US Market Wrap

17th June 2022: Largest SPX weekly loss (-5.8%) since Mar'20 but shorts cover post-QuadWitching

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar up.
- **REAR VIEW**: BoJ keeps policy settings unchanged, as expected; Surprise fall in US mfg. output and miss on industrial production; Bullard believes in soft landing and Fed credibility; George dissented due to YC concerns; Kashkari touts July 75bps hike; MRK considering acquiring SGEN; ADBE cut Q3 & FY guidance.
- **WEEK AHEAD**: Highlights include PBoC LPR, RBA Minutes, Global PMIs, UK Inflation, Norges, CBRT and Banxico Rate Decisions. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing PBoC, Norges, CBRT and Banxico; reviewing FOMC, BoE, BoJ, SNB, BCB. To download the report, please click here.

MARKET WRAP

Stocks were firmer with a duration bias Friday, aided by the bid for Treasuries and the big tumble in oil prices. Cyclicals felt the pressure in wake of the disappointing data that saw a smaller rise than expected in May industrial production and even a surprise contraction in manufacturing output. The Dollar's rip higher was the main culprit for the oil losses, although data and central bank aggression provided additional selling pressure. Entering the session, the behemoth equity options expiry was all the rage, but for now, the indices have held composure, albeit a chunky sell-side market on close imbalance shows typical evidence of 'QuadWitching'-related flows. The Fed blackout period is now over, with Bullard (2022 voter) the first to break silence saying the Fed has its credibility in check, although Kashkari (2023 voter) later gave more substance saying he would be in favour likely of 75bps in July, but called a 50bps strategy from there as more prudent. Fed Chair Powell spoke at a conference but gave said little of note, while George (2022 voter) explained her dissent for just a 50bps hike this week was based off her previously expressed concerns over inverting the yield curve and not to be seen as making rash decisions.

US

FED: **George (2022 voter)** explained her 50bps dissent as she "viewed that move as adding to policy uncertainty simultaneous with the start of the balance sheet runoff". She stressed she shares the Fed's strong commitment to bringing inflation back to target and noted that inflation is showing no meaningful signs of deceleration. **Chair Powell** reiterated the Fed is acutely focussed on returning inflation to its 2% goal, while its strong commitment to price stability contributes to widespread confidence in the US dollar as a store of value. Meanwhile, **Bullard (2022 voter)** stated a soft landing is feasible if the post-pandemic shift is done well, and he also added that both the Fed and ECB have credibility. **Kashkari (2023 voter)** said he supported 75bps in June and could support another in July, while a prudent strategy might be to continue with 50bps after the July meeting until inflation returns to 2%. He noted the Fed to be cautious about too much front-loading on rate hikes; a steady approach to raising rates may help Fed avoid tightening more than necessary. He assumes the Fed will be able to relax policy somewhat in 2024. On supply issues, he did note if the shocks subside rate hikes will not have to be as high but if they do not improve, the Fed may need to raise rates higher than what was forecasted in the SEP's - the 2023 rate peaked at 3.8%, according to the median view.

MANUFACTURING OUTPUT/INDUSTRIAL PRODUCTION: US manufacturing output surprisingly fell 0.1% in May, beneath the expected +0.3% and prior +0.8%, while industrial production also came in beneath consensus at +0.2% (exp. +0.4%, prev. revised up to +1.4%). Looking into the report, ING notes the main reason for the decline in manufacturing was a 2.1% drop in machinery production. Still, there were declines in food and beverage output, aerospace, wood products and fabricated metal. Nonetheless, on the positive side, autos were up 0.7%, computers /electronics up 0.9%, petroleum and coal up 2.5%, and metals output up 0.8%. Moreover, ING adds, "this isn't a terrible outcome after a decent run with manufacturing output overall still up 4.8% Y/Y, but the signs of a loss of momentum and the recent weakness in some of the regional indicators mean there is reason for caution." Looking ahead, ING states that with the Fed hiking rates aggressively and the Dollar strong, the sector will come under increasing pressure. Meanwhile, falling equity valuations are likely to make management more cautious on expansion plans which could hurt the outlook for investment and hiring and intensify the slowing US growth narrative. Overall, with US manufacturing output surprisingly declining, which follows softer housing and retail sales numbers, it adds to a sense of gloom that is hanging over the US economy in the wake of the Fed outlining a more aggressive interest rate hiking path. Nonetheless, there are still pockets of strength, with oil and gas drilling a key growth area as prices remain elevated, ING says.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 12 TICKS HIGHER AT 116-06

