US Market Wrap

12th August 2022: Michigan survey boosts risk to confirm fourth weekly gain for SPX

- **SNAPSHOT**: Equities up, Treasuries mixed, Crude down, Dollar up.
- **REAR VIEW**: Several Chinese state-owned companies to delist from NYSE; Mixed UoM survey, headline strong & 1yr inflation metric falls but 5yr rises; Barkin says inflation data is welcome; Daly expects policy rate to be at 3.4% by year-end; BBY cutting jobs; Shocking ILMN report; Xi plans to meet Biden.
- **WEEK AHEAD PREVIEW**: Highlights include FOMC minutes, US Retail Sales, UK and Canadian CPI, RBNZ decision. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing; FOMC minutes, RBNZ, Norges, CBRT. Reviewing; Banxico. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [TUES] HD, WMT; [WED] LOW, TGT, ADI, TJX, CSCO, SNPS; [THURS] NTES, EL, AMAT; [FRI] DE. To download the report, please click here.

MARKET WRAP

Stocks rose through the session Friday with a bias to cyclical and growth stocks as exhibited by the NDX and RUT leading the SPX. The strong Uni of Michigan preliminary survey for August was the key data point, with a strong bounce in consumer outlooks lifting market sentiment; the inflation expectation gauges were mixed as the 1yr gauge fell but the longer 5-10yr gauge rose, affirming the work-to-be-done narrative at the Fed. However, it's also worth highlighting the July import/export prices data Friday that saw notable declines on both. The Treasury curve flattened (2s10s -7bps) in thin trade after the Michigan survey weighed on the front-end and some position closing of post-CPI steepeners. Although STIRs participants continued their front-end steepening that has been seen all week as the Mar '23/Jun '23 spread (March implied Fed rate vs June) went on to hit its least inverted level since June. There is a theory that if further disinflation signals are seen (like July CPI), that could reduce the likelihood of a Fed hard landing, thus, lengthening the Fed hike path to a more measured pace. Traders now look to next Wednesday's retail sales for the latest read on consumer spending, although the week is littered with housing data and regional manufacturing surveys.

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UOM: University of Michigan headline rose to 55.1, well above the expected 52.5 and prior 51.5, while expectations also topped consensus, bouncing to 54.9 from 47.3 (exp. 48.4), but conditions dropped to 55.5 from 58.1 (exp. 59.0). Regarding the consumer inflation expectations, encouragingly, the year-ahead metric eased for a second consecutive month, falling to 5.0% from 5.2%, which is the lowest level since February. Although, the 5-10yr metric rose to 3.0% from 2.9%, consistent with its range over the past year despite remaining high relative to its pre-pandemic pattern. The report noted falling gasoline prices, rising equity markets, and a robust labour market are relieving some of the pressure on household finances and calming concerns over an impending recession. Looking forward, Oxford Economics notes that "lower prices at the pump, combined with potential cresting in annual inflation measures, should allow sentiment to gradually ascend in the months ahead from its record low set in June." However, OxEco concludes, "with uncertainty related to price pressures and the broader economy remaining elevated in the near term, in addition to some moderation in the job market, sentiment will likely remain on shaky footing through the end of the year."

FED: **Daly (2024 voter)** reiterated that inflation is too high and must be brought down, saying that data is showing progress but not a victory. On rates, Daly added her baseline is for a 50bps hike in September and has an open mind if a 75bps hike will be needed in September, but notes decision on 50bps vs 75bps will depend on more data. Moreover, the San Fran President expects the policy rate to be at 3.4% by year-end and it is her opinion that rates will become more restrictive next year, according to a Bloomberg TV interview. **Barkin (2024 voter)** stated the softer inflation data this week is "welcome" and would like to see a period of sustained inflation under control. Regarding rates, the Richmond President noted there is more to come in order to get rates into 'restrictive' territory and he wants real rates to be positive across the curve. Moreover, he said the Fed needs to sustain rates there and follow through with expectations. Lastly, regarding the September meeting. Barkin said there is a lot of time before then and the Fed will observe data and decide closer to the time, similar to his colleagues.

IMPORT/EXPORT PRICES: The US Import and Export prices declined in July with export prices falling 3.3%, deeper than the expected 1.1% decline and paring the prior 0.7% gain, while import prices fell 1.4% from a prior 0.3% gain, also deeper than the expected 1.0% decline which was led lower by fuel and on fuel prices, seeing the first monthly decline since December 2021. Meanwhile, the price of ex-fuel imports fell for the third consecutive month driven by nonfuel industrial supplies and materials, foods, feds and beverages, which helped offset higher prices for automotive vehicles and capital goods, the report noted. Meanwhile, on export prices lower agricultural and non-agricultural prices contributed to the decline in July, including lower soybeans, wheat and cotton prices. Looking ahead, analysts at Oxford Economics expect import price inflation to remain on a gradual downtrend through year-end, barring any unforeseen supply shocks. The consultancy notes "Rising interest rates and a more modest growth path for the economy will also support slower growth in import prices, especially as domestic demand eases and falls into a healthier balance with supply."

