US Market Wrap

23rd June 2022: Global PMI misses see bonds and havens bid and cyclicals shunned

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar flat
- **REAR VIEW**: Poor US and European PMIs, except UK; ECB officials reportedly concerned reinvestment flexibility tool is not yet ready; IJC little above expectations; Bowman joins 75bps hike in July camp; OPEC+ seen reconfirming plans for August oil output rise of 648k BPD; Banxico hike 75bps, as expected, unanimously; Chile's Codelco reaches strike-ending agreement; Toyota asks suppliers to cut prices; Powell testifies in House.
- **COMING UP**: **Data**: UK Retail Sales, German Ifo, US New Home Sales **Speakers**: Fed's Bullard, Daly; ECB's de Cos; BoE's Pill **Supply**: Italy.

MARKET WRAP

Stocks were firmer Thursday but saw choppy price action as growth woes on poor PMI data were countered with the continued fall in yields and commodity prices. Cyclicals were underperformers, not least a factor of the miserable readings on both sides of the Atlantic for the flash June PMIs, while defensives (Staples/Utilities/Healthcare) fared well as recession fears linger. The lower yields also supported the Real Estate sector - eyes to Friday's New Home Sales print. In rates, another belly-led Treasury rally (10yr closes -7bps at 3.09%, off earlier lows at 3.01%) amid the troubling data. The bond fade into the afternoon was accentuated by Fed's Bowman giving some hawkish remark, while Fed Chair Powell's second and final day in Congress provided little new. In FX, the DXY was ultimately flat as initial strength on European PMI weakness pared after the later US figures. On central bank watch, Norges hiked more than expected, while Banxico hiked as expected, and the CBRT left rates unchanged as expected. In commodities, oil prices were lower amid broader cyclical aversion, while the supply backdrop for metals improved on reports Chile's Codelco had reached an agreement with workers to end the strike.

US

FLASH PMIs: US Flash PMIs missed across the board, with Services falling to 51.6 (exp. 53.5, prev. 53.4) and Manufacturing printed 52.4 (prev. 57.0) beneath the expected 56.0. Composite declined to 51.2 from 53.6. Looking into the details, the report notes, “the pace of US economic growth has slowed sharply in June, with deteriorating forward-looking indicators setting the scene for an economic contraction in the third quarter”. Moreover, the report adds, “the survey data are consistent with the economy expanding at an annualized rate of less than 1% in June, with the goods-producing sector already in decline and the vast service sector slowing sharply." Regarding business, S&P adds, they have become a lot more concerned regarding the outlook amid the increasing cost of living and fall in demand, on top of the increasingly aggressive interest rate path outlined by the Fed and the consequent worsening in broader financial conditions. As such, business confidence resides at a level which would normally herald an economic downturn, adding to the risk of recession. Lastly, on price pressures, the report notes “with the survey’s inflation gauges for firms’ costs and their selling prices falling sharply in June to suggest that, although still elevated, price pressures have peaked.”

INITIAL JOBLESS CLAIMS: US initial jobless claims printed 229k in the week of June 18th, a little above the 227k the street was expecting. Note, this week's initial jobless claims number coincides with the BLS' Household Survey reference window; between the two reference periods, claims have ticked up to 229k from 199.5k. Commenting after today's data, Pantheon Macroeconomics said that it was expecting claims to dip by a greater margin. "Claims seem for now to be stable at about 230K, having increased from lows near 170K in March, though we think those numbers were flattered by favourable seasonals," it writes, "if business really are still looking for 11.4mln people, as the JOLTS data suggest, then the bar for layoffs ought still to be very high." The consultancy also notes that these data are likely to be noisy in the window between late June through late July, because seasonals struggle to cope with the automakers' retooling shutdowns, which Pantheon says vary in timing and extent from year to year.

CENTRAL BANKS

FED: **Chair Powell** returned for his second day, in front of the House Finance Committee, and while he largely reiterated his familiar tone the Chair noted as the economy returns to normal, Fed expects profit margins will also normalise. On inflation, Powell noted inflation expectations are anchored but that's not enough as over time they will come under pressure. Meanwhile, **Bowman (voter)** joined the chorus for the July meeting and said another 75bps rate hike will be appropriate, and hikes of at least 50bps at the next few subsequent meetings. On policy, she noted further rate hikes may be needed after that, depending on how the economy evolves, but the number one responsibility is to reduce inflation. Moreover, Bowman said need to use tools to address inflation before expectations become entrenched. Additionally, regarding the outlook, Bowman expects labour market will remain strong as rates rise.

