newsquawk

US Market Wrap

27th June 2022: Nasdaq lags as strong data and weak auctions boosts yields

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar down/flat.
- **REAR VIEW**: Durable Goods & Pending Home Sales beat expectations; weak 2yr auction and awful 5yr auction; G7 discuss Russian oil price caps; UAE says it is producing near maximum capacity; OPEC+ cut 2022 market surplus estimate; FTX not in active M&A talks with HOOD.
- **COMING UP**: **Data**: German GfK Sentiment, US Consumer Confidence **Events**: G7 Summit **Speakers**: ECB's Lagarde, ECB's Lane, ECB's Elderson, ECB's Panetta, Fed's Daly **Supply**: Germany, and US.
- **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

US equity futures were trading firmer in the premarket, however, slumped as cash trading got started. Growth styles were coming under pressure as yields and energy prices rose, which saw the Nasdaq-100 lead the downside. Crude upside reignited inflation fears today, with a number of bullish factors supporting the complex, as we detail in the crude section below. Treasuries pivoted from bear-steepening in early trade to bear-flattening, with grim auctions in the 2s and 5s space adding to the upside in yields. Decent durable goods data helped to mitigate concerns that we may see a recession in Q2, after the contraction in Q1; the Atlanta Fed's GDPnow model for Q2 was revised up to +0.3% after the data, and some commentators noted that if the US avoided a recession in Q2, the Fed would feel more comfortable in proceeding with aggressive rate hikes, bringing rates above the estimated rate of neutral, which would make economic activity contractionary. That said, others caution that the durables data was for May - the gloom really set in after this period - while the Fed will be guided by incoming inflation data, rather than growth proxies. On that note, this week's highlight is the PCE data for May (remember the CPI data for May was an upside surprise, leading the Fed to fire a larger-than-expected rate hike at the June meeting), as well as the ISM Manufacturing report - both data sets are released at the back end of the week.

US

DURABLE GOODS ORDERS: May's data surprised to the upside, with the headline rising +0.7% M/M (exp. 0.1%, prev. 0.4%), the US non-defence capital goods excluding aircraft +0.5% vs. Exp. 0.3% (prev. 0.4%, Rev. 0.3%), the ex-defence measure rising +0.6% (exp. -0.5%, prev. 0.2%), and the ex-transport measure rising +0.7% M/M (exp. 0.3%, prev. 0.2%). Capital Economics said, "the surprisingly robust 0.7% rise in durable goods orders last month was much better than some of the downbeat survey evidence had suggested and is consistent with business equipment investment growth slowing in the second quarter rather than going into reverse." In wake of the data, the Atlanta Fed GDPnow estimate for Q2 was revised up, now tracking +0.3% vs prev. 0.0% at the June 16th update.

PENDING HOME SALES: Pending home sales rose in May by 0.7%; analysts had expected a decline of 3.9% as mortgage applications continued to edge down. Pantheon Macroeconomics explained that this was no more than an unusual blip given the situation in the mortgage market. "Sales will fall much further over the next few months, and we see little prospect of activity bottoming before late fall," it said, adding "a meaningful rebound is unlikely before next year." The consultancy notes that home prices are now softening too, "so prospective buyers now face the twin problems of much higher mortgage payments and the prospect of immediate capital loss on a leveraged asset -- that's not an attractive proposition."

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 17 TICKS LOWER AT 116-26

Treasuries were sold across the curve after strong data, with the belly underperforming after a dismal 5yr auction, and ahead of tomorrow's 7yr supply. At settlement, 2s +6.9bps at 3.126%, 3s +6.8bps at 3.212%, 5s +7.7bps at 3.255%, 7s +8.0bps at 3.271%, 10s +7.4bps at 3.198%, 20s +5.1bps at 3.564%, 30s +5.1bps at 3.309%. TIPS: 5yr TIPS +9.6bps at 0.453%, 10yr TIPS +9.0bps at 0.646%, 30yr TIPS +5.8bps at 0.885%. Breakevens: 5yr BEI -1.8bps at 2.822%, 10yr BEI -1.9bps at 2.516%, 30yr BEI -0.7bps at 2.444%.

