newsquawk

US Market Wrap

9th August 2022: Stocks hit on more chip warnings and ahead of US CPI

- **SNAPSHOT**: Equities down, Treasuries down, Crude flat/down, Dollar flat.
- **REAR VIEW**: MU issue profit warning; Woeful NVAX report; Russia suspends oil exports via southern-leg of the Druzhba pipeline; BoE's Ramsden spoke on potential rate cuts; Solid 3yr auction; EIA cuts 2022 World oil Demand forecast, slightly raises 2023 forecast.
- **COMING UP**: **Data**: Chinese CPI, US CPI, German CPI (Final), Chinese M2. **Speakers**: Fed's Evans & Kashkari; BoE's Pill. **Supply**: Germany & US. **Earnings**: Disney, Honda, Fox; Aviva; Evonik, E.ON.

MARKET WRAP

Stocks were sold on the eve of the pivotal US CPI report while downside was led by big tech names and semiconductors after another earnings warning in the sector, where Micron (MU) noted its revenue would be at the low end or below its guidance, adding to concerns after the NVDA revenue warning on Monday. US data on Tuesday, albeit not tier 1, was mixed. IBD TIPP Economic Optimism index declined slightly and was the first glimpse of data in August ahead of the UoM preliminary survey on Friday. Q2 Unit Labour Costs rose above expectations which will add to concerns of a wage price spiral after the latest ECI was above expectations. Nonetheless, the Dollar was flat while cyclical currencies were weighed on by the downbeat risk tone and EUR was the G10 outperformer. Treasuries bear flattened ahead of supply & CPI this week while the 3yr auction was met with solid demand. Crude prices were choppy but ultimately settled little changed after finding a bid in the morning after Russia suspended oil exports via the southern-leg of the Druzhba pipeline amid transit payment issues. Meanwhile, the EIA STEO cut its expectations for 2022 World oil Demand but raised its 2023 forecast slightly while US demand forecasts were both cut slightly for 2022 and 2023. Attention now turns to China CPI and PPI overnight ahead of the US CPI on Wednesday (full preview available below).

US

CPI PREVIEW: US CPI is expected to rise 0.2% M/M, cooling from the 1.3% prior with analyst forecasts ranging between 0.0-0.5%. The headline Y/Y is seen rising 8.7% from 9.1% (ranges between 8.5-9.0%). The core M/M is expected to rise 0.5% from 0.7% (analyst ranges between 0.3-0.7%), while the Y/Y is seen rising 6.1%, up from the prior 5.9% with forecasts between 6.0-6.2%. Overall, the majority of metrics are expected to cool somewhat, although the Core Y/Y is seen accelerating. After the hot employment report, we are looking at the CPI report to gauge the Fed's reaction function for September but also for the rest of its tightening cycle. 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 but the CPI will help determine the Fed's appetite for another 75bp move in September and to see how high the Fed is willing to go, and for how long. There is also room for concern after the July jobs report wages came in above expectations, sparking fears of a wage price spiral down the line. To download the full Newsquawk preview, please click here.

IBD/TIPP ECONOMIC INDEX: Economic optimism printed 38.1, falling from the prior 38.5, while the Six-Month Economic Outlook, a measure of how consumers feel about the economy's prospects in the next six months, rose 1.2% to 32.6, from 32.2. The Personal Financial Outlook, a measure of how Americans feel about their own finances in the next six months, had the highest reading of the Economic Optimism Index components in August at 46.5, up 2.6% from the previous 45.3, albeit keeping it in contractionary territory. Lastly, Confidence in Federal Economic Policies, a proprietary IBD/TIPP measure of views on how government economic policies are working, declined a chunky 7.1% to 35.3 from 38.0.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 12 TICKS LOWER AT 119-15+

Treasuries bear flattened on Tuesday ahead of supply & CPI this week while the 3yr auction was met with solid demand. At settlement, 2s +5.8bps at 3.274%, 3s +6.5bps at 3.211%, 5s +6.3bps at 2.975%, 7s +4.5bps at 2.896%, 10s +3.1bps at 2.794%, 20s +2.6bps at 3.244%, 30s +0.5bps at 3.003%.

