# US Market Wrap

## 9th June 2022: Fresh COVID concerns & hawkish ECB add to growth concerns as attention shifts to US CPI

- **SNAPSHOT**: Equities down, Treasuries flat/down, Crude down, Dollar up.
- **REAR VIEW**: ECB to hike 25bps in July, and likely September but it is prepared to do more; Xi said China should stick to zero-COVID policy; IJC tick higher, but not concerning; Strong US 30yr auction; TGT raises Q dividend 20% to USD 1.08/shr; Ant Group said no plans to relaunch IPO; STT not pursuing CS deal; State Department Summit advisor said Venezuelan oil won't be on the market anytime soon.
- **COMING UP**: **Data**: Chinese & US CPI, Canadian Jobs Report, US University of Michigan (Prelim.), China M2 **Speakers**: ECB's Lagarde.

## MARKET WRAP

Stocks and Bonds were hit, particularly Eurozone assets, in wake of the hawkish ECB which left rates unchanged and announced an end to its APP from July 1st as expected, along with a commitment to a 25bps hike in July with room to do more if needed in September, while little new was shared on potential fragmentation tool. Meanwhile, the ECB also issued higher inflation forecasts and lower growth forecasts for the near term. The hawkish ECB and cautious outlook added to the growth concerns from overnight on fresh COVID concerns in Shanghai, while there were mixed reports about Ant Group's IPO which initially suggested an easing of crackdowns, although Ant Group later dismissed these plans. Treasuries bear-flattened in sympathy with EGBs as the ECB affirmed its rate hiking plan and the strong US 30yr auction, unwinding overnight bull-flattening on the fresh Shanghai lockdowns. Meanwhile, the Euro gave up its post ECB gains as risk sentiment soured and the buck prospered with all eyes turning to US CPI on Friday to help gauge Fed expectations for September with the FOMC widely expected to hike by another 50bps next week, with another 50bp move in July before they "assess" their normalisation plan. Crude prices were lower in fitting with risk sentiment while natgas pared some of the prior day's losses although the Freeport LNG export terminal is expected to be out for three weeks.

## GLOBAL

**ECB**: As expected, the ECB opted to stand pat on rates with the deposit rate, main refi and marginal lending rates held at -0.5%, 0% and 0.25% respectively. On rates, the ECB announced their intention to raise rates by 25bps at the July meeting. Beyond July, policymakers will consider a larger increment in interest rate hikes if the medium-term inflation outlook persists or deteriorates. On the balance sheet, as expected, the Governing Council announced its decision to end net asset purchases under APP as of July 1st. Note, the policy statement offered no fresh guidance on how it could deal with the issue of market fragmentation as it commences its rate hiking cycle. In terms of the inflationary outlook, the ECB stated that inflation will remain “undesirably elevated for some time”. This was reflected in the accompanying macro projections which saw the 2022 projection upgraded to 6.8% from 5.1% with 2024 inflation seen above target at 2.1% vs. prev. view of 1.9%. At the accompanying press conference, President Lagarde was pressed further on how the Bank intends to deal with fragmentation, to which, she noted that the Bank can utilise existing tools such as reinvestments from PEPP and, if necessary, can deploy new instruments if required. Later on in the press conference, Lagarde noted that there is no specific level of yield spreads that would be a trigger for an anti-fragmentation policy. When it comes to the decision-making process, Lagarde stated that policymakers were unanimous in their views, adding that no action was taken at today’s meeting given the Bank’s policy of sequencing. From a more medium-term perspective, the President was questioned on where the Governing Council judges the neutral rate to be, however, she remarked that this issue was deliberately not discussed. Overall, after clearly signposting the outcome of the July meeting and heavily suggesting that 50bps could be necessary in September, money markets have accelerated their interest rate hike bets with end-of-year pricing suggesting the possibility of two 50bps hikes and two 25bps hikes at the remaining four meetings of the year. Later in the session ECB sources suggested some ECB policymakers at Thursday's meeting wanted a 50bps hike already in July and a large majority of the governing council was against making an announcement on a fragmentation-fighting tool.

