US Market Wrap

22nd July 2022: SPX posts best week in a month, despite Friday's losses, ahead of FOMC and Big Tech reports

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW**: Poor Global PMIs, US services falls into contractionary; Shocking SNAP earnings; Strong AXP report; VZ cuts guidance; Lagarde says ECB "will raise rates for as long as necessary"; US consider giving fighter jets to Ukraine.
- **CENTRAL BANK WEEKLY**: Previewing FOMC, NBH; Reviewing PBoC, BoJ, ECB, SARB, CBRT, CBR. To download the report, please click here.
- **WEEK AHEAD PREVIEW**: Highlights: FOMC, EZ & Australian CPI, US PCE. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [MON] NXPI; [TUES] UPS, KO, RTX, MCD, MSFT, TXN, V, GOOGL; [WED] TMUS, BMY, BA, QCOM, META, F; [THURS] TMO, LIN, HON, MRK, PFE, CMCSA, AMT, MO, MA, AMZN, INTC, AAPL; [FRI] AZN, CVX, XOM, PG, ABBV. To download the full report, please click here.

MARKET WRAP

It was risk off trade on Friday as nasty flash Eurozone PMIs for June accentuated by similarly disappointing prints in the US, pushing back on pricing for central bank tightening. Treasuries ripped higher on the poor survey data, with the 10yr cash yield hitting a low of 2.73%, a massive decline from the post-ECB high of 3.08% - Bund yields found resistance at 1%, where they haven't been beneath since May. While there was a brief rally in tech/growth stocks on the knee-jerk move lower in yields post US PMIs, better selling soon developed despite the yield impulse, extending through most of the session, before stock indices levelled out in late trade. Investors have their attention on tech sector headwinds after the SNAP report late Thursday, while Twitter's report Friday was also underwhelming (no guidance given). Verizon (VZ) had a bad report, but didn't echo the warnings from AT&T (T) which said people had been struggling to pay their phone bills lately, while American Express (AXP) posted a solid quarter with sanguine commentary on the state of the consumer. There have most definitely been mixed signals from the Q2 earnings season so far.

US

FLASH PMI'S: US flash July PMIs largely disappointed, as manufacturing came in above expectations at 52.3 (exp. 52.0, prev. 52.7), but services printed 47.0 (prev. 52.7), well beneath the expected 52.6 and also fell into contractionary territory for the first time since May 2020. The composite dropped to 47.5 from 52.3. Looking into the subcomponents, inflation metrics notably softened, albeit remain extremely elevated. Nonetheless, input prices eased to a six-month low and output prices declined to the lowest since March 2021. Meanwhile, firms' expectations for the future printed the lowest since 2020 and the employment gauges signalled continued growth, but more firms mentioned plans to cut costs and reduce staffing numbers. The report notes "the preliminary PMI data for July point to a worrying deterioration in the economy. Excluding pandemic lockdown months, output is falling at a rate not seen since 2009 amid the global financial crisis, with the survey data indicative of GDP falling at an annualised rate of approximately 1%." Furthermore, "firms are already reassessing their production and workforce needs, resulting in slower employment growth." Lastly, the report concludes, "although supply constraints remained problematic, constraining economic activity, the weakening demand environment has helped to alleviate inflationary pressures."

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 31+ TICKS HIGHER 119-28+

Treasuries ripped higher on poor survey data while the looming FOMC and belly supply capped further strength. 2s -10.6bps at 2.989%, 3s -13.3bps at 2.939%, 5s -14.1bps at 2.867%, 7s -14.1bps at 2.855%, 10s -13.4bps at 2.774%, 20s -9.3bps at 3.239%, 30s -7.6bps at 2.996%. Inflation breakevens: 5yr BEI -0.2bps at 2.626% 10yr BEI +0.1bps at 2.276% 30yr BEI +1.3bps at 2.180%.

THE DAY: The bid got rolling in the European morning after a slew of disappointing EZ PMI data saw govvies lifted, taking T-Notes swiftly above the 119 big figure. The grind higher extended into the NY session, aided by a chunky 17k FVU2 block buy. The fall in the US Flash PMIs, with the Services dipping into contractionary, saw a kneejerk spike in Treasuries, led by the front-end, taking T-Notes above 120 to a session high of 120-11; cash 10yr yield hit a low 2.732%, the lowest since late May and testing the lower bound of a multi-month trading range. However, profitable longs took some chips off the table as London closed out for the weekend and with an eye to next week's FOMC and refunding auctions.

TECHNICALS: It's also worth highlighting that August T-Note options expired Friday, and with CME noting min pain (for dealers) standing at the 118 strike, there was likely some pinning at play to prevent the tape ripping higher any further into the weekend. But if we do see another bounce from here, 120-16/19 is seen as key resistance in the T-Note above the round figure; TYU2 120 calls were active in options trade Friday.

REFUNDING: US to sell USD 45bln of 2yr notes on July 25th; USD 46bln of 5yr notes on July 26th; USD 38bln of 7yr notes on July 28th; all to settle on August 1st.

