US Market Wrap

15th July 2022: Stocks bid as hawkish market pricing cools while earnings season gets underway

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Bullard raises year-end rate view; UoM beats & inflation expectations fall; NY Fed survey encouraging; Retail sales better than expected; Disappointing industrial output and manufacturing; Stellar UNH and C earnings; ECB's Rehn says bank likely to go 25bps in July and 50bps in September; Italian PM Draghi determined to resign.
- **CENTRAL BANK WEEKLY**: Previewing PBoC, BoJ, ECB, SARB, CBRT, CBR; Reviewing BoC, RBNZ, BoK. To download the report, please click here.
- **WEEK AHEAD PREVIEW**: Highlights include ECB, BoJ, UK/CA/NZ inflation data, UK leadership debates. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [MON]: BAC, GS, SCHW, IBM; [TUES] JNJ, LMT, NFLX; [WED] ASML, ELV, ABT, TSLA; [THURS] DHR, T, PM, UNP; [FRI] AXP, NEE, VZ. To download the full report, please click here.

MARKET WRAP

Stocks caught a bid with earnings season now underway, while there were several data points to digest. On earnings, Citigroup (C) had a stellar quarter to see the stock close 13% higher helping offset some of the weakness seen in financial names after the disappointing JPM and MS figures earlier in the week. Data saw US Retails beat expectations with an encouraging control print, although the beat was not enough to convince markets 100bps will be appropriate in July. On this, ING point out given the data is a dollar figure, the price increases will be boosting the headline and they suggest real growth will be close to zero in June. The UoM was encouraging but remains weak overall, but an easing of consumer inflation expectations was enough to cool the odds of 100bps in July. Industrial Output and Manufacturing disappointed which added to growth concerns. Meanwhile, the latest NY Fed manufacturing survey implied modest growth in activity and solid employment growth although firms turned pessimistic on the outlook. Overall, the data saw the implied probability of a 100bp hike in July pare heavily to c. 20% at pixel time, down from c. 40% ahead of the data and much beneath the 70%+ probability seen earlier in the week. The pullback in market pricing led to a weaker Dollar on Friday but the index held above 108 while Treasuries were marginally bid across the curve after seeing two way flows in wake of better than expected retail sales and easing consumer inflation expectations. Crude prices were bid on reports the US is not expecting an imminent oil production output increase from Saudi Arabia from the talks with President Biden. Although, it was not enough to see a gain on the week while supply coming back online in Libya helped put a cap on oil prices Friday. With the Fed now entering the blackout period ahead of the July meeting, Bullard took the opportunity to increase his rate projection view for year end to 3.75-4.00% from 3.5% after digesting the June inflation report although there was no concrete support, at least vocally, for a 100bp hike in July but Bullard implied they could do more on rates sooner, or spread it out over the rest of the year.

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FED: **Bullard (2022 voter)** upped his call for rates at year end and said the recent inflation report means the Fed should target an FFR of 3.75-4.00% by year-end, up from his prior view of 3.5%. Bullard noted the Fed could do more on rates sooner, or they could spread it out over the remaining meetings of the year. Whether July sees a 100bp or 75bps hike doesn't make much difference, as the Fed can adjust rates accordingly throughout the rest of the year and it is a decision for his colleagues to make. He added he is an advocate for front-loading rate hikes but also noted the Fed has been trying not to do too much at once while the right tactics will be discussed at the July FOMC. The St Louis Fed President said inflation is proving to be broader and persistent. He also suggested inflation can come down relatively quickly to 2% over the next 18 months if the Fed plays its cards right. On the balance sheet, he said the reduction can be evaluated later in 2023 but that is a discussion for the future. **Bostic (2024 voter)** said 75bps was a big move and they want to be orderly. He warned moving too dramatically could undermine positive aspects of the economy and add to uncertainty. **Daly (2024 voter)** is not concerned about over-cooking things (rate hikes) and there will be a good discussion at the July meeting. She clarified the Fed is not talking about hiking rates to extreme highs, but more like in the 3% range.

