US Market Wrap

3rd June 2022: Stocks end on a 'bad feeling' after strong NFP sees Dollar and yields jump

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: NFP slows less than expected while earnings growth less than feared; Mixed ISM Services, headline misses but new orders rises as prices paid falls; Musk has 'super bad' feeling about the economy & TSLA to cut 10% of staff; China reaches to US regarding meeting; Fed's Mester says September could easily be a 50bps hike; BMY to acquire TPTX.
- **WEEK AHEAD**: Highlights include US CPI, China CPI, ECB, RBA. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing ECB, RBA, CBR, RBI; reviewing BoC. To download the report, please click here.

MARKET WRAP

Stocks end the week on the backfoot (SPX -1.6%, NDX -2.7%, RUT -0.6%) whilst also now closing lower on the week after last week's first rise in seven proved a red herring. Equity futures were already dipping lower before the strong US jobs report (+390k vs exp. +325k), with low liquidity emboldening headline risk, to which Elon Musk spooked markets with his holistic economic forecast (has a "bad feeling"), adding to JPMorgan's Dimon warning this week of an economic hurricane on the horizon. Ominous, but not (yet) backed by data. Treasuries were sold with the belly weakest (10yr +3bps) as the 'goldilocks' NFP (softer than expected wage growth and rising labour force participation) saw hike pricing de-frontload and growth outlooks boosted. The rationale being that on the margin, the relatively soft wage figures give the Fed some breathing room on wage-price spiral concerns, and support a more prolonged hiking cycle. Fed's Mester (voter) was the last to speak on policy before Saturday's FOMC (June 15th) blackout period, and said on CNBC that it's too soon to say if the jobs report will change the policy outlook, referring back to the need for consistent, multiple data points to confirm a peak in inflation, which she says will take time. In FX, the cocktail of strong US data and risk aversion saw the DXY rally back above 102, with particular weakness in the rate-senstive Yen, in addition to high-beta currencies such as the antipodeans and Sterling. Curiously, oil prices rallied through the US session as dust settled from Thursday's OPEC confusion; prices continue to break out higher with eyes to the March peaks. That left energy as the only sector in the black, although the strong jobs data did see relative outperformance in cyclical stocks.

US

NFP: NFP headline printed 390k, above the expected 325k, and fell from the prior 436k, whilst the unemployment rate unexpectedly remained unchanged at 3.6% (exp. 3.5%). It's worth highlighting that the headline figure was boosted by a massive 57k rise in government payrolls with the private figure more measured at 333k. Moreover, average hourly earnings printed at 0.3% (prev. 0.3%), beneath the expected 0.4%. ING note, "the US economy added more jobs than expected in May, but with nearly two job vacancies available for every unemployed American the numbers would be even stronger if there was a better supply of quality labour. This is both a constraint on growth while contributing to ongoing elevated inflation via higher wages." In the coming months, ING expects slower payroll growth but this should not come as a huge surprise given that 21.2mln of the 22mln jobs lost in March and April 2020 have now been filled. Additionally, ING adds, the likelihood of large job gains has also been reduced by likely corporate caution amid recent dips in equity markets, geopolitical uncertainty, rising costs and Fed rate hikes. Nonetheless, looking ahead, ING states, "a tight jobs market with worker shortages and rising pay is both a constraint on growth and will keep inflation higher for longer. This means there is nothing in this report to deter the Fed from their roadmap of 50bp hikes at the June and July meetings". On the slack metrics, U6 underemployment rose to 7.1% (prev. 7.0%), average workweek hours was unchanged at 34.6hrs while manufacturing payrolls fell to 18k (prev. 61k), and labour force participation ticked marginally higher to 62.3% (prev. 62.2%).

