



## US Market Wrap

### 5th July 2022: Recession fear loop continues as Dollar and bonds surge while oil plummets

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude down, Dollar up.
- **REAR VIEW:** UK Chancellor & Health Secretary resign, but PM Johnson intends to stay on; Norway oil strike union leader says strike is over and workers will return ASAP; Saudi Aramco hikes OSPs for customers in Aug; INTC, amongst others, warned they will have to delay or scale back investment in the US as the CHIPS Act stalls.
- **COMING UP: Data:** EZ Retail Sales, US ISM Services PMI **Speakers:** Fed's Williams, BoE's Pill **Supply:** Germany.
- **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](#).

## MARKET WRAP

Stocks were choppy and mixed Tuesday in little fresh newsflow with the NDX prospering in face of sustained global growth woes that pressured cyclical sectors instead, particularly commodities. Oil prices saw their largest decline since March 9th, near a record decline, as the recession fears catalysed capitulation - WTI lost the USD 100/bbl handle - overshadowing strike action in Norway and Saudi hiking OSPs. Treasuries bull-flattened in keeping with the cross-asset backdrop, led by a fall in inflation breakevens; T-Notes rose above their Friday peaks. Haven demand was also a factor in rates, but also in FX to see the Dollar surge against nearly all G10 peers, with the Yen cross flat but even the Swissy couldn't shake the European aversion. The UK remains in focus ahead of Europe's return Wednesday amid the late session, high-ranking resignations in Johnson's Cabinet; Sterling actually rose modestly off with risk assets lows in wake of the political turmoil, but desks are hesitant to take directional calls ahead of more clarity.

## GLOBAL

**UK POLITICS:** UK PM Johnson is facing his greatest positional threat to date following a series of resignations, notably Chancellor Sunak and Health Secretary Javid, in wake of the Christopher Pincher saga. Not all key Ministers have resigned, with Foreign Secretary Truss saying she is 100% behind PM Johnson, according to the BBC. Going forward, Bloomberg reported that Johnson intends to stay and appoint new Cabinet ministers swiftly, with Steve Barclay already appointed new Health Secretary - new Chancellor yet to be announced. However, The Telegraph reported that Tory backbenchers are planning a rule change to oust Johnson, with the reports suggesting the departures of the Chancellor and Health Secretary will "concentrate minds" to allow a second confidence vote. The situation remains fluid.

## FIXED INCOME

### T-NOTE (U2) FUTURES SETTLED 21 TICKS LOWER AT 119-29+

**Treasuries bull-flattened in keeping with the global risk aversion and commodity price tumble.** 2s -2.7bps at 2.818%, 3s -5.3bps at 2.822%, 5s -7.6bps at 2.822%, 7s -7.4bps at 2.867%, 10s -8.2bps at 2.822%, 20s -6.5bps at 3.315%, 30s -8.2bps at 3.048%. Inflation breakevens: 5yr BEI -9.3bps at 2.544%, 10yr BEI -4.1bps at 2.275%, 30yr BEI -2.1bps at 2.205%.

**TOKYO/LONDON:** As futures reopened for the APAC Tuesday session better selling developed, with dealers noting real money selling in the belly as a driver, taking T-Notes to lows of 118-23 in the Tokyo morning and back into ranges seen prior to Friday's rally post-ISMs. However, the move started to pare, and then with greater momentum as buying accelerated in the London morning taking T-Notes to interim peaks of 119-17 ahead of NY's return from the long weekend.

**NEW YORK:** As oil prices began their record-testing descent T-Notes, and broader govies, were lifted past their overnight highs. Fresh catalysts were light, but desks point to the sustained malaise from last week's data, alongside



broader global growth woes, supporting the unwind of the selling seen in the holiday-thinned futures trade on Monday. Amid the rally, at 9am ET, there was a sizeable futures curve block of 16.2k 2yr vs 9k 10yr. T-Notes made session highs of 120-07 (cash 10yr yield low of 2.78%) as Europe closed shop and commodity selling lost momentum, stretching past the Friday peak of 120-04.

