



US Market Wrap

1st August 2022: Pelosi's Taiwan trip and plummet in ISM prices paid hits yields and the Dollar

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar down.
- **REAR VIEW:** Pelosi set to visit Taiwan; Mixed US manufacturing PMIs, as headline misses but prices paid notably falls; AAPL USD 5.5bn debt offering; Chinese military to hold exercises in South China Sea from Aug. 2-6th; ORCL started to lay off thousands of workers; FAA reportedly signed off problems with BA's 787 Dreamliner.
- **COMING UP: Data:** Canadian Manufacturing PMI, New Zealand Unemployment **Events:** RBA Policy Announcement, US NY Fed Household Debt & Credit Report **Speakers:** Fed's Bullard, Evans & Mester **Supply:** UK **Earnings:** Generali, Uniper, Siemens Gamesa Renewable; BP; PayPal, Gilead, Uber, Starbucks.
- **CENTRAL BANK WEEKLY:** Previewing BoE, RBA, BCB; Reviewing FOMC. To download the report, [please click here](#).
- **WEEK AHEAD PREVIEW:** Highlights include US jobs data, ISM; China Caixin PMIs; BoE, RBA, BCB, OPEC. To download the report, [please click here](#).
- **WEEKLY US EARNINGS ESTIMATES:** [TUES] CAT, MAR, SPGI, GILD, ABNB, SBUX, AMD, PYPL, OXY; [WED] CVS, REGN, MRNA, BKNG; [THURS] CI, LLY, BABA, COP, AMGN; [FRI] EOG. To download the full report, [please click here](#).

MARKET WRAP

Stocks started the month in a subdued manner with Pelosi's Taiwan visit stoking geopolitical angst while the US July ISM Manufacturing was mixed. The trepidation for risk assets comes after the solid weekly rally just gone, with the consensus building from the Q2 earnings season that things aren't all as bad as feared, albeit storm clouds remain. The big fall in the ISM Prices paid helped the Treasury curve bull-flatten (10yr -5bps at 2.59%), offsetting earlier supply-induced selling amid Apple (AAPL) selling USD 5.5bn in corporate debt Monday for its dividends and buybacks. The data also added fuel to fire to the Fed pivot narrative, something which Kashkari (2023 voter) tried to push back on over the weekend. The DXY was sold, with Fed pivot risk on participants' radars but also the potential for escalation on the US/China front.

GLOBAL

US/CHINA: US House Speaker Pelosi began her APAC tour over the weekend, and according to multiple sources she is to visit Taiwan on Tuesday, notably raising Sino-US tensions. On the visit, Taiwanese sources note Pelosi is to arrive in Taiwan on Tuesday and will then hold talks with lawmakers on Wednesday. Following this, White House spokesperson Kirby noted Pelosi has not confirmed any travel plans to Taiwan and has been clear from the beginning that she will make her own decision. In Beijing, China's Foreign Ministry spokesperson Zhao said the PLA will not sit idly by if US House Speaker Pelosi visits Taiwan, while Global Times' Hu Xijin tweeted "The PLA has clearly been well prepared. If [US House Speaker Pelosi] dares to stop in Taiwan, it will be the moment to ignite the powder keg of the situation in the Taiwan Straits." Additionally, in wake of reports Pelosi is to visit Taiwan, the Chinese military will reportedly hold exercises in the South China Sea from August 2-6th, and Tianjin, Liaoning and Hainan Maritime Safety Administrations simultaneously issued navigation warnings on Monday.

ISM MANUFACTURING: ISM manufacturing fell to 52.8 from 53.0 but printed above the expected 52.0. Looking into the subcomponents, employment rose to 49.9 (exp. 47.4, prev. 47.3) but remained in contraction territory, whilst the inflationary gauge of prices paid plummeted to 60.0, well beneath the prior 78.5 and expected 75.0, to the slowest rate since August 2020. However, new orders dropped to 48.0 (prev. 49.2), and the report noted "panelists are now expressing concern about a softening in the economy, as new order rates contracted for the second month amid developing anxiety about excess inventory in the supply chain". Delving into the report, OxEco state "manufacturers will face many of the same challenges in the second half of 2022 as in H1. The confluence of hot inflation, higher interest rates, ongoing supply chain issues and normalizing spending patterns will make demand more fragile." Meanwhile, the consultancy adds, "softer demand overseas, namely in Europe, and the stronger US dollar will pose headwinds for manufacturing exports." Looking ahead, while the economy contracted for two consecutive quarters in H1, Oxford



concludes, "we're of the view that labor market strength mitigates worries that the economy is in fact in recession. We maintain our softish landing view, with trend growth set to slow in the latter half of 2022 but acknowledge the window for avoiding recession has narrowed considerably."

