



US Market Wrap

26th May 2022: Stocks and commodities prosper as Dollar stumbles further into major month-end flows

- **SNAPSHOT:** Equities up, Treasuries mixed, Crude up, Dollar down.
- **REAR VIEW:** Q1 GDP revised lower, initial jobless claims better than expected but continued claims rise, weak pending home sales; Record strong 7yr auction; Retail earnings end on a high, strong China ADR earnings, strong NVDA Q, but guidance soft; UK announces fiscal support.
- **COMING UP:** **Data:** US PCE Price Index, Personal Income, Consumption **Speakers:** ECB's Lane.

MARKET WRAP

Stocks were firmer Thursday (SPX +2%, NDX +2.8%, R2K +2%, DJIA +1.6%) with a strong risk-on tilt as exhibited by the tech- and discretionary-led gains. There was no clear catalyst, but rather a mix of factors revolving around month-end (Citi's model sees largest stock buying flows since Mar'20) and oversold retailers, where on net, the later-reporting Co.s have had better reports than feared. The fact Nvidia (NVDA) was firmer despite a lacklustre report is telling on where positioning is right now. Data was poor today with downward revisions to Q1 US GDP, a big dip in pending home sales, and worse than expected continued claims data (despite the lower than feared initial claims print), although that didn't hit sentiment. Oil prices brokeout to the upside (WTI +USD 3.50/bbl) with many desks pointing again to summer driving season demand (and low inventories), with futures reapproaching their March highs seen in wake of the Ukraine invasion. Treasuries were steeper with duration better sold (10yr +1bps, 30yr +2bps) amid the risk-on tone and commodity rally, while the stellar 7yr auction capped upside in yields. While in FX, the weak data hit the Dollar, as did the broader commodity strength that favoured high beta currencies as the DXY dipped beneath 102.

US

JOBLESS CLAIMS: Initial jobless claims fell to 210k from 218k, and also beneath the expected 215k, while continued claims rose to 1.346mln (prev. 1.315mln), surpassing the expected 1.31mln. Note, the continued claims data coincides with the usual survey period for the BLS jobs report. After last week's jump, Initial jobless claims were expected to show a slight correction, but Pantheon warns the trend in claims is probably rising slowly. Looking ahead, Pantheon Macroeconomics note, "our take on the seasonals suggests that claims will be little changed next week but will then jump to about 230K". However, PM notes even at a level of 230k it remains very low by historical standards and does not signal any distress in the labour market. Nonetheless, Pantheon adds, "the uptick is consistent with the idea that payroll growth is slowing, and the Homebase data for the May payroll survey week are consistent with an increase of about 250K, after 428K in April".

PENDING HOME SALES: Pending home sales fell 3.9% in April, much worse than the expected -2.0% and the prior -1.6%, with the index declining to 99.3 (exp. 103.3), which added to the poor US housing data we have seen for April. On the release, NAR's chief economist Yun notes, "pending contracts are telling, as they better reflect the timelier impact from higher mortgage rates than do closings" and "the latest contract signings mark six consecutive months of declines and are at the slowest pace in nearly a decade." Additionally, he adds, "the escalating mortgage rates have bumped up the cost of purchasing a home by more than 25% from a year ago, while steeper home prices are adding another 15% to that figure", and as such looking ahead, Yun forecasts "existing-home sales to wane by 9% in 2022 and home price appreciation to moderate to 5% by year's end." Moreover, as mortgage applications have tumbled 26% over the past couple of months it suggests this trend could continue.

