



US Market Wrap

6th July 2022: Stocks bounce and bonds sold; mixed data and damp squib FOMC minutes

- **SNAPSHOT:** Equities up, Treasuries down, Crude down, Dollar up
- **REAR VIEW:** Mixed ISM Services; Smaller decline than expected in May JOLTS; FOMC Minutes reveal little new; US discusses capping Russian oil price; UK PM Johnson allies continue to depart.
- **COMING UP: Data:** Australian Trade Balance, German Industrial Output, US International Trade **Event:** ECB Minutes **Speakers:** Fed's Waller, Bullard; ECB's Lane, Enria; BoE's Pill **Supply:** Spain, France & US Refunding.

MARKET WRAP

Major stock indices had been choppy in tight ranges Wednesday until ramping higher in the NY afternoon in lack of an obvious catalyst, with the earlier beat on ISM Services less impressive under the hood while the June FOMC minutes proved a damp squib. The indices pared from highs into the close, however. Bonds were sold into the smaller decline than expected May JOLTS job openings and headline beat on the ISM data, but as details were looked over, concerns about the new orders and employment sub-indices capped the bearish bond momentum: both the Services and Manufacturing employment sub-indices sat in contractionary territory in June, the first time both printed sub-50 since August 2020 and ahead of the June NFP on Friday. The bond selling was somewhat of a head-scratcher given it came alongside another leg lower in oil prices Wednesday as they near their post-Ukraine invasion lows; later BBG reports of the US considering a USD 40-60/bbl price cap on Russian oil capped downside in the global benchmarks. The higher yield environment didn't dissuade a relative outperformance of tech/growth stocks, however, as the global growth fear loop continues to shun cyclically-levered names. The global growth concerns were evident again in FX, with havens outperforming and EUR/USD printing fresh multi-decade lows at 1.0163.

US

ISM SERVICES: ISM services for June were mixed, as the headline topped expectations and printed 55.3 (exp. 54.3) falling from the prior 55.9. Business activity also beat, rising to 56.1 (exp. 54.0, prev. 54.5), but employment and new orders both fell, to 47.4 (prev. 50.2) and 55.6 (prev. 57.6), respectively. Moreover, the inflationary gauge of prices paid dropped to 80.1 from 82.1. Looking into the data, ISM notes the 12m average is 60.8, but June saw a 12m low for a second consecutive month and is the lowest since May 2022. ISM also noted that the relationship between the Services PMI and overall economy indicates June's 55.3 corresponds to a 1.9% increase in real GDP on an annualised basis. Alongside encouraging business activity print, respondents noted higher customer demand and more capacity online. Meanwhile, although new orders fell, respondents noted that new customers were added, seeing greater sales orders while there has also been a higher demand for financing to lock in lower rates. The disappointing employment metric was accompanied with comments that they are unable to fill positions with qualified applicants. Prices paid remained elevated, but had slowed from the prior month but nonetheless all eighteen services industries reported an increase in prices paid. Analysts at Oxford Economics "expect a better balance between services demand and supply moving forward" and have maintained their view of "no recession" but do "stress that the economy is starting H2 2022 on a weaker footing and that it will face significant downside risks in the months ahead".

FOMC MINUTES: The FOMC Minutes revealed little new and reiterated Powell that participants judged either a 50 or 75bps rate hike would likely be appropriate in July. Participants agreed that the economic outlook warranted moving to a restrictive stance of policy and recognised the possibility that an even more restrictive stance could be appropriate if elevated inflation pressures were to persist, but they did stress they would take a data-dependent approach. There had been some talk of a potential 100bp move from the Fed going into the June meeting, but the minutes had no mention of this. On growth, they noted uncertainty was elevated over the next couple of years, and most assessed risks to the outlook for economic growth were skewed to the downside, although there was no mention of "recession" within the minutes. For a full summary, [please click here](#).

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 28 TICKS LOWER AT 119-01+



Treasuries reversed earlier strength into the mixed ISM Services and elevated JOLTS, despite further oil selling. 2s +15.3bps at 2.969%, 3s +16.7bps at 2.986%, 5s +14.8bps at 2.965%, 7s +13.1bps at 2.990%, 10s +11.7bps at 2.928%, 20s +12.5bps at 3.423%, 30s +10.0bps at 3.133%. Inflation breakevens: 5yr BEI -2.0bps at 2.502%, 10yr BEI +0.5bps at 2.259%, 30yr BEI +0.3bps at 2.197%.

TOKYO/LONDON: Treasuries traded in tight ranges in the overnight session on light futures volumes as oil and stocks levelled from Tuesday. T-Notes marked a low of 119-21 during Tokyo trade before some mild buying spells in London to mark a high of 120-03. Cash desks noted some better buying in the front end in London trade but a muted Tokyo session.