ISM SERVICES: ISM Services headline index dipped to 55.9 from the prior 57.1, and slightly beneath the expected 56.4. Looking at the subcomponents, new orders rose to 57.6 (prev. 54.6), whilst employment rose back into the expansionary territory of 50.2 (prev. 49.5). Elsewhere, business activity fell notably to 54.5 (prev. 59.1), while the inflationary gauge of prices paid dropped to 82.1 (prev. 84.6). Delving into the report, Pantheon Macroeconomics note, "we hoped for better, but the services index is underperforming relative to the Google mobility data - substantially - and the recent performance of core retail sales - slightly - perhaps because firms fear the future impact of the surge in energy prices."

Moreover, the consultancy adds, "the plunge in the order backlog, returning it to the pre-Covid level is a striking indication that supply chain pressures are easing dramatically, allowing wholesalers and retailers to rebuild inventory. Delivery times are falling too, though prices paid remain high, thanks to the gas price surge." Nonetheless, overall the dataset is incrementally encouraging from an inflation perspective.

FED: **Mester (2022, 2024 voter)** said the US jobs report was strong and wants to see some moderation in activity and growth, and for the labour market to cool a little, but is it too soon to say if the report will change the outlook for policy. Regarding the economy, Mester added risks of recession have gone up, while it will take compelling evidence, not just one or two months of data, on inflation's fall. On the September meeting, Mester noted that come the meeting, it could easily be a 50bps hike as well, but if compelling evidence of inflation coming down is seen, it maybe could go be just a 25bps hike in September. She didn't give any mentioning of a rate pause.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 10 TICKS LOWER AT 118-17+

Treasuries were sold with the belly weakest as the 'goldilocks' NFP saw hike pricing de-frontload, with rising labour force participation boosting growth outlooks. 2s +2.9bps at 2.667%, 3s +3.9bps at 2.861%, 5s +4.0bps at 2.949%, 7s +3.7bps at 2.986%, 10s +3.6bps at 2.952%, 20s +3.0bps at 3.327%, 30s +2.9bps at 3.104%.

INFLATION BREAKEVENS rallied as oil closed at highs: 5yr BEI +5.5bps at 3.051%, 10yr BEI +6.8bps at 2.713%, 30yr BEI +7.8bps at 2.555%.

TOKYO/LONDON: Quiet trade through APAC and the European morning Friday for Treasuries with T-Notes trading in a range of 118-24/118-30. Flow saw a flurry of blocked FV/TY flatteners during the Tokyo afternoon, but little follow-through price action with the curve contained ahead of the NY session/NFP.

NEW YORK: T-Notes respected their ranges as US trade got going, although some noteworthy options flow saw 20k July expiry TY 122.00 calls for 4 ahead of payrolls, in addition to the same strike calls active in Aug and Sep expiries. While in futures, two blocked steepeners saw a combined 18.4k TU vs 10.6k TY ahead of the data. The smaller drop in jobs added than expected, alongside the cooler than expected wage growth, saw the curve come for sale led by the long-end. T-Notes went on to print session lows of 118-11+ not long after the data (cash 10yr yield high at 2.986%, highest since mid-May). T-Notes rose off lows gradually through the NY morning, but couldn't extend beyond 118-23+ before a chunky block steepener (13k FV vs 4k US) weighed on duration. T-Notes then hovered in the 118-16/118-20 area into settlement.

AHEAD: Treasury participants look to next week's 3s, 10s, and 30s auctions on Tues, Weds, and Thurs, with a larger net supply given the Fed is pulling back on reinvestments. While on the data front, the highlight will be CPI on Friday, the same day we get the preliminary June UoM survey, with no other tier 1 releases before then. There will also be reduced headline risk given we are now entering the Fed blackout period ahead of the June 15th FOMC.

