# US Market Wrap

## 21st June 2022: Stocks bounce and curve steepens into J-Powell's Senate siren

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW**: Barkin open to 50 or 75bps hike in July and raising rates as fast as "feasible"; Existing Home Sales fall; Germany prepares second stage of emergency gas plan; Turkey and Russia to partake in Grain export corridor meeting; Kremlin says no attempts by Ukraine to restart negotiations; K to separate into 3 companies; NFLX meets GOOGL to discuss ad business.
- **COMING UP**: **Data**: Canadian & UK Inflation, EZ Consumer Confidence (Flash) **Speakers**: Fed's Powell, Barkin, Evans, Harker; ECB's de Guindos, Elderson; BoC's Rogers **Supply**: Germany & US.
- **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 saw solid gains Tuesday with US participants returning from the Juneteenth holiday. One had to stretch to attach a story to the price action, with a technical 'relief rally' the way most characterised the moves. For what it's worth, JPM's strats believe markets may be setting up for a broader relief rally due to 1) last Friday's op-ex removing a large amount of "short gamma" flows; 2) month-end stock buying, which could exceed USD 100bln, globally; 3) large de-grossing seen, particularly in tech. Elsewhere Tuesday, data saw US May home sales for May decline as expected, while Fed's Barkin (2024 voter) saturated newswires through the afternoon, but perhaps most notably, said the Fed should raise rates "as fast as feasible" whilst calling for either 50 or 75bps in July. Those comments saw a spell of selling in the front-end of the rates curve, but ultimately, pronounced bear-flattening was observed (2s30s +8bps) ahead of Fed Chair Powell in the Senate Wednesday and the 20yr bond auction. The DXY was flat as the outperformance in high-beta currencies was countered with the continued Yen pummeling as Japanese officials refuse to provide an olive branch. Oil prices were firmer, albeit choppy, while the gas crisis in Europe ramps amid German press noting the country is on the cusp of triggering its second stage of its emergency gas plan.

## US

**EXISTING HOME SALES**: US existing home sales fell for the fourth consecutive month to a two-year low in May, printing 5.4mln units (exp. 5.4mln). "Sales are tracking the steep decline in mortgage applications - six straight months and counting - and have a good deal further to fall," Pantheon Macroeconomics said, "the market is adjusting, rapidly and painfully, to the surge in mortgage rates, which has pushed up the monthly payment on a median home by more than 50% since last August." The supply measure rose to a seven-month high of 2.6 months worth from 2.2 months worth in April, and Pantheon thinks this will likely rise much further in the months ahead, noting that "no one wants to be the last seller in a sinking market." The consultancy is also dismissive of the 3.1% rise in single family home prices, noting that it is unadjusted, and prices always rise in the spring. Pantheon's proprietary adjustments show these prices declined by 0.7% M/M in May, which would be the first dip since June last year, and the largest monthly decline since May 2020 when the initial hit of COVID was pressuring the data. "Typically, inventory needs to exceed about seven months for prices to fall on a Y/Y basis, but the speed of the dislocation in the market in recent months, thanks to the suddenness of the spike in rates, means that a period of falling prices is a good bet even with inventory well above this level."

**FED**: **Barkin (2024 voter)** spoke extensively Tuesday expressing his support for the 75bps hike at the June meeting, stressing the Fed can get inflation back to 2% without breaking anything. The Richmond President said Fed will have to put monetary policy into restrictive territory, with the question now being how far it has to go, calling for a nimble approach, saying the Fed will decide as it gets into it. Looking to July, Barkin sees either a 50bps or 75bps hike for July as "reasonable", and sounded the hawkish alarm after saying the Fed needs to raise rates "as fast as feasible", without breaking things. Additionally, he noted if inflation keeps escalating, not much reason to stop raising rates, and as inflation comes down, the less the Fed has to do on restrictive policy. Barkin also spoke about how the Uni of Michigan consumer inflation expectations rise was a big factor in the sudden switch to 75bps from 50bps, something that he foreshadowed on June 1st when he said the pace of hikes would change if inflation expectations changed.

