



## US Market Wrap

### 3rd August 2022: Stocks at highest level since June after strong ISM Services and Pelosi fade

- **SNAPSHOT:** Equities up, Treasuries flat, Crude down, Dollar flat
- **REAR VIEW:** Strong US ISM Services PMI; Hawkish Fed rhetoric; Pelosi departs Taiwan as planned; OPEC+ agree to 100k BPD production hike; Iran JCPOA talks to resume Thursday; US Quarterly Refunding cuts auction sizes as expected. Freeport LNG affirms October operations restart.
- **COMING UP: Data:** Australian Trade Balance, EZ & UK Construction PMI, US Challenger Layoffs, IJC, International Trade & Canadian Trade Balance **Events:** BoE Policy Announcement **Speakers:** ECB's Elderson & Fed's Mester **Supply:** Spain & France **Earnings:** Cigna, Alibaba, Conoco-Phillips, Amgen, Eli Lilly; Glencore, Rolls-Royce; Adidas, Credit Agricole, Bayer, Lufthansa.
- **WEEKLY US EARNINGS ESTIMATES:** [THURS] CI, LLY, BABA, COP, AMGN; [FRI] EOG. To download the full report, [please click here](#).

## MARKET WRAP

Stocks rallied for the first time this week, and in a sustained manner, with ISM Services showing a surprise rise while participants unwind geopolitical risk premia as Pelosi's Taiwan concludes. The stock strength picked up from the cash open in NY and built into the close, taking the SPX to its highest level since early June, now sitting above 4150. Treasuries flattened after the strong data and hawkish Fed speak that kept pressure on the front-end, although the moves unwound into the close, with particular afternoon strength in the long-end, aiding tech and growth sectors in the equity market; the Q3 refunding announcement saw auction cuts as expected and little reaction. Oil prices were lower after OPEC+ agreed on a small output hike, bearish inventory data, and the recommencement of Iranian nuclear talks. Meanwhile, NatGas surged after Freeport and the PHSMA entered into a consent agreement to restart operations in early October at almost full capacity. In FX, the Dollar was flat as the earlier bid from bond selling unwound with yields into the close.

## US

**ISM SERVICES:** US ISM services headline surprised to the upside and rose to 56.7 from 55.3, and way above the expected 53.5. Looking into the subcomponents, which were encouraging, new orders rose to 59.9 (prev. 55.6), business activity climbed to 59.9 (exp. 54.0, prev. 56.1), its highest since December 2021, and the inflationary gauge of prices paid fell to 72.3 from 80.1. Although, employment did rise to 49.1 (prev. 47.4), but still remain in contractionary territory. Delving into the report, Oxford Economics state "it indicated that demand remained fairly buoyant while supply-chain and inflation pressures eased relative to June, though they continued to constrain activity. Meanwhile, the ISM report adds, "availability issues with overland trucking, a restricted labor pool, various material shortages and inflation continue to be impediments for the services sector". Further into the report, thirteen of the eighteen industries reported growth, led by mining, real estate, and education, while businesses noted that demand remained strong while some easing of supply-side constraints allowed activity to advance more robustly. Continuing, on new orders, 11 of the 18 industries reported stronger orders, with real estate and mining also leading the advance. The backlogs index, meanwhile, indicated slower growth. Looking ahead, OxEco note, "services growth will be fairly soft as hot inflation, tighter financial conditions, supply chain stress, downbeat sentiment and softening spending restrain activity. The recovery's best days are clearly in the rear-view mirror, but this doesn't mean a downturn has begun. We think fundamentals are strong enough to prevent a recession this year, though the window to achieving a softish landing is narrowing."

