



US Market Wrap

20th July 2022: US outperforms as Italy's crisis, NS1 angst, and Ukraine woes hit Europe

- **SNAPSHOT:** Equities up, Treasuries flat, Crude down, Dollar up
- **REAR VIEW:** Lavrov touts objectives beyond the Donbas; Gas flows through NS1 pipeline expected to resume Thursday; Italian PM Draghi to offer intention to resign; F intends to cut 8k workers; Keystone pipeline may resume next week; Strong US 20yr auction; GOOGL to pause hiring for two weeks; NFLX subscriber loss better than feared.
- **COMING UP: Data:** Japanese Trade Balance, US IJC **Events:** ECB, BoJ, CBRT & SARB Policy Announcements **Speakers:** ECB's Lagarde **Supply:** Spain, France & UK **Earnings:** AT&T, Phillip Morris; Roche, Nokia.

MARKET WRAP

Major US stock indices were firmer (SPX +0.6%) on Wednesday as they managed to shake off the pessimism in Europe (DAX -0.2%), exhibited in the Dollar strength. Although there was a brief spell of index weakness after The Information reported, citing an internal memo, that Google (GOOG) was pausing new hires for two weeks, similar to the weakness seen Monday on Apple's (AAPL) hiring u-turn. European assets were hit (at pixel time EUR/USD -0.5%) after Russia's Foreign Minister Lavrov confirmed suspicions that Moscow has its eyes beyond the Donbas region in Ukraine, while Russian President Putin also spoke, alluding to a scenario where the Nord Stream 1 pipeline is completely shut off. However, as things stand, it has been reported that flows are set to resume on Thursday from the NS1, albeit at a slower pace, but the situation remains fluid. There was also internal pressure in Europe with ANSA reporting Italian PM Draghi is set to announce his resignation on Thursday morning. All of which will occur the same day as the ECB. Meanwhile, oil prices were lower in the wake of the stronger Dollar, mixed EIA inventories, and the Keystone pipeline force majeure. Treasuries bear-flattened after earlier strength out of Europe amid the Russia/NS1 woes that unwound as US stocks posted another rally.

CENTRAL BANKS

BOJ PREVIEW: The Bank of Japan is expected keep rates at -0.10% and QQE with Yield Curve Control to flexibly target 10yr JGB yields at around 0%. The central bank will also release its latest Outlook Report containing board members' median forecasts for Real GDP and Core CPI. To download the full Newsquawk preview, [please click here](#).

ECB PREVIEW: After standing pat on rates in June, the ECB is finally set to pull the trigger and commence its rate-hiking cycle. Up until this week, analysts had been near unanimous in their view that the hike would be by 25bps given the explicit nature of the June statement. However, recent reporting has suggested that policymakers will now discuss the possibility of a 50bps move. Accordingly, markets now assign a 60% chance to such a move vs. around 33% at the start of the week. If policymakers opt for a 25bps move this time around, the statement will likely reaffirm the pledge to raise rates by a larger increment in September, depending on the medium-term inflation outlook. The July meeting will also likely see the Governing Council present details of its new anti-fragmentation tool - Transmission Protection Mechanism (TPM). It remains to be seen how much in the way of details the ECB will provide on its new tool as policymakers might prefer to use a "whatever it takes" approach rather than tempt bond-sellers with a specific number. Furthermore, the issue of conditionality will also be key when assessing the efficacy of such a tool, particularly in lieu of recent events in Italy whereby domestic politics has seen the IT/GE spread widen; something which Northern nations will likely impress is not as a result of ECB monetary policy. To download the full Newsquawk preview, [please click here](#).

GLOBAL

NORD STREAM 1: As things stand, there are indications that Nord Stream 1 flows will resume at reduced capacity on Thursday. The German energy regulator said Gazprom has renominated gas flows, seen at 30% capacity, but caveated that further changes are possible to the gas flow nominations. There was some earlier concern after Russian President Putin said Russia is yet to see in which condition the turbine for Nord Stream 1 will return from maintenance, adding that there is a risk the equipment can be switched off and Nord Stream 1 stops after its return from Canada. Putin also



suggested that gas flows via the pipeline could fall further, from around 60mcm a day to 30mcm a day if a turbine is not replaced quickly. But the current assumption is that while the turbine will likely not be in operation for Thursday, flows will still resume at the reduced 30% capacity mentioned above.

