



# US Market Wrap

## 7th July 2022: Stocks surge and 10yr yield reclaims 3% ahead of NFP

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW:** Waller in favour of 50bps hike in September and 75bps hike in July; Bullard thinks 75bps July hike would make a lot of sense; Atlanta Fed GDPnow model revised higher, but still in contractionary territory; No announcement on China tariffs expected from Blinken meeting with Yi; UK PM Johnson confirms resignation; Mixed US data, IJC rose more than expected but trade data wider deficit than expected; GME declared four-for-one stock split; MRK in advanced talks to acquire SGEN.
- **COMING UP: Data:** US & Canadian Labour Market Reports **Speakers:** ECB's Lagarde & Fed's Williams.

## MARKET WRAP

Stocks and yields rallied on Thursday to see the S&P rise for four consecutive sessions, matching the 2022 record and to see the S&P close back above 3,900. The gains were led by moves in the large caps with Discretionary, Tech and Communication names outperforming, albeit Energy was the clear outperformer thanks to the rebound in crude prices with WTI back above USD 100/bbl. Treasury's sold off throughout the NY session to see the 10yr yield reclaim 3% on broader risk appetite with stocks and oil rallying, while a 6-part offering from Celanese (CE) also weighed. Oil prices reversed higher Thursday in the NY session with fast money covering shorts and broader dip-buying touted - the mixed inventory data had a negligible price impact. The Dollar was flat and DXY hovered around 107.00 while GBP caught a bid in wake of PM Johnson's resignation. US data was mixed, seeing a rise in jobless claims and layoffs while the trade deficit improved, but not as much as expected. Fed speak saw both Waller and Bullard become advocates for a 75bp hike in July while attention now turns to NFP tomorrow (preview below).

## US

**FED: Governor Waller** reiterated his call for a 75bps July meeting hike, but added he is probably in favour of a 50bps rise in September. Further on rates, he added the Fed needs to frontload rate hike with large increases early. On inflation, Waller noted it is too high and does not seem to be coming down, and there is a need to move to a much more restrictive setting and quickly. Moreover, Waller said he needs to see Core PCE inflation coming down to 2.5-3% by year-end before feeling comfortable on really reducing interest rate hikes, and there is "not a chance" that he'd be okay with 3% inflation. Lastly, Waller noted they are starting to see some demand effects from our actions. **Bullard (2022 voter)** stated 75bps rate hike in July would 'make a lot of sense' and continued to advocate getting to 3.5% FFR this year. Bullard added once at 3.5%, we could see where we are on inflation, then could make 'tweaks' including possible rate cut.

**JOBLESS CLAIMS:** Initial jobless claims rose marginally to 235k from 231k and printed slightly above the expected 230k. Continued claims printed 1.375mln (prev. 1.324mln, exp. 1.327mln). Looking into the report, Pantheon Macroeconomics note, "the seasonals pointed to a small increase this week, but the trend in claims has been flat recently at about 230K, despite widespread media reports of layoffs, especially in tech." Moreover, Pantheon adds, "small businesses continue to report difficulty in finding all the people they want, so the bar for layoffs presumably is still quite high, especially in the leisure and travel sectors, where demand is very strong." Nonetheless, looking ahead the consultancy thinks it is likely that claims will steadily rise over H2, given slower growth in final domestic demand. Finally, whilst PM expects claims to be noisy in the weeks ahead, due to seasonal adjustments, in August they anticipate claims to be a bit higher than recent trends.

**NFP PREVIEW:** The rate of payrolls growth is expected to cool again in June, but once again, traders will be paying close attention to the wage metrics within the data to help shape expectations about whether the Fed will raise rates by either a 50bps or a 75bps increment at the July FOMC meeting. The jobs report is one part of the equation in forming these expectations, the other being the June CPI Data due next week. The data releases could also be influential in determining the course for rate hikes through the rest of this year; a recent dovish repricing of the trajectory of Fed rate hikes (on the back of recession fears) has been unwinding, and money markets now assign an approximately 50% chance rates will rise to 3.25-3.50% by year-end. Full Newsquawk preview, [please click here](#).

## FIXED INCOME

**T-NOTE (U2) FUTURES SETTLE 25 TICKS LOWER AT 118-08+****Treasury yields extended to WTD peaks (10yr > 3%) as stocks and oil rebounded with an eye to NFP**

**TOKYO/LONDON:** T-Notes continued leaking lower into the Tokyo handover Thursday, finding a local trough of 118-26 before paring to a session high 119-05 not long after. Selling pressure resumed to new lows as Europe arrived, particularly after Bloomberg reported China is mulling a fiscal splurge with "unprecedented bond sales". The resignation of BoJo was a UK market issue but not much more. T-Notes went on to made a new low of 118-15 before paring into the US handover.

