newsquawk

US Market Wrap

5th August 2022: Hot jobs report sends yields & Dollar flying as Fed pivot belittled

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Stellar US jobs report, uncomfortable wage growth; China sanctions Pelosi; PFE to buy GBT, AMZN to buy IRBT; BABA to cut 10k jobs; Weak WDC guidance.
- **WEEK AHEAD PREVIEW**: Highlights include US and China CPI and PPI, UK GDP, and monthly oil reports. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing Banxico; Reviewing BoE, RBA, BCB, RBI. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: GOLD, BNTX, PLTR, D, TSN, AIG, EMR, NCLH, WYNN, COIN, DIS. To download the report, please click here.

MARKET WRAP

US stock indices were mixed Friday, albeit off lows and not as sold as one might expect given the 20bps move higher in front-end Treasury yields. The +528k US jobs added in July and highest-since-March earnings growth (+0.5% M/M), not to mention the upward revisions, saw a dramatic, hawkish repricing of Fed expectations as 75bps Sept FOMC hike implied probability rose to 70% from 40% before the data. While the pick-up in earnings growth renewed concerns over wage/price spiral effects, the solid headline jobs added supported the growth outlook, helping the relative outperformance of cyclical stocks (Russell 2k > Nasdaq). The Dollar saw a massive kneejerk rally against major pairs in reaction to the data, seeing the DXY hit a high of 106.93 vs the sub 106 level before the data, albeit it drifted off highs into the NY afternoon. That pullback helped oil and broader commodities unwind their initial losses too.

GLOBAL

NFP: Headline NFP smashed the consensus by rising 528k, vs expected +250k. The unemployment rate ticked down to 3.5% from 3.6% (although the participation rate also fell by 0.1%). Wages also saw a boost, rising 0.5% from last month's 0.4% (revised higher from 0.3%) and above expectations of 0.3% while the Y/Y print rose 5.2%, matching the prior revised pace but it was above expectations of 4.9%. The super hot employment report means the Fed will have more leeway to act more forcefully to bring inflation down while the uptick in wages will also add pressure to inflation and could spark second-round effects. Attention will turn to next week's CPI to help gauge whether the Fed will entertain another 75bp hike in September, although by the next meeting we will have the August CPI and jobs report to digest as well. There has been a range of desk views in wake of the report, JPMorgan said a 75bp hike at the September FOMC now "looks likely", while Goldman Sachs reaffirmed its view for a 50bps hike. Meanwhile, Nomura said it raises the risk of a 75bps FOMC hike in September, above its current 50bps forecast, but that will depend on July and August CPI reports. Analysts at Capital Economics highlight that the strong gain today takes employment back above pre-pandemic levels and that gains were widespread. The consultancy adds, "There were no signs that the slowdowns in housing and manufacturing were feeding through to weaker job growth". CapEco also highlights the strong wages add to evidence (Q2 Employment Cost Index) that wage growth has remained exceptionally strong. The desk adds that while they expected Fed "officials to step down to a slightly smaller 50bp hike at the September meeting, the 150bp of additional tightening we anticipate this cycle is a bit more than markets are currently pricing in". After the jobs report, markets are now pricing in a c. 70% chance of a 75bp hike in September with a terminal rate of 3.65% (implied FFR of 3.5-3.75%, a bit above the top end of Powell's 3.00-3.50% suggestion).

TAIWAN: In response to Pelosi's visit to Taiwan the Chinese Foreign Ministry announced it will sanction the House Speaker and her family, noting the visit seriously interfered with China's internal affairs and trampled on the One-China principle. Meanwhile, drills continued around Taiwan with 20 aircraft crossing the median line. Chinese officials also spoke quite heavily, noting the only way out of the crisis is for the US side to immediately rectify its mistakes while top diplomat Yi said the US has no right to make the mistake again of allowing another US House Speaker to visit Taiwan. China also warned the US should not act rashly and had better not create a bigger crisis.