GDP: The US Q1 GDP 2nd estimate saw a -0.1pp revision to -1.5% (prev. -1.4%), beneath the expected -1.3%. The figure, Pantheon note, was largely due to downward revisions to inventories and residential investment, but partly offset by slightly stronger consumption. Nonetheless, the consultancy adds, "we continue to expect a solid rebound in Q2 growth, but our initial hopes of a 5% -plus print have faded a bit." As such, PM note, "a reading nearer 4% now seems more likely, but that could easily change, given the huge gaps still in the data." Whilst the official release notes, "the decrease primarily reflecting downward revisions to private inventory investment and residential fixed investment that were mostly offset by upward revisions to consumer spending and exports. Imports were revised up." Delving into the



details, GDP deflator was revised marginally up to 8.1% (exp and prev. 8.0%), while core PCE prices were revised lower to 5.1% (exp. and prev. 5.2%) but PCE prices remain unchanged. Attention now turns to the more timely April PCE data on Friday.

GEOPOLITICS: US officials reiterated the Biden admin remains committed to the One-China policy and Secretary of State Blinken stated the US doesn't seek to sever China from the US or the world economy, but wants China to play by the rules. The US also stands ready to increase communication with Beijing on a range of issues while its Taiwan policy has not changed. In Ukraine, Russia's Defence Ministry announced civil vessels may use the Azov Sea's Mariupol port and mine danger has been limited, while the Russian Foreign Minister warned the West that supplying weapons to Ukraine that can strike Russian territory would be a step towards unacceptable escalation. The commentary was followed by reports via Reuters that the US and Ukraine have been discussing the dangers of escalation as new arms extend Kyiv's reach while warning of escalation if Ukraine strikes deep inside Russia.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED FLAT AT 120-07

Treasuries were steeper with duration better sold amid the broader risk-on tone and commodity rally, while the stellar 7yr auction capped upside in yields. 2s -1.2bps at 2.490%, 3s +0.0bps at 2.631%, 5s -0.2bps at 2.714%, 7s -0.1bps at 2.760%, 10s +0.5bps at 2.752%, 20s +3.1bps at 3.178%, 30s +2.1bps at 2.986%.

INFLATION breakevens rallied alongside the strong bid in oil: 5yr BEI +9.8bps at 2.996%, 10yr BEI +9.8bps at 2.601%, 30yr BEI +5.8bps at 2.390%.

TOKYO/LONDON: T-Notes (U2) saw a dip in the Tokyo morning to hit support at 120-00. Note, the latest MoF data showed Japanese investors are increasing their overseas bond purchases for a second week after large selling over the prior 15 weeks amid fiscal year-end. The buying will be welcome news to duration bulls given the uncertainty of when Japanese accounts would step back into the market given extreme Dollar hedging costs. Anyway, T-Notes recovered gradually into the European session, finding momentum at the handover to take the contracts to session highs at 120-19+ (note a flurry of block trades across 5yr, 10yr, and ultra 10yr futures), before paring lower a few ticks, aided by reporting of expansive UK fiscal policy ahead of Chancellor Sunak's speech that hit Gilts.

NEW YORK: Sympathy selling in T-Notes extended into UK Chancellor Sunak's address in Parliament, although given the package wasn't as large as reporting had suggested, the downside in govies was capped and T-Notes bounced off interim lows at 120-04. The curve saw some steepening flow in wake of the downward revision to Q1 US GDP as the front-end caught a bid, there was also a big 4k Ultra Bond block buy not too long after in the pre-market. Better selling developed after the poor pending home sales data entered the rear-view and stocks and oil extended gains after the NY open, with an eye towards the 7yr auction. The selling out the curve lost momentum as Europe departed, coinciding with a massive block flattener (27k FVU2 sold against 8k USU2 bought). The record strength 7yr auction lifted T-Notes from session lows (119-29+) into settlement, with attention now on Friday's PCE data ahead of the holiday weekend and month-end (BBG note US index duration extension expected at +0.11yr).

