US Market Wrap

25th May 2022: Stocks climb from the open before accelerating as dust from FOMC Minutes settles

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar up.
- **REAR VIEW**: FOMC minutes offers little new, but notably no mention of a 75bps move or a pause; ECB hawk Knot reiterated 50bps hike isn't off the table; Weak US durable goods; Mixed inventory data; Overall average 5yr US auction; VW CEO sees 'clear improvement' in chip supplies during the rest of the year; AAPL iPhone development reportedly falls behind schedule; Negative rhetoric from US on Iranian nuclear deal.
- **COMING UP**: **Data**: Australian Capex, US GDP (2nd), US IJC, Canadian Retail Sales **Events**: BoK, CBRT **Speakers**: Fed's Brainard **Supply**: Italy, US **Earnings**: Alibaba, Baidu **Expiries**: Brent Jul'22 Options.
- **WEEKLY US EARNINGS ESTIMATES**: [THURS] MDT, BABA, COST. To download the full report, please click here.

MARKET WRAP

Equities had been bid from the open offsetting any overnight weakness to see a gradual bid into the close, which was accelerated in wake of the FOMC minutes, despite the commentary being in line with recent Fed speak. Although, there was no mention of a 75bps move, or a rate hike pause, or recession. Nonetheless, with the minutes out the way, it is a key risk in the rear view mirror. There was also some encouraging commentary from the Volkswagen (VOW3 GY) CEO who said he sees a clear improvement in chip supplies and expects its production can recover during the rest of the year, a very welcome comment at a time of uncertainty, particularly around China's COVID situation and war in Ukraine, and in wake of reports overnight Apple (AAPL) iPhone development reportedly fell behind schedule. The Dollar was bid but off highs after the FOMC minutes and weak durable goods data, while the Treasury curve steepened but market pricing for the Fed was little changed from earlier on Wednesday with 50bps almost fully priced in for June and July, while September is pricing in between a 25bp and 50bp move. Note, we had been pricing in three 50bps moves earlier in the week, while the PCE numbers on Friday will be key to gauge further Fed expectations, as will inflation prints in the coming months. Oil prices were marginally firmer on Wednesday, trading to the chop of the broader risk sentiment in the background of mixed US inventory data.

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FOMC MINUTES: The FOMC minutes added little new information to what we've heard from Fed speak, although there was no mention of a 75bps move, a rate hike pause, potential rate cuts in 2023 or 2024, a recession and also how high the Fed are willing to go, leaving a lot of optionality. In fitting with recent commentary and Fed guidance, most officials backed 50bps hikes at the next couple of meetings. Participants agreed the Fed should move expeditiously towards a more neutral stance and that a restrictive stance on policy may well become appropriate. Several participants commented on the challenges that monetary policy faced in restoring price stability while also maintaining strong labor market conditions. Many participants judged faster removal of policy accommodation would leave the Fed well positioned to assess later this year what further adjustments were needed. There was no message of a pause, as Bostic has recently spoken off, rather than to assess "what further adjustments were needed" - most expect the Fed to return to more "measured" 25bp moves after two-three 50bp moves. On the balance sheet, all participants agreed with the plans to reduce the Fed's balance sheet, and in fitting with recent commentary, a number said it would be appropriate to consider sales of MBS once the runoff was well underway. On inflation, the Fed emphasised they are highly attentive to inflation risks and agreed risks were skewed to the upside. A few participants said some of their contacts were starting to report that higher prices were hurting sales. Although, a number of participants observed recent monthly data might suggest that overall price pressures may no longer be worsening, although emphasized that pressures remain elevated and it was too early to be confident inflation had peaked. To surmise, the Fed confirmed the current base case and 50bps will be appropriate for the next "couple of meetings", while we are still in the dark about how high rates will be required to go, other than a restrictive stance may well become appropriate. There was no mention of a 75bps move, while there was also no mention of a pause after the 50bp moves but they agreed they would be in a good place to assess what adjustments may be needed later this year. On inflation, it is too soon to confidently say inflation has peaked but acknowledged the recent monthly data might suggest overall price pressures may no longer be worsening. It is also worth stressing the minutes are for the May 4th meeting so could be deemed rather stale as we've had the April CPI report since then and plenty of Fed speak to share their current thoughts.

