US Market Wrap

16th June 2022: Hawkish central bank activity and weak data add to recessionary fears

- **SNAPSHOT**: Equities down, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Shock SNB 50bps hike & doesn't rule out further increases; BoE hike 25bps, as expected, with 3 50bps dissenters; ECB's Lagarde tells ministers that the ECB plans to put limit on bond spreads with new tool; Disappointing US data, Philly Fed falls negative whilst permits & starts plunge, Jobless claims misses expectations; Biden-Xi call could happen this summer; Musk says media lying about how TWTR deal is going down.
- **COMING UP**: **Data**: EZ CPI (Final) **Events**: BoJ Policy Announcement; Quad Witching **Speakers**: Fed's Powell.

MARKET WRAP

Stocks slumped on Thursday to see losses in major indices between 2.4-4.6% while havens were generally supported. Futures sold off overnight as Asia arrived and reacted to the FOMC while selling pressures were exacerbated after the surprise 50bps hike from the SNB to see it take its rate to -0.25% while suggesting more rate hikes are to come. EUR /CHF saw its largest daily decline since the SNB removed the peg to the Euro in 2015 - albeit the magnitude of the move was nowhere near as steep in comparison. The BoE also hiked rates today in a 25bps increment as expected but with three hawkish dissenters which saw Haskel, Saunders and Mann vote for a 50bps increase again. The BoE also dropped language around future rate hikes but said it will act more forcefully if required. Hawkish central bank activity across the globe is continuing to add to recessionary fears with roaring inflation despite optimistic official commentary. More data out the US disappointed today, with a contractionary Philly Fed survey while Jobless Claims fell, but above expected, and Building Permits slowed, although the Atlanta Fed GDPNow tracker maintained its Q2 estimate at 0.00%. It is worth noting with the steep losses in equities there had been some speculation the SNB were active sellers after their rate hike earlier in the session, but this was just speculation and nothing was confirmed. Elsewhere, Treasuries bull-steepened as earlier SNB-induced selling reversed as shorts covered after the BoE ('just' 25bps hike). US Treasuries extended on gains after the settlement to fresh session highs. The Dollar tumbled in wake of more hawkish central bank activity outside the US while weak data and growth concerns also weighed to see the DXY wipe out any gains seen earlier in the week to test Friday's low. The SNB hike, equity selling and downside in US yields helped the Yen recoup losses to see it among outperformers along with CHF and GBP as attention turns to the BoJ tonight (preview below).

CENTRAL BANKS

BOE REVIEW: As expected, the MPC opted to raise rates by 25bps, taking the Bank rate to 1.25% via a unanimous decision. The decision to increase was unanimous, but there was disagreement over the necessary magnitude with three dissenters (Haskel, Mann and Saunders) opting for a 50bps increase on the basis that “faster policy tightening now would help to bring inflation back to the target sustainably in the medium term”. Policymakers opted to continue with their rate hiking cycle on the basis that CPI inflation is expected to print over 9% during the next few months and to rise to slightly above 11% in October. Furthermore, the MPC judges that indicators remain consistent with a tight labour market. From a growth perspective, Bank staff analysis suggests that the Government’s recent Cost of Living Support package could boost GDP by around 0.3%. That said, Q2 GDP is now expected to contract by 0.3%, which would be a worse outturn than expected at the time of the May MPR. Elsewhere in the statement, the MPC opted to remove prior guidance which noted that some degree of further tightening in monetary policy may still be appropriate in the coming months. This was replaced with language noting that “the Committee will be particularly alert to indications of more persistent inflationary pressures, and will if necessary act forcefully in response”. Some have suggested that this could pave the way for a 50bps increase in August. However, we are yet to see from MPC members themselves if this is the correct interpretation of the adjustment. From a medium-term perspective, the MPC remains at pains to stress that the current implied market path for the Bank rate would push inflation “well below” target in three years’ time and as such continues to object to current market pricing. That said, at the time of writing, markets are not willing to play ball on this front with the year-end Bank Rate seen at 3% which would imply some combination of 7 x 25bps (three 50bps rises and one 25bps) hikes at the remaining four meetings of the year.