7YR AUCTION: A very strong USD 42bln 7yr auction, benefitting from the USD 2bln M/M size cut. The 2.777% stop offers less yield than April's 2.908%, but still marked a 2.4bps stop-through, better than the 1.7bps tail last month and six-auction avg. 0.5bps tail. The 2.69x bid/cover ratio far exceeded the 2.37x avg. The takedown metrics were also solid with Dealers (forced buyers) taking just 6.4% against the avg. 15.2%, a result of Indirects taking a massive 77.9%, up from last month's strong 65% and the avg. 61.8%, indicative of strong end-user demand. It's worth considering the likely pick-up in foreign demand given the recent paring of the Dollar (and its hedging costs), particularly with Japan net buyers again in recent weeks (see above).

STIRS:

- EDM2 +1.3bps at 98.23, U2 +1.0bps at 97.495, Z2 +1.0bps at 97.00, flat at 96.86, M3 -1.5bps at 96.84, U3 -2.0bps at 96.935, Z3 -2.0bps at 97.025, H4 -2.5bps at 97.09, Z4 -2.5bps at 97.19, Z5 -2.0bps at 97.23.
- Noteworthy option flow: over 28k EDU2 97.75/98.00/98.125 call flies for 3.5 - would pay out if Fed pauses on rate hikes in September.
- Coincidentally, BofA recommends receiving September FOMC OIS to position for a possible pause in the Fed hiking cycle after 50bps moves in June and July.
- NY Fed RRP op demand at USD 2.008tln across 94 bidders (prev. USD 1.996tln across 94 bidders); SOFR flat at 78bps.
- US sold USD 39bln of 1-month bills at 0.740%, covered 2.79x; sold USD 33bln of 2-month bills at 0.915% (prev. 0.900%), covered 3.36x.



CRUDE

WTI (N2) SETTLED USD 3.76 HIGHER AT 114.09/BBL; BRENT (N2) SETTLED USD 3.37 HIGHER AT 117.40/BBL

Oil prices saw strong gains on Thursday in a lack of fresh catalysts with many desks pointing to summer driving season demand, in addition to the broader risk appetite seen. Prices had been rangebound for the benchmark futures up into the New York cash energy product open (09:00ET) when volume buying surged. The strength levelled out as Europe departed, although futures were at highs into the settlement as stocks prospered.

BREAKING OUT: Note technical momentum will be adding support to the benchmarks here as the July contracts hit their highest levels since March at the onset of the Ukraine invasion, where highs then were made at USD 116.43/bbl and 129.94/bbl, respectively, on March 7th.

OPEC: OPEC+ set to adhere to policy (pledge an additional 432k BPD) at June 2nd meeting, according to Reuters sources, as expected; clearly what it will actually produce is far short of its pledge. Meanwhile, Libya announced its crude oil output is running at 750k BPD (prev. 800k BPD in mid-April).

EUROPEAN ENERGY: WSJ reported Europe is facing difficulties finding alternatives to Russian gas in the Middle East and North Africa, as talks with big producers like Qatar, Algeria and Libya have become complicated, suggesting concessions from all parties involved would be required to find a deal. Germany wants shorter contracts than Qatar is willing to offer, but Qatar could be willing to offer shorter contracts if Germany is willing to pay more.

EQUITIES

CLOSES: SPX +1.99% at 4,058, NDX +2.79% at 12,277, DJIA +1.61% at 32,637, RUT +2.17% at 1,838

SECTORS: Consumer Discretionary +4.78%, Technology +2.45%, Financials +2.25%, Communication +2.06%, Industrials +1.99%, Materials +1.82%, Energy +1.14%, Consumer Staples +1.13%, Health Care +0.42%, Utilities +0.27%, Real Estate -0.1%.

