



US Market Wrap

24th May 2022: Snap, PMIs, pop market recovery as US exceptionalism tested

- **SNAPSHOT:** Equities down, Treasuries up, Crude flat, Dollar down.
- **REAR VIEW:** US data all miss (new home sales, flash PMIs, Richmond Fed survey); SNAP hits FAANGs after it warns it will miss guidance; Hawkish ECB rhetoric against dovish Fed's Bostic; Chinese and Russian aircrafts enter South Korean airspace; Decent US 2yr auction; Mixed European Flash PMIs but UK particularly poor; Mixed retail reports from BBY, ANF & RL.
- **COMING UP: Data:** German GfK, US Durable Goods **Events:** RBNZ Policy Announcement, FOMC Minutes (May), ECB Financial Stability Review **Speakers:** ECB's Lagarde, Lane, Panetta; Fed's Brainard; RBA's Ellis; Saudi's Abdulaziz **Supply:** Germany & US **Earnings:** Marks & Spencer & NVIDIA.

MARKET WRAP

Stocks were sold (SPX -0.8%, NDX -2.2%, R2K -1.3%, DJIA +0.2%) with tech leading the losses after Snapchat's macro outlook, but closed well off lows seen at the open. The fact that participants focused on the somewhat isolated business model of Snapchat rather than the strong consumer commentary from BofA and JPM is reflective of the way the market is programmed right now. As JPM's strats noted, this is not a market for nuance, bearish catalysts remain in the driving seat. Either way, data disappointed globally with the dip in US Flash PMIs adding to the woes across the pond - that was made worse by the abysmal Richmond Fed (May ISMs are not looking good) and then the dip in April new home sales. That short and painful slew of releases saw US yields tumble (10yr -10bps at 2.76%, off its low of 2.72%), and with it, the overextended Dollar (DXY hit lows of 101.64). In quite the occasion, it was the Euro that out-hawked after Holzmann was the latest official to publicly warm to 50bps hikes. There is also some dovish overhang at the Fed given Bostic's repeated desires for a pause in hikes once at neutral, the poor data only adds weight to dovish outlooks too. US exceptionalism believers had a reality check today. Brainard is due to speak Wednesday, let's see where she lies now that she's passed the Senate.

US

NEW HOME SALES: US New Home sales missed expectations, printing 591k from a revised down 709k, beneath the 750k estimate, falling 16% M/M. Analysts at Pantheon Macroeconomics are surprised by the timing as they expected a drop to 600k in May, which suggests to them that those who previously applied for mortgages are now choosing not to proceed with a purchase. The consultancy notes the drop in sales follows the downward trend in mortgage applications in the face of soaring mortgage rates. PM adds that demand for mortgages is yet to bottom so it is likely that sales will fall even further throughout the summer. On inventory, that rose to 9mths worth from 6.9mths in March, which is higher than the 2.1mths seen for existing home inventories. Pantheon write "Homebuilders have sought to capitalise on the shortage of existing homes by adding inventory and raising prices, which are up about 20% over the past year. But this strategy is unsustainable as demand falls sharply and inventory of existing homes rises". The desk expects the rate of price increases to slow sharply and that home sales will keep falling.

US FLASH PMIs: Flash PMIs missed across the board, with Services falling to 53.5 (exp. 55.2, prev. 55.6) and Manufacturing printed 57.5 (prev. 59.2) beneath the expected 57.5. Composite declined to 53.8 from 56.0. Looking into the details, the report notes, "the early survey data for May indicate that the recent economic growth spurt has lost further momentum. Growth has slowed since peaking in March, most notably in the service sector, as pent up demand following the reopening of the economy after the Omicron wave shows signs of waning." On demand, "companies report that demand is coming under pressure from concerns over the cost of living, higher interest rates and a broader economic slowdown." Looking at manufacturers in particular, the report states, "capacity continues to be constrained by supply shortages, though these bottlenecks showed further encouraging signs of easing". Nonetheless, S&P concludes, "despite all of the headwinds facing businesses, the survey data remain indicative of the economy growing at an annualised rate of 2%, which is also supporting stronger payroll growth. However, cost pressures have risen to a new survey high which, alongside the encouraging output and employment numbers, will fuel further speculation about the need for further imminent aggressive rate hikes."