RETAIL SALES: Retail sales were better than expected on the face of it rising 1.0% vs expected 0.8%, while the prior month saw a revision higher to -0.1% from -0.3%. The ex-autos also beat, rising 1.0% above the 0.6% consensus while ex gas/autos rose 0.7%. The Control reading rose 0.8% above the 0.3% expected and paring the prior revised -0.3% in a welcome sign for GDP. Analysts at ING note that gasoline was the key area of strength but other sectors like furniture, non-store retail and eating and drinking saw decent gains too. ING also reminds us it is a dollar value figure, so higher prices are boosting the retail number, adding "adjusted for inflation “real” growth will be close to zero overall in June". However, they write for now "households appear to be willing to run down some of the savings accumulated through the pandemic and we look for real consumer spending to rise 0.2% MoM in June leaving 3Q annualized consumer spending that will form part of the GDP report up 1.2% annualized.

UOM: The Preliminary July UoM survey was better than expected. Headline sentiment rose to 51.1 from 50, above expectations of 49.9. Current conditions rose to 57.1 from 53.8, above expected 52.5. The Expectations component declined slightly to 47.3 from 47.5, but nonetheless was above the expectations of a 47.0 release. The inflation expectations were very encouraging, 1yr ahead expectations declined to 5.2% from 5.3%, while the 5yr expectations cooled to 2.8% from 3.1%. Although a welcome report, consumer sentiment remains weak and only marginally above the record low 50 print with the upside in July seen as a result of the lower gas prices in recent weeks. Oxford Economics warn that sentiment is unlikely to see a material improvement over the near term while "rising interest rates, eroding purchasing power due to inflation, and elevated economic uncertainty are likely to restrain sentiment and weigh on consumers during the coming months".

INDUSTRIAL PRODUCTION/MANUFACTURING OUTPUT: Industrial production fell 0.2% in June, beneath the expected +0.1% and prior +0.2%. Meanwhile, manufacturing output fell short of expectations, printing at -0.5% (exp. -0.1%, prev. -0.5%). Looking into the data, Pantheon Macroeconomics note, “in June, increased oil production, up 5.1% m/m - completing a 14.8% annualized Q2 surge, with more to come - offset a drop in coal production and a small weather-related dip in utility output.” Nonetheless, on the whole Pantheon adds, “the manufacturing sector has weakened sharply, with output falling by 0.5% in both May and June. Q2 as a whole recorded a 4.2% annualized increase, but an outright decline in Q3 now seems a good bet.” Furthermore, PM states, “a combination of slower demand growth as consumers switch back to services, disruptions from China’s spring lockdowns, and the surge in input costs, especially oil, has hit activity.” Looking ahead, Pantheon hopes “for a modest revival in late summer or early fall, thanks to the rebound in activity in China and the drop in oil prices, but the near-term outlook is grim.” Moving to production, the consultancy declares, “vehicle production was the bright spot in Q2, rebounding at a 29.5% annualized rate, but even here output dipped m/m in both May and June. The automakers can sell everything they produce, so these declines suggest that supply constraints are still a problem, though note that the level of output in the sector is now back to its pre-Covid level.”

NY FED MANUFACTURING: NY Fed manufacturing jumped into positive territory and printed 11.1, way above the expected -2.0 and the previous -1.2. Looking into the subcomponents, new orders increased slightly to 6.2, and shipments expanded significantly to 25.3. Unfilled orders edged lower, -5.2, for a second consecutive month, while delivery times lengthened at the slowest pace in months, and inventories picked up to 14.8. Labour market indicators pointed to a solid increase in employment and a marginally longer average workweek. Moreover, albeit still high, prices paid and received moved notably lower, 14 and 12 points respectively, pointing to a deceleration in price rises. Furthermore, the report notes, firms turned pessimistic about the six-month outlook, a rare occurrence in the survey’s history. On this, the report continues, the index for future businesses plunged 20 points to -6.2. The report concludes, looking ahead, orders are not expected to increase, and shipments are expected to be only slightly higher. Delivery times and unfilled orders are expected to decline over the next six months, and expected price increases were lower than in recent months. In conclusion, NY Fed states, activity grows modestly, employment growth remains solid but firms turn pessimistic.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 4+ TICKS HIGHER AT 118-20+

Treasuries saw two-way flows with hot headline retail sales and hawkish Bullard offset by falling UoM inflation expectations. At settlement, 2s -0.2bps at 3.143%, 3s -0.3bps at 3.154%, 5s -0.5bps at 3.058%, 7s -1.5bps at 3.035%, 10s -2.5bps at 2.934%, 20s -1.8bps at 3.347%, 30s -0.7bps at 3.097%. 2s -0.2bps at 3.143%/ 3s -0.3bps at 3.154%/ 5s -0.5bps at 3.058%, 7s -1.5bps at 3.035%, 10s -2.5bps at 2.934%, 20s -1.8bps at 3.347%, 30s -0.7bps at 3.097%

TOKYO/LONDON: T-Notes saw low volumes and no block activity ahead of the US session on Friday, marking interim highs of 118-29+ in the London morning. Some weak Chinese Q2 output data was in focus, but otherwise, there was a lack of major catalysts with 75 or 100bps the talk of the town ahead of the June US retail sales print, particularly after Waller said Thursday the print would be crucial for his decision on whether to back a 100bps hike.

