US Market Wrap

8th July 2022: Bonds take a hit but stocks look through NFP beat

- **SNAPSHOT**: Equities flat, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW**: Strong NFP print; Atlanta Fed raised GDP tracker, but still in contractionary territory; Fed's Williams notes July will be a debate between 50 or 75bps, Bostic supports 75bps; US considering fresh bid to restrict chipmaking tools for China; Musk deal to buy TWTR reportedly in serious jeopardy.
- **CENTRAL BANK WEEKLY**: Previewing RBNZ, BoK; Reviewing FOMC and ECB minutes. To download the report, please click here.
- **WEEK AHEAD PREVIEW**: Highlights include US CPI, retail sales; China CPI/GDP; US-Saudi meeting, BoC, RBNZ. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [TUES] PEP; [THURS] JPM, MS; [FRI] UNH, BLK, WFC, C. To download the full report, please click here.

MARKET WRAP

Equities were somewhat choppy on NFP day but ultimately settled relatively flat after the headline beating NFP release sparked a typical hawkish reaction as markets started to price in a 75bps hike from the Fed in July with more certainty; implied probability now sits around 95% from 75% ahead of the data. Stocks closed flat across the board, although the equal weighted S&P was lower. Treasuries sold off hard in wake of the data seeing the 10yr yield briefly reclaim 3.10% at the highs. The Dollar was also flat but it did post a fresh YTD peak of 107.79 overnight, before paring ahead of the release. However, in a knee jerk reaction the Dollar reclaimed 107.50 after NFP but once again pared gains back to the psychological 107 level. Crude prices trended higher throughout the session with a bid seen after the data on an easing of demand fears as jobs remain strong despite some of the recessionary fears earlier in the week. Attention now turns to the US CPI report next week to help settle the 50 or 75bps debate at the Fed's July meeting. Fed's Bostic on Friday said he was in the 75bps camp, while Williams said the debate will be around 50 or 75bps. Next week we also see 3yr, 10yr and 30yr supply from the US Treasury, as well as the start of the Q2 earnings season.

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FED: **Bostic (2024 voter)** stated he also supports a 75bps hike in July noting the June jobs report shows the economy is strong and there is still a lot of labour market momentum which means a 75bps hike will not cause protracted damage to the economy. Bostic did note they will take a wait-and-see approach and adapt as necessary. He noted the economy is starting to slow and the first signs of a slowdown is what we need, and it is an inch in the right direction, but they need to see more. He also reiterated the Fed is aiming for a soft landing, adding they will get inflation under control noting by some estimates, things have not changed at all. On the jobs report, he added the numbers show just minor signs of slowing, they need to see more sustained and a more significant slowing, adding the labour market may be catching up to output but this does not necessarily represent a recessionary issue. **NY Fed-President Williams** noted the debate in July will be between 50 or 75bps but there is more data to come (CPI next week), noting the Fed still needs to move expeditiously to more normal rate levels. He sees the Fed Funds Rate (FFR) at 3-3.5% by year-end but noted there is a lot of uncertainty after that. Williams said the terminal level will be dependent upon the behaviour of inflation and inflation expectations. Williams did state hiking rates are affecting the economy, but the full effect of the Fed pivot will not be apparent until later this year, adding spending data is where you will probably see the global slowdown first and jobs will lag. Williams said a recession is not his base case but it is clear the economy is slowing, adding negative GDP in Q1 and data into the Spring is not a signal of something fundamentally negative. **Vice-Chair Brainard** also spoke, albeit it was on crypto currencies, where she stressed the foundations of sound regulation of the crypto financial system is needed now.

