



US Market Wrap

19th July 2022: NS1 optimism and ECB pivot helps the Dollar weaken and cyclicals prosper

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar down.
- **REAR VIEW:** ECB put 50bps on the table; IBM, JNJ, HAS all victims to USD strength; LMT cuts FY guidance; Nord Stream 1 seen restarting gas flows on Thursday, but at reduced levels; BoE's Bailey says 50bps hike at next meeting will be considered; Mixed US housing data; TWTR/Musk buyout trial set for October; EU mulling 15% reduction in natgas demand for August until March.
- **COMING UP: Data:** UK CPI, Canadian CPI, EZ Consumer Confidence (Flash), US Existing Home Sales, New Zealand Trade Balance **Event:** PBoC LPR **Supply:** Germany & US **Earnings:** Abbott, Tesla.

MARKET WRAP

Stocks indices all saw strong gains Tuesday with a cyclical bias (RUT +3.6%, DJIA +2.4%) with the Dollar paring some of its broad-based rally. The gains were made slowly, but steadily through the session, taking Spooz above their 50dma for the first time since April. Earnings from IBM, JNJ, and HAS were all plagued by FX headwinds, highlighting the sensitivity of the market currently to Dollar strength, and as seen on Tuesday, weakness too. The Dollar pullback was in part a function of Euro strength amid sources opening the door to a 50bps move this Thursday - traders speculate currency concerns might be playing their part in the hawkish pivot - seeing EGBs sell off more than USTs. The cyclical appetite was also aided by reports that the Nord Stream 1 is expected to resume (at least some) flows once the maintenance period ends Thursday, a decision that has got the market on its toes given the ramifications for not just energy prices, but growth in Europe and central bank pricing. For example, Bloomberg reported recently that the EU is mulling a 15% reduction in natgas demand for August through March amid the supply concerns. There was more optimism for global food supply however, with FT reporting that Ukraine and Russia are close to a deal to secure safe passage of grain through the Black Sea, albeit they remain at odds over port and export route security plans.

US

BUILDING PERMITS/HOUSING STARTS: Building permits fell 0.6% in June to 1.685mln from 1.695mln, which was a smaller fall than the expected 1.65mln. Meanwhile, housing starts fell 2% to 1.559mln from the upwardly revised 1.591mln, a deeper fall than the expected 1.58mln. Looking into the data, Pantheon Macroeconomics said, "the headline numbers are flattered by rebounds in the volatile multi-family components, but core single-family starts and permits both fell by 8%, the fourth straight declines." Moreover, PM adds, "homebuilders are responding to plunging demand, but the adjustment has some way yet to run." Looking ahead, the consultancy notes, "construction activity lags sales, which in turn lag mortgage applications. Applications have dropped by more than a quarter since the turn of the year, and even if the June flattening is sustained - it probably won't be - the data suggest that single-family housing construction needs to fall by a further 20% or so over the next few months." The consultancy concludes that homebuilders must quickly alter to a world with less buyers and significantly greater competition from private sellers of existing homes, whose listings jumped by a third in the three months to May, with much more coming. In short, housing construction is nowhere near the bottom.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 16 TICKS LOWER AT 117-31

Treasuries bear-flattened as risk assets bounced through the session, ECB opened the door to 50bps, and some optimism around Nord Stream 1. At settlement, 2s +7.3bps at 3.233%, 3s +7.8bps at 3.232%, 5s +8.0bps at 3.150%, 7s +7.3bps at 3.129%, 10s +5.9bps at 3.019%, 20s +3.6bps at 3.435%, 30s +4.3bps at 3.178%. Inflation breakevens: 5yr BEI +8.2bps at 2.741%, 10yr BEI +2.7bps at 2.362%, 30yr BEI +1.6bps at 2.254%.

TOKYO/LONDON: An uneventful APAC session Tuesday, with Japan returning, that saw T-Notes rise very gradually a few ticks to hit session highs of 118-15+ at the London handover. That was before some mild, transatlantic selling pressures were built out of the EGB space after ECB sources said a 50bps hike was now on the table for Thursday's



confab. Citi's rates desk noted its phones were very quiet in London anyway amid the record temperatures; T-Notes stayed within a 5 tick range for the rest of the European morning.

