US Market Wrap

12th July 2022: EUR/USD tests parity as cyclical assets tumble further ahead of CPI

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW**: Barkin is reserving 50/75bps hike until July meeting; Weak 10yr auction; China lockdown in Wugang amid a COVID case; Shocking German ZEW data; EIA sees US 2022 crude output rising 720k BPD (prev. +730k BPD); PEP posted solid earnings; GPS fire CEO; BA deliveries reached highest level since March '19.
- **COMING UP**: **Data**: Chinese Trade Balance, UK GDP, EZ Industrial Production, US CPI **Events**: BoC & RBNZ Policy Announcement; IEA OMR **Speakers**: BoC's Macklem & Rogers **Supply**: Italy, Germany & US.

MARKET WRAP

Stocks were lower Tuesday and closed near lows as a NY morning recovery attempted unwound. Catalysts were light in the US session with no data ahead of Wednesday's key CPI release, although the brewing COVID backdrop and the poor German ZEW data was enough to sustain the global growth fear loop, hammering commodities lower, particularly oil as both the benchmarks settled beneath USD 100/bbl figure. However, it wasn't until the late session that the commodity selling caught up to the US stock indices. Treasuries bull-flattened as the growth/COVID woes sustain, albeit close off best levels after a disappointing 10yr auction. In FX, the Dollar was choppy but ultimately flat, while EUR/USD bounced off parity, holding the line despite an abysmal German ZEW survey that saw Bunds lifted.

DATA

IBD/TIPP: Economic optimism for July printed 38.5, rising from the prior 38.1, while the Six-Month Economic Outlook, a measure of how consumers feel about the economy’s prospects in the next six months, rose 5.2% this month to 32.2, up from June’s 30.6, which was the lowest reading in more than a decade. The Personal Financial Outlook, a measure of how Americans feel about their own finances in the next six months, had the highest reading of the Economic Optimism Index components in July at 45.3, but it was still down 2.4%, keeping it in negative territory for a second consecutive month. This also marks the new lowest reading for this component since the Economic Optimism Index began tracking it in February 2001. Lastly, Confidence in Federal Economic Policies, a proprietary IBD/TIPP measure of views on how government economic policies are working, showed a slight improvement, rising 1.6% from 37.4 in June to 38.0 in July.

CENTRAL BANKS

FED: **Barkin (2024 voter)** stated he is reserving judgement on 50/75bps hike until the July meeting and he wants real rates positive across the curve. On inflation, Barkin noted he expects a lot of volatility in inflation before it comes under control, and avoiding a recession hinges on how much inflation control has to come through demand versus better supply and lower commodity prices. Regarding data, the Richmond Fed President said the expectation is for another elevated CPI report and he would "take seriously" a negative Q2 GDP reading. Lastly, Barkin concluded he "definitely" see signs of the economy softening, particularly among low-income consumers and goods sectors that saw pandemic demand spikes.

BOC PREVIEW: The Bank of Canada rate decision will be released at 15:00BST/10:00EDT on Wednesday, July 13th. Economists widely expect the BoC to hike rates by 75bps to 2.25% from 1.50%, according to 27/29 economists surveyed by Reuters, following the 75bp hike by the US Federal Reserve in June. The latest MPR will also be released at the same time and there will be a press conference at 16:00BST/11:00EDT. The statement and MPR will be gauged for language on the pace of rate hikes throughout the remainder of the year after the latest meeting saw the BoC add language to act more "forcefully" to bring inflation back to target. Economists expect a 50bp hike in September to 2.75%, sitting in neutral territory, which is estimated between 2-3%. Analysts then expect the pace of hikes to slow further to 25bps for October and December, but lifting the rate above the top end of neutral to 3.25% by year-end, although some analysts expect rates to rise even further, while markets are pricing in rates of 3.45% by year-end. The MPR will likely see inflation revised higher after the hot May CPI report, while growth expectations are likely to be revised downwards on recessionary fears and the impact of tighter monetary policy. To download the full Newsquawk preview, please click here.

