US Market Wrap

8th June 2022: Lethargic risk appetite into ECB; Freeport LNG explosion latest global thorn

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up
- **REAR VIEW**: SEC issue new market rules; Crude stocks post surprise build, but gasoline surprise draw; UAE not encouraged about OPEC+ supply; US NatGas plummets on export hub explosion; Poor 10yr auction; STT could make offer for Credit Suisse; TWTR intends to comply with Musk's demands; SMG cuts guidance.
- **COMING UP**: **Data**: Chinese Trade Balance, US IJC **Events**: ECB Policy Announcement/Press Conference **Supply**: US (30yr).

MARKET WRAP

Stocks were lower Wednesday (SPX -1.1%, NDX -0.8%, RUT -1.5%) as tentative gains entering the session faded through NY cash trade, albeit indices are within their June trading ranges with the SPX holding above 4100 for now. Catalysts were light for macro sentiment, with US participants instead awaiting Friday's CPI although lows in stocks were seen in wake of the new SEC rules on markets as it takes a tighter grip on regulation. Treasuries were sold between 4-6bps with the long-end hit hardest, aided by a weak 10yr auction and rising energy prices. German Bunds were pressured ahead of the ECB Thursday as well; the Euro caught a bid. The Dollar found a small bid as yields rose, accelerating the Yen selling, which continued to hit new multi-decade lows, and not just against the buck as the BoJ becomes isolated amongst a sea of tightening central banks. Oil prices rallied after the EIA data as the rise in crude stocks was obfuscated by further SPR releases, whilst gasoline demand continues to show no sign of abating despite the unsavoury prices; Oman also spoke pessimistically about available OPEC spare capacity. Meanwhile, US natural gas futures tumbled after an explosion was reported at the Freeport LNG export terminal in Texas, with more supply trapped in the US, at the expense of importers.

GLOBAL

ECB PREVIEW: Since its previous meeting, Eurozone inflation has continued to pick up, with the headline rising from 5.9% Y/Y to 7.4% Y/Y in April, and then extending to 8.1% in May. This has struck a sense of alarm at the central bank, which has resulted in an increasingly hawkish tone from members of the Governing Council. A blog post in May penned by President Lagarde deviated from her usually non-committal stance; she now expects “net purchases under the APP to end very early in the third quarter. This would allow us a rate lift-off at our meeting in July”. Furthermore, she added that “we are likely to be in a position to exit negative interest rates by the end of the third quarter”, going on to state that “even when supply shocks fade, the disinflationary dynamics of the past decade are unlikely to return”. This was viewed as giving the green light for purchases under APP to cease as of July 1st, paving the way for rate hikes at the July and September meetings, analysts said. Note, 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. For some of the more hawkish voices on the GC, such as Austria’s Holzmann, the recent inflation metrics emphasise the need for a 50bps hike. However, this is an issue that is unlikely to be resolved at the upcoming meeting given that the discussion around the magnitude of a hike will likely be a feature of the July gathering. In terms of market pricing, at the time of writing, the market looks for around 132bps of tightening this year, which would imply 25bps hikes at the three of the four meetings after June, with one meeting expected to see a 50bps increase. Given the need for flexibility and lack of certainty surrounding the Eurozone outlook, it is hard to see how much vindication market participants will get for the aforementioned rate path. We will also be presented with the latest batch of macro projections from the Bank which will inevitably see an upgrade to the current 5.1% forecast for 2022 inflation. Of potentially greater interest will be the more medium-term forecasts and how they align with the Bank’s 2% target. Finally, reporting over the weekend has suggested that policymakers could opt to strengthen the wording in its statement to underscore its commitment to avoiding fragmentation within the Eurozone. To download the full report, please click here.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLE 11 TICKS LOWER AT 118-02+

Treasuries were sold between 4-6bps with the long-end hit the hardest, aided by a weak 10yr auction and rising crude prices. Futures volumes were light, with TY just above 1mln contracts. 2s +4.1bps at 2.776%, 3s +3.6bps at 2.963%, 5s +5.5bps at 3.037%, 7s +5.6bps at 3.066%, 10s +6.1bps at 3.031%, 20s +6.1bps at 3.406%, 30s +5.7bps at 3.179%.