#### STIRS:

- EDU2 +4.5bps at 96.810, Z2 +8.0bps at 96.395, H3 +7.0bps at 96.53, M3 +7.0bps at 96.75, U3 +6.0bps at 96.960, Z3 +5.5bps at 97.13, H4 +6.0bps at 97.26, M4 +6.0bps at 97.35, Z4 +7.5bps at 97.40, Z5 +9.0bps at 97.27.
- Option trade was light for STIRs, both on screen and in blocks.
- NY Fed RRP op. demand fell to USD 2.138bln across 96 bidders (prev. 2.167tln across 99 bidders) - comes as the general collateral repo rate hits its highest since the June hike.

## CRUDE

**WTI (Q2) SETTLED USD 8.93 LOWER AT 99.50/BBL; BRENT (U2) SETTLED USD 10.73 LOWER AT 102.77/BBL**

**Oil prices saw their largest decline since [March 9th](#), near a record decline, as growth woes catalyse capitulation in a vol-ridden commodity market, overshadowing strike action in Norway and Saudi hiking OSPs.** The continued weak data from the tail-end of last week continues to weigh on cyclical assets and although there are no obvious fresh bearish catalysts Tuesday, we have seen the oil market exhibit seemingly strange spikes and dips since the Ukraine invasion, aided by declining open interest/liquidity in commodities. In that sense, the alarming state of the market (high vol/low liquidity) has become the narrative rather than newsflow as of late. All the more telling on a day where Norway's strike action escalated and Saudi raised its August OSPs.

**NORWAY:** The oil strike union leader told Reuters late Tuesday that the strike concluded and workers will return to work as soon as possible after the government imposed a forced settlement. The union official said members will get the same deal as other unions agreed on earlier, with specifics to be agreed at a later stage. The strike was brief, starting just earlier in the session, but stoked global supply concerns out of Europe's second-largest energy supplier given the union suggested the country's daily gas exports could be cut to 56% of normal, a cut of 1.117mln BOE/D, and 341k BPD of oil production lost by Saturday. Particularly bad timing given the Nord Stream issues.

**SAUDI:** Saudi Aramco increased all oil prices (vs benchmarks) for customers in August, Reuters reported. Sets Aug light crude OSP to Asia at +9.30/bbl vs Oman/Dubai average; NW Europe set at +USD 5.30 vs. ICE Brent; US set at +USD 5.65 vs. ASCI.

## EQUITIES

**CLOSES:** SPX +0.17% at 3,831, NDX +1.68% at 11,779, DJIA -0.42% at 30,967, RUT +0.63% at 1,738.

**SECTORS:** Communication Services +2.67%, Consumer Discretionary +2.28%, Technology +1.24%, Financials -0.47%, Real Estate -0.49%, Consumer Staples -0.57%, Health -0.59%, Industrials -1.53%, Materials -2%, Utilities -3.43%, Energy -4.01%.

**EUROPEAN CLOSES:** Euro Stoxx 50 -2.68% at 3,359; FTSE 100 -2.86% at 7,025; DAX -2.91% at 12,401; CAC 40 -2.68% at 5,794; IBEX 35 -2.48% at 7,959; FTSE MIB -2.99% at 20,705; SMI -1.65% at 10,702.

**STOCK SPECIFICS:** Intel (INTC) and other chip giants, including TSMC (TSM) warned they will have to delay or scale back investment in the US as the CHIPS Act stalls in Congress, according to Nikkei. Tesla (TSLA) delivered roughly 255k vehicles during Q2, which is down 17.9% from Q1 and beneath analysts' consensus. Tesla said China's COVID shutdowns were a primary factor in hindering production. Berkshire Hathaway (BRK.B) once again added to its stake in Occidental Petroleum (OXY), purchasing a further 9.9mln shares, taking its total stake in OXY to 17.4%. Stellantis (STLA) stated a global crunch in semiconductor supply could cost the company up to 220,000 vehicles this year in terms of lost output in Italy. Moreover, STLA produced roughly 14% fewer vehicles during H1 '22 compared with the same period a year ago. Ford (F) June sales rose 31% Y/Y on strong F-series and SUV mix, and reported a slight increase in new vehicle sales for Q2, but they missed street expectations. Twitter (TWTR) is said to be looking to challenge the Indian govt to reverse some content takedown orders, according to Reuters sources. Evercore downgraded HP (HPQ) to 'In Line' from 'Outperform', noting it comes amid a slowdown in demand for personal computers. Crocs (CROX) was upgraded to 'Buy' from 'Hold' at Loop Capital. 1Life Healthcare (ONEM) mulls options after takeover interest; CVS (CVS) expressed interest but is no longer in active talks, according to Bloomberg sources. Apollo (APO) and