**NEW YORK:** A NY morning rally for the third consecutive session saw the contracts make an interim high of 119-00+. Selling returned, however, despite mixed US data (initial claims and challenger layoffs rose, while trade deficit came in wider than expected). It appeared to be part of a broader macro relief rally as stocks and oil strengthened, not to mention a 6 part Celanese debt issuance that added supply pressure. T-Notes printed session lows at 118-06 in the NY afternoon, hovering at lows into settlement. Renewed hawkish remarks from Fed's Bullard and Waller didn't have a market effect, with traders awaiting NFP and next week's auctions.

## CRUDE

**WTI (Q2) SETTLED USD 4.20 HIGHER AT 102.73/BBL; BRENT (U2) SETTLED USD 3.96 HIGHER AT 104.65/BBL**

**Oil prices reversed higher Thursday in the NY session with fast money covering shorts and broader dip-buying touted - the mixed inventory data had a negligible price impact.** Evidence of a flow-driven market continued after the bulk of upside occurred after the NY cash energy product open (09:00ET), with prices hugging highs through the rest of the session. To the point, Goldman recently wrote, "We view this move as driven by growing recession fears in the face of low trading liquidity, with technicals exacerbating the selloff". The strategists believe the selling is overdone as "demand destruction through high prices is the only solver left as still declining inventories approach critically low levels."

**INVENTORIES:** There was little follow-through for the oil benchmarks, in either direction, after the weekly EIA data, where a 5.8mln bbl SPR crude stock release contributed to the massive 8.2mln build while production remained unch. at 12.1mln BPD, although the products both saw draws: gasoline -2.5mln and distillates -1.3mln, refinery utilisation fell 0.5% from elevated levels.

**REFINERIES:** Motiva's Port Arthur Texas refinery (636k BPD) has repaired a large crude unit and restored full production, according to Reuters. Similarly, Lyondell (LYB) Houston Refinery (263k BPD) has repaired and restarted its large coker, according to Reuters.

## EQUITIES

**CLOSES:** SPX +1.50% at 3,901, NDX +2.16% at 12,109, DJIA +1.12% at 31,385, RUT +2.43% at 1,770.

**SECTORS:** Energy +3.51%, Consumer Discretionary +2.48%, Technology +2.06%, Communication +1.98%, Financials +1.46%, Industrials +1.19%, Materials +0.92%, Health Care +0.46%, Consumer Staples +0.08%, Real Estate +0.06%, Utilities -0.09%.

**EUROPEAN CLOSES:** Euro Stoxx 50 +1.95% at 3,488; FTSE 100 +1.11% at 7,186; DAX +1.96% at 12,841; CAC 40 +1.60% at 6,006; IBEX 35 +2.16% at 8,120; FTSE MIB +2.99% at 21,547; SMI +0.89% at 10,936.

**STOCK SPECIFICS:** **GameStop (GME)** surged after it declared a four-for-one stock split in the form of a dividend and will begin trading on a split-adjusted basis on July 22nd. **Seagen (SGEN)** is in advanced talks to be acquired by **Merck (MRK)** for above USD 200/shr (vs close of USD 175.13 on Wednesday). The deal could be worth roughly USD 40bln+. **AbbVie (ABBV)** lowered Q2 EPS to factor USD 269mln acquired APR&D and milestone expenses, while it also revised its FY EPS view lower. **Virgin Galactic (SPCE)** announced a deal with a **Boeing (BA)** subsidiary Aurora Flight Sciences to build additional 'motherships' aircraft, CNBC reported. Terms of the deal were not disclosed, but the first of the two aircraft is expected to enter service in 2025. **Bed Bath & Beyond (BBBY)** surged after it announced the disclosure of several insider purchases. Interim CEO Sue Gove bought 50k shares, while board members Harriet Edelman and Jeff Kirwan each bought 10k shares each. **Helen of Troy (HELE)** saw losses after it missed on EPS and FY23 EPS and revenue view fell short of the expected. HELE noted a slowdown in demand in some of its categories, as consumers shift spending patterns to deal with inflation. China EV names, such as **LI, NIO, XPEV**, saw gains after China is to rolling out measures to expand vehicle consumption and is studying extending tax exemptions for new energy vehicles,



according to the MOFCOM. **Boeing (BA)** CEO said he has not ruled out cancelling the 737 MAX 10 depending on crew alerting issue, according to an aviation week interview; does not expect to cancel the 737 MAX 10 because of regulatory issue but said it is a "risk". **Twitter (TWTR)** stated it removed over 1mln spam accounts each day and the number of spam bots is well under 5% estimate. TWTR uses both human review and internal data for bot estimates. **Disney (DIS)** is no longer planning to spin off ESPN, according to sources cited by SBJ. **Avalara (AVLR)** reportedly approached about a potential takeover from private equity firm Vista Equity Partners, according to Street Insider sources. US NHSTA opens new special crash investigation into fatal **Tesla (TSLA)** pedestrian crash in California.

