



US Market Wrap

6th June 2022: Bond sell-off sours Beijing reopening bid

- **SNAPSHOT:** Equities up, Treasuries down, Crude down, Dollar up.
- **REAR VIEW:** Positive China COVID updates; UK PM Johnson wins confidence vote, as expected; ECB's Lagarde under internal pressure to stop fragmentation; Elon Musk believes TWTR is breaching obligations under merger agreement; China to conclude probe into DIDI; AAPL unveiled new M2 chip.
- **COMING UP: Data:** German Industrial Orders, UK Composite/Services PMI (Final), Canadian Trade Balance
Events: RBA Policy Announcement, EIA STEO **Supply:** UK & US.
- **CENTRAL BANK WEEKLY:** Previewing ECB, RBA, CBR, RBI; reviewing BoC. To download the report, [please click here](#).
- **WEEK AHEAD PREVIEW:** Highlights include US CPI, China CPI, ECB, RBA. To download the report, [please click here](#).

MARKET WRAP

Stocks made modest gains to start the week (SPX +0.3%, NDX +0.4%, DJIA flat, R2K +0.5%) after bullishness out of APAC/Europe faded through the NY session. The strong sentiment into the NY morning was attributed to some reopening hope in China, namely Beijing, as well as some easing from the CCP on Chinese tech (WSJ reported DiDi probe winding down). However, after the NYSE cash open, indices soon hit their peaks before yields and the Dollar started making marks on valuations. Elon Musk's latest attempt to pull out of the Twitter (TWTR) deal didn't help sentiment. Treasuries were sold in the NY morning as a busy corporate debt pipeline led to supply indigestion ahead of this week's Treasury auctions (3yr Tues, 10yr Wed, 30yr Thurs). The Dollar advanced, particularly in wake of the debt selling which saw the Yen hit a 20yr low against the buck, while Sterling's earlier bid on news of a Johnson No-Confidence vote faded as it became clearer he would survive. It's also worth a mention of the ECB, namely, FT sources noting the central bank is working on a new asset purchase programme for "struggling" debt (BTPs bid strong/Euro weakened), a seeming olive branch to appease the doves, but somewhat bizarre given the ECB is now beginning to raise rates. Tightening with one lever, whilst loosening the other - Lagarde has a tricky comms job ahead of her.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 20 TICKS LOWER AT 117-29+

Treasuries were sold as a busy corporate debt pipeline led to supply indigestion ahead of this week's Treasury auctions. 2s +6.7bps at 2.734%, 3s +7.6bps at 2.940%, 5s +8.8bps at 3.039%, 7s +8.9bps at 3.079%, 10s +8.3bps at 3.038%, 20s +8.1bps at 3.414%, 30s +7.1bps at 3.184%.

INFLATION BRAKEEVENS: 5yr TIPS +1.1bps at -0.023%, 10yr TIPS +5.3bps at 0.269%, 30yr TIPS +4.4bps at 0.626%.

TOKYO/LONDON: Quiet trade during APAC and Europe with futures volumes beneath average. T-Notes hit session highs in the Tokyo morning at 118-23+, albeit trading in a tight range marked by support at 118-18 holding through into Europe. Better govvie selling developed as stock futures found a lift on London's return from its four-day weekend, although FT reports of ECB mulling a "stressed" European debt-buying programme capped downside.

NEW YORK: Selling in Treasuries picked up at the NY handover as the IG Dollar debt pipeline started building, with rate-lock related hedging in Treasuries touted by rates desks to make way for the 12 issuers pricing on Monday. In an otherwise catalyst-lite session, that supply digestion had an outsized effect, particularly with Treasury participants casting an eye to this week's 3s, 10s, and 30s auctions (which also have the added weight of reduced Fed reinvestments). Selling extended to see the 10yr cash yield rise above 3.00% for the first time since mid-May, aided by chunky bearish options flow (mainly put spreads in July expiry TY). T-Note selling eventually levelled off as Europe closed shop around the 118-00 area but did eek session lows of 117-29 in pre-settlement trade, while cash 10yr marked a session yield high at 3.04%. Note also a chunky curve block of 16k 2yr vs 6k Ultra 10yrs, a touted steepener ahead of supply.