SNB REVIEW: An unexpected 50bp rate hike from the SNB accompanied by the Bank not ruling out further increases. A move that exceeds even the most 'hawkish' calls for a June 25bp hike going into the meeting. The driver for the SNB is the inflation situation, with the Bank noting that since the March gathering there has been a further considerable and broad-based increase in inflation in many nations. A concern that is evidenced by the new inflation forecasts only showing CPI marginally below the 2.00% target at 1.90% in 2023, when conditioned on the 50bp hike. In the subsequent press conference, Chairman Jordan made this point clear by remarking that without the hike, forecasts would be more pronounced; adding, that it would be difficult to reduce inflation if it was persistently above the 2.00% target. Elsewhere, the CHF classification was omitted from the statement and not mentioned until the presser where Jordan described it as no longer highly valued, given high inflation and its depreciation. Finally, but unsurprisingly given the hike, the exemption threshold was reduced to 28x (prev. 30x). Overall, the decision was a significant hawkish surprise which sparked a rout for equities and pronounced global yield and CHF upside in its wake as the SNB took action to prevent inflation becoming entrenched above target; note, June's inflation print is due on July 4th, May's YY reading was 2.90%.

BOJ PREVIEW: BoJ is expected to keep policy settings unchanged when it concludes its 2-day policy meeting on Friday, with rates at -0.10% and QQE with yield curve control to flexibly target 10yr JGB yields at 0%. BoJ doubled down on defending the 25bps yield cap at the last meeting and has since announced further additional bond purchases to contain yields. Rapid JPY depreciation has spurred some speculation the BoJ may need to rethink its policy, although Governor Kuroda previously noted that he doesn't think the rapid Yen weakening was caused by BoJ easing. To download the full Newsquawk preview, please click here.

US

JOBLESS CLAIMS: Initial jobless claims printed 229k, slowing from 232k, but above the expected 215k, while continuing claims rose to 1.312mln (prev. 1.309mln) surpassing the 1.302mln consensus. Looking into the data, Pantheon Macroeconomics note that the fairly high jobless claims print is due in part to the seasonals, and looking ahead believe IJC will dip to about 220K for the next couple of weeks, before the numbers start to jump around as a result of the annual automakers' retooling shutdowns. Moreover, the consultancy adds, "the trend in jobless claims has risen from the March lows, but we view those readings with a degree of skepticism; seasonal adjustment issues likely helped push the numbers down." PM also highlight that jobless claims remain very low by historical standards.

PHILLY FED: The Philly Fed index dropped to -3.3 from 2.6, and well beneath the consensus of 5.5, printing its first negative reading since May 2020. Delving into the subcomponents, new orders strikingly fell to -12.4 (prev. 22.1) as did shipments to 10.8 (prev. 35.8), whilst the 6m index slumped to -6.8 (prev. 2.5). Meanwhile, employment rose to 28.1 (prev. 25.5) as did CapEx 11.7 (prev. 9.6), and the inflationary gauge of prices paid fell to a 16-month low of 64.5 (prev. 78.9) with analysts highlighting the decline despite rising oil prices. Lastly, unfilled orders are below the pre-COVID level, and supplier delivery times are back to normal. For firms in this sample, the supply crisis is fading rapidly. Summarising the Philly Fed, the report suggests weakened conditions for the region's manufacturing sector; "the survey's indicators for general activity, new orders, and shipments all declined, with the former two turning negative, but the indicator for employment moved higher. The price indexes declined but continue to suggest widespread increases in prices. The survey's future indexes indicate deterioration in the respondents' expectations for growth over the next six months, as higher shares of firms expect decreases compared with last month."

