



US Market Wrap

25th July 2022: Stocks mixed ahead of key risk week full of big tech earnings and FOMC

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude up, Dollar down.
- **REAR VIEW:** Gazprom halted one further engine at Nord Stream 1 pipeline; Hawkish ECB commentary; Poor German IFO data; China reportedly imposing COVID closed loops on major Shenzhen companies; Decent US 2yr auction; TSLA discloses impairment loss related to BTC; AAPL files for self-driving patents.
- **COMING UP: Data:** US Consumer Confidence, New Home Sales **Events:** IMF Short-Form Forecasts, EU Extraordinary Energy Summit **Supply:** Italy & US **Earnings:** Alphabet, Microsoft, General Electric, Coca-Cola, Visa, McDonald's, Paramount; easyJet, ITV, Unilever; Logitech; LVMH, Michelin, UniCredit, Deutsche Boerse.
- **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:** [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

Equities were bid throughout the European morning, although the announcement from Gazprom that they are halting one additional engine at the Nord Stream 1 pipeline to see gas flows decline to 20% capacity hit the risk environment, particularly in Europe given its exposure, but US stocks were dragged down with it. Stocks managed to claw back a lot of losses in the final few minutes of trade as we head towards month end, which could explain some of the choppiness into the close. Moreover, this saw the S&P 500 return to positive territory with the majority of sectors in the green, other than the heavyweight sectors: Consumer Discretionary, Technology and Communication Services - which led to the Nasdaq100 closing in the red. The Nasdaq losses come ahead of a heavy week of tech earnings from the behemoths Apple (AAPL), Amazon (AMZN), Microsoft (MSFT), Meta (META) and Google (GOOGL) as one of the main key risk events this week, including the FOMC rate decision on Wednesday (preview below). The dollar was lower on Monday while the Euro was choppy on hawkish ECB commentary, energy concerns and weak German IFO data. Crude prices were bid on geopolitical risk premium while European natgas was supported by the Gazprom news while the weaker dollar was also supportive. Treasuries were lower across the curve weighed on by UST and IG supply and the aforementioned hawkish ECB commentary but were off lows on the energy concerns. Note, after the closing bell Walmart (WMT) issued a profit warning where it cut its profit outlook for Q2 and FY23 which weighed on US equity futures and particularly retail names, including Amazon (AMZN) ahead of earnings on Thursday.

US

FED PREVIEW: The Federal Reserve is widely expected to hike rates by 75bps on Wednesday, taking the target range for the Funds rate to 2.25-2.50%, a level considered neutral. There is no Summary of Economic Projections at this meeting thus attention will turn to any guidance the FOMC provides on future tightening increments. Current expectations, based on the current outlook, are for a 50bp move for September, before moving to 25bp moves in November and December to see a year-end rate of 3.25-3.50%, in line with market pricing. Nonetheless, the Fed will likely reiterate that any future rate decisions will depend upon their assessment of the economic outlook, particularly inflation. The latest June CPI report was hotter than expected which saw markets price in another 75bp move in July before accelerating to start pricing in over a 70% probability of a 100bp hike instead. However, pricing has now pared back in wake of several Fed speakers, including hawks Bullard and Waller, vocally supporting a 75bp hike in July while the latest UoM consumer inflation expectations also cooled for both the 1yr and 5yr horizons. Currently, markets only see a 10% chance of a 100bp move, as opposed to above 70% at the peak. To download the full Newsquawk preview, [please click here](#).

FIXED INCOME



T-NOTE FUTURES (U2) SETTLED 7+ TICKS LOWER AT 119-21

The Treasury curve was lower in wake of hawkish ECB commentary, IG and UST supply and ahead of the FOMC on Wednesday while energy concerns in Europe saw Treasuries off lows. 2s +4.2bps at 3.033%, 3s +3.5bps at 2.980%, 5s +2.7bps at 2.900%, 7s +3.2bps at 2.894%, 10s +3.9bps at 2.820%, 20s +5.3bps at 3.293%, 30s +5.2bps at 3.048%. Breakevens: 5yr BEI +2.7bps at 2.650%, 10yr BEI +2.3bps at 2.297%, 30yr BEI +1.5bps at 2.193%.

