



US Market Wrap

7th June 2022: Stocks shake off Co. warnings while Treasury curve flattens ahead of key risk events

- **SNAPSHOT:** Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW:** TGT warns on profit hit; UNP cuts margin guidance; Poor 3yr auction; Russia is to increase ESPO oil exports via Kozmino; RBA hikes rate more than expected; Elon Musk efforts to arrange new TWTR deal financing on hold; EIA raise 2022 & 2023 global production forecast 2022 global oil demand forecast but cut 2023 demand outlook.
- **COMING UP: Data:** Swiss Unemployment, German Industrial Output, EZ Employment (Final), EZ GDP (Revised) **Event:** RBI Policy Announcement **Supply:** UK, Germany & US.

MARKET WRAP

Stocks were choppy on Tuesday with a mixed APAC session and Europe was cautious after a more hawkish RBA who hiked rates by 50bps (exp. 25bps) while lows in US futures were hit in pre-market in wake of some guidance cuts, namely Target (TGT) and Union Pacific (UNP), although caution was unwound after the US cash equity open. Attention heavily turns to the ECB rate decision on Thursday and US CPI on Friday, ahead of the Fed next Wednesday and SNB next Thursday. Sectors were predominantly firmer, led by gains in Energy, Industrials and Tech, while Consumer Discretionary was lower in wake of the TGT guidance, which weighed on retail space including Walmart (WMT). Oil prices were choppy, in fitting with risk, but managed to settle firmer, wiping out the mid-afternoon slump while the latest STEO saw the EIA raise 2022 & 2023 global production forecast, while raising 2022 global oil demand forecast but cutting the 2023 demand outlook slightly. The Treasury curve bull flattened and Treasuries were bid throughout the majority of the session although the bidding lost some momentum early on with another round of IG USD issuers announcing debt deals ahead of 10 and 30yr supply this week after a dismal 3yr auction which weighed on the front-end. The Dollar index failed to rise above 103.00, trading between 102.25 and 102.84 with resistance eyed on the round level, as well as the May 23rd peak of 102.95 as attention remains on the aforementioned key risk events this week as the buck tracked risk sentiment and yields. US data was light, although US International trade data saw the deficit narrow by more than expected in April, as did the deficit with China. Meanwhile, the April US Consumer Credit cooled, but less than expected.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 16 TICKS HIGHER AT 118-13+

Treasuries bull-flattened as big corporate guidance cuts initially weighed on sentiment and a weak 3yr auction weighed on the front end. At settlement, 2s +0.5bps at 2.739%, 3s -2.3bps at 2.917%, 5s -4.8bps at 2.987%, 7s -6.1bps at 3.016%, 10s -6.3bps at 2.975%, 20s -6.8bps at 3.350%, 30s -6.3bps at 3.128%. 5yr TIPS -2.4bps at -0.050%, 10yr TIPS +2.2bps at 0.237%, 30yr TIPS +1.6bps at 0.598%. 5yr BEI -3.2bps at 3.053%, 10yr BEI -3.5bps at 2.714%, 30yr BEI -3.6bps at 2.554%.

TOKYO/LONDON: T-Notes drifted modestly lower through the APAC session to ultimately hit session lows of 117-22+ in wake of the RBA's aggressive hike; cash 10yr yield high made at 2.062%. London trade saw a turnaround, however, with another strong performance for Eurozone periphery debt (BTPs), as desks continue to point to the FT reports entering the week of the ECB's proposed stressed debt-buying programme.

NEW YORK: The NY handover saw bidding in T-Notes lose momentum at first, with another slew of IG USD issuers announcing debt deals for Tuesday ahead of Treasury auctions; 10 issuers after Monday's 12, albeit a good proportion were expected to swap (duration neutral). However, Target (TGT) provided a risk-off catalyst after cutting profit guidance again, with Treasuries benefitting from haven demand as stock futures struggled. T-Notes went on to rally to session highs of 118-17 as Europe departed (and as stocks found a firmer footing) before paring slightly into the 3yr auction, with eyes to Wednesday's 10yr and Thursday's 30yr. Note the curve saw some stealth-flattening into the afternoon after some block sales were reported in the 2yr and 5yr futures. That accelerated after the poor 3yr auction also.



3YR AUCTION: A rather poor auction, particularly after the strong May results, with the 2.927%, USD 44bln offering tailing by 1bps, materially worse than last month's 0.3bps stop-through and the six-auction avg. on the screws. The 2.45 x bid/cover ratio was beneath the prior 2.59x and avg. 2.47x. Meanwhile, Dealers took 24.9%, above the prior 20.0% and avg. 24.8%, with a lot of that a result of reduced Indirects participation of 51.5% (prev. 62%), while Directs took a more healthy 23.6% (avg. 16.5%).