BANXICO REVIEW: Banxico hiked rates by 75bps to 7.75%, as expected, in a unanimous decision. Looking ahead, the bank said for the next policy decisions, the Board intends to continue raising the rate and will evaluate taking the same forceful measures if conditions so require. Whilst on inflation, the balance of risks for the trajectory of inflation within the forecast horizon is biased significantly to the upside. Regarding Banxico's projections, the Board now expects inflation to hit 8.1% in Q3, vs. 7.0% expected in the previous meeting, while it still expects inflation to be just above the 3% target in Q1 2024. Moreover, Pantheon Macroeconomics note, "Banxico noted the deterioration of the global economy during Q2, and highlighted the sharp inflation rebound, to rates which have been "unseen in decades", due to persistent supply bottlenecks, strong demand, and increased commodity prices." As such, policymakers noted the continuing tightening of financial conditions, which has driven further risk aversion. Lastly, on the domestic front, the Board said that the recovery likely continued in Q2, but said that uncertainty "continues to prevail", whilst the output gap, according to the Board, likely will continue to decrease gradually. In wake of the rate decision, the Mbonos curve saw flattening with the front-end under pressure while the long-end found a bid. However, USD/MXN saw little action in wake of.

NORGES REVIEW: A hawkish decision from the Norges Bank on both the hike and policy guidance. Specifically, the Bank hiked by 50bp and altered their guidance to expect the next (25bp) hike at the August interim meeting; breaking from the trend of recent hikes occurring at the main MPR gatherings (next due in September). The hawkish announcement is justified by the hot inflation environment and intended to be a frontloading move from the Bank, designed to reduce the risk of sharper tightening in the period ahead. Note, the announcement is not as hawkish as it could have been - as guidance for moves ahead is back to 25bp increments, as opposed to today's 50bp increase. Additionally, the Bank caveats that "If inflation and capacity utilisation fall faster than projected, the policy rate may be raised less than currently projected." and is seemingly still concerned about the pass through effect to households, adding the "rise in interest rates in Norway may also cool down the housing market and curb household consumption to a greater extent than expected.". Reaction to the release is in-fitting, with an initial NOK appreciation on the 50bp move retracing as participants digest the caveats and guidance for 25bp moves ahead.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 22+ TICKS HIGHER AT 117-21

Another belly-led Treasury rally as troubling June flash PMI data adds to hard landing/recession concerns. 2s -14.4bps at 3.054%, 3s -16.4bps at 3.191%, 5s -15.6bps at 3.223%, 7s -15.7bps at 3.236%, 10s -15.5bps at 3.151%, 20s -15.6bps at 3.485%, 30s -15.4bps at 3.236%.

TOKYO/LONDON: The APAC Thursday session was choppy with some initial buying in T-Notes in early Tokyo morning before selling again back to prior settle levels amid a chunky, 9k block. However, better buying soon returned in Europe following troubling Flash June PMIs from France and Germany, as Tsys took their cues from the monster rally in EGBs.

NEW YORK: Short-covering, led by the front-end, extended through the NY handover, albeit the whole curve was rallying. A 16.4k T-Note (Q2) 117/118/119/120 call condor block, followed by another 19k on screen trade added to the bullish flow dynamics. The mixed jobless claims only emboldened the recession/growth concerns, and then the big drop in US PMIs blew the final nail, lifting T-Notes above 118-00, and then to session highs not long after at 118-08, with the cash 10yr yield low of 3.01%, levels it hasn't been at since prior to the June 10th May CPI/UoM survey. Yields began climbing off lows, as stocks did too, into the NY afternoon, aided by block sales of 11k 5yr futures and 8.7k Ultra 10yr. Fed's Bowman (voter) joining the chorus for 75bps in July only added to the paring. The strong 5yr TIPS auction, stopping-through 3bps, had little follow-through demand. Participants now have their eyes to next week's 2s, 5s, and 7s, auctions. But before then, Friday sees the final UoM survey and New Home Sales, as well as Fed's Bullard and Daly.

NEXT WEEK'S AUCTIONS: US to sell USD 46bln of 2yr notes on June 27th; USD 47bln of 5yr notes on June 27th; USD 40bln of 7yr notes on June 28th; all to settle on June 30th.

STIRS:

- Eurodollars saw another bull-flattening across whites and reds:
- EDU2 +5.5bps at 96.68, Z2 +14.0bps at 96.175, H3 +19.0bps at 96.185, M3 +19.0bps at 96.28, U3 +19.0bps at 96.425, Z3 +20.0bps at 96.555, H4 +21.5bps at 96.665, M4 +22.0bps at 96.76, Z4 +20.5bps at 96.85, Z5 +15.0bps at 96.88.