## FIXED INCOME

### T-NOTE (U2) FUTURES SETTLED 12+ TICKS LOWER AT 115-25+

**Treasuries bear-steepened as risk assets rose, whilst front-end/Fed path uncertainty recedes**. 2s +3.0bps at 3.196%, 3s +1.4bps at 3.355%, 5s +3.8bps at 3.378%, 7s +5.7bps at 3.394%, 10s +6.6bps at 3.305%, 20s +9.3bps at 3.639%, 30s +9.4bps at 3.388%. Inflation breakevens: 5yr BEI +3.8bps at 2.869%, 10yr BEI +2.4bps at 2.578%, 30yr BEI +4.5bps at 2.496%.

**THE DAY**: Most of the selling in T-Notes since last Friday's settle occurred during the Monday, holiday session. Lows were made at 115-22+ in the Tokyo morning Tuesday, however, with dealers noting better belly selling from clients. Desks noted better long-end selling during the London session, while the front-end of the Treasury futures curve saw notable loss paring. As NY trade got underway, the pressure out the curve prevented the T-Note from sustaining any move above 116-00, despite the 2yr Note rally. KLA Corp (KLAC) was in the primary market for a long-end heavy USD 3bln debt deal, keeping supply-induced pressure. The May Existing Home Sales data declined as expected, not altering trade direction. However, Fed's Barkin (2024 voter) later suggested the Fed should raise rates "as fast as feasible" and said 50bps or 75bps seems reasonable for the July FOMC, which saw a temporary selling spurt at the front-end of the curve - aided by a 5k 2yr block sale - before better buying resurfaced into the settlement.

**WEDNESDAY**: Bond traders have their eyes on the USD 14bln 20yr bond auction on Wednesday. Otherwise, Barkin is due to speak again (Chamber of Commerce event), as is Powell in the Senate, while Evans (non-voter) and Harker (2023 voter) are scheduled in the afternoon (EDT). Before then, watch out for transatlantic pressures from the May UK inflation data and German Bund supply.

**STIRS**:

- EDU2 -2.0bps at 96.625, Z2 -1.5bps at 96.035, H3 -1.0bps at 96.00, M3 +3.0bps at 96.10, U3 +3.0bps at 96.24, Z3 +3.0bps at 96.365, H4 +2.5bps at 96.46, M4 +2.0bps at 96.545, Z4 +0.5bps at 96.655, Z5 -4.5bps at 96.735.
- Quiet on-screen trade for ED and SOFR options, although block data saw some decent-sized trades across July and Sept calls.
- NY Fed RRP op demand at USD 2.189tln across 97 bidders (prev. USD 2.229tln across 103 bidders).
- US sold USD 47bln of 3-month bills at 1.670%, covered 2.83x; sold USD 44bln of 6-month bills at 2.390%, covered 2.44x.
- IFR noted the 6-month tailed by 8bps, adding to the collection of sizeable tails in recent T-Bill auctions, coming amid uncertainty over the Fed rate path and broader rates illiquidity.

## CRUDE

### WTI (Q2) SETTLED USD 1.53 HIGHER AT 109.52/BBL; BRENT (Q2) SETTLED USD 0.52 HIGHER AT 114.65/BBL

**Oil prices were firmer in choppy trade Tuesday, initially finding strength with broader cyclicals out of Europe, but fading into the NY afternoon**. Citi's energy desk suggested oil was tracking the strength in products markets, "reflecting some newfound optimism regarding demand", citing forecasts for record July 4th travel, UK driving demand amid rail strikes, and the outlook for returning Chinese demand as lockdowns are lifted. Meanwhile, ExxonMobil (XOM) CEO Woods suggested three to five years of fairly tight oil markets provided supply-side tailwinds. The fact of the matter is that no single news item explained the choppiness seen. Note that the weekly US energy inventory data is delayed by a day due to the holiday Monday, thus, private data is now due Wednesday evening and the official EIA release on Thursday morning.

**INDIA**: WSJ reported that India has informed oil companies to load up on discounted Russian crude. State-owned Indian Oil Corp. Ltd. is negotiating more supply contracts with Russia's Rosneft, according to one executive. That follows reports earlier in June and May in Reuters and Bloomberg that India was ramping its purchases from Russia - Reuters sources noted in June that the discounts were already diminishing.