DURABLE GOODS: Durable goods disappointed, the headline declined to 0.4% beneath the consensus and prior 0.6%, while orders ex-transport printed 0.3%, also below expected 0.6% and the prior 1.1%. Looking into the report, Pantheon Macroeconomics notes vehicle orders dipped slightly, which is a surprise given the 3.9% increase in vehicle production reported last week. Still, the orders numbers are erratic, and Pantheon expect a sustained increase in vehicle production, now back to its pre-COVID level, but with a long catch-up ahead, to keep orders rising for some time. Elsewhere, core capital goods orders rose only 0.3%, and the 6.5% annualised increase in the three months to April, compared to the previous three months, was the smallest since the rebound from the COVID hit began, back in mid-2020. Delving into this, Pantheon Macroeconomics states “the big question is whether orders growth will continue to slow”. The numbers are noisy and the pattern in recent months, with hefty monthly gains followed by weaker readings, makes it hard to see the trend over shorter periods. “It’s entirely possible that the recent slowing is nothing more than a temporary reaction to the spike in energy prices; firms might be waiting to see how consumers respond.” As such, the consultancy adds, so far there is no evidence of any hit, apart from housing. Moreover, the consultancy states, a decent increase in capital spending on equipment in the second quarter seems assured, given the lags from previous strength in orders, but the outlook for H2 has become a bit cloudier. Lastly, inventories of durable manufactured goods rose by 0.8%, continuing the recent trend, while Pantheon declares inventories overall are likely to be a drag on growth again in Q2, though, thanks to the valuation adjustment, which tracks PPI goods price, again will weigh on the numbers.

FIXED INCOME

T-NOTE (M2) FUTURES SETTLED 7 TICKS HIGHER AT 120-19

Treasuries were choppy with risk appetite in wake of stale FOMC minutes and an average 5yr auction failing to break ranges. At settlement, 2s -2.1bps at 2.500%, 3s -3.0bps at 2.632%, 5s -4.0bps at 2.717%, 7s -3.2bps at 2.758%, 10s -1.7bps at 2.743%, 20s -1.1bps at 3.150%, 30s -0.5bps at 2.967%. 5yr TIPS -5.2bps at -0.177%, 10yr TIPS -1.8bps at 0.177%, 30yr TIPS +1.3bps at 0.653%. 5yr BEI +2.1bps at 2.902%, 10yr BEI +0.6bps at 2.517%, 30yr BEI -2.2bps at 2.345%.

TOKYO/LONDON: Rangebound trade for T-Notes overnight with the June contracts hugging session lows of 120-09+ as stock futures recovered into APAC. The London handover saw stocks stumble, however, and govvie demand pick-up, taking T-Notes out of their range as yields moved to the whim of global risk sentiment. Treasury futures activity was buoyed by roll activity.

NEW YORK: T-Notes were choppy at the NY handover, but managed to make session highs of 120-26 in wake of the poor April US Durable Goods data; cash 10yr made a yield low of 2.71%. That proved a red herring, however, before the contracts returned into their prior trading ranges, chopping with stocks through the rest of the session. The average 5yr auction (details below) failed to ignite meaningful reaction, while the May FOMC minutes provided little surprises. Note that the front-end remained better bid through the US session too, steepening the curve mildly, as traders unwound some of the aggressive Fed hike pricing.

5YR AUCTION: USD 48bln sold at 2.736% in an overall average 5yr offering, but did see improvement from last month. The 0.4bps tail was better than April's 0.9bps but still sits worse than the six-auction avg. of on the screws. The 2.44x bid /cover ratio sits just beneath avg. The takedown saw Dealers (forced buyers) with 17%, below avg. 18.7% although more than April's 16.5%. Directs impressed with 20%, while Indirects at 62.9% sits beneath the prior and avg. The participation likely took some knock due to the auction coming just one hour ahead of the FOMC minutes, but otherwise, attention now looms to the USD 42bln of 7yr notes on Thursday.