- Notable options flow saw over 16k EDQ2 96.8750 (ATM) calls traded; also note over 16.5k above par U3 and M3 calls were traded, seemingly a punt on NIRP pricing for next year, or at least some bullish ED vol.
- In SOFR options, an eye-catching 100k SOFR July 96.125/96.25 boxes were traded, although traders suggest the massive flow was a function of market makers looking to hit their monthly volume levels to hit rebate levels before month-end.
- T-Bills: US sold USD 39bln 1-month bills at 1.100%, covered 2.90x; sold USD 33bln of 2-month bills at 1.500%, covered 2.97x. RRP rose to a fresh record at USD 2.285tln across 99 bidders, with IFR highlighting a USD 21bln cash settlement adding cash.

CRUDE

WTI (Q2) SETTLED USD 1.92 LOWER AT 104.27/BBL; BRENT (Q2) SETTLED USD 1.69 LOWER AT 110.05/BBL

Oil prices were lower Thursday as demand woes accentuated amid the plethora of disappointing Flash PMIs for June on both sides of the Atlantic. WTI (Q2) and Brent (Q2) futures peaked in the NY morning at USD 107.05/bbl and 112.70/bbl, respectively, before fading into the afternoon alongside the tepid risk environment.

REFINERS MEETING: Energy Secretary Granholm returned from her meeting with US refiners with no immediate solutions, according to Reuters. For what it's worth, reports suggested that the talks were constructive in tone, as opposed to some of the critical rhetoric touted by White House officials lately.

INVENTORIES: Official weekly EIA data was delayed further into next week due to system issues although the private release from Wednesday evening indicated builds in crude and gasoline stocks.

OPEC: OPEC+ is seen reconfirming plans for its August oil output rise of 648k BPD at its meeting next week, according to Reuters sources.

GERMANY formally announced its emergency gas plan phase 2. Government will provide EUR 15bln in credit lines for filling gas storages and will launch a gas auction model in the summer to encourage industrial gas consumers to save gas. The Economy Minister also said gas rationing cannot be ruled out.

EQUITIES

CLOSES: SPX +0.97% at 3,796, NDX +1.47% at 11,697, DJIA +0.64% at 30,677, RUT +1.11% at 1,709.

SECTORS: Utilities +2.35%, Health +2.22%, Real Estate +2.01%, Consumer Staples +1.96%, Consumer Discretionary +1.62%, Technology +1.44%, Communication Services +1.09%, Financials -0.46%, Industrials -0.53%, Materials -1.4%, Energy -3.75%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.82% at 3,436; FTSE 100 -0.97% at 7,020; DAX -1.76% at 12,912; CAC 40 -0.56% at 5,883; IBEX 35 -0.48% at 8,106; FTSE MIB -0.80% at 21,615; SMI -0.79% at 10,445.

STOCK SPECIFICS: **Intel (INTC)** warns planned Ohio expansion could be delayed or scaled back because Congress is dragging its feet on the 'chip act', according to CNBC. **Toyota (TM)** is asking some part suppliers to lower prices for the July-Sep quarter, according to Nikkei. **Accenture (ACN)** saw losses as despite beating on EPS and revenue, Q4 revenue view fell short, alongside a narrowing of its FY EPS guidance which is partly due to raising FY22 negative FX impact view to 4.5% (prev. 3%). **Darden Restaurants (DRI)** topped consensus on EPS and revenue. DRI also authorised new USD 1bln share buyback programme and raised Q dividend 10%. Looking ahead, FY guidance was also strong. **Berkshire Hathaway (BRKB)** purchased 9.6mln shares (USD 529mln worth) of **Occidental Petroleum (OXY)** this week, raising its stake to 16.3%, according to a filing. **FactSet Research (FDS)** firmed after surpassing expectations on profit and revenue, while re-affirming FY EPS and revenue view. **Netflix (NFLX)** co-CEO confirmed the Co. is speaking to multiple potential partners to help it enter the ad business, according to WSJ; telling an industry conference that it may build its own ad business in the future. **Kroger (KR)** raised quarterly dividend 24% to USD 0.26/shr (prev. USD 0.21/shr). **Tesla (TSLA)** CEO Musk said new car factories in Texas and Berlin were "losing billions of dollars" as they struggle to increase production due to shortages of batteries and China port issues. In other news, Tesla China is to begin laying off 10% of staff, not manufacturing staff, as part of broader global layoffs. **Snowflake (SNOW)** surged after JPMorgan Securities upgraded the stock to “Overweight” from “Neutral”; pointed to an attractive valuation as well as extremely high satisfaction levels among customers. **WeWork (WE)** saw gains following Credit Suisse initiating coverage with an “Outperform” rating; said it feels WE is among the companies that will benefit from the increase in hybrid work and co-working, as well as demographic trends. **Broadcom (AVGO)** is already in prelim. discussions with EU officials re. the acquisition of **VMware (VMW)**, according to FT sources; EU will look at concerns that merger may result in abusive behaviour, intend to have a more detailed phase 2 investigation. Canada's competition bureau expected to ask **Rogers (RCI)** to sell **Shaw (SJR)** mobile business to overcome antitrust concerns presented by the merger, according to Reuters sources.