**EUROPE**: German press (Die Welt) reported that the government is preparing the second stage of its gas emergency plan (Where it assesses the need for intervention at gas operators), where the stage could be triggered in the next five to ten days. That followed the German regulator, Bundesnetzagentur, saying the gas situation is tense but stable, and supply security was guaranteed for the moment, but warned from the current perspective, that Germany would have a problem this winter. Meanwhile, Bloomberg reported that European officials are sceptical of a US push to set a price cap on Russian oil by potentially easing an EU ban on insurance for the transportation of crude and petroleum products from Russia, with concerns over reopening prior agreements. Elsewhere, Sweden declared an "early warning" stage of gas supply preparedness for Western and Southern parts of the nation.

## EQUITIES

**CLOSES**: SPX +2.45% at 3,764, NDX +2.49% at 11,546, DJIA +2.15% at 30,531, RUT +1.54% at 1,691.

**SECTORS**: Energy +5.16%, Consumer Discretionary +2.82%, Consumer Staples +2.69%, Health +2.65%, Technology +2.54%, Financials +2.02%, Utilities +1.92%, Real Estate +1.88%, Industrials +1.78%, Communication Services +1.62%, Materials +1.47%.

**EUROPEAN CLOSES**: Euro Stoxx 50 +0.71% at 3,494; FTSE 100 +0.56% at 7,161; DAX +0.22% at 13,295; CAC 40 +0.75% at 5,964; IBEX 35 -0.59% at 8,237; FTSE MIB +0.39% at 22,090; SMI +0.04% at 10,490.

**STOCK SPECIFICS**: **Netflix (NFLX)** met with **Google (GOOGL)** to discuss its ad business, with Google seen as the front-runner; to partner with **Magnite (MGNI)**, which found a bid, according to Ad Age citing sources. **Kellogg (K)** is to separate into three companies called 'Global Snacking', 'North America Cereal', and 'Plant'. CEO said now is an opportune time to split up the business. **JetBlue (JBLU)** raised its takeover offer for **Spirit Airlines (SAVE)** to USD 33.50/shr, which represents a 68% premium to the implied value of the **Frontier (ULCC)** stock and cash transaction. Spirit's board said it would review JetBlue's revised proposal. **Tesla (TSLA)** CEO Musk noted the Co. is reducing salaried employees by 10% over the next three months, which would represent around 3.5% of its headcount. In other news, China's Beidaihe district to bar Tesla cars from driving from July 1st, for at least two months. **Twitter (TWTR)** board recommended stockholders vote "for" the adoption of the merger agreement. Moreover, Musk noted, again, that there were still a few unresolved issues, including the number of spam accounts, adding that he was awaiting a resolution on this "significant" matter. **Mondelez (MDLZ)** will buy energy bar maker Clif Bar & Company for USD 2.9bln to expand its global snack bar business, CNBC reported, with the transaction expected to close during Q3. **Lennar (LEN)** beat on the top and bottom line, as well as new order and deliveries metrics topping expectations. However, LEN noted it began to see the impact of higher interest rates and rapidly increasing home prices towards the end of the quarter. **ACADIA Pharmaceuticals (ACAD)** plummeted after the FDA committee voted against approval of pimavanserin to treat Alzheimer's disease psychosis. **Charles Schwab (SCHW)** was upgraded to "Buy" from "Neutral" at UBS, which called Schwab a quality name well insulated from credit and market risk. **Pfizer (PFE)** is to invest EUR 90.5mln to buy an 8.1% stake in French vaccine company **Valneva (VALN)**, which is an advancement in their partnership to stop Lyme disease. US Supreme Court ruled against **DaVita (DVA)** in a dialysis coverage dispute. **Target (TGT)** CEO reiterated strong outlook for H2 '22 but sees a tremendous amount of uncertainty in consumers. Moreover, added supply chains are not getting better and the US cannot afford labour disruption at ports. **Amazon (AMZN)** senior executives Davis and Bozeman are leaving the Co. to pursue other opportunities, according to Bloomberg.