THE DAY: Treasuries predominantly sold off throughout the session ahead of short-end Treasury supply this week and several IG issuance deals while attention lies heavily on the FOMC on Wednesday. There had also been some hawkish commentary out of the ECB which weighed on EZ debt and followed through to USTs. ECB's Kazaks noted that larger interest rate hikes may not be over and a too weak Euro is a problem while also calling for a significant hike in September and they should be open to larger hikes. Treasuries moved off lows on the Gazprom update that saw them cut supply to Nord Stream 1 to 33 MCM/day, dropping to 20% capacity and prompting warnings of energy emergencies in Germany, sparking a haven bid into Treasuries, led by Bunds which outperformed UST's given its exposure to the energy concerns. The bid in UST's continued gradually throughout the afternoon to settle slightly lower while the 2yr auction was met with solid demand but was met with little reaction. Attention is highly on the FOMC on Wednesday, but 5yr supply on Tuesday and US GDP and 7yr supply on Thursday will also be of note.

AUCTION: Overall, the 2yr auction was decent and much better than the prior auction. The 0.6bps stop-through was better than the six auction average of 0.4bps and much better than the prior 0.7bps tail. However, the Bid-to-cover was not as strong, but still better than the last 2yr auction but not quite as good as the six auction average, nonetheless, demand was still strong - evident by the larger stop-through than average. Meanwhile, the takedown was also encouraging as dealers only took 17.95%, beneath the average 18.5% and prior 23.2%, which was supported by a pickup in indirect demand (62.04% vs prior 51.5%, avg. 61.1%). Direct demand was in line with average but not as strong as the prior.

STIRS:

- EDU2 -3.0bps at 96.590, Z2 -6.5bps at 96.240, H3 -7.0bps at 96.440, M3 -8.0bps at 96.615, U3 -7.0bps at 96.825, Z3 -5.5bps at 96.980, H4 -4.5bps at 97.110, M4 -3.5bps at 97.225, U4 -3.0bps at 97.300, Z4 -2.5bps at 97.350, Z5 -1.5bps at 97.340.
- NY Fed RRP op. demand at USD 2.192tln (prev. 2.229tln) across 100 bidders (prev. 101).
- US sold USD 48bln in 6mth bills at 2.920%; B/C 3.16x.
- US sold USD 61bln in 3mth bills at 2.520%; B/C 2.95x.

CRUDE

WTI (U2) SETTLED USD 2.00 HIGHER AT USD 96.70/BBL; BRENT (U2) SETTLED USD 1.95 HIGHER AT 105.15 /BBL

Crude prices trended higher throughout the US session, as WTI and Brent settled roughly USD 2.00 higher as they saw highs of USD 96.86/bbl and 105.31/bbl, respectively. Initially, crude benchmarks began the European session on the back foot, amidst cautious APAC sentiment such as further China COVID developments where it is reportedly imposing COVID "closed loops" on major Shenzhen companies. Moreover, in natgas Gazprom halted one additional engine at the Nord Stream 1 pipeline, and gas flows are to decline to 33MCM/day via Nord Stream 1 from July 27th which lifted Dutch natgas prices.

NORD STREAM 1: Gazprom halted one additional engine at the Nord Stream 1 pipeline and gas flows are to decline to 33MCM/day via Nord Stream 1 from July 27th, which dropped it to 20% capacity. For reference, Monday's volume of shipments through Ukraine to Europe was 41.7MCM, according to Gazprom. Following this, Bloomberg's Blas wrote "With Nord Stream 1 flowing at just 20% of capacity from July 27, Germany will NOT have enough natural gas to make it throughout the whole winter unless big demand reductions are implemented. Berlin will need to activate stage 3 of its gas emergency program". Reminder, the EU holds an Emergency Energy Summit on Tuesday - to discuss gas reduction plans of around 15%; however, some of the Southern nations (e.g. Greece and Italy) have expressed opposition to this. Following this, the German Network Regulator head stated NS1 gas nominations have halved for Wednesday, whilst the German Economy Ministry noted there is no technical reason for a reduction in Nord Stream 1 supplies. Meanwhile, the Russian Kremlin said the repaired turbine delivered from Canada will soon be installed at Nord Stream 1, but equipment needs to be repaired which Siemens Energy (ENR GY) is aware of. Further from Russia, Gazprom set a new daily record high in gas supplies to China on July 24th.