RBNZ PREVIEW: RBNZ are expected to increase rates for a 6th consecutive occasion at its MPR with the median forecasts for the central bank to hike the Official Cash Rate by another 50bps to 2.50%. To download the full Newsquawk preview, please click here.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 9 TICKS HIGHER AT 118-21

Treasuries bull-flattened as the growth/COVID woes sustain, albeit close off best levels after a disappointing 10yr auction. Futures volumes were lacklustre. 2s -3.3bps at 3.037%, 3s -2.9bps at 3.074%, 5s -4.4bps at 3.006%, 7s -4.9bps at 3.015%, 10s -4.4bps at 2.947%, 20s -5.5bps at 3.376%, 30s -5.3bps at 3.127%. Inflation breakevens: 5yr BEI -6.1bps at 2.519%, 10yr BEI -1.1bps at 2.274%, 30yr BEI -0.4bps at 2.181%.

TOKYO/LONDON: T-Notes extended their Monday rally into the APAC Tuesday session with continued COVID anxiety in China as the main talking point. New session peaks were made at 119-03 as the European session got going, aided by acute EGB strength after the abysmal German ZEW survey.

NEW YORK: There was some paring ahead into the NY handover before continued selling in energy markets renewed the bond bid again. In lack of US data, some chunky block buys (37.5k of 2yr, followed by 15.1k of 5yr), which IFR linked to a domestic bond fund, saw a test of earlier highs out the curve, but ultimately failed to hit new peaks in T-notes before a strong open for US stocks saw some fading ahead of the 10yr auction. The weak offering from the Treasury saw T-Notes pare further into the settlement, with eyes to Wednesday's 30yr bond auction and, of course, CPI.

10YR AUCTION: A weak USD 33bln, 10yr auction from the Treasury, albeit more respectable when contextualised against the lack of concession seen ahead of the auction. It's also hard to ignore the event risk of Wednesday's CPI in the backdrop of a less attractive relative value profile (rich on 5s10s30s fly) while the Yen's freefall will be preventing some Japanese participation. The 2.960% stop provided less value than last month's multi-year high of 3.03% and marked a 2bps tail, worse than both the prior 1.2bps and six-auction avg. 2.50x. The 2.34x bid/cover ratio was also beneath the prior and avg. The takedown continued to indicate weak demand as Dealers - forced surplus buyers - took a larger 20.7%.

STIRS:

- EDU2 +1bps at 96.685, Z2 +5.5bps at 96.255, H3 +8.5bps at 96.385, M3 +8.5bps at 96.565, U3 +7bps at 96.745, Z3 +4.5bps at 96.895, H4 +3.5bps at 97.01, M4 +3.5bps at 97.11, Z4 +5.5bps at 97.195, Z5 +5.5bps at 97.15.
- No major Dollar STIRs option flow.
- NY Fed RRP op. demand at USD 2.146tln (prev. 2.164tln) across 96 bidders (prev. 96).
- US sold USD 39bln of 1yr bills at 2.960%, covered 3.17x.
- Treasury also announced a USD 10bln raise in both the 1- and 2-month T-Bill auctions to USD 45bln and 40bln, respectively.

CRUDE

WTI (Q2) SETTLED USD 8.25 LOWER AT 95.84/BBL; BRENT (U2) SETTLED USD 7.61 LOWER AT 99.49/BBL

Oil prices saw chunky losses Tuesday as renewed COVID spikes, particularly in lockdown-prone China, weighed on the global demand outlook. The benchmarks had begun descending through APAC and the European morning before the arrival of US participants saw some chunky legs lower, and eventually bottoming in the NY afternoon at USD 95.73/bbl and 99.28/bbl for WTI and Brent, respectively. The July 6th lows for front-month WTI and Brent of USD 95.10/bbl and 98.50/bbl are eyed as the next support ahead of their post-Ukraine invasion lows at 92.93/bbl and 96.93 /bbl.