RICHMOND FED: Richmond Fed was very weak for May, as composite manufacturing index fell to -9 from 14, as two of the three components of the index turned negative. Shipments had a sharp decline to -14 (prev. 17.0) and volume of new orders slipped to -16 (prev. 6), whilst the third employment index remained positive but dropped to 8 (prev. 22). Moreover, the local business conditions index continued its decline to -16 (prev. -10), whilst looking ahead firms are less optimistic about conditions in the next six months as the index decreased to -13 (prev. -1). However, on a positive note the report adds, "there was some indication of supply chain improvement as the indexes for vendor lead time and order backlogs both decreased in May from record highs earlier in the year." Meanwhile, the report adds, "the wage index also remained elevated, indicating that a large share of firms continue to report increasing wages" Finally, the average growth rate of prices paid increased substantially and firms also reported higher average growth in prices received.

FED: George (2022 voter) spoke Monday night and expects Fed's policy rate to be in the neighbourhood of 2% by August and noted that evidence inflation is clearly decelerating which will inform judgements about further tightening. Further on inflation, she added inflation is too high and too broad to dismiss, returning it to the Fed's 2% target is the top priority, and as such added the road ahead will be bumpy and wants to see inflation moving down in a convincing fashion. **Bostic (2024 voter)** said he supports expeditious rate hikes to neutral but done "with intention and without recklessness", and he does not see clear signs of wage-price spiral. Bostic concluded by noting uncertainties shroud outlook on virtually every front. That follows Bostic's affirmed views on Monday for a potential rate hike pause once neutral is reached later this year. Note, **Chair Powell** gave pre-recorded remarks but did not comment on economic outlook or path of monetary policy.

GEOPOLITICS

Chinese and Russian aircraft reportedly entered South Korean airspace, while according to reports cited by Fox, a pair of Russian and Chinese bombers fly lap around Japan today while Biden met Quad leaders. Moreover, continuing to highlight increased tensions, China's PLA increased warship activities in key straits near Japan "amid provocative US, Japanese remarks", according to Global Times. Additionally, Russian Defence Ministry confirmed its and Chinese military planes conducted joint patrol of the Pacific region, according to TASS. In a response, Japanese Defence Minister stated Japan scrambled air-defence jet after Russian and Chinese warplanes flew near Japan, whilst US State Department added China-Russia military exercise was likely planned well in advanced by both countries, with the military exercise demonstrating the 'no limits' partnership China and Russia have is 'quite alive and well'.

On Ukraine/Russia, Donetsk Region Governor said three Donetsk region settlements including the town of Svitlodarsk have fallen under Russian control, meanwhile Ukraine's Defence Minister spokesperson stated the Russian invasion is now in its most active phase. From the other side, two Russian officials suggest the invasion will not end soon, with one saying there is no 'deadline'. On NATO, according to Al Jazeera, Russia's National Security Council say they treat Sweden and Finland's accession to NATO as a direct threat and will respond appropriately (a reiteration of other official commentaries). This comes as Swedish and Finnish delegates head to Turkey in an attempt to iron out Ankara's opposition, where Turkey says talks with Swedish and Finnish officials will take place on Wednesday.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 25+ TICKS HIGHER AT 120-12

Treasuries well bid with a steepening bias after the misses across the US data (PMIs, Richmond Fed, New Home Sales) added to the poor PMIs in Europe. 2s -14.4bps at 2.481%, 3s -13.2bps at 2.659%, 5s -12.1bps at 2.755%, 7s -10.7bps at 2.790%, 10s -9.9bps at 2.760%, 20s -9.8bps at 3.161%, 30s -9.4bps at 2.972%. In reals, 5yr TIPS -5.7bps at -0.131%, 10yr TIPS -3.3bps at 0.191%, 30yr TIPS -5.4bps at 0.636%.

JUNE/SEP ROLL UPDATE: ZT 40% complete, ZF 44%, ZN 41%, TN 44%, ZB 41%, UL 51%.

TOKYO/LONDON: T-Notes (M2) bounced post-settlement Monday into the Tokyo handover with risk pressured after Snap earnings, finding locality at 119-24 for most of the APAC session. Stocks started dipping further as Europe arrived, and the bid for Treasuries gained traction particularly in wake of Gilts jumping after UK Services PMIs dipped and warned of "the economy almost grinding to a halt as inflationary pressure rises to unprecedented levels". T-Notes made interim highs at 120-02+ ahead of the NY handover.