OPEC: OPEC+ compliance in June 320% (256% in May), according to two delegates via Argus. OPEC compliance 196% (236% in May). non-OPEC 464% (360% in May); Russia increased output by over 550k BPD in June, however they are still 880k BPD below quota.

EQUITIES

CLOSES: SPX +0.12% at 3,966, NDX -0.55% at 12,328, DJIA +0.28% at 31,990, RUT +0.33 % at 1,812.

SECTORS: Energy +3.71%, Utilities +1.26%, Financials +0.65%, Health +0.55%, Industrials +0.47%, Consumer Staples +0.46%, Materials +0.43%, Real Estate +0.07%, Communication Services -0.28%, Technology -0.61%, Consumer Discretionary -0.85%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.21% at 3,604; FTSE 100 +0.41% at 7,306; DAX -0.33% at 13,210; CAC 40 +0.33% at 6,237; IBEX 35 +0.42% at 8,085; FTSE MIB +0.80% at 21,382; SMI +0.30% at 11,129.

STOCK SPECIFICS: **Apple (AAPL)** filed patents in self-driving and other vehicle software as well as in hardware related to riding comfort, such as seats and suspension, according to Nikkei. **Tesla (TSLA)** disclosed a USD 170mln impairment loss resulting from changes to the carrying value of Bitcoin during H1. Morgan Stanley called **JD.com (JD)** a “catalyst driven idea” and believes the catalyst could be better than expected revenue growth guidance when JD next reports earnings in August. **Weber (WEBR)** was lower after it withdrew FY22 net sales and adj. EBITDA guidance alongside suspending its quarterly cash dividend. WEBR said profitability was negatively impacted by significant currency devaluations, promotional activity to enhance retail sell through, lower margin country, and product mix, as well as substantial freight cost increases. **Public Storage (PSA)** announced a USD 2.3bln Special Dividend Related to PS Business Parks Merger Consideration. **World Wrestling Entertainment (WWE)** chief McMahon retired amid sexual misconduct allegations. McMahon remains WWE’s majority shareholder, and his daughter Stephanie will serve as interim chairperson and co-CEO. Meanwhile, Loop Capital noted WWE could be up for sale and potential buyers could include **Comcast (CMCSA)**, **Disney (DIS)**, **Amazon (AMZN)** and **Netflix (NFLX)**. **Netflix’s (NFLX)** iOS app now has a sign up button that takes you to its website; it now means you can subscribe to one of its plans with the company paying no App Store (AAPL) fees, according to Tech Crunch. **McKesson (MCK)** raised its quarterly dividend 15% to USD 0.54 /shr. The Pentagon said the next **Lockheed Martin (LMT)** F-35 contract is for 375 fighter jets worth USD 30bln; the size of order was affected by inflation and COVID delays. **Toyota Motor (TM)** will cancel orders for its SUV Harrier due to the fallout of the lockdown in Shanghai, according to Nikkei.

EARNINGS: **Newmont (NEM)** was lower after it missed on EPS whilst revenue printed inline. Profit was down nearly 41% from a year ago, as it was hurt by a drop in gold prices. After earnings, NEM noted it expects inflationary pressures and the impacts from a competitive labour market to persist into 2023. **Philips (PHG)** Q2 results missed forecasts, citing lockdowns in China and supply chain issues. **Squarespace (SQSP)** beat on EPS while revenue was in line, but the guidance was poor. Highlighting this, Q3 revenue guide was light, and it also cut its FY22 revenue view as it noted its revenue is taking a hit from currency headwinds. For a list of weekly earnings estimates, [please click here](#).