THE DAY: The Treasury curve bear flattened ahead of supply with the 10yr T-Note auction on Wednesday after US CPI and the 30yr supply on Thursday. Treasuries sold off heading into the 3yr auction which was met with solid demand (see below) but all eyes remain on the key US CPI print Wednesday, alongside longer end supply. There were a few data points on Tuesday, primarily the IBD TIPP Economic Optimism index which declined slightly and was the first glimpse of data in August with the UoM preliminary survey on Friday. Meanwhile, the Unit Labour Costs for Q2 rose above expectations but slowed from the prior report which will add to concerns of a wage price spiral after the latest ECI was above expectations for Q2 and followed with hot wages in the July US NFP.

3YR AUCTION: Overall, a decent auction. The stop-through was stronger than the average 0.1bp tail but not as strong as the prior auction's 0.4bp tail. The B/C was stronger than both the prior and six auction average, a sign of solid demand. Meanwhile, indirects (forced buyers) only took 19.6%, lower than the prior 20.3% and the average 23.47%. However, direct bidders were hesitant, only taking 17.3% beneath the prior 19.4% and average 18.05% although the lack of direct demand was more than offset by an uptake from indirect bidders, who took home 63.1% of the auction, above the prior 60.4% and above the average 58.48%.

STIRS

- EDU2 +1.0bps at 96.555, Z2 -3.5bps at 96.020, H3 -4.5bps at 96.065, M3 -6.5bps at 96.21, U3 -9.0bps at 96.455, Z3 -10.0bps at 96.650, H4 -11.0bps at 96.825, M4 -11.0bps at 96.980, U4 -11.0bps at 97.090, Z4 -10.5 bps at 97.175, Z5 -6.5bps at 97.375.
- US sold USD 38bln in 1yr bills at 3.2%; B/C 3.05x.
- NY Fed RRP op. demand at USD 2.187tln (prev. 2.196tln) across 95 bidders (prev. 102).

CRUDE

WTI (U2) SETTLED USD 0.26 LOWER AT 90.50/BBL; BRENT (V2) SETTLED 0.34 LOWER AT 96.31/BBL

The crude complex was choppy on Tuesday, but eventually settled marginally lower. WTI notched a high of USD 92.65/bbl and a low of 89.05/bbl, while Brent peaked at 98.40/bbl in contrast to a trough of 94.90/bbl. Regarding the day, oil saw slight upside in the European morning after Reuters sources said Russia suspended oil exports via southern-leg of the Druzhba pipeline amid transit payment issues. Following this, Hungary's Mol stated it is in talks to pay Russia a transit fee to Ukraine for oil and it has reserves that will last several weeks. Additionally, Czech pipeline regulator operator MERO noted the Druzhba oil supplies should be restarted within several days, according to their information. Elsewhere, Qatar sets September Marine crude OSP at Oman/Dubai plus USD 8.90/bbl; land crude OSP at Oman /Dubai plus USD 10/bbl. On the calendar, the private weekly US inventory data is due later Tuesday ahead of the EIA official print on Wednesday and expectations for the private report are for: Crude +0.1mln, Distillates -0.7mln and Gasoline -0.6mln.

EIA STEO: The EIA cut its expectations for 2022 World oil Demand but raised its 2023 forecast slightly while US demand forecasts were both cut slightly for 2022 and 2023. US 2022 crude output seen rising 610k BPD to 11.86mln BPD (prev. +720k BPD forecast in July), while US 2023 crude output seen rising 840k BPD to 12.7mln BPD (prev. +860k BPD). Globally, EIA STEO sees world oil demand to rise 2.08mln BPD to 99.43mln BPD for 2022 (prev. rise of 2.23mln BPD) and 2023 forecast to rise 2.06mln BPD to 101.49mln BPD in 2023 (prev. rise of 2mln BPD). For a more detailed summary, please click here.