Treasuries bull-flattened Friday with the front-end weighed globally by aggressive central banks while the tumble in oil and bad data supported duration. Futures volumes were strong but not as acute as the other sessions this week. In cash, 2s +1.6bps at 3.174%, 3s -1.2bps at 3.349%, 5s -2.7bps at 3.347%, 7s -4.3bps at 3.342%, 10s -6.1 bps at 3.245%, 20s -6.3bps at 3.552%, 30s -6.3bps at 3.298%. Inflation Breakevens: 5yr BEI -2.2bps at 2.827%, 10yr BEI +1.4bps at 2.552%, 30yr BEI +0.4bps at 2.446%.

THE DAY: T-Notes hit their session highs of 116-19 in late US Thursday trade before paring slightly as the APAC session got going. There was another run higher in both the London morning and at the NY handover but both attempts failed to breach the earlier peak (albeit 2yr futures did manage to eke out fresh highs). Selling in T-Notes picked up ahead of the NYSE cash open, with a behemoth op-ex in equities in focus, where a disappointing US industrial production and manufacturing output print failed to cap the govvie selling at the time. T-Notes hit session lows at 115-20 not long after Fed's Kashkari (2023 voter) said he could support another 75bps in July. As Europe departed for the weekend, and as oil prices continued to tumble, T-Notes recovered back to their earlier ranges.

AHEAD: The Fed blackout period has now ended so we can expect some other speakers to come out of the woodwork through next week. Albeit, quiet activity is expected Monday given the Juneteenth holiday on Monday (futures closed between 13:00-18:00ET and cash bonds closed), while bond traders have their eyes on the USD 14bln 20yr bond auction on Wednesday.

STIRS:

- EDU2 -1.0bps at 96.65, Z2 +4.5bps at 96.05, H3 +5.0bps at 96.01, M3 +2.0bps at 96.07, U3 flat at 96.205, Z3 -0.5bps at 96.330, H4 +0.5bps at 96.43, M4 +1.5bps at 96.52, Z4 +3.0bps at 96.645, Z5 +4.0bps at 96.78.
- Notable option flow saw a block of 20k EDU2 97.50/97.8125 call spreads for 2, while in SOFR, screen trade saw 20k 1yr mid curve July 96.2500 puts for 11.50 down to 10.
- NY Fed RRP op demand rose to a new record USD 2.229tln across 103 bidders.

CRUDE

WTI (Q2) SETTLED USD 7.26 LOWER AT 107.99/BBL; BRENT (Q2) SETTLED USD 6.69 LOWER AT 113.12/BBL

Oil prices tumbled through the NY session Friday with the Dollar raging firmer and longs profit-taking into the holiday weekend, unwinding overnight strength. There wasn't a single, clear catalyst for the downside, nor was price action particularly spikey. Global demand concerns continue to build, with the disappointing US industrial production and manufacturing output the latest woe. Technically, the selling Friday has taken the oil benchmarks back into their pre-mid May breakout ranges, back towards more familiar trading ranges (sub-110/bbl in WTI).

DOLLAR: The Dollar (DXY) residing at multi-decade highs continues to drive price action too as the relative stress from currency impacts becomes harder to ignore, and indeed the earlier DXY rally did coincide with the crude tumble, but the latter kept falling as the Dollar pared into latter trade.

SUPPLY: Desks draw attention to the supply side also, with Russian officials out again Friday showboating their ability to export oil despite sanctions. Reuters reported Russia's offline primary oil refining capacity had been revised lower by 8.3% to 4.45mln tonnes also, with the Tuapse refinery (240k BPD) having resumed operations since June 10th. There was also an FT report, citing a Western diplomat, suggesting that Libyan production was much higher than Libya suggests - closer to 700k BPD than the 100k BPD stated by the NOC.