THE DAY: The Treasury curve was bear steepening around the equity cash opening with yields rising on the stronger than expected durable goods data, although it was met with downward revisions but still prompted a GDP estimate upgrade from the Atlanta Fed, easing growth concerns somewhat. Pending Home sales data was also strong, although analysts expect this to be temporary and expect declines to continue in upcoming months. Nonetheless, strong data will help support the Fed's already hawkish normalisation process as it shows the economy can withstand the current pace of rate hikes for now, while Fed's Daly on Friday (who is normally perceived as dovish) said she would support another 75bps hike in July unless the economy slowed more than expected. The 2yr auction was weak which saw the curve start to flatten while the belly was particularly hit after the even worse 5yr auction which tailed by a whopping 3.5bps, which weighed on the curve, particularly the 7yr ahead of supply tomorrow.

AUCTIONS

2-YEAR: The 2yr auction was disappointing, seeing a 0.7bps tail after the prior auction's 0.7bps stop through, and against the six-auction average of 0.3bps stop through. Demand was weak with the Bid-to-Cover falling to 2.51x from 2.61x, and beneath the six-auction average of 2.64x, as indirect bidders dissipated, taking only 51.47% vs 62.6% at the last auction (average 62.8%), although it was met with an uptake of Direct bidders, who took 25.28%, above the prior 22.1% and the average of 18.6%. The rise in direct bidders was not enough to offset the declined participation from indirects, leaving dealers (forced buyers) with a 23.24% take of the auction, above both the prior and six auction average. For the full breakdown, please click here.

5-YEAR: The 5yr auction was dismal seeing a hefty 3.5bps tail, much larger than the prior 0.4bps tail and average 0.1bp stop through. The weak demand saw the bid-to-cover fall to 2.28x from 2.46x while the breakdown saw a similar representation of the earlier 2yr auction, where indirect demand slumped, direct demand was marginally above average, but not enough to offset the soft indirect bidders, seeing dealers take a larger chunk of the auction than last month's auction, and the six-auction average. For the full breakdown, please click here.

STIRS:

- EDU2 -2.0bps at 96.730, Z2 -3.0bps at 96.235, H3 -5.0bps at 96.220, M3 -4.5bps at 96.320, U3 -5.5bps at 96.450, Z3 -6.0bps at 96.565, H4 -6.5bps at 96.660, M4 -8.0bps at 96.735, U4 -8.5bps at 96.785, Z4 -8.5bps at 96.810, Z5 -8.0bps at 96.820.
- NY Fed RRP op demand at USD 2.156tln (prev. 2.181tln) across 96 bidders (prev. 97).
- US sold USD 53bln in 3mth bills at 1.750%; B/C 2.84x; sold USD 50bln at 2.500%; B/C 2.79x.

CRUDE

WTI (Q2) SETTLES USD 1.95 HIGHER AT 109.57/BBL; BRENT (U2) SETTLES USD 1.88 HIGHER AT 110.98/BBL

Crude futures traded in a choppy fashion, meandering between sharp gains and losses. At settlement, the complex was firmer, underpinned by headlines that suggested the UAE was producing close to capacity, while the Saudis would only be able to add another 150k BPD to production at best. The comments were reportedly made by the UAE Crown Prince to the French President Macron, who then told the US President Biden, who is due to travel to Saudi Arabia in the middle of July, which some think is a trip designed to persuade the Saudis to further loosen the supply strings.

GEOPOLITICS: The State Department confirmed that Iran and the US would have indirect discussions in Doha this week, adding that the Iranians needed to drop their additional demands that go beyond 2015 Nuclear Deal (Iran reportedly wants the terrorist designation on the IRGC to be lifted).

LIBYA: Traders continue to note the potential for supply disruptions out of Libya, where the NOC chief said that it was considering declaring a force majeure in the Gulf of Sirte in the next 72 hours unless production and shipping resumed at the oil terminals there.

