



US Market Wrap

8th August 2022: Stocks mixed with all eyes on CPI Wednesday

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude up, Dollar down.
- **REAR VIEW:** NVDA Q2 prelim results poor with disappointing guidance; Bowman said the Fed should keep considering large hikes; Daly noted the Fed is nowhere near done on its fight against inflation; NY Fed consumer 1yr and 3yr inflation expectations eased; BA expects 787 deliveries in the coming days; US targets December 5th for price cap scheme on Russian oil.
- **COMING UP: Event:** EIA STEO **Supply:** UK, Germany & US **Earnings:** Sysco, Coinbase, Warner Music, Spirit Airlines; IWG, Legal & General; Continental.
- **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](#).

MARKET WRAP

Equities were mixed on Monday with strong outperformance in small caps, in what appears to be led by meme stocks where some saw hefty gains on Monday. Nasdaq was the laggard after the preliminary Q2 update from NVDA, which missed on revenue expectations due to weak gaming revenue while its Q3 guide also disappointed. Fed's Bowman and Daly spoke over the weekend and in wake of Friday's jobs report; Bowman stated the Fed should keep considering large hikes similar to the 75bp move in July until inflation sees a meaningful decline. Meanwhile, Daly said the Fed is nowhere near done on its fight against inflation and a 50bp hike is not the only option to consider. However, the latest NY Fed Consumer survey was encouraging with both the 1 and 3yr inflation expectations easing from the prior month although all eyes are glued on Wednesday's US CPI report. The Dollar sold off as it tracked the move lower in yields which saw the 10yr yield test 2.75% to the downside despite chunky corporate issuance and ahead of supply this week and the US CPI report. Oil prices were firmer on Monday as darkness out of Europe was reversed into the NY afternoon as the Dollar sold off.

GLOBAL

FED SPEAK PRIMER: After the hot jobs report on Friday attention now turns to clues from the Fed to gauge appetite for another 75bp move in September and to see how high the Fed is willing to go, and for how long. The strong jobs report helped put to rest fears of a recession after the two consecutive quarters of contraction given the very strong labour market. Over the weekend, Bowman and Daly spoke where the former said more 75bps moves should be considered while Daly reiterated the Fed is far from done and a 50bp hike is not the only option on the table. However, with US CPI released on Wednesday, this will likely have more influence on the Fed so we will hear more Fed speak towards the end of the week - Fed's Evans and Kashkari are due on Wednesday after the CPI report while Daly is to speak on Thursday and we will likely have more unscheduled speakers. Although the July jobs report was hot, there is a lot of data to digest from now until the September meeting (see below). The 21st September FOMC will see the release of the updated Summary of Economic Projections, which will be key to determining how much the Fed's reaction function has been influenced by the data, mainly to see if the rate path is more aggressive than predicted in June, or less aggressive, but all will be dictated by the upcoming data. For a full Newsquawk primer, [please click here](#).

US/CHINA/TAIWAN: China confirmed it will extend military drills around Taiwan for Monday, according to Bloomberg, and the military will conduct "regular" drills from now on at the eastern side of the median line of the Taiwan Strait, according to Reuters citing Chinese state television. Moreover, Foreign Minister Wang said China's actions toward Taiwan are just, appropriate and legal with the actions aimed at safeguarding China's sovereignty and territorial integrity, while he added that Taiwan is not part of the US and is China's territory, according to Reuters. Furthermore, Taiwan's Defence Ministry said it detected 66 Chinese aircraft conducting activities in the Taiwan Strait as of 5pm local time on Sunday. It was also reported that Taiwan said Chinese aircraft and warships practiced attacking Taiwan on Saturday in retaliation for US House Speaker Pelosi's recent visit, according to Reuters. Taiwan's transport ministry said transit flights gradually resumed on Sunday near China's military drill zones 1-6 and said they will continue to direct flights and ships away from China military zone No. 7 off Taiwan's eastern coast until Monday morning, according to Reuters. From the US, Secretary of State Blinken said China's actions on Taiwan were moving away from a practice of resolving issues peacefully to coercion and towards using force, while he said the change to the status quo that has prevailed is coming



from China and not the US. Blinken also said that the US seeks to work closely with Philippines President Marcos and reaffirmed that an attack on the Philippines in the South China Sea would invoke the defence treaty, according to Reuters. Lastly, White House said China's activity around the Taiwan Strait is a significant escalation in China's efforts to change the status quo, while it added that the actions are 'provocative, irresponsible and raise the risk of miscalculation', according to Reuters. For a full Newsquawk analysis piece, [please click here](#).

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 15+ TICKS HIGHER AT 119-27+

Treasuries firmed through the quiet session despite chunky corporate issuance Monday, and ahead of this week's auctions and CPI report. At settlement, 2s -3.0bps at 3.218%, 3s -4.5bps at 3.149%, 5s -5.9bps at 2.915%, 7s -6.5bps at 2.854%, 10s -7.2bps at 2.768%, 20s -5.5bps at 3.221%, 30s -6.5bps at 3.000%. 5yr BEI +1.4bps at 2.748%, 10yr BEI +0.6bps at 2.481%, 30yr BEI +0.0bps at 2.261%.

