US Market Wrap

18th July 2022: Risk assets tumble as AAPL preps for hiring halt

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar down.
- **REAR VIEW**: AAPL intends to slow hiring & spending for some teams in '23; Strong GS earnings, but also touts job cuts; Gazprom sent force majeure notice to at least three purchasers; Some 5-Star deputies are ready to split with leader and back PM Draghi; Tugendhat knocked out of Tory leadership race; NAHB housing data dips hard.
- **COMING UP**: **Data**: UK Unemployment, EZ CPI (Final) **Event**: RBA Minutes **Speakers**: BoE's Bailey, RBA's Bullock **Supply**: UK & Germany **Earnings**: JNJ, Lockheed, Netflix.
- **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**: [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/bonds reversed earlier strength/weakness after Bloomberg reports on Apple (AAPL) cooling its hiring hit the broader risk tone. Desks point to the lack of liquidity amplifying the tape to such headlines, although Apple was not alone after Goldman (GS) said it would be slowing its hiring too, while CNBC said year-end job cuts are also on the table at the bank. The data slate was very light aside from the July NAHB housing index falling deeper than expected, indicative of the well-documented housing slump. Bank of America (BAC) and Goldman Sachs (GS) earnings continued on the better-than-feared momentum from last week. Across the pond, the outlook for European growth and ECB pricing is facing an inflexion point awaiting a decision on the Nord Stream 1 pipeline, with fears rising Monday after reports Gazprom had declared a force majeure to various European customers from July 14th onwards. JPM reckon that if the pipeline remains shut, that could limit the ECB from hiking beyond 0.25% by year-end, as opposed to 1% (where markets are currently priced) if the pipeline resumes operations.

US

NAHB HOUSING MARKET: NAHB housing market index fell to 55.0 in July, its lowest since May 2020, from 67.0, way beneath the expected 65.0. Looking into the report, Pantheon Macroeconomics note, “homebuilders have been in denial about the extent of the drop in demand, despite mortgage applications falling by more than a quarter over the first half of the year, with no end in sight to the decline. Now, they are acknowledging reality. Buyers are disappearing in the face of the surge in rates, and inventory is too high." As such, the supply of existing homes is now going higher, allowing buyers a choice for the first time since the initial pandemic fall in sales. Looking ahead, PM adds, "sales have much further to fall, and home prices will follow volumes. Pretty soon, anyone who has bought a home in recent months will be sitting on a loss.”

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 5+ TICKS LOWER AT 118-15

Treasuries close off lows after earlier commodity strength was offset by a sentiment turn in wake of Apple's (AAPL) touted hiring slowdown. 2s +2.7bps at 3.162%, 3s +1.1bps at 3.157%, 5s +1.7bps at 3.070%, 7s +2.5bps at 3.056%, 10s +3.0bps at 2.960%, 20s +5.3bps at 3.399%, 30s +4.0bps at 3.134%. Inflation breakevens: 5yr BEI +5.3bps at 2.668%, 10yr BEI +1.2bps at 2.338%, 30yr BEI -0.0bps at 2.238%.

THE DAY: T-Notes had initially rallied to highs of 118-29 in the APAC morning Monday, with volumes very light amid the holiday in Japan, before reversing into the European session while stocks and commodities advanced. Govvie selling extended all the way through the NY cash stock open, taking T-Notes to session lows of 118-00, with a cash 10yr yield high at 3.02%, with US players continuing to lift oil on their return, particularly in wake of reports Gazprom had declared a force majeure on the NS1 to its European customers. Treasury shorts began covering as Europe departed and T-Notes then pared losses, gradually, through into the settlement, particularly as major indices dipped on Bloomberg reports that Apple's (AAPL) hiring plans have taken a turn.

THIS WEEK: With the Fed now in blackout bond traders look to 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, 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, although bank earnings so far have not been as bad as feared.

STIRS:

- EDU2 flat at 96.56, Z2 +1bps at 96.135, H3 +2bps at 96.30, M3 +0.5bps at 96.47, U3 -1.5bps at 96.645, Z3 -2.5 bps at 96.78, H4 -3bps at 96.895, M4 -3.5bps at 97.005, Z4 -4bps at 97.12, Z5 -2.5bps at 97.165.
- NY Fed RRP op. demand rose to USD 2.190tln from 2.154tln.
- US sold USD 62bln of 3-month bills at 2.470%, covered 2.97x; sold USD 48bln of 6-month bills at 2.910%, covered 2.65x.