**Blackstone (BX)** launch sale of Canadian oil producer Ridgeback and seek over CAD 1bln, according to Reuters sources

## FX WRAP

**The Dollar** was significantly firmer Tuesday as US players returned from the long weekend, with the index at its highs gaining over a per cent and a half, highlighted by DXY eclipsing 106.790, in contrast to a 105.040 low. The Greenback was not headline-driven, but instead a factor of the risk-averse sentiment, as in short, growth, inflation, stagflation and recession fears ramped up a few more notches in wake of the disappointing data from Friday. Looking ahead, the key risk events for the week include the FOMC Minutes on Wednesday as well as ISM Services, whilst on Friday NFP looms.

**Activity currencies** were hit, with the Antipodes, GBP, and CAD all seeing notable losses against the Buck, with the Kiwi the 'relative' outperformer, albeit still lower by around a per cent, whilst the CAD underperformed. The weakness seen was largely due to the wider risk-off sentiment, which impacted high beta FX, rather than any specific headline-driven newsflow. In terms of levels, AUD/USD and NZD/USD hit lows of 0.6762 and 0.6125, respectively, with the latter the lowest since May 2020. Moreover, Cable hit a new YTD trough of 1.1899, momentarily dipping beneath the pivotal 1.1900, while the Loonie printed a low of 1.3083, in contrast to a high of 1.2844 earlier in the session. On this, the downside for the CAD was exasperated due to WTI and Brent, which saw losses of roughly USD 9/bbl and USD 11/bbl, respectively. Note, aside from the macro woes, it is worth noting for the Kiwi watchers the NZIER confidence data for Q2 plunged even deeper into negative territory, while the UK political scene continues to worsen for PM Johnson as the UK Chancellor Sunak and Health Minister Javid resigned, plunging his future into further doubt. Although there was little reaction from Cable on the back of these announcements, while current reporting suggests Johnson intends to carry on. Lastly, overnight RBA hiked rates by 50bps to 1.35%, as expected, and repeated that the board expects to take further steps in the process of normalising monetary conditions.

**Safe-haven JPY** was the clear G10 outperformer and was flat against the Greenback, as the Yen garnered interest amid the risk-off positioning. Nonetheless, its safe-haven counterpart, **CHF**, couldn't evade the surging Buck, perhaps a reflection of energy supply angst across Europe, and saw notable weakness, falling to lows 0.9705, but the Swissy did manage to outpace the Euro to hit its highest level since January 2015 around 0.9925.

**EUR** was the G10 underperformer, with the cross sinking to lows of 1.0236, with technicians noting the single-currency fell through many significant lows. The Euro fell foul to the global macro picture, with analysts noting European recessionary fears continue to mount amid dwindling natgas supplies and impending rate hikes to fight inflation. Looking ahead, techs add EUR/USD's only the key fib of 1.0072 is left as support ahead of parity.

**SCANDI:** The NOK was hit due to the aforementioned steep fall in oil, as the Crown lost over 2% against the Buck, which came as no surprise. Elsewhere, the NOK was also hindered by the Norwegian oil strike, however later on Tuesday, the oil strike union leader told Reuters that the strike concluded and workers will return to work as soon as possible after the government imposed a forced settlement. This was of particular interest due to Norway being Europe's second-largest energy supplier, and as such it struck global supply given the union suggested the country's daily gas exports could be cut to 56% of normal.

**EMFX** was lower across the board vs the Buck, with the RUB the clear underperformer with the cross rising back above 64.00 as oil dipped. Elsewhere, news of a pay deal struck between SA's Eskom and members of the NUMSA and NUM unions did not provide the ZAR with much protection from the USD as Gold got crushed alongside commodities, while the TRY subsided regardless of the cheaper cost of imported crude. CNH/CNY faded gains forged on the back of more upbeat Chinese PMIs and encouraging dialogue with US officials, including Treasury Secretary Yellen, and the BRL was impacted by weaker than forecast Brazilian industrial production.

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