US EXISTING HOME SALES: US existing home sales fell 5.4% in June to 5.12mln, the slowest pace since June 2020, and well beneath the expected 5.38mln and the prior 5.41mln. Looking into the report, Pantheon Macroeconomics note, “sales continue to track the steep decline in mortgage applications since the turn of the year, falling at a 38% annualized rate in Q2, and the bottom likely is still some way off.” Moreover, the consultancy adds, “soaring rates have severely curtailed potential buyers’ spending power, and consumers’ confidence has been hammered by the surge in gas prices and the correction in the stock market.” As such, the diminishing demand is complemented with flying supply, due to would-be sellers beginning to worry they will be stranded as buyers fade away. Nonetheless, Pantheon adds, “we estimate that the number of single-family homes for sales jumped by 6% in June, making a cumulative 40% surge over the past four months. As a result, prices fell by 1.8% m/m, the second straight decline.” Lastly, due to this PM expects prices to continue declining for the rest of the year, at least, meaning falling home prices in time will feed into slower rent inflation, but likely not until next year.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 6 TICKS LOWER AT 117-25

Treasuries bear-flattened after earlier strength in Europe amid Russia/NS1 woes unwound as US stocks posted another rally. 2s +2.1bps at 3.252%, 3s +2.3bps at 3.255%, 5s +3.1bps at 3.181%, 7s +2.5bps at 3.154%, 10s +1.9bps at 3.038%, 20s -0.4bps at 3.431%, 30s -0.6bps at 3.171%. Inflation breakevens: 5yr BEI -1bps at 2.722%, 10yr BEI -0.7bps at 2.347%, 30yr BEI -2bps at 2.22%.

THE DAY: T-Notes traded sideways in a very tight range into the APAC Wednesday session before rallying as the European session got going, taking their cues from the advances in UK Gilts and periphery debt, specifically Italian BTPs, ahead of the Draghi confidence vote. The dip in oil prices also helped the bond bid, as did concerns over the Nord Stream 1 pipeline. Their was another spurt higher at the NY handover after Russia’s Lavrov confirmed fears that Russia is now looking to go beyond the Donbas region in Ukraine. Some comments soon after from Putin, who alluded to the NS1 pipeline potentially being switched off, saw another spurt higher for govvies, taking T-Notes to session highs of 118-17+. The contracts then pared through the NY session as US stocks managed to look past the woes in Europe and set off on another rally, but also as the non-financial corporate debt pipeline picked up, including a USD 3.25bln IBM (IBM) deal, ahead of the 20yr auction.

20YR AUCTION: The 20yr auction was particularly solid. The 3.240% stop was richer than June’s 3.448%, but still managed a massive 2.7bps stop-through, larger than the six-auction avg. 1.2bps and the prior tail of 0.2bps. The 2.65x was a touch firmer than avg. and the prior. But it was the breakdown that impressed even more, with Dealers taking a record low 7.9% after Indirects stepped up to take 78% from last month’s 67.4%, and well above average 67.8%.

STIRS:

- EDU2 -2bps at 96.51, Z2 -2bps at 96.065, H3 -3.5bps at 96.20, M3 -2.5bps at 96.355, U3 -0.5bps at 96.535, Z3 -0.5bps at 96.67, H4 -0.5bps at 96.79, M4 -1bps at 96.895, Z4 -2bps at 97.015, Z5 -4.5bps at 97.06.
- NY Fed RRP op. demand rose to USD 2.240tn from 2.212tn.
- US sold USD 30bln of 119-day CMBs at 2.720%, covered 3.87x.

CRUDE

WTI (U2) SETTLED USD 0.86 LOWER AT 99.88/BBL; BRENT (U2) SETTLED USD 0.43 LOWER AT 106.92/BBL

Oil prices were lower Wednesday in the wake of the stronger Dollar, mixed EIA inventories, and the Keystone pipeline force majeure. The ongoing Nord Stream 1 saga continued to whip around the nat gas contracts but did not see much follow-through for the oil benchmarks. The EIA data saw a surprise 0.4mln bbl draw in crude stocks after the private data indicated a 2mln bbl build, while gasoline stocks saw a hefty 3.5mln build, indicative of softening end-user demand; refinery utilisation declined and crude production fell to 11.9mln BPD from 12mln. Not long after the data, Canada’s TC Energy (TRP) announced its 590k BPD Keystone pipeline was running at reduced rates for a third day, giving no timeline for completion of repairs to a third-party power utility that was damaged on Sunday. The Keystone news did coincide with a lift off the lows for oil, but note the upside in stocks at the time was also playing a part.