CRUDE

WTI (Q2) SETTLED USD 5.01 HIGHER AT 102.60/BBL; BRENT (U2) SETTLED USD 5.11 HIGHER AT 106.27/BBL

Oil prices rallied Monday as the Dollar was sold while the European gas crisis simmers ahead of the Nord Stream 1 decision. The most acute upside was seen after the NY cash energy product open (09:00ET), aided by the Dollar's slide on the return of US folk from the weekend in addition to reports Gazprom had told customers that it would not be able to fulfil contracts. Benchmarks were already on a firmer footing out of the APAC and European session, however, with desks citing the lack of meaningful progress (for ramped production) after Biden's visit to Saudi. On the other hand, there's continued concern over China's demand equation as COVID cases pick up, albeit the tight supply backdrop appears to be in focus so far.

NORD STREAM 1: Several newswires reported Monday that Russia's Gazprom had declared a force majeure to several European customers in a letter dated July 14th. The letter said Gazprom could not fulfil its supply obligations owing to "extraordinary" circumstances outside its control. Uniper (UN01 GY) and RWE (RWE GY) were two of the "at least three" that came out to confirm they had been told they have received a letter from Gazprom which retroactively claims force majeure for past and current shortfalls of gas deliveries. The reports have dimmed expectations of a swift resumption of gas flows once the Nord Stream 1 maintenance period ends on Thursday.

EUROPE: According to a draft document seen by newswires, the EU will push for gas savings in order to reduce the economic impact, with the FT noting the bloc has discussed potential mandatory gas reduction targets for member states. The draft comes amid warnings from IEA's Birol for a cut in energy consumption needed in Europe, despite recent gas deals made. On which, EU Commission announced Azerbaijan has committed to doubling the capacity of the southern gas corridor to deliver from 2027 a minimum of 20BCM to the EU annually, a welcome deal but not a game changer in the near term.

RUSSIAN OIL: Bloomberg reported that Russia has raised July oil output as domestic refineries ramp up, producing 10.78mln BPD from July 1st-17th (vs 10.7mln BPD in June). Meanwhile, Reuters reported, citing a document, that Russia is seeking payments in Dirhams for oil sales to some Indian refiners.

EQUITIES

CLOSES: SPX -0.87% at 3,829, NDX -0.89% at 11,877, DJIA -0.69% at 31,072, RUT -0.37 % at 1,734.

SECTORS: Health -2.15%, Utilities -1.4%, Communications Services -1.09%, Real Estate -1.08%, Technology -1.03%, Consumer Staples -0.99%, Industrials -0.6%, Financials -0.53%, Consumer Discretionary +0.22%, Materials +0.22%, Energy +1.96%.

EUROPEAN CLOSES: Euro Stoxx 50 +1.00% at 3,511; FTSE 100 +0.90% at 7,223; DAX +0.74% at 12,959; CAC 40 +0.93% at 6,091; IBEX 35 +0.22% at 7,963; FTSE MIB +1.13% at 21,169; SMI +0.37% at 11,023.

EARNINGS: **Goldman Sachs (GS)** firmed following a strong report, highlighted by beats on EPS and revenue, alongside FICC and trading revenue segments also topping the expected. Moreover, the board approved a 25%

increase in the quarterly dividend to 2.50/shr. CEO said despite increased volatility and uncertainty he remains confident in ability to navigate the environment. However, the CFO added GS will slow the velocity of hiring going forward and is "actively evaluating" its share buybacks. Furthermore, CNBC later reported Goldman is looking at reinstating year-end job cuts. **Bank of America (BAC)** missed on EPS but beat on revenue. BofA's results were impacted by a sharp drop in investment banking revenue; investors will be pleased to hear it is not considering cuts to its share buybacks. **Prologis (PLD)** beat on profit while revenue came in line. Looking ahead, PLD raised FY22 core FFO view. **Synchrony Financial (SYF)** reported better-than-expected profit and revenue. SYF pointed to upbeat loan growth and credit trends, with the consumers remaining strong. **Charles Schwab (SCHW)** surpassed Wall St. expectations on both top and bottom line, but do note some of the internals were not as strong. Total client assets and net new assets fell short of the expected, with the former falling 9.8% Y/Y.

