



US Market Wrap

15th August 2022: Dollar gains on global growth woes after a slew of negative impulses

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar up.
- **REAR VIEW:** Dismal NY Fed Manufacturing data; PBoC unexpectedly cut rates by 10bps; US State Department will provide a response on EU proposal to revive nuclear deal; NAHB index falls.
- **COMING UP: Data:** UK Unemployment, German ZEW, US Building Permits/Housing Starts, Industrial Production **Event:** RBA Minutes **Supply:** UK & Germany **Earnings:** Walmart, Home Depot; Delivery Hero, Pandora.
- **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 were firmer on Monday with a bias to tech/growth due to the yield impulse. The Treasury curve bull-steepened (2s -5bps and 30s flat) after the big tumble in US survey data. Otherwise, it was thin trading conditions and as a result hard to infer too much from price action. However, the energy sector saw pressure amid some progress on the Iran nuclear deal after the EU sent a proposal to both the US and Iran; oil traders await for their responses in the coming hours/days, which will inform whether Iranian oil can officially enter the market. The global growth woes saw a broad bid for the Dollar (DXY c. +0.8%, just above 106.50), particularly after the poor Japanese GDP, Chinese activity data, PBoC easing, and particularly concerns in Europe as the water level in the German river Rhine falls even further.

US

NY FED MANUFACTURING: The NY Fed's Empire Manufacturing Index for August tumbled to -31.3 against expectations for a much smaller decline to +5 from +11. The fall marks the second largest monthly decline on record and also the lowest headline reading in the survey's history. The new orders subindex tumbled to -29.6 from +6.2, while shipments fell even harder to -24.1 from +25.3, indicative of declines in both orders and shipments. Meanwhile, the six-month ahead business conditions index saw just a marginal rise, said differently, things aren't expected to improve by much. The delivery times index declined to around zero, indicating that delivery times held steady and the first time they have not lengthened in nearly two years. On the inflation metrics, the prices paid index moved lower to 55.5 from 64.3 although the prices received index was little changed, in what can be considered as less encouraging given the considerably great magnitude fall in the growth metrics.

NAHB HOUSING MARKET INDEX: US NAHB housing market index fell to 49 from 55, and also beneath the expected 55, and as such is at its lowest level since the initial COVID hit; before that, you have to go back to March 2014 to find a lower reading. Looking into the report, all the components (present sales, expected sales, and buyer traffic) declined, again, this month, tracking the steep and sustained decline in mortgage demand, which is yet to find a bottom after a near-30% drop from December's peak. On the data point, Pantheon Macroeconomics note, "the collapse points to clear and substantial downside risk for housing construction over the next few months, as builders try to manage their excess inventory." Lastly, Pantheon concludes, "that will be impossible without hefty price declines, now that developers are competing with rapidly rising inventory in the existing homes market. In short, the housing downturn has some way yet to run."

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 14 TICKS HIGHER AT 119-22+

Treasuries bull-steepened after the big tumble in US survey data raises recession fears. 2s -5.6bps at 3.201%, 3s -6.3bps at 3.131%, 5s -6.5bps at 2.912%, 7s -6.2bps at 2.864%, 10s -5.9bps at 2.790%, 20s -2.5bps at 3.313%, 30s -1.8



bps at 3.100%. Inflation breakevens: 5yr BEI -4.6bps at 2.714%, 10yr BEI -2.9bps at 2.452%, 30yr BEI -2.9bps at 2.224%.

THE DAY: Curve flattening began out of the APAC and European session Monday after the disappointing Chinese data, PBoC easing, soft Japanese GDP, and growth concerns in Europe as Germany's Rhine river water level falls even further. The Iran nuclear deal-induced sell-off in oil benchmarks only supported the govvie strength. The bid for T-Notes extended into the NY session, although it was the front-end that led after the massive miss on the Empire Mfg. survey, reducing the likelihood of 75bps and more hawkish Fed paths as the growth woes build further. T-Notes hit session highs of 119-31 around the time of the NY cash stock open, then hovering a few ticks lower through into settlement, with the decline in the NAHB housing index capping sales.