NEW YORK: T-Notes (M2) were range-bound until the US data slate hit, breaking above their APAC highs on the back of the slump in Flash PMI services for May. The strength continued after the dire Richmond Fed May survey and miss in April new home sales all added to the pressure on the US growth outlook. Session highs were made at 120-22 (cash 10yr yield low at 2.72%, lowest since late April) before paring slightly into the NY afternoon, while stocks also pared from



lows. The decent 2yr auction saw little follow through to the curve. Attention now moves out the curve to the USD 48bln of 5yr notes on Wednesday and USD 42bln of 7yr notes on Thursday.

STIRS:

- Eurodollars were well bid and led by the front-end in wake of the US data.
- EDM2 +2.0bps at 98.2075, U2 +9.5bps at 97.46, Z2 +13.0bps at 96.975, H3 +15.0bps at 96.835, M3 +16.5bps at 96.83, U3 +16.0bps at 96.945, Z3 +14.0bps at 97.03, H4 +12.0bps at 97.10, Z4 +12.0bps at 97.175, Z5 +12.0bps at 97.21.
- NY Fed RRP op demand at USD 1.987tln across 92 bidders (prev. USD 2.045tln across 94 bidders), note the withdrawal of monthly mortgage money likely a factor in the fall in demand,
- SOFR as of May 23rd remains subdued at 78bps.

CRUDE

WTI (N2) SETTLED USD 0.52 LOWER AT 109.77/BBL; BRENT (N2) SETTLED USD 0.14 HIGHER AT 113.56/BBL

Oil prices were choppy Tuesday after earlier gains unwound through the US session with stocks. Highs were made in July WTI and Brent futures at 111.43/bbl and 114.63/bbl in the NY morning before US stocks opened up, weighing on broader risk assets. Note late reports that US is set to renew Chevron's Venezuela license. Energy participants now look to the US inventory data with the private release due later Tuesday. Current expectations (bbls): Crude -0.7mln, Gasoline -0.6mln, Distillates +0.9mln.

EU EMBARGO: Hungarian PM Orban said in a letter cited in the FT that discussing the EU sanctions package on Russia at the leaders' level in the absence of a consensus would be counterproductive, calling for more detail on EU financing to assist Hungary - dimming the chances of progress being made at the meeting. Shortly after Politico reported EU's von der Leyen had ruled out an EU-wide agreement on banning Russian oil imports at the summit next week.

VENEZUELA: US Treasury Department is preparing to renew, in the coming days, Chevron's (CVX) license to operate in Venezuela, but likely without the greatly expanded terms it sought, according to Reuters sources. US officials are now waiting for Venezuela to put a date on resuming political dialogue with the government opposition, which could be a determinant in crafting the Chevron license.

ELSEWHERE:

- Saudi Arabia's Foreign Minister does not see an immediate global oil shortage, but mainly a shortage of refined products; said Saudi has done what it can.
- Saudi Crown Prince met with a US Congress delegation, according to SPA.
- JPMorgan maintained its Brent price forecast of USD 114/bbl for Q2, with prices rising to over USD 120/bbl in the interim and averaging USD 104/bbl for 2022.
- The US DoE announced additional notice of sale of crude oil from SPR for up to 40.1mln bbls as part of President Biden's March 31st plan.
- Argentina announced it is to give access to foreign currency to oil and gas companies that raise production, despite exchange market restrictions.

EQUITIES

CLOSES: SPX -0.80% at 3,942, NDX -2.20% at 11,769, DJIA +0.16% at 31,931, RUT -1.25% at 1,766.

SECTORS: Communication Services -3.7%, Consumer Discretionary -2.57%, Technology -1.56%, Materials -0.57%, Financials -0.23%, Industrials -0.12%, Health +0.26%, Energy +0.41%, Real Estate +1.2%, Consumer Staples +1.66%, Utilities +2.01%.

EUROPEAN CLOSES: Euro Stoxx 50 -1.64% at 3,647; FTSE 100 -0.39% at 7,484; DAX -1.80% at 13,919; CAC 40 -1.66% at 6,253; IBEX 35 +0.06% at 8,631; FTSE MIB -1.08% at 23,876; SMI +0.15% at 11,483.