US INVENTORIES: The private data Tuesday afternoon is due ahead of the official EIA release on Wednesday. Current expectations (bbls): Crude -0.2mln, Gasoline -0.4mln, Distillates +1.6mln.

MONTHLY OIL REPORTS: The OPEC report saw its world oil demand forecasts for 2022 unchanged at +3.4mln BPD to avg. 100.3mln BPD, with the initial forecast for 2023 growth seen at +2.7mln to avg. 103mln BPD. Citi's energy desk notes the report was more bullish than it expected, aside from the June OPEC production growth forecast vs survey calls for a decline. Later on, the EIA's STEO saw the world oil demand forecast rising 2.2mln BPD in 2022 to avg. 99.58 mln BPD (down from prior f/c of 99.63mln) and rising 2mln BPD in 2023 to avg. 101.58 (up from prior f/c of 101.32mln).

US VS OPEC: Bloomberg reported that the US believes OPEC has more capacity to increase crude production should the upcoming visit by President Biden to the region yield any agreements.

EQUITIES

CLOSES: SPX -0.86% at 3,821, NDX -0.97% at 11,744, DJIA -0.62% at 30,981, RUT -0.41% at 1,724.

SECTORS: Energy -2.03%, Technology -1.34%, Health -1.33%, Consumer Discretionary -0.73%, Financials -0.65%, Real Estate -0.59%, Utilities -0.51%, Communication Services -0.48%, Industrials -0.32%, Consumer Staples -0.31%, Materials -0.21%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.38% at 3,484; FTSE 100 +0.18% at 7,209; DAX +0.50% at 12,896; CAC 40 +0.80% at 6,044; IBEX 35 -0.61% at 8,015; FTSE MIB -0.38% at 21,486; SMI +0.39% at 11,069.

STOCK SPECIFICS: **PepsiCo (PEP)** beat on EPS and revenue. Looking ahead, PEP raised FY revenue growth view as consumers bought more sodas and snacks even in the face of rising prices. CFO says there could be more price increases over the course of the year. **Canoo (GOEV)** soared after **Walmart (WMT)** has signed a definitive agreement with the co. to purchase 4,500 all-electric delivery vehicles, beginning with the Lifestyle Delivery Vehicle with the option to purchase up to 10,000 units. **Twitter (TWTR)** stated Elon Musk and associated parties' purported termination is invalid and wrongful, adds Twitter has breached none of its obligations under the agreement and will diligently take all measures required to complete the deal. **Gap (GPS)** was lower following the firing of its CEO after two-and-a-half years, with rising costs and deepening discounts threatening to wipe out this Q's operating profit. Chair Bob Martin will assume the CEO role on an interim basis. **Peloton (PTON)** is reportedly to stop in-house bike production, via Bloomberg. Moreover, PTON announced it is exiting all owned-manufacturing operations and expanding its current relationship with Taiwanese manufacturer Rexon Industrial. **American Express (AXP)** was downgraded to "Equal-Weight" from "Overweight" at Morgan Stanley who said the risk of recession is not fully priced into American Express' stock. Home builder **Lennar (LEN)** was softer following a downgrade at JPMorgan who said the industry faces a number of headwinds, including softening sales and higher incentives. **Boeing (BA)** jumped after it reported that its deliveries have reached their highest monthly level since March 2019. Boeing delivered 51 jets in June, including 43 max; and in H1 it delivered a total of 216 jets. **Microsoft (MSFT)** slipped in wake of a Morgan Stanley downgraded who said the stock is not immune to macro risks. **Rivian (RIVN)** stated it has implemented changes such as prioritising certain programmes, stopping others, and also halted some non-manufacturing hiring (as previously reported). Moreover, RIVN is adopting major cost-down efforts to reduce material spending and operating expenses. **Netflix (NFLX)** reportedly in talks with Hollywood studios to facilitate new ad-supported platform; NFLX seeking to amend deals and has started talks with studios such as Warner, Universal, and Sony, according to WSJ citing sources. **Cummins (CMI)** increased quarterly cash dividend 8.3% to USD 1.57/shr (prev. 1.45/shr)