AUCTIONS: US to sell USD 44bln of 3yr notes on Tuesday, USD 33bln of 10yr notes on Wednesday, and USD 19bln of 30yr bonds on Thursday. Amid the Fed's balance sheet reductions, Bloomberg estimates a USD 5.6bln of Fed add ons vs the USD 14.9bln maturing.

AHEAD: 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 is reduced headline risk this week given we are now entering the Fed blackout period ahead of the June 15th FOMC.

STIRS:

- Eurodollars were all sold, but the front-end relatively outperformed, steepening the strip at the front-end; activity was very light both in futures and options.
- EDM2 -0.8bps at 98.23, U2 -1.5bps at 97.335, Z2 -3.0bps at 96.745, H3 -4.5bps at 96.525, M3 -7.0bps at 96.45, U3 -8.0bps at 96.55, Z3 -9.5bps at 96.65, H4 -10.5bps at 96.725, Z4 11.0bps at 96.855, Z5 -10.5bps at 96.92.
- NY Fed RRP op demand at USD 2.040tln across 98 bidders (prev. USD 2.031tln across 101 bidders).
- US SOFR declined to 0.78% as of June 3rd (from 0.79%).
- US sold USD 50bln of 3-month bills at 1.230%, covered 2.98x; sold USD 47bln of 6-month bills at 1.710%, covered 2.87x.

CRUDE

WTI (N2) SETTLED USD 0.37 LOWER AT 118.50/BBL; BRENT (Q2) SETTLED USD 0.21 LOWER AT 119.51/BBL

Oil prices were subdued Monday as strength out of APAC on China reopening optimism and higher Saudi July OSPs were faded, with desks pointing to returning Libyan production in addition to the dip in US stocks. WTI (N2) and Brent (Q2) hit session highs of USD 120.99/bbl and 121.95/bbl, respectively, at the futures opening before fading gradually from there, marking session lows of 117.63/bbl and 118.77/bbl as Europe departed.

SAUDI: Aramco raised all of its official selling prices (OSP) across Asia, Europe, and the Mediterranean for July, although kept its US differentials unchanged - note Asia saw the largest increases.

LIBYA: Weekend reports noted the partial resumption of Libya's El Sharara site following protest activity; albeit, the resumption was at 180k BPD vs its 330k BPD production capacity. However, Bloomberg reported later on Monday that it had returned to a halt again.

INDIA: India is reportedly in discussions to increase their oil imports from Russia's Rosneft, Bloomberg reported. Those would be in addition to their current contracts. Analysts have been suggesting that these deals (Russia exporting to India/China) will be crucial to prevent the global oil market from spiralling further out of balance.

GASOLINE: Citi's energy desk notes, "We're also seeing some profit taking in gasoline from the record high settlement reached on Friday." The analysts add, "Reduced refinery shipping schedules over the Memorial Day holiday may have also allowed a 3-4 mmbbls build in US gasoline inventories for the week ended June 3 and so the market may also be bracing for that."

EQUITIES

CLOSES: SPX +0.29% at 4,120, NDX +0.41% at 12,599, DJIA +0.05% at 32,915, RUT +0.45% at 1,888.

SECTORS: Consumer Discretionary +1.03%, Communication Services +0.98%, Materials +0.97%, Utilities +0.45%, Industrials +0.4%, Financials +0.38%, Consumer Staples +0.05%, Technology +0.04%, Health unch., Energy -0.11%, Real Estate -0.29%.

EUROPEAN CLOSES: Euro Stoxx 50 +1.14% at 3,838; FTSE 100 +1.00% at 7,608; DAX +1.34% at 14,653; CAC 40 +0.98% at 6,548; IBEX 35 +1.28% at 8,836; FTSE MIB +1.65% at 24,565.

