US Market Wrap

1st July 2022: Growth concerns linger into long-weekend after soft ISM, but stocks rally anyway

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar up
- **REAR VIEW**: ISM's add to growth concerns, Atlanta Fed GDPNow tracker revised lower; Disappointing MU guidance, TSMC sees major clients cut down chip orders for rest of the year.
- **WEEK AHEAD**: Highlights include US jobs report, FOMC minutes, ECB minutes, RBA. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing RBA, FOMC minutes, ECB minutes, reviewing Riksbank. To download the report, please click here.
- **Newsquawk US Independence Day schedule**: To see market times and the desk schedule for 4th July, please click here.

MARKET WRAP

After the worst H1 start in years, US equities started H2 on the defensive, with risk assets coming under pressure amid growth fears – unsurprisingly resulting in the Value style outperforming the Growth style. However, in afternoon trading, as liquidity conditions thinned and US players exited for the long-weekend, stocks began to bounce back, and have finished in the black. Treasuries were rallying all day amid the growth caution; but desks said the complex was also catching wind from real money accounts and passive index-linked accounts, who were said to be buying on the first day of the month. The complex got a further lift after ISM manufacturing data missed expectations, while the forward-looking new orders component fell; that said, some were encouraged by a cooling in the prices paid component. The long-end of the curve, which went positive after the ISM data, gradually resumed selling-off as the afternoon went on, and yields edged off lows, but by settlement, the complex was still firmly higher. Meanwhile, construction spending data for May missed expectations (-0.1% M/M vs expected +0.4%, but the prior was revised up to +0.8% M/M from an initially reported +0.2%); this resulted in the Atlanta Fed GDPnow tracking estimate for Q2 to be revised lower once again, now tracking -2.1% growth in Q2 – as analysts noted on Thursday, the tracking estimates are signalling a technical recession in Q2, after growth fell 1.6% in Q1. While many have downplayed the signal, noting the many issues with using ‘two quarters of negative real GDP growth’ as a benchmark for a recession, and the labour market remains in good shape, it continues to allude to fragile growth conditions as the Fed aggressively lifts rates to tame inflation. Meanwhile, in FX, the Dollar and haven FX were bid, while high-beta/activity currencies came under pressure; the dynamic saw the JPY continuing to rise from 24yr lows seen mid-week, while the AUD slumped to a 2yr low. Meanwhile, the buck itself is now staring up at fresh YTD highs, but did give back some gains amid the later, constructive tone of risk trading. Crude futures rallied, however, taking their cues from supply disruptions in Libya, Norway and France, rather than concerns over the demand-side. Liquidity conditions began thinning in the afternoon ahead of the long Independence Day weekend for US players.

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US ISM MANUFACTURING: Headline ISM Manufacturing fell to a two-year low of 53.0 in June from 56.1 in May; analysts had expected a decline to 54.9 after regional Fed surveys augured poorly. That said, the report had a mixed tone: the forward-looking new orders metric fell below the 50-mark, to 49.2 from 55.1 (lowest since May 2020); Pantheon Macroeconomics said that orders tends to lead the other 80% of the index, so its economists are expecting a further decline in the July data too. The employment sub-index fell further below 50.0, to 47.3 from 49.6 (next week’s official jobs data is expected to show a further cooling in the rate of nonfarm payroll growth). However, the prices paid sub-index eased by more than expected, to 78.5 from 82.2, but remains elevated due to oil prices. Elsewhere, the production index rose a touch. Indices for delivery times and order backlogs also fell, with the former now reversing a great deal of the post-COVID surge. “These data add more weight to the evidence suggesting that supply constraints are easing rapidly,” Pantheon said, “consistent with our view that the big driver of lower inflation over the next year will be margin re-compression as inventories overshoot.”

FED: **Fed's Daly (2024 voter)** told Axios rates need to get to neutral by year-end, which she sees around 3.1% while reiterating she backs a 75bps rate hike in July. When asked about what would be needed to unwind that, Daly said "if there were some extraordinary unexpected developments in the economy that pull inflation down rapidly, or supply chain would repair or some another global shock that we had to deal with, but none of those things are happening at the moment".

