US Market Wrap

11th August 2022: Stocks and bonds dip after soft PPI as longs take profit

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude up, Dollar flat/down
- **REAR VIEW**: Daly signals initial support for 50bp hike; IEA OMR raises 2022 estimate for oil demand growth; US PPI soft across the board; Jobless claims rise to highest level since Nov 2021; Shell shuts several pipelines, but only for 1 day; Freeport LNG pulling in pipeline gas; AAPL expects to sustain 2022 iPhone sales; Strong DIS report & raises Disney+ ad-free streaming price by 38%; SNAP employees reportedly bracing for layoffs; Banxico hike by 75bps
- **COMING UP**: **Data**: UK GDP, EZ Industrial Production, US Import/Export Prices, Uni. of Michigan (Prelim.) **Earnings**: Flutter.

MARKET WRAP

Stocks were subdued Thursday after profit-taking ensued in wake of the soft PPI data. Ahead of the producer inflation data, the post-soft CPI honeymoon looked set for a second session as stock futures entered the NY handover on the front foot in light, summer trade, while the Treasury curve extended its bull-steepening off historically inverted levels. After the PPI data saw declines across the board and bonds knee-jerked higher, chunky selling soon developed at the long-end of the Treasury curve ahead of the 30yr bond auction, also as some fast money participants close longs with the key US inflation data in the rearview for the week. The poor demand reception at the bond auction only emboldened the moves. The ascent of yields through the session led to a sustained unwind of earlier strength in the stock indices, with the duration-sensitive NDX leading the losses. Cyclical/value stocks held up relatively better. The Dollar index was ultimately little changed amid the reversal in yields, although commodities held onto gains, both in energy and industrial metals. There was particular energy supply angst in the US after reports that major pipelines in the Gulf of Mexico were shut due to a leak at Fourchon, although later reports suggested this would be fixed within a day, reducing fears of a prolonged outage.

US

JOBLESS CLAIMS: Initial jobless claims rose to 262k, its highest level since November 2021, from 248k and printed more-or-less in line with the expected 263k. Meanwhile, continued claims rose to 1.428mln (prev. 1.420mln) and above the expected 1.407mln. Looking into further releases, Oxford Economics note, “weakening labor market dynamics lend upside risks to claims in the weeks ahead. However, we don't anticipate a sharp increase in joblessness given that labor demand continues to outpace supply and the economy remains on a positive, albeit modest, growth trajectory.” Meanwhile, on continued claims, there is more evidence that claims have troughed, while OxEco adds, “a tight labor market and our expectation that more workers will return to the labor force should help to keep a lid on continued claims.”

PPI: US PPI came in soft across all metrics with headline M/M surprisingly declining 0.5%, the first negative monthly print since April 2020, against the expected +0.2% and previous +1.0%, whilst Y/Y rose 9.8% (exp. 10.4%, prev. 11.3%). Moreover, M/M ex food/energy rose +0.2% beneath the consensus +0.4% (prev. +0.4%) and Y/Y ex food/energy rose 7.6% in line with the expected but fell from the prior 8.4%. Lastly, the super core PPI inflation eased to 5.8% (prev. 6.4%), the slowest pace since June 2021. Delving into the dataset, the report notes, the July M/M decrease "is attributable to a 1.8% decline in prices for final demand goods", the largest decline since April 2020. "In contrast, the index for final demand services advanced 0.1%." "The decrease can be traced to a 9% drop in prices for final demand energy. Conversely, the indexes for final demand foods and for final demand goods less foods and energy rose 1% and 0.2%, respectively". Moreover, OxEco notes, a possible high in annual inflation measures is a welcome sign for consumers, businesses, and the FOMC, but historically elevated price dynamics churning in the economy will likely persist through the end of the year. As such, Oxford concludes, “with the Fed remaining laser-focused on tightening policy to restrict inflation pressures, producer price inflation will downshift significantly in 2023 as economic activity slows in response to more moderate demand from consumers.”