NEW YORK: Retail sales came in above consensus and saw knee-jerk selling across the curve, led by the front-end and hitting T-Notes 10 ticks lower in the process - the strong Empire State survey was another factor. But, the move soon faded as July pricing for a 100bps reversed as details were digested - a strong rise in the gasoline component obfuscated some tamer consumer trends. It was choppy price action, regardless, as T-Notes then went on to eek out a session low at 118-11+ ahead of the cash stock open amid Bullard (voter) hiking his year-end Fed Funds target to 3.75-4.0% from 3.5% area before. The contracts then rallied to session highs of 119-00 after a move lower in both the short- and long-term Uni of Michigan consumer inflation expectations - cash 10yr made a yield low of 2.90%, which has served as resistance now since last week - before paring and stabilising a few ticks lower.

NEXT WEEK: With the Fed now in blackout bond traders look to next Wednesday's USD 14bln 20yr bond auction, with the USD 17bln 10yr TIPS auction on Thursday. Meanwhile, the ECB on Thursday stands as the highlight central bank meeting of the week with BoJ also due Thursday and PBoC on Wednesday. On data, a slew of housing data with NAHB (Mon), housing starts (Tues), and existing home sales (Wed), followed by Philly Fed (Thurs) and Flash Markit PMIs (Fri). Corporate sentiment will also be in the limelight amid the slew of earnings next week.

STIRS:

- EDU2 +9.5bps at 96.565, Z2 +6.0bps at 96.120, H3 +5.0bps at 96.275, M3 +3.5bps at 96.460, U3 +1.0bps at 96.655, Z3 -1.5bps at 96.795, H4 -2.5bps at 96.920, M4 -3.5bps at 97.030, U4 -3.5bps at 97.105 Z4 -3.5bps at 97.150, Z5 +2.5bps at 97.185.
- In options, a hawkish SOFR block package of three 10k SR3U2 put flys for 13 stood out (120k contracts total), while in EDs, screen trade saw 19.2k EDN2 96.5000 puts and 10.3k EDH3 96.00/96.50 risk reversals.
- NY Fed RRP op. demand fell to USD 2.154tln from 2.207tln.

CRUDE

WTI (Q2) SETTLED USD 1.81 HIGHER AT 97.59/BBL; BRENT (U2) SETTLED USD 2.06 HIGHER AT 101.16/BBL

Crude prices were choppy throughout the European morning, but in the NY afternoon WTI and Brent trended higher after reports indicated the US is not expecting Saudi to immediately increase production while US data was strong. Nonetheless, it was not enough to stop the second consecutive week of losses after WTI and Brent saw weekly lows of USD 90.56/bbl and 94.50/bbl, respectively. In terms of risk events, US President Biden is meeting Saudi Arabia and energy is expected to be one topic of discussion, but no increase in oil production is expected. Elsewhere, Libya agreed to reopen all oil fields and terminals, according to officials cited by Bloomberg. Note, options on August WTI crude oil will expire today, with the underlying futures trading through July 20th.

US/SAUDI: US is not expecting Saudi Arabia to immediately boost oil production and US eyes the next OPEC+ meeting, according to a US official cited by Reuters. Continuing, Energy Intel said, "no unilateral increase in oil supply from gulf producers is expected during Biden’s visit. IF there is one, it has to be in the context of Opec plus."

CITI: “The price action suggests buyers were not discouraged by the weaker-than-expected 0.4% year-on-year growth in 2Q Chinese GDP, possibly because oil traders had tracked the COVID restrictions in Shanghai and elsewhere in real time. US June retail sales were stronger than expected as a reassurance that the US economy is not in a recession, at least not yet.”

GAS: Uniper (UN01 GY) has begun using gas from storage following the recent cut from Russia, according to Bloomberg. Moreover, Germany stated there is no consistency from Russia on gas and Germany is focussing on facts and preparing for all scenarios. Nonetheless, there are no current talks on further turbines. Lastly, Germany Energy Regulator stated at the moment equal amounts of gas are being injected and withdrawn from storage.