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 5+ TICKS HIGHER AT 119-08+

The Treasury curve flattened Friday in thin trade after the Michigan survey weighed on the front-end. At settlement, 2s +2.8bps at 3.257%, 3s +1.7bps at 3.194%, 5s -1.0bps at 2.979%, 7s -2.4bps at 2.927%, 10s -3.7bps at 2.851%, 20s -5.4bps at 3.340%, 30s -3.9bps at 3.120%. Inflation breakevens: 5yr BEI -0.6bps at 2.757%, 10yr BEI -0.1 bps at 2.484%, 30yr BEI -0.3bps at 2.263%.

THE DAY: T-Notes rose to 119-11 in the APAC Friday session before falling to session lows of 118-30+ in the London morning in thin trading conditions. There was gradual buying from there that carried through into the NY morning before fresh session highs of 119-15 were made ahead of the UoM survey. The strong jump in the consumer gauge, and the rise in the long-term inflation expectations, saw T-Notes dip. However, earlier ranges were respected and the contracts chopped sideways through into the settlement. There were some two-way block flows after the data that pinned the contracts which included a 11.4k 2yr/4k Ultra 10yr flattener, later followed by a 5k 10yr buy, but also a chunky 25k 5yr sale. Traders now look to next week's USD 15bln 20yr bond auction, FOMC Minutes and retail sales (all on Wed) as the highlights, although we get some regional manufacturing surveys (Empire and Philly Fed) and housing data to shape the growth outlook.

STIRS:

- Further steepening was seen in the whites on Friday, with some block sales in EDH3 and EDM3; EDH3/M3 spread is now at its least inverted since June.
- EDU2 flat at 96.635, Z2 -0.5bps at 96.085, H3 -2.5bps at 96.08, M3 -5.5bps at 96.17, U3 -5.5bps at 96.39, Z3 -5.5 bps at 96.59, H4 -4.5bps at 96.79, M4 -3.5bps at 96.96, Z4 -1bps at 97.175, Z5 +3.5bps at 97.365.
- NY Fed RRP op. demand rose to USD 2.213tln from 2.199tln.

CRUDE

WTI (U2) SETTLED USD 2.25 LOWER AT 92.09/BBL; BRENT (V2) SETTLED USD 1.45 LOWER AT 98.15/BBL

Oil prices were lower Friday as GoM supply risk abated, the Dollar bounced, and energy longs took profit into the weekend. The benchmarks saw some upside during the European morning despite a lack of newsflow for the complex, potentially catching up to the upside seen across stocks. Session highs were printed for WTI and Brent front-months at USD 94.81/bbl and 100.38/bbl, respectively. But better selling developed as NY trade got going, particularly amid the bounce in the Dollar, sustaining into the late morning where lows were made at USD 91.16/bbl (WTI) and 96.94 /bbl (Brent); likely some profit taking after the bounce WTD for the futures. The contracts hovered near the lows for the remained of the session, aided by confirmation that the disruptions in the Gulf of Mexico would be fixed on Friday following the leak at Fourchon on Thursday.

EQUITIES

CLOSES: SPX +1.69% at 4,278, NDX +2.06% at 13,565, DJIA +1.27% at 33,761, RUT +1.77% at 2,011.

SECTORS: Consumer Discretionary +2.29%, Technology +2.07%, Communication Services +2.01%, Materials +1.87%, Real Estate +1.71%, Financials +1.62%, Utilities +1.53%, Industrials +1.46%, Health +1.3%, Consumer Staples +0.92%, Energy +0.81%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.53% at 3,776; FTSE 100 +0.47% at 7,500; DAX +0.74% at 13,795; CAC 40 +0.14% at 6,553; IBEX 35 +0.24% at 8,400; FTSE MIB +0.49% at 22,970; SMI -0.20% at 11,132.

STOCK SPECIFICS: **Best Buy (BBY)** is cutting store jobs across the US amid efforts to lower costs as its customers change their spending habits, with the WSJ noting it had already cut hundreds of jobs over the past week. **China Life (LFC), PetroChina (PTR), Sinopec (SHI), Aluminium Corp of China (ACH) and China Petroleum & Chemical Co. (SNP)** all saw weakness after announcing plans to delist from the NYSE. Following this, China's Securities Regulator said it is normal within capital markets for companies to list and delist and the cos. chose to on commercial consideration. **Peloton (PTON)** raised prices of its Peloton Bike+ globally, with Bloomberg reports shortly after that the Co. is to cut 800 jobs, outsource deliveries, and close stores. **Seagen (SGEN)** was ruled against by an arbitrator that favoured Daiichi Sankyo, citing the statute of limitations and disagreement with Seagen on the interpretation of the collaboration contract from 2008. **Stellantis (STLA)** is mulling a Mexico investment, in the "multi-billion" range, for its electric vehicle push, according to Bloomberg. **Meta's (META)** Facebook Marketplace and **DoorDash (DASH)** are teaming up for local deliveries, according to WSJ.

