US Market Wrap

28th June 2022: Stocks sold after grim consumer confidence reading

- **SNAPSHOT**: Equities down, Treasuries flat, Crude up, Dollar up
- **REAR VIEW**: China eases quarantine restrictions; US Consumer Confidence misses expectations; Williams sees lower growth than Fed median; Turkey, Sweden and Finland sign NATO memorandum; QCOM surges on bullish analyst note.
- **COMING UP**: **Data**: EZ Sentiment Survey, German CPI Prelim, US Q1 GDP Final **Events**: OPEC Meeting **Speakers**: Fed's Powell, Fed's Mester, Fed's Bullard, ECB's Lagarde, ECB's de Guindos, ECB's Schnabel, BoE's Bailey, BoE MPC-elect Dhingra.

MARKET WRAP

US equities were perky in the pre-market and rallied after the open; however, stocks stumbled after US consumer confidence data for June missed expectations, and highlighted deteriorating consumer expectations driven by concerns about high inflation, which were driving recessionary risks. Today's Fedspeak came courtesy of Williams (voter) and Daly (2024), while Bullard (2022) wrote an essay on inflation; none of these officials added anything significant to the narrative. On the supply front, the US Treasury concluded its note supply with a disappointing sale of 7yr paper, capping off a week of poorly received supply. Oil markets bucked the risk-off trend, rising ahead of this week's OPEC confab, but were rallying on fears of tightening market conditions and limited spare capacity. G7 participants have been sounding stakeholders out on a Russian oil price cap, although perhaps more significant in the near-term, Turkey was reportedly satisfied with Sweden and Finland's responses in NATO talks, and Finland said Turkey now supported Finnish and Swedish membership. In FX, the Dollar Index found upside, often rising without the support of yield differentials; analysts said the buck was likely seeing demand into month end; Citi's prelim month-end FX hedge rebalancing flows suggest USD buying with the signal stronger than the historical average.

GLOBAL

FED: **Fed's Williams (voter)** said that while the longer-run neutral rate has not changed and is still quite low, the nominal neutral rate was higher and was a reason why rates needed to be raised quite a bit this year, adding that the Fed needs to get into "somewhat restrictive" territory in 2023. On the July meeting, he said the Fed will debate a rate hike of 50bps or 75bps. He expects GDP growth of between 1.0-1.5% this year, beneath the FOMC's median projection of 1.7%, and said that a recession was not his base case. **Fed's Daly (2024 voter)** added little new, but noted the central bank can address inflation, at least partly. Daly also said she does not see a US recession. She argued that demand is around half of the cause of inflation, something the Fed can reduce. She sees a lot of momentum in the economy, adding that and a strong economy put the Fed in a better position to achieve a soft landing. She expects the unemployment to rise slightly, but not like in a recession.

ECB: **President Lagarde** offered little in the way of fresh insight into thinking at the ECB with the President reaffirming guidance from the June meeting that the Governing Council intends to raise rates by 25bps. Guidance on what to expect from the ECB's fragmentation tool was sparse beyond the stated intentions of any such tool. It appears that the ECB is instead currently using source reporting to gauge the market's response to potential options on this front with reporting overnight in Reuters suggesting that the ECB could drain cash from the banking system to offset any bond purchases aimed at capping borrowing costs for indebted nations. **ECB's Kazaks** said a 25bps in July and a 50bps hike in September was his base case, but it was worth looking at a 50bps move in July and front-loading hikes might be reasonable while fragmentation risks should not stand in the way of the normalisation process. Kazaks added the risk of recession was non-trivial. **ECB's Wunsch** is also comfortable with a 50bps hike in September, adding that 200bps of hikes were needed relatively quickly. He said anti-fragmentation tools should have no limits if market moves are unwarranted.