BAKER HUGHES: US Rig Count (w/e July 15th): Oil +2 at 599, Nat Gas unchanged at 153, Total +2 at 756.

EQUITIES

CLOSES: SPX +1.85% at 3,860, NDX +1.83% at 11,983, DJIA +2.15% at 31,288, RUT +1.95 % at 1,740.

SECTORS: Financials +3.5%, Health +2.44%, Communication Services +2.17%, Energy +1.9%, Technology +1.76%, Consumer Discretionary +1.71%, Real Estate +1.7%, Materials +1.62%, Industrials +1.58%, Consumer Staples +0.4%, Utilities +0.2%.

EUROPEAN CLOSES: Euro Stoxx 50 +2.37% at 3,477; FTSE 100 +1.69% at 7,159; DAX +2.76% at 12,864; CAC 40 +2.04% at 6,036; IBEX 35 +1.81% at 7,945; FTSE MIB +1.84% at 20,933; SMI +1.66% at 10,978.

EARNINGS: **UnitedHealth (UNH)** firmed after it beat on top and bottom line as well as raising FY EPS outlook, which was based upon the first half performance and growth expectations. Results were helped in part by a strong performance at its Optum health care services unit. **Citi (C)** propelled over 10% after beating on EPS and revenue with strong FICC revenue, offsetting the post JPM and MS weakness. It is also considering a full range of possibilities to exit Russia, exposure increased roughly 500mln last Q. After earnings, CFO said it will pause share buybacks as they "play through the uncertainty" in the broader environment. Meanwhile, **Wells Fargo (WFC)** missed on EPS and revenue. Moreover, WFC's profit fell from a year ago as it set aside more money to cover possible bad loans. **BlackRock (BLK)** fell short on profit and revenue, while AUM also missed. Profit was down 30% Y/Y amid the global market turmoil that discouraged investors. **State Street (STT)** firmed after it beat on EPS and raised FY22 NII view, although it missed on revenue but intends to resume share repurchases in Q4.

STOCK SPECIFICS: **Pinterest (PINS)** surged after WSJ reported that activist investor Elliott Management has built a stake of more than 9% in the co. **Vonage (VG)** gained after **Ericsson (ERIC)** announced that it has received clearance from the CFIUS to complete its acquisition of VG, the final requisite approval to complete the deal. The parties now expect the merger to close no later than July 21st. **Rio Tinto (RIO)** warned COVID 19-related labour shortages in Western Australia and rising inflation would impact its underlying earnings in the second half. **Vertical Aerospace (EVTL)** saw pronounced upside after it announced that FLYINGGROUP, one of Europe's leading business jet operators, has conditionally pre-ordered up to 50 VX4 aircraft. A judge set a July 19th hearing in the **Twitter (TWTR)** lawsuit against Elon Musk and is to consider a request for a September trial. **Uber (UBER)** is to raise prices in Hong Kong - two days after the government approved a similar measure for taxis, according to SCMP. **Rivian (RIVN)** CEO said production staff will not be impacted by layoffs and informed employees the co. grew too fast, according to Bloomberg. **ESPN+ (DIS)** is to raise monthly streaming prices by 43% to USD 9.99/mth (prev. 6.99/mth); price increase reflects higher programming costs.

WEEKLY FX WRAP

Loonie regains momentum with WTI, while Buck wanes

CAD/USD - Another landmark week in the financial markets that continue to experience pronounced bouts of volatility and often extreme periods of frenetic price action, with little obvious rhyme or logical reason at times. However, one theme remains constant amidst more evidence and instances of scorching inflation, and that is the battle being waged by global Central Banks via aggressive policy action and intervention to curb currency weakness in the face or soaring price pressure. A case in point saw the BoC exceed market expectations that were already skewed towards a faster pace of tightening, but hiking 100 bp vs the 75 bp consensus and prior 50 bp move, while adding that the key rate needs to be lifted to the top or a bit beyond the 2-3% neutral range. This prompted a decent Loonie rebound vs the Greenback that had pulled back from post-hot US CPI highs, but only briefly against the backdrop of collapsing crude prices and broader risk-off sentiment caused by a marked increase in Fed rate hike probability for this month's FOMC. Indeed, full point fever reached 75% or so at one stage before pushbacks from two renowned hawks resulted in a sharp reappraisal and no subsequent resurgence in wake of stronger than forecast retail sales or a surprise return to positive terrain in Empire State manufacturing activity. Looking at currency moves, the DXY peaked at 109.290 from 107.070 trough to set a new high bar for the year and since 2002 for the index, while Usd/Cad rallied to a fresh y-t-d apex around 1.3223 compared to post-BoC base sub-1.2950 and the pair is hovering just above 1.3000 at present.