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 23+ TICKS HIGHER AT 119-08+

Treasuries were bid once again, with the front end and belly leading as growth concerns linger. 2s -8.8bps at 2.839%, 3s -11.6bps at 2.864%, 5s -12.0bps at 2.884%, 7s -10.0bps at 2.930%, 10s -8.5bps at 2.889%, 20s -1.2bps at 3.367%, 30s -0.6bps at 3.116%. **Breakevens**: 5yr BEI +4.0bps at 2.636%, 10yr BEI +2.6bps at 2.316%, 30yr BEI +2.8bps at 2.227%.

THE DAY: Treasuries were bid, with a steeper bias, as growth concerns lingered in wake of the US PMI data. The complex hit highs ahead of the S&P Global PMI, which was revised higher for June, but it did warn the forward looking indicators (business expectations, new orders, backlogs of work and purchasing of inputs) deteriorated to suggest an increased risk of an industrial downturn. Meanwhile, the survey also noted the PMI was at a level indicative of the manufacturing sector acting as a drag on GDP, which looks set to intensify throughout the Summer. This was later followed with a larger than expected fall in the ISM Manufacturing PMI, which also saw a decline in New Orders, as well as employment. The silver lining was that both reports alluded to an easing of inflationary pressures. Nonetheless, Treasuries had moved off highs throughout the rest of the afternoon with little shift in Fed Funds pricing which still looks for a 73% chance of a 75bp hike in July. That said, we have this week seen a revision of end-year pricing; money markets now imply just a 20% chance that rates will be lifted to 3.25-3.50% by the end of this year – earlier in the week, it was fully priced. After today’s data, the Atlanta Fed’s model revised GDP tracking lower, now suggesting a contraction of 2.1% in Q2.

STIRS:

- U2 +0.0bps at 96.795, Z2 +3.5bps at 96.345, H3 +12.0bps at 96.500, M3 +16.0bps at 96.725, U3 +19.5bps at 96.950, Z3 +22.5bps at 97.13, H4 +23.5bps at 97.255, M4 +23.5bps at 97.345, U4 +23.0bps at 97.385, Z4 +21.5bps at 97.380, Z5 +13.5bps at 97.225.
- NY Fed RRP op. demand at USD 2.167tln (prev. 2.330tln) across 99 bidders (prev. 108).

CRUDE

WTI (Q2) SETTLE USD 2.67 HIGHER AT 108.43/BBL; BRENT (U2) SETTLES 2.60 HIGHER AT 111.63

Oil traded higher on Friday as supply disruptions in Libya, Norway and France offset growth concerns which have been weighing on the demand-side of the crude equation.

SUPPLY DISRUPTIONS: Libya late Thursday declared force majeure at Es Sider, Ras Lanuf and El Feel, as protests and blockades continues to impact both crude production and exports. Argus noted that operations were also disrupted at the Sarir field and the Zueitina and Marsa el-Brega terminals. Libya's NOC on Thursday said the disruptions had resulted in Libyan crude production between 365-409k BPD, down 865k BPD vs normal conditions. In Norway, the Lederne oil workers unions said offshore workers at Gudrun, Oseberg South, Oseberg East platforms are to strike on July 5th after recently voting to reject a wage deal; Reuters said this will likely shutter around 4% of Norway's oil production, Reuters reported. Meanwhile in France, ExxonMobil (XOM) has begun preparing to progressively close its Fos-sur-mer (136k BPD) after strikes which began on Tuesday. Exxon said the situation may impact our customers, contractors, suppliers, and employees in a challenging energy market environment, adding that loading operations are totally blocked at Fos refinery. "Based on current inventories, we have declared force majeure for some products," XOM said.