SAUDI: Saudi Arabia is touted to be facing the upper limits of its production capacity, with the producer currently pumping 10.5mln BPD but WSJ sources noted it would struggle to produce 11mln BPD for more than a few months "at a stretch" and 12mln BPD, which The Kingdom has said is its capacity, for more than a few weeks. The WSJ sources added, "If there is a big gap in the markets, Saudi Arabia could tap into hundreds of millions of barrels of oil it has in strategic storage to compensate for unexpected outages in supply."

LIBYA: Libya has resumed oil exports from Es Sider (250k BPD) oil port, according to an oil ministry statement, also stating that the Waha oil fields have resumed production at an initial rate of 15k BPD.

EQUITIES

CLOSES: SPX +0.58% at 3,959, NDX +1.55% at 12,439, DJIA +0.15% at 31,874, RUT +1.43 % at 1,824.

SECTORS: Consumer Discretionary +1.76%, Technology +1.56%, Energy +1.02%, Communication Services +1.01%, Industrials +0.74%, Financials +0.32%, Materials +0.11%, Real Estate -0.53%, Consumer Staples -0.73%, Health -1.06%, Utilities -1.36%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.06% at 3,585; FTSE 100 -0.44% at 7,264; DAX -0.20% at 13,281; CAC 40 -0.27% at 6,184; IBEX 35 -1.18% at 8,028; FTSE MIB -1.60% at 21,348; SMI -0.56% at 11,059.

EARNINGS: **Netflix (NFLX)** saw gains post-earnings, where it lost 970k subscribers in the Q, but that was less than the expected 2mln decline so was framed as better-than-feared. Moreover, NFLX beat on EPS but missed on revenue. Looking ahead, guidance was light as it expects Q3 subscribers of +1mln, short of the expected +1.8mln, whilst EPS and revenue guidance was also short. Desks warn of a potential rocky road for the Co. until it gets its ad-supported tier operating. **Biogen (BIIB)** was lower, despite a strong report, highlighted by beating on EPS and revenue alongside raising FY22 outlook. **Baker Hughes (BKR)** was lower after it missed on EPS and revenue citing various challenges including component shortages and supply chain inflation. Moreover, BKR noted the demand outlook for the next 12-18 months is deteriorating. **Omnicom (OMC)** firmed after it surpassed Wall St. consensus on EPS and revenue. CEO noted it is in a strong financial position heading into the second half of the year. **ASML (ASML)** current Q was strong, highlighted by topping on profit and revenue, but looking ahead ASML cut revenue outlook for both FY and Q3. Co. added its customers are turning somewhat cautious in anticipation of slowing chip demand. **Abbott (ABT)** beat on EPS and revenue, alongside raising FY EPS view. **Elevance Health (ELV)** posted a strong report, as it beat on EPS and revenue as well as raising its FY22 EPS view.

STOCK SPECIFICS: **Ford (F)** planning to cut up to 8k salaried workers related to gas-powered vehicles in the coming weeks amid its push into EVs, according to Bloomberg. **Google (GOOGL)** stated, as previously alluded to, will pause hiring for two weeks, according to an internal email cited by The Information. **Merck (MRK)** was softer after it announced its Keytruda cancer drug failed to meet its goal in a late-stage study focused on head and neck cancer patients. **Bath & Body Works (BBWI)** cut guidance noting it is navigating a challenging environment. Highlighting this, BBWI sees Q2 sales down 6-7% Y/Y (prev. up low single digit) and FY22 Revenue growth seen down mid- to high-digit (prev. up low-single digit). Lowers EPS view to USD 0.40-0.42/shr (prev. 0.60-0.65, exp. 0.62). Casino names, such as **LVS, MGM, WYNN, MLCO**, saw upside after Macau announced plans to reopen casinos on July 23rd. EU antitrust regulators likely to reinforce **Apple (AAPL)** investigation with new evidence and no new changes, according to Reuters sources. **Goldman Sachs (GS)** CEO said tightening economic conditions will affect the consumer and slow growth, via CNBC. **Boeing (BA)** is preparing to increase production of its 787 Dreamliner soon after US air-safety regulators allow the aircraft to resume deliveries, according to WSJ sources; BA expects deliveries to restart as soon as this summer. **New Relic (NEWR)** to explore a sale amid private equity interest, according to Reuters sources.