NZD/AUD/EUR - The Kiwi is firmly back on the 0.6100 handle vs its US peer within 0.6192-0.6061 parameters, but did not glean much in the way of independent impetus from the RBNZ as the Bank maintained a 50 bp pace of hiking, as widely anticipated, rolled out almost identical guidance and stuck to the previously projected OCR path. Similarly, the Aussie could not benefit from healthy labour metrics even though they resulted in a shift in RBA bets from another half point towards 75 bp, as external factors, such as commodity weakness due to deteriorating Chinese Covid conditions and growth, largely offset the constructive domestic impulses. Nevertheless, Aud/Usd is also on course for an encouraging finish in the upper 0.6700 area compared to circa 0.6860 at best and 0.6682 at worst, with the Aud/Nzd cross probing 1.1000 to the upside between 1.1075-1.0977 bounds. Elsewhere, the Euro will make headlines for the fact that its resolve was finally cracked after numerous stoic efforts to defend parity against its US counterpart and Eur/Usd dropped to within pips of more barriers said to be residing down at 0.9950. Aside from bearish technical forces, fears over Russian supplies of oil and gas ramped up during the 10-day maintenance works at Nord Stream 1, while the latest political upheaval in Italy merely added to the Euro's woes as PM Draghi's Government scraped through a defacto vote of no confidence without support from coalition partner M5S for the cost-of-living bill. All eyes now turn to the former-ECB President who will address the Senate next Wednesday after tending his resignation and being tuned down by Italian President Matarella, before the spotlight switches to the current ECB chief and GC for July's eagerly awaited policy meeting. Eur/Usd has regrouped to hover just under 1.0100, though still some way shy of the weekly peak around 1.0183.

CHF/GBP/JPY - Also on track to claw back a chunk of their losses vs the Dollar, with the Franc nearer 0.9758 than 0.9886, albeit heavily assisted by Eur/Chf retaining a downward bias post-50 bp SNB rate hike and pending the aforementioned ECB calls next Thursday. Meanwhile, Sterling has kept tabs on the unfolding race to succeed ousted Boris Johnson as next leader of the Conservatives and become new PM, with the field down to five going into the final rounds that will see two emerge for the head-to-head climax. The Pound got a pleasant surprise on the UK macro side when May GDP showed expansion instead of stagnation, but Cable was ultimately hostage to Buck fortunes within 1.2039-1.1761 extremes, irrespective of some hawkish-leaning vibes from BoE Governor Bailey and MPC member Ramsden. Eur/Gbp witnessed more whip-saw flow with plenty of zig-zag around 100 and 200 DMAs that resided close by and just beneath the middle of its 0.8404-0.8514 band. Conversely, the Yen was left in no doubt that the BoJ intends to stay in ultra-easy mode at the upcoming policy review and continued to pay little more than lipservice to jawboning about the ills of its rapid depreciation, even when it came in a formal statement following a meeting of Japan's Finance Minister and US Treasury Secretary Yellen. Hence, with the prospect, if not certainty that Japanese benchmark rates and overall policy settings are heading for more divergence from the Fed etc, Usd/Jpy extended to 139.39 at one stage from 136.01 and remains elevated regardless of the Greenback's retreat.

SCANDI/EM - The Sek and Nok both posted new highs for the week vs the Eur as risk appetite picked up appreciably, but should have arguably derived more from fundamentals as Riksbank minutes came with a hawkish slant even before another mainly above consensus Swedish inflation report, and Norway's CPI readings (headline and core) topped forecasts as well. However, the Norwegian Crown did have Brent to contend with and all the choppy trade along the way (Usd 107.70/brl at best on Monday and Usd 94.50 on Thursday at the other end of the spectrum). EM-wise, emergency or off schedule policy action aimed at shoring up the Huf, Sgd and Php were a feature, while the Hkd needed more pegging to stay within pre-set limits, while the Zar was subject to Gold's devaluation, the Try to all too familiar negatives compounded by a Fitch credit rating downgrade, the Brl to further civil unrest and the Cnh/Cny to new outbreaks of the pandemic in China forcing additional restrictions and worse than feared Q2 GDP that overshadowed better than forecast consumption and industrial production.