STIRS:

- EDM2 +0.8bps at 98.218, U2 +1.5bps at 97.480, Z2 +1.0bps at 96.990, H3 +1.5bps at 96.855, M3 +2.0bps at 96.850, U3 +0.0bps at 96.945, Z3 +1.0bps at 97.040, H4 +0.5bps at 97.110, M4 +1.5bps at 97.170, U4 +2.0bps at 97.195, Z4 +3.0bps at 97.215, Z5 +3.5bps at 97.250.
- In options, noteworthy terminal rate fading seen in blocks (24k total) of 1x2 SR3H3 97.25/97.75 call spreads at -1.5 to -0.5; Mar'23 SOFR futures are the lowest point on the curve, and currently imply terminal FFR at 2.75/3%.
- US sold USD 22bln of 2yr FRNs at high discount margin of 0.000% (prev. -0.075%), covered 3.22x (prev. 2.51x); sold USD 30bln of 119-day CMBs at 1.280%, covered 3.21x.
- NY Fed RRP op demand at USD 1.996tln across 94 bidders (prev. USD 1.987tln across 92 bidders), SOFR unchanged at 78bps.

CRUDE

WTI (N2) SETTLED USD 0.56 HIGHER AT 110.33/BBL; BRENT (N2) SETTLED USD 0.47 HIGHER AT 114.03/BBL

Oil prices were marginally firmer on Wednesday, trading to the chop of the broader risk sentiment in the background of mixed US inventory data. WTI and Brent July futures hit highs of 111.68/bbl and 115.30/bbl, respectively just before US players arrived, then seeing a leg lower at the energy cash product open (09:00ET), and further as stocks saw a dip later into the NY afternoon.

US INVENTORIES: Crude stocks drew 1mln bbls in the latest week, more bullish than expectations and vs the 0.6mln build seen in the Tuesday private data, while Cushing stocks drew over 1mln bbls. In products, gasoline stocks drew 0.5 mln, smaller than the private-indicated 4.2mln draw, but still a broader concern with inventories at historical lows heading into driving season; distillates built 1.7mln, more than expected and in contrast to the draw indicated Tuesday. Elsewhere in the EIA report, crude production remained at 11.9mln BPD while refinery utilisation rose 1.4% to the highest levels since December 2019. US crude exports also hit their highest levels since March 2020.

EUROPEAN GAS SUPPLY: Both Poland's PGNiG (PGN PW) and Germany's RWE (RWE) announced separate, long-term LNG deals Wednesday, with the former receiving 4mln T (or 5.4BCM) per year of LNG from Plaquemine, Louisiana terminal from 2026, and the latter signing with Sempra Infrastructure for 2.25mln T per year from Port Arthur, Texas, starting in 2025.

RUSSIA: Russian Deputy PM Novak announced Russia and Iran had discussed oil and gas supply swaps and broader investment in oil and gas projects, Interfax reported. Meanwhile, Reuters reported the Indian government continues to purchase cheap oil from Russia. On the other hand, TotalEnergies (TTE FP) CEO said that Russian refineries are being forced to reduce output and Moscow is beginning to struggle to find buyers for its crude.

OPEC: Axios reported two of President Biden’s senior advisers are on a secret visit to Saudi Arabia for talks about a possible arrangement between Saudi Arabia, Israel and Egypt for a deal to increase oil production.

EQUITIES

CLOSES: SPX +0.95% at 3,979, NDX +1.48% at 11,943, DJIA +0.60% at 32,120, RUT +1.70% at 1,798.

SECTORS: Consumer Discretionary +2.78%, Energy +1.96%, Technology +1.21%, Communication Services +0.88%, Financials +0.8%, Industrials +0.64%, Real Estate +0.56%, Materials +0.47%, Consumer Staples +0.04%, Health -0.02%, Utilities -0.06%.

EUROPEAN CLOSES:Euro Stoxx 50 +0.81% at 3,677; FTSE 100 +0.51% at 7,522; DAX +0.63% at 14,007; CAC 40 +0.81% at 6,298; IBEX 35 +1.49% at 8,760; FTSE MIB +1.57% at 24,250; SMI -0.06% at 11,477.