OPEC SURVEY: The monthly Reuters crude poll revealed that economists see WTI prices averaging USD 102.82/bbl this year, and USD 92.19/bbl next year - both revised up from USD 97.82 and USD 87.18 in the previous month's poll. Brent prices, meanwhile, are seen averaging USD 106.82/bbl this year and USD 95.75/bbl next year - again, revised up from USD 101.89 and USD 91.59 respectively. Economists said that supply fears would sustain the rally in crude prices, offsetting recession risks. Meanwhile, analysts see OPEC's June oil output declining by 100k BPD to 28.52mln BPD, while compliance with the OPEC+ supply curb agreement is seen rising to 253% from 178% in May, the poll said. Note, the Bloomberg survey expects OPEC crude output to fall 120k BPD in June to 28.6mln BPD and noted that the Saudis missed OPEC+ quota by 213k BPD in June, survey expects.

RIG COUNT: Baker Hughes Rig Count (Jul 1st): Crude Rigs +1 to 595, NatGas Rigs -4 to 153, Total Rigs -3 to 750.

EQUITIES

CLOSES: SPX +1.06% at 3,825, NDX +0.71% at 11,586, DJIA +1.05% at 31,097, RUT +1.16% at 1,728.

SECTORS: Utilities +2.48%, Consumer Discretionary +1.97%, Real Estate +1.86%, Energy +1.44%, Financials +1.43%, Consumer Staples +1.43%, Health Care +1.22%, Industrials +0.91%, Communication Svs +0.68%, Materials +0.66%, Technology +0.25%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.20% at 3,448; FTSE 100 -0.12% at 7,161; DAX +0.24% at 12,815; CAC 40 +0.04% at 5,925; IBEX 35 +0.87% at 8,169; FTSE MIB +0.28% at 23,373; SMI +0.26% at 10,769

STOCK SPECIFICS: **Micron (MU)** beat on EPS and revenue was in line but its guidance was woeful. MU noted supply chain challenges and COVID-19 measures in China impacted business on both demand and supply sides during the quarter. It also expects the PC market to decline 10% this year. **TSMC (TSM)** has reportedly seen major clients cut chip orders for the rest of the year, according to DigiTimes citing sources. **Apple Inc. (AAPL)** raised the prices of Japanese iPhones by nearly a fifth, according to Reuters. **Meta (META)** CEO Zuckerberg said the engineering hiring target for this year is cut to 6,000-7,000 from 10,000, while also warning of a deep economic downturn. **Boeing (BA)** were initially hit after China Southern placed an order of 96 Airbus (AIR FP) A320NEOS for USD 12.2bln, BA later rebounded with the market while responding to the order that it is hopeful deliveries to China will resume. **Salesforce (CRM)** CEO sold 302k shares for USD 51.5mln. **Visa Inc. (V)** CEO sold 9k shares for USD 1.76mln. **General Motors (GM)** reaffirmed guidance but noted vehicle wholesale volumes were impacting by the timing of certain semiconductor shipments and other supply chain disruptions - it has nearly 100k vehicles parked at its facilities without some parts. It sold 582,401 vehicles in the US during Q2, -15% Y/Y, while EV sales were over 7,300 units. **Kohl's (KSS)** cut guidance and announced the deal with Franchise Group has been called off. Activist Investor SOC asked the SEC to investigate **Tesla (TSLA)** over its plan to shrink the board, according to CNBC. Crypto lender Voyager Digital announced it is suspending withdrawals, trading and deposits. Note, it recently revealed it had a USD 660mln exposure to Three Arrows Capital (3AC).

WEEKLY FX WRAP

USD: A busy schedule of data and events to see out the month, quarter and first half of 2022, with a lot of geopolitical news to digest as well, though the overriding focus and driver was heightened recession risk prompting further aversion and a pronounced paring back of rate hike expectations, irrespective of more hawkish guidance and policy action aimed at reining in runaway inflation. In fact, several global Central Banks have accelerated the pace of tightening, like the NBH, while others signalled extended cycles and a prolonged period of restrictive conditions to try and prick the price bubble, but this only exacerbated growth concerns. The US is far from immune as the Fed pursues its fight against inflation and macro releases show signs of a slowdown in economic activity, albeit from a stronger level than many peers that also have to contend with the adverse effects, such as supply bottlenecks caused by Russia's invasion of Ukraine. Hence, the Dollar rose from lowly beginnings to reach highs for the week in DXY terms of 105.640 vs 103.660 on Monday, with added impetus via various grades of rebalancing demand for the June-July, Q2-Q3 and H1-H2 turn.