NFP: The US jobs report was stronger than expected at 372k (exp. 268k), but it did slow somewhat from the prior 384k - but clearly not enough to spark concern. Looking into the sub-metrics, measures of slack were mixed with the participation rate declining while the U6 underemployment measure fell back to pre-pandemic levels (again). On earnings, the Y/Y figure was slightly hotter than the consensus while M/M was in line with expectations. Note, workweek hours fell slightly. Delving into the dataset, Pantheon Macroeconomics notes, “payroll growth has softened considerably since last summer, but the recent numbers usually would be consistent with a raging economic boom.” However, “the story today is much more about post-Covid catch-up hiring, but jobs create incomes no matter why they are being created, and solid job and income growth makes a recession very unlikely.” As such, the consultancy adds, “GDP almost certainly fell in Q2, for the second straight quarter, but job growth averaging 457K per month across the first half, with 375K in Q2. “ As a result, PM notes, “the NBER won’t call a first-half recession. The June details show solid gains in most sectors, with the exception of minimal increases in finance and “other” services, and a 9K dip in the government component, after an outsized May gain.” On the whole, Pantheon states, “the jobs data support our view that talk of the economy being in recession right now is fanciful, while the wages numbers suggest inflation pressure is easing". Looking ahead, the agency adds “these data are consistent with our strong view that the Fed’s September decision will be 25bp or 50bp; markets currently price-in 56bp.” In wake of the data, the Atlanta Fed GDP Now tracker was revised higher to -1.2% from -1.9%, still signalling a Q2 contraction. Nonetheless, given the stronger than expected print it shows the labour market is holding up well against the Fed's normalisation process and increases the odds of a 75bp move in July - the implied probability of this rose to 95% from 75% pre-NFP as it shows the Fed's actions are hardly impacting the labour market yet and gives the Fed more leeway to front-load their rate hikes and will help cement the case for a 75bp move. Bostic was out after the release where he was in support of a 75bps move in July, but Williams reiterated the debate will be between 50 and 75bps - CPI next week will be key to cementing the 75 vs 50bps debate in July.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 20+ TICKS LOWER AT 117-20

Treasuries were sold across the curve in wake of the strong jobs report ahead of next week's auctions and CPI. 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%. 5yr BEI -2.0bps at 2.502%, 10yr BEI +0.5bps at 2.259%, 30yr BEI +0.3bps at 2.197%.

THE DAY: Quiet, choppy trade during APAC/Europe Friday ahead of the US jobs report. T-Notes rose gradually from their Thursday/WTD lows at 118-06, with additional haven demand after reports emerged of former Japanese PM Abe being shot. Session highs were printed at 118-20, hovering a few ticks lower all the way into NFP. The solid report saw kneejerk selling across the curve taking T-Notes to fresh WTD lows of 117-18 - over a whole point below pre-data levels. T-Notes were sold back down near to lows as Europe departed, coming amid some chunky TU and FV block sales, holding lows into settlement with an eye to next week's, front-loaded refunding auctions from the Treasury (3s Mon, 10s Tues, and 30s Wed).

STIRS:

- EDU2 -6.0bps at 96.755, Z2 -9.5bps at 96.310, 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 97.060, M4 -21.0bps at 97.155, U4 -20.0bps at 97.205, Z4 -19.0 bps at 97.215, H5 -17.5bps at 97.230 M5 16.0bps at 97.220 U5 -14.5bps at 97.190 Z5 -13.0bps at 97.150.
- In options, over 25k EDU3 99.00 calls (targets Fed rate at/below 0.75-1.00% in Q4 next year) traded in wake of NFP, with desks noting a buyer after similarly strong activity Thursday in the same call.
- NY Fed RRP op. demand fell to USD 2.145tln from 2.172tln; SOFR was unchanged at 1.54%.

CRUDE

WTI (Q2) SETTLED USD 2.06 HIGHER AT 104.79/BBL; BRENT (U2) SETTLED USD 2.37 HIGHER AT 107.02/BBL

Oil prices edged higher throughout the NY session, with WTI and Brent seeing gains of circa USD 2/bbl and hitting highs of 105.24/bbl and 107.47/bbl, respectively, albeit settling off these levels. Regarding the day, and as seen on Thursday, the crude complex saw a bid around the NY cash product energy open and in wake of the better than expected jobs report, easing recessionary fears and thus cooling fears around low oil demand. Meanwhile, Russian President Putin said he sees an increase in oil and gas condensate production to 10.7mln BPD in June. Kuwait sold August KEC crude OSP for Asia at USD 7.15/bbl over Oman/Dubai. In Russia, the Black Sea CPC Blend crude oil exports were set at 5.541mln tonnes for August vs. 4.862mln tonnes in July, according to a schedule. **NORD STREAM 1 TURBINE**: Russian Kremlin stated they will increase gas supply to Europe, if Canada returns the Nord Stream 1 turbine. Meanwhile, a German Government spokesperson said they have received a positive signal from Canada regarding the delivery of the Siemens Nord stream 1 turbine, but cannot say it has been delivered.

GAS: Cheniere Energy (LNG), a top US LNG producer, asked President Biden admin to drop pollution rule, saying it would force it to shut for an extended period hurting supply to Europe, according to Reuters.

