newsquawk

US Market Wrap

24th June 2022: Stocks ramp into the weekend while Bond longs take profits

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar down.
- **REAR VIEW**: New home sales tops expected; UoM final revised down, but as were inflation expectations; Bullard believes US will be fine and rate hikes will slow the economy to a trend pace of growth; ECB's de Guindos says according to PMIs, economy is losing momentum; ZEN to be acquired for USD 77.50/shr; FDX issued upbeat guidance.
- **WEEK AHEAD**: Highlights include US PCE, Manufacturing ISM, China PMIs, Flash EZ PMIs, OPEC+ Meeting. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing Riksbank; reviewing PBoC, RBA minutes, Norges Bank, CBRT, Banxico. To download the report, please click here.

MARKET WRAP

Stocks rallied Friday, both at the cash open and then sustained another fresh leg higher on a large buyside Market on Close order imbalance, taking the S&P above 3.9k. Sectors saw Comms, Materials, and Discretionary lead, while defensives lagged, albeit still firmly in the green, which marks a change of composition to the defensive-led gains earlier this week. Regardless, there still is a consensus that current market strength is not much more than a month-end relief rally - PCE next Thursday is the next catalyst on the calendar ahead of ISM Mfg. on Friday. Elsewhere, Treasuries bear-steepened as longs took profit into the weekend amid the improved risk tone. In money markets, Eurodollar strip steepened as the year-ahead contracts found a bid in wake of the UoM inflation expectations being revised lower, taking some "front-load" pressure off the Fed hike path - note that the Fed has said the rise in the UoM expectations were a big part in its pivot to a 75bps June hike. Elsewhere, oil prices were firmer with broader risk assets, but still closed the week on a second consecutive weekly loss for the first time since the onset of the Ukraine invasion in early March. While in FX, The DXY dipped with havens offered against high-beta currencies.

US

FED: **Bullard (2022 voter, hawk)**, who spoke at a UBS conference, said current models probably are not a good indicator of recession risk and households are in a great position to spend going forward, as they have USD 3.5tln in unspent COVID-19 aid. On rates, the known hawk thinks the US will be fine and rate hikes will slow the economy to a trend pace of growth, and reiterated his view to move up rates to 3.5% this year. Bullard said that 1994 is the template, and can raise rates until inflation returns to target and then cut them (familiar to his pre-June FOMC comments and indicated in the Fed's dot plot). On recession, he noted it is still too early to debate about the probability, but the Fed's relative hawkish outlook vs other central banks has supported the Dollar. **Daly (2024 voter)** was the only other speaker, talking to Fox Business News, where she said she does not need to think about the endpoint for the balance sheet yet, and the Fed will communicate as they get closer to the balance sheet endpoint which she believes may come in 2024. Lastly, the San Fran President does not see a recession.

NEW HOME SALES: New home sales rose 10.7% in May to 0.696mln, way above the expected 0.588mln and the prior 0.629mln. Looking into the report, Pantheon Macroeconomics note, “the May bounce does not change the big picture at all; the housing market is rolling over, and sales will fall sharply over the next few months, lagging the plunge in mortgage applications. Potential homebuyers’ purchasing power has been drastically reduced by the surge in mortgage rates, so demand has plunged.” Inventory fell to 7.7 months from 8.3 months, but the trend is rising rapidly, over the winter supply was about six months, and prices are coming under pressure. As such, the consultancy adds, “the monthly price data are hopelessly noisy, but we reckon that the average m/m increase over the past six months is 0.8%, down from 2.5% last summer.” Looking ahead, PM state “we expect prices to fall outright across the second half of the year as homebuilders seek to reduce inventory. Falling volumes and falling margins are a toxic combination, but probably now inevitable. Construction activity will fall sharply too, directly constraining GDP growth via the residential investment component.”

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 10 TICKS LOWER AT 117-11

Treasuries bear-steepened as longs took profit into the weekend amid the improved risk tone. 2s +3.2bps at 3.044%, 3s +1.7bps at 3.133%, 5s +4.5bps at 3.179%, 7s +5.1bps at 3.196%, 10s +6.2bps at 3.132%, 20s +8.4bps at 3.518%, 30s +7.9bps at 3.260%. Inflation breakevens: 5yr BEI +7.2bps at 2.840%, 10yr BEI +5.2bps at 2.534%, 30yr BEI +3.9bps at 2.451%.