BUILDING PERMITS/HOUSING STARTS: US May building permits fell 7% to 1.695mln (prev. 1.823mln) and short of the expected 1.785mln, while May housing starts also plunged 14.4% to 1.549mln (prev. 1.810mln) well below the consensus of 1.785mln. Pantheon Macroeconomics note that the fall in starts and permits numbers are exaggerated by outsized drops in the volatile multi-family component, but single-family activity dropped too, by 9.2% and 5.5% respectively. Nonetheless, the consultancy adds, "the trend in both are now unambiguously falling, following the abrupt and rapid drop in new home sales. The next few months will bring further, steep, declines in housing construction, given the collapse in mortgage demand." Referring to Wednesday's FOMC Q&A, Powell said the housing market is undergoing a "reset"; but PM stated "it's much more than that."

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 21 TICKS HIGHER AT 115-26

Treasuries bull-steepened as earlier SNB-induced selling reversed as shorts covered after the BoE ('just' 25bps hike) and weak US data. At settlement, 2s -17.1bps at 3.108%, 3s -13.0bps at 3.306%, 5s -15.8bps at 3.314%, 7s -15.8 bps at 3.325%, 10s -14.9bps at 3.246%, 20s -11.6bps at 3.561%, 30s -10.0bps at 3.308%. Inflation breakevens: 5yr BEI -7.4bps at 2.912%, 10yr BEI -4.8bps at 2.598%, 30yr BEI -2.1bps at 2.490%.

TOKYO/LONDON: The APAC Thursday session was choppy as T-Notes originally faded from the post-FOMC high of 115-30+ to Tokyo morning lows of 115-05, only to recover into Europe's arrival. The shock SNB 50bps hike (expectations were for unchanged at -0.75%) saw spillover selling pressures into the Treasury curve, taking T-Notes comfortably through 115-00, bleeding further into the NY handover. US participants arrived as the BoE confirmed a 25bps Bank Rate hike to 1.25%, with the initial reaction being some short-covering at the front-end of the Sterling curve as the Bank failed to over hike as others have done this week.

NEW YORK: Not long after BoE T-Notes eeked out session lows of 114-10, respecting the WTD lows of 114-07+ from Tuesday, amid EGB pressure on the Bloomberg ECB sources piece noting the new periphery debt purchases would be supported by selling core debt. But, the front-end bid extended in Treasuries, aided by a blocked 13.1k ZTU2 vs 11.6k FVU2 (touted steepener), seeing the long-end soon follow suit again as T-Notes were lifted from lows. The big declines in US building permits and housing starts were accompanied by a surprise fall into negative for the Philly Fed mfg. survey and near-recent high jobless claims print, extending the short-covering further into the afternoon. T-Notes topped out around 115-27 (cash 10yr yield low at 3.31% vs earlier high of 3.49%), although after the futures settlement T-Notes extended gains to fresh session highs of 116-10.

AHEAD: Data Friday sees industrial production. Meanwhile, the Fed blackout period ends with Powell set to be speaking at a conference in the morning, while we can expect some other speakers to come out of the woodwork, and probably a statement from George after her 50bps dissent. Otherwise, attention moves into the weekend with quiet activity expected for the Juneteenth holiday on Monday, while bond traders have their eyes on the USD 14bln 20yr bond auction on Wednesday, with Fed speak expected to keep the calendar busy.

STIRS:

- EDU2 +0.5bps at 96.675, Z2 +5.0bps at 96.030, H3 +12.5bps at 95.995, M3 +13.0bps at 96.080, U3 +11.5bps at 96.240, Z3 +10.0bps at 96.365, Z4 +11.5bps at 96.640, Z5 +17.0bps at 96.765.
- US sold USD 38bln of 1-month bills at 1.180% (prev. 1.040%), covered 3.17x; sold USD 33bln of 2-month bills at 1.470% (prev. 1.150%), covered 3.28x.
- NY Fed RRP op demand rose slightly to USD 2.178tln across 97 bidders.

CRUDE

WTI (Q2) SETTLED USD 2.15 HIGHER AT 115.24/BBL; BRENT (Q2) SETTLED USD 1.30 HIGHER AT 119.81/BBL

Oil prices were ultimately firmer as the Dollar's steady tumble lifted the commodity space. WTI (Q2) and Brent (Q2) futures hit lows of USD 110.43/bbl and 115.56/bbl, respectively, not long after the NY cash energy product open amid soured demand sentiment on aggressive global central bank action, before recovering from there as the Dollar fell with US yields. There were sparse headline-moving energy updates, although Russia's Novak commented throughout the session.