GOLDMAN SACHS FORECASTS: Goldman Sachs forecasts returns of 34.4%, 30.4%, and 36.9% on commodities over a 3,6, and 12-month horizon on S&P GSCI index, and added commodities are oversold on recession fears. On Brent, GS forecasts Brent prices will need to average USD 135/bbl in H2 '22- H1 '23 for inventories to normalise by late '23.

BAKER HUGHES: US Rig Count (w/e July 8th): Oil +2 at 597, Nat Gas unch. at 153, Total +2 at 752.

EQUITIES

CLOSES: SPX -0.11% at 3,898, NDX +0.14% at 12,125, DJIA -0.14% at 31,339, RUT -0.08% at 1,766.

SECTORS: Materials -1.01%, Real Estate -0.55%, Industrials -0.46%, Utilities -0.32%, Communication Services -0.22%, Financials -0.2%, Consumer Staples -0.19%, Consumer Discretionary -0.02%, Energy +0.01%, Technology +0.07%, Health +0.27%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.54% at 3,507; FTSE 100 +0.10% at 7,196; DAX +1.34% at 13,015; CAC 40 +0.44% at 6,033; IBEX 35 -0.28% at 8,099; FTSE MIB +0.98% at 21,770; SMI +0.74% at 11,021.

STOCK SPECIFICS: Elon Musk's deal to buy **Twitter (TWTR)** is in serious jeopardy, according to WaPo sources, as Musk's camp concluded that Twitter's figures on spam accounts were not verifiable. However, a Twitter spokesperson later stated they intend to close the deal with Musk at the agreed price and will continue to share information. **GameStop (GME)** was lower after it terminated the contract of its CFO. GME is also to implement layoffs across the co., according to a memo, although the size of the layoffs was not specified. **Berkshire Hathaway (BRK.B)** bought a further 12mln shares of **Occidental Petroleum (OXY)**, now giving it an 18.7% stake. **Upstart (UPST)** plummeted after cutting its Q2 revenue and net income outlook as it took action to convert loans on its balance sheet into cash, which, given the quickly increasing rate environment, negatively impacted its revenue. **Spirit Airlines (SAVE)**, once again, delayed a special shareholder meeting to vote on its planned merger with **Frontier (ULCC)**, this time until July 15th. The postponement comes as Spirit continues talks with both Frontier and **JetBlue (JBLU)**. **Levi Strauss (LEVI)** firmed following beats on revenue and EPS alongside raising Q dividend +20% to USD 0.12/shr. LEVI said its results were helped by higher prices and strong demand for its denim offerings. Looking ahead, LEVI reiterated its FY22 adj. EPS outlook and its FY22 revenue outlook. **WD-40 (WDFC)** saw losses after it missed on the top and bottom line as well cutting its FY EPS and revenue view. Exec noted the challenging macroeconomic environment has continued to deteriorate its gross margin, adding that it continues to experience short-term margin pressures due to inflation. **Ford (F)** issued a new recall for 100k US vehicles for fire risks, expanding the earlier fire risk recall. **Google (GOOGL)** reportedly offered concessions to fend off US antitrust lawsuit; Google's offers stop short of the asset sales preferred by DoJ antitrust enforcers, according to WSJ. **Qualcomm (QCOM)** will likely be the sole processor supplier for Samsung Galaxy S23 thanks to the next flagship 5G chip SM8550 made by **TSMC (TSM)** 4nm, according to TF International analyst Ming-Chi Kuo. **General Motors (GM)** JV delivered 484k vehicles in China in Q2, noting sales across brands began recovering in May.

WEEKLY FX WRAP

Upbeat US jobs data keeps Dollar firmly underpinned

USD/EUR - It remains to be seen whether the Greenback can garner more impetus from the latest US labour market report that was stronger than expected in headline payroll terms, even allowing for a negative net two back month revision, and came with slightly firmer than forecast y/y average earnings, but the Buck already posted large scale gains in a holiday shortened week due to Independence Day on Monday July 4th. There were several hiccups along the way and the DXY encountered resistance at various stages before breaching its prior y-t-d peak, the psychological 107.000 level, the last remaining 2002 pinnacle (107.310) and 107.500 to top out at 107.790 vs a 104.810 low. Fittingly, the Dollar's dominance was forged mainly on relative growth and recession risk perceptions that plagued rival currencies far more and in index terms the Euro especially. Hence, it's no coincidence that Eur/Usd plumbed new two decade troughs when the DXY reached its apex and only stopped the rot with the aid of key technical support. For the record, the headline pair dropped from around 1.0462 to circa 1.0072 that coincides with a big Fib retracement level of the much wider and significant reverse from record high to all time low, with the single currency suffering further fallout from a combustible mix of soaring energy prices due to conflict-related supply constraints and signs of Eurozone economic contagion or even contraction in the case of German, French and the pan EZ construction PMIs. Note, plenty of ECB and Fed speak on top of minutes from the respective June policy meetings, but the bottom line is that the GC remains likely to lift-off with a 25 bp hike this month, while the FOMC looks primed to deliver another 75 bp tightening move and widen the gap between key rates.