EQUITIES

CLOSES: SPX +0.14% at 3,671, NDX +1.24% at 11,265, DJIA -0.13% at 29,888, RUT +1.17% at 1,664.

SECTORS: Communication Services +1.31%, Consumer Discretionary +1.22%, Technology +0.99%, Real Estate +0.64%, Financials +0.31%, Health +0.02%, Materials -0.11%, Industrials -0.23%, Consumer Staples -0.41%, Utilities -0.95%, Energy -5.57%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.17% at 3,433; FTSE 100 -0.36% at 7,019; DAX +0.64% at 13,122; CAC 40 -0.06% at 5,882; IBEX 35 +0.68% at 8,132; FTSE MIB +0.25% at 21,782; SMI -0.38% at 10,435.

STOCK SPECIFICS: PBoC accepts **Ant Group's (BABA)** financial company holding application, according to Reuters sources; mostly finishing vetting the license for Co's credit-scoring JV. On the back of this, other Chinese ADRs such as **JD (JD)**, **Baidu (BIDU)**, and **Pinduoduo (PDD**), saw strength. **Adobe (ADBE)** beat on EPS and revenue, but guidance was light, with Q3 and FY guidance lowered. ADBE said it is factoring in FX headwinds in Q3 and Q4 and the war in Ukraine. **United Steel (X)** raised its Q2 EPS view, as it is being helped by rising demand and higher steel prices, which follows **Steel Dynamics (STLD)** upgrading guidance on Thursday. **Walmart (WMT)** and **Roku (ROKU)** debut a first-of-its-kind partnership to bring commerce to TV ads. Users of Roku devices will be able to purchase items with their remotes while streaming TV programmes. **Centene (CNC)** raised 2022 guidance as well as adding USD 3bln to its share buyback programme. **Snap (SNAP)** is working on a paid subscription service Snapchat Plus, according to The Verge. **American Express (AXP)** upgraded to “Outperform” from “Neutral” at Baird, which said that “relentless panic selling” has provided an attractive buying opportunity. **Tesla (TSLA)** laid off more employees, and hourly ones this time despite CEO Musk’s comments, according to Electrek. **Amazon (the AMZN)** CEO urged Senators to oppose antitrust bill, according to Politico. **Merck (MRK)** reportedly considering purchasing **Seagen (SGEN)**, via WSJ citing sources; a deal is reportedly not imminent & other unnamed partiers are reportedly eyeing Seagen. **General Motors (GM)** is to raise the price of electric hummer by USD 6,250 on June 18th. **Starbucks's (SBUX)** head of North America to leave at the end of the month, according to WSJ. **Coinbase (COIN)** executive stated more job cuts cannot be ruled out should the crypto sell-off continue to worsen.

WEEKLY FX WRAP

Yen suffers BoJ blues, while Franc enjoys SNB spoils

JPY/CHF/USD - It’s not often that the Dollar is displaced from top spot in a review of currency moves, especially when the period in question included a Fed meeting that culminated in a more aggressive hike than signalled before the pre-FOMC blackout. However, the Yen and Franc’s vastly contrasting performances epitomise the impact of Central Bank divergence, albeit exacerbated by market expectations and positioning going into a policy event. In short, the BoJ maintained all of its ultra-easy settings and will continue JGB buying operations designed to defend the 10 year yield target with the additional offer to purchase CTD paper for an extended amount of time from June 20 (next Monday). Conversely, the SNB caught almost everyone out by raising rates 50 bp and the reaction was reminiscent of January 2015 when the Eur/Chf peg was pulled, as the Bank also indicated a willingness to tighten further if necessary and President Jordan said the Franc is no longer deemed to be highly valued. Thus, Usd/Chf sits towards the base of a mammoth 0.9621-1.0052 range and Usd/Jpy nearer the top of 135.58-131.50 extremes, while the DXY hovers around 105.000 between 105.790-103.410 parameters that were marked out in the post-Fed aftermath. To recap, rates were lifted 75 bp vs the 50 bp flagged for June (and July) prior to hotter than forecast US CPI data that upped the ante and consensus in the absence of official commentary, while dots were plotted at a steeper gradient, though not as inclined as some anticipated. In the subsequent press conference, Chair Powell doused a few more flames by describing the ¾ point move as uncommon and adding that next month’s hike could be 50 bp or the same magnitude, depending on the ongoing evolution of inflation. The Buck flip-flopped, but retreated to w-t-d lows the next day when Treasury yields slumped amidst pronounced risk aversion, partly due to weak US macro releases that stoked recession fears. Fast forward to Friday, and yet more high volatility and whippy price action as the Greenback grinds higher, USTs recoil (10 year cash 3.25%+ compared 3.498% peak and 3.155% trough) crude benchmarks tank and stocks try to regroup in the face of quad-witching.