FIXED INCOME

T-NOTE (U2) FUTURE SETTLE 1 POINT 11+ TICKS LOWER AT 119-12

Treasuries saw heavy selling in wake of the stellar NFP and worrying wage growth. At settlement, 2s +20.9bps at 3.246%, 3s +22.2bps at 3.191%, 5s +20.3bps at 2.978%, 7s +18.8bps at 2.924%, 10s +16.9bps at 2.845%, 20s +14.0bps at 3.285%, 30s +11.5bps at 3.076%. Inflation breakevens: 5yr BEI -1bps at 2.729%, 10yr BEI +1.2bps at 2.468%, 30yr BEI +3.1bps at 2.257%.

THE DAY: It was quiet and sideways trade through APAC and Europe Friday before the US jobs report. The +528k jobs added and highest-since March wage growth (+0.5% M/M), not to mention the upward revisions, saw knee-jerk selling across global govvies with the front-end leading. The 2s10s spread hit a new low at -45bps, the most inverted since 2000. There was no respite as the selling sustained through the session to take T-Notes to lows of 119-07+ vs 120-17 pre-data; cash 10yr yield hit a yield high of 2.87%. It's worth highlighting that the curve steepened off its most inverted levels later on, aided by some TUU2 block buys and also with attention now looming to next week's 3s, 10s, and 30s refunding auctions.

STIRS:

- Eurodollars/SOFR were all sold as the NFP raises the likelihood of a 75bps September hike and stoked fears of prolonged inflation. There was even some flirting with inter-meeting hike pricing in the Fed Funds curve, which later unwound.
- EDU2 -11bps at 96.54, Z2 -19bps at 96.04, H3 -23.5bps at 96.10, M3 -23.5bps at 96.28, U3 -23bps at 96.52, Z3 -21.5bps at 96.705, H4 -21bps at 96.87, M4 -20.5bps at 97.02, Z4 -20.5bps at 97.19, Z5 -18bps at 97.345.
- NY Fed RRP op. demand edged higher to USD 2.195tln from 2.192tln.

CRUDE

WTI (U2) SETTLES USD 0.47 HIGHER AT 89.01/BBL; BRENT (V2) SETTLES USD 0.80 HIGHER AT 94.92/BBL

Oil prices were modestly firmer Friday in a quiet end to the week as far as energy newsflow was concerned. The bulk of the price action revolved around the US jobs report and the knock-on Dollar reaction. The surge higher in the buck in the immediate aftermath saw oil and broader commodities pressured to take WTI and Brent to session lows of USD 87.01/bbl and 92.78/bbl, respectively, before paring back into the later session. Later on, the Baker Hughes US rig count saw oil rigs -7 at 598, nat gas rigs +4 at 161, and total rigs -3 at 764.

RUSSIA: Russian President Putin has ordered the cessation of any Sakhalin-1 deals until year-end for foreign companies. That's particularly of note for ExxonMobil (XOM) which has been attempting to sell its 30% stake in the oil field. Meanwhile, Reuters reported Russia's idled primary oil refining capacity was revised up 23% for August to 3.2mln tonnes and +11% for September to 4.295mln tonnes.

EQUITIES

CLOSES: SPX -0.17% at 4,145, NDX -0.78% at 13,208, DJIA +0.23% at 32,803, RUT +0.81% at 1,922

SECTORS: Consumer Discretionary -1.66%, Communication Svs. -0.88%, Utilities -0.3%, Technology -0.24%, Consumer Staples -0.15%, Health Care -0.03%, Industrials +0.21%, Real Estate +0.32%, Materials +0.36%, Financials +0.79%, Energy +2.04%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.78% at 3,725; FTSE 100 -0.11% at 7,440; DAX -0.65% at 13,574; CAC 40 -0.63% at 6,472; IBEX 35 +0.08% at 8,168; FTSE MIB -0.26% at 22,587; SMI -0.71% at 11,123