INFLATION BREAKEVENS: 5yr BEI +2.0bps at 3.083%, 10yr BEI +1.4bps at 2.733%, 30yr BEI +0.4bps at 2.565%.

TOKYO/LONDON: T-Notes moved lower through the Tokyo session and London morning in a measured fashion on light activity. Part of that pressure was supply concerns ahead of the 10yr auction (and Thursday's 30yr) from the Treasury, but also some spillover from Bunds and Gilts amid German and UK auctions. The decent European auctions did limit some of the losses at the time, although that proved short-lived for Bunds with attention moving to Thursday's ECB.

NEW YORK: T-Notes edged out further lows as US trade got going, although there was a noted dip in wake of the Dollar IG issuance pipeline building up again, particularly after Italian energy giant Enel (ENEL IM) announced a four-parter. T-Notes hit a session low of 117-29 (ahead of Tuesday's 117-22+ low) before two block trades in the 5yr and classic bond futures coincided with a swift pairing off lows. Note there were only five IG issuers Wednesday, as opposed to the 22 across Monday and Tuesday, so the related rate-lock hedging was more muted in the NY morning. Instead, T-Notes recovered into the European close as stocks chopped around, hitting interim highs of 118-09+, before consolidating lower into the 10yr auction. The poor auction saw incremental downside, but ranges were respected into settlement. Attention now moves to Thursday's 30yr Bond auction after the ECB, then CPI on Friday.

10YR AUCTION: Another disappointing auction this week as the USD 33bln 10yr reopening's 3.030% stop rate, the highest since 2018, still marked a chunky 1.2bps tail, bigger than the six-auction avg. 0.5bps but not as pronounced as May's 1.4bps tail. Although, the 2.41x B/C was worse than both the prior (2.49x) and avg. (2.50x). The breakdown was also discouraging as Dealers (forced surplus buyers) took 17.0%, well above the prior 11.5% and avg. 13.5%, and similar to the 3yr, Indirects saw a notably smaller share (63.6% vs prior 70.3% and avg. 69.1%).

STIRS:

- EDM2 +0.5bps at 98.233, U2 -2.5bps at 97.325, Z2 -4.0bps at 96.72, H3 -4.5bps at 96.50, M3 -4.5bps at 96.43, U3 -4.0bps at 96.535, Z3 -3.5bps at 96.64, H4 -3.5bps at 96.72, Z4 -3.5bps at 96.865, Z5 -4.5bps at 96.95.
- Option activity saw two separate 20k put spreads (ps) (EDZ2 96.50/95.75 ps for 14 and EDH3 96.75/95.75 ps for 38); follows large open interest declines across ED white pack puts this week.
- SOFR fell to 0.77% from 0.78%, while NY Fed RRP op demand rose to a new record at USD 2.140tln across 98 bidders.
- US sold USD 30bln 119-day CMBs at 1.510%, covered 3.14x.

CRUDE

WTI (N2) SETTLED USD 2.70 HIGHER AT USD 122.11/BBL; BRENT (Q2) SETTLED USD 3.01 HIGHER AT 123.58 /BBL

Oil prices rallied Wednesday as the rise in crude stocks was obfuscated by further SPR releases while gasoline demand ramps. The benchmark futures trundled sideways through the APAC session, then caught a lift into the London morning, aided by pessimistic comments from Qatar on the amount of OPEC spare capacity. Prices then consolidated as NY trade got going as stocks chopped sideways. The EIA US inventory report proved a catalyst, however, as end-product demand showed no signs of slowing. Session highs were made for WTI (N2) and Brent (Q2) in the NY afternoon at USD 123.18/bbl and 124.40/bbl, respectively, hovering near such into the settlement.

INVENTORIES: Crude stocks saw a surprise rise of 2mln bbls in the latest week (exp. -2mln), particularly after the private data indicated a 1.2mln bbl draw. However, desks point to the continued fall in the SPR as a large factor in the crude build, whilst instead focusing on the surprise 0.8mln bbl gasoline stock build as refinery utilisation ramped a lofty 1.6%. The macro takeaway being there is little evidence of cooling US demand despite gas prices ramping.

