newsquawk

US Market Wrap

13th June 2022: Scramble for Dollars as Stocks, Bonds, and Beyond Crater

- **SNAPSHOT**: Equities down, Treasuries down, Crude up/flat, Dollar up
- **REAR VIEW**: Fed likely to consider 75bp surprise; NY Fed inflation expectations move higher; ECB reluctant to reveal fragmentation plan; China officials support more COVID-19 prevention measures; US & China officials speak; US & Taiwan reportedly in final stages of prep for discussions.
- **COMING UP**: **Data**: Swedish CPIF, UK Unemployment, German ZEW, US PPI **Events**: OPEC MOMR **Speakers**: ECB's Schnabel **Supply**: Netherlands, Italy & Germany.
- **WEEK AHEAD**: Highlights include FOMC, BoE, BoJ and China activity data. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing FOMC, BoE, BoJ, SNB, BCB; reviewing ECB, RBA, RBI, CBR. To download the report, please click here.

MARKET WRAP

Stocks, Bonds and Metals sold off heavily as money markets now price in a c. 60% chance of a 75bp move from the Fed on Wednesday in wake of the hot CPI report on Friday, upwardly revised inflation expectations from UoM and the NY Fed surveys. The moves emboldened particularly in late Monday trade after a WSJ piece noted the Fed is likely "to consider surprising markets with a larger-than-expected 0.75-percentage-point interest rate increase at their meeting this week". The Dollar surged on the hawkish market pricing to print a fresh YTD peak at 105.29 (prev. 105.01). Crude saw marginal gains, albeit still quite impressive compared to the broader asset sell off, reflective of the great supply risk in the energy market. The oil benchmarks saw a strong rebound into their settlement as the earlier stock selling lost momentum, coming despite the Dollar strength and earlier demand concerns on China COVID woes after officials called to strengthen COVID prevention tools and control of key places after the Beijing bar COVID outbreak. Treasury yields hit highs not seen since 2011 while the 2s10s flirts with inversion - 2yr yield spiked a huge 30bps on Monday. Meanwhile, sectors were slammed across the board with underperformance in Energy, Real Estate, Consumer Discretionary, while Consumer Staples, Financials and Health Care were the relative "outperformers", but still lower by 2-3%. A strong Oracle (ORCL) print after hours has provided some support to the tech sector, but otherwise, attention now moves to Tuesday's PPI and any other articles from major news outlets (CNBC or Bloomberg) on the Fed moving 75bps, which may or may not be informed by official Fed sources.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLE 1 POINT & 17 TICKS LOWER AT 115-09

Sustained Treasury bear-flattening and one-way selling as Friday's CPI reaction extends into Wednesday's FOMC. 2s +29.9bps at 3.348%, 3s +28.1bps at 3.506%, 5s +24.8bps at 3.501%, 7s +23.6bps at 3.476%, 10s +22.2bps at 3.379%, 20s +19.5bps at 3.645%, 30s +17.4bps at 3.372%. 5yr TIPS +41.1bps at 0.388%, 10yr TIPS +26.2bps at 0.637%, 30yr TIPS +21.2bps at 0.884%. 5yr BEI -2.5bps at 3.138%, 10yr BEI -2.6bps at 2.723%, 30yr BEI -2.3bps at 2.519%.

THE DAY: The Tokyo session Monday picked up where the US closed last week, with selling in bonds picking up as APAC players reacted to Friday's multi-decade high US CPI reading. The bond selling saw 10yr JGBs test the BoJ's 0.25% top-end yield target range. High volume selling extended through Europe, with fixed income and equities selling in unison amid "stagflation" woes in play, particularly after the bleak UK GDP, IP and Output metrics. The US session provided little catalysts to alter the trend (no data releases , with selling momentum carrying right into settlement, and then again in late trade on a WSJ piece noting the higher likelihood of a 75bps rate hike this week - not explicitly citing Fed sources, but eerie nonetheless).

AHEAD: No Treasury coupon auctions this week but FOMC serves the highlight. On the US data front, PPI on Tuesday, Retail Sales and Import prices on Wednesday, and Philly Fed Mfg. on Thursday. Globally, Chinese production data Wednesday is on watch, while the BoE and SNB Thursday could provide some transatlantic pressures, ahead of the BoJ on Friday.

STIRS:

- Eurodollars saw acute selling with reds (2nd year of quarterlies) sold the hardest as momentum into a higher terminal Fed rate builds.
- EDM2 -2.3bps at 98.165, U2 -30.5bps at 96.765, Z2 -41.0bps at 95.975, H3 -41.5bps at 95.715, M3 -37.0bps at 95.71, U3 -34.0bps at 95.86, Z3 -30.5bps at 96.025, H4 -28.5bps at 96.15, Z4 -22.5bps at 96.42, Z5 -21.0bps at 96.615.
- Implied pricing for 75bps hike on Wednesday jumped to 60% from 25% earlier Monday after the WSJ article on the potential for a larger hike increment.
- NY Fed RRP op demand new record at USD 2.213tln across 97 bidders, while SOFR remained unchanged at 75bps.
- US sold USD 50bln of 3-month bills at 1.640% (prev. 1.230% last week), covered 2.27x; sold USD 47bln of 6-month bills at 2.160% (prev. 1.710%), covered 3.26x
- Note the 3-month bill auction tailed by a massive 11bps, with the new issue a massive 40.1bps cheaper than last week's issue, feeling the wrath of the post-CPI front-end selling as Dealers (forced surplus buyers) took 75% of the offering.