STOCK SPECIFICS: Snap (SNAP) tumbled after it said the macroeconomic environment has deteriorated further and faster than anticipated since its last guidance issuance; believes revenue and adj. EBITDA will be below the low end of its Q2 guidance range. Moreover, it weighed on peers as Meta (FB) and Twitter (TWTR), declined 7.5% and 5.5% respectively, while Alphabet (GOOG) slipped by 5%, while Amazon (AMZN) and Apple (AAPL) were also lower. Additionally, SNAP said it would slow hiring. Verizon (VZ) CFO said competition and inflation has tempered Q2 outlook.



Toyota Motor (TM) suspends production further, noting the shortage of semiconductors, spread of COVID, amongst other factors, is making it difficult to look ahead. Due to parts supply shortages caused by the lockdown in Shanghai, decided to suspend operations in May and June. **Uber (UBER)** initiated a broad hiring freeze as it faces increased pressure to become profitable, according to Business Insider sources. **DexCom (DXCM)** is in talks to acquire **Insulet (PODD)** and an agreement could be reached in the coming weeks. **Albemarle (ALB)** raised FY guidance. Exec noted that in the last year it has made significant progress in renegotiating more variable-priced contracts with its lithium customers. **Tesla (TSLA)** said it could take until later this week to restore full production in China after quarantining thousands of workers. **Marriott (MAR)** CEO gave cautious remarks on the economic outlook, said "it will be challenging to avoid a recession," adding that "it certainly seems we're headed in that direction." Separately, CEO added pricing power has returned quickly and 8k vacant posts are harder to fill than pre-COVID. **Samsung (SSNLF)** will raise spending on chips and biotech by +30% to around USD 360bln over 5-years to shore up businesses from chips to drugs. **Beyond Meat (BYND)** announced Kim Kardashian will be featured in their new campaign as the cos first Chief Taste Consultant. EU is set to clear **Oracle (ORCL)-Cerner (CERN)** USD 28.3bln deal without conditions, sources cited by Reuters said. **Bank of America (BAC)** CEO said trading revenues are holding solid; "nothing will slow" consumer down right now and account balances are multiples bigger than pre-COVID. **Trip.com (TRIP)** was lower after co-founder banned from China's **Weibo (WB)**.

EARNINGS: BestBuy (BBY) was choppy throughout the day after a mixed report. Revenue beat but SSS declined across the board but not as much as expected. However, BBY missed on EPS and cut its guidance based on worsening macroeconomic conditions, albeit this was more or less in line with guidance. **Ralph Lauren (RL)** beat on EPS and revenue. Board approved a 9% dividend increase with solid North America & Europe revenues while its adj. gross profit also beat expectations, as did its operating margin. **Abercrombie & Fitch (ANF)** took a beating after posting a surprise loss per share and missed on gross margins, despite a beat on revenue. ANF said it was hit by higher costs and expects this to be a headwind for the rest of the year, and therefore cut its guidance. **Zoom Video (ZM)** posted a EPS beat and raised its EPS outlook for Q2 and FY22 while revenue was in line with expectations, as was revenue guidance. **Advanced Auto Parts (AAP)** missed on EPS and revenue and said it experienced comp declines due to a variety of reasons, but those headwinds have subsided in the first four weeks of Q2 with comp sales growth within its FY guidance range and it raised its FY22 EPS view and maintained revenue and SSS forecasts. **AutoZone (AZO)** AZO beat on EPS and revenue. AZO added that inventory increased 13.9% over the same period last year, primarily driven by inflation with the remaining growth driven by our growth initiatives, including megahubs, hubs and new stores. **Petco (WOOF)** slightly beat on EPS and revenue, and backed FY22 EPS and revenue view.

FX WRAP

The Dollar was lower Tuesday, printing lows of 101.640 in wake of the US PMIs, which were weak across the board, followed by the Buck seeing another bout of risk aversion after another set of poor data in the form of US new home sales and Richmond Fed survey. More broadly, the DXY's fall was cushioned to some extent by Sterling's slide after a very weak UK PMI, especially services, raised recession fears, but tumbling Treasury yields versus more stable Bund and JGB yields undermined the Dollar. Additionally, desks point to the Buck's overbought momentum on rate-hike expectations coming undone amid data suggesting the US pandemic recovery may have peaked along with Fed tightening pricing, just as the ECB finally warms to ending over a decade of negative policy rates. Elsewhere, Fed Chair Powell, in pre-recorded remarks, did not mention economic outlook or monopol, while Bostic (2024 voter) said he supports expeditious rate hikes to neutral but done "with intention and without recklessness", while George (2022 voter) overnight expects Fed's policy rate to be in the neighbourhood of 2% by August and noted that evidence inflation is clearly decelerating will inform judgements about further tightening. Looking ahead, on Wednesday, vice-chair Brainard speaks as well as durable goods data but attention will turn to Friday for the core-PCE.