US CONSUMER CONFIDENCE: June's consumer confidence data missed expectations, and saw its second consecutive monthly decline, printing 98.7 against an expected 100.4, while the previous month's data was revised lower from 106.4 to 103.2. The report noted that while the Present Situation Index was relatively unchanged, the Expectations Index continued its recent downward trajectory, and fell to the lowest in nearly a decade. The deteriorating outlook was driven by increasing concerns about inflation, in particular rising gas and food prices, the Conference Board said, adding that "Expectations have now fallen well below a reading of 80, suggesting weaker growth in the second half of 2022 as well as growing risk of recession by year-end." Meanwhile, the data also showed that purchasing intentions for some interest-rate sensitive sectors--like cars, homes and major appliances--was steady, but these intentions have cooled since the start of the year, and the CB said it was a trend that was likely to continue as the Fed continues with aggressive interest rates rises. In terms of other discretionary spending, the report noted that vacation plans had softened further as rising prices took their toll. Looking ahead, CB said "over the next six months, consumer spending and economic growth are likely to continue facing strong headwinds from further inflation and rate hikes."

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 3+ LOWER TICKS AT 116-22+

Initial bear steepening reversed once again after disappointing Consumer Confidence hits risk tone while the 7yr auction added to the supply woes this week. 2s +1.1bps at 3.122%, 3s +0.3bps at 3.218%, 5s -0.5bps at 3.253%, 7s +0.1bps at 3.269%, 10s +0.0bps at 3.194%, 20s -0.4bps at 3.558%, 30s -0.8bps at 3.297%.

THE DAY: Treasuries continued to bear steepen through the US equity open with initial risk on trade supported by encouraging China COVID developments overnight. However, the bear steepening reversed throughout the session and Treasuries were more or less flat across the curve as the weak consumer confidence data sparked a bid as stocks sold off, led by the belly after 5yr yields breached support of 3.25%, before returning above the level in the afternoon. The Richmond Fed survey was also disappointing while we also saw downward revisions to industrial production data for May. The 7yr auction was weak, marking three-out-of-three tails for supply this week. Fed's Williams and Daly spoke; the former noted July will be a debate between 50 and 75bps and revealed his growth forecast for the year is beneath the FOMC median estimate, adding that the Fed needs to get to somewhat restrictive territory in 2023; the latter reiterated that she does not see a recession, the Fed can address inflation, and the US economy has a lot of momentum with a strong labour market.

7YR: The 7yr auction performance was similar to the 5yr and 2yr auctions on Monday. The 7yr auction tailed by 2.1bps vs last month's 2.4bps stop through (the six-auction-average tail size was 0.3bps). Meanwhile, the Bid-to-Cover ratio fell to 2.48x from 2.69x, though this was above the 2.41x six-month average. Once again, indirect demand was lacklustre, falling to 61.86% from the previous 77.9%, and beneath the average 64.9%. Direct participation rose to 20.41% from 15.8% but remained just below the average 21.7% and yet again was not enough to help dealers, who took home 17.73%, more than the average 13.4% and the prior 6.4%. For the full details, please click here.

STIRS:

- U2 +0.5bps at 96.735, Z2 -3.0bps at 96.200, H3 -1.5bps at 96.200, M3 +0.0bps at 96.315, U3 +0.5bps at 96.455, Z3 +1.0bps at 96.570, H4 +1.5bps at 96.665, M4 +1.5bps at 96.745, U4 +1.0bps at 96.790, Z4 +0.5bps at 96.810, Z5 +0.5bps at 96.825.
- NY Fed RRP op. demand at USD 2.214tln (prev. 2.156tln) across sees 97 bidders (prev. 96).

CRUDE

WTI (Q2) SETTLED USD 2.19 HIGHER AT 111.76/BBL; BRENT (U2) SETTLED USD 2.82 HIGHER AT USD 113.80

Crude markets rallied again on Tuesday, with traders continuing to cite tight market conditions.

RUSSIA PRICE CAP: The G7 has been sounding out stakeholders on its proposals to cap Russian oil prices. Reuters reported that talks with India and China on the matter had been productive and positive, adding that both nations had an incentive to comply with the mechanism since they could buy oil at an even steeper price discount. Citi's analysts said the devil will be in the details, both in terms of whether the proposal is adopted and the impact on the market. "At one end of the possible spectrum, the programme could simply not work and have no impact on oil supplies," while "at the other, the policy achieves its objective to limit Russian oil revenues without curtailing volumes, potentially adding to supply relative to the full EU seaborne embargo base case."