FX WRAP

The Dollar was lower to start the week but is well off the lows of 106.710. There was no tier 1 US data today with the highlights being the more macro themes such as the China COVID situation, Nord Stream 1, and recessionary fears. Nonetheless, this all appears to be the calm before the storm ahead of the key FOMC rate decision on Wednesday as well as a slew of big-tech earnings, with the likes of Apple, Amazon, Microsoft, and Google all reporting this week. On the Fed, expectations surround a 75bps hike with market participants looking out for any guidance on the future outlook (preview here). Moreover, opinions differ at Morgan Stanley and JPMorgan as the former contends that it’s too premature for a pause in policy normalisation even if the threat of recession is rising, while the latter believes a pivot is in the offing alongside bets placed on a peak in inflation.

EUR was eventually flat following a choppy start to the week in which the single currency had a couple of separate catalysts. In the European morning, the cross saw upside after ECB’s Kazaks noted large interest rate hikes may not be over and a too weak EUR is a “problem”. Moreover, Kazaks added the hike in September needs to be quite “significant” and should be open to larger hikes. Following this, there was a poor German IFO data set with all three main metrics falling short of the expected. Lastly, and perhaps most significantly, EUR/USD saw weakness after Gazprom halted one additional engine at the Nord Stream 1 pipeline and thus gas flows are to decline to 33 MCM/day via Nord Stream 1 from July 27th. Subsequently, the German Network Regulator head noted Nord Stream 1 gas nominations have halved



for Wednesday, while Germany's economy ministry declared there is no technical reason for a reduction. Looking ahead, macro themes such as NS1 remain of paramount importance, as well as US/European earnings season and Eurozone GDP and inflation data on Friday.

Activity currencies were firmer, with antipodeans, CAD, and GBP all seeing fairly similar gains against the Buck. In terms of fundamentals, the Aussie and Loonie were supported by higher commodity prices and better risk appetite. However, looking ahead it is worth keeping an eye on the COVID situation in China and any further economic disruption from its zero COVID policy as on Monday China is reportedly imposing COVID "closed loops" on major Shenzhen companies to curb the spread of COVID. Regarding levels, USD/CAD saw lows of 1.2836 in contrast to highs of 1.2946, whilst the Aussie and Kiwi topped out at 0.6965 and 0.6279, respectively. Lastly, Cable hit a high of 1.2085 but run out of steam ahead of the key 1.2100 level. Looking ahead, there is the BBC leadership debate between Sunak and Truss on Monday evening, ahead of Australian CPI on Wednesday and the aforementioned key global risk events (FOMC and big tech earnings).

Safe havens, CHF and JPY, were lower and hence the G10 underperformers. USD/JPY posted a high of 136.78 and gained on the back of higher Treasury yields alongside a major cut in the Japanese government's fiscal year GDP forecast. Moreover, two new BoJ members, Takata and Tamura spoke, with the former noting the BoJ is able to keep monetary policy easy, but is facing new challenges such as dwindling bank margins and the impact on market functions. Meanwhile, Tamura said Japan may soon see a positive cycle commence, with wages increasing with inflation. If this occurred, exit from the easy policy would become the focus of discussions. Meanwhile, the Swissy traded in a narrow range highlighted by the fact it saw a high of 0.9661 and a low of 0.9612.

EMFX were mixed, with TRY and RUB the underperformers seeing losses against the Greenback, whilst ZAR, MXN and BRL firmed with the latter outperforming. For the Lira, Turkish manufacturing confidence deteriorated, while in contrast, the MXN latched on to WTI's tailwind and benefited from better than forecast Mexican IGAE economic activity. CNH and CNY were relatively flat against the weaker Dollar despite further Chinese economic stimulus efforts and reports about a USD 44bln real estate fund. Lastly, South African President Ramaphosa issued actions aimed at improving performance at Eskom's existing fleet of power stations, accelerating procurement of new generation capacity and increasing private investment in generation capacity to help tackle its electricity crisis.

Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited ("Newsquawk") on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.