STIRS:

- Eurodollar steepened as relatively cool wage growth reduced the risk of another hawkish Fed shift and incrementally supports a slower hiking path.
- Mester (v) said too soon to say if jobs report will change policy outlook.
- EDM2 +0.5bps at 98.24, U2 -0.5bps at 97.35, Z2 -2.0bps at 96.775, H3 -4.5bps at 96.57, M3 -5.5bps at 96.52, U3 -5.5bps at 96.635, Z3 -5.5bps at 96.745, H4 -5.0bps at 96.83, Z4 -5.5bps at 96.960, Z5 -5.0bps at 97.025.
- In options, note a bullish front-end buyer of 40k EDQ2 97.50 calls for 7 vs underlying EDU2 at 97.3550 (targets Sep Fed Funds at or below 2.25/2.5%).
- NY Fed RRP op demand at USD 2.031tln across 101 bidders (prev. USD 1.965tln across 93 bidders).

CRUDE

WTI (N2) SETTLED USD 2.00 HIGHER AT 118.87/BBL; BRENT (Q2) SETTLED USD 2.11 HIGHER AT 119.72/BBL

Oil prices were firmer Friday as weakness out of APAC was reversed into the weekend with dust settling from Thursday's OPEC confusion, while NFP points to sustained US activity. WTI (N2) and Brent (Q2) hit lows of USD 115.23/bbl and 116.02/bbl, respectively, in the European morning as stocks started to dip. After hovering near lows for a few hours, better bidding emerged as US players arrived despite stocks extending losses, and then extending further post-NFP as broader risk assets struggled. Highs were made ultimately for WTI and Brent at 119.42/bbl and 120.13/bbl as Europe departed for the weekend, hanging close to those levels through into the settlement. The strength sees WTI (N2) and Brent (Q2) futures close the week near their Tuesday (and contract) highs at 119.98/bbl and 120.80/bbl, although looking at front-month peaks, current levels are a ways off those made in early March at 130.50/bbl and 139.13/bbl.

RUSSIA: Rosneft's Tuapse refinery (240k BPD) is to resume operations in June after a three-month shutdown, according to Reuters, and as a result product exports from the Black Sea port of Tuapse are planned at 1.024mln tonnes in June, up from 0.702mln in May. Meanwhile, Reuters reported Kazakhstan is to designate its oil shipped via Russian port as "Kebco" instead of "Urals" from June in order to avoid sanctions (follows suggestions that Kazakstan exports could struggle as insurers shun Russian ports in general). Lastly, a June schedule shows Russian Urals crude loadings from Baltic ports falling to 6.5mln tonnes from 7.0mln in May, although Urals and Siberian light oil loading from Novorossiisk rise to 3.04mln from 2.631mln, with maintenance affecting exports from Primorsk.

GAS: EU and Egypt are to sign a deal, alongside Israel, in June on supplying the bloc with gas, according to a draft cited by Bloomberg. Meanwhile, FT reported Gas traders are rushing to secure LNG tankers ahead of winter with ship rates surging as sanctions on Russia reshape global energy flows.

EQUITIES

CLOSES: SPX -1.65% at 4,107, NDX -2.67% at 12,548, DJIA -1.05% at 32,898, RUT -0.64% at 1,880.

SECTORS: Consumer Discretionary -2.85%, Technology -2.48%, Communication Services -2.37%, Financials -1.53%, Real Estate -1.25%, Health -1.14%, Consumer Staples -1.04%, Materials -0.98%, Utilities -0.44%, Industrials -0.36%, Energy +1.4%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.30% at 3,783; DAX -0.17% at 14,460; CAC 40 -0.23% at 6,485; IBEX 35 -0.22% at 8,724; FTSE MIB -1.06% at 24,166; SMI -0.11% at 11,537.