TOKYO/LONDON: Futures volumes were light in the APAC and European morning, with no block trades overnight either for a change. There was a dip in T-Notes in the Tokyo morning but that soon recovered ahead of Europe's arrival. A choppy open for sentiment at the London handover saw a lift for bonds, led by EGBs, taking T-Notes to session highs of 118-00 before paring gradually into the NY trade, falling beneath Thursday's settle at 117-21.

NEW YORK: T-Notes eked out new lows (117-07) after Fed's Bullard–at a UBS conference–reaffirmed his call for front-loaded hikes to 3.5% Fed Funds by year-end and bullish outlook on the US economy. That pressure was led by the front-end, reflected by the several 2yr (U2) block sales at the time. But, T-Notes began paring into the cash equity open before spiking to 117-29+ after the final Uni of Michigan survey revised back lower the consumer inflation expectations - something which the Fed had cited as critical in its decision to pivot to a 75bps hike at the June FOMC. That again proved a red herring for price action, as the sustained strength in stocks saw Treasuries soon consolidate back into the red, aided by some blocks of 20k T-Note Aug expiry 116 puts and 15k Sep expiry 115 puts. T-Notes hovered near lows for the remainder of the session with an eye to next week's front-loaded Treasury auctions.

NEXT WEEK: US to sell USD 46bln of 2yr notes and USD 47bln of 5yr notes on Monday, while it will sell USD 40bln of 7yr notes on Tuesday, all settling on June 30th. On data, Monday sees durable goods and pending home sales, while highlights for the week will be the PCE data Thursday and ISM mfg. survey on Friday; we can also expect another busy week of Fed Speak.

STIRS:

- Eurodollars steepened as whites found a bid in wake of the UoM inflation expectations being revised lower, taking some "front-load" pressure off the Fed hike path.
- EDU2 +6.0bps at 96.75, Z2 +6.0bps at 96.28, H3 +2.5bps at 96.29, M3 flat at 96.385, U3 -1.5bps at 96.52, Z3 -3.0bps at 96.63, H4 -4.5bps at 96.73, M4 -6.0bps at 96.815, Z4 -7.0bps at 96.89, Z5 -8.5bps at 96.895.
- As far as ED/SOFR options were concerned, a fairly quiet session to end the week.
- NY Fed RRP op demand fell to USD 2.181tln across 97 bidders, although SOFR (as of Thursday amid record RRP demand) fell to 1.44% from 1.45%.

CRUDE

WTI (Q2) SETTLED USD 3.35 HIGHER AT 107.62/BBL; BRENT (Q2) SETTLED USD 3.07 HIGHER AT 113.12/BBL

Oil prices were firmer with broader risk assets Friday, but still closed the week on a second consecutive weekly loss for the first time since the onset of the Ukraine invasion in early March. The price action in WTI (Q2) and Brent (Q2) futures took its cue from stocks, with the oil benchmarks printing session highs of USD 108.58/bbl and 114.00 /bbl not long after the NY cash equity open, before paring gradually by a Dollar or so into the settlement.

US RIG COUNT: The Baker Hughes Rig Count (w/e June 24th): Oil +10 at 594, Nat Gas +3 at 157, Total +13 at 753. Drillers have now added oil and gas rigs for a record 23 months.

NIGERIA: The Nigerian Oil Minister said he expects to meet the OPEC production quota by the end of August. Argus estimates Nigeria's output was 433k BPD below its quota in May.

FRANCE: TotalEnergies (TTE FP) announced it had taken measures to ensure that supply to petrol stations and clients was secured amid the strike action Friday. A 24-hour strike at some of the Co's oil refineries in France took place - the 240k BPD Gonfreville and 119k BPD Feyzin refinery were affected. Strike risk is another thorn in the side for European supply, particularly as fears of a prolonged haltage of flows via the Nordstream 1 pipeline grow.

OPEC NEXT WEEK: OPEC+ will once again convene, although the meeting (ministerial meeting on June 30th) is expected to be a non-event after the group essentially carried out this month's decision in its prior meeting. The group agreed to hike output by 648k BPD in July and in August – with the September additions split across the two months. The meeting also comes against the backdrop of US President Biden's visit to Saudi Arabia – which is unlikely to deliver on any material measures to stabilise oil prices, with more and more eyes falling on OPEC spare capacity as the Declaration of Cooperation (DoC) approaches its end.