STOCK SPECIFICS: **Apple’s (AAPL)** development of new iPhones has fallen behind schedule due to disruptions from COVID lockdowns in China, Nikkei reported. **Wendy’s (WEN)** rallied as its largest shareholder Trian Partners (19.4% stake) announced they are exploring a potential deal. Trian seeks a deal to enhance shareholder value which could include an acquisition or merger. **Dell (DELL)** was added to Evercore's “Tactical Outperform” list; believes IT demand trends remain strong enough to lead to earnings beat and a raised outlook when Dell reports quarterly earnings Thursday. **Nike (NKE)** declined to renew the franchise agreement with **Inventive Retail Group (IRG)**, which owns Russia's largest single-brand chain of Nike stores. **General Mills (GIS)** announced an agreement to sell Helper and Suddenly Salad Business to Eagle Family Foods Group for USD 610mln; expects the divestiture to be dilutive to its adj. EPS by roughly USD 0.10-11 and the transaction is expected to close in Q1 23. **Lyft (LYFT)** will reportedly slow hiring, cut some departmental budgets, and grant new stock options to some employees to make up for its eroding share price, according to the WSJ. This follows the hiring slowdown announcement from **Uber (UBER)**. **Kohl's (KSS)** buyers are reportedly planning to lower their bid by 10-15% for amid the market downturn and other factors, according to sources. However, CNBC was 'told by a source that **Simon Property Group (SPG)** is not planning to make a bid for Kohl's'. **Deere (DE)** raised quarterly dividend 8% to USD 1.13/shr. **Valvoline (VVV)** stated there is a rigorous process in place to determine the optimal path but no decisions have been made, following reports Saudi Aramco may be interested in the co. **Eli-Lilly (LLY)** plans to invest USD 2.1bln in new manufacturing sites in Indiana.

EARNINGS: **Dick’s Sporting Goods (DKS)** beat on EPS and revenue but guidance was poor. DKS cut its FY22 EPS view and SSS growth view due to the challenging macroeconomic environment. However, it said it is not seeing a material change in trends so far in May while its partnership with **Nike (NKE)** and other brands is at an all-time high. **Intuit (INTU)** surpassed Wall St. consensus on the top and bottom line and raised FY22 EPS and revenue outlook on improvement in its QuickBooks business and the addition of recently acquired Mailchimp. **Nordstrom (JWN)** beat earnings expectations; posted a shallower loss per share than expected and topped on revenue, alongside raising guidance, something that many of its peers have not managed to do this quarter. It also announced a USD 500mln share repurchase. **Urban Outfitters (URBN)** missed the on the top and bottom line. Comparable retail segment net sales were +11%. Exec said that “unfortunately, the impact of inflation on our costs of doing business more than offset the benefit of record revenues.” Has 21.5mln shares of common stock still available for buyback under its share repurchase programme. **Toll Brothers (TOL)** beat on EPS and revenue. Exec said while demand was still solid, over the past month it had moderated from the unprecedented pace of the past two years as buyers adapted to higher mortgage rates and other macroeconomic conditions. But exec sees many of the fundamental drivers of housing demand firmly in place, which will support a healthy housing market over the long-term.

FX WRAP

USD: The Dollar was bid on Wednesday although saw some marginal selling pressures in wake of the FOMC minutes which had no hawkish or dovish surprises. Although with a key risk out the way, stocks caught a bid and the risk on move put some slight pressure on the dollar, albeit the buck remained firmly in the green. Data saw a disappointing durable goods report while mortgage applications fell once again, but at a more reasonable 1% drop as opposed to the prior weeks 11% decline. Analysts at ING write it may be too soon for the buck to start discounting a higher risk of a US slowdown via Fed rate expectations but "some grim mortgage application figures could contribute to the dollar's softish momentum" however the bank thinks "the downside potential for the dollar is shrinking, especially given a more balanced positioning after a widespread position squaring and a still supportive Fed story".

EUR: The Euro was lower amid the rising dollar and a plethora of ECB speakers. EUR/USD traded within a near point range between 1.0643 and 1.0738 parameters. Hawk Knot reiterated 50bps is not off the table and added Lagarde's blog did not rule out a 50bps move. Knot did, however, state hikes are only on the table for July, he also warned inflation expectations are at the upper limit of being well anchored. ECB's Chief Economist Lane stated EZ inflation is still moving towards the 2% target in the medium-term and it is a concern that households are revising higher their inflation beliefs. Lane also noted monetary normalisation is appropriate but the exact speed of policy moves after Q3 will be decided depending on the economy. Meanwhile, he added the ECB will have a large balance sheet for some time to come and he does not expect balance sheet discussions this year. Elsewhere, ECB's Rehn backs a 25bp move in July. Panetta said policy normalisation should be gradual and they should avoid the risk of a normalisation tantrum.

