US Market Wrap

27th May 2022: Stocks snap 7wk loss as bond selling dwindles

- **SNAPSHOT**: Equities up, Treasuries flat, Crude up, Dollar flat.
- **REAR VIEW**: PCE eases inflation fears, personal income misses but consumption beats, Final UoM revised lower, but so were 1yr inflation expectations; Russia opens up Black Sea to passengers; EU leans towards delaying pipeline ban; NATO talks between Turkey, Finland & Sweden made little progress.
- **WEEK AHEAD**: Highlights include US nonfarm payrolls, ISM surveys, EZ CPI, China PMI, BoC, OPEC+. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing BoC; Reviewing FOMC minutes, CBR, RBNZ, BoK, CBRT. To download the report, please click here.

MARKET WRAP

Stocks rallied throughout NY cash trade on Friday, as they have done every day this week. The SPX sees its first W/W gain since late March, and is touching levels not seen for a month above 4150. Undoubtedly, month-end stock buying has to be considered a factor for the strength with sell-side models pointing to the strongest stock rebalancing buy signals since the onset of COVID-19, although given the scale of the downside, it was only a matter of time before a relief rally occurred. Friday saw expectations for a slight cooling in US Core PCE confirmed (+4.9% Y/Y vs prior 5.2%; M/M +0.3%), which for now, keeps the peak inflation narrative alive - a hot May CPI on June 10th stands to break that, in addition to quelling recent chatter of a potential Fed rate hike pause in September (June FOMC and the latest Dot Plot on June 15th). Meanwhile, commodities, activity currencies, and credit all saw continued strength today, and it's probably no coincidence that has occurred as the sell-off in bonds loses momentum, as does implied volatility as the MOVE index (VIX for Treasuries) hits its lowest level since March.

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US PCE: The April PCE prices confirmed expectations of a mild decline as Core rose 0.3% M/M (as expected), helping offset some of the nerves after the hot April Core CPI M/M print. Core Y/Y rose 4.9% (as expected), slowing from the prior 5.2%. The headline figures rose by 0.2% on the month and 6.3% on the year, also cooling from the priors. Personal Income rose by 0.4%, a touch cooler than the 0.5% forecast and prior. Meanwhile, consumption was healthy, rising 0.9% above the 0.7% expectation while the prior was revised higher to 1.4% from 1.1%, in fitting with the strong rise in the Retail Control metric within the April retail sales. Analysts at Pantheon Macroeconomics highlight that consumption was supported by a jump in auto sales and spending on discretionary services but warns that a repeat performance in May is very unlikely and they expect real spending will be about flat in May before rising 0.2% in June. PM adds, "People are choosing to run down some of their huge pile of savings in order to maintain their discretionary spending, so the current saving rate - just the difference between income after tax and spending - fell to just 4.4% in April, the lowest since August 2008", adding it can continue for a long time but real incomes are expected to rise again in H2 so it is not necessary. On inflation, Pantheon's base case is Q4 core PCE will be 3.9%, close to the Fed's 4.1% forecast in March (we are due to get updated projections in June), but the consultancy expects inflation to fall much more quickly than the Fed expects.

UOM: Headline Sentiment was revised lower to 58.4 from 59.1, against expectations for an unrevised figure. The forward-looking expectations sub-index was revised lower to 55.2 from 56.3, as were the current conditions to 63.3 from 63.6. The inflation expectations were more encouraging after the 1yr-ahead consumer expectations were cut to 5.3% from 5.4%, but the 5yr-ahead remained at 3.0%. The report highlights, "the final May reading confirmed the early month decline in consumer sentiment, which fell 10.4% below April and reverted to virtually the same level of sentiment seen in March". It adds, the recent drop was largely driven by continued negative views on current buying conditions for houses and durables, as well as consumers' future outlook for the economy, primarily due to concerns over inflation". Meanwhile, consumers expressed less pessimism over future prospects for their personal finances than over future business conditions. "Less than one quarter of consumers expected to be worse off financially a year from now. Looking into the long term, a majority of consumers expected their financial situation to improve over the next five years; this share is essentially unchanged during 2022. A stable outlook for personal finances may currently support consumer spending. Still, persistently negative views of the economy may come to dominate personal factors in influencing consumer behavior in the future."