## FX WRAP

**The Dollar** was flat on Tuesday amid a lack of fresh macro impulses, and traded within a 104.530-103.930 range as US market participants returned from a long weekend to risk-on sentiment. In terms of newsflow, Fed speak came from Barkin (2024 voter) who noted inflation is high and broad-based but the Fed can get inflation back to 2% without breaking anything. Additionally, Barkin said the Fed will have to restrict monetary policy, the question is how much; will see how much when the Fed gets into it. Barkin said July could be either a 50bps or 75bps hike, whilst also saying the Fed needs to raise rates as fast as "feasible". Elsewhere, the data docket was thin, with only existing home sales for May which fell for the fourth consecutive month to a two-year low, in line with expectations. Looking ahead, the calendar is dominated by a heavy speaker docket with the highlight being Fed Chair Powell giving his testimony to the Senate.

**JPY** was the clear G10 underperformer and the only currency down against the Buck, by roughly a per cent, as USD/JPY hit a 24-year low of 136.62. Technicians noted if the cross closed above the pivotal 136.50, we could see the broader Fibo-projected peak at 138.62 tested next. The hit for the Yen came after the BoJ got the nod from the government to maintain its ultra-easy policies, despite the Yen's "worrying" weakness, but also was hit by the risk-on sentiment of trade. At the same time, members of Japan's MoF and PM Kishida reiterated concerns about the rapid rate of its demise. Additionally, the Yen looks increasingly weak on risk and rate grounds allied to technical impulses that are gathering momentum irrespective of almost daily efforts to arrest its slide, or at least stall the pace of decline. Regarding other crosses, highlighting the overall Yen's weakness, **EUR/JPY fell just shy of 144.00, again, GBP/JPY surpassed 169.00, while CHF/JPY breached 141.00.**

**Activity currencies** were more-or-less firmer across the board, in line with the positive risk tone, but the NZD was the underperformer, and flat, whilst the CAD sat atop the pile. Moreover, AUD and GBP both saw gains but were in between the aforementioned two. Firstly, for the **Aussie**, RBA Governor Lowe said Australians should be prepared for further interest rate increases and that level of rates is still very low for an economy with low unemployment and high inflation, and effectively ruled out a 75bps hike at the next meeting by noting expectations should be for a 25 or 50bps hike. Additionally, there were RBA minutes which stated that members agreed further steps would need to be taken to normalise monetary conditions in the months ahead and the board remains committed to doing what is necessary to ensure inflation in Australia returns to the target. **NZD** was hampered as NZ Westpac Consumer Confidence slid to a record low, whilst attention will turn to NZ trade data on Wednesday.

**CAD** outperformed and benefitted from the improved risk appetite as well as the gains seen in the crude complex, highlighted by WTI settling roughly USD 1.50/bbl firmer. Moreover, on the data front, better-than-expected Canadian retail sales helped prop up the Loonie. **GBP** eked out slight gains, and saw a high of 1.2324, amid the aforementioned sentiment, although the national rail workers began strikes on Tuesday, with fears of further-reaching strikes, adding to economic concerns amid rampant inflation and the BoE's efforts to fight price growth expected to reach 11% this year. As such, participants cast their attention to Wednesday's potentially pivotal UK CPI print for May.

**EUR** saw mild gains but is off earlier highs, at pixel time, as the EUR/USD cross traded between a narrow 1.0582-09 range. For the single-currency, similar themes remain in play as analysts note the EU continues to scramble to find alternatives to Russian natgas and oil supplies while tensions with Moscow are threatening to boil over as Brussels enforced sanctions that cut off Kaliningrad's rail link. Moreover, analysts add, limiting EUR/USD's recovery is the BTP-bund yield spread stalling its narrowing near 2%, still about twice as wide as it was a year ago. **CHF** was flat and traded in a contained range, highlighted by a low of 0.9633 and a high of 0.9687.

**EMFX** was predominantly stronger against the Greenback, with RUB the outperformer and noticing strong gains, whilst the ZAR, BRL, and MXN also firmed considerably. TRY was flat, as was the CNH/CNY. MXN took notice of a pickup in Mexican private spending to compound the rebound in oil prices and the BRL was bolstered by minutes of the BCB's June meeting that sees a new adjustment (SELIC hike) of the same or lower magnitude as part of the strategy required to bring 2023 inflation to target via a terminal rate above that used in the reference scenario and also a longer period in contractionary territory. Looking ahead, participants will be cognizant of Banxico and CBRT rate decisions in the latter end of the week.




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