NOVAK: Russian Deputy PM Novak, who met with the Saudi Energy Minister Thursday, said he sees global oil demand at pre-COVID levels by year-end, whilst also said they discussed extending the OPEC+ cooperation agreement beyond 2022. Novak said there are difficulties in energy settlements and that there are discussions on using regional currencies; he also said later that Russia has no plans to switch to Rouble payments for oil (as it has done for gas). On production, Novak said Russian oil output has been rebounding since May and is now at levels seen in January. He forecasted Russia's output at around 500mln tonnes in 2022 and also does not rule out oil prices at USD 150/bbl and higher by year-end.

EQUITIES

CLOSES: SPX -3.14% at 3,671, NDX -4.02% at 11,127, DJIA -2.41% at 29,929, RUT -4.57% at 1,653.

SECTORS: Energy -5.58%, Consumer Discretionary -4.76%, Technology -4.11%, Materials -3.65%, Communication Services -3.45%, Industrials -3.38%, Financials -2.57%, Real Estate -2.55%, Utilities -1.97%, Health -1.52%, Consumer Staples -0.66%.

EUROPEAN CLOSES: Euro Stoxx 50 -2.99% at 3,426; FTSE 100 -3.10% at 7,048; DAX -3.35% at 13,033; CAC 40 -2.39% at 5,886; IBEX 35 -1.13% at 8,082; FTSE MIB -3.32% at 21,728; SMI -3.28% at 10,430.

STOCK SPECIFICS: Elon Musk at the virtual **Twitter (TWTR)** meeting said that the media is lying about how the Twitter deal is going down, according to a Bloomberg source, as he added the majority of articles he reads about the deal are negative. **Amazon (AMZN)** announced its annual Prime Day is to be held from July 12-13th. Separately, AMZN said despite scaling back its US retail business, it is planning to launch its online marketplace in five new countries, according to Business Insider. **KLA Corp (KLAC)** announced a USD 6bln share buyback programme and raised its dividend by

24% to USD 1.30/shr. Expects next qtr EPS of USD 4.93-6.03 (exp. 5.50). **Tesla (TSLA)** raised US prices for all vehicles amid a jump in the price of raw materials and supply chain snags. **Commercial Metals (CMC)** beat on EPS but missed on revenue, while co. expects strong financial performance in Q4. Expects to enter FY23 with a historically high contract backlog. CMC is anticipating upbeat financial performance for the current quarter amid a strong construction market. JPMorgan rated **Warner Brothers Discovery (WBD)** "Neutral," citing a macroeconomic environment that could impact ad spending. **Abbott (ABT)** temporarily halted production of EleCare baby formula at its plant in Sturgis, Michigan, after recent thunderstorms flooded part of the facility, according to WSJ. Abbott said the flooding would likely delay production and distribution for a few weeks. **Revlon (REV)** filed for Chapter 11 bankruptcy after the co. buckled under debts it built up in efforts to compete with online-focused upstarts. **Rivian (RIVN)** CFO sees demand building despite vehicle price hikes and still has room to raise vehicle prices. **Taiwan Semiconductor (TSM)** stated it will bring in high-NA EUV advanced chip-making tool in 2024. **Kroger (KR)** saw losses despite posting a solid report with top and bottom-line beats and raising FY EPS and SSS ex-fuel guidance range, but losses were not to the same extent as the wider market.

FX WRAP

The Dollar tumbled heavily on Thursday to see its largest daily decline since March 2020 and the equity slump was not enough to help support the Dollar's haven appetite while yields sold off, particularly in the front end. The losses on Thursday saw the buck wipe out all of this week's pre-FOMC gains with DXY hitting a low of 103.41 and eyeing Friday's low of 103.04. Global assets saw some impressive moves accompanied by plenty of central bank activity, the SNB surprised us this morning with a 50bp hike while the BoE hiked by 25bps as expected and vowed to act more forcefully if needed. The hawkish central bank activity likely took some of the yield advantages away from the US as global central banks accelerate normalisation, although the Fed is doing the same.

