



## US Market Wrap

### 14th June 2022: More bond selling with Fed priced for 75bps with risk of Volckering

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude down, Dollar up
- **REAR VIEW:** More strategists join 75bps camp for Fed; PPI no worse than feared; Freeport LNG export terminal out for longer than previously thought; Schnabel hints at fragmentation tool; OPEC leaves demand growth forecast unchanged for 2022; Biden to visit Saudi Arabia; WH considering oil profit tax; Plenty of job cut announcements.
- **COMING UP: Data:** Chinese Industrial Output/Retail Sales, Swedish CPIF 1 & 5yr, US Import/Export Prices, Retail Sales **Events:** FOMC Policy Announcement & Press Conference; Swiss SECO, IEA OMR **Speakers:** ECB's Lagarde, de Cos, Panetta.

## MARKET WRAP

It was more of the same on Tuesday as we await the FOMC on Wednesday (preview below) as more strategists ramp their base cases to a 75bps hike in wake of reports from WSJ, Bloomberg and CNBC on Monday evening; markets are now 90% priced for 75bps. Stocks were lower for the majority of the session although not to the same magnitude seen on Monday with a late-session rally helping indices close mixed. Nonetheless, with hawkish expectations building for the Fed the Dollar continued its rise to fresh YTD peaks while yields continued to ascend across the curve in a bear-flattener. T-Note selling was capped temporarily after the US PPI data printed no worse than feared while analysts at Pantheon highlight margins are starting to compress as inventories return to normal and suggest if this is sustained, a renormalisation of margins would help the case for Core CPI/PCE inflation to fall more quickly. Crude prices slumped into the afternoon, weighed on by the Dollar strength, while President Biden is set to visit Saudi Arabia in July where oil production will "certainly be on the agenda". Reports around an oil profit tax in the US also caught attention, where Senator Wyden is considering a 21% surtax on oil profits to tackle inflation. NatGas prices slumped in the US and rallied in Europe after the Freeport LNG export terminal announced a partial restart will take 90 days (much more than the initial three week estimate) while full restoration will take place in late-2022. In Europe, ECB's Schnabel hinted at a potential fragmentation-avoiding tool, whether it be new or existing, but gave little details apart from that one would be coming.

## US

**FOMC PREVIEW:** The FOMC had been expected to hike rates by 50bps to 1.25-1.50% until the hot May CPI figures and rising consumer inflation expectations ignited a wave of 75bps calls to 1.50-1.75%. The Fed guidance initially called for 50bps (both in June and July) had the data evolved as they expected, but after the hot May data, some calls for larger hikes, a 'Volcker moment', fuelled speculative market activity leading into the meeting, and given a slew of publications with high-placed sources (WSJ, CNBC, Bloomberg) have come out suggesting a 75bps hike is indeed possible on the eve of the confab, it is now seen as a base case for many and a near-certainty as per market pricing. Given the evolution of the data, the Fed will be expected to make hawkish adjustments to its guidance via the statement, and in Powell's presser, some suggest another 75bps hike in July even. Furthermore, the accompanying 'Dot Plot' is expected to see ramped implied Fed hikes through 2023 - whispers suggest the median '23 dot could be towards the 4% region vs March's 2.8% forecast. To download the full Newsquawk preview, [please click here](#).

**US PPI:** US May PPI M/M rose 0.8%, in line with the expected, and above the prior 0.4%, while the core M/M rose 0.5% (prev. 0.2%, exp. 0.6%). Headline Y/Y printed 10.8% (prev. 10.9%, exp. 10.9%), while core Y/Y slowed to 8.3% (prev. 8.6%, exp. 8.6%). Additionally, the 3M/3M is 7.5% and falling, which points to further declines in the Y/Y rate. Looking into the report, Pantheon Macroeconomics note, 'M/M both core goods and services prices rose but we see encouraging signs at the margin. The 0.7% increase in core goods prices was the smallest since December, thanks to a sudden moderation in light truck prices, up only 0.2%.' As such, Pantheon continues, 'we assume this is a consequence of the rebound in vehicle output, which in April returned to its pre-Covid level for the first time. Prices for cars and capital equipment rose a bit less quickly too.' Moreover, and looking at the services sector, the pivotal figure is trade services, due to accounting for roughly 30% of the core PPI and has jumped since the since spring of last year, when supply constraints began to hit. Henceforth, PM notes, 'margins rose 22% from their pre-Covid level but are now beginning to re-compress as inventories return to normal. Margins rose 0.4% in May but this followed a 0.6% drop in April, and the y/y rate has dropped to 13.6%, from a peak of 18.3% in March.' Due to this, Pantheon cannot overstate the importance of



this development; if sustained, a renormalization of margins would make it much more likely that core CPI/PCE inflation fall more quickly over the next year than the Fed and markets expect.