STOCK SPECIFICS: **Pfizer Inc. (PFE)** is in advanced talks to buy **Global Blood Therapeutics Inc. (GBT)**, the maker of a recently approved drug for sickle-cell disease, for about USD 5bln, according to WSJ. **Tesla (TSLA)** shareholders approved a 3-for-1 stock split. **Apple Inc. (AAPL)** has reportedly warned suppliers to follow Chinese rules regarding Taiwan labelling, according to Nikkei. **Twitter, Inc. (TWTR)** has dismissed Elon Musk's claims in a Delaware court filing that he was hoodwinked into signing the deal. **Amazon.com Inc. (AMZN)** is to acquire **iRobot (IRBT)** for USD 61/shr in cash (closed at 49.99). Meanwhile, its Prime subscription service is facing a deepened investigation from the US FTC, according to Business Insider. **Virgin Galactic (SPCE)** announced a delay in the commercial launch of its space flights to Q2 23 and will sell up to USD 300mln shares to boost cash reserves. **Palantir (PLTR)** hired or extended offers to 1.1k this year; accelerating hiring and will raise headcount by 25%. **Illinois Tool Works (ITW)** raised its dividend 7% to USD 1.31/shr (prev. USD 1.22/shr). **Consolidated Edison's (ED)** USD 3bln renewable unit is drawing interest from **TotalEnergies (TTE FP)** and **RWE (RWE GY)**, according to Bloomberg. **General Dynamics (GD)** was awarded a USD

1.4bln contract to build US Navy ships. **Oracle Corp (ORCL)** reportedly laid off hundreds of employees this week as the business software provider prioritizes its healthcare IT services and cloud businesses, according to WSJ citing sources.

EARNINGS: **Amgen (AMGN)** beat on EPS, revenue and raised its revenue outlook but it was a touch beneath expectations. **Atlassian (TEAM)** missed on EPS but beat on revenue with strong subscription & maintenance revenue. **Western Digital (WDC)** beat on EPS and missed on revenue while Q1 23 guidance was very weak. **Expedia (EXPE)** beat on EPS and revenue while lodging bookings reached a record high, and it posted the highest ever Q2 revenue and adj. EBITDA. Exec added “Despite the disruptions during the summer travel season and an uncertain macroeconomic backdrop, travel demand has remained strong.” **Warner Brothers Discovery (WBD)** saw a steep miss on EPS, -1.50 vs exp. 0.01 while revenue also missed expectations. **DoorDash (DASH)** saw a larger loss per share than expected but beat on revenue while an exec noted it has not yet seen changes to consumer engagement on its US marketplace that are distinguishable from normal seasonal patterns. DASH also raised FY guidance. **DraftKings (DKNG)** posted a narrower loss per share than expected and revenue beat alongside a FY revenue guidance raise. **Lyft (LYFT)** revenue was in line with expectations while an exec noted increased demand in Q2, and ride-share volumes are seen exceeding pre-COVID levels in the medium-term.

WEEKLY FX WRAP

Blockbuster US jobs report ends the central bank-led week with a bang

USD: A blockbuster July US jobs report saw the headline NFP print at +528k, over double the expected +250k, whilst the unemployment rate unexpectedly ticked lower to 3.5% from 3.6% and average earnings rose to 5.2% from 5.1% (exp. 4.9%). Given the Fed’s data-dependant and meeting-by-meeting approach to policy, September FOMC implied market pricing of a 75bps hike rose to 65% from 40% beforehand, meanwhile, the terminal implied rate has risen to 3.60% (at Feb 2023 FOMC) from 3.45% beforehand. In turn, the DXY was catapulted to 106.78 from a 105.91 pre-release level and thereafter printed a fresh WTD peak at 106.93 at the time of writing. Before the US jobs report, the downward correction in DXY continued to just over 105.00 (105.03) and the 50 DMA a fraction below before a raft of hawkish Fed commentary boosted the Dollar at the time, whilst the ISM PMIs did little overall to shift the Fed’s dials. Ahead, next week’s highlight will be US July CPI.

