: SPX +1.86% at 3,974, NDX +1.68% at 12,034, DJIA +1.98% at 31,880, RUT +1.41% at 1,793.

SECTORS: Financials +3.23%, Energy +2.68%, Technology +2.37%, Consumer Staples +2.1%, Materials +1.85%, Communication Services +1.81%, Industrials +1.63%, Real Estate +1.22%, Utilities +1.21%, Health +0.8%, Consumer Discretionary +0.64%.

EUROPEAN CLOSES: Euro Stoxx 50 +1.40% at 3,708; FTSE 100 +1.67% at 7,513; DAX +1.38% at 14,175; CAC 40 +1.17% at 6,358; IBEX 35 +1.67% at 8,625; FTSE MIB +0.17% at 24,136; SMI +1.63% at 11,493.



STOCK SPECIFICS: Electronic Arts (EA) is reportedly looking to sell or merge; recently pursued a merger with **NBCUniversal (CMCSA)** and also held potential acquisition talks with **Disney (DIS)**, **Apple (AAPL)**, and others. **Broadcom (AVGO)** is said to be in talks to acquire **VMware (VMW)**, with the two discussing a cash-and-stock deal which could happen as soon as this week and WSJ reports talks are for c. USD 60bln or USD 140/shr. **JPMorgan (JPM)** presented a more optimistic outlook at its investor conference day, as the Co. lifted its outlook for NII to USD 56bln (prev. USD 53bln) and affirmed a ROTCE target of 17%. However, JPM added FY23 expenses could be a little higher than USD 79.5bln due to inflation. Exec Pinto stated core banking fees are expected to be down 45% Y/Y in Q2 (weaker than exp.); and sees Q2 markets (equities + FICC) revenue rising 20% Y/Y (exp. -9% in equities and flat/down small in FICC). **Boeing's (BA)** Starliner spacecraft successfully docked with the ISS over the weekend, and if it returns to Earth successfully, the space taxi built for NASA could carry astronauts to orbit later this year. **Apple (AAPL)** told suppliers it wants to manufacture more in India and SE Asia as it looks to increase production outside of China, according to WSJ. **HP (HPQ)** was downgraded to "Neutral" from "Buy" at Citi, based on moderating demand for PCs in the near to mid-term. **Motorola Solutions (MSI)** was upgraded at Morgan Stanley to "Overweight" from "Equal-Weight," with a number of favourable trends in place including an increase in demand for video surveillance. Washington DC AG is suing Mark Zuckerberg for his role in **Facebook's (FB)** misleading privacy practices and failure to protect millions of users' data. **Intel (INTC)** CEO said the semiconductor supply/demand situation will not be in balance until 2024; still hopes to achieve MobileEye IPO this year. Gelsinger expects the consumer PC market to be flat in 2022.

FX WRAP

The Dollar tumbled on Monday in risk off fashion as equities rallied while Treasury yields also rose. There was little data to digest from the US to start the week ahead of GDP data, PCE prices and Fed Minutes. Fed speak on Monday centered around Fed's Bostic who, although has spoken a lot recently, added it may be the case the Fed needs to go "super hard" on rate hikes, but did caveat that it is not the base case. Bostic also noted it is pretty clear that the economy can stand on its own feet and they have 'a little more to go' raising interest rates in the coming months. The DXY saw lows of 102.04 from highs of 102.95, with a lot of the downside driven by the impressive gains in the **Euro**, which had been heading higher with the risk and Yuan price action overnight, although a further bid was seen in wake of ECB President Lagarde who said the ECB is likely in a position to exit negative rates by the end of Q3, implying a 25bps hike in July and September. EUR/USD hit a fresh monthly high of 1.0690 from lows of 1.0560 on Monday, and up from the monthly low of 1.0348.

The Yuan saw strength on both offshore and onshore currencies with gains supported by commentary from US President Biden that he is considering removing some of the Trump tariffs on China. However, NYT reported that US officials are divided about what to do on the matter, as some argue, including Yellen, that the full suite of tariffs serve little purpose and could be partially lifted, although other officials, such as the USTR and labour groups, argue removing the tariffs would constitute unilateral disarmament as Beijing is yet to address the policies that prompted the tariffs in the first place. Meanwhile, on Taiwan President Biden in a Q&A said "yes" he would be prepared to respond to defend Taiwan if it came under attack from China, however, the White House later issued a statement that their position has not changed with Taiwan.

The Yen was flat against the weaker dollar but softer against the Euro and Swissy. The overall weakness came amid a rally in equities while US Treasury yields also rose, narrowing the rate differential between Japan and US while the BoJ once again offered to buy an unlimited amount of JGBs at a fixed rate for 5-10yr maturities. **CHF** saw solid gains on Monday in wake of commentary from SNB's Maechler who said they will not hesitate to raise rates if inflation remains outside of its target, adding higher inflation abroad means a nominally stronger CHF could be tolerated without damaging the economy.

Activity currencies were firmer thanks to the weaker dollar and upside in equities with NZD the relative outperformer although NZD/USD failed to rise above 0.6500 as it topped out just shy at 0.6491 ahead of NZ retail sales. AUD rose above 0.7100 from lows of 0.7045 to highs of 0.7127 before paring to the round 0.71 level. GBP firmed against the buck on the general risk tone but it was not enough to beat the gains on the Euro in wake of Lagarde. BoE's Bailey spoke again on Monday who said the BoE is prepared to increase rates again if needed, and that policymakers can and must take the actions needed to return inflation to target over a period that avoids unnecessary volatility. CAD saw gains against the buck, but was an activity currency "underperformer" as the initial gains in oil prices fizzled out.

Scandis firmed against the Dollar and the Euro, although the gains in the Euro have limited its appreciation while NOK outperformed SEK on the rise in Brent crude prices as well as the risk environment.

EM's were mixed despite the weaker Dollar and risk move in stocks, **TRY** was weaker with added geopolitical risk premium. Turkish President Erdogan said it is to launch new military operations along its southern borders to create 30km deep safe zone while Turkey is still holding up Finland and Sweden's NATO membership. **ZAR** was already



boosted by S&P's SA ratings outlook upgrade with added assistance from Gold securing a grip of USD 1850/oz. **BRL** firmed and was an EM outperformer (ex RUB) in wake of several political updates, including source reports via Reuters that the Brazil government expects the Foreign trade chamber to approve a 10% cut of import tax on most products, while on the election, Former Sao Paulo Governor Joao Doria decided to drop out of the presidential race. **MXN** saw marginal weakness against the greenback while **RUB** saw solid strength. The CBR announced it is temporarily easing capital and liquidity requirements for some cos and non-state pension funds, it also cut the level of mandatory conversion of FX revenues for exports to 50% from 80%; adding such a move is possible as Rouble has stabilised and FX liquidity on domestic market has reached sufficient levels. Elsewhere, the Israeli Shekel **ILS** firmed after a larger hike than expected from the BoI, taking its key rate to 0.75% from 0.35%, vs an expected 0.60%.

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