APRIL TRADE: US Advance Goods Trade Balance for April deficit narrowed to 105.94bln from 125.9bln, which was revised lower from 127.12bln. Exports rose 3% while imports fell 5%. Pantheon Macroeconomics notes the deficit is significantly lower than the 113bln average for Q2, so it is reasonable to assume net foreign trade will contribute to Q2 GDP growth, but it is unlikely to reverse the 3.2% hit to growth in Q1.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLE 2+ TICKS LOWER AT 120-04+

Treasuries saw two-way flows in tight ranges and low liquidity on Friday, dipping modestly into the NY afternoon with month-end buying up against risk-on trade. At settlement, 2s -0.4bps at 2.484%, 3s +1.1bps at 2.642%, 5s +0.7bps at 2.724%, 7s +0.5bps at 2.770%, 10s -1.5bps at 2.743%, 20s -2.0bps at 3.163%, 30s -2.1bps at 2.972%. Inflation breakevens: 5yr BEI +2.2bps at 2.993%, 10yr BEI +4.0bps at 2.621%, 30yr BEI +1.8bps at 2.390%.

THE DAY: Very low volumes (ex-roll activity) and choppy price action through APAC and Europe for T-Notes (U2), with month-end buying contrasted against book-squaring into the long-weekend and broader risk-on trading conditions. After the inline April, US Core PCE (+0.3% M/M; Y/Y fell to 4.9% from 5.2%) printed there was a mild, kneejerk move lower for T-Notes, before paring higher again with some mulling over the soft Personal Income figure. T-Notes squeezed to session highs in the wake of the final May UoM survey, which was revised lower (including the 1yr ahead consumer inflation expectations), but the momentum couldn't hold as Europe departed for the weekend. Mild selling into the NY afternoon saw T-Notes hit session lows of 120-03+, marking a 12+ tick range on the session, the lowest for the Sep contract since early April. Note the MOVE index (VIX for Treasuries) is nearly back under 100 after hitting 140 earlier this year, the highest since March 2020 - month-end buying has helped, but so has fundamentals with evolving two-way risks for Fed policy after the heavily hawkish skewed expectations earlier this year.

AHEAD: Looking to next week, any month-end flows remaining likely take place on Tuesday now given thin holiday trade Monday, while Bloomberg note index duration extension in USTs is seen adding +0.11yr this month. NFP on Friday is the data highlight next week, although ISM mfg. comes ahead on Wednesday with expectations very low after all the abysmal survey data for May. On Fed speak, the schedule sees Waller, Williams, Bullard, Logan, Mester, and Brainard, not to mention any unscheduled remarks ahead of the June FOMC blackout next Saturday.

STIRS:

- EDM2 +0.8bps at 98.238, U2 -0.5bps at 97.49, Z2 -0.5bps at 97.00, H3 -0.5bps at 96.86, M3 -0.5bps at 96.84, U3 -2.0bps at 96.915, Z3 -2.5bps at 97.005, H4 -3.0bps at 97.065, Z4 -1.5bps at 97.18, Z5 +0.5bps at 97.24.
- Option flow was quiet, with the highlight being a block of 10k 2x3 EDZ2 96.50/96.25 put spreads for 1.5 in the late London morning.
- NY Fed RRP op demand at USD 2.007tln across 99 bidders (prev. USD 2.008tln across 94 bidders); SOFR flat at 78bps.

CRUDE

WTI (N2) SETTLES USD 0.98 HIGHER AT 115.07/BBL, BRENT (Q2) SETTLES USD 1.39 HIGHER AT 115.56/BBL

Oil prices were choppy Friday, clinching gains into the settlement as risk assets prospered, while the EU gets closer to a (quasi) Russian oil embargo. Book squaring is also a factor to consider ahead of July futures expiring on Tuesday after Thursday's OpEx. Note that WTI and Brent futures have risen for a fifth consecutive week now, with WTI around the USD 100/bbl area entering May. Further upside momentum from here would see a run in towards the March highs.