GBP, EUR: Two-way action was seen in Sterling upon the BoE’s announcement whereby GBP/USD saw a knee-jerk impulse higher on the initial 50bps hike vs some outside bets for 25bps, whilst the bank maintained its pledge to act “forcefully”. Although the decision on the direction of the rate move was unanimous, the magnitude saw an 8-1 split, with Tenreyro opting for a 25bps move (Click here for the Newsquawk BoE review). Sterling then recoiled as the BoE’s dire growth outlook sees a recession in Q4 this year, lasting for five quarters, whilst the inflation forecast suggested the market path is too aggressive to meet the 2% target. The pair extended on losses during the presser with the BoE Governor suggesting a 50bps hike now cuts the risk of extended tightening, whilst all options remain on the table. After the BoE, GBP/USD felt more pain following the US jobs report which took the pair to a fresh WTD trough of 1.2001 (vs weekly high of 1.2293) at the time of writing. Meanwhile, the single currency saw some traction from upward revisions to preliminary Eurozone PMIs, although the releases flagged increasing risks of economic downturns - “The eurozone economic outlook has darkened at the start of the third quarter, with the latest survey data signalling a contraction of GDP in July. Soaring inflation, rising interest rates and supply worries – notably for energy – have led to the biggest drops in output and demand seen for almost a decade, barring pandemic lockdown months.", the PMI release suggested. Furthermore, the region remains prone to the possibility of a total Russian gas supply shutdown as the Nord Stream pipeline impasse persists. Nonetheless, Friday’s US jobs report dragged EUR/USD towards the bottom of its 1.0121-1.0293 weekly range.

JPY, CHF: Earlier in the week and before the US payrolls, the JPY saw more big swings and high volatility as the Japanese currency extended its broad revival through 130.50 vs the Greenback alongside steeper retreats in JPY crosses, seemingly at the time a continuation of last week’s strength on the back of the narrowing FOMC-BoJ pricing at the time, whilst geopolitical angst in East Asia probably kept the JPY underpinned throughout the week. However, following the surge in the DXY post-NFP, USD/JPY was propelled to a fresh WTD high near 135.00 from around 133.22 pre-release. Meanwhile, the CHF was softer following steady Y/Y Swiss CPI vs firmer forecast dampened prospects of an inter-meeting (August touted) SNB hike. EUR/CHF looks to end the week nearer to the top of a 0.9712-9797 weekly band.

AUD, NZD: Antipodeans saw fluctuations with overall risk sentiment and inversely with their US rival, but the Aussie was disappointed despite the third half-point hike in a row by the RBA due to lack of hawkish guidance or pre-set path for further policy normalisation, whilst Friday’s RBA SoMP provided little in terms of surprises. Similarly, Kiwi was undermined by weaker than expected metrics in NZ's Q2 HLFS. Thereafter, NFP-induced gains in the Buck took AUD/NZD and NZD/USD towards weekly lows of 0.6868 and 0.6210 respectively from highs of 0.7046 and 0.6352.

CAD: The Looney weakened on the week against the stronger buck with weakness exacerbated by the softer oil prices which saw WTI close near the lows of the week from highs of USD 98.65/bbl to finish the week sub USD 90/bbl. Meanwhile, the Canadian jobs report on Friday disappointed with a 30.6k decline consisting of a decline of 13.1k full-time jobs and a 17.5k decline in part-time jobs, although the unemployment rate remained at 4.9% amid a move lower in the participation rate. USD/CAD finished the week in the middle of its range from a low of 1.2959 to a high of 1.2984 with the weak Canadian jobs report and strong US jobs report propelling the cross firmly back above 1.2900.

CNH, CNY: Yuan was in focus this week amid US House Speaker Pelosi's controversial visit to Taiwan during the PLA's 95th anniversary, and despite various warnings from Beijing that it will undermine the "One China" principle. The Yuan pared declines after some unexpectedly weak Chinese PMIs, with Pelosi's arrival and departure from Taipei seeing no direct confrontation from China, aside from mainly verbal recriminations and military drills. However, the Chinese currency saw some weakness after Beijing sanctions Pelosi, whilst further countermeasures were announced that substantially diminished prospects of a near-term cooling of tensions between Beijing and Washington. Nonetheless, USD/CNH looks to end the European week towards the middle of its 6.7451-7953 weekly parameter. Ahead, the upcoming week sees Chinese July inflation.