Safe-havens, JPY and CHF, were the clear G10 outperformers and saw notable gains against the Buck with the former seeing greater strength. For the Yen, the fall in stocks and strength in Treasuries gave it enough impetus to breach beneath 127.00 and key support around that level, to lows of 126.37, with technicians noting further minor support at 126.32. Looking ahead, BoJ's Kuroda speaks on Wednesday ahead of Japanese CPI on Friday. Moving to the Swissy, which benefited from the struggling Greenback, highlighted by the cross breaching 0.9600 to the downside to lows of 0.9575. Moreover, Rabobank notes, "currency strength was a problem for the SNB when inflationary pressure were low, it is unlikely to be viewed in the same way in the current environment." However, Rabo's current house view is "that there will be an EU oil embargo on Russia, which could make a recession unavoidable for the Eurozone and make the window of opportunity for ECB rate hikes very limited. In this scenario, safe haven demand would likely keep EUR/CHF close to the 1.02/1.03 area in the months ahead."

Activity currencies were mainly lower, with Antipodeans the relative 'outperformers' at the unchanged mark into the close, while CAD and GBP saw similar losses. The currencies fell victim to the risk-averse sentiment for most of the session amid continuing concerns about China's pandemic normalisation path alongside some negative currency



specific newsflow. Notably, the poor UK May flash PMIs, especially services, hit cable as it fell beneath 1.25 in the wake of the report. However, throughout the rest of the session GBP did manage to pare losses, primarily due to the weakening Buck following soft data; note late reports in UK press of the Chancellor's "mini-Budget" set to be announced Thursday to provide relief to households from energy prices. Elsewhere, NZD/USD and AUD/USD hit lows of 0.6424 and 0.7058, respectively, whilst the Loonie saw a low of 1.2872 in contrast to a high of 1.2767, as market participants await Canadian retail sales on Thursday as the next scheduled risk event. Back to the Antipodes, on Wednesday, for the Kiwi watchers there is the RBNZ rate decision where it is expected to continue its hiking cycle as most analysts anticipate a 50bps increase in the Official Cash Rate to 2.00% and with OIS fully pricing in a 50bps hike. ([Full Newsquawk preview here](#)). While for the Aussie watchers RBA's Ellis is speaking at the UDIA Conference.

EUR saw gains against the Buck, extending its recent reversal away from this month's overbought peaks after unexpectedly weak US data and further convergence between Fed and ECB rate-hiking paths. Additionally, EUR/USD hit highs of 1.0748, just shy of the pivotal 1.0750 following further hawkish rhetoric from the ECB, where President Lagarde hinted at positive rates once NIRP has ended, Holzmann noted a 50bps hike in July apt and finishing 2022 above par extremely important and Kazaks declared half-point rises should not be ruled out and sees moves in July and September plus Q4 possibly. Moreover, techs note EUR/USD neared the 50% Fibo of its March 31 to May 13 plunge at 1.0767 and other nearby hurdles, in a rise powered by rebounding two-year bund-Treasury yield spreads.

EMS were mixed, with RUB and ZAR seeing gains, whilst BRL, MXN, CNH/CNY were flat, but TRY saw notable losses. It was a somewhat divergent session regardless of the market mood deteriorating, as the CNH and CNY benefited from more concerted efforts to shore up the economy via the PBoC and China's Insurance and Banking Regulator (CBIRC) exploring an increase of loans with major institutions. Meanwhile, Gold saw gains and moved above USD 1850/oz which provided tailwinds for the ZAR, but the Lira underperformed as Turkish President Erdogan refused to recognise Greece's leader and announced plans to launch military operations at the southern border to build deeper safety perimeters. Elsewhere, some traction for the PLN via hawkish NBP guidance, but not much for the HUF via the NBH as Hungarian President Orban declared a state of emergency with effect Wednesday.

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