NEW YORK: The contracts edged beneath the earlier lows of 118-05 at the NY handover in lack of major catalysts. The mixed housing starts/building permits data had a muted reaction. But as stocks and oil continued their slow ascent through the session, and sentiment improved further after Reuters reported the Nord Stream 1 is set to resume some flows, T-Notes fell to session lows of 117-27+, past Monday's 118-00 low, and cash 10yr yield printed a high of just beneath 3.04%. There was some loss paring into the European close, but the sustained stock strength saw the 10yr yields return back towards its peaks into the close, but that was being by the front-end, flattening the curve.

AHEAD: Traders now look to Wednesday's USD 14bln 20yr bond auction, with the USD 17bln 10yr TIPS auction on Thursday. Meanwhile, the ECB and BoJ on Thursday loom, but the PBoC is first up on Wednesday. On data, we get existing home sales (Wed), followed by Philly Fed (Thurs) and Flash PMIs (Fri).

STIRS:

- EDU2 -3bps at 96.53, Z2 -5bps at 96.085, H3 -6bps at 96.24, M3 -8bps at 96.385, U3 -9.5bps at 96.545, Z3 -10bps at 96.675, H4 -10bps at 96.795, M4 -10bps at 96.905, Z4 -9bps at 97.03, Z5 -7bps at 97.095.
- Little volumes traded in EDs and SOFR, with no chunky options trade either in both blocks and on Globex.
- NY Fed RRP op. demand rose to USD 2.212tn from 2.190tn.

CRUDE

WTI (U2) SETTLED USD 1.62 HIGHER AT 104.22/BBL; BRENT (U2) SETTLED USD 1.08 HIGHER AT 107.35/BBL

Oil prices were firmer Tuesday as broader risk assets climbed and the Dollar fell through the session. Halliburton (HAL) was out Tuesday (post-earnings) with some bullish commentary on drilling demand, saying that Middle-East and Latin America activity is expected to grow the most. Although perhaps there's some renewed supply risk building after discontent grows in Libya over the new NOC chief, Farhat Bengdara, who has rejected challenges to his appointment, in what reports suggest could lead to splits within the NOC. Oil traders now look to the weekly inventory data, with the private release due later on Tuesday ahead of the EIA print on Wednesday.

GAS: European gas prices saw some relief on the Gazprom situation after Reuters reported, citing sources, that Nord Stream 1 is seen restarting gas flows following maintenance on July 21st, but at reduced levels, as the reports note the turbine that was sent for repair in Canada is unlikely to be re-installed by Thursday.

EQUITIES

CLOSES: SPX +2.64% at 3,932, NDX +3.13% at 12,249, DJIA +2.43% at 31,827, RUT +3.60% at 1,796.

SECTORS: Communication Services +3.64%, Industrials +3.58%, Energy +3.16%, Materials +3.11%, Consumer Discretionary +3.09%, Technology +3.07%, Financials +3.07%, Real Estate +2.84%, Health +1.8%, Consumer Staples +1.08%, Utilities +0.68%.

EUROPEAN CLOSES: Euro Stoxx 50 +2.15% at 3,587; FTSE 100 +1.01% at 7,296; DAX +2.69% at 13,308; CAC 40 +1.79% at 6,201; IBEX 35 +2.03% at 8,125; FTSE MIB +2.49% at 21,696; SMI +1.02% at 11,122.

EARNINGS: IBM (IBM) was lower despite beating on the top and bottom line, as the co. said at mid-July 2022 FX rates, it expects to see a six-point headwind to revenue growth in 2022 and about an eight-point headwind to Q3 revenue growth. Further highlighting the impact, IBM said the nominal impact to its FY earnings from the Dollar's rally would be USD 3.5bln. **Johnson & Johnson (JNJ)** surpassed Wall St. expectations on EPS and revenue. However, looking ahead JNJ cut its FY guidance, but do note it was due to the strength of the US Dollar rather than operational issues.

Halliburton (HAL) was firmer after it beat on EPS and revenue with profit up almost 41% Y/Y as the jump in oil prices spurred a significant increase in drilling demand. **Hasbro (HAS)** posted a mixed report, where profit beat but revenue missed. HAS, as is a familiar theme in US earnings so far, noted FX is impacting top-line growth. **Lockheed Martin (LMT)** issued a poor report, as it missed on EPS and revenue alongside cutting FY EPS and revenue guidance. LMT said Q2 revenue was 'affected by supply chain impacts'.

STOCK SPECIFICS: Delaware court judge ruled against Elon Musk and has allowed **Twitter (TWTR)** to expedite the lawsuit, with the trial for Musk buyout set for October. **NCR (NCR)** saw strong gains after WSJ reported private-equity firm Veritas is in exclusive talks to buy it. **Boeing (BA)** was up after 777 Partners will order up to 66 737 MAX jets.