THE DAY: T-Notes rose gradually through the APAC Monday to go on and hit resistance at 119-25 in the European morning, with desks citing geopolitical angst and short-covering (post-Friday's NFP sell-off) in a lack of other catalysts. The bid was capped in the NY morning amid a fresh slew of corporate issuance announced (over ten IG issuers), which continues to build in August. Once the rate-lock-related Treasury selling subsided, the bid continued to take T-Notes to new session highs. The latest fall across all the NY Fed's consumer inflation expectations added weight to the bid also. Traders now look to this week's auctions with the 3yr on deck Tuesday while the data highlight will be the CPI report on Wednesday, just a few hours before the 10yr new issue.

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.

STIRS:

- U2 +0.5bps at 96.540, Z2 +2.0bps at 96.050, H3 +1.0bps at 96.105, M3 +1.0bps at 96.280, U3 +3.5bps at 96.545, Z3 +5.0bps at 96.745, H4 +7.0bps at 96.930, M4 +8.5bps at 97.090, U4 +9.5bps at 97.200, Z4 +9.5bps at 97.275, Z5 +9.5bps at 97.435
- NY Fed RRP op. demand at USD 2.196tln vs 2.195tln on Friday.
- US sold USD 60bln of 3-month bills at 2.580%, covered 2.84x; sold USD 47bln of 6-month bills at 3.040%, covered 3.09x

CRUDE

WTI (U2) SETTLED USD 1.75 HIGHER AT 90.76/BBL; BRENT (V2) SETTLED USD 1.73 HIGHER AT 96.65/BBL

Oil prices were firmer on Monday as darkness out of Europe was reversed into the NY afternoon as the Dollar sold off. Strength during the APAC session was underpinned by China's export data released over the weekend that saw a pick-up in crude oil imports to 8.79mln BPD. WTI and Brent front-month contracts hit session lows of USD 87.22 /bbl and 93.01/bbl as the NY session got going. However, the Dollar's continued descent became hard to ignore for commodity markets, and in lack of much else going on, saw better buying surface taking the contracts back into the black and to highs in the NY afternoon.

PRICE CAP: US Treasury officials are targeting December 5th for implementation of a price cap scheme on Russian oil, according to Politico; sources suggest "technical work on the mechanics of the cap and other governance issues is just about done". Politico notes that some reports suggest a price cap could be USD 40-60bbl, though officials are determined to keep it above Russia's cost of production which sits around USD 45/bbl.

EQUITIES

CLOSES: SPX -0.12% at 4,140, NDX -0.37% at 13,159, DJIA +0.09% at 32,831, RUT +0.81% at 1,935.

SECTORS: Real Estate +0.71%, Materials +0.54%, Energy +0.48%, Communication Services +0.37%, Consumer Discretionary +0.3%, Health +0.23%, Utilities +0.12%, Consumer Staples -0.06%, Industrials -0.08%, Financials -0.18%, Technology -0.88%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.88% at 3,758; FTSE 100 +0.60% at 7,484; DAX +0.88% at 13,693; CAC 40 +0.80% at 6,524; IBEX 35 +1.30% at 8,274; FTSE MIB +0.62% at 22,727; SMI +0.37% at 11,164.



STOCK SPECIFICS: **Boeing (BA)** confirmed it expects 787 deliveries in the coming days and said it has made the necessary changes to ensure 787 Dreamliners meet all certification standards. Moreover, the FAA could approve ticketing for American Airlines Boeing (BA) 787 as early as today and the airline could receive the jet as soon as Wednesday, according to Reuters sources. **Tesla (TSLA)** firmed after it signed a contract worth circa USD 5bln to purchase battery materials from nickel processing companies in Indonesia. **Baidu (BIDU)** was in the green in the wake of securing the first permits in China to offer fully driverless robotaxi services. **Pfizer (PFE)** confirmed it is to acquire **Global Blood Therapeutics (GBT)** for USD 68.50/shr, or USD 5.4bln. Note, GBT closed Friday at USD 63.84/shr after WSJ sources reported on the deal. **Avalara (AVLR)** is to be acquired by Vista Equity for USD 93.50/shr in cash. Note, AVLR closed Friday at USD 95.55/shr. **Signify Health (SGFY)** surged following news **CVS Health (CVS)** is planning to buy the co. according to the WSJ. **First Solar (FSLR)** was in the green following upgrades at Guggenheim and JPMorgan, who both said the co. among those poised to benefit most from the Senate-passed Inflation Reduction Act. **Emerson (EMR)** to sell its InSinkErator business to **Whirlpool (WHR)** for USD 3bln. Meme stocks **Bed Bath & Beyond (BBBY)** and **AMC (AMC)** surged despite no apparent catalyst. Wells Fargo noted the reform passed by Senate on Sunday is generally negative for the pharmaceutical industry, and there is likely to be a big impact on **Bristol Myers Squibb's (BMY)** anti-coagulant Eliquis, **Merck's (MRK)** cancer drug Keytruda and **Regeneron Pharmaceuticals' (REGN)** ophthalmology drug Eylea and **Eli Lilly and Co's (LLY)** diabetes drug Mounjaro when the legislation comes into effect after 2026.