FX WRAP

Dollar was choppy on Tuesday, but ultimately flat, after hitting a 20yr high of 108.56 earlier in the session, with market participants awaiting US CPI Wednesday, followed by retail sales on Friday. The releases will help participants gauge how much further Fed policy can (Dollar-bullishly) diverge from its peers such as the ECB and BoJ. Furthermore, desks note a strong CPI print Wednesday and PPI on Thursday would keep the heat on the Fed to hike rates by 75bps again this month before slowing the tightening pace.

JPY saw gains against the Buck, and after peaking at 137.52 the Yen pared losses to a low of 136.49. In terms of catalysts, the Yen strength came as Treasury yields and commodities slid further, helping the net energy importer. Regarding key levels, techs note USD/JPY remains in an uptrend above support at 136.25 and 136.13. Furthermore, the Japanese Finance Minister told US Treasury Secretary Yellen that Japan is concerned about the rapid Yen weakening and is watching currency markets with a sense of urgency. Lastly, the minister agreed to continue consulting in foreign exchange while excess volatility and disorderly moves can hurt economic stability. Looking ahead, the Japanese Tankan survey is due Wednesday.

Activity currencies were mixed, with antipodeans firmer, GBP flat, and CAD lower. High-beta FX saw a partial recovery as risk sentiment improved throughout the day, but heading into the US cash close equities fell to fresh-session lows which halted some of the recovery. In the European morning, AUD/USD hit a 2yr low of 0.6709, but the Aussie recovered some of these losses as the risk off tone averted, slightly. Akin to the Aussie, its Kiwi neighbour clawed back losses seen earlier, rising into the black vs the Buck after managing to evade a break of the key round support at 0.6100, albeit marginally, printing a low of 0.6101 before later hitting highs of 0.6145. Looking ahead, focus is on the RBNZ rate decision Thursday, where the central bank is widely tipped to hike for the sixth time in a row and third consecutive 50bps OCR increase. The Loonie was the underperformer and saw headwinds from the crude complex, which was lower by circa USD 8/bbl as demand woes build, with Brent settling beneath USD 100/bbl for the first time in 3 months. Moreover, analysts note, the Loonie could get a reprieve from the capitulation in oil if the BoC backs up a 75bps rate increase with hawkish guidance on Wednesday. The Pound saw gains and managed to reclaim 1.19 to the upside, although there continues to be angst with Cable watchers amid the political uncertainty which will continue until Johnson's replacement is found.

EUR ended flat, but that tells only half the story, as EUR/USD tested parity, albeit momentarily, on Tuesday. Nonetheless, Euro looked almost certain to breach further beneath the historic level on more than one occasion as pressure built, but it survived the most severe test with some assistance via barrier defences following a gloomy ZEW survey that highlighted the extent of energy crisis contagion in Germany and across the Eurozone generally. **CHF** was flat and traded within narrow ranges, highlighted by a peak of 0.9859 and a trough of 0.9805.

EMFX was mixed, with BRL, MXN, and CNH seeing losses against the Greenback, with the former two seeing the greatest losses, aided by oil losses. For the Real, according to Reuters sources, Brazil's Economy Ministry is set to raise its 2022 GDP forecast to 2% from 1.5% later this week amid stronger than expected economic indicators. MXN was a victim of the slump in WTI, while the Yuan weakened on the China COVID situation as another city prepares for lockdown. Elsewhere, TRY saw gains and was a beneficiary of the losses in crude, while the ZAR also firmed despite Eskom noting stage 3 followed by stage 4 loadshedding will take place this week, before reducing to lower levels. Lastly, the HUF eventually got a lift from the NBH deciding to ramp rates by 200bps and maintain that more tightening is warranted, affirmed by some hawkish commentary from Deputy official Virag.