GAS EXPLOSION: US natural gas futures tanked in the NY afternoon after an explosion was reported at the Freeport LNG export terminal in Texas. The uncertainty over the major export facility increased the natural gas supply outlook for the US, albeit at expense of the rest of the world. Reuters reported in May that Freeport's customers include Osaka Gas Co (9532 JT), BP (BP/ LN), Total (TTE FP), SK E&S, and JERA, which is a JV between Tokyo Electric Power (9501 JT) and Chubu Electric Power (9502 JT).

EUROPEAN SUPPLY: Algeria on Wednesday suspended its friendship-cooperation pact with Spain, according to APS. Spain's Foreign Minister said that nothing has indicated Algeria will take retaliatory measures regarding gas flows to Spain. Albeit, the risk cannot be ignored after Algeria threatened back in April to cut Spain's supply along the 8BCM Medgaz undersea pipeline.

RUSSIA: Reuters reported that Russia's Rosneft is holding back on signing fresh crude deals with two Indian state refineries due to a lack of supplies. The reports also noted that Russian oil is no longer available at deep discounts.

LIBYA: Libya's 300k BPD El Sharara oil field is currently running at around 180k BPD amid maintenance, according to Argus sources. The report notes the continued uncertainty regarding exports amid all the production problems.

EQUITIES

CLOSES: SPX -1.08% at 4,116, NDX -0.76% at 12,615, DJIA -0.81% at 32,911, RUT -1.49% at 1,891

SECTORS: Real Estate -2.43%, Materials -2.1%, Utilities -1.98%, Industrials -1.83%, Financials -1.7%, Consumer Staples -1.22%, Technology -1.11%, Health Care -0.78%, Consumer Discretionary -0.68%, Communication Svs -0.02%, Energy +0.15%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.46% at 3,789; FTSE 100 -0.10% at 7,591; DAX -0.77% at 14,445; CAC 40 -0.80% at 6,448; IBEX 35 +0.07% at 8,847; FTSE MIB -0.49% at 24,248; SMI -0.59% at 11,465.

STOCK SPECIFICS: **Twitter (TWTR)** board intends to comply with Elon Musk's demand for internal data and could be provided as soon as this week, according to WaPo. **State Street (STT)** could make a CHF 9/shr bid for **Credit Suisse (CSGN SW)**, according to Inside Paradeplatz citing a source; adding, that State Street's push is imminent. However, STT later stated it's not going to respond to the news report. SEC Chair Gensler stated new SEC rules would see broker dealers and market centres disclose more data around order execution quality to benefit investors, including monthly summary of price improvement and other statistics. New SEC rules would mandate market makers disclose more data around payment for order flow fees and timing of trades. **Robinhood (HOOD)** and **Virtu Financial (VIRT)** saw downside following the announcement. **Western Digital (WDC)** struck a deal with activist investor Elliott Management, and will consider strategic alternatives, including a separation of businesses focused on traditional hard drives for computers and flash memory. **Scotts Miracle- Gro (SMG)** cut FY22 EPS view to USD 4.50-5.00 (exp. 7.00, prev. 8.50-8.90) and expects US consumer sales to decline 4-6%. SMG noted a variety of factors prompted company to lower its outlook. **Campbell Soup (CPB)** beat on top and bottom line alongside raising FY22 revenue outlook. CEO said the strong quarter was driven by sustained consumer demand for our brands and significantly improved supply. **Roku (ROKU)** employees have been discussing the possibility of a **Netflix (NFLX)** acquisition in recent weeks, according to Business Insider citing sources. **DocuSign (DOCU)** deepened its relationship with **Microsoft (MSFT)** “to accelerate how people collaborate and come to agreement in the anywhere economy.” **Amazon (AMZN)** reportedly developing a local advertising business in an attempt to dent **Google (GOOGL)** and **Facebook's (FB)** market share, according to Business Insider. CNBC's Faber said a **Zendesk (ZEN)** deal is looking tough while he is also hearing that **NCR Corp (NCR)** is still working towards an LBO deal. CNBC also reported **Franchise Group (FRG)** is getting financing done for a **Kohl's (KSS)** USD 60/shr deal. **Spotify (SPOT)** stated monthly subscriber churn rate has declined by nearly 30% over the last four years; believe podcast has a 40-50% gross margin potential while it also sees podcasts being profitable in one-to-two years. SPOT noted the global uncertainty has had no material impact on its business and it expects to generate USD 100bln in revenue annually over the next decade, alongside 40% Gross Margin and 20% Operating Margin. **Qualcomm (QCOM)** is aiming to surpass **Apple's (AAPL)** M2 with nuvia chips, according to CNET; however, the earliest you'll see one of these ultra-fast processors will be the end of 2023. Morgan Stanley downgraded **Altria (MO)** to ‘Underweight’ from ‘Equal Weight’ anticipating greater pressures from rising gas prices and weaker consumer sentiment, which should weigh on cigarette volumes and enhance trade down risk. **Amazon (AMZN)** CEO Jassy spoke where he noted the recent performance is mixed for investors but is confident AMZN will get back to the right level of profitability. On Streaming, Jassy is very bullish on streaming videos but noted AMZN has a different pricing model than other streaming services. **Abbott Laboratories (ABT)** was reportedly alerted to allegations concerning problems at an infant-formula plant months earlier than previously publicly known, according to WSJ citing sources.