EARNINGS: **Nvidia (NVDA)** was lower after reporting prelim Q2 revenue short of consensus primarily driven by weaker gaming revenue. Moreover, data center revenue, though a record, was somewhat short of cos. expectations, as it was impacted by supply chain disruptions. Looking ahead, Q3 revenue view was also short. **Tyson Foods (TSN)** was lower after it missed on profit but beat on revenue and looking ahead TSN affirmed its FY revenue view. **Barrick Gold (GOLD)** firmed following beats on EPS and revenue alongside maintaining FY22 gold and copper production guidance. Note, CEO said inflation is not going away anytime soon and the idea that mining costs have peaked is wishful thinking. **Palantir (PLTR)** saw notable losses after reporting an unexpected quarterly loss and Q3 revenue view falling well short of expectations. On top of that, PLTR lowered its FY guidance due to the uncertain timing of some government contracts. **Berkshire Hathaway (BRK.B)** reported a USD 43.8bln loss for Q2, but generated almost USD 9.3bln operating profit as gains from reinsurance and the BNSF railroad offset fresh losses at the Geico car insurer, where parts shortages and higher used vehicle prices boosted accident claims. **BioNTech (BNTX)** missed on top and bottom line, but said its variant-adapted COVID vaccine should provide an uptick in demand in Q4.

FX WRAP

The Dollar was lower on Monday and traded between a range of 106.09 and 106.81 while the inflation expectations survey had little impact on the DXY, but it did coincide with the bottom of the day's trading range. It was a very quiet session to start the week although the latest NY Fed Consumer survey saw the 1yr inflation forecasts fall to 6.2% in July from 6.8% in June while the 3yr also declined, moving to 3.2% from 3.6% - a welcome sign for the Fed in their fight against inflation. The buck appeared to track US yields lower which saw the 10yr yield test 2.75%. A lot of attention lies on US CPI Wednesday to help gauge the Fed's reaction function after the hot US jobs and wages figures and any Fed speak thereafter will be key in providing us with clues (Fed speak primer [available here](#)). Over the weekend, we saw hawkish commentary from Fed's Bowman who suggested the Fed should consider more 75bps rate hikes at coming meetings. Meanwhile, Daly reiterated the Fed is far from done on lowering inflation, adding 50bps is not the only option on the table.

The Euro was marginally higher against the buck and as such managed to reclaim 1.02 to the upside to highs of 1.0221, albeit at pixel time EUR/USD is sitting just below the psychological level. There was little reaction seen to a lower-than-forecast EZ Sentix reading for August while it is also worth noting that power prices in France and Germany for Q2 2023 rose to record highs as the power crunch continues to hit the EZ. EUR/GBP managed to rise just above the 200dma at 0.8440 and 21dma at 0.8441, a level it currently resides around while EUR/USD hovers around 1.02.

The Yen was bid to help USD/JPY break below 135.00 thanks to the move lower in US Treasury yields although the CPI report on Wednesday is a big risk for the Yen given its sensitivity to yields. Domestically, Japanese politics is in focus where the latest saw PM Kishida say he will reshuffle the cabinet in the week ahead to address issues around COVID-19, inflation and Taiwan affairs. Meanwhile, **CHF** saw a strong bid throughout the European morning but since the US equity open it pared some of its gains. In the morning there was little reaction to the Swiss unemployment rate coming in as expected at 2.2%.

Cyclical currencies were supported by the weaker buck and looked through the downbeat tone in equities with AUD and NZD surging while CAD was buoyed by firmer oil prices. AUD outperformed and was supported by gains in iron ore prices while China trade data saw a wider than expected trade surplus, although imports were narrower than expected, it



still improved from the prior. NZD also saw solid gains despite a slight move lower overnight on inflation expectations data which saw the 2yr expectations dip to 3.1% from 3.3%, although the 1yr expectations were left unchanged. GBP was the relative laggard and was flat against the Dollar and the Euro. In Cable, technicians are eying the 10dma at 1.2141 and 21dma at 1.2033, a range the cross traded within today.

Scandi's saw strength against the weaker Dollar and the Euro despite the downbeat risk tone in the afternoon with NOK propped up by the gains in Brent crude prices. **EM's** were generally stronger against the buck although TRY was the underperformer on the gains in crude prices. CNH & CNY were flat after the wider trade surplus than expected and attention remains on the relations with Taiwan and US - Full Newsquawk analysis available [here](#). LatAm FX was generally stronger with outperformance in CLP on the back of gains in copper prices while the latest data saw a surprise trade surplus for Chile although Copper exports declined to 3.416mln from 3.975mln. Meanwhile, Chile inflation rose to 1.4% in July from 1.15% M/M. BRL, MXN and COP all saw decent strength too while ZAR was also bid against the Dollar on rising gold prices.

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