STOCKS SPECIFICS: **Bristol Myers (BMY)** is to acquire **Turning Point Therapeutics (TPTX)** for USD 76/shr (vs close USD 34.16/shr) with the deal valued at USD 4.1bln. **Tesla (TSLA)** is to pause all hiring worldwide, and CEO Musk said the automaker needed to make approximately 10% staff reductions, adding that he had a "super bad" feeling about the economy. TSLA later stated layoffs are just for salaried employees, and Co. is still hiring hourly workers, according to Electrek. **Kohl's (KSS)** received a takeover bid from Sycamore and **Franchise Group (FRG)**. Sycamore's bid values KSS in the mid-50s/shr, Franchise offered around USD 60/shr. KSS closed Thursday at USD 41.18/shr. Kohl's sale negotiations could drag on for weeks, possibly longer, amid market volatility; the likely per-share deal price at this point would be in the mid-USD 50s, according to CNBC sources. **Coinbase (COIN)** said that in response to the current market conditions, it will extend its hiring pause for the foreseeable future, as well as to rescind some accepted offers. **Chegg (CHGG)** boosted the share repurchase programme by USD 1bln, taking it to an aggregate size of USD 2bln. **American Airlines (AAL)** updated Q2 outlook and now expects an increase in Q2 revenue of +11-13% vs 2019 (prev. +6-8%) driven by continued strength in demand and pricing environment. However, expects Q2 capacity (vs Q2' 19) to come at the low end of the prior range and continued increases in the price of jet fuel are expected to result in higher Q2 fuel costs. **Starbucks (SBUX)** reopens 600 of its 940 stores in China and will continue to reopen the rest of the store portfolio. FCC seeks more information on **Tegna (TGNA)** sale to Standard General. **Amazon (AMZN)** CEO of Worldwide Consumer, Dave Clark, resigned after 23 years and his last day will be July 1st. Supply chain snags recently led **Boeing (BA)** to pause 737 MAX production for roughly 10 days, according to WSJ citing sources. Production and delivery problems are hindering Boeing's ability to satisfy airlines' demand for new aircraft. **Micron (MU)** downgraded at Piper Sandler who cited risks from cyclical consumer products markets and pricing headwinds within the dynamic random-access memory market. **Novavax (NVAX)** based on interpretation of all clinical data believes there is insufficient evidence to establish a causal relationship with myocarditis/pericarditis.

EARNINGS: **Lululemon (LULU)** beat on EPS and revenue, while looking ahead raised Q2 and FY guidance. LULU said seeing modest impacts of the COVID-19 related lockdowns on its stores and some of its vendors. **RH (RH)** surpassed Wall St. consensus on top and bottom line but issued a weaker-than-expected revenue outlook for the FY. Note authorised a USD 2bln share buyback programme. **Okta (OKTA)** posted a shallower loss per share than expected alongside beating on revenue. Looking ahead, guidance was strong as FY23 EPS and revenue guidance topped consensus. Okta said it is not seeing any impact from the security breach of its systems in March, or macroeconomic conditions. **CrowdStrike (CRWD)** beat on the top and bottom line alongside strong guidance. On this, FY view was raised whilst next Q EPS and revenue view also topped expected.

WEEKLY FX WRAP

newsquawk

Broadly upbeat BLS helps Buck stop the rot

USD - A truncated week, with US markets closed on Monday for Memorial Day and the UK shut for the Platinum Jubilee on Thursday and Friday, but plenty more volatility and key events nonetheless, including data, hawkish and dovish Central Bank vibes to spark several swings in broad risk sentiment. On the macro front, NFP confounded consensus in headline terms and gave the flagging Greenback a fillip given proxies like ADP and ISM manufacturing employment inferring a downside bias, not to mention the White House stating that it does not anticipate blockbuster numbers every month. The DXY popped above 102.000 in response, as the 10 year Treasury yield carved out a marginal new peak for the week a fraction under 3%, albeit still some way short of its w-t-d best (102.740) that was forged on Wednesday, initially due to follow-through month end rebalancing momentum and then a stronger than expected manufacturing ISM. Indeed, it remains to be seen whether the index and Dollar in general can sustain enough impetus to end on a high note and above last Friday's 101.680 'close' that would be constructive from a technical perspective, especially in wake of a below forecast services ISM that came with mostly soft sub-components. Moreover, the Buck continues to see its Fed policy premium erode vs all but a few and dwindling batch of currencies that are still operating under degrees of accommodative monetary conditions.

