



US Market Wrap

29th June 2022: Stocks choppy into month-end while Bonds rally

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude down, Dollar up
- **REAR VIEW:** Final US GDP revised lower; Powell sticks to script, Mester leans towards 75bps in July; US welcomes major shift from OPEC+; Xi calls on China to stick to its COVID policy; No progress at JCPOA talks in Doha.
- **COMING UP: Data:** Chinese Official PMI, UK GDP, German Retail Sales, EZ Unemployment, US PCE, US Chicago PMI **Events:** Riksbank, JMMC/OPEC+ Meetings **Speakers:** ECB's Lagarde **Supply:** Italy

MARKET WRAP

US stock indices were choppy, but ultimately traded in a sideways range, meandering between gains and losses. Treasuries were gradually bid as US players began getting to their desks; yields settled 7-11bps lower, though major curve spreads were mixed. FedSpeak didn't really add much to the narrative today, with Chair Powell's appearance at Sintra largely reiterating known themes, though some framed it as a hawkish reiteration. The Dollar was bid, rising on a cautious risk set up, while month end factors are reportedly positive for the buck. Crude futures tumbled giving up earlier gains after a turn in the risk mood; OPEC meeting today was uneventful, as expected, and traders will be eying the OPEC+ meeting on Thursday for clues about what the group will do in September. The JCPOA talks in Doha didn't yield any breakthrough. In data releases, the third reading for US GDP in Q1 was a sedate affair, although some analysts noted that there were large negative revisions to the consumer components, and positive revisions to inventories, both of which might augur some weakness in the Q2 data. The Atlanta Fed's GDP now tracker for Q2 will be updated on Thursday after PCE data, and is currently tracking Q2 growth of +0.3%.

US

FED: Fed's Mester (2022) said the FOMC was on a path towards restrictive interest rates, and said the debate in July will be between a 50bps or 75bps rate hike. Mester thinks she will be advocating for the latter, and wants to see the FFR above 4% in next year (NOTE: the range in the June SEP was between 2.9-4.4% for 2023). She added if inflation expectations became unanchored, monetary policy would have to act more forcefully. Mester added that high inflation was clouding consumer's confidence, and warned US inflation could rise further, but she does not expect a recession in the US. Chair Powell stuck to the script at a panel appearance with ECB President Lagarde and BoE chief Bailey. Powell acknowledged risks that the Fed could go too far in normalisation, but said it was not the largest risk, and repeated his view that a bigger risk would be a failure to restore price stability. Powell also reiterated that the US economy was in solid shape with households and businesses in a strong position, and the economy was able to withstand monetary policy tightening. Powell said the shape of the yield curve was not a top-line concern, noting that the process of bringing inflation down will involve some pain.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 26 TICKS HIGHER AT 117-16+

Treasury's were bid across the curve on Wednesday, with supply in the rear view and as month end flows dominate, with attention turning towards PCE data on Thursday. 2s -6.9bps at 3.055%, 3s -9.2bps at 3.128%, 5s -10.9bps at 3.155%, 7s -10.9bps at 3.175%, 10s -11.0bps at 3.097%, 20s -10.5bps at 3.467%, 30s -9.5bps at 3.217%. **Breakevens:** 5yr BEI -9.6bps at 2.646%, 10yr BEI -9.0bps at 2.342%, 30yr BEI -10.5bps at 2.275%.

The Day: Treasuries were bid across the curve with supply in the rear-view, while month end flows dominate. The bid into Treasuries started overnight but accelerated on softer German CPI data, with the T-Note moving in sympathy with the Bund – although this had reversed after a hotter than expected Spanish HICP print. FedSpeak saw Chair Powell stick to the script, but noted that the largest risk was not that the Fed goes too far on tightening but failing to restore price stability. 2022 voter Mester reiterated Fed's Williams in that the July debate will be between 50bps and 75bps, and she is leaning towards the latter. US Q1 GDP data was revised 0.1ppts lower to -1.6%, although there was little reaction.. Meanwhile, Breakevens moved lower to see the 5yr TIPS breakeven rate hit a fresh 2022 low.



STIRS:

- EDU2 +0.0bps at 96.730, Z2 -3.0bps at 96.165, H3 -1.5bps at 96.180, M3 +3.5bps at 96.340, U3 +9.0bps at 96.535, Z3 +13.5bps at 96.695, H4 +15.5bps at 96.810, M4 +16.5bps at 96.900, U4 +16.5bps at 96.945, Z4 +16.5bps at 96.965, Z5 +11.0bps at 96.920.
- US sold USD 30bln 119-day CMB's at 2.185%; Bid-to-Cover 3.72x
- NY Fed RRP op. demand at USD 2.227tln (prev. 2.214tln) across 98 bidders (prev. 97)

CRUDE

WTI (Q2) SETTLED USD 1.98 LOWER AT USD 109.78/BBL; BRENT (U2) SETTLED USD 1.35 LOWER AT 112.45

Crude futures gave up gains after a turn in the risk mood, as well as remarks from the US Special Envoy, who welcomed a "major change in attitude from OPEC+". Other news updates tilted to the bullish side for crude, although the prevailing risk mood seemed to influence the most.