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 7 TICKS HIGHER AT 121-11+

Treasuries bull-flattened as Pelosi/Taiwan angst and disinflationary ISM data offset the chunky corporate supply pipeline. 2s +1.2bps at 2.909%, 3s +0.2bps at 2.827%, 5s -2.7bps at 2.668%, 7s -3.2bps at 2.657%, 10s -3.8bps at 2.604%, 20s -6.1bps at 3.120%, 30s -5.2bps at 2.925%. Inflation breakevens: 5yr BEI -4.9bps at 2.809%, 10yr BEI -4.1bps at 2.512%, 30yr BEI -5.8bps at 2.251%.

THE DAY: Choppy/sideways flows out of the APAC and European session Monday, although T-Notes went into the NY handover on the front foot. Reports that Pelosi was set to travel to Taiwan on Tuesday saw some haven demand/risk-off flows to lift the curve to fresh highs. However, Apple (AAPL) announcing its four-part debt offering - which later launched for USD 5.5bln - saw some hedging-related selling in Treasuries; IFR reported ten IG deals on Monday, marking a strong start to a typically quiet month for supply (a factor that gets attributed to bullish Treasury seasonality in August). As the corporate pipeline picked up further, T-Notes were sold back down to session lows of 120-27, or just shy of 2.70% in the cash 10yr yield. But a choppy open for US stocks and a slew of block buys in the futures curve capped the selling momentum. The slump in the July ISM Manufacturing survey Prices Paid component saw T-Notes go on to print session highs of 121-19 (cash 10yr low at 2.58%), paring back beneath key technical resistance of 121-18 as Europe departed but hovering near into the settlement.

STIRS:

- EDU2 -1bps at 96.69, Z2 flat at 96.355, H3 -2bps at 96.51, M3 -3bps at 96.71, U3 -2.5bps at 96.925, Z3 -3bps at 97.07, H4 -1bps at 97.23, M4 +1.5bps at 97.38, Z4 +2.5bps at 97.545, Z5 +4bps at 97.615.
- In options, notable flow included 21k EDZ2 97.125/97.25 call spreads for 1.5, over 11k EDU2 99.75/99.50 put spreads for 25. In SOFR,
- US sold USD 62bln of 3-month bills at 2.490%, covered 2.63x; sold USD 49bln of 6-month bills at 2.850%, covered 2.91x.
- NY Fed RRP op. demand fell to USD 2.162tln from the month-end, record Friday of 2.300tln.

CRUDE

WTI (U2) SETTLES USD 4.73 LOWER AT 93.89/BBL; BRENT (V2) SETTLED USD 3.94 LOWER AT 100.03/BBL

Oil prices tumbled on Monday as weak global data added to the improved supply backdrop in Libya. The demand woes brewed out of the APAC session after the weak Chinese July PMIs - mixed EU and UK final PMIs didn't break the trend either. Meanwhile, weekend reports of Libyan production rising to 1.2mln BPD, the highest level since April, added to the selling pressure. Those factors were feasted on by the return of US participants, with some broader risk-off amid Pelosi's Taiwan endeavour hitting stocks. The moves were only emboldened after the downbeat US ISM Manufacturing survey.

RUSSIA: Russian crude output in June rose to 9.78mln BPD from 9.27mln BPD in May), according to OPEC+ secondary sources cited by newswires. Meanwhile, on the gas/Nord Stream 1 front, Bloomberg reported natural gas supplies to Europe via the pipeline recovered to near 20% of capacity on Monday after falling the prior day, but lower volumes are expected through Ukraine, according to grid data. Similarly, Russia's Kremlin said later they have little ability to change the situation with NS1 equipment.