CAD/EUR - Aside from the overall market mood and undoubted underlying thrust of crude prices, Loonie strength within a 1.2552-1.2734 against its US rival was supplemented by the BoC that added forceful guidance to its 50 bp hike, and the hawkish message was backed up just a day later when Deputy Governor Beaudry contended that there is an increasing likelihood that the policy rate will need to be raised to 3% or above. Note, this implies at least another 150 bp worth of tightening from the current 1.5%. Meanwhile, the ECB has yet to terminate QE let alone begin raising key rates, but intentions are clear from the entire GC and pricing is getting increasingly hawkish with five 25 bp increases now factored for the remainder of 2022 after a record high 8.1% y/y Eurozone HICP outturn. Hence, pronounced bear-flattening in EGBs and Euro gains from 1.0628 to 1.0786 vs the Dollar and to 140.31 from 136.27 against the Yen, with Eur/Usd picking through decent option expiries on the way and only pulling up at the point of chart resistance in the form of a Fib retracement.

GBP - As noted above, a three-day week for Sterling and not much on the UK economic agenda as a result, but the Pound drew comfort from bouts of Greenback weakness in the face of mounting pressure on PM Johnson via Conservative Party rebels to reclaim 1.2500+ status between 1.2460-1.2659 parameters, irrespective of losses on the Eur/Gbp cross, as the nation honoured the Queen's Platinum Jubilee.

AUD/CHF/NZD/JPY - All undermined by their US counterpart's post-payrolls bounce that appears to have reduced, if not quite removed the possibility of a September FOMC pause, with the Aussie also fading ahead of 0.7300 following passage beyond upside technical hurdles from sub-0.7150 and perhaps an element of caution before the RBA next week. However, another 25 bp hike is anticipated with prospects of more in wake of stronger than consensus Q1 GDP, and the Franc got a boost from data as well, as Swiss CPI overshot the SNB's 2% target by an even greater margin in May and might warrant some sort of reaction at this month's Quarterly Review. Usd/Chf back above 0.9600 within a 0.9555-0.9658 band. Elsewhere, the Kiwi saw a similar circa century pip span either side of 0.6500, but underperformed its Antipodean peer as Aud/Nzd advanced from 1.0950 to almost 1.1100 amidst tailwinds from a sharp retreat in NZ building consents, a downbeat NBNZ business survey and mainly a stark warning from RBNZ's Hawkebsy that recession represents a real threat. For the Yen, BoJ/Fed divergence and JGB/UST spread widening as a consequence was its downfall, though rhetoric from Deputy Governor Wakatabe and Board member Adachi were other negative factors. To recap, the latter said that attempting to stem a weak Jpy by tightening monetary policy would squeeze corporate funding and the latter that it is undesirable to target FX in guiding monetary policy. Usd/Jpy is breaking higher to 130.90 compared to 126.87 at the other extreme.

SCANDI/EM - Choppy trade for the Sek and Nok largely tracking the risk tone and Eur moves, but the former gleaned some independent traction from hawkish Riksbank rhetoric and the latter from Brent's exertions plus the fact that the Norges Bank has trimmed daily foreign currency purchases this month from May. Hawkish Banxico commentary and WTI's resurgence lifted the Mxn and the Zar piggy-backed Gold's impressive performance, while the Cnh/Cnh welcomed latest Chinese Government and PBoC economic/liquidity support measures to such an extent that both embarked on marked corrective rebounds. On the flip-side, the Huf was left wanting after the NBH only hiked 50 bp instead of the 60 bp most were predicting and the Try finally succumbed to the inevitable fall beneath 16.5000 vs the Usd due to ongoing Turkish geopolitical issues and the fact that not as hot as feared CPI readings were outweighed by another spike in PPI metrics that raise further question marks over the CBRT's assertion that disinflation is likely to start on the back of strengthened measures for sustainable price and financial stability.

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