STOCK SPECIFICS: **Twitter (TWTR)** was hit after Elon Musk asked Twitter for more information on spam accounts, according to an amended filing. Musk said "Based on Twitter's behaviour...Musk believes the company is actively resisting and thwarting his information rights under the merger agreement." Twitter later replied saying it intends to close the transaction with Elon Musk and enforce the merger agreement at the agreed price and terms. **Didi (DIDI)** surged after WSJ reported that China is set to conclude its cybersecurity probe and lift its ban on new users, adding that



authorities were also preparing to allow Didi's app back on domestic Chinese app stores, perhaps as soon as this week. **Kanzhun (BZ)** also surged on reports its app is set to re-join China's app store this week. **Anaplan (PLAN)** was lower after Thoma Bravo revised its deal to USD 63.75/shr from USD 66.00/shr (vs. Friday close 65.80). **Spirit Airlines (SAVE)** rose after **JetBlue (JBLU)** submitted an improved superior proposal to acquire Spirit for USD 31.50/shr in cash. Previously, JBLU launched an offer for SAVE of USD 30/shr but said it was prepared to pay USD 33/shr if Spirit provides JetBlue with requested data. **VICI Properties (VICI)**, **Keurig Dr Pepper (KDP)**, and **ON Semiconductor (ON)** all saw gains after the announcement they are to join the S&P 500, with the former on 8th June and the latter two on 21st June. Activist investor Carl Icahn dropped his proxy fight over the treatment of pigs by **Kroger (KR)**, WSJ reported; Icahn said in a letter that he was likely to lose the campaign, as he did with **McDonald's (MCD)**. Solar names such as **SolarEdge (SEDG)**, **Sunrun (RUN)**, **First Solar (FSLR)**, **JinkoSolar (JKS)**, and **SunPower (SPWR)**, saw strength following a Reuters report saying the White House would declare a 24-month exemption from solar panel tariffs as well as other moves to spur US solar panel production. **CrowdStrike (CRWD)** firmed after Morgan Stanley upgraded the Co. to 'Overweight' from 'Equal Weight', calling it a buy as the macro environment becomes less certain. Some **SPACs** are down significantly on chunky volumes, with traders noting overestimations for Russell rebalancing demand. US SEC is preparing to propose major changes to the stock market's plumbing as soon as this fall and Chairman Gensler expected to outline ideas for improving market efficiency Wednesday, according to WSJ. **Virtu (VIRT)** saw downside on the back of the headline.

APPLE WWDC: Apple's (AAPL) Worldwide Developers Conference 2022 began on Monday, with the main updates, so far, Apple's introduction of the M2 silicon chip. Co. noted the chip has 18% better performance than the previous chip and will be used in Mac computers. Additionally, the new MacBook Pro will be priced at USD 1,299 and shipments are to begin next month, whilst the new MacBook Air starts from USD 1,199. Elsewhere, of note for **Affirm (AFRM)**, Apple announced the buy-now-pay-later service and payments will be managed through the Apple wallet. Finally, the Co. unveiled iOS 16 with new intelligence and personalisation.

FX WRAP

The Dollar was firmer on Monday, hitting a peak of 102.470 in contrast to a trough of 101.840 in the European morning, as the Buck took on a range of impulses albeit in a quiet, thin day of trading. Nonetheless, sentiment improved amid the positive reports out of China regarding its COVID situation, as Beijing eases COVID requirements for restaurants and schools amid reports of zero COVID cases on top of none of the top 50 districts having widespread restrictions. Elsewhere, US Treasuries were pressured amidst corporate issuance ahead of Treasury auctions. Looking ahead, the calendar is quiet amid Fed blackout ahead of the FOMC rate decision next Wednesday, but the key risk event resides around US CPI on Friday, where Credit Suisse "expects YoY inflation likely peaked in March, but monthly inflation readings are likely to stay uncomfortably above the Fed's target in coming months," and as such "the Fed is set on raising rates by 50bps at the June and July meetings, but is looking for signs of deceleration in inflation to support shifting to 25bps in September."