STIRS:

- EDU2 +1.8bps at 96.653, Z2 +4bps at 96.12, H3 +5.5bps at 96.13, M3 +6.5bps at 96.23, U3 +7bps at 96.455, Z3 +8bps at 96.665, H4 +8bps at 96.865, M4 +9bps at 97.045, Z4 +9.5bps at 97.265, Z5 +9.5bps at 97.455.
- In options, there were 50k Eurodollar Sept '22 put flies traded via blocks.
- US sold USD 61bln of 3-month bills at 2.610%, covered 2.64x; sold USD 48bln of 6-month bills at 3.020%, covered 2.75x.
- NY Fed RRP op. demand fell to USD 2.175tln from 2.213tln.

CRUDE

WTI (U2) SETTLED USD 2.68 LOWER AT 89.41/BBL; BRENT (V2) SETTLED USD 3.05 LOWER AT 95.10/BBL

Oil prices were lower Monday after Iranian nuclear deal progress, sloppy US data, and Dollar strength. The downside began in European trade after the EU put forward a proposal to Tehran in a bid to revive the nuclear deal. Reports suggest the Iranian response may not arrive until Tuesday. Where the US stands on the proposal remains the crucial point with a State Department official saying that the US will provide a response privately to the EU, reaffirming its view that the only way to achieve a mutual return to the deal is for Tehran to abandon extraneous demands; for a full Newsquawk analysis [click here](#). WTI and Brent front-month futures hit session lows of USD 86.82/bbl and 92.78/bbl, respectively, in the NY morning before recovering somewhat through the session.

EQUITIES

CLOSES: SPX +0.35% at 4,295, NDX +0.75% at 13,667, DJIA +0.45% at 33,912, RUT +0.30% at 2,019.

SECTORS: Consumer Staples +1.05%, Utilities +0.82%, Technology +0.63%, Consumer Discretionary +0.61%, Communication Services +0.49%, Health +0.49%, Real Estate +0.48%, Industrials +0.23%, Financials +0.02%, Materials -0.1%, Energy -1.98%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.34% at 3,789; FTSE 100 +0.11% at 7,509; DAX +0.15% at 13,816; CAC 40 +0.25% at 6,569; IBEX 35 +0.32% at 8,427; SMI +0.39% at 11,171.

STOCK SPECIFICS: **Turquoise Hill (TRQ)** Special Committee terminated its review of **Rio Tinto's (RIO)** proposal to acquire full ownership, and as such rejected the bid. **Alphabet's (GOOG)** YouTube plans to launch an online store for streaming video services, according to the WSJ; hopes the new platform could be available as early as this Autumn. **Starbucks (SBUX)** accused NLRB agents of misconduct in union elections at US cafes and is seeking an investigation; asked NLRB to suspend union elections at US cafes until the outcome of the investigation. **Li Auto (LI)** beat on revenue and posted a marginally shallower loss per share than expected, but next quarter revenue view was short of consensus. **Unity (U)** board reaffirmed its commitment to the **IronSource (IS)** transaction and rejects a proposal from **AppLovin (APP)**. In other news, U announces an up to USD 2.5bln share buyback programme. JPMorgan downgraded **Vroom (VRM)** to "Underweight" from "Neutral", said the online used car retailer will continue to see challenges amid a broader economic slowdown. **Yum China (YUMC)** applied for voluntary conversion to primary listing in HKEX. **Snap (SNAP)** has reached 1mln subscribers for its Snapchat+ premium subscription, after launching the service in June as a new source of revenue. Peloton (PTON) to retool bikes for do-it-yourself assembly to cut cost and looks to launch rowing machine in time for holidays. Activist investor Elliott Management has a large position in **Cardinal Health (CAH)** and is seeking a handful of seats on the board, according to WSJ sources. **Amazon's (AMZN)** physical stores and Whole Foods business is undertaking a major reorganisation, according to Business Insider citing an internal email. **Walmart (WMT)** reaches streaming deal with Paramount+; shows will be part of the perks the retailer offers subscribers to its Walmart+ membership program, according to WSJ.