NEW-YORK: The NY handover saw a fresh lift for Treasuries, similar to Tuesday, taking T-Notes to session highs of 120-16+ (cash 10yr yield low 2.75%). But buying momentum dwindled and soon selling picked up ahead of the US data. The strong headline ISM Services print, and the smaller decline than expected in May JOLTS, aided the Treasury selling in the outset, with some chunky block sales in FVU2, albeit the mixed internals of the ISM report provided some pause, and indeed, the selling lost momentum not long after the release. Albeit, T-Notes still trundled lower from there into the settlement, closing at lows - the FOMC minutes were a non-event. Note also that the continued selling in oil didn't provide much notable bond bullish impulses Wednesday, as had been the case Tuesday.

STIRS:

- Eurodollars were sold across the strip with reds weakest, steepening the whites/reds spreads.
- EDU2 -6.0bps at 96.755, Z2 -9.5bps at 96.31, H3 -13.5bps at 96.405, M3 -17.5bps at 96.585, U3 -19.5bps at 96.775, Z3 -20.5bps at 96.935, H4 -21.0bps at 97.06, M4 -21.0bps at 97.155, Z4 -19.0bps at 97.215, Z5 -13.0bps at 97.15.
- In options, 20k 1yr Dec mid-curve 100.50 calls were lifted for 1 in screen trade earlier, while late trade saw decent-sized July call flies and put spreads blocked.
- NY Fed RRP op. demand rose to USD 2.168tn from 2.138tn.
- SOFR rose to 1.54% as of July 5th from 1.52% on July 1st, sitting just 1bp below Fed's 1.55% RRP floor - hasn't traded at the floor since May 31st.
- US sold USD 30bln of 119-day CMBs at 2.230%, covered 3.40x.

CRUDE

WTI (Q2) SETTLED USD 0.97/BBL LOWER AT 98.53/BBL; BRENT (U2) SETTLED USD 2.08 LOWER AT 100.69/BBL

Oil prices extended their bearish momentum in NY trade after a mild overnight loss paring proved a red herring; reports of Russian price capping limited downside later on. WTI reclaimed the USD 100/bbl handle during the APAC Wednesday session but flirted again beneath it ahead of the US session. After the NY cash energy product open, WTI legged lower past Tuesday's 97.43/bbl trough to print fresh lows at 95.10/bbl, where front-month contracts haven't traded at since April, homing in on the post-Ukraine invasion low of 92.93/bbl from April 11th. Citi's energy desk highlights the fragility of the market but did suggest it had seen some "bargain hunting" earlier on citing the oil market's relative greater supply uncertainty vs other commodities as OPEC production flatlines despite raised quotas.

RUSSIAN PRICE CAP: The oil benchmarks saw downside capped on Bloomberg reports that the US and allies are discussing capping Russian oil at USD 40-60/bbl, mulling tools to enforce the cap which could include sanctions as a last resort. Desks have warned previously of the likely futile and bullish ramifications from any price capping attempts on Russian oil given too low a cap would likely lead Russia to halt production, not to mention a plethora of other ramifications/stumbling blocks in implementation.

VENEZUELA: Chevron (CVX) is seeking more control over its joint oil ventures with PDVSA, with the oil major preparing to lift Venezuelan oil output if sanctions are eased, Bloomberg reported.

INVENTORY DATA: Traders now look to the weekly US inventory data with the private data due later Wednesday ahead of the official EIA release on Thursday - both a day delayed due to the holiday Monday. Current expectations (bbls): Crude -1.0mln, Gasoline -0.5mln, Distillate +1.1mln.

EQUITIES

CLOSES: SPX +0.36% at 3,845, NDX +0.62% at 11,852, DJIA +0.23% at 31,038, RUT -0.79% at 1,727.



SECTORS: Energy -1.74%, Financials -0.25%, Consumer Discretionary -0.24%, Real Estate +0.01%, Consumer Staples +0.21%, Communication Svcs. +0.42%, Industrials +0.61%, Materials +0.62%, Health Care +0.66%, Technology +0.88%, Utilities +1.01%.

EUROPEAN CLOSES: Euro Stoxx 50 +1.86% at 3,422; FTSE 100 +1.27% at 7,114; DAX +1.57% at 12,596; CAC 40 +2.03% at 5,912; IBEX 35 -0.07% at 7,953; FTSE MIB +1.10% at 20,933; SMI +1.35% at 10,846.