EARNINGS: **Illumina (ILMN)** plummeted after it missed on EPS and revenue and looking ahead cut FY EPS and revenue growth view. Co. said a challenging economic environment is offsetting growth in the use of its gene-sequencing platform. **Poshmark (POSH)** was lower in the wake of reporting a wider than expected loss, although it did beat on revenue. POSH said its loss was a result of increased marketing and research and development expenses. Next quarter guidance was also weak. **Rivian (RIVN)** posted a deeper loss per share than expected but beat on revenue. Looking ahead, it affirmed prior FY22 production guidance. **Toast (TOST)** surged following a shallower loss per share than expected and beating on revenue. Looking ahead, its Q3 revenue view topped forecasts, while it also raised its FY22 view. TOST declared a record number of new locations are using its technology. **Olo (OLO)** saw losses of over 30% after a weaker-than-expected current quarter and FY revenue outlook. On top of this, OLO revenue missed expectations.

WEEKLY FX WRAP

A summer’s week dictated by the Dollar, but Antipodeans come out on top

DXY - Overall, a week of modest losses for the Dollar, albeit the DXY looks to end the European week well off lows. To recap, the biggest move in the index came in wake of cooler-than-forecast US CPI metrics across the board, with the headline Y/Y at 8.5% vs. Exp. 8.7% (Prev. 9.1%), M/M at 0.0% vs. Exp. 0.2% (Prev. 1.3%), Core Y/Y at 5.9% vs. Exp. 6.1% (Prev. 5.9%) and Core M/M 0.3% vs. Exp. 0.5% (Prev. 0.7%). The Core Y/Y metric also matched the prior, indicating core inflation may potentially be plateauing. Fed pricing flipped in favour of a 50bps move (to 70% from 35.5%), with the 75bps probability falling to around 30% from 64.5% in the immediacy but has since stabilized to around 65% (50bps) and 35% (75bps) heading into the end of the week. The PPI metrics were also softer than forecast – with lower energy prices being the main contributor. The CPI data took the index to a fresh weekly low of 104.63 on Wednesday (from a 106.40 intraday high), which was also matched on Thursday before Friday saw an attempted recovery. Post-CPI commentary this week came from Fed’s Daly (2024 voter), Kashkari (2023 voter), and soon-to-leave Evans, who all essentially called for more evidence of inflation pulling back before taking the foot off the hiking pedal, with the August CPI report due on September 13th ahead of the next FOMC meeting on September 20th-21st. DXY is poised to end the week slightly softer and towards the middle of a 106.81-104.63 parameter, and under its 21 DMA (106.35), 10 DMA (105.89), and 50 DMA (105.66).

EUR, GBP - EUR/USD is set to end the European session with modest weekly gains in a week that was mostly dictated by the Dollar for the single currency. One theme that took some focus this week was the fear that the water level at Germany’s Rhine River could hinder trade in the region alongside the broader manufacturing sector, although officials have since downplayed the risk to trade flows. GBP/USD had an uninspiring end to the week after the US CPI metric boosted the pair to a 1.2276 high, whilst the UK monthly GDP contraction was narrower than feared, but the BoE's MPC remains firmly focused on the inflation outlook. Cable is poised to end the European week modestly lower in a 1.2044-1.2276 range, under its 10 and 50 DMAs (1.2151 and 1.2137 respectively), but north of its 21 DMA (1.2087). EUR/GBP meanwhile is set to end the week above several daily and weekly moving averages at the time of writing (50 WMA at 0.8456, 21 WMA at 0.8469, 200 DMA at 0.8438, 21 DMA at 0.8442, and 100 DMA 0.8470).

AUD, NZD, CAD - The non-US Dollars are all set for notable weekly gains vs the USD, largely due to supportive risk sentiment coupled with gains across commodities. AUD/USD looks ahead to the RBA minutes next week after notching a weekly parameter of 0.6895-7136 – topping its 50, 21, 10 and 100 DMAs (0.6937, 0.6956, 0.6999, 0.7082 respectively) in the process. NZD/USD eyes an RBNZ hike in the upcoming week as it looks to close the European session towards the top of a 0.6228-0.6468 weekly band, after similarly breaching its 50, 21, 10 and 100 DMAs (0.6271, 0.6278, 0.0.6323, 0.6436 respectively). USD/CAD was aided by a mid-week rise in crude as Brent October futures also reclaimed USD 100/bbl. The pair is poised for a softer weekly close towards the bottom of a 1.2725-2930 range.

JPY - A choppy week for the Yen with Japanese participants only present for four days this week due to a domestic holiday. The JPY was driven by overall sentiment for most of the week, alongside the CPI-induced narrowing in the FOMC-BoJ pricing. USD/JPY looks to end the European week around the middle of a 131.72-135.01 range.