STIRS:

- EDU2 +4bps at 96.605, Z2 +9.5bps at 96.30, H3 +12.5bps at 96.51, M3 +15.5bps at 96.705, U3 +16bps at 96.90, Z3 +17bps at 97.045, H4 +17.0bps at 97.165, M4 +17.5bps at 97.275, Z4 +17bps at 97.385, Z5 +14bps at 97.365.
- In options, mostly put activity in STIRs but touted unwinds.
- NY Fed RRP op. demand at USD 2.229tln (prev. 2.272tln) across 101 bidders (prev. 101).

CRUDE

WTI (U2) SETTLED USD 1.65 LOWER AT 94.70/BBL; BRENT SETTLED USD 0.66 LOWER AT 103.20/BBL

The crude complex was choppy on Friday, but WTI and Brent eventually settled lower as they saw gradual losses in the NY afternoon. Nonetheless, for the week WTI and Brent saw slight gains, printing highs of USD 100.99 /bbl and 107.61/bbl, respectively. On the day, there were not any major energy catalysts via headlines, with the main overarching macro themes such as China's COVID situation, in addition to broader global demand headwinds, and Nord Stream 1 updates remaining the focus. On production, Libya's oil ministry stated crude production is at more than 800k BPD, and as a reminder on Thursday it was reported that Libya expects production to return to "normal levels" of 1.2mln BPD in 7-10 days. Meanwhile, according to a Basra Oil Co. executive, Iraq can increase oil production by 200k BPD this year if asked.

NORD STREAM 1: Gazprom said it still has no documentation from Siemens Energy (ENR GY) on the turbine for Nord Stream 1 and the contract does not foresee additional obligations for Russia in order to get the engine. Reuters reported Thursday that the Nord Stream 1 turbine is stuck in transit in Germany due to Russia not giving approval to transport it back. However, the Russian Kremlin denied reports on it being stuck in transit and labelled it "nonsense".

GAS: Italy opposes the European Commission's plan for a 15% reduction in gas consumption, via ANSA citing sources, as it noted Italy opposes the scale, compulsory nature, and it not being proportional for each nation. This comes after Greece expressed opposition to this measure earlier in the week. In the meantime, Eni's (ENI IM) request of gas supply to Italy from its Russian supplier has been partially confirmed for July 23rd and it expects partial supply to continue for the coming days.

BAKER HUGHES: US Rig Count (w/e July 22nd): Oil unchanged at 599, Nat Gas +2 at 155, Total +2 at 758.

EQUITIES

CLOSES: SPX -0.90% at 3,963, NDX -1.77% at 12,396, DJIA -0.43% at 31,899, RUT -1.37 % at 1,805.

SECTORS: Communication Services -4.33%, Technology -1.38%, Energy -0.88%, Materials -0.73%, Consumer Discretionary -0.66%, Financials -0.59%, Health -0.38%, Industrials -0.31%, Consumer Staples +0.69%, Real Estate +0.79%, Utilities +1.37%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.00% at 3,596; FTSE 100 +0.08% at 7,276; DAX +0.05% at 13,253; CAC 40 +0.25% at 6,216; IBEX 35 +0.49% at 8,051; FTSE MIB +0.07% at 21,211; SMI -0.37% at 11,093.

EARNINGS: **Snap (SNAP)** tumbled following a woeful report where it posted a deeper loss per share than expected, missed on revenue, and said it is to slow the rate of hiring and rate of operating expense growth. Moreover, SNAP said it is not providing Q3 guidance. **American Express (AXP)** gained post-beating on EPS and revenue alongside raising FY revenue growth view to +23-25% (prev. +18-20%). After earnings, CEO noted he sees no significant signs of stress in the consumer base and inflation is a modest contributor to our strong growth in volumes. Card members registered record spending which was driven by a rebound in travel and entertainment. **Verizon (VZ)** was lower after it marginally missed on EPS whilst revenue slightly beat. However, looking ahead, it cut FY EPS view and noted the inflationary environment is affecting consumer behaviour, intensified competition for consumer attention. Moreover, in contrast to **AT&T (T)**, VZ said it is not seeing late bill payments from customers. **Intuitive Surgical (ISRG)** was lower after it missed on EPS and revenue as placements of its Da Vinci robotic surgical systems fell. Co. said COVID resurgences are impacting the number of procedures performed with the system. **Schlumberger (SLB)** firmed after it surpassed Wall St. consensus on profit and revenue alongside raising FY outlook. SLB is benefiting from increased demand for its services amid higher oil prices. **Seagate Technology (STX**) saw weakness following a poor report, highlighted by falling short on top and bottom line as well as cutting Q1 guidance. **Twitter (TWTR)** missed on EPS and revenue. Moreover, TWTR did not provide financial guidance and revenue, but said it was hurt by the macro environment alongside the pending Musk deal. **HCA Healthcare (HCA)** saw notable gains after strong earnings, where it beat on EPS and revenue despite labour market and inflation challenges.