FX WRAP

The dollar was firmer Wednesday, reaching a high of 107.250, with the Buck seeing pronounced upside in the European morning after Russian Foreign Minister Lavrov diminished the risk appetite. On this, he said the objective of the "special operation" in Ukraine has changed from just Donetsk and Luhansk to a number of other territories. Further adding to the punchy rhetoric, Lavrov said if the West delivers long-range weapons to Ukraine, then geographical goals in Ukraine will be advanced even further. Moreover, Lavrov noted that it makes no sense in the current situation when commenting on the prospect of peace talks with Ukraine. Elsewhere, US existing home sales disappointed, falling to the slowest pace since June 2020. Looking ahead, after-hours Wednesday is Tesla (TSLA) earnings, before Phillip Morris (PM) and AT&T (T) Thursday, as well as the key risk event of the ECB rate decision.



Activity currencies were more-or-less flat, with AUD and GBP seeing very mild losses against the Buck, whilst NZD and CAD were flat. Cable saw a high of 1.2037, but for the third consecutive session was unable to hold gains above the key level. Regarding the day, Cable saw a slight boost in the European morning after blowout inflation metrics, but this faded through the session amid heightened recession fears. The Aussie saw very mild losses, akin to the Pound, and traded within tight ranges as AUD/USD pivoted 0.6900, with a range of 0.6930-0.6874. For the Aussie, RBA Governor Lowe said they are going to have to increase rates with inflation going to 6% or 7%, adding that steady rate increases are now needed to restrain inflation expectations. The Loonie was in a tight 1.2906-1.2855 range, and as previously mentioned, any early momentum was quickly lost following Lavrov's remarks. Elsewhere, Canadian CPI was a welcome report and was not as hot as expected, on both the core and headline metrics; USD/CAD rallied to its peak in wake of the report. Kiwi was the outperformer throughout Wednesday's session, with help from a marked turnaround in the AUD /NZD cross that faded ahead of 1.1100 and tested lows below 1.1050 not far from 50 and 21 DMAs (1.1034 and 1.1030 respectively). NZD/USD held 'comfortably' above 0.6200, albeit waning from a 0.6272 peak awaiting NZ trade data for further direction.

EUR was the G10 underperformer on a few negative headlines. Firstly, as previously mentioned, in the European morning the single-currency saw weakness after punchy rhetoric from Lavrov, which was only accentuated after Russian President Putin stated we are yet to see in which condition equipment for Nord Stream 1 will return from maintenance, and there is a risk that equipment can be switched off and Nord Stream 1 stops after its return from Canada. Additionally, Euro continued to see weakness into the close, and printed a low of 1.0156, after reports the Italian Government is on the cusp of collapse as parties refuse to back PM Draghi. Moreover, according to ANSA, Draghi is to announce Thursday at 08:00BST/03:00EDT at the Chamber of Deputies his intention to resign. Market participants await the key ECB meeting on Thursday ([preview here](#)), where the debate resides over a 25 or 50bps rate hike alongside any anti-fragmentation plan.

Safe havens, CHF and JPY, were mixed with the Swissy lower but the Yen flat. The former traded in very narrow ranges, highlighted by a roughly 50 pip range for the day as market participants await the key BoJ meeting. On this, the BoJ is expected to keep rates at -0.10% and QQE with Yield Curve Control to flexibly target 10yr JGB yields at around 0%. The central bank will also release its latest Outlook Report containing board members' median forecasts for Real GDP and Core CPI ([preview here](#)). Swissy handed back gains to the Buck and recoiled back above the key level of 0.9700 to highs of 0.9736.

EMFX was predominantly lower against the Buck. RUB was the outperformer and firmed, but ZAR, BRL, MXN, TRY, CNH/CNY all saw losses. USD/CNH rally stalled, with gains in equities limiting the upside, but signs suggest higher levels due with analysts noting if risk-off takes hold the USD/CNH rally should resume, with 6.8000 targeted. Lastly, EUR /CZK rallied after CNB vice-governor Mora noted it is desirable to continue restrictive monetary policy and he does not support FX interventions. Mora added inflation will not go down without decisive central bank action.

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