Safe havens, CHF and JPY, were the clear G10 underperformers and saw notable losses against the Greenback. USD /JPY hit a twenty-year high of 132.01, with technicians noting little in the way between the current level and 2002's peak of 135.15. In terms of fundamentals, soaring Treasury yields perked the Dollar and risk-on flows weighed on the Yen, with analysts noting 2002's peak is in the frame if Friday's US CPI report bolsters Fed rate hike pricing without upsetting investors. Elsewhere, BoJ Governor Kuroda reaffirmed the bank's ultra-accommodative policies and said a weak Yen, in general, is likely to have a positive impact on Japan's economy. USD/CHF hit highs of 0.9714, and once the cross breached 0.9650 it quickly surpassed the round level, as the Franc fell victim to the aforementioned risk dynamics.

EUR fared better than the aforementioned Yen and Franc, but still saw losses against the Buck. FT sources noting an asset purchase programme for "stressed" debt securities, just as it begins to hike rates, is providing incremental dovishness. Nonetheless, EUR/USD was in tight parameters, 1.0751-1.0685, on Monday as market participants await the key risk event of the ECB rate decision on Thursday, where since its previous meeting Eurozone inflation has continued to pick up, which has struck a sense of alarm at the ECB, which has resulted in an increasingly hawkish tone from members of the Governing Council. However, despite the pressing need to move on rates, the current sequencing between asset purchases and rate hikes means that a hike to the deposit rate will not take place at the June confab.

Antipodeans, NZD and AUD, were slightly lower vs the Buck, at pixel time, despite being more-or-less flat for the majority of the session, as both saw similar losses even though NZ markets were officially closed for the Queen's birthday. Moreover, both crosses traded in tight ranges, whilst the Aussie hit a low of 0.7188, as some technicians note break below support near 0.7150 should see 0.7040/50 become a target. Despite saying this, all eyes are on the RBA rate decision on Tuesday where the bank is expected to hike the Cash Rate Target by 25bps to 0.60% with OIS swaps fully pricing in a rate increase and had even suggested a nearly 40% chance for a more aggressive move of 50bps ([For full Newsquawk preview, please click here](#)).



GBP was the G10 outperformer on Monday and saw slight gains as cable reached a high of 1.2577, despite the uncertainty surrounding UK PM Boris Johnson ahead of his no-confidence vote, which Johnson passed, as expected. Moreover, Pantheon Macroeconomics noted, “the result of the vote won’t have a large bearing on the near-term economic outlook”, but the consultancy adds “a change in leader, might have some positive medium-term consequences for the economy, though the initial rise in political instability would be modestly unhelpful in the near term.” Note, UK players returned to their desks on Monday after a long weekend due to the Queen’s Jubilee celebrations.

CAD ended mildly firmer despite seeing more notable gains earlier in the session due to the rising oil prices, but as the crude complex came off highs it weighed on the Loonie. Initially, oil prices saw strength out of APAC on China reopening optimism and higher Saudi July OSPs, but they were later faded, with desks pointing to returning Libyan production in addition to the dip in US stocks. Looking ahead, there is the Canadian trade balance and Ivey PMI Tuesday, followed by the jobs report on Friday.

EMs were mixed, with RUB and ZAR in the green and outperforming, whilst the TRY, BRL, and MXN were all in the red with the former seeing the greatest losses following comments from President Erdogan. On this, he said inflation is a problem, but not the main cause of Turkey’s problems, vowing they will continue cutting rates not hiking and are planning to achieve price stability with a proper exchange rate through current account surplus. Elsewhere, ZAR and HUF both benefited from technical retracements and further short covering, in keeping with the CNY and CNH that got additional impetus from the aforementioned positive news on the pandemic/reopening front.

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