**JOBLESS CLAIMS**: Initial jobless claims rose to 229k from 202k, above the expected 210k, while continued claims were unchanged at 1.306mln, marginally above the 1.305mln consensus. Delving into the report, Pantheon Macroeconomics note that last week’s drop always looked unsustainable and the seasonals pointed evidently to a rebound this week, but the 229k print is slightly higher than expected but no big deal. Moreover, Pantheon adds, “widespread anecdotal reports of increased layoffs point to a rising trend in claims over the summer, but we expect the numbers to remain low by historical standards.” Looking ahead, the consultancy adds, “next week’s reading likely will be very close to this week’s, but claims should then drop slightly until the end of the month.” Following this, Pantheon states, “the annual period of volatility due to the auto retooling shutdowns will obscure the trend for a few weeks, until early August. The shutdowns happen in late June and early July every year, but the exact timing and extent varies from year-to-year, causing havoc for the seasonals.”

## FIXED INCOME

**T-NOTE (U2) FUTURES SETTLED 5 TICKS LOWER AT 117-29+**

**Treasuries bear-flattened in sympathy with EGBs as the ECB affirmed its rate hiking plan and the strong US 30yr auction, unwinding overnight bull-flattening on fresh Shanghai lockdowns**. At settlement, 2s +4.6bps at 2.820%, 3s +4.7bps at 3.007%, 5s +3.5bps at 3.067%, 7s +2.4bps at 3.086%, 10s +1.5bps at 3.044%, 20s -0.1bps at 3.401%, 30s -0.8bps at 3.171%.

**INFLATION BREAKEVENS**: 5yr BEI +2.0bps at 3.099%, 10yr BEI +0.8bps at 2.737%, 30yr BEI +0.2bps at 2.564%.

**TOKYO/LONDON**: T-Notes were choppy through the APAC Thursday session, seeing some weakness to interim lows at 117-26+ in the Tokyo morning before recovering ahead of Europe's arrival; sentiment was somewhat hindered as parts of Shanghai saw renewed lockdown measures. The London open was greeted with a lift for T-Notes, printing session highs of 118-07 before hovering a few ticks lower as US players arrived and ECB loomed...

**NEW YORK**: The ECB's lack of a new fragmentation tool announcement, in addition to opening up the door to 50bps hikes post-July, saw acute selling across European bonds that spilled across the pond. T-Notes printed session lows of 117-22 as the dust settled, a cash 10yr yield high 3.073%, before chopping through the NY morning with another recent high in initial jobless claims weighing on the growth outlook, while Lagarde's presser didn't provide any surprises. The strong 30yr bond auction (details below) was accompanied by a follow-through bid for the curve that saw T-Notes climb back above 118-00 ahead of settlement. All attention now lies on CPI, with positioning for the weekend and FOMC thereafter.

**30YR AUCTION**: A strong 30yr bond auction across the board after healthy concession, in contrast to the 3yr and 10yr that struggled regardless (perhaps a result of near-term Fed/inflation uncertainty); Friday's CPI seemingly not a dissuasion for the long bond. The 3.185% high yield was the highest since 2018, and perhaps that absolute cheapness played a factor in the 1.5bps stop-through, better than the prior 0.9bps and the six-auction avg. tail of 0.4bps. The 2.35x bid/cover ratio was closer to average at 2.33x. Dealers (forced surplus buyers) took 14.1%, not as low as May's 13.7%, but still beneath avg. 15.8%. That was a result of another month of strong Indirects participation (69% vs avg. 66.7% and prior 69.7%), again unlike this week's 3yr and 10yr which both saw more tepid non-Dealer participation.