**FED:** Fed speak saw **Bullard (2022 voter)** note the Q2 slowdown was more concerning than Q1 but he still believes the US will see positive GDP growth in H2 22. Bullard suggested the Fed is not at neutral yet, saying there is still some ways to go to get until it is in restrictive territory. Bullard reiterated he wants to get to 3.75-4.00% by year-end and he prefers this type of front loading, adding the Fed will have to go higher for longer to get inflation to convincingly come down. Bullard noted the better bet is it will take a while for inflation to come down to 2% but it will not be as rapid as markets expect. **Fed's Daly (2024 voter)** reiterated the Fed has not completed its fight against inflation and that markets are getting ahead of themselves expecting rate cuts next year. Daly suggested it would be reasonable for the Fed to get to 3.4% by year-end, a bit above her own estimate of neutral, which is 3/3.1%. Daly noted the June Fed projections are a



reasonable guide for the rate path, adding holding rates high for a while could be longer than the period the markets had begun to price in for rate cuts. For September, she sees 50bps as a reasonable decision as things stand but perhaps a 75bp move would be appropriate if inflation roars ahead. **Fed's Barkin (2024 voter)** reiterated other Fed officials in his commitment to bringing inflation back down, while he thought recession fears are overblown and he expects inflation to come down but "not immediately, not suddenly and not predictably". **Fed's Kashkari (2023 voter)** said it is very unlikely the Fed cuts rates next year, and it is more likely the Fed raises rates and then sits there.

## FIXED INCOME

**T-NOTE (U2) FUTURES SETTLE 1 TICK LOWER AT 120-03 Treasuries flattened after strong ISM Services and hawkish Fed speak; quarterly refunding saw auction cuts as expected.** At settlement, 2s +1.9bps at 3.098%, 3s +1.4bps at 3.047%, 5s +0.8bps at 2.868%, 7s +0.0bps at 2.823%, 10s +0.4bps at 2.745%, 20s -0.7bps at 3.191%, 30s -0.7bps at 2.977%. Inflation breakevens: 5yr BEI +2.1bps at 2.803%, 10yr BEI +2.4bps at 2.499%, 30yr BEI +3bps at 2.248%.

**THE DAY:** T-Notes had started to pare Tuesday's acute losses as the Wednesday APAC session got going, printing session highs of 120-16 before starting to dip into the London handover. Support at 120 was eventually broken as NY players arrived. The Q3 Treasury refunding announcement contained few surprises (more below), and thus little price action, with futures instead attempting a run back above 120 ahead of the ISM Services data - there was a smaller corporate debt pipeline Wednesday, reducing rate-lock-related Treasury selling. The surprise rise in July ISM Services saw govies sold, led by the front-end, despite the prices paid subindex declining in the report also; the magnitude of the fall wasn't as large as the Manufacturing print on Monday, and the strong activity/new orders components likely added to concerns that more demand-led inflation could be due ahead. T-Notes hit lows of 119-10+ not long after the data before better buying developed into the NY afternoon to take the contracts back to the 120 area while the front-end struggled to recover as much. Looking ahead, Thursday sees the BoE decision across the Pond followed by US international trade and jobless claims data - Mester is on the calendar again - ahead of Friday's July NFP report.

**QUARTERLY REFUNDING:** US to sell 42bln in 3yr notes on Aug. 9th, USD 35bln in 10yr notes on Aug 10th, and USD 21bln in 30yr bonds on Aug 11th, marking USD 1bln cuts to all three of next week's coupon auctions, as analysts had expected. There were also USD 1bln cuts made to the 2yr, 5yr, and 7yr tenors, USD 2bln cut to the 20yr, while 5yr and 10yr TIPS were raised by USD 1bln - all as expected. For more details click here.

### STIRS:

- EDU2 -1.5bps at 96.625, Z2 -3.5bps at 96.195, H3 -6.5bps at 96.27, M3 -7.5bps at 96.43, U3 -7bps at 96.64, Z3 -6bps at 96.79, H4 -5bps at 96.945, M4 -5bps at 97.08, Z4 -3.5bps at 97.255, Z5 +0.5bps at 97.41.
- NY Fed RRP op. demand rose to USD 2.182tn from 2.156tn.
- US sold USD 30bln 119-day CMB's at 2.73%; B/C 3.35x.

## CRUDE

**WTI (U2) FUTURES SETTLE 3.76 LOWER AT 90.66/BBL; BRENT (V2) FUTURES SETTLE 3.76 LOWER AT 96.78 /BBL**

Oil prices were lower Wednesday after OPEC+ agreed on a small output hike, bearish inventory data, and the recommencement of Iranian nuclear talks. Prices had been advancing in the immediate outset of the [OPEC+ meeting](#) as it became clear the group would opt for an insignificant 100k BPD output hike for September - WTI and Brent front-month futures hit session highs of USD 96.57/bbl and 102.42/bbl, respectively, before dipping into the NY morning. The selling extended after a sizeable build in crude and gasoline stocks in the EIA US inventory data, also perhaps some geopolitical risk premia being unwound on reports US and Iran are both heading to Vienna for nuclear deal talks (again). Losses extended into the settlement, closing at lows despite the crescendo higher in stocks.