STOCK SPECIFICS: **Microsoft's (MSFT)** USD 69bln takeover of **Activision Blizzard (ATVI)** faces a competition probe in the UK, according to CNBC. FDA decision on **Biogen (BIIB)** and **Eisay (ESALY)** Alzheimer's drug is due in January. **Amazon (AMZN)** had the UK CMA launch an investigation into Amazon's conduct to the way that non-public third-party seller data may be used within Amazon's retail business. **Uber (UBER)** and **DoorDash (DASH)** both tumbled following the news that **Amazon (AMZN)** struck a deal to add membership in rival food delivery service Grubhub as a free benefit for its "Prime" members. Amazon's deal also gives it the option to take a stake in Grubhub. FDA said it would allow Juul Labs to stay on the US market while the e-cigarette maker appeals the agency's ban on its products. Note, **Altria (MO)** hold a 35% stake in Juul. **Resolute Forest (RFP)** is to be acquired by Paper Excellence Group for USD 2.7bln. **Kornit Digital (KRNT)** fell by over 25% after updating its Q2 outlook with revenue view falling way beneath St. expectations and added Q3 may see a similar slowdown, amid a pullback in e-commerce following the pandemic-induced surge. Wells Fargo Securities upgraded **Rocket (RKT)** to "Overweight" from "Equal Weight." **Coinbase (COIN)** saw downside after it was downgraded to "Neutral" from "Overweight" at Atlantic Equities, who cited a number of factors including questions about the cryptocurrency exchange operator's ability to attract talent. **Rivian (RIVN)** surged after it stated it believes it is still on track to deliver on its 25k annual production guidance. **Cano Health (CANO)** upside attributed to Deal Reporter chatter that **Humana (HUM)** may be eyeing up the co. **Peloton (PTON)** sweetened incentives for its workers with one-time cash bonuses and changes to its stock compensation plan as it fights to hold onto employees and fix its struggling business, according to CNBC citing internal memos. **Netflix (NFLX)** has ordered a 'Stranger Things' spin-off series. **Apple Inc (AAPL)** is preparing a security feature meant to protect its products "against some of the world's most sophisticated spyware", according to WSJ.

FX WRAP

The Dollar surged again Wednesday with recessionary fears, particularly out of Europe, driving price action. US yields saw a strong turnaround, more so than their European counterparts which helped the Dollar through rate differentials against the single currency. DXY saw a high of 107.27, a fresh YTD high which was printed after the latest ISM Services PMI which cooled from the prior month but not as much as feared although employment slipped into contractionary territory while new orders also declined. Nonetheless, business activity improved in June and it was above expectations while Prices Paid eased slightly. The latest minutes from the FOMC revealed little new (muted market reaction), and were deemed stale, but did reiterate Powell in that the move in July will likely be either 50 or 75bps. Participants also concurred that the economic outlook warranted moving to a restrictive stance of policy, and they recognised the possibility that an even more restrictive stance could be appropriate if elevated inflation pressures were to persist.

The Euro weakness continued to see EUR/USD lose hold of 1.0200 to lows of 1.0163, levels not seen since 2002 amid the ongoing recession fears - even the German economy minister Wednesday noted the current situation could result in a recession. Shorter end EGB yields saw a continued retreat and unwound more ECB rate hike pricing on gears of slower growth would cause the ECB to slow down their normalisation process towards year-end, with money markets recently paring expectations to 130bps of tightening by year-end from 140bps on Monday.

The Yen was flat against the stronger buck after the cross came well off earlier lows of 134.96 as the NY morning yield spike and later afternoon equity rally saw the Yen weaken back to unchanged levels around 136.00. CHF was weaker against the Dollar but firmed against the Euro to take EURCHF even further below parity as the Euro tumbled. Gold prices weakened on the Dollar and yield strength, seeing the precious metal fall sub USD 1,750/oz.

Cyclical currencies were mixed, CAD was flat against the buck despite the further weakness in crude prices while AUD and NZD saw marginal downside. CAD saw lows of 1.3013 and although was flat against the Dollar, the huge weakness yesterday now has USD/CAD back at levels not seen since mid-June (Jun 17th high of 1.3078). Attention will turn to the BoC rate decision next week where the BoC is widely expected to hike rates by 75bps followed by a 50bp hike in September. AUD/USD printed a low of 0.6763 but returned to circa 0.6800 while NZD/USD saw a low of 0.6133 before returning north of 0.6150 as risk assets recovered. GBP saw similar losses to the Antipodeans with a huge focus on the future of PM Johnson who is reluctant to resign despite a mass exodus of support from Tory MPs. Meanwhile, commentary from BoE's Pill stated that the phrasing "acting forcefully" in the BoE statement reflects his willingness to adopt a faster pace of tightening than implemented so far.



Scandis were mixed with both SEK and NOK appreciating against the Dollar but SEK outperformed as risk assets caught a bid while NOK gains were limited from the downside in Brent price which briefly fell under USD 100/bbl.

EMFX was mixed. The Lira and ZAR plummeted while RUB saw mild strength and BRL and MXN were weaker. In CEE, the HUF was off lows after NBH Deputy Governor said they will hike the one-week deposit rate on Thursday. Rand weakness followed the weaker gold price as well as ongoing power angst with Eskom. For the Lira, reports noted the CBRT is ready to source unlimited funding for Lira rediscount credits to exporter companies. It noted conditions improved but resources were not extended to companies which purchase forex, according to a Reuters source. In India the RBI stepped in to alleviate the tightness of the Dollar, opening up its capital markets to more foreign investment, seeing INR strengthen against the Dollar.

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