AUD/GBP/NZD - The Aussie suffered a double whammy as iron ore got crushed overnight and the Government approved legislation to allow authorities to curtail coal exports if the country is in danger of blackouts. Indeed, Aud/Usd lost more momentum from 0.7069 at best, irrespective of a largely upbeat labour market report and is also underperforming against the Kiwi, with the cross closer to 1.1000 than 1.1167 even though Nzd/Usd is sub-0.6300 again vs 0.6395 at one stage and NZ GDP unexpectedly contracted on a q/q basis in Q1. Note also, the Antipodean Dollars failed to derive any lasting impetus from hawkish RBA and RBNZ rate calls due to the mostly risk-off mood, and this also undermined the Pound that might have derived more upside in wake of the latest 25 bp BoE rate hike with half point dissent from the three MPC members that registered the same objections in May. Cable is clinging to the 1.2200 handle within 1.1935-1.2406 bounds as some confusion clears over guidance courtesy of chief economist Pill who explained that the removal of further tightening may be warranted is aimed at providing flexibility if the Bank needs to act more forcefully rather than sticking to a formulaic ¼ point per meeting pace.

CAD/EUR - WTI oil plunging to Usd 108.28/brl from a Usd 120.88 apex on Tuesday was the main for the Loonie's dump to circa 1.3079 and a new 2022 low, but Usd/Cad rallied further from 1.2774 at the other end of the spectrum on risk grounds and the fact that Fed-BoC policy rates physically crossed over. Elsewhere, the Euro received more rhetoric from GC members following last Thursday's ECB policy gathering, but the main focus was fragmentation and progress towards creating the new crisis tool. In fact, the usual pre-FOMC amble was interrupted by news of an ad hoc convene to discuss current bond market conditions just after Eurozone debt spreads blew out again, and the upshot was an acceleration in the pipeline to produce an anti-fragmentation mechanism that is based on historical differentials and keeps policy transmission flowing without counteracting normalisation via the withdrawal of QE. Eur/Usd was also influenced by external factors including the Greenback and EGB/UST yield differentials, but ran into technical /psychological resistance circa 1.0600 and periphery bonds, BTPs in particular netted big gains after fluctuations on the aforementioned ECB efforts to avoid further stress and exorbitant financing conditions to leave the headline pair around 1.0465 vs a 1.0360 low.

SCANDI/EM - No shock that the Nok felt the reverberations of Brent's collapse, but could get a boost if the Norges Bank delivers a bigger than 50 bp hike next week, like the Fed, while the Sek derived some traction from stronger than expected Swedish inflation metrics and money market expectations. The Cny and Cnh managed to claw back some losses after better than forecast Chinese data and tentative signs of thawing in relations between China and the US, the Huf got temporary respite when the NBH increased the 1 week depo rate, like the Brl following a Selic rate hike and the BCB signalling another 50 bp or smaller rise next time. Hawkish guidance from the CNB and NBP continued to cushion the Czk and Pln respectively, the HKMA kept the Hkd with more direct intervention, but the Try did not get much leverage from a Turkish ip beat given ongoing geopolitical angst and opposition to Swedish and Finnish NATO entry before the latest CBRT survey showing even higher CPI projections along with a lower Lira.