TIGHT SUPPLY: Tight market conditions were highlighted after Ecuador warned that its oil production had reached "critical" levels, and may be halted as if protests against rising fuel prices and living costs continued; production levels were reportedly over 50% lower than seen in the early part of the month at around 260k BPD. Later, Bloomberg reported that Libya's Ras Lanuf oil terminal was under force majeure. Both these news items followed reports on Monday that the UAE and Saudi Arabia have only limited capacity within the current deal framework to loosen policy.

OPEC+: Ahead of the group's confab later this week, OPEC+ production compliance in May was 256%, according to an OPEC delegate, rising from levels around 220% reported in April. At its June 2nd meeting, the group pre-announced that it will ease production curbs by 648k BPD in July and August, so endorsing this at the meeting is expected to be a straightforward affair. Some desks said that they will be listening out for any commentary regarding September production levels, ahead of US President Joe Biden's visit to Saudi Arabia in the middle of July, where he is expected to pressure officials into loosening supply curbs further.

WEEKLY INVENTORIES: The EIA said it will publish its Weekly Petroleum Status Report tomorrow at the regularly scheduled time. The release will include data for the week ending June 17th (which was would have been published June 22nd), as well as the data for the week ending June 24th. After the US close today, the API will report its gauge of energy inventories for the latter week; the street expects Crude -0.6mln barrels, distillate -0.2mln, and gasoline -0.1mln.

EQUITIES

CLOSES: SPX -2.01% at 3,822, NDX -3.09% at 11,638, DJIA -1.56% at 30,947, RUT -1.86% at 1,738.

SECTORS: Consumer Discretionary -4.03%, Technology -3.01%, Communication Svs. -2.92%, Health Care -1.74%, Real Estate -1.39%, Consumer Staples -1.33%, Industrials -1.15%, Materials -1.07%, Financials -0.93%, Utilities -0.36%, Energy +2.7%.

STOCK SPECIFICS: **Nike (NKE)** earnings primarily beat for the quarter but GM's missed and Greater China revenue disappointed expectations while its revenue forecasts were also beneath consensus. **JetBlue (JBLU)** sweetened its bid for **Spirit Airlines (SAVE)**, but SAVE reaffirmed commitment to **Frontier (ULCC)**. FTX says but there are no active M&A conversations with **Robinhood (HOOD)**. **Casino names (MLCO, WYNN, MGM, CZR)** were supported against the broader market sell off after China announced it is to cut quarantine time for international travellers, according to state media cited by Reuters. **Boeing's (BA)** top buyer in India is said to plan to take new MAX jets, according to Bloomberg. **Intel (INTC)** is reportedly cutting Alder Lake CPU prices as order pull-ins from PC brands for H2 22 are weaker than expected due to a deceleration in PC demand, according to DigiTimes citing sources. **TSMC (TSM)** is reportedly planning to raise prices for most manufacturing processes by roughly 6% from January 2023, according to DigiTimes citing sources. TF Intl. Securities announced their "latest survey indicates that Apple's own iPhone 5G modem chip development may have failed, so **Qualcomm** will remain exclusive supplier for 5G chips of 2H23 new iPhones, with a 100% supply share (vs. company's previous estimate of 20%)". Global Infrastructure Partners is reportedly evaluating a bid for **WideOpenWest (WOW)**, according to Street Insider.

BANKS: After Thursday's stress tests banks have updated their dividend and buyback plans. **Bank of America (BAC)** plans to increase its quarterly dividend by 5% to USD 0.22/shr. **Truist (TFC)** is to increase its dividend 8% to USD 0.52 /shr. **State Street (STT)** is to raise its dividend 10% to USD 0.63/shr in Q3. **Morgan Stanley (MS)** raised dividend 11% to USD 0.775/shr; also authorised USD 20bln multi-year common equity share repurchase programme. Will be subject to a stress capital buffer of 5.8% from October 1st. **Capital One Financial (COF)** reports a stress capital buffer requirement of 3.1% effective October 1st vs prev. 2.5%. **Wells Fargo (WFC)** expects stress capital buffer to be 3.2% and expects to increase its dividend in Q2 to USD 0.30/shr from USD 0.25/shr, adds has significant capacity to execute common stock repurchases over 4 quarters from Q3 2022. **Goldman Sachs (GS)** plans to raise its dividend to USD 2.50 /shr from USD 2.00/shr. **BNY Mellon (BK)** raised quarterly dividend 9% to USD 0.37/shr. **Citizens Financial (CFG)** raised share repurchase authorisation to USD 1bln. **Fifth Third Bancorp (FITB)** is to recommend a dividend increase to the BoD in September. **JPMorgan (JPM)** is to maintain a current USD 1/shr dividend for Q3 in light of higher future capital requirements. **Citigroup (C)** plans to maintain its current dividend of USD 0.51/shr in Q3 and says its stress capital buffer will be raised to 4% from 3%