STIRS:

- EDM2 -0.3bps at 98.228, U2 +1.5bps at 97.345, Z2 +1.5bps at 96.755, H3 +2.0bps at 96.540, M3 +2.0bps at 96.470, U3 +2.5bps at 96.570, Z3 +3.0bps at 96.675, H4 +3.0bps at 96.750, M4 +3.5bps at 96.825, U4 +4.0bps at 96.870, Z4 +4.5bps at 96.895, Z5 +8.0bps at 96.995.
- SOFR unchanged at 0.78%.
- NY Fed RRP op demand hit a new record at USD 2.091tn across 98 bidders (prev. USD 2.040tn across 98 bidders).

CRUDE

WTI (N2) SETTLED USD 0.91 HIGHER AT 119.41/BBL; BRENT (Q2) SETTLED USD 1.06 HIGHER AT 120.57/BBL

Oil prices were choppy throughout Tuesday, but eventually settled firmer as the strength seen just after the US cash open faded with no clear fundamental catalysts driving the move, although ahead of settlement the downside had reversed. WTI (N2) and Brent (Q2) hit session highs of USD 120.26/bbl and 121.17/bbl, respectively, just after the open, before later falling to session lows of 117.14/bbl and 118.55/bbl, respectively. Newsflow was thin on Tuesday in quiet trade, but energy participants now look to the US inventory data with the private release due later Tuesday. Current expectations (bbls): Crude -1.9mln, Gasoline +1.1mln, Distillates +1.1mln.

RUSSIA: Russia is to increase ESPO oil exports via Kozmino to 900k BPD, +20%, by using additives and rail supplies, according to Reuters sources; such exports are expected to hit an all-time-high of 880k BPD in July. Source adds that Kozmino, currently, has a capacity for 1.1mln BPD of loadings; though, limited pipeline and rail capacity will not allow this level to be attained.

EIA STEO (June): US 2022 crude output seen rising 730k BPD to 11.92mln BPD (prev. +720k BPD forecast in May), while US 2023 crude output seen rising rise 1.05mln BPD to 12.97mln BPD (prev. +940k BPD). Globally, the EIA STEO raised the Global 2022 production forecast to 100.08mln BPD (prev. 99.89mln BPD) and 2023 forecast to 102.10mln BPD (prev. 101.60mln BPD). For a more detailed summary, [please click here](#).

COMMENTARY: Morgan Stanley base case view is for Brent to reach USD 130/bbl during Q3 with upside to bull case estimate of USD 150/bbl. JPMorgan projects oil demand to rise 2.6mbd Y/Y in 2022 to 100.2mbd, 300kbd below 2019 demand. JPM noted if US gasoline prices remain 50% above the August 2011-2019 seasonal price of USD 3/gln, demand could be lower than its 9.7mbpd estimate for August 2022 by 430k BPD. Elsewhere, Trafigura CEO says we will probably see oil demand destruction by the end of the year; forecasts USD 150/bbl oil price as a realistic number but it could go higher.

QATAR GAS: Exxon (XOM) and Total (TTE FP) are among a group of Western energy giants poised to win stakes in a multi-billion dollar project to boost Qatar's gas exports, according to Bloomberg.

EQUITIES

CLOSES: SPX +0.94% at 4,160, NDX +0.89% at 12,711, DJIA +0.80% at 33,179, RUT +1.69% at 1,918.

SECTORS: Energy +3.14%, Industrials +1.36%, Health +1.3%, Technology +1.22%, Real Estate +1.15%, Materials +0.72%, Financials +0.68%, Utilities +0.57%, Communication Services +0.51%, Consumer Staples +0.42%, Consumer Discretionary -0.37%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.83% at 3,806; FTSE 100 -0.12% at 7,598; DAX -0.66% at 14,556; CAC 40 -0.74% at 6,500; IBEX 35 +0.06% at 8,841; FTSE MIB -0.81% at 24,366; SMI +0.07% at 11,536.

STOCK SPECIFICS: Elon Musk's efforts to arrange new **Twitter (TWTR)** deal financing is on hold amid uncertainty, according to Reuters sources. **Target (TGT)** warned of a profit hit and as such announced aggressive actions to control costs, including additional markdowns, removing excess inventory, and cancelling orders. As such, TGT Q2 operating



margin is now seen at 2% (prev. 5.3%). Note, following this guidance, **Walmart (WMT)** also saw downside. **Union Pacific (UNP)** cut FY22 incremental margins due to increased pressure from fuel prices, inflation, and higher network costs which will make achievement of FY operating ratio starting with '55' unlikely. Now expects all-in inflation, ex-locomotive fuel, for the FY to be around 4%. **Franchise Group (FRG)** is in advanced talks to acquire **Kohl's (KSS)** for roughly USD 8bln. KSS said the exclusivity period for talks was three weeks, adding that a deal was not guaranteed. **Shopify (SHOP)** investors approved a 10-for-1 stock split. **Microchip (MCHP)** stated it does not see weakness in its business despite weakening macro conditions and expects to be supply constrained into 2023. Looking ahead, guides Q1 FY23 initial EPS view of USD 1.34 and Revenue view USD 1.96bln. **Twitter (TWTR)** leaders informed employees it is targeting 13mln MDAUs growth in Q2. However, time spent by users is down 4% sequentially, largely due to the Ukraine invasion boost in late Q1, and turning user activity into ad revenue is becoming more challenging for 'us and our peers'. **Peloton Interactive (PTON)** hired **Amazon (AMZN)** cloud executive Liz Coddington as new CFO, current CFO Jill Woodworth is leaving the company in a shake-up of the top management. **Robinhood (HOOD)** and **Virtu Financial (VIRT)** saw downside after a WSJ article late Monday stating the SEC is looking at big changes to how trading works. Citadel Securities is reportedly building a crypto trading arm with the help of **Virtu Financial (VIRT)** and others, according to CoinDesk. US FDA advisers voted in favour of authorising **Novavax's (NVAX)** COVID-19 vaccine for adults aged 18 and over; vote was 21-0 with 1 abstention.