PRICE CAP: Meanwhile, reports over the weekend said that the G7 nations were set to announce a price cap on Russian oil by imposing restrictions on insurance and shipping. No agreement has been struck yet, and some analysts are sceptical. ING said “it would likely take some time to come to an agreement,” adding that “it would require the EU to renegotiate its last round of sanctions, and some member countries may be reluctant to do so, given how long it originally took EU countries to finalize its Russian oil ban.”

DOE: Elsewhere, the Department of Energy said that the system issues–which had prevented the release of weekly inventory data last week–were still in the process of being resolved, and the new data would not be published today; the Department did note, however, that crude inventories in the Strategic Petroleum Reserve had drawn down to 497.9mln bbls in the week (prev. 511.6mln), lowest since April 1986.

OPEC: Finally, ahead of this week's OPEC and OPEC+ meetings, OPEC+ has cut its 2022 market surplus view to 1mln BPD (from 1.4mln), according to Reuters. OPEC members will meet on Wednesday, followed by OPEC+ on Thursday – the meetings are expected to confirm the August supply increase of 648k BPD which was telegraphed at the prior confab – eyes will increasingly fall on actual output as producers have sustained over-compliance with production cuts.

EQUITIES

CLOSES: SPX -0.30% at 3,900, NDX -0.88% at 11,999, DJIA -0.20% at 31,348, RUT +0.34% at 1,771.

SECTORS: Consumer Discretionary -1.08%, Communication Svs. -1.05%, Materials -0.81%, Technology -0.63%, Financials -0.44%, Real Estate -0.26%, Industrials -0.25%, Consumer Staples -0.22%, Health Care +0.39%, Utilities +0.81%, Energy +2.98%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.42% at 3,548; FTSE 100 +0.94% at 7,277; DAX +0.70% at 13,210; CAC 40 -0.14% at 6,065; IBEX 35 +0.30% at 8,269; FTSE MIB -0.84% at 23,971; SMI +0.78% at 10,908.

STOCK SPECIFICS: **Frontier Group (ULCC)** announced it will increase the per-share cash consideration payable to **Spirit Airlines (SAVE)** stockholders to USD 4.13 in cash, in addition to the previously agreed per-share stock consideration of 1.9126 shares of Frontier. Both SAVE and the ISS recommend SAVE vote for the ULCC offer. **3M (MMM)** reportedly faces billions of dollars in potential costs from legal settlements or trials after soldiers claimed they returned from war with hearing damage due to 3M earplugs worn by the soldiers, according to WSJ. **Apple's (AAPL)** AppleTV may have 20-40mln paying subscribers and annual revenues of USD 1-2bln with annual content spending of over USD 3bln, according to Bernstein analysis. Elsewhere, AAPL accepted a vote by Maryland store workers to unionise and is ready to bargain with them, according to Reuters. **Disney (DIS), Apple (AAPL) and Amazon (AMZN)** submitted bids weeks ago to become the new broadcast rights owner of the National Football League's out-of-market Sunday Ticket package, according to CNBC. **Amazon (AMZN)** will have two Prime shopping events this year, second one coming in Q4, CNBC reported. **Goldman Sachs (GS)** is reportedly looking to raise USD 2bln from investors to buy up distressed assets from troubled crypto lender Celsius, according to Coindesk citing sources. **Alphabet Inc Class A (GOOGL)** has been hit by an antitrust complaint by Danish job search rival Jobinex, alleging Google favours its own job search services, according to Reuters. **The Juul (MO)** ban by the FDA has been put on hold by a federal appeals court after Juul filed a lawsuit. **Bristol-Myers Squibb (BMY)** must face a USD 6.4bln lawsuit over its delayed cancer drug Breyanzi to avoid payment to shareholders of Celgene, which BMY purchased in 2019, according to Reuters. **Ford (F)** will not allow customers to buy EVs at lease end, aiming to better manage battery recycling, according to Automotive News. Bankman-Fried's FTX was reportedly said to be seeking a path for a **Robinhood (HOOD)** deal, according to Bloomberg source. Note, Gordon Haskett suggested earlier they Bankman-Fried was edging towards a deal for Robinhood. However, in late trade FTX told Tech Crunch they were not in active M&A discussions. **Prosus (PRX NA)** announced an open-ended share buyback programme via the sale of **JD.com (JD)** and **Tencent (TCEHY)** shares. **Coinbase (COIN)** was downgraded to Sell from Neutral at Goldman Sachs, **Robinhood (HOOD)** was upgraded to Neutral from Sell at Goldman Sachs & **Chewy (CHWY)** was upgraded to Buy from Hold at Needham.