EQUITIES

CLOSES: SPX -0.40% at 4,123, NDX -1.15% at 13,008, DJIA -0.18% at 32,774, RUT -1.70% at 1,909.

SECTORS: Consumer Discretionary -1.54%, Technology -1%, Communication Services -0.72%, Materials -0.51%, Industrials -0.37%, Health -0.29%, Consumer Staples -0.08%, Financials +0.57%, Real Estate +0.74%, Utilities +1.06%, Energy +1.77%.

EUROPEAN CLOSES: Euro Stoxx 50 -1.11% at 3,715; FTSE 100 +0.08% at 7,488; DAX -1.12% at 13,534; CAC 40 -0.53% at 6,490; IBEX 35 +0.48% at 8,311; FTSE MIB -1.05% at 22,488; SMI -0.30% at 11,132.

STOCK SPECIFICS: **Micron (MU)** was lower after it announced it sees Q4 revenue at or below the low end of guidance and expects a challenging market environment in Q4 2022 and Q1 2023 highlighted by expecting FCF to be negative in Q1. **Berkshire Hathaway (BRKA)** purchased a further 6.7mln shares in **Occidental Petroleum (OXY)**, according to an SEC filing, taking its total stake to over 20%. **AppLovin (APP)** proposes to buy **Unity (U)** in an all-stock deal for USD

58.85/shr or USD 20bln. Note, U closed Monday at USD 49.76/shr. **SoftBank (SFTBY)** said it is determined to sell some of all of its stake in **SoFi Technologies (SOFI)** which it had a 9% stake in as of August 5th. **Ford (F)** raised the price of electric F-150 lightning by up to USD 8,500 due to significant material cost increases, according to CNBC. **Nvidia (NVDA)** CEO said employees have been given raises and there are no layoffs, according to Business Insider. **Walmart (WMT)** reportedly held talks with **Paramount (PARA), Disney (DIS) and Comcast (CMCSA)** on a streaming deal, according to NYT. **Disney's (DIS)** ESPN is reportedly out of the Big Ten TV rights negotiations, according to AP citing sources. FDA reportedly recently found **Merck's (MRK)** popular diabetes drug potentially contains carcinogen.

EARNINGS: **Novavax (NVAX)** plummeted following a woeful report, where it posted a surprise loss per share and also cut its FY revenue guidance in half. NVAX said it did not expect any further US sales of its Covid-19 vaccine this year amid soft demand and a supply glut. **Norwegian Cruise Line Holdings (NCLH)** was in the red in the wake of a deeper loss per share than expected and missing on revenue. Looking ahead, Q3 revenue guidance was light and expects to report a net loss for Q3. **Take-Two Interactive Software (TTWO)** saw losses after it missed on profit and looking ahead, next Q and FY23 EPS view was short of consensus. Note, revenue marginally beat. **Allbirds (BIRD)** was in the red in the wake of a light Q3 revenue guide alongside cutting its FY22 revenue view. BIRD cited external headwinds that could pressure consumer spending in H2 '22. Although, for the current quarter, BIRD beat on EPS and revenue. **GoodRx (GDRX)** surged following a beat on profit and revenue, and also said an issue with a major grocery chain had been resolved.

FX WRAP

The Dollar was flat on Tuesday with all eyes on Wednesday's CPI release. There were several US data points on Tuesday, which saw the IBD TIPP Economic Optimism Index decline to 38.1 from 38.5 for August, a disappointing start to the August data series but it is only a small decline, and we can expect to get more insight to the month on Friday when the preliminary UoM survey hits. Meanwhile, the NFIB Business Optimism Index rise slightly to 89.9 from 89.5 while the US unit labour costs for Q2 rose 10.8% from the prior 12.7%, albeit above expectations of 9.5% while productivity declined 4.6%, a bit better than the 4.7% forecast and better than the prior -7.4%. The Treasury curve bear flattened but the rise in yields on Tuesday did little to support the greenback.