STOCK SPECIFICS: **Apple (AAPL)** saw weakness after it stated it plans to slow hiring and spending for some teams in 2023, and it will not backfill roles or add new staff in certain cases, according to Bloomberg. Pentagon and **Lockheed Martin (LMT)** are reportedly close to a roughly USD 30bln deal for around 375 F-35 fighter jets, according to Reuters sources. **Boeing (BA)** announced **Delta (DAL)** is to buy 100 737 Max 10 Boeing crafts, with the option for 30 additional crafts. **Starbucks (SBUX)** is reportedly exploring a potential sale of its UK business, however, a "formal sales process" has not been started. The closing of **Merck's (MRK)** USD 40bln deal to acquire **Seagen (SGEN)** will be delayed due to a wait for data evaluating a study of a SGEN treatment, according to WSJ citing sources. US chip firms are said to be mulling whether to oppose the CHIPS Act as it may disproportionately benefit **Intel (INTC)**, according to Reuters sources. Cargill and Continental Grain discussing concessions with DoJ on **Sanderson Farms (SAFM)** chicken deal, according to WSJ. **CF Industries (CF)** tumbled after a US trade department ruled against it in favour of promoting competition with foreign fertiliser companies.

FX WRAP

The Dollar was lower on Monday. The week started off on a quiet note amid the Fed blackout and not much on the calendar schedule, although sits well off lows (107.40 currently vs lows of 106.88) after risk assets tumbled into the NY afternoon after Bloomberg reported Apple (AAPL) was slowing its hiring plans. The only data point of note in the US was the NAHB housing market index, falling harder than expected and at a low not seen since May 2020. Looking ahead, there is not much scheduled this week in the US, aside from earnings season and Flash PMIs, as market participants await the key Fed meeting on July 27th. Technicians flag support for the DXY at 106.35 and 105.65, with rate differentials a likely driver this week ahead of the ECB on Thursday.

Activity currencies mostly firmed against the Buck, with GBP outperforming whilst the NZD was the underperformer, flat, with the CAD and AUD somewhere in between. Looking ahead, Tuesday sees RBA minutes with Bullock speaking at the RSA as well as BoE's Bailey speaking. Additionally, on Wednesday the highlights include UK and Canadian CPI as well as NZ trade data.

Cable managed to break the pivotal 1.2000 level to a peak of 1.2033, albeit to fall back beneath it later in the session. In terms of newsflow, BoE's Saunders said he believes that the tightening cycle has "some way to go" and the cost of not tightening promptly enough would be relatively high at present. Elsewhere, in the Conservative leadership race, Tom Tugendhat has been knocked out of the UK Conservative leadership race having received the least number of votes in the third ballot; Sunak leads with 115 followed by Mordaunt with 82.

The Loonie also saw decent gains against the Greenback, before the risk off seen later on, with the gains of over USD 5 /bbl in WTI and Brent helping. Highlighting this, the USD/CAD cross hit a low of 1.2899, with technicians noting the cross dipped beneath the pivotal 21 DMA support level which it had supported since mid-June. As such, the next key Fib techs are looking at is 1.2871.

For the antipodes, Aussie took advantage of the dollar pullback to reclaim 0.6850, albeit briefly, as commodities and yields gained to the benefit of the antipode. NZD traded within tight parameters and could not glean traction from the fading Buck, which came after stronger than anticipated NZ Q2 CPI and the RBNZ rolling out a new standing repo for eligible banks to lend NZDs 15bps under the OCR.

Safe-havens, CHF and JPY, were mixed with the Yen seeing mild gains and the Franc slight losses. Both traded within pretty narrow ranges against the Buck, and whilst the Yen managed to breach 138.00 to the downside, market participants await the BoJ rate decision Thursday.

EUR saw gains, largely benefitting from the broader Dollar pullback as opposed to anything fundamental for the single currency, coming despite the looming Nord Stream 1 decision (due Thursday once the maintenance period ends) as optimism fades. Otherwise, participants look to the ECB meeting on Thursday where the central bank will deliver on its heavily flagged 25bp rate hike, a lift-off that will impact all three key rates and lift the main depo rate from -0.50% to -0.25%. Sources and commentary indicate that some of the more hawkish officials (e.g. Holzmann) on the GC want at least the optionality for a 50bp hike at this meeting, as such there could well be dissent on the vote.

EMFX were predominantly lower on Monday with BRL, ZAR, TRY, and RUB all seeing losses with MXN and CNY the outperformers. The Peso rode the crude wave, while the TRY was hindered by the aforementioned crude strength. BRL also saw losses against the Buck, where Brazilian IGP-10 inflation printed above expected.