FED: **Daly (2024 voter)** said it is too early to declare victory on the inflation fight and pointed toward price increases remaining far too high. However, on rates, the San Fran President signalled initial support for smaller rate hikes and added a 50bps hike in September is her baseline and maintains that rates should increase to just under 3.5% by year-end, according to an FT interview.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLE 21 TICKS LOWER AT 119-03

Treasuries ultimately bear-steepened Thursday after earlier bull-steepening into the PPI data unwound into the sloppy 30yr bond auction. 2s +1.1bps at 3.225%, 3s +2.5bps at 3.172%, 5s +6.1bps at 2.983%, 7s +8.3bps at 2.943%, 10s +9.8bps at 2.879%, 20s +10.5bps at 3.384%, 30s +12.0bps at 3.162%. Inflation breakevens: 5yr BEI +5.1bps at 2.760%, 10yr BEI +4.3bps at 2.484%, 30yr BEI +3.1bps at 2.261%.

THE DAY: After T-Notes dirfted slightly lower into the APAC Thursday session (which was especially quiet with Japan away) better buying - led by the front-end - picked up at the London handover. There weren't any fresh bullish govvie catalysts but perhaps some catch-up by EGBs (which spilt back over to Treasuries) to the strong 10yr auction and soft CPI on Wednesday. The T-Note buying crescendoed into the US PPI data, which came in soft, to see the contracts print a session high of 120-07+; cash 10yr yield low of 2.73%. But, the buying didn't sustain and sellers soon emerged, particularly out the curve ahead of the 30yr auction exhibited by a block 6.5k USU2 sale, the equivalent of c. USD 1mln DV01, and later a 2.3k WNU2 sale. Block activity was also peppered with sales in the belly, which weighed further in light trading conditions. That selling became justified after the sloppy 30yr auction to send T-Notes to settlement at lows.

30YR AUCTION: Not the best auction for the USD 21bln new issue 30yr, as opposed to the solid 3yr and 10yr this week. The 3.106% stop marked a 1.1bps tail as opposed to last month's 1.8bps stop-through and the six-auction average 0.8bps stop-through. The 2.31x bid/cover ratio was beneath both the prior 2.44x and avg. 2.37x. However, the breakdown was more encouraging as Dealers took a relatively low 10.8% (prior 10.5% and avg. 13.4%), with the takedown for Directs and Indirects remaining above average.

STIRS:

- EDU2 +0.5bps at 96.64, Z2 -1bps at 96.095, H3 -3bps at 96.11, M3 -4bps at 96.23, U3 -5.5bps at 96.45, Z3 -5.5bps at 96.65, H4 -5bps at 96.84, M4 -5bps at 97.00, Z4 -5bps at 97.19, Z5 -9bps at 97.34.
- NY Fed RRP op. demand rose to USD 2.199tln from 2.178tln.
- US sold USD 58bln of 1-month bills at 2.150%, covered 2.44x; sold USD 53bln of 2-month bills at 2.430%, covered 2.35x.

CRUDE

WTI (U2) SETTLES USD 2.41 HIGHER AT 94.34/BBL; BRENT (V2) SETTLES USD 2.20 HIGHER AT 99.60/BBL

Oil prices advanced through the session Thursday aided by the weaker Dollar in an otherwise catalyst-light session, barring the latest oil market reports. The APAC session was rangebound for the benchmarks although offers were lifted as London trade got underway. The upside came amid the latest IEA report which raised its global oil demand forecasts, although the Dollar selling and earlier risk appetite sustained the oil bid. A choppy open for stocks in NY coincided with some paring in oil, but better oil buying soon returned to lift the benchmarks to highs into the later session. Late session reports in Bloomberg that Shell (SHEL LN) had shut down several oil fields and pipelines in the US Gulf amid a leak at Fourchon only added to the bid.

OPEC+: Loadings of Nigeria's Forcados crude are expected to resume following a two-month outage on September 15th, Reuters reported. Meanwhile, Azerbaijan's July oil production rose to 549.9k BPD from 523.5k in June, still a way off the 570k+ seen earlier this year before the CPC terminal repair works.