**STIRS**:

- EDM2 -0.5bps at 98.228, U2 -3.0bps at 97.295, Z2 -5.5bps at 96.665, H3 -8.5bps at 96.415, M3 -9.5bps at 96.335, U3 -9.0bps at 96.445, Z3 -7.5bps at 96.565, Z4 -4.0bps at 96.825, Z5 -1.5bps at 96.940.
- Option activity saw more muted Dollar STIRs flow, although heavy flow in Euribor as traders start to price 50bps hikes from the ECB.
- One standout in EDs was 17k EDQ2 97.375 straddle bought through the session for 23.5-24.
- SOFR fell to 0.76% from 0.77%, the lowest since the May hike, while NY Fed RRP op demand rose to a new record at USD 2.142tln across 101 bidders.
- US sold USD 39bln of 1-month bills at 1.040% (prev. 0.860%), covered 2.82x; sold USD 33bln of 2-month bills at 1.150% (prev. 1.040%), covered 3.06x.

## CRUDE

**WTI (N2) SETTLED USD 0.60 LOWER AT 121.51/BBL; BRENT (Q2) SETTLED USD 0.51 AT 123.07/BBL**

**Oil prices were subdued on Thursday as some new lockdown measures in Shanghai tempered the global demand outlook**. WTI (N2) and Brent (Q2) futures hit session lows of USD 120.79/bbl and 122.50/bbl in the NY morning, in wake of the pressure to stock indices in reaction to the heavy bond selling, albeit oil pared back somewhat into the afternoon.

**FREEPORT**: US NatGas futures advanced on Thursday as the dust settled from the Freeport LNG export terminal explosion. The key question has become how long the facility will remain out of action, with Freeport currently estimating a minimum three-week halt. The longer the outage, the more bearish it gets for US NatGas, but the more bullish it gets for the global market, and painful for big importers such as Japan which imports over 3% of its gas from the Freeport terminal.

**LIBYA**: Key oil ports Es Sider and Ras Lanuf have shut down, according to Bloomberg. Follows Wednesday Argus reports of the El Sharara field (300k BPD) running at just 60% capacity, with uncertainty over exports.

**RUSSIA**: WSJ reported that G7 officials are mulling setting price caps on Russian oil via insurers. Insurance is seen as a key catalyst in halting Russian supply, with analysts pointing to the prior effectiveness of insurance bans on stopping Iranian crude.

**VENEZUELA**: State Department Summit advisor told CNBC Venezuelan oil won't be on the market anytime soon.

## EQUITIES

**CLOSES**: SPX -2.39% at 4,017, NDX -2.74% at 12,269, DJIA -1.94% at 32,272, RUT -2.10% at 1,850.

**SECTORS**: Communication Services -2.75%, Technology -2.72%, Financials -2.61%, Utilities -2.44%, Materials -2.39%, Energy -2.3%, Health -2.29%, Real Estate -2.29%, Industrials -1.97%, Consumer Discretionary -1.96%, Consumer Staples -1.5%.

**EUROPEAN CLOSES**: Euro Stoxx 50 -1.77% at 3,721; FTSE 100 -1.60% at 7,471; DAX -1.75% at 14,193; CAC 40 -1.40% at 6,358; IBEX 35 -1.45% at 8,714; FTSE MIB -1.95% at 23,764; SMI -1.16% at 11,334.