CRUDE

WTI (N2) SETTLES USD 0.26 HIGHER AT 120.93/BBL; BRENT (Q2) SETTLES USD 0.26 HIGHER AT 122.27/BBL

Oil prices were slightly firmer Monday, despite resurfaced China lockdown concerns, in what marked a market anomaly with other major risk assets all under acute pressure. The oil benchmarks entered the NY session with losses, with the uptick in Chinese COVID cases weighing on the global demand outlook, albeit that downside was contained in comparison to the equity market. Desks continue to point to angst around supply (with Libya the latest woe) in sustaining a reticence for participants to get short oil. WTI (N2) and Brent (Q2) hit session lows of USD 117.47/bbl and 118.93/bbl as stocks hit lows not long after the NYSE cash open, before finding a healthy bounce into the black as the selling momentum in stocks lost steam, then paring to little changed ahead of settlement.

US: Bloomberg reported that Valero's (VLO) Memphis, Tennessee refinery (195k BPD) has cancelled a July shutdown of a crude unit so it can keep refinery rates elevated to meet demand and capture high product margins. Meanwhile, the EIA forecast US total Shale regions oil production for July up by 143k BPD at 8.9mln BPD, the same size increase as it sees for June.

RUSSIA: Russia is to replace Saudi Arabia as India's second-biggest oil supplier, according to Reuters citing trade sources. The article noted that in May, Indian refiners received c. 819k BPD of Russian oil (vs 277k BPD in April). Elsewhere, Germany said Monday that reduced Nord Stream 1 flows are due to the halt in deliveries to Netherlands and Denmark. At the same time, reports suggested Nord Stream 1 pipeline is planning a maintenance period between July 11th-21st.

EQUITIES

CLOSES: SPX -3.88% at 3,750, NDX -4.60% at 11,288, DJIA -2.79% at 30,516, RUT -4.76% at 1,715.

SECTORS: Energy -5.13%, Real Estate -4.78%, Consumer Discretionary -4.66%, Utilities -4.63%, Technology -4.47%, Communication -4.43%, Materials -3.92%, Industrials -3.03%, Health Care -3.01%, Financials -2.95%, Consumer Staples -2.18%.

EUROPEAN CLOSES: Euro Stoxx 50 -2.71% at 3,501; FTSE 100 -1.59% at 7,201; DAX -2.52% at 13,415; CAC 40 -2.67% at 6,022; IBEX 35 -2.50% at 8,181; FTSE MIB -2.81% at 21,915; SMI -1.99% at 10,864.

STOCK SPECIFICS: **Verizon (VZ)** is to raise tariff rates of older shared data plans. FTC asked **UnitedHealth (UNH)** and **LHC Group (LHC)** for additional information related to their proposed USD 5.4bln deal, according to a filing. **Tesla (TSLA)** filing revealed plans for a three-for-one stock split and proposed to increase the number of authorised shares of common stock by 4bln shares. Elsewhere, TSLA has laid off its Singapore country manager, just over a week after CEO Elon Musk warned of global job cuts, according to CNBC. **Prologis (PLD)** is to acquire **Duke Realty (DRE)** in a USD 26bln all-stock transaction. Crypto-exposed names such as **Coinbase (COIN), MicroStrategy (MSTR), and Silvergate Capital (SI)**, all saw pronounced losses due to the sell-off in the wider crypto space. Highlighting this, Bitcoin fell beneath USD 23k, hitting its lowest levels since December 2020. **DocuSign (DOCU)** extended its losses from Friday, where it fell in excess of 24% on Friday, after its missed earnings and slashed guidance, and as such over the weekend Wolfe Research downgraded the stock to “Underperform” from “Peer Perform”. SEC is investigating **Goldman Sachs (GS)** over ESG claims, FT reported, as the regulator puts more focus on potential ‘greenwashing’ in finance. **Charles**