EMBARGO: Bloomberg reported the EU is leaning toward delaying a pipeline ban to achieve its oil embargo deal, where shipments via the Druzhba oil pipeline could be excluded temporarily from the proposed EU ban in an effort to appease Hungary. The aim is for a deal to be reached before the summit next week.

RIG COUNT: The weekly Baker Hughes US rig count (w/e May 27th) saw Oil -2 at 574, Nat Gas +1 at 151, and Total -1 at 727. The decline marks the first fall in 31 weeks, albeit the monthly total still rose and total rigs are up 270 over the past year. Oil rigs have risen for a record 21 months in a row since the depths of COVID.

EQUITIES

CLOSES: SPX +2.47% at 4,158, NDX +3.30% at 12,681, DJI +1.77% at 33,214, RUT +2.70% at 1,888.

SECTORS: Consumer Discretionary +3.47%, Technology +3.44%, Real Estate +2.82%, Communication Svs. +2.62%, Materials +2.29%, Industrials +2.05%, Financials +1.79%, Health Care +1.72%, Energy +1.68%, Utilities +1.49%, Consumer Staples +1.09%.

EUROPEAN CLOSES: Euro Stoxx 50 +1.83% at 3,809; FTSE 100 +0.27% at 7,585; DAX +1.62% at 14,462; CAC 40 +1.64% at 6,516; IBEX 35 +0.50% at 8,934; FTSE MIB +0.41% at 26,876; SMI +1.35% at 11,647.

STOCK SPECIFICS: The US Treasury issued a renewed general license for Chevron (CVX) to operate in Venezuela. AutoDesk (ADSK) earnings beat on the top and bottom line although Q2 and FY guidance were beneath expectations. CostCo (COST) saw marginal beats on EPS and revenue while US comp sales were above estimates. COST said it was not seeing a trade decline but was seeing a little shift in spending, adding that a number of items in the basket were a little less than last year because there was more trip consolidation Y/Y during COVID. Marvell Tech (MRVL) beat on EPS and revenue while guidance was above expectations. Gap (GPS) initially tumbled after it slashed its FY guidance, but it made a remarkable recovery, similar to what was seen with Dick's (DKS), showing further signs of oversold conditions for the retail sector after the sector reported earnings. Ulta Beauty (ULTA) beat expectations with very strong comp sales. VMWare (VMW) said Broadcom's (AVGO) acquisition of VMware includes a termination fee of USD 1.5bln for Broadcom, while VMWare would pay a lower 750mln break-up fee. There were insider buy filings from Crocs (CROX) and Carnival (CCL) as management "buy the dip". Blackberry (BB) rallied after it announced a partnership with Google (GOOGL). Kohl's (KSS) was hit on speculative reports that Hudson Bay could be pulling out the bidding race for KSS, following reports that Simon Property Group (SPG) is also backing down, despite reports earlier in the week suggesting the bidders were looking to go ahead with the deal, but at a 10-15% discount than the initial offer. Stephen A. Smith, the cult sports host, is in talks with Spotify (SPOT) and others about podcasts, according to Bloomberg sources.

WEEKLY FX WRAP

USD: The Buck witnessed more volatile price action, but extended its retreat through a series of descending daily ranges to a 101.430 low vs 102.950 high in DXY terms before deriving some traction from month end rebalancing flows that were favourable to varying degrees according to bank models. However, US fundamentals were net negative for the Greenback, as housing and durable goods data came in weaker than expected, preliminary PMIs missed consensus, Q1 GDP was revised down to show a deeper contraction, regional Fed surveys continued to disappoint and continued claims for the May NFP survey week rose more than forecast to collectively outweigh a bigger than anticipated decline in the weekly count and in line core PCE price metrics. Meanwhile, FOMC minutes did not really offer support or provide a boost given their broadly balanced tone, affirming 50 bp hikes for the next couple of meetings, with no mention of 75 bp or a pause, while underlining the potential for expedient tightening to go beyond the point of neutral to restrictive levels if the inflation situation warrants.