FX WRAP

The Dollar was firmer to start the week, and printed a session high of 106.55 on a thin day of trade. Highlighting this, newsflow was very light but risk sentiment remained suppressed, to the benefit of the Buck, after a woeful NY Fed manufacturing survey which printed -31.3 (exp. 5.0, prev. 11.1), the lowest headline reading in the survey's history. Nonetheless, looking ahead in the week, the key risk events are FOMC Minutes and US retail sales on Wednesday, Philly Fed on Thursday, and retail earnings throughout the week, with namely Walmart (WMT) and Home Depot (HD) on Tuesday.

JPY was the clear outperformer and the only G10 currency to see gains against the Buck, as the Yen derived momentum via convergence in UST-JGB differentials. As such, USD/JPY printed a low of 132.56, in contrast to a peak of 133.59, despite Q2 Japanese GDP falling slightly short of consensus in the APAC session. Nonetheless, as well as yields the Yen saw tailwinds from the slightly suppressed risk appetite which was not helped following the aforementioned NY Fed data. Regarding the week, there is Japanese import/export data and Reuters Tankan manufacturing index on Wednesday, followed by CPI on Friday.

Antipodeans, NZD and AUD, were the clear G10 underperformers, with both seeing losses in excess of a per cent against the Greenback, as both were hit on the declines seen in commodities and metals, with iron ore and copper both seeing notable losses. Additionally, the broader Dollar strength weighed as the appetite for the Antipodes waned in the wake of disappointing Chinese industrial output, retail sales, urban investment and house prices. As such, in the US session, AUD/USD hit a low of 0.7012 but managed to remain above the pivotal round level, while NZD/USD saw a trough of 0.6357. In terms of risk events, there are RBA minutes on Tuesday and the RBNZ rate decision on Wednesday, where the central bank is expected to hike rates by 50bps to 3%.

CAD and **GBP** were also weaker, just not to the same degree as the Antipodes, whilst the latter was the high beta FX outperformer, albeit still firmly in the red. The Loonie was weighed on by the falling crude complex, where WTI and Brent were lower by circa USD 3/bbl, which came in wake of the Iranian nuclear deal progress, sloppy US data, and Dollar strength. As such, USD/CAD saw a high of 1.2934 ahead of Canadian CPI on Tuesday. Cable saw lows of 1.2051, and managed to defend the pivotal 1.2050 level, as the Pound was hit on the themes mentioned above. For the Sterling watchers, tier 1 UK economic reports are on deck this week, kicking off Tuesday with jobs and earnings, then inflation on Wednesday and culminating in public finances and retail sales on Friday.

EUR was lower and fell to lows of 1.0156 as the single currency was weighed on by poor Chinese data and Eurozone trade worries which also drove risk down, not to mention the declining water levels in the river Rhine. The Euro did briefly pop back above 1.0200 vs the Buck but remained weak against the Yen and Franc on overall risk considerations. Onto the **Swissy**, which retreated against the Greenback, and at one stage it looked like it was going to mount a serious test on 0.9500, but the Buck fell short to print session highs of 0.9471.

EMFX was lower across the board, with the RUB, flat, the relative outperformer, whilst the ZAR saw the greatest losses. For the ZAR, it fell in sympathy with gold, alongside utility firm Eskom noting stage 2 loadshedding might be implemented at short notice on Monday evening between 18:00/00:00. Elsewhere, TRY could not benefit from the falling crude complex as Turkey posted an even bigger budget deficit in July compared to June. Meanwhile, the CNH and CNY extended losses on the aforementioned Chinese data and PBoC easing. Lastly, MXN was in tandem with WTI and the BRL was unimpressed with stronger than forecast Brazilian IBC economic activity or comments from BCB chief Neto who contended that unemployment could get close to 8.5%.

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