FX WRAP

The Dollar Index was straddling the 104.00 handle for most of the session, with the tailwinds of higher yields offset by strength in the EUR. US Durable Goods data beat expectations and was coupled with lower revisions, but led to an upward revision of the Atlanta Fed’s GDPNow tracker for Q2 22, which now tracking growth of 0.3% after Q1’s contraction. Meanwhile, the Pending Home Sales saw a surprise gain of 0.7% despite expectations for a 3.7% fall, although analysts are expecting the declining trend to continue in the months ahead. As we approach month-end analysts at SocGen writes that "there's definitely a sense that month/quarter/half-year positioning will involve losing a few more long dollar positions," and adds that it will not be surprising to them if that turns into speculation the Dollar has peaked, though the bank still sees reasons to be constructive on the buck ahead.

The Euro was the outperformer at the start the week. EUR/USD rose above some key technical levels, including the 21dma at 1.0591, the psychological 1.0600 level to test the 55dma at 1.0619, reaching an intraday high of 1.0614, before falling back beneath 1.06 in the afternoon. The gains in the Euro were helped by the surging yields, helping narrow yield differentials with the US. Looking ahead, the Sintra conference will be in focus this week as will German and EZ CPI.

The Yen was weaker with both EZ and US yields surging, seeing USD/JPY hit resistance at 135.54 from lows of 134.53 – technicians suggest a close above 135.55 would open put the June twin peaks of 136.70/71 in play. **CHF** firmed against the buck but was slightly softer than the Euro while the fall in weekly sight deposits saw little reaction in wake of the data, though speaks to the intervention the SNB has been engaging in of late.

Cyclical currencies were mixed. The Antipodes were weaker against the buck, while both GBP and CAD saw mild gains. Cable initially rose above 1.2300 to highs of 1.2332 although it pared to 1.2271 at pixel time while EUR/GBP traded either side of 0.8600. CAD found some support from the gains in crude prices after the UAE told French President Macron they are near maximum capacity while Saudi Arabia only have about 150k BPD of spare production capacity available. AUD/USD was hit on the slide in US equities while it failed to hold above the 10dma at 0.6944 but the cross managed to stay above 0.6900. NZD/USD lost hold of 0.6300 while AUDNZD was flat just beneath 1.10.

Scandis saw gains against both the Dollar and Euro while NOK outperformed thanks to gains in Brent. Analysts at Citi gave a recommendation to tactically buy SEK, EUR and NOK vs the USD. The bank noted "NOK and SEK have high betas to equities, relatively high negative betas to US yields and, in the case of the NOK, its beta to commodities is considerably lower than that of AUD & NZD"

EMFX was mixed, RUB saw pronounced weakness while ZAR and MXN were also weaker, primarily on the downbeat risk tone. BRL saw mild gains against the Dollar, however, with a new CEO being appointed to Petrobras and BCB Chief Neto noting most of the work on interest rates is done and thinks the worst has passed on inflation. Citi also suggests a tactical buy of MXN, PLN and ZAR vs the Dollar, noting MXN has the most negative beta to US yields, high beta to equities and its Beta to commodities is average when compared to other EMFX pairs. TRY saw solid gains despite further commentary from Erdogan. The Turkish President noted inflation will go down to appropriate levels in February to March next year while he also asked the Labour Ministry to review Turkey's minimum wage. For MXN, Pemex's latest report noted it has increased crude exports to the US but cut other shipments to Europe and Asia. Meanwhile, Mexico President Obrador said he will offer fiscal support to companies that save water to help with drought, although provided little details.