EARNINGS: United Natural Foods (UNFI) posted a strong report, as it surpassed consensus on top and bottom line alongside raising FY22 adj. EPS and revenue view. UNFI said sales were boosted by increased business from new and existing customers as well as inflation. **GitLab (GTLB)** posted a shallower loss per share than expected and also beat on revenue. Guidance was also strong, with Q2 and FY23 revenue outlook surpassing expectations. **J M Smucker (SJM)** topped consensus on profit and revenue but cut FY23 EPS view. SJM noted guidance reflects an estimated unfavourable impact on sales of 2% and adj. EPS of USD 0.90 related to the recall of certain JIF peanut butter products.

FX WRAP

The Dollar was choppy on Tuesday and tracked risk sentiment. The buck started the day firmer but as equities started to rally and yields moved lower, the buck wiped out its initial gains and entered negative territory although with a choppy risk environment, the dollar followed suit. The Dollar index failed to rise above 103.00, trading between 102.25 and 102.84 with resistance eyed on the round level, as well as the May 23rd peak of 102.95. The attention this week is heavily on US CPI on Friday, as well as Thursday's ECB policy announcement, preview [available here](#). The **Euro** was only marginally firmer but EUR/USD managed to rise above 1.07 and hold the key level into the US equity close.

CHF was weaker against the buck and the euro with the SNB rate decision next Thursday where participants will be eyeing to see if they follow suit to the ECB who are expected to provide more guidance around rate hikes on Thursday. Analysts at CapEco expect "the SNB to largely shadow ECB rate hikes over the next 18 months or so, albeit allowing the interest rate differential with the euro-zone to widen from 25bps at present to 50bps by end-2022". The desk warned the balance of risks is "skewed towards the Bank letting the rate gap widen by more, embracing a weaker franc, and perhaps taking the opportunity to start to shrink its out-sized balance sheet."

USD/JPY extended on 20yr highs with the cross testing 133.00 to the upside but failing to breach the psychological level. USD/JPY was off highs as US yields and the buck headed lower, which also benefited Gold. Meanwhile, overnight the BoJ Governor Kuroda reiterated the BoJ will support the economy by maintaining powerful monetary easing while the Economy Minister Yamagiwa said they are closely watching any impact of FX movements on the economy but wanted to refrain from commenting on specific levels.

Cyclical currencies were generally firmer with outperformance in the AUD after the RBA hiked rates by 50bps overnight taking its key rate to 0.85%, above expectations of a 25bp increase while warning inflation is likely to be higher than it was expected a month ago. It also noted it expects to take further steps towards normalising monetary conditions over the upcoming months and the size and timing of future rate hikes will be data dependent. NZD was the relative underperformer as the larger hike than expected weighed on NZD through AUD/NZD.

CAD found benefit from the firmer, but choppy oil & equity prices while the impact from last week's BoC is still supporting the currency to see USD/CAD hit a seven week low at 1.2526. **GBP** was also bid on the equity move and lower Dollar although political risks do remain. UK PM Johnson survived the no-confidence vote on Monday, which normally would leave him exempt from another no-confidence vote for a year, however, the 1922 Committee is reportedly looking to alter party rules to allow another vote within a one-year period.



Scandis were mixed, the SEK eked a gain against the buck and was flat against the Euro, while NOK was weaker against both major pairs, helping NOK/SEK initially fall sub 1.03. Note, Riksbank's Skingsley is to depart the Riksbank on August 15th 2022, to become the new BIS Innovation Hub head. Riksbank is initiating the process of appointing a replacement.

EM's were mixed, TRY weakness continued in wake of President Erdogan's remarks on Monday who pledged to continue cutting rates while S&P Global highlighted that Turkish 5yr Credit Default Swaps rose to 736bps, to levels seen during the GFC. The Brazilian Real saw pronounced weakness after Brazilian President Bolsonaro announced the government will offset states that accept to cut ICMS tax on diesel and cooking gas to zero, but they did not disclose the fiscal impact. MXN was flat while COP saw marginal gains but CLP was weaker despite firmer copper prices. ZAR saw strength thanks to gains in Gold prices despite more load shedding warnings tonight from Eskom.

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