## FIXED INCOME

### T-NOTE (U2) FUTURES SETTLE 28 TICKS LOWER AT 114-13

**Treasuries saw further bear-flattening as a brief respite overnight reversed ahead of FOMC.** Futures volumes above average again. 2s +15.2bps at 3.433%, 3s +13.1bps at 3.595%, 5s +11.9bps at 3.600%, 7s +12.5bps at 3.586%, 10s +11.0bps at 3.481%, 20s +8.1bps at 3.719%, 30s +6.2bps at 3.431%. Inflation breakevens: 5yr BEI -15.6bps at 2.912%, 10yr BEI -6.9bps at 2.583%, 30yr BEI -1.9bps at 2.452%.

**TOKYO/LONDON:** T-Notes were rangebound and just above 115-00 for the APAC Tuesday session, while the front-end saw some more noted selling. The arrival of Europe saw some respite, however, and T-Notes found a rally to session highs of 116-03, paring in sympathy with EGBs ahead of the NY handover after some mixed German auction results.

**NEW YORK:** T-Note selling was capped temporarily after the US PPI data printed no worse than feared. But, as the data left the rear-view, continued bear-flattening was observed, aided by more sell side calls for 75bps and expectations around the Fed looking to 'out-hawk' itself. T-Notes trundled lower all the way through into settlement with cash 10yr yield within a few bps of 3.50%, while the 2yr and 30yr both sit just a few bps richer at the time of writing. Traders now look to Wednesday's FOMC, with trade likely to be characterised by book-squaring/positioning into the meeting.

### STIRS:

- Further bear-flattening in the Eurodollar strip with expectations nearly fully priced for 75bps at FOMC and priced for hawkish guidance.
- EDU2 -35.0bps at 96.57, Z2 -25.5bps at 95.84, H3 -13.5bps at 95.68, M3 -7.5bps at 95.715, U3 -3.5bps at 95.895, Z3 -4.0bps at 96.045, H4 -5.0bps at 96.145, M4 -6.5bps at 96.23, Z4 -8.0bps at 96.35, Z5 -11.0bps at 96.495.
- Late session option block sees 50k EDU2 96.875/96.50/96.125 put flies for 8.5 (underlying trades at 96.585).
- NY Fed RRP op demand at a new record USD 2.224tn across 97 bidders while SOFR fell to 73bps (beneath the bottom of Fed Funds target range).
- US sold USD 38bln of 1yr bills at 3.020%, covered 3.14x.

## CRUDE

### WTI (N2) SETTLED USD 2.00 LOWER AT 118.93/BBL; BRENT (N2) SETTLED USD 1.10 LOWER AT 121.17/BBL

**Oil prices were lower Tuesday in choppy trade as earlier strength reversed into the NY afternoon as traders balanced China demand woes against supply concerns.** WTI (N2) and Brent (Q2) prices hit highs of USD 123.68/bbl and 125.19/bbl, respectively, in the NY morning before risk assets stumbled and the Dollar strengthened into later trade, bringing oil prices into the red ahead of settlement. Traders now look to the weekly US inventory data.

**US PRODUCTION:** US nat gas prices tumbled Tuesday, and global prices rallied, after Freeport LNG announced it is targeting a partial restart of its export facility in around 90 days, in excess of original guidance of around three weeks. Furthermore, reports noted the completion of all required works to return the plant to full operation is not expected until late 2022. Elsewhere, LyondellBasell's (LYB) Houston, Texas refinery (268k BPD) is shutting its coker unit following an earlier fire, Reuters reported, coming after the refinery reported an all-clear.

**PROFIT TAX:** NEC Director Ramamurti said US President Biden is not ruling out an excess profit tax on oil companies. Bloomberg reported after that the White House is weighing an oil profit tax but is wary of the supply impact; said to be floating an idea of a 21% surtax on oil profits to blunt inflation.

**LIBYA:** Libya's oil output is running at 100-150k BPD amid civil unrest, according to an oil ministry spokesperson, significantly suppressed vs the 750k BPD reported towards the end of May. That follows some reporting in recent days that nearly all of the country's oilfields are shutdown, with the exception of the Hamada and Mellitah complex, and occasionally the Wafa oilfield.

**OPEC MOMR:** The monthly [report](#) saw 2022 world oil demand growth broadly unchanged at 3.4mln BPD, averaging 100.29mln BPD, exceeding 2019 demand by 90k BPD; the Q2 forecast was revised lower but offset by an upward revision to H2. For context, the EIA STEO last week raised its global 2022 oil demand forecast to 99.63mln BPD.