EQUITIES

CLOSES: SPX +3.09% at 3,912, NDX +3.49% at 12,105, DJIA +2.69% at 31,501, RUT +2.92% at 1,760.

SECTORS: Materials +3.98%, Communication Services +3.94%, Financials +3.8%, Consumer Discretionary +3.74%, Technology +3.57%, Industrials +3.49%, Real Estate +2.07%, Consumer Staples +1.86%, Utilities +1.76%, Health +1.63%, Energy +1.53%.

EUROPEAN CLOSES: Euro Stoxx 50 +2.86% at 3,534; FTSE 100 +2.67% at 7,208; DAX +1.59% at 13,117; CAC 40 +3.23% at 6,073; IBEX 35 +1.65% at 8,240; FTSE MIB +2.31% at 22,115; SMI +3.55% at 10,824.

STOCK SPECIFICS: **Zendesk (ZEN)** surged after it confirmed overnight reports it is to be acquired by an investor group led by Hellman & Friedman and Permia for USD 77.50/shr or USD 10.2bln in cash. Note, ZEN closed Thursday at USD 57.95/shr. **FedEx (FDX)** saw gains as looking ahead it issued upbeat guidance for FY23 and remains confident into the new year. Nonetheless, EPS printed more-or-less inline but fell short on revenue as shipment volumes declined but were offset by increased shipping rates and fuel surcharges. **CarMax (KMX)** firmed after it beat on EPS and revenue. Note, it missed on used vehicle sales and said that the market environment was challenging in the recent Q. **Merck (MRK)** is reportedly moving forward with a potential **Seagen (SGEN)** deal, according to WSJ. **Microsoft (MSFT)** was firmer after it was named a “top pick” at Citi, who pointed to its attractive valuation and its ability to sustain growth. **LendingTree (TREE)** was lower after it cut Q2 revenue and adj. EBITDA outlook. TREE said difficult economic forces had persisted, and in many instances worsened. Despite rapid increases in interest rates, rampant consumer price inflation, and looming recession fears were presenting persistent headwinds. **Wolfspeed (WOLF)** surged following Goldman Sachs upgrading the stock to “Buy” from “Neutral”; said the risk-reward profile is now much more attractive given a recent pullback and that a significant upward earnings inflection is ahead. **Bausch Health (BHC)** soared after it announced Chairman Joseph Papa resigned from the board, effective immediately, and it was not due to any dispute or disagreement. Investor John Paulson will become chairman. **Li Auto (LI)** announced that the orders for Li L9, its flagship smart SUV, have exceeded 30,000 in 72 hours since the vehicle was available for reservation. **KLA (KLAC)** announced an accelerated USD 3bln share repurchase agreement. Lawmakers called on the FTC to investigate **Apple (AAPL)** and **Alphabet's (GOOGL)** Google, alleging the cos. engage in unfair and deceptive practices by enabling the collection and sale of mobile-phone users' personal information, according to WSJ. **Carnival (CCL)** gained despite missing on top and bottom line, as CCL said it had its best booking volumes since the start of the pandemic during Q2. Also, co. reported that cash from operations turned positive in April and was positive for Q2.

WEEKLY FX WRAP

Dollar depressed amidst partial recovery in risk sentiment

USD - In contrast to ongoing volatility elsewhere, and pronounced moves in the case of bonds, currency markets were relatively calm on Friday, but the Buck traded mostly softer against the backdrop of renewed risk appetite, further technical retracement in the likes of the Yen and outperformance by the Franc. Moreover, the Greenback slipped in wake of a downwardly revised UoM sentiment reading that raised US recession concerns following preliminary PMI misses and an admission of the prospect by Fed Chair Powell that came in the Q&A session of his Senate testimony, not long after a research piece from a senior economist showing elevated risks of a recession over the next one to two years due to rising imbalances in markets for goods and services, including labour. Specifically, the paper found slightly more than 50% chance of a recession over the next four quarters and a two-thirds probability of a downturn over the next two years, according to various models. Hence, the DXY retested w-t-d lows between 103.850-104.950 parameters, irrespective of more backing for another 75 bp hike in July from various Fed officials.