MONTHLY REPORTS: The OPEC MOMR cut its 2022 world oil demand growth forecast by 300k BPD to +3.1mln BPD to average 100mln BPD, but left its 2023 forecast unchanged at +2.7mln BPD to 102.7mln BPD. Earlier the IEA report saw its 2022 estimate for oil demand growth raised by 380k BPD to +2.21mln BPD due to more gas-to-oil switching, whilst the release suggested that declines in Russian supply are more limited than previously forecast. For 2023, the IEA said demand is set to rise 2.1mln, surpassing pre-COVID levels. Both follow the EIA's STEO on Tuesday which downgraded its 2022 world oil demand forecast, whilst upping its 2023 metric marginally to +2.06mln BPD.

EQUITIES

CLOSES: SPX -0.07% at 4,207, NDX -0.65% at 13,292, DJIA +0.08% at 33,337, RUT +0.31% at 1,975.

SECTORS: Health Care -0.71%, Consumer Discretionary -0.66%, Real Estate -0.55%, Technology -0.48%, Consumer Staples -0.32%, Utilities -0.14%, Communication Services +0.01%, Materials +0.28%, Industrials +0.46%, Financials +1.02%, Energy +3.19%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.21% at 3,757; FTSE 100 -0.55% at 7,465; DAX -0.05% at 13,694; CAC 40 +0.33% at 6,544; IBEX 35 +0.330% at 8,380; FTSE MIB +0.69% at 22,858; SMI +0.06% at 11,161.

EARNINGS: **Disney (DIS)** gained after it beat on EPS and revenue, with Disney+ subscribers also surpassing expectations. Additionally, it is to raise Disney+ ad-free streaming price by 38%. **Cardinal Health (CAH)** was choppy, but settled firmer, after it beat on revenue but missed on EPS as the co. cited inflation-driven weakness in its medical equipment distribution business. Elsewhere, CEO Kaufmann is to step down and will be replaced by the current CFO. **AppLovin (APP)** was in the red in the wake of posting a surprise loss per share as well as missing on revenue. Looking ahead, the FY22 revenue view also fell well short of the expected. **Bumble (BMBL)** was lower after Q3 and FY revenue forecasts were beneath St. expectations, although BMBL beat on revenue and paying users. **Six Flags (SIX)** plummeted after it missed on the top and bottom line, as it saw its results hit by a 22% drop in attendance, among other factors. **Sonos (SONO)** saw pronounced losses following a poor report, as it missed on profit and revenue while FY revenue outlook was also way short of consensus. In other news, the CFO is leaving the co. **Canada Goose (GOOS)** saw gains in the wake of reporting a smaller quarterly loss than expected, as well as beating on revenue. CEO said co. has not seen any signs of slowing demand due to inflation, which marks the latest luxury retailer to see its high-end consumers maintain their spending levels.

STOCK SPECIFICS: **Snap (SNAP)** employees are reportedly bracing for layoffs after SNAP's head of engineering had a Q&A. In this, he said employees should wait and see what happens as the reprioritization process will take several weeks, according to Insider. Activist investor ValueAct took a 7% stake in **NY Times (NYT)**. Meanwhile, unconfirmed reports suggested a large activist investor is reportedly building a stake in **PPL (PPL)**. **Amazon (AMZN)** and **General Electric (GE)** filed a joint suit to protect GE-branded water filter. **Pfizer (PFE)**, **GSK (GSK)** and **Sanofi (SNY)** saw weakness amid the ongoing litigation around Zantac, a recalled heartburn medication. The drug was pulled from shelves in 2020 after the FDA found an impurity in Sanfoi's version that could cause cancer. Both Sanofi and GSK deny the claims. **Repligen (RGEN)** has reportedly rejected an initial takeover offer from **Catalent (CTLT)**, according to Street Insider citing a source. Senate Finance Committee Chairman Wyden sent **Amgen (AMGN)** a letter inquiring about tax practices. A US Judge said **Robinhood (HOOD)** must face market manipulation claims over trading restrictions during last year's meme stock rally.

FX WRAP

The Dollar sold off after another encouraging report on price pressures after the PPI posted a surprise M/M decline in the headline while the Y/Y also was beneath expectations. The Core M/M was also lower/better than expected while the Y/Y was in line with expectations. All metrics slowed from the prior month, another welcome sign on the peak inflation narrative. The Dollar was off lows as yields saw a reversal into he 30yr bond auction, seeing yields from the belly out rise with the curve steepening although DXY failed to reclaim 105.00 to the upside, but was just beneath the figure.