OPEC PREVIEW: JTC starts Tuesday at 12:00BST/07:00EDT, while JMMC and OPEC+ are on Wednesday from 12:00BST/07:00EDT - To download the full Newsquawk preview, please [click here](#). To summarize, OPEC+ will likely discuss either maintaining current production or increasing output by a small increment. Most believe production will be held amid a lack of spare capacity alongside the recent decline in oil prices. Ahead of the meeting, the latest Reuters survey released Monday showed OPEC's quota-bound members undershot the July output target by 1.3mln BPD, highlighting the gulf between the group's quota and actual production levels.

EQUITIES

CLOSES: SPX -0.29% at 4,118, NDX -0.06% at 12,940, DJIA -0.14% at 32,798, RUT -0.36% at 1,880.



SECTORS: Energy -2.18%, Financials -0.89%, Real Estate -0.89%, Materials -0.81%, Health -0.73%, Communication Services -0.42%, Technology -0.2%, Utilities +0.1%, Industrials +0.13%, Consumer Discretionary +0.51%, Consumer Staples +1.21%.

EUROPEAN CLOSES: Euro Stoxx 50 +1.49% at 3,706; FTSE 100 -0.13% at 7,413; DAX -0.03% at 13,479; CAC 40 -0.18% at 6,436; IBEX 35 -0.87% at 8,085; FTSE MIB +0.11% at 22,429; SMI +0.15% at 11,145.

STOCK SPECIFICS: FAA reportedly signed off problems with **Boeing's (BA)** 787 Dreamliner, a major step before it restarts deliveries of the aircraft, WSJ reported citing sources. The report added that the first 787 delivery was expected within days. **PepsiCo (PEP)** is to take an 8.5% stake in **Celsius (CELH)** for USD 550mln at USD 75/shr. **Alibaba (BABA)** claimed it would "strive" to keep its stock on the NYSE despite plans by the US SEC to delist the company among 200 others in 2024, according to FT. **Nio (NIO)** reportedly plans to open its first overseas plant in September to make power products for the European market as it accelerates expansion abroad. The plant will be located in Hungary. Saudi Aramco is to purchase **Valvoline's (VVO)** global products unit for around USD 2.7bln cash. **Semtech (SMTC)** is in advanced talks to buy **Sierra Wireless (SWIR)**, according to Bloomberg. **Oracle (ORCL)** has started to lay off employees in the US as part of its plan to lay off thousands, according to The Information. US mulls limiting shipments of US chipmaking equipment to memory chip makers in China including Yangtze Memory Technologies, according to Reuters sources. If the move proceeds, it could hurt **Samsung Electronics (SSNLF)** and SK Hynix but would protect US memory names **Western Digital (WDC)** and **Micron (MU)**, which control a quarter of the NAND market. **Target (TGT)** was upgraded at Wells Fargo who said investors are too down on the stock, which it considers a proven share gainer. **EVO Payments (EVOP)** surged following news it is to be acquired by **Global Payments (GPN)** for USD 34.00 /shr, or USD 4bln in an all-cash deal. Note, EVOP closed Friday at USD 27.34/shr.

EARNINGS: Global Payments (GPN) saw gains after it posted a strong report, as it beat on EPS and revenue alongside raising FY guidance. **Jacobs (J)** was lower following guidance which was light of the expected as it cited foreign currency translation adjustments. Although, do note J beat on top and bottom line. **PerkinElmer (PKI)** firmed after it surpassed St. consensus on profit and revenue, and also raised Q3 and FY outlook. Moreover, PKI is to divest Applied, Food and Enterprise Services units for USD 2.45bln. **Check Point Software (CHKP)** was weaker as despite posting a strong quarter for results, its Q3 profit view guide was short of consensus. **ON Semiconductor (ON)** saw losses as despite exceeding analyst expectations on top and bottom line alongside raising Q3 guidance, analysts pointed downside to CEO saying while it is optimistic about the outlook, the Co. remains sensitive to dynamic market conditions.