**STOCK SPECIFICS**: **Ant Group (BABA)** stated there is no plan to relaunch its IPO. Prior to this there was a range of updates, as China was said to be mulling reviving Ant IPO, with reports framing it as an easing in crackdowns from China, according to Bloomberg sources. Later, China's CSRC said it is not conducting work on reviving the Ant IPO. However, Reuters sources then suggested, China Central leadership reportedly gave the initial nod to Ant to revive IPO plans in Shanghai and Hong Kong and Ant aims to file a preliminary IPO prospectus as soon as next month. **Intel (INTC)** paused all hiring in its Client Computing Group, which is responsible for desktop and laptop chips, as INTC reassessed spending priorities amid global macroeconomic uncertainty. **Target (TGT)** raised quarterly dividend 20% to USD 1.08 /shr (prev. USD 0.90/shr). Note, on Tuesday, TGT issued a profit warning. FDA decision on **Novavax (NVAX)** COVID-19 vaccine shot could be delayed due to review changes in manufacturing. **Tesla (TSLA)** was upgraded at UBS; said the recent share price decline has provided an attractive entry point given a strong operational outlook. **Apple (AAPL)** may be developing a larger iPad Pro model with a 14.1-inch mini LED display and an M2 chipset for a potential release in early 2023, according to a display analyst. S&P 500 Casinos & Gaming index saw losses as parts of Shanghai began imposing new COVID restrictions. **Franchise Group (FRG)** is planning to borrow more than USD 2bln from Apollo Global Management to finance the USD 8bln deal for **Kohl's (KSS)**, according to NY Post citing sources. **Stitch Fix (SFIX)** was hit after reports suggested it will lay off circa 15% of salaried staff. **Meta (META)** has reportedly scaled back its AR glasses plan over the next several years as part of an effort to trim heavy investments it is making in its Reality Labs hardware and AR/VR division, according to The Information. **State Street (STT)** said it's not pursuing any deal with **Credit Suisse (CSGN SW)**.

**EARNINGS**: **Nio (NIO)** EPS printed inline while revenue marginally beat, but announced shrinking profit margins and a downbeat outlook due to supply chain challenges. **Bilibili (BILI)** posted a deeper loss per share than expected but beat on revenue. However, looking ahead Q2 revenue view light. **Signet Jewellers (SIG)** beat on profit while revenue was inline alongside issuing an upbeat FY forecast. It also expanded its share buyback programme by USD 500mln. **Five Below (FIVE)** missed on revenue and issued a cautious outlook, as it cut both FY22 and Q2 view. FIVE expects the macro environment to remain challenging this year.

## FX WRAP

**EURO**: The ECB left rates unchanged and announced an end to its bond-buying process, as expected, while also signalling a 25bp hike in July and September, although added if it is required they are prepared to implement a larger hike in September, while also signalling gradual rate hikes thereafter. The ECB reiterated the issue of preventing fragmentation and preserving policy transmission will be tackled via adjusting PEPP reinvestments flexibly across time, asset classes and jurisdictions at any time, disappointing those looking for more concrete fragmentation solutions. In response to the statement, EUR/USD was choppy but went on to hit session highs just before President Lagarde started her speech. However, gains were short lived as risk sentiment started to weigh on the single currency and partly as EZ debt spreads widened and the fact that another global Central Bank is normalising on inflation grounds even though this could accentuate downside growth risks. EUR/USD reversed from 1.0773 at the highs to lows seen in the afternoon of c. 1.0620 as risk sentiment continued to weigh as well as an element of long liquidation or position paring. ECB sources were hawkish, although provided little support to the Euro as it propelled growth concerns where some policymakers wanted a 50bps hike already in July and a large majority were against making an announcement on a fragmentation-fighting tool.

**The Dollar** was supported thanks to the downbeat risk tone and the weaker Euro which helped the Dollar index print a fresh weekly high of 103.34 despite an uptick in jobless claims data this week, albeit not for the usual survey period week for the BLS NFP report. Attention now heavily turns to the US CPI report on Friday, where the headline is expected to rise 0.7% M/M, picking up from 0.3% in April while Y/Y is seen maintaining a pace of 8.3%. The core metrics are expected to slow, however, to 0.5% from 0.6% M/M with Y/Y slowing to 5.9% from 6.2%. Note, Redfin released a survey which saw median monthly asking rent in the US rise above USD 2k for the first time in May, rising 15% Y/Y, matching April's pace but slowing from March's 17% gain. The report will help shape Fed expectations for September where they are expected to "assess" their current normalisation plan which is widely expected to hike by another 50bps in June & July.