FX WRAP

The Dollar advanced on Tuesday on the risk off tone in equities, and month end flows. Citi's preliminary estimate of hedge rebalancing flows signals stronger than average USD buying. Meanwhile, at the Fed, Williams expects GDP to grow 1-1.5% in 2022, beneath the Fed's median view of 1.7% while noting they will debate 50 or 75bps in July. Daly stuck to the script noting the Fed can address inflation and reduce demand but does not expect a recession. On US data, consumer confidence disappointed, industrial output data was revised lower, and the Richmond Fed survey was also lacklustre. **The Euro** was weaker, falling beneath 1.06 to support of 1.0500. Citi's model also noted that the signal to sell EUR/USD is weaker due to poor performance of EZ bonds, which may create some offsetting EUR buying flows. There were plenty of ECB speakers today, but President Lagarde gave little fresh insight, reaffirming guidance from the June meeting, while providing few details on the upcoming anti-fragmentation tool. ECB's Kazaks sees a base case of 25bps rate rise in July followed by 50bps hike in September, while Wunsch was also comfortable with a 50bps move in

September, adding 200bps of hikes are needed relatively quickly. **The offshore and onshore Yuan** were weaker against the buck despite encouraging China COVID news of restrictions being eased somewhat but the PBoC did make another liquidity injection heading into month-, quarter- and half-year end.

The Yen's weakness continued, and USD/JPY remains north of 1.36, but slightly off highs as yields pulled back, while overnight the BoJ Core CPI data rose to 1.5% from 1.4%. **CHF** was flat against the buck and firmed against the Euro, to see EURCHF return beneath 1.01. **Gold** prices remained range bound as it battles headwinds from tighter policy but tailwinds from recession risks. TD Securities noted "it's a snooze fest in gold markets" as it faces these two bullion drivers.

Cyclical Currencies were flat to weaker as the selling in equities and bid into the buck weighed on Cable and Kiwi. CAD was the relative outperformer as it was offset by the rise in gold prices while AUD/USD was still softer, albeit not as much as NZD and GBP. NZD was hit through gains in AUD/NZD cross as AUD benefitted from the China COVID news which saw a further gradual easing of restrictions. Meanwhile Cable tumbled beneath 1.22 from highs of 1.2291 to eye a key fib support at 1.2170. There has been continued political turmoil in the UK after reports Monday of three conservatives defecting to the Labour Party, ongoing Northern Ireland/Brexit woes and talks of another Scottish Referendum.

Scandis were mixed with SEK weaker than the euro on the downbeat risk tone but the gains in Brent prices managed to support NOK albeit not against the greenback. NOK/SEK rose above 1.03 from 1.0271 at the lows as attention turns to the Riksbank rate decision on Thursday after Norges hiked by 50bps last week.

EMFX was weaker in general on the aforementioned risk tone and Dollar appreciation. ZAR saw pronounced weakness on Eskom announcing stage six load shedding while MXN, BRL and TRY were all weaker. Although for the Lira, it is worth noting Turkey, Finland and Sweden signed a memorandum for Finland's and Sweden's NATO bid and Turkey was satisfied with the agreement. In Mexico, the jobless rate ticked up to 3.3% in May from 3.0% in April and above the 3.1% expected, while Brazilian payroll jobs came in above expectations. Meanwhile, in Europe the Hungarian Forint surged against the Euro and was even bid against the buck after the Hungarian National Bank surprised with larger than expected hikes, it hiked its O/N Deposit rate 135bps to 7.25% and hiked its Base rate by 185bps to 7.75%, while noting it will continue its rate hike cycle.