JPY: The Yen was weaker against the greenback but off lows in wake of the FOMC minutes. BoJ Governor Kuroda spoke and noted that wages have risen in Japan but the rate of increase has remained moderate while pent-up demand has been limited with demand slower than Europe or the US. Kuroda added an appropriate monetary response to inflation will differ between countries, noting the common challenge for each country is to determine the magnitude and persistence of inflationary pressures. The remarks followed reports via Reuters that the Japanese Government is to urge the BoJ to meet its goal of price stability. Reuters noted that the wording of current policy will be changed from the current version, which hopes that the BoJ maintains ultra-easy policy to achieve its 2% target, to urging the BoJ to meet its inflation target in a "sustainable and stable fashion".

CHF: The Swissy was weaker against the dollar but firmed against the Euro amid a risk on close for US equities and commentary from SNB's Jordan. Jordan stated we are moving into an unpleasant phase for monetary policy; noting that global monetary policy is tightening for the first time since 2008. He added the SNB will have to take into account the impact of a sharp rise of global inflation on Switzerland when deciding monetary policy next month.

NZD: The Kiwi was an activity currency outperformer after the RBNZ hiked the OCR by 50bps as expected to 2.00% and raised its OCR forecasts, while the committee agreed to continue to lift the OCR at pace to a level that will confidently bring consumer price inflation to within the target range. The Central Bank sees the OCR rate peaking at 4% in Q2 next year while it also raised its CPI forecasts. The Bank also suggested rates are to surpass neutral as monetary conditions will need to act as a constraint on demand, but can be eased once aggregate supply and demand are more in balance. Bank of New Zealand and ASB Bank expect the RBNZ to raise the OCR 50bps in July and August.

AUD: Aussie was slightly lower against the buck and weaker against the kiwi but well off the lows in wake of the FOMC minutes which saw mild dollar selling and a decent rally in US equities. Meanwhile, RBA's Ellis spoke on construction, saying it is to remain solid for the next couple of years and all signs are that the residential construction industry is at full capacity. He noted construction delays are common as building materials are in short supply and cost more. Backlogs will ultimately work out and cost pressure will ease.

GBP, CAD: Sterling saw decent gains and was also a cyclical outperformer while the latest Sue Gray report on UK PM Johnson had little reaction, but could now be viewed as a risk now behind us while the upside in US equities helped cable extend to session highs. CAD saw marginal gains against the Dollar amid a slight bid in crude prices as attention turns to the BoC next week.

CNH: The Yuan was weaker amid more talks of more support after China's Premier Li said China will unveil detailed implementation rules for the pro-growth policy package before the end of the month and urges China to make sure the economy is in a reasonable range. Li also called for implementation of support measures, noting China is facing some worse difficulties than in 2020.

EM's: MXN was relatively flat to the buck in wake of the FOMC minutes but Mexican GDP for Q1 was a touch above expectations, rising 1.8% Y/Y from 1.6%, above the 1.7% forecast while the Q/Q print was in line at 1.0% from a prior 0.9%. BRL was also flat; Brazil Consumer Confidence in May fell to 75.5 from 78.6. Meanwhile, China and Brazil have reached an agreement to boost cooperation in agricultural trade including corn, soybean meal and peanuts, according to China's Global Times. However, on Tuesday China temporarily suspended JBS and Marfrig beef imports for between one-four weeks. The RUB saw strong weakness, the CBR announced it is to hold an extraordinary meeting on the Key Rate on May 26th while a CBR official said it will start a pilot project using a digital RUB with real customers and real transactions starting from April 2023, ahead of its plan.

SCANDIS: SEK was weaker against both the Euro and the Dollar, while NOK appreciated against the Euro but not the dollar with NOK outperformance underpinned by a rise in Brent prices while Swedish data disappointed with a decline in consumer confidence and a rising unemployment rate. Meanwhile, PPI cooled from the prior report and total industry sentiment saw a marginal rise led by gains in the manufacturing sector.