## EQUITIES

**CLOSES:** SPX +1.56% at 4,155, NDX +2.73% at 13,253, DJIA +1.29% at 32,812, RUT +1.41% at 1,909.

**SECTORS:** Technology +2.69%, Consumer Discretionary +2.52%, Communication Services +2.48%, Financials +1.49%, Industrials +0.98%, Health Care +0.92%, Utilities +0.68%, Consumer Staples +0.58%, Real Estate +0.41%, Materials +0.13%, Energy -2.97%.



**EUROPEAN CLOSES:** Euro Stoxx 50 +1.30% at 3,732; FTSE 100 +0.49% at 7,445; DAX +1.03% at 13,587; CAC 40 +0.97% at 6,472; IBEX 35 +0.56% at 8,142; FTSE MIB +1.00% at 22,574; SMI +0.61% at 11,185.

**STOCK SPECIFICS:** **Ping Identity (PING)** surged after news it is to be acquired by Thoma Bravo for USD 28.50/shr valued at roughly USD 2.8bln. Note, PING closed Tuesday night at USD 17.47/shr. China's CATL is reportedly pressing ahead with battery plans for North America, according to Reuters sources. This contrasts reports via Bloomberg on Tuesday which stated CATL reportedly paused North American battery plant announcement due to Pelosi's Taiwan trip; the plant was up to USD 5bln and was going to supply **Ford (F)** and **Tesla (TSLA)**. **Apple (AAPL)** reportedly plans to delay its iPad software launch by about a month, pushing iPad OS 16 to October from September, according to Bloomberg. **Activision Blizzard (ATVI)** and **NetEase (NTES)** are to scrap the Warcraft game following financing dispute, according to Bloomberg. **Eli Lilly (LLY)** plans to begin commercial sales of its COVID-19 monoclonal antibody treatment to states, hospitals, and other healthcare providers this month amid the federal government's supply nearly depleted, according to WSJ. **Occidental Petroleum (OXY)** wants to reduce debt to below USD 20bln and says they may return over USD 4/shr sometime next year. **WideOpenWest (WOW)** is reportedly in talks with potential bidders, according to CNBC. **APA Corp (APA)** reportedly agreed to pay USD 700mln for West Texas properties from Titus Oil & Gas LLC, according to Reuters sources. **Brigham Minerals (MNRL)** is reportedly exploring options, including a sale, according to Reuters sources. **Warner Bro.'s Discovery (WBD)** CEO is expected to detail plans to revamp company on Thurs earnings call and is examining merging streaming platforms HBOmax and Discovery+, a move that could lead to significant layoffs, according to FBN's Gasparino.

**EARNINGS:** **AMD (AMD)** was lower as it slightly beat on EPS and revenue, but guidance disappointed. **PayPal (PYPL)** surged after it posted a strong report, beating on profit and revenue alongside authorising a new USD 15bln share repurchase plan. Additionally, Elliott Investment Management said it is one of PayPal's largest investors, with about a 2bln investment. **Gilead Sciences (GILD)** was in the green as it topped street consensus on EPS and revenue, alongside raising FY outlook. **Microchip (MCHP)** was firmer after it beat expectations on top and bottom line and also raised Q dividend 37.8% Y/Y. Looking ahead, MCHP next Q EPS & revenue view were also strong as it noted revenue growth was driven by robust demand across all product categories. **Match (MTCH)** plummeted in the wake of a surprise loss per share and also missed on revenue, with Q3 and FY23 revenue view also light. Exec said it sees muted top-line growth in the H2 and expects FX to have an 8-point impact on Y/Y revenue growth in Q3. **Moderna (MRNA)** saw notable gains after it surpassed St. consensus on EPS and revenue as well as announcing a new USD 3bln share buyback programme. **Starbucks (SBUX)** gained after it exceeded Wall St. expectations on top and bottom line but looking ahead said FY22 guidance remains suspended for the balance of the year. Executive said COVID lockdowns across China kept Shanghai stores largely closed for 2 months in the Q. **CVS Health (CVS)** was in the green after it beat on EPS and revenue, while FY EPS view was lifted. Results were helped by strong sales of over-the-counter Covid-19 tests as well as an upbeat performance by its insurance unit.