EUROPEAN CLOSES: Euro Stoxx 50 +2.54% at 3,740; FTSE 100 +0.56% at 7,564; DAX +1.59% at 14,231; CAC 40 +1.78% at 6,410; IBEX 35 +1.47% at 8,888; FTSE MIB +1.22% at 24,546; SMI +0.07% at 11,491

STOCK SPECIFICS: **Apple (AAPL)** will reportedly keep production flat in 2022 at roughly 220mln units, but below expectations, amid China's COVID-19 curbs, global supply chain issues, and cooling demand continue to hurt smartphone makers. **Twitter (TWTR)** was bid after Elon Musk amended Twitter's offer and is dropping plans to partially fund the acquisition via a margin loan tied to **Tesla (TSLA)** stake, and providing an additional USD 6.25bn for the USD 44bn buyout. **VMware (VMW)** is to be acquired by **Broadcom (AVGO)** for USD 61bn, or USD 142.50/shr (vs close of USD 120.54). **Meta Platforms' (FB)** CEO Zuckerberg said Metaverse will lose "significant" amounts of money in the next three to five years but will eventually make money from a "creator economy". **Emerson Electric (EMR)** is considering the sale of its waste-disposal business Insinkerator, which could fetch USD 3bn, Bloomberg reported. **Berkshire Hathaway (BRKB)** disclosed a passive 11.4% in **HP (HPQ)**. **Southwest Airlines (LUV)** raised its Q2 operating revenue view to +12-15% vs 2019 (prev. 8-12%), continuing to experience strong load factors and an acceleration in bookings for summer travel. Barring any unforeseen events, and based on current trends it expects solid profits, and operating margins, excluding special items for the remainder of the year. **JetBlue (JBLU)** said the demand environment has been strong, with bookings exceeding expectations; Co. expects record revenue this summer. However, added they are cautious about travel demand in the fall. **American Airlines (AAL)** announced short-haul travel demand has completely recovered to pre-COVID levels while South America and transatlantic traffic has recovered to 65-80% of pre-COVID levels. Revenue from corporate bookings has largely recovered. **Toshiba (TOSY)** buyout deal is unlikely to close soon due to bidders needing to form a government-approved consortium, according to FT sources. **Delta Airlines (DAL)** stated it will reduce service by roughly 100 daily departures through July 1st to August 7th, primarily in US and Latin American Markets. **Microsoft (MSFT)** is to slow hiring in Windows, Office, and Teams groups. **PayPal (PYPL)** has started cutting staff as it ramps its push to cut costs, while Take-Two (TTWO) is cutting staff at its Hangar 13 studio, according to reports in Bloomberg. **Trade Desk (TTD)** caught a bid after it reaffirmed guidance. **Walgreens (WBA)** were on watch after ISAA and TDR group reportedly mulling dropping out of Boots bid on price disagreement; could revive Boots pursuit if compromise is found, according to Bloomberg. Note, Elon Musk was accused of manipulating the market ahead of the **Twitter (TWTR)** takeover.

EARNINGS: **Nvidia (NVDA)** surpassed Wall St. consensus on top and bottom line, but issued weaker-than-expected guidance due to supply chain issues and slower business in Russia. Meanwhile, the board increased and extended the



buyback programme to repurchase up to an additional USD 15bln. **Splunk (SPLK)** posted a strong report, where it reported a shallower loss per share than expected and beat on revenue alongside strong guidance. **Snowflake (SNOW)** posted a surprise loss per share but beat on revenue while it reiterated its FY23 product revenue outlook. **Medtronic (MDT)** missed on profit and revenue as the Co. noted Global supply chain and COVID-19 controls in China created acute impacts to Q4 results. **Macy's (M)** beat on EPS and revenue alongside raising FY adj. EPS view. M results got a boost from strong apparel demand as people returned to work and other out-of-home activities. **Dollar-Tree (DLTR)** beat on EPS and revenue, but looking ahead, Q2 EPS view came in light while FY guidance was maintained. **Dollar General (DG)** beat on EPS and revenue and also raised sales forecast as more shoppers turn to discount stores amid elevated inflation. **Williams-Sonoma (WSM)** surpassed St. consensus on the top and bottom line as did SSS. FY22 performance is expected to be in line with its long-term outlook. **Alibaba (BABA)** topped on EPS and revenue but noted it will provide guidance. In commentary, BABA said logistics in Shanghai are improving with results helped by increased online demand amid China Covid-19 lockdowns. **iQIYI (IQ)** posted a surprise profit per share and also beat on revenue. **Baidu (BIDU)** beat on EPS and revenue.