FX WRAP

The Dollar saw marginal gains on Wednesday amid downside in US equities and upside in yields ahead of key risk events (ECB Thursday, US CPI Friday) while the continued weakness for Yen provided a tailwind for the DXY, although that was offset by marginal gains for the **Euro** ahead of the ECB on Thursday - preview available here. Analysts at ING highlight that "Any message from the ECB that does not signal an openness to a 50bp hike in July would likely fall short of the market's hawkish expectations and push EUR/USD closer to 1.0500".

Yen weakness accelerated on Wednesday to see USD/JPY hit a high of 134.47 after commentary from Japanese officials and a move higher in US yields. EUR/JPY has also become a popular trader vehicle for hitting the Yen as the cross hit highs of 144.25 today. Although BoJ Kuroda sounded a little more concerned about the rapid pace of moves seen recently, he added various macroeconomic models show a weak Yen is positive and the BoJ must continue with monetary easing. A Reuters sources piece also noted the BoJ is expected to maintain its view that the domestic economy is picking up as a trend and will likely continue improving. **CHF** saw weakness against both the buck and the Euro on the higher yield differentials.

Cyclicals saw weakness in fitting with the risk appetite and slightly firmer Dollar. AUD gave back some of its gains post RBA but it still outperformed its Antipodean counterpart with AUD/NZD rising above 1.1150. CAD was the relative cyclical outperformer, aided by oil's strength, although still weaker on broader risk aversion. The Looney still remains at elevated levels and USD/CAD remains around monthly lows. Analysts at Scotiabank note that markets are fully pricing in Canada's rates at 3.25% in December, whereas markets are pricing in a Federal Funds rate of c. 2.85% by year-end, alongside elevated oil prices, provides clear support for additional CAD gains.

Scandis were weaker against both the buck and the Euro with underperformance in SEK as the gains in Brent prices helped support NOK somewhat, as did the better than expected manufacturing output data in Norway while the downbeat risk tone hit the Sekky.

EMFX was mixed, TRY saw continued weakness after Erdogan's double-down earlier in the week while the rally in crude prices did little to help the net oil importer. BRL also saw weakness after a cooler than expected inflation print which rose 0.69%, beneath the 0.79% consensus, but still accelerated from the prior 0.41%. MXN was relatively flat. CLP saw gains after the Chile Central Bank raised its rate by 75bps and signalled more rate hikes were coming amid high inflation, despite the rate hike and guidance the central bank also raised its economic growth forecasts. INR was flat by the end of the day after the RBI hiked rates by 50bps, a touch more than the 40bps expected while the governor's statement indicated that more hikes are to come. EUR/CZK saw a dip after the CNB announced three new rate-setting members. EUR/PLN strengthened after the NBP hiked 75bps as expected to 6.00%, whilst reaffirming it may intervene in the FX market with a stronger Zloty desirable.