CHF surged seeing USD/CHF fall from highs just beneath parity at 0.9989 to lows of 0.9636 while EUR/CHF fell from 1.0416 to lows of 1.0131 to see its largest rise since January 2015, when the SNB removed the Swiss Franc peg to the Euro, albeit the move was still nowhere near that scale seen that day (EUR/CHF -17% vs today's 2% decline). Meanwhile, **GBP** was choppy over the BoE release but surged against the weaker dollar and still firmed against the Euro. The BoE hiked rates as expected by 25bps to 1.25% but there were three hawkish dissenters, with Mann, Haskel and Saunders once again opting for a larger 50bp hike. The BoE also removed language around its rate guidance but pledged to act more forcefully if needed.

The Yen saw solid gains against the demise of the buck on Thursday helping USD/JPY fall beneath 132.00 to lows of 131.50 before paring back to 132.00 as it benefitted from the weakness in equities and lower treasury yields, as well as the hawkish move from the SNB ahead of the BoJ rate decision tonight, preview available here.

The Euro was supported by the weaker buck which saw EUR/USD briefly touch 1.0600 while more details start to emerge about the anti-fragmentation tool. Sources suggest officials want the new instrument ready for the July meeting and it would likely involve selling other securities so new purchases do not worsen inflation and flexibility may also involve front-loading reinvestments, meaning the ECB could buy new bonds before older securities mature but officials are worried that market stress could hinder monetary policy. Meanwhile, President Lagarde reportedly told EZ finance ministers the goal of anti-fragmentation is not to close spreads, but to normalise them and the tool would kick in if spreads go too far and too fast. She warned fragmentation is a serious threat to their price stability mandate but doubting the ECB's commitment would be a serious mistake. ECB's Visco also spoke on spreads, where he suggested 150bps spread today would be justified, but a spread of over 200bps is unjustified - it is currently just wider than 200bps. Elsewhere, de Guindos said inflation expectations are "quite anchored" while Villeroy noted inflation is higher but not broader.

Cyclical currencies were buoyed by the tumbling greenback on Thursday despite the large equity weakness but outperformance was seen in NZD despite a contractionary GDP print last night while GBP also outperformed after the BoE. AUD saw mild gains in comparison despite a strong jobs report overnight, aside from the uptick in the jobless rate. CAD meanwhile was the underperformer, even against the buck. Wholesale trade data missed expectations but there was no reaction from the looney while the weaker oil prices in the morning/afternoon weighed on the looney, although it failed to support it as crude rebounded. Finance Minister Freeland spoke where she did warn a soft-landing is not guaranteed, but caveated Canada is well equipped to avoid a recession.

EMFX was generally weaker, particularly the Rouble while ZAR also saw weakness despite gains in gold and the downbeat Dollar. For the RUB, Finance Minister Siluanov noted Russia will consider adding the Chinese Yuan to the national wealth fund in the future, while it noted it will pay Roubles on its Eurobonds that can be later converted into FX at a rate on the payout date. Russia is also discussing ways to allow foreign investors to sell their Russian stocks and bonds by year-end and it is mulling crypto in international trade if Russian law recognises digital assets as property. BRL was closed for the day due to a local market holiday but the BCB overnight hiked rates by 50bps as expected to 13.25% but its guidance signalled another hike in August of either 50bps or "lower", despite expectations the BCB would leave rates at 13.25% throughout year end - perhaps they were persuaded by the 75bps hike from the FOMC Wednesday evening. Analysts at Goldman Sachs expect the BCB to hike 50bps in August before waiting until late Q2 23 or Q3 23 before they start easing monetary policy. MXN & TRY were weaker on Thursday ahead of next week's rate decisions. In CEE, Czech PPI was slightly cooler than expected while NBH's Virag said rate hikes should continue for as long as CPI peaks.