FX WRAP

The greenback sold off Thursday as risk caught a bid. US data was weak: 2nd estimate for Q1 GDP was revised to a deeper contraction, while pending home sales followed the downward trend seen in the April existing and new home sales prints. Initial jobless claims were better than expected after the spike last week, but continuing claims were worse than expected. Attention now turns to PCE Prices on Friday. Note, with month-end approaching, and the US holiday on Monday, related flows will likely start taking effect soon. Citi's preliminary month-end FX model points to moderate USD buying vs all major currencies, with the signal strength broadly in line with historical norms.

The Euro was bid and EUR/USD reclaimed 1.07 to the upside as the Dollar sold. Citi's month-end estimate notes that fixed income hedge rebalancing flows are expected to be roughly balanced for the USD, except for in EURUSD, where weak Euro Area bond performance has weakened the overall buy-signal.

HAVENS: The Yen was marginally bid against the Dollar but weaker against the Euro, although strength was seen in the morning after BoJ Governor Kuroda leaned hawkish as he mentioned an exit of easy monetary policy, a day after reports suggested Japan is to urge the BoJ to meet its inflation goal sustainably. Kuroda said the BoJ will likely combine rate hikes and balance sheet reduction through specific means, with timing to be dependent on developments. Meanwhile, Kuroda said FOMC rate hikes may not necessarily result in a weaker JPY or outflows of funds from Japan if it affects US stock prices. CHF firmed against the buck and was marginally weaker against the Euro to see EUR/CHF briefly rise above 1.03 before paring beneath the round level.

Cyclical currencies were mixed, AUD and NZD were flat while CAD and GBP were bid. Cable was initially supported by reports that Sunak's package to help with the cost of living crisis will be over GBP 30bln, although given the announcement totalled GBP 15bln, the move was reversed. However, GBP reversed once again thanks to the risk environment and broader Dollar weakness. The Looney was also supported by the risk rally and particularly the surge in oil prices, as momentum has seen the oil benchmarks breakout higher back towards their March highs as desks bang the "driving season" drum. For the Antipodes, the weaker than expected CapEx data hampered the Aussie while the Kiwi failed to benefit from RBNZ Governor Orr ramming home that a fast pace of hikes is required.

Scandis were weaker against the Euro, particularly SEK despite the risk rally but NOK was only slightly weaker thanks to the rise in Brent crude prices which helped the NOK firm against the greenback, while SEK was weaker against the Dollar.

EM's were mixed. The Rouble was weaker after the emergency rate meeting from the CBR which cut rates to 11% from 14%, vs the expected 11/12% forecasts and held open the prospects of further cuts at coming meetings. CBR Governor Nabiullina noted they considered a 200bp or 300bps rate cut. The Russian Economy Minister was jawboning the RUB, stating the CBR could cut further in June while adding a strong RUB makes Russian goods less competitive. Meanwhile, the Lira was slightly weaker/flat against the buck while the CBRT left rates unchanged at 14% as expected. ZAR was flat against the Dollar despite a hotter than expected April PPI print, although gold prices were lower for most of the session (before settling flat). BRL saw solid gains against the Dollar while MXN saw slight gains. In Brazil, the government confirmed President Bolsonaro will attend a US summit and meet with US President Biden, while the latest federal tax revenue was above expectations and posted a fresh April record. In Mexico, we saw Banxico's May meeting minutes, which in fitting with the statement, raised concerns over higher inflation. Note, in the May meeting Banxico hiked by 50bps as expected, although Espinosa opted for a larger 75bp hike in a 4-1 decision. It also added language that more forceful measures may be considered in the future to help reach its inflation target, something the minutes revealed "most members" suggested.



Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited ("**Newsquawk**") on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.