**Yen** was flat against the rising buck after its recent demise although USD/JPY did hit a WTD high of 134.55 from lows of 130.19 on Monday. Treasury yields were slightly firmer although the longer end yields were lower after a strong US 30yr auction which helped propel Treasuries off lows after the hawkish ECB rate decision. **CHF** was weaker against the buck but firmer against the Euro in wake of the ECB as attention turns to the SNB next week to see if we get any rate guidance from the Swiss National Bank.

**Cyclical currencies** were generally weaker, particularly AUD and CAD despite hawkish pivots from both central banks recently, perhaps as the hawkish ECB today took out some of their rate advantages. On the Aussie, Westpac write AUD "has not found sustained support against the US dollar from the 50bp hike. Equity jitters continue to cap AUD/USD and the FOMC's likely hawkish hike next week seems unlikely to reignite risk appetite." Meanwhile, USD/CAD returned to pre-BoC levels on Thursday as the dollar's gain, downbeat risk tone and lower oil prices. The softer looney today came despite further hawkish reassurances from Governor Macklem who said the BoC may have to do more than 50bps hikes, rates may need to rise above 3% (above top end of neutral estimates), and clarified that more "forceful" means more or bigger rate hikes. However, he did affirm the BOC does not want to overcool the economy, it just wants to get rid of the excess demand but not completely choke off demand and they hope by moving rates up reasonably quickly the Bank can avoid the need for a sharper slowdown to get inflation back to target.

**Sterling** was weaker against the buck but firmer against the Euro where Cable returned back above 1.2500 after briefly dipping beneath the psychological level. Note, UK PM Johnson announced now is the time to cut taxes and red tape. **NZD** was weaker against the buck to see USD/NZD dip beneath 0.6400 while AUD/NZD fell back beneath 1.1150 to lows of 1.1111 with NZD somewhat supported after the RBNZ outlined plans to sell New Zealand government bonds from July 2022 and plans to sell NZD 5bln per fiscal year in order of maturity date until its holdings are reduced to zero.

**Scandis** were both weaker against the greenback and the Euro on the downbeat risk tone and lower oil prices although SEK outperformed NOK after Riksbank's Breman noted he will not rule out a 50bp hike at the upcoming meeting.

**EMFX** was mixed, ZAR was weaker with lower gold prices while its latest mining production figures heavily disappointed expectations although it did post a larger current account surplus in Q1 than expected and above the prior. MXN was weaker amid the firmer buck and fall in oil prices although inflation data was inline rising 0.2% M/M while the Y/Y was unchanged at 7.7%, just above the 7.6% expectation. Analysts at Pantheon expect a gradual downtrend to emerge over upcoming months due to "less-demanding base effects, the lagged effect of tighter monetary policy, a relatively stable MXN, and the effect of recent policies implemented by the government, including subsidies and the program to combat food price inflation and scarcity", although risks remain tilted to the upside. BRL was relatively flat against the buck after inflation data was cooler than expected rising 0.47% M/M from 1.06% (exp. 0.60%), and the Y/Y inflation slowed to 11.73% from 12.13%, beneath the 11.84% expectation, albeit still remaining at elevated levels but the decline supports that inflation has peaked in Brazil although risks remain. Note, Brazilian presidential candidate, and poll favourite, Lula draft manifesto to scrap Brazil's public spending cap, according to FT. TRY saw strength amid the lower oil prices while the Lira hit highs after Turkey's Finance Minister announced Turkey will give new economic steps later on Thursday, adding that Turkey is a free market economy and the FX regime is liberal. CNH handed back a portion of its Chinese trade data gains as coronavirus restrictions were restored in parts of the nation while regulatory concerns remain on conflicting reports about the revival of Ant Group's IPO, which appears to not be going ahead.

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