## FX WRAP

**The Dollar** hovered around 107.00 and was flat on Thursday. Data was mixed, jobless claims rose more than expected while challenger layoffs also increased. Meanwhile, international trade data saw a wider deficit than expected, but narrowed from the previous which led the Atlanta Fed to upgrade its Q2 GDP Now tracker to -1.9% (prev. -2.1%), remaining in contractionary territory and suggests a "technical recession" after the contraction in Q1. Furthermore, Fed's Bullard (2022 voter) said 75bps rate hike in July would 'make a lot of sense' and continues to advocate getting to 3.5% FFR this year, while Governor Waller reiterated calls for a 75bps July meeting hike, but added he is probably in favour of a 50bps hike in September. On inflation, he added it is too high and doesn't seem to be coming down and need to move to a much more restrictive setting and quickly. Moreover, there is a need to frontload rate hike with large increases early. Elsewhere, market participants remain focused on known macro themes, such as growth concerns and recessionary fears. Looking ahead, attention turns to the NFP report on Friday, particularly the wages metrics - full Newsquawk preview available here.

**GBP:** Cable reclaimed 1.20 after reports in the European morning suggested UK PM Johnson will be resigning, and as such it saw GBP/USD rise to a 1.2023 high after printing multi-year lows of 1.1877 on Wednesday, but later extended to highs of 1.2029. The initial Sterling gains in wake of Johnson's resignation reflect a relief with the hope a new leader will help restore stability to the government and perhaps public perceptions too. CAD saw gains, albeit not as great as the Pound, although the Loonie did not derive much from a significantly bigger than forecast Canadian trade surplus, but USD/CAD recoiled as crude hit fresh peaks after the WTI cash open to breach 1.3000 more convincingly, to highs of 1.2964. Looking ahead, market participants will look to the Canadian jobs report on Friday.

**EUR:** The Euro weakness continued, and it saw EUR/USD print fresh lows of 1.0145 as it dipped beneath 1.0150, albeit briefly. On the ECB, sources suggested the new ECB tool, the Transmission Protection Mechanism, still has a lot of work to be done and it is not a sense of certainty on its arrival at the July ECB meeting, which hit peripheral debt in the EZ. Meanwhile, the latest minutes confirmed a number of members expressed an initial preference for keeping the door open for a larger hike at the July meeting and noted a larger increment would be appropriate at the September meeting if the outlook for medium-term inflation had not improved by that time. However, it also noted deferring a larger increment [re. rate hikes] to a subsequent meeting would not make a material difference.

**JPY:** Sources suggested the BoJ is considering lowering its GDP growth forecast and is said to be completely committed to its easing policy and will likely maintain ultra-low interest rates and its dovish policy bias. The BoJ is also expected to raise CPI expectations for 2022 to above the 2% target from 1.9%.

**CHF** was the G10 underperformer and saw losses against the Buck, which highlighted the improved risk sentiment, but the USD/CHF did trade within narrow parameters, highlighted by a high of 0.9747 and a low of 0.9683.

**AUD** was the G10 outperformer and led the way for the majority of the session, which in a large part was down to the risk appetite improving as well as commodity prices clawing back some losses. Additionally, the Good and Services trade balance in Australia saw a wider surplus than expected and widened to all time highs. **NZD** also saw gains, but not as pronounced as its antipodean counterpart, as the NZD/USD hit highs of 0.6195 as the Kiwi appeared to run out of steam ahead of the key 0.6200 level.

**EMs** were mixed, with BRL, ZAR, MXN, and CNH/CNY firmer but RUB and TRY seeing losses against the Greenback. MXN inflation data saw core metrics marginally beneath expectations but still accelerating from the prior while the headline metrics were slightly above expectations and also accelerated, particularly M/M. The ZAR may have taken some relief from the latest Eskom updates, which although noted stage 4 loadshedding is to be implemented throughout Friday, it will be reduced to lower stages over the weekend. For the Yuan, Senior US State Department Official stated no announcement on China tariffs is expected from Secretary of State Blinken at his meeting with China's Foreign Minister Wang Yi. Meanwhile, China Securities journal suggested CNY is likely to maintain stability against the Dollar in 2022 who cite improving economic momentum. Lastly, the CNH/CNY were underpinned technically and fundamentally following reports that China is contemplating debt issuance to fund USD 220bln stimulus.



**HUF** pared back sharply from a new record low when the NBH supplemented its 200bps 1 week depo hike by stating that closing the gap to base rate quickly will be on the agenda at the next policy meeting. Conversely, the PLN was left disappointed after the NBP opted to raise rates by half point rather than the 75bps expected.

## Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited ("**Newsquawk**") on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.