FX WRAP

The Dollar was ultimately flat Thursday after reaching an earlier peak of 104.780 in wake of the poor European flash PMIs, then a low of 104.05 after the late, miss on US PMIs, recovering to the little changed mark into the NY afternoon. Powell stuck to the script in his second/final day in Congress. Meanwhile, Bowman (voter) joined the chorus for the July meeting and said another 75bps rate hike will be appropriate, and hikes of at least 50bps at the next few subsequent meetings. Aside from the PMIs, Barclays added its voice to the slew of forecasters expecting a global slowdown in 2023 as central banks rush to hike rates to curb inflation. Looking ahead, Bullard (2022 voter) and Daly (2024 voter) are speaking Friday, while on the data docket sees the final UoM consumer survey (particular attention on any revisions to the inflation expectations given they were part of the Fed's latest pivot) and new home sales data.

Activity currencies were mixed against the Buck, with the GBP the relative ‘outperformer’, albeit flat, whilst AUD was the underperformer. Cable traded between 1.2294-1.2171, and is currently above its 10 DMA of 1.2223, at pixel time, as the Pound was supported by a rare UK data beat as UK Flash services PMI topped expected, which came after woeful European data across the board. Nonetheless, analysts note, downside GBP/USD risk persists as global inflation-related rate hikes may push the UK and other economies that have begun post-pandemic rate normalisation into recession. Meanwhile, antipodeans trundled lower through the session, barring a late session risk bounce, with a lack of fresh pertinent macro newsflow, with AUD/USD and NZD/USD hitting lows of 0.6870 and 0.6248, respectively. CAD hit a high of 1.3017, breaching the pivotal round number, although only fleetingly, as it floated between the peak and low of 1.2937. The Loonie continues to be impacted by volatile oil prices, as WTI saw losses of circa USD 1.50/bbl on Thursday, which provided headwinds for the CAD. Looking ahead, there is little scheduled on the calendar for Friday with the main risk event for the aforementioned currencies, aside from the known themes, is UK May retail sales.

JPY was the clear G10 outperformer, and saw gains of over a percent against the Greenback, as it continues to try and claw back its recent losses, reaching a low of 134.27 with technicians noting a close beneath 134.10 would increase risk down to 131.54. In terms of catalysts, analysts note, global recession fears and haven flows have caused global yields to ratchet lower narrowing Japanese spreads with other developed market bonds. Recession woes were further enhanced with the awful European and US PMIs. Nonetheless, despite Thursday’s pullback, desks note Yen gains are likely to be short-lived as most developed market central bank rate paths remain more hawkish than the steady BoJ. Participants now look to Japanese CPI on Friday.

EUR was lower and saw headwinds from the aforementioned poor European Flash PMIs. EUR/USD slipped beneath the key 1.05 earlier to a trough of 1.0484, albeit only briefly, as the 10 DMA of 1.0493 remained in focus. Although, technicians note EUR bulls are wary of 1.0567, the 50% Fib of the recent 1.0774-1.0359 dip. ECB’s Kazimir hit the wires late in the session and noted ECB rate could be at 1.5-2% in a year and reiterated likely to hike 25bps in July and 50bps in September. Meanwhile, he added some Euro countries could face "short recessions".

CHF was flat against the Buck but gained against the EUR as the cross hit a high of 1.0069, the peak since March 8th as the Swissy continues to benefit from SNB's recent hawkish shift in policy.

EMFX was predominantly lower, but MXN and RUB were flat, hence the outperformers, although the former saw little reaction from the Banxico rate decision. BRL, ZAR, and TRY saw losses with the Rand hindered by losses in the yellow metal. For the Lira, the CBRT left policy rate unchanged at 14%, as expected, and added it will continue to use all available instruments decisively with the framework of Liraisation strategy until strong indicators point to a permanent fall in inflation. CNH and CNY were rangy and resilient with the PBoC's Deputy Governor saying that monetary policy transmission is more efficient in recent years, while China has built up a structural policy tool scheme that fits the nation. Finally, Chief Neto said the BCB is aiming for inflation in 2023 "around" the 3.25% target but less than 4%, as policymakers hike interest rates to cool surging consumer prices.

SCANDIS: No real impetus for the SEK via firmer Swedish producer prices, while the NOK will no doubt count itself even more unfortunate not to glean traction from the Norges Bank given a 50bps hike against 25bps consensus, a markedly upgraded rate profile and Governor Bache saying more half point tightening moves cannot be discounted. However, there was caution embedded in the accompanying statement, such as the rise in interest rates may also cool down the Norwegian housing market and curb household consumption to a greater extent than expected. If inflation and capacity utilisation fall faster than projected, the policy rate may be raised less than currently projected.

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