FX WRAP

The Dollar was weaker to start the week and printed a low of 105.230 as reports suggesting US House Speaker Pelosi is to go ahead with her visit to Taiwan rattled broad risk sentiment, with the Dollar feeling the effect. Further on this, according to ETtoday, Pelosi is expected to arrive at Songshan airport at 10:30EDT on Tuesday, and thereafter have meetings with Taiwanese government officials. Elsewhere, the US ISM manufacturing was disappointing as the headline fell (albeit less than expected), as did new orders, and employment remained in contractionary territory, although the inflationary gauge of prices paid welcomingly plummeted. As such, the accompanying manufacturing data commentary was notable as it included the observation that supply chain problems remain a major concern, but have eased, taking some pressure off prices for a variety of inputs. Anyway, the Greenback may have gleaned traction from gains in USD /CNH to just over 6.7900 at one stage even as USD/JPY was capped on pops above 132.00 having fallen to 131.60 and pushing the DXY down to probe Fib support at 105.290 amidst another pronounced retreat in US Treasury and global bond yields. Note also, the maritime administration in Qinglan, South China's Hainan, issued a warning and prohibited entry to an area in the South China Sea due to military exercises from Tuesday to Saturday, according to Global Times. On the week, firm attention remains on updates surrounding Pelosi's visit to Taiwan, as well as Fed speak scheduled in the form of Mester, Evans, and Bullard on Tuesday, ahead of ISM services on Wednesday, and NFP on Friday.

Activity currencies were mixed, with GBP, NZD, and AUD firmer against the Buck, whilst the CAD saw losses. The Loonie was the G10 underperformer and saw headwinds from the crude complex, where WTI and Brent were lower by circa USD 4/5 per bbl and hit lows of USD 92.42/bbl and 99.09/bbl, respectively. As such, this weighed on USD/CAD as the cross hit a high of 1.2838, but at pixel time, is off highs ahead of Canadian jobs on Friday. The Kiwi saw slightly greater gains vs the Buck than the Aussie, which comes ahead of the RBA rate decision on Tuesday. On this, the central bank expected to hike the Cash Rate Target by 50bps to 1.85% at its meeting on Tuesday with OIS pricing in around an 84% chance for the RBA to deliver a third consecutive 50bps rate increase, which would be the fourth hike in as many meetings since it began lifting rates (Full Newsquawk preview available here). Nonetheless, AUD/USD and NZD /USD traded in tight parameters, highlighted by the ranges of 0.6969-0.7046 and 0.6275-0.6352, respectively. Moreover, ahead of the RBA meeting, technicians note the risk of AUD/USD moving lower after the RBA unless the statement



leans very hawkish, and techs continue if the RBA is more hawkish than expected then the cross may test the 0.7200/50 area. Cable hit highs of 1.2293, a level not reached since late June, as the Pound gleaned traction from the converging UK-US rate gap, while the latest Reuters survey saw 46 out of 65 economists expect the BoE to raise rates by 50bps this week.

EUR saw slight gains against the Greenback, while the CHF was flat and traded within very narrow ranges, highlighted by a peak of 0.9535 and a trough of 0.9483. Meanwhile, EUR/USD saw a high of 1.0275 and techs note any further upside for the single-currency was foiled by key fibs between 1.027-84. Elsewhere, on the data front, German retail sales for June were shocking and printed a surprise decline, whilst Eurozone S&P Global Manufacturing Final PMI for July was revised marginally higher. Regarding the week, scheduled events on the calendar for Euro and Swissy watchers are light, and as such market participants will be cognisant of the broader macro picture, such as the ongoing crisis with Russia and US/China relations with House Speaker Pelosi reportedly set to visit Taiwan.

EMFX was mixed. RUB and ZAR firmed against the Buck, while TRY was flat, and BRL and MXN saw slight losses. The former two benefitted from the weakness in the Dollar, with the Rand also seeing tailwinds from the gains seen in spot gold as the yellow metal rose to highs of USD 1,775/oz. Elsewhere, for the Real watchers, the Brazilian government wants to include 2.2mln families (compared to 1.6mln in the current Bill) in the Social Programme 'Auxílio Brasil', according to technicians from the Ministry of Citizenship via O Globo. Looking ahead, the BCB policy announcement is due Wednesday.

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