Separately, **AerCap (AER)** confirmed it will purchase five additional Boeing 787s, while Bloomberg reported an approaching Air India order that could include 150 737s. **Cinemark (CNK)** saw notable strength following an upgrade at Morgan Stanley who said the return of consumers to theatres represents a trend not reflected in the stock's price. **Shopify (SHOP)** and **YouTube (GOOGL)** are to let merchants sell through the platform, supporting the former's stock.

FX WRAP

Dollar was lower on Tuesday amid the broad risk-on sentiment, seeing the DXY print a low of 106.370. The Buck also fell victim to the Euro's strength following unexpected source reports of a potential 50bps ECB hike on Thursday. Elsewhere, although it did not garner a reaction, mixed US housing data did not help provide any impetus for the floundering Dollar. Looking ahead, earnings season continues with Tesla (TSLA) and Abbott (ABT) the highlights on Wednesday, followed by ECB Thursday, then all eyes ahead to the FOMC on July 27th.

Activity currencies were firmer. Antipodeans outperformed and saw gains in excess of a per cent against the Buck, whilst GBP was the relative underperformer, albeit still firmer. On the whole, high beta FX benefited from the wider risk-on sentiment, as the Aussie managed to reclaim 0.6900, to highs of 0.6912 and the Kiwi breached above 0.6200, to a peak of 0.6240. Elsewhere, for the Aussie, there were hawkish RBA minutes which added impetus as the minutes stated that Board members agreed further steps would need to be taken to normalise monetary conditions in the months ahead. Looking ahead, RBA's Lowe speaks on Wednesday at the Australian Strategic Business Forum.

Sterling was firmer, highlighted by Cable managing to hold above 1.2000 for the majority of the session as market participants await Wednesday's key UK inflation data in the backdrop of more aggressive BoE pricing. On this, BoE's Bailey stated at the next meeting a 50bps increase will be among the choices, but 50bps is not locked in and anyone who predicts this is doing so based on their own view. **Loonie** managed to break beneath 1.2900 to lows of 1.2871 as the firmer crude prices, as well as the aforementioned positive sentiment, helped the CAD. Nonetheless, akin to the Pound, market participants will be waiting for Wednesday's inflation data to determine the next direction of trade.

EUR saw decent gains against the Greenback, which began in the European morning following hawkish ECB sources, ahead of the meeting on Thursday. Reuters sources noted policymakers are to discuss a rate hike worth 25bps or 50bps and the bank is to hone in on a deal to make new bond purchases conditional on next-gen EU targets and fiscal rules. Later on, there were further Bloomberg sources, which added ECB President Lagarde is redoubling the push for the much-touted ECB tool to get a deal done this week and is still negotiating conditionality and legal aspects. Elsewhere, EUR/USD's rise came as reports hit that Russian gas flows via the Nord Stream 1 pipeline are expected to restart on time on Thursday, albeit not at full capacity, even though the European Commission is making contingency plans for the possibility that deliveries do not resume.

Safe havens, CHF and JPY, were mixed with the CHF seeing decent gains but the Yen was flat. For the latter, USD /JPY rebounded from lows of 137.39 to highs of 138.39, which comes in the face of yields and stocks rising, alongside broader risk-on flows hurting the haven. Looking ahead, the BoJ Thursday is widely expected to maintain its negative interest rate policy and 25bps cap on 10-year JGB yields and beyond, which desks continue to cite as a risk for the Yen.

EMFX was mixed, with MXN and TRY seeing losses against the Buck, but RUB, ZAR, and BRL all firmed. ZAR benefited after Eskom announced it will reduce loadshedding to stage 2 from 16:00 local time to midnight. The Lira failed to see a reaction in wake of reports Turkey and Russia are reportedly discussing local currency payment options for energy, according to Bloomberg citing a Turkish official, which would allow Turkey to pay for some energy imports in Lira.

CEE: The IMF warned of a sharp European economic hit from a Russian gas embargo, according to the FT, which could trigger economic contractions in excess of 5% over the next year for Czech Republic, Hungary, Slovakia and Italy. EUR /PLN saw in the wake of NBP's Dabrowski stating he would not increase rates further or would increase once more by 25bp at most. This followed earlier remarks from Liwiniuk who noted the MPC should consider smaller rate hikes due to a slowdown in risks.

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