The Euro was bid thanks to the lower Buck helping EUR/USD reclaim 1.0300 from lows of 1.0276. However, it's worth noting that desks are flagging potential regional manufacturing challenges caused by the low water levels in Germany's Rhine River, with reports Wednesday suggesting a key point will be impassable by Friday. German energy firm RWE this morning also flagged issues transporting coal due to low Rhine levels, in turn slowing the planned restart of coal-fired capacity in an environment where Russian gas supply is uncertain.

The Yen was relatively flat at pixel time and off best levels vs the Dollar with USD/JPY troughing at the time of the PPI data before paring through the session with yields. CHF saw gains against the Buck and was flat against the Euro seeing EUR/CHF either side of 0.97 and USD/CHF either side of 0.9400. Gold prices were flat and remained sub USD 1,800/oz after rejecting a test of the psychological level it has been hovering around the last few days.

Cyclical currencies were generally bid although especially the antipodeans which outperformed thanks to the upside in the S&P although the move off highs saw the currencies alse pare, but still remained bid against the Dollar. AUD/USD topped its 100 DMA (0.7086), before rising above Wednesday's high at 0.7109 ahead of the 200 DMA at 0.7151, finding an intraday peak of 0.7136. NZD outperformed the Aussie once again, weighing on AUD/NZD. GBP disappointed however with Cable losing the 1.22 handle to lows of 1.2183 while EUR/GBP rose above 0.8450. Attention turns to UK GDP metrics on Friday. CAD was relatively flat against the Buck failing to reap much benefit from the higher oil prices. It is worth highlighting analysts at Scotiabank, ahead of the September BoC rate decision, think the risk of a 75bps hike in September is higher than the 60bps being priced in by markets right now. The bank writes "It's still a bit of a wait until the inflation number data but stronger stocks/lower volatility (VIX) plus firmer crude should be supportive for the CAD if these trends extend over the next few days."

Scandi's were weaker on the session vs both the Dollar and the Euro while SEK saw marginal outperformance against the NOK.

EM's were mixed. CNH was weaker on renewed COVID concerns after the city of Yiwu imposed a three-day city-wide lockdown with over 1200 cases reported while hopes of tariff reduction from the US have dimmed after reports noted Biden is rethinking the potential moves and they are currently being set aside while there is also the possibility more are added. MXN was stronger against the buck heading into the decision in anticipation of the 75bps hike and after stronger than expected Industrial output data. Once the hike was confirmed MXN pared some strength to the end of the US session (see full review below). BRL saw pronounced weakness perhaps on fears on Bolsonaro's reaction if he were to lose the election in October - a manifesto signed by 1mln citizens warned about growing fears Bolsonaro could refuse to accept defeat in the election (Lula is currently the front runner).

BANXICO REVIEW: The Central Bank of Mexico hiked by 75bps as expected and upped its inflation forecasts until the end of 2023 but it maintained that inflation will return to target in 2024. Banxico also gave no clear signal of slowing the upcoming pace of rate hikes, despite expectations looking for only 100bps more of tightening through year-end. However, guidance was altered slightly, it previously stated "the Board intends to continue raising the reference rate and will evaluate taking the same forceful measures if conditions so require" after the 75bp hike in June, while the new guidance "the Board will assess the magnitude of the upward adjustments in the reference rate for its next policy decisions based on the prevailing conditions" - removing language about taking similar forceful measures, which could imply the Banxico is set to slow the pace from the current 75bps increments, but it left its decision to be data dependent (similar to the Fed). However, despite the removal of the word "forceful" the Banxico did raise their inflation forecasts (by a fair bit) throughout the forecast horizon until Q423, but it maintains inflation is to return to target in 2024. On the inflation forecast, it also noted that the bias of risks remains to the upside, while on the economic performance, the bias of risks remains to the downside. Analysts had expected the pace of hikes from the Banxico to slow after this meeting and expected rates at year-end of 9.50%, implying 100bps upside from now, which could be conducted through a 50bp move in September, before slowing to 25bp hikes in November and December.