Separately, Reuters reported that OPEC is expected to publish its first 2023 demand forecast at the July 12th MOMR that will show world oil demand growth slowing in 2023 to 2mln BPD or less in 2023.

## EQUITIES

**CLOSES:** SPX -0.38% at 3,735, NDX -0.21% at 11,312, DJIA -0.50% at 30,365, RUT -0.39% at 1,708

**SECTORS:** Utilities -2.58%, Consumer Staples -1.29%, Health Care -1.07%, Real Estate -1.01%, Financials -0.94%, Materials -0.84%, Communication Svs. -0.29%, Consumer Discretionary -0.25%, Industrials -0.25%, Energy +0.07%, Technology +0.62%,

**EUROPEAN CLOSES:** Euro Stoxx 50 -0.83% at 3,473; FTSE 100 -0.28% at 7,185; DAX -0.88% at 13,308; CAC 40 -1.20% at 5,949; IBEX 35 -1.28% at 8,078; FTSE MIB -0.30% at 21,852; SMI -1.84% at 10,696.

**STOCK SPECIFICS:** **Oracle (ORCL)** beat on EPS and revenue, with an exec noting it is seeing strong demand for its cloud software business. As such, expects cloud business to grow by over 30% in FY23 and sees Q1 revenue including Cerner to grow 17-19%. **FedEx (FDX)** raised its quarterly dividend to USD 1.15/shr (prev. 0.75/shr) and is adding two independent directors to its board, in agreement with DE Shaw, effective immediately. **Caterpillar (CAT)** is to raise dividend to USD 1.20/shr (prev. USD 1.11/shr). **Philip Morris (PM)** now expects a better performance from its core business than previously anticipated, and that it continues to see growth in its IQOS electronic cigarette business. **Netflix (NFLX)** has talked with **Roku (ROKU)** and **Comcast (CMCSA)** regarding help with ad sales and NFLX is considering adverts on its homepage, according to The Information. Discussions between ROKU and NFLX coincide with persistent rumours, which surfaced in a Business Insider report last week, that Netflix might buy Roku. But people close to both companies said no such deal is in the works. **Ford (F)** recalls 48,924 US Mustang Mach-E EVs because of potential for power loss. **Fisker (FSR)** CEO said we are seeing sort of the end of the supply chain crisis; worked with a supplier to redesign a part to use a different chip that was not in short supply. **Comcast (CMCSA)** NBCU CEO said Peacock ad-fed model is where the industry is headed; not seeing economic pressure on business yet. **Boeing (BA)** still lags **Airbus (AIR FP)** in jet orders and production but may soon resume 787 deliveries, according to Seattle Times. **Amazon (AMZN)** is "quietly" inviting some sellers to a new Prime Day-type sales event that will be held later this year, according to Business Insider. **Comcast (CMCSA)** said to have been in discussions for a takeover of Electronic Arts (EA), but "it appears" that has stalled, according to Variety, who noted "talks may have fallen apart earlier this year". **Microsoft (MSFT)** has reportedly started working on bringing casual games to its Microsoft Teams service, according to sources cited by The Verge, who add it has started testing games like Solitaire, Connect 4, and Wordament in Teams.

**M&A:** **Continental Resources (CLR)** received USD 70/shr to go private offer for Hamm. Note, CLR closed Monday at USD 64.50/shr. Elon Musk will attend a virtual **Twitter (TWTR)** staff meeting this week, speaking to staff for the first time since launching his USD 44bln acquisition, according to Business Insider.

**DSV (DSV DC)** has expressed interest in purchasing **C.H. Robinson Worldwide's (CHRW)** Global Forwarding unit, according to Reuters sources; the unit could be worth as much as USD 9bln. **Microsoft (MSFT)** to acquire Miburo to boost threat intelligence research into new foreign cyber threats; financial terms were not disclosed.