OPEC: The OPEC meeting did not yield any policy changes, as expected. Reports had suggested that many administrative issues were discussed, but there was no discussions on the future policy of the group for September; traders will be watching the OPEC+ confab on Thursday for any signs. The OPEC+ meeting is expected to rubber stamp +648k easing of supply curbs for August. US Special Envoy welcomed a major change in attitude from OPEC+, and hopes the group and its partners will move to step two of the supply boost. The Envoy added that the US remained in talks with OPEC nations, and can reassess more SPR releases after October.

INVENTORIES: Weekly Crude inventory data for the week ending June 24th (the latest week) printed a larger than expected draw (-2.762mln vs exp. -0.569M), with stocks at the Cushing hub drawing -0.782mln; product inventories were higher than expected (distillates +2.559mln vs exp. 0.328mln, and gasoline +2.645mln vs exp. -0.452mln). The data series also showed US production rising to the highest since April 2020.

SUPPLY: Libya's NOC suspended oil exports from the Es Sider port, and its Ras Lanuf oil terminal is reportedly under a force majeure, according to Bloomberg. Reuters reported that exports of Ecuador's Oriente Crude were suspended after a force majeure was declared due to anti-government protests; PetroEcuador has not yet rescheduled suspended oil cargoes as protests continue to impact production. Supply of five North Sea grades underpinning Brent to average 735k BPD in August (vs 774k BPD in July), according to loading programmes. Elsewhere, the CGT Union said that there was a strike underway at an Esso refinery in southern France.

GEOPOLITICS: Iran's Tasnim News Agency reported that the indirect talks between Iran and US ended without result; however journalistic sources cast doubt on the report when it was released. That said, The AP cited an Iranian official later, who said nuclear talks in Qatar were to end without any deal.

EQUITIES

CLOSES: SPX -0.07% at 3,819, NDX +0.18% at 11,658, DJIA +0.27% at 31,029, RUT -1.12% at 1719

SECTORS: Energy -3.43%, Real Estate -0.76%, Materials -0.73%, Financials -0.64%, Industrials -0.62%, Consumer Discretionary +0.01%, Utilities +0.05%, Technology +0.2%, Communication Svcs +0.27%, Consumer Staples +0.49%, Health Care +0.87%.

EUROPEAN CLOSES: Euro Stoxx 50 -1.06% at 3,512; FTSE 100 -0.11% at 7,316; DAX -1.66% at 13,012; CAC 40 -0.98% at 6,026; IBEX 35 -1.50% at 8,192; FTSE MIB -1.16% at 23,884; SMI +0.01% at 10,810.

STOCK SPECIFICS: **Apple (AAPL)** iPhone demand is holding up better than expected, according to Wedbush's Dan Ives. Ives notes his Asia Apple iPhone supply chain checks have been steady with a slight improvement despite the demand impact from China's zero COVID policy. **Disney (DIS)** extended CEO Chapek's contract for three years in a unanimous decision. **Tesla (TSLA)** is shutting an office in Silicon Valley, laying off roughly 200 workers, according to WSJ sources. **Carnival's (CCL)** PT was cut at Morgan Stanley to USD 7/shr (prev. USD 13/shr). Morgan Stanley said the price could potentially go to zero in face of another demand shock due to its high debt levels. **FedEx (FDX)** announced 2025 targets; adj eps expected to grow 14-19% CAGR and sees 4-6% CAGR through FY25. A **Twitter (TWTR)** shareholder sued to block Elon Musk's takeover, according to Bloomberg. **Pinterest's (PINS)** Silbermann is to step down and **Google (GOOGL)** Commerce Executive Bill Ready will become the next Pinterest CEO. **Snap (SNAP)**



confirmed a paid feature for USD 3.99/mth. **Starbucks (SBUX)** reopened dining rooms in 800 stores in Shanghai. **Tesco (TSCO LN)** and **Kraft Heinz (KHC)** are in a pricing dispute; Tesco says it will not pass on unjustifiable price increases to customers.

EARNINGS: General Mills (GIS) beat on EPS and revenue and guidance was also above expectations although it did note its pet unit was challenged by increased supply chain disruptions. **McCormick (MKC)** missed on EPS and revenue and guidance was also short of expectations and noted a challenging environment consisting of persistently high cost inflation and supply chain disruptions with significant disruption from China and Ukraine. **Bed Bath & Beyond (BBBY)** tumbled after abysmal earnings and the departure of its CEO as sales tumble. **Paychex (PAYX)** saw slight beats on EPS and revenue.