CHF/NZD/AUD - The Franc succumbed to several bouts of consolidation and profit taking before extending gains with more SNB impetus, as President Jordan backed up last Thursday’s surprise half point interest rate rise with a clear message that inflation data shows the need to tighten monetary policy further. He also underlined that rising price pressures go beyond energy and its only unclear when the Bank will hike again. Usd/Chf nearer sub-0.9550 trough than peak just over 0.9700 and Eur/Chf closer to 1.0050 than 1.0216. Elsewhere, the absence of NZ participants did not deter the Kiwi from reclaiming 0.6300+ status vs its US peer even though Aud/Usd rebounded towards 1.1000 and the Aussie secured a firmer grip on the 0.6900 handle against its US counterpart with some assistance from a rebound in commodities, such as iron ore. For the record, RBA minutes and separate remarks from Governor Lowe failed to provide any fresh policy insight, but the latter pushed back against the amount of hikes priced in by markets for 2022 and added that the debate next time will be whether to go 50 bp again or 25 bp rather than 75 bp.

CAD - A sharp decline in crude prices that saw WTI recoil from Usd 111.16/brl to Usd 101.53 at one stage, kept the Loonie captivated until a firm end of week bounce tipped Usd/Cad through the 10 DMA and a test of Monday's base less than 10 pips from 1.2900 compared to circa 1.3038 at the other end of the spectrum. Indeed, the Loonie could have gleaned more leverage from Canadian macro releases along the way given stronger than expected CPI metrics across the board and retail sales beats, ex-autos especially, not to mention BoC's Rogers saying that May's inflation readings were unwelcome and the balance of risks is tilted to the upside.

GBP/EUR - The Pound endured more ups and downs through contrasting UK data and surveys, BoE rhetoric and the latest in a growing list of upsets for PM Johnson and his Tory Party, but is on couse to close out a turbulent week on the front foot - Cable just below 1.2300 and Eur/Gbp under 0.8600 vs 1.2162 and 0.8641 on the flip-side. To recap, headline CPI matched consensus in y/y terms even though the m/m rise was firmer than forecast, core inflation was not as high as expected on both counts, but RPI and PPI vice-versa, while the flash services PMI ticked up and retail sales were mixed and Gfk consumer sentiment hit rock bottom. Elsewhere, MPC hawk Mann gave rationale for her dissenting 50 bp vote and chief economist Pill stuck to the line of tightening further if inflation persists and leads to second round effects, while the Conservatives lost two by-elections and Chairman Dowden quit his post in response. Turning to the Euro, recession fears were stoked by unexpectedly bleak Eurozone flash PMIs and only partly appeased when Germany's Ifo metrics held up better in the main, but Eur/Usd struggled to breach 1.0600 on a couple of occasions before running out of steam and then struggling to clear a Fib retracement level just north of 1.0550 as EGBs mounted the best bear market retracement effort for some time. Additionally, sources suggested that ECB officials are worried about the fact that the flexible PEPP reinvestment tool is not ready and GC member de Guindos acknowledged that the aforementioned PMIs show that the Eurozone economy is slowing with difficult months seen ahead.

JPY - Not a lot of let up in the frequency or volume of verbal intervention, but ironically the Yen embarked on its latest comeback following jawboning from an ex-Japanese MoF official that preceded a hefty buy order possibly linked to an M&A transactions. Usd/Jpy witnessed a reversal of flash-crash proportions from 136.00+ to sub-134.50, but could not extend its correction from fresh y-t-d/24 year pinnacle around 136.71 beyond a Fib at 134.27, even with CPI topping the BoJ's 2% target.

SCANDI/EM - Brent's revival between Usd 116.25-107.03/brl extremes gave the Nok a big boost, but the Norges Bank only prompted a knee-jerk rise as the 50 bp tightening move vs +25 bp previous guidance and upgraded rate path came with several conditions on top of the intention to revert to ¼ point increment at the August non-MPR meeting. Prior to that, the Riksbank could also up the ante next week and the Sek is firmer on risk dynamics in advance. Conversely, no change in policy from the CBRT left the Try relying on other factors to stop the rot, while the Cnh/Cny clawed back losses after the PBoC maintained LPRs and injected liquidity and the Mxn rode the crest of oil's recovery wave and got additional inventive from a record high 75 bp Banxico rate increase compounded by guidance for more of the same.