WEEKLY FX WRAP

Euro malaise masks Dollar's deficiencies, for a while

USD/EUR/JPY - Plunging bond yields and soaring debt futures were the predominant feature towards the end of yet another volatile and hectic week, with big repercussions for currencies that were already weighing the prospect of less hawkish global Central Bank policy action in the face of slowing economic growth. Indeed, the Greenback had been grinding lower in the absence of fresh impetus from Fed officials due to the pre-FOMC blackout period before a big sub-50 US services PMI miss pulled the composite down into contractionary territory and outweighed a marginally firmer than forecast manufacturing print. The DXY fell to a fresh w-t-d trough at 106.100 vs 107.960 peak in response, as the Yen rebounded to a new high circa 135.58 compared to 138.87 low and the Euro reclaimed 1.0200+ status within 1.0079-1.0278 extremes. However, this fails to tell the full story given the ECB’s decision to start normalisation with a front-loaded 50 bp hike that marked the end of NIRP, while the BoJ retained ultra-accommodation with dovish guidance as Japan’s struggle against supply shortages is compounded by the latest wave of Covid. Nevertheless, Eurozone PMIs were just as alarming and Italy’s political situation presents another problem as PM Draghi tendered his resignation again and the country prepares for snap elections that could scupper prospects of tapping the TPI if BTP-Bund spreads blow out again. On that note, terms and conditions for deploying the anti-fragmentation tool proved to be stringent if not quite prohibitive, and President Lagarde added that GC discretion will be applied alongside the main four criteria, to the disappointment of those looking for a more flexible instrument. Conversely, fears over Nord Stream 1 gas flows failing to resume after routine maintenance were appeased to an extent when the pipeline returned to pumping at 40% capacity, but the cut-off threat persists in view of the EU’s impending seventh batch of sanctions against Russia.

GBP - In contrast to preliminary findings in the US and EZ, UK PMIs were a tad above consensus to compliment some labour market metrics, a firmer y/y headline CPI and not as weak as feared retail sales. Hence, Sterling ends the week on a firmer footing with Cable much closer to 1.2063 than 1.1856 and Eur/Gbp just under 0.8500 between 0.8584-0.8458 parameters even though the EU has lodged more four new NI Protocol infringement procedures against Britain. In terms of BoE speak, MPC dissenter Saunders was suitably hawkish and he will bow out next month, so comments from Governor Bailey carried more weight as he stated that a 50 bp tightening move will be on the table in August along with further details on the sale of Gilts in the APF that might start as early as the month after. On the political front, contenders for Tory Party chief and next PM were whittled down to two and Truss leads Sunak in polls of the Conservative membership ahead of hustings and head-to-head TV debates.

AUD/NZD/CAD - The Aussie, Kiwi and Loonie could all arguably have been higher against their US rival long before Friday’s Buck retreat, as RBA minutes and remarks from Deputy Governor Bullock underscored the commitment to tighten rates beyond neutral, NZ Q2 CPI came in stronger than anticipated (y/y three decade-plus high) to offset a trade deficit and BoC inflation measures were probably strong enough along with buoyant Canadian retail sales to counter a headline miss in justification of the BoC going large last Wednesday (rates jacked up 100 bp) and adding hawkish guidance. Nonetheless, supplemented by recoveries in crude and other commodities, Aud/Usd is towards the apex of a 0.6977-0.6789 band, Nzd/Usd is near the pinnacle of its 0.6304-0.6142 extremes and Usd/Cad is probing 1.2825 compared to 1.3030 at one stage.

CHF - Slim pickings in terms of Swiss specifics, but sight deposit balances signalled the return of official intervention via a rise in domestic bank accounts and the trade surplus swelled regardless of a slowdown in key watch exports. The

Franc was more attuned to external factors and after tracking the Dollar and Euro rather than overall risk sentiment it is ending on a high note, as Usd/Chf eyes 0.9600 from 0.9791 and Eur/Chf trades not much further away from 0.9800 vs 0.9950.

SCANDI/EM - The Nok and Sek both netted gains against the Eur on risk grounds and the removal of guidance for September by the ECB that leaves the single currency more data-dependent and prone to divergence from Norges Bank and Riksbank policy rates that appear to be set on predetermined paths. Moreover, the former found some traction from stability in the price of Brent, as did the Mxn in tandem with WTI and firm Mexican first half of the month inflation data. Elsewhere, the Zar got an added bonus from the SARB that opted to raise rates by 75 bp instead of the 50 bp move expected, but also welcomed Gold’s firm bounce from Usd 1680.25/oz to almost Usd 1740. On the flip-side, the Try received no real support from the CBRT, albeit no change was envisaged, the Inr was only partly reprieved by the RBI’s willingness to throw an extra Usd 100 bn into the pot used to curb runaway Rupee depreciation and the Czk took on board CNB commentary alluding to the end of the hike cycle being nigh. Similar messages from the NBP for the Pln to digest, while the HKMA continued to peg the Hkd, the NBH poured more liquidity into the system for the Huf and BI stepped into FX and NDF market to shore up the Idr. In China, no change in LPRs by the PBoC, but more pledges to keep the Cny and Cnh by default stable/steady and provision of support to the real economy that is also dealing with further pandemic outbreaks, restrictive measures and lockdowns in some areas.