## FX WRAP

**Dollar** was flat Wednesday as the earlier strength amid the move higher in yields was unwound into the close. Data was also strong with the Services ISM above expectations while the prices paid component eased by a decent amount, in fitting with what we saw in the manufacturing survey for July. Meanwhile, Fed speak saw Daly reiterate the Fed's commitment to its goals while noting she sees the neutral rate just above 3.0%, and she thinks a 50bp move would be reasonable in September, although would be prepared to move 75bps if inflation comes in hot - a line shared by Kashkari and Evans. Bullard spoke also, noting the slowdown in Q2 was more concerning than Q1, but still expects positive GDP growth in H2 22. He also reiterated he wants rates between 3.75-4.00% by year-end, adding there are still some ways to go until the Fed is in restrictive territory. The Dollar index remains above 106 at pixel time but it did test the level earlier in the session briefly dipping beneath it to 105.97 at the lows before rebounding.

**Euro** was also relatively flat and traded between 1.0124 and 1.0209, but hovered around 1.0150 for the US afternoon. Data in Europe saw better than expected PMI prints although retail sales disappointed. Analysts at ING note the large squeeze in real incomes is starting to bite and with PMIs indicating services consumption is also weakening, it is likely consumption will contract in the coming quarters and would result in a mild recession in the EZ.

**Yen** weakened against the buck as the risk tone was more constructive on Wednesday while US Treasury yields also initially rose on the back of the stronger than expected US data seeing USD/JPY move to highs of 134.54 before paring to 134 area at pixel time. Analysts warn more hawkish Fed speak could send USD/JPY to test or rise above 136.

**Swissy** was weaker, in fitting with the risk tone, but also after a softer than expected inflation print that rose 3.4% Y/Y and was unchanged M/M. Reminder, that while this print is below market expectations, it remains above the SNB's peak Q3-2022 inflation forecast of 3.2% from the June policy announcement. Recall that as part of a "National Bank in Brief"



release, the SNB said it “may take monetary policy measures at any time between regular assessment dates if circumstances so require”. In wake of this announcement last week, notable CHF appreciation was seen and saw heightened the focus on Swiss inflation prints and the potential for intra-meeting action by the SNB, although the softer than expected print lessens the likelihood of this outcome, but it is worth stressing it still remains above its Q3 peak inflation forecast of 3.2%.

**Cyclical currencies** were mixed as AUD, NZD, and CAD outperformed while GBP weakened. The New Zealand Job growth data missed expectations while labour costs in Q2 were hotter than expected and the unemployment rate came in above expectations. Meanwhile, Australian final PMIs for July were revised slightly higher and retail sales were better than expected - there was underperformance in AUD on Tuesday so an unwind of that and strong data helped the Aussie outperform today. However, China Caixin PMI data was mixed while eyes remain on any potential escalation of the US/China tensions. China has been conducting military drills as pre-warned, but 22 jets did fly over the Taiwan median line. CAD saw decent strength earlier on before paring with oil prices; desks point to the relative hawkishness of the BoC as an ongoing support for the Loonie. GBP watchers' attention turns to the BoE rate decision Thursday where expectation are for a 50bp move, although many still expect a smaller, 25bp hike from the BoE. A full preview is [available here](#).

**Scandi's** were both stronger than the Euro and the Dollar with both enjoying the tailwinds from the risk rally while NOK outperformed SEK as Swedish PMI's saw a slowdown.

**Yuan** was weaker in APAC Wednesday while the offshore Yuan appreciated against the buck with eyes remaining on US /China/Taiwan tensions.

**EMFX** was mixed. TRY and RUB weakened on renewed geopolitical tensions between Armenia and Azerbaijan while MXN saw impressive gains on the back of strong US data given Mexico's reliance on the US. BRL was slightly weaker ahead of Wednesday evening's BCB rate decision: expected to hike rates by 50bps again (Newsquawk primer [available here](#)).

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