SEMIS: Bank of America lowered the price target (PT) of **Intel (INTC)**, **AMD (AMD)**, **Applied Materials (AMAT)**, **Broadcom (AVGO)**, **Analog Devices (ADI)**, **Micron (MU)**, **Lam Research (LRCX)**, **KLA Corp (KLAC)**, **NXP Semiconductors (NXPI)**, **Marvell (MRVL)**, **Microchip (MCHP)** and more. Analyst Vivek Arya noted a semiconductor downturn happens every three to four years and expects we could be due for another, noting tighter monetary policy, geopolitical turmoil and consumer weakness are likely to pressure chip demand in H2 22 and 2023. Arya caveats that unit weakness could be cushioned by a richer non-consumer mix, robust pricing, expanding content and constrained supply. Arya also downgraded **Qorvo (QRVO)**, and **Skyworks (SWKS)** based on slower growth in 5G smartphones and more competition from **Qualcomm (QCOM)**. The analyst also downgraded **Texas Instruments (TXN)** although still considers the co. one of the highest quality vendors, he believes the commitment to free cash flow and returns is being overtaken by **Analog Devices (ADI)**.

FX WRAP

The Dollar bid continued on Thursday on month end flows which helped the Dollar index rise above 105.00 and looked through lower treasury yields. Fed speak saw Powell reiterate familiar themes, arguing that the largest risk was not overdoing it on policy, but failing to bring inflation back down to target. Meanwhile, Fed's Mester (2022) said the debate will be between 50bps and 75bps at July, but thinks that she will advocate for a 75bps move. Data saw Final US Q1 GDP revised marginally lower to -1.6% from -1.5%, but attention lies on the PCE and personal income and spending report on Thursday.

EUR/USD fell back beneath 1.0500 on the bucks strength. Inflation reports were mixed: German inflation was cooler than expected; Rabobank said a notable portion of the downward surprises was due to lower transport costs following a cut in fuel duties and introduction of a monthly transport ticket. Meanwhile, Spanish HICP data was much hotter than expected. On the ECB, sources suggested the central bank is weighing whether or not they should announce the size and duration of their upcoming bond-buying scheme; later, other sources said PEPP reinvestments did not have targets for now, but the rules may evolve in due course, adding that they will not allow any front-loading of PEPP purchases. There was plenty of ECB speak again; Chief Economist Lane spoke of two way inflation risks, Simkus wants a 50bps rate hike in July if data worsens and said 50bps was very likely in September too. Holzmann said the ECB will be data dependent. Herodotou expects EZ inflation to peak this year, while Reinesch sees gradual rate hikes after September. Wunsch said 150bps of hikes by March 2023 was reasonable.

The Yen saw further weakness amid the Dollar strength, and USD/JPY tested 137.00 to the upside but failed to breach the psychological level, and the cross was off highs as Treasury yields declined, but that was not enough to offset the overall dollar strength heading into month end. **CHF** gained against the buck and the Euro, which saw EURCHF finally falling beneath parity after the hawkish shift from the SNB last week. **Gold** prices were flat once again in a very boring week for the precious metal.

Cyclical currencies were weaker due to the strength of the greenback in a choppy risk environment. AUD was also hampered by lower copper prices while GBP saw dovish commentary from MPC-elect Dhingra, who noted that there was room for a very gradual approach, and newer data suggested a slowdown may be much more imminent than previously thought, but she said that the BoE still had levers to act. Governor Bailey spoke on a panel with Lagarde and Powell, and argued that the UK was being hit by a very large real income shock, and warned that if he saw a greater persistence of inflation, the MPC would have to act more forcefully. Bailey added that rate increases were not the only thing on the table, and said he will leave options on the table when asked about 50bps moves. CAD was still weaker against the buck, but less so than its activity peers despite oil prices settling lower on the session.

Scandis were mixed once again with NOK outperforming SEK ahead of tomorrow's Riksbank meeting, where it is expected to hike by 50bps after hotter than expected inflation; eyes will be on the repo path and language for upcoming meetings. A full preview is [available here](#).



EMFX was mixed. RUB and BRL outperformed against the Dollar while TRY and MXN were also stronger. There was also commentary from Russian officials, CBR Governor Nabiulina said she does not see risks of inflation and noted there is room to cut rates and they are sticking to their policy of a floating RUB exchange rate. Meanwhile, Russia's economy minister said they do see signs of a deflation spiral, warning if RUB remains as it is for now, then firms will have to cut output. ZAR was softer on the ongoing utility concerns in South Africa and commentary from the SARB Governor that a 50bps hike was "not off the table" though was not enough to support the Rand against the electricity woes. CLP was also softer on the weaker copper prices. In Brazil, the Treasury Secretary proposed an amendment to the constitution that provides legal security to pay benefits that will ease high fuel prices, and noted they will have a 2022 primary deficit in line with planning.

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