CHF - The Franc is actually propping up the major ranks against the Buck, notwithstanding Norwegian Krona underperformance in the extended G10 circle, though this is not a full reflection of the story as Usd/Chf carved out w-t-d best levels just under 0.9800 vs 0.9575 at the other extreme post-NFP amidst bear-flattening in US Treasuries, but Eur/Chf remained depressed nearer 0.9867 base than 1.0046 top. In short, SNB/Fed-ECB divergence continued to play out rather than broader risk dynamics even though Swiss CPI metrics beat consensus and FX reserves fell markedly between May and June.

AUD/NZD - In keeping with the above, macro fundamentals could arguably have given the Aussie more thrust or protection from bouts of aversion that hit commodities like copper and iron ore hard at times, as a record trade surplus followed the latest 50 bp RBA rate increase. However, guidance for further tightening was caveated with data dependency and a less hawkish inflation assessment. Nevertheless, Aud/Usd rebounded towards best levels not far from 0.6900 compared to a new 2022 low around 0.6762 and the Aud/Nzd cross got to within single digits of 1.1100 from 1.0964 irrespective of the Kiwi regaining enough altitude to probe 0.6200 vs its US counterpart within a 0.6252-0.6125 band in advance of another widely anticipated half point OCR rise by the RBNZ next week.

CAD/GBP - The Loonie recovered pretty well from Canadian LFS disappointment, perhaps as the surprise drop in payrolls was largely down to part time jobs and not to mention the fact that the unemployment rate printed a record low against expectations for no change to keep the BoC on track for a 75 bp hike this month. Usd/Cad has reversed through 1.3000 within 1.3083-1.2838 extremes after tracking wild swings in WTI oil to an extent (from Usd 111.45 to Usd 95.10). Meanwhile, Sterling only had one eye on similar fluctuations in Brent crude (peaked at Usd 114.75 before Usd 98.50 double bottom and decent bounce) and one ear open for BoE commentary via chief economist Pill on several occasions and MPC hawk Mann, as all the action took place in the political arena where the pressure on PM Johnson climaxed to the point of no return. Cable slumped from 1.2165 to 20 year lows circa 1.1877, but regrouped once the Conservative Party revolt succeeded and the focus switches to a new leader and whether the 1922 Committee allow him to stay at Number 10 Downing Street in a caretaker role. Elsewhere, Eur/Gbp recoiled from 0.8627 to 0.8442, but could not sustain the move by more than a few pips beneath very adjacent 100 and 200 DMAs.

JPY - Yield spreads and the general market tone remained key drivers for the Yen, but the week ended on an extremely sad note with the assassination of former Japanese PM Abe that prompted a retracement in Usd/Jpy on safe haven demand between 134.79-136.56 bounds. Looking ahead, the weekend elections and quarterly BoJ outlook that sources say will show an upgraded CPI estimate to just over the 2% target, but maintain accommodative guidance.

SCANDI/EM - Strikes and the aforementioned escapades in Brent influenced the Nok, while the Cnh and Cny were boosted by constructive chart impulses and encouraging lines of communication between Chinese and US officials, though the major positive news to counter Covid clusters was speculation about Usd 220 bn worth of stimulus measures to be funded by unprecedented debt issuance. The Inr was underpinned by RBI intervention, the Huf rescued from record lows by NBH swaps to supplement a 200 bp 1 week depo hike and a statement of intent to narrow the gap to the base rate quickly at the next policy meeting. Conversely, the Zar failed to benefit from SA's Eskom settling its pay dispute with unions and slowly scaling down grades of load-shedding as Gold was tarnished by Usd strength, and the Try was blighted by yet another set of above forecast Turkish CPI and PPI readings in the run up to CBRT survey estimates pointing to higher inflation and a weaker Lira by year end and the Pln was upset with the NBP opting to go 50 bp against consensus for 75 bp.