NZD/AUD: It was far from straightforward or one-way traffic for the Kiwi, though fitting nonetheless that Nzd/Usd eventually secured a firm grasp of the 0.6500 handle compared to a base just under 0.6400 backed by a hawkish RBNZ hike. To recap, the OCR was raised by 50 bp, as expected, but the outlook ratcheted significantly higher to almost 4% by September 2023 and therefore well beyond neutral, while Governor Orr underscored the message by stating that rates need to be increased at pace and stay above neutral for a long time. Nzd/Usd is now eyeing 0.6550 having breached Fib resistance at 0.6529, but the Aud/Nzd cross is hovering above the bottom of 1.1025-1.0923 bounds amidst Aussie strength forged from a rebound in iron ore and renewed risk appetite rather than any real lasting relief that the election culminated in a clear result, albeit regime change via victor for Labour’s Albanese, or macro news. Aud/Usd topped out around 0.7166 compared to sub-0.7050 at the low.

GBP/CHF/CAD/JPY/EUR: A relatively low-key week on the UK data front left the focus on ‘flash’ PMIs, BoE speakers, the full Gray partygate findings and Chancellor Sunak’s latest cost of living relief package. The former were bleak and undermined the Pound, while Governor Bailey said the MPC is prepared to hike again and must do what is required to return inflation to target, but Pill and Tenreyro both highlighted that there is a fine line between tightening too much and paying the price of getting stuck in a recessionary rut. Back to politics, and the Gray report was damning in contrast to the aforementioned support measures that might be less damaging to Government finances at Gbp 15 bn vs reports of Gbp 30+ bn in the run up to Rishi. Regardless, Sterling is ending the week on the up with Cable closer to 1.2666 than 1.2472 and Eur/Gbp around 0.8500 within 0.8586-0.8434 extremes. Elsewhere, signs of the SNB shifting towards a less dovish stance via Maechler and head Jordan plus softer US Treasury yields (10 year cash down to 2.706% from 2.873% at the other end of the scale) gave the Franc sufficient impetus to probe 0.9550 from circa 200 pips higher at one stage, and it was a similar story for the Yen between a 128.08-126.37 corridor vs its US counterpart after BoJ Kuroda broached the subject of exiting from ultra accommodation and ventured that Fed hikes should not necessarily result in a weaker Jpy. Continuing the theme, ECB President Lagarde set the stage for GC hawks on Monday with a blog post stating that based on the current outlook, we are likely to be in a position to exit negative interest rates by the end of the third quarter and followed up the next day by adding when out of negative rates, you can be at or slightly above zero. Nevertheless, this still angered some GC members who want to move faster apparently, and Holzmann is clearly anxious to start more aggressively as he believes a 50 bp hike in July is appropriate. Eur/Usd is marginal above 1.0700 having been up to 1.0765 and as low as 1.0560, but Eur/Chf is sub-1.0250 vs a 1.0350 apex in advance of Eurozone and Swiss CPI updates next week. Turning to the Loonie, a half point BoC hike looms and has been priced in for some time, but Usd/Cad is down between 1.2884-1.2729 confines in large part due to resurgent oil, improving sentiment and increasingly bearish technicals, with a key Fib giving way most recently. Note, WTI got to within a single cent of Usd 115/brl today vs a Usd 108.61 trough on Tuesday in tandem with Brent's big bounce from Usd 109.08/brl to Usd 115.26.

SCANDI/EM: No shock that crude's strong comeback gave the Nok sufficient fuel to claw back more losses than the Sek vs the Eur, as the Mxn is also riding the WTI wave, albeit with added thrust from the flagging Usd. Indeed, the latter is helping the Cnh and Cny as well, along with further economic stimulus from the PBoC and Chinese Government, while the Zar received good news on the SA ratings side when S&P upgraded the country's outlook to compound Gold's solid performance around Usd 1850/oz and mostly above the 200 DMA. Elsewhere, more evidence of divergent Central Bank policy and physical or direct intervention vs verbal and other methods employed to combat inflation, as the Rub was rattled by the CBR's 300 bp cut out of regular meeting and the Try was left in limbo by a sidelined CBRT, whereas the Krw got some traction from a 25 bp BoK hike and the Ils via the Bank of Israel opting for a larger than consensus 40 bp. On the flip-side, Cnb chat turned less hawkish and helpful for the Czk and the Huf was plunged into a midweek state of emergency.