**JOB CUTS:** **Redfin (RDFN)** asked about 8% of its employees to leave today; with May demand 17% below expectations, it does not have enough work for agents and support staff; adding it could be facing years not months of fewer home sales. **Compass (COMP)** also announced job cuts, and will remove about 10% of its workforce amid US housing slowdown. **Coinbase (COIN)** announced it is reducing its workforce by 1,100 employees or 18% of its global work force. Additionally, JPM downgraded it to "Neutral" from "Overweight" citing the extreme 2022 decline in the crypto markets, plus Coinbase's increased investments, make it difficult to foresee profitability in the near future. **Warner Brothers Discovery (WBD)** is to cut as much as 30% of its advertising sales force, according to The Information

## FX WRAP

**The Dollar** continued its bid Tuesday tracking US yields to print a fresh YTD high of 105.65 as many banks revise their call from the Federal Reserve to hike by 75bps on Wednesday while money markets look for a near 100% chance of a 75bp move, with Goldman Sachs, JPMorgan, Wells Fargo, TD Securities joining Barclays and Jeffries expecting this to be the case. After the WSJ report on Friday, similar reports were seen in Bloomberg and CNBC, in what appears to be the Fed's way of communicating with the market during their blackout period ahead of the event.

**The Euro** managed to find a gain against the rising Dollar thanks to some hawkish commentary from ECB's Knot who said if conditions remain the same as today, the ECB will have to hike by more than 0.25%. Note, the Final German CPI data for May was in line with expectations but remained at elevated levels, while the ZEW Economic Sentiment was worse than expected, but improved slightly from the prior month, while current conditions were better than expected,



albeit not great. Meanwhile, ECB's Schnabel spoke on bond market fragmentation and signalled a tool, whether it be new or existing, is likely coming but details do remain light on the specifics. Looking ahead, analysts at Wells Fargo see EUR/USD hitting parity within a month.

**The Yen** was weaker on Tuesday after the BoJ announced an additional auction schedule for Wednesday where it is increasing purchases of 1-,3,5 and 5-10yr JGBs, with an additional combined JPY 150bln of super-long JGBs reportedly to be bought as well while Bloomberg reported the BoJ purchases a record amount of bonds for a fixed-rate operations of JPY 2.2tln. The BoJ monetary easing Tuesday emphasises the widening policy divergence with the Fed who look set to hike rates by 75bps on Wednesday while the BoJ is conducting a record amount of JGB purchases.

**CHF** weakened against the buck to see USD/CHF rise above 1.0000 while EUR/CHF had weakened above 1.04 to highs of 1.0452 as eyes turn to the SNB on Thursday, which is expected to keep the Key Rate at -0.75%. Although, a June hike cannot be outruled, with 2/26 polled by Reuters forecasting a 25bp increase. Full preview [available here](#).

**Cyclical currencies** were hit once again with hawkish Fed expectations and inflation concerns continuing to weigh on sentiment. **GBP** was hit particularly hard to see USD/GBP fall sub 1.20 for the first time since March 2020 while the unemployment rate in the UK rose to 3.8% from 3.7% despite expectations for an improvement to 3.6%, while wages rose 4.2%, in line with the prior but above expectations of 4.0%. Attention now turns to the BoE rate decision on Thursday where it is expected to hike by 25bps in a 9-0 vote to 1.25%. Full preview [available here](#). The antipodes saw similar weakness with **NZD/USD** just about holding onto 0.6200 while **AUD/USD** fell beneath 0.6900 but held above 0.6850. Note, there were remarks from RBA's Lowe earlier who said inflation could hit 7% by Christmas and does not expect it to drop until Q1 2023 and the RBA will do what is necessary to get inflation back to target but it is unclear how high rates will need to go, although suggested it is "reasonable" to think 2.50%, adding the pace and magnitude will be determined by events. On data, Aussie NAB Business confidence, and conditions declined. Meanwhile, in New Zealand the latest Food Price Index for May rose to 0.7% from 0.1%, while the RBNZ noted the first stage of its liquidity policy review has shown broad support for review and it intends to issue at least three more papers with a second later this year. **CAD** saw weakness, albeit was the cyclical outperformer on Tuesday despite the weaker oil prices, perhaps more a reflection of policy divergence with the BoC on the hawkish side of G10.

**The Yuan** was stronger vs the buck on both offshore and onshore currencies despite reports in the China Securities Journal reiterating that China has room to lower RRR and interest rates but was perhaps supported on more tariff reprieve after the White House reiterated they are considering the removal of some China tariffs.

**Scandis** were weaker against both USD and EUR while NOK was the laggard as oil prices sold off hard in the afternoon, while the latest regional network survey was worrying after falling to 0.8 from 1.65 noting that capacity constraints and high inflation weigh on the growth outlook. Meanwhile, Swedish CPI was hotter than expected but the unemployment rate improved, which likely supported SEK against the NOK.

**EMFX** was weaker in general as the Dollar firmed into the FOMC while Brazil Service Sector Growth (for April) disappointed expectations and South African Business confidence had declined for both April and May. Nonetheless, EMFX was trading broadly of the wider macro themes as participants look for the Fed to hike by 75bps on Wednesday, seeing commodity prices tumble.

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