AUD/GBP: In stark contrast to the Buck revival, growth fears gripped the Aussie and Pound, as Aud/Usd reeled from 0.6964 at best to post a new y-t-d trough circa 0.6765, regardless of a widely anticipated follow-up 50bp hike from the RBA next Tuesday, or better than expected Chinese PMIs that should have provided some support. Meanwhile, Cable slumped through 1.2000 having topped 1.2300 at one stage and Sterling was hardly helped by a downward revision to the UK manufacturing PMI or testimony from BoE MPC nominee Dhingra that highlighted dovish leanings and a shift in the balance given that she is due to replace a former hawk.

NZD/EUR/CHF/CAD: The Kiwi was undermined by downbeat NZ surveys independently and Nzd/Usd reversed between 0.6326-0.6148 parameters, but held up a bit better than its Antipodean peer thanks to Aud/Nzd tailwinds as the cross retreated from around 1.1088 to 1.0961. Elsewhere, the Euro probed 1.0600 against its US counterpart during the early part of the week before succumbing to a combination of negative factors and the fact that the Eurozone could well be a prime casualty of the cold war, especially if additional sanctions are imposed against Russia and it retaliates by reducing or cutting the flow of oil and gas altogether. Moreover, the technical landscape turned increasingly bearish as Eur/Usd breached a series of support levels on the way down to 1.0365 or so and EGB yields collapsed amidst more source reports about the anti-fragmentation tool and a ream of ECB rhetoric from the Sintra Forum. On that note, PEPP reinvestments are said to be divided into donors, recipients and neutrals for proceeds, with Italy, Spain, Portugal and Greece the benefactors at the expense of Germany, France and the Netherlands, while the ECB will review the list on a monthly basis, as well as the speed of bond spread moves. Back to Portugal, President Lagarde took centre stage predictably, but hawkish GC members cast doubt about the base case for rates by highlighting reasons why 50bp on July 21 might be warranted instead of 25bp. Nevertheless, the Franc netted more gains vs the Euro within a 1.0157-

0.9945 range following the SNB's half point hike, though lost out to the Greenback eventually as Usd/Chf rebounded towards 0.9650 from just shy of 0.9500 ahead of Swiss CPI on Independence Day. Similar story for the Loonie, that was defending 1.2900 vs its US rival pretty well in the face of extreme volatility in crude prices (WTI hitting a Usd 114.05 midweek peak vs Usd 104.56 trough on Friday) and little on the Canadian docket bar monthly GDP that matched consensus anyway, but caved in when Usd/Cad spiked to 1.2966 compared to 1.2820 at the other extreme.

JPY: Big swings in the Yen again, partly on risk overall risk sentiment, but mainly due to BoJ divergence that looks destined to widen as Governor Kuroda sticks rigidly to an ultra easy stance. However, Usd/Jpy was also influenced by positioning for the end of June, Q2 and HI along with chart impulses plus an element of corrective trade as it retraced from 137.00 towards Monday's 134.52 low for the week.

SCANDI/EM: The Nok was rattled by the risk-off tone and Brent's whipsaw moves (from Usd 107.15 to Usd 116.24 at the other end of the scale), but the Sek should really have received some protection from the Riksbank's hawkish 50bp hike as it signalled a steeper repo rate trajectory (close to 2% by the start of 2023) and slowed H2 asset purchases significantly (to Sek 18.5 bln from Sek 37 bln previously intended). Same goes for the Cnh and Cnh in wake of the aforementioned upside Chinese PMI surprises (NBS services in particular, but also Caixin manufacturing), but arguably the hardest done by could have been the Huf given the NBH blitzing even the loudest calls by ramping rates 135-185bp and backed them up with a 50bp increase in the 1 week depo. Meanwhile, the Zar was beset by more SA power problems as Eskom suffered fallout from strikes over pay and was also blighted by Gold's depreciation as the yellow metal fell from Usd 1840.79/oz to Usd 1783.50 at worst.