The Euro was bid and EUR/USD reclaimed 1.02 to the upside from lows of 1.0189 but is off the highs of 1.0247 seen this morning as the cross failed to breach 1.0250 to the upside, a level it approached and rejected twice on Tuesday with technicians noting resistance around 1.0253 ahead of last week's 1.0293 high. The gains in the Euro against the buck came despite enhanced energy concerns after Russia announced it is to cut off supplies through the southern arm of the Druzbha pipeline (the northern line supplies Germany). Meanwhile, on the fiscal side, Reuters sources suggest the German Finance Ministry wants to raise all income tax bracket thresholds apart from tax on the rich, and they now expect the tax take to drop by EUR 10.1bln in 2023 as it looks to battle inflation.

The Yen was weaker against the buck despite the downbeat risk tone and move higher in US yields with USD/JPY hovering around 135.00 for the majority of the session. Nonetheless, participants await on the sidelines ahead of the pivotal US CPI report Wednesday, while the cross also failed to gain above the 50dma at 135.14 in quiet trade. CHF saw mild gains against the Dollar and was flat against the Euro. Gold prices saw slight gains but the precious metal failed to break above USD 1,800/oz.

Cyclical currencies were predominantly softer on the session against the buck with AUD and NZD succumbing to the downbeat risk tone which saw the majority of EU indices close red while all US indices were also hit. The downbeat risk tone was led by tech, again, after another warning in the tech space, this time from Micron (MU). AUD/USD was the cyclical laggard after a rejection of 0.7000 (finding a high of 0.6994) and a break beneath its 10dma at 0.6968 while NZD/USD outperformed the Aussie somewhat to see AUD/NZD fall beneath 1.11. CAD was weaker against the Dollar and tested 1.2900 to the highs but failed to break above it with USD/CAD off highs going into the US equity close. GBP was flat against the Dollar but weaker against the Euro. EUR/GBP rose above its 200dma at 0.8440 and 21dma at 0.8443 with technicians eyeing the 100dma of 0.8467 as resistance. BoE's Ramsden spoke which sparked some initial weakness in GBP as he suggested he is not ruling out the need to begin cutting rates quickly at some point, but it is not in his current forecasts. However, Ramsden also said it is more likely than not that the BoE will need to hike further but a firm decision has not been made. Meanwhile, there are worries regarding UK power after reports suggest the UK is planning for potential power cuts to industry and homes in January as a worst-case scenario, according to Bloomberg sources.

Scandi's were weaker against the Euro but the NOK was flat against the Dollar while SEK was weaker, seeing NOK/SEK rise above 1.0450 at one point before reversing beneath the level as oil prices pared initial gains in the afternoon.

EM's were mixed, RUB was the clear laggard while BRL also saw selling pressures after M/M inflation declined by 0.68%, a bit more than the street was looking for while the Y/Y print eased to 10.07% from 11.89%, just above the 10.1% expectations. In wake of the report, JPMorgan updated their Brazilian inflation forecasts and now see inflation at 6.9% vs prior estimate of 7.4% in 2022. The cooling inflation saw the largest M/M decline since 1980 as a result of Bolsonaro's tax cuts, where he cut utility taxes to help with the cost of living (and his re-election chances in October). MXN, ZAR, TRY, CNH and CNY were flat against the Dollar while Yuan watchers (and macro) will be keeping a close eye on the China CPI and PPI data overnight. Although MXN was flat, the latest inflation data came in hotter than expected ahead of the Banxico rate decision on Thursday, where they are expected to hike rates by 75bps while analysts at CapEco do not expect inflation to return to the target until late 2023.