Schwab (SCHW) subsidiaries misled Robo-Adviser clients about the absence of hidden fees and are to pay USD 187mln to settle the charges, said the SEC. **Amazon (AMZN)** offers to let sellers use some marketplace data and boost the visibility of rival products on its platform in a bid to end two EU antitrust probes, according to Reuters citing sources. Elsewhere, Amazon Prime Air is preparing for drone deliveries. Meanwhile, Amazon CEO Jassy may not replace outgoing worldwide consumer head Dave Clark, "reverting to a pre-2016-style org chart for managing Amazon's retail business", according to Business Insider citing sources. Big three Detroit automaker CEOs **(GM, F, STLA)** urged US lawmakers to lift the manufacturer cap on USD 7,500 EV tax credit, according to Reuters. **Disney (DIS)** won TV broadcast rights, but not streaming rights, for Indian Premier League cricket, according to FT; with the streaming rights awarded to **Viacom18 (PARA)**. **Google (GOOG)**, **Meta (META)**, **Twitter (TWTR)**, **Microsoft (MSFT)**, and other tech companies will have tackle deepfakes and fake accounts or risk EU fines, according to Reuters sources. **Astra Space (ASTR)** plunged lower after TROPICS-1 mission did not deliver payloads to orbit, and the mission represents second mission failure in three launches this year. **American Airlines (AAL)** regional pilots will reportedly get big pay hikes as competition for pilots intensifies, according to CNBC. Meanwhile, Boeing (BA) CEO Calhoun said he is bullish on industrywide airplane demand, adding it is as robust as he has ever seen.

FX WRAP

The Dollar extended its bid in wake of Friday's US CPI to see the Dollar Index print fresh YTD peaks after rising above 105.01 to highs of 105.07 with all eyes on the FOMC rate decision Wednesday. Friday's hot CPI report has seen several banks up their calls from the Fed, namely Barclays and Jefferies who now see a 75bp move bae case on Wednesday, while Standard Chartered said there is an outsized chance of a 100bps FOMC rate hike on Wednesday to exhibit a Volcker moment; although noted their base case is 50bps but "doesn't preclude 75bps" or beyond. The DXY extended to session highs (as did yields) in wake of a WSJ report that the troubling inflation reports is likely to lead the Fed to consider "surprising markets with a larger-than-expected 0.75-percentage-point interest rate increase at their meeting this week".

The Yen was flat against the surging buck as the risk off session, which saw the S&P 500 enter a bear market, helped battle the ever-widening rate/policy differentials with the US/Fed. The BoJ overnight announced it is to purchase JPY 500bln in 5yr-10yr JGBs Tuesday and will increase the amount of offers for its bond-buying as needed as the 10yr JGB yield rose above its 0.25% tolerance band. Meanwhile, BoJ Governor Kuroda reiterated they must support the economy with monetary easing although he did note the recent sharp falls in JPY are undesirable and not good for the economy. Analysts at Citi remain bearish on the Yen even though intervention risks are increasing. Citi had believed the MoF would start to consider JPY buying intervention if USD/JPY rose above 135.00 and the risk would be more material if it approached 140.00. However, the bank notes that inflation in Japan is fairly controlled in comparison to Europe or the US, while the Kishida government supporting rate remains high ahead of the upper house election in July, and with Nikkei stocks resilient, the government would prefer to skip actual actions as long as possible. "We believe that the bar for JPY-buying intervention has got higher and now doubt that they will take actions even if USDJPY reaches 140".

Gold prices were also slammed on Fed tightening expectations and the rallying Dollar while demand concerns from China are also weighing amid cautious COVID commentary from the Beijing government. The Yuan was weaker for both onshore and offshore amid the Dollar strength and a fluctuant COVID situation. The Beijing government said the scale of the latest outbreaks linked to bars is "ferocious and explosive in nature" after the city reported 166 cases in a bar cluster.

The Euro sold off and fell from 1.0519 at the highs to lows of 1.0405 as money markets price in a more aggressive Fed after Friday's CPI. On the ECB, Simkus said he is not worried about Italian yields while Kazmir reiterated he sees a clear need for a 50bps rate hike in September. On fragmentation, Bloomberg sources reported ECB officials are increasingly determined not to divulge its plans to fight bond-market stress and they are reluctant to reveal a plan on fragmentation and are convinced there are few benefits in pre-emptively revealing a specific crisis tool.

Cyclical currencies were slammed, particularly the Antipodes and GBP although CAD fared a bit better thanks to oil prices withstanding the global asset sell off with stocks, bonds and metals lower. In the UK, data was weak. The GDP estimate declined 0.3% M/M despite expectations for a 0.2% rise while the Y/Y printed 3.4%, beneath the 3.9% consensus. Industrial output also posted a surprise fall, as did manufacturing output. On trade, however, the Goods trade balance was a narrower deficit than expected. Attention turns to the BoE rate decision on Thursday where the latest poll sees the majority expect a 25bps move, although analysts at CapEco are calling for a 50bp hike. Meanwhile, Australia was away overnight for the Queen's birthday although AUD/USD support was seen at 0.6945-35 region but the cross did print a brief low of 0.6924 before paring within the aforementioned range.

EMFX was hit in general on the risk off environment and the rising greenback, particularly LatAm currencies as metal prices stumbled while China COVID woes also weighed. BRL and MXN were particularly weaker. Elsewhere, the ZAR was hit on the fall in gold prices while Lira weakness continued, albeit not to the same extent as other EM's today, perhaps due to the heavy selling pressures seen last week.