



US Market Wrap

22nd August 2022: European energy crisis sees Euro make new, multi-decade lows vs the Buck

- **SNAPSHOT:** Equities down, Treasuries down, Crude flat, Dollar up.
- **REAR VIEW:** US State Department note a nuclear deal is closer now than it was two weeks ago; Saudi Energy Minister said OPEC+ may need to tighten output to stabilise the market; Oil exports from two of the three mooring points in the Black Sea terminal have been suspended; China plans USD 29bln in special loans to troubled developers; AMZN amongst SGFY suitors.
- **COMING UP: Data:** EZ, UK & US Flash PMIs, EZ Consumer Confidence Flash, US New Home Sales **Event:** FOMC Discount Rate Minutes **Speakers:** ECB's Panetta **Supply:** UK (I/L) & US.
- **WEEK AHEAD PREVIEW:** Highlights include: Jackson Hole, US PCE; PBoC LPR, ECB minutes; Flash PMIs. To download the report, [please click here](#).
- **CENTRAL BANK WEEKLY:** Previewing Jackson Hole, PBoC, ECB Minutes, BoK; Reviewing RBNZ, Norges, CBRT. To download the report, [please click here](#).
- **WEEKLY US EARNINGS ESTIMATES:** [TUES] JD, MDT, INTU; [WED] CRM, NVDA; [THURS] DG. To download the report, [please click here](#).

MARKET WRAP

Stocks were lower on both sides of the Atlantic Monday with fresh highs in European energy contracts on the front of minds. There was no US data or Fed speak for traders to focus on, leaving the global growth concerns to fester. Gas/power prices on the continent were buoyed in wake of Gazprom's Friday announcement that it would be ceasing NS1 flows again at the end of the month, but also support by the announcement that the CPC terminal in the Black Sea will be ceasing loadings from two out of three ports due to damage with no timetable for repairs given. The comparatively harder growth outlook in Europe saw the Euro sold, taking EUR/USD to fresh since-2002 lows, beneath parity, that's despite the greater magnitude of EGB selling to Treasuries. The selling in USTs was focused at the front-end of the curve ahead of this week's front-end auctions, although Tuesday could see some volatility on Fed pricing amid August Flash PMIs giving traders a proxy for the ISMs.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 12+ TICKS LOWER AT 117-23

Treasuries bear-flattened Monday ahead of front-end supply and as European energy woes added to the inflationary pressures. At settlement, 2s +7.2bps at 3.337%, 3s +8.1bps at 3.375%, 5s +6.5bps at 3.179%, 7s +5.6bps at 3.129%, 10s +4.8bps at 3.037%, 20s +3.6bps at 3.493%, 30s +1.7bps at 3.242%. Inflation breakevens: 5yr BEI +2.7bps at 2.833%, 10yr BEI +2bps at 2.586%, 30yr BEI +1.1bps at 2.389%.

THE DAY: T-Notes hit interim lows of 117-31+ in the Tokyo morning before gradually rising into the London morning, with upside attributed to broader risk aversion in the region with energy supply concerns on the radar. The contracts hit session highs of 118-14 before paring through the rest of the session, breaking past their APAC lows in the NY morning; 30k's worth of T-Note puts for October (116.00 strike) and November (115.00 strike) seen in block trades exhibited the direction of flow. The NY afternoon bounce off lows in oil prices amid the Saudi Energy Minister saying to Bloomberg that The Kingdom could cut supply only added to the inflationary pressures and govvie selling, not to mention the selling pressure from the front-end ahead of this week's auctions. Otherwise, attention now falls on Tuesday's August Flash PMIs as a proxy for the ISMs.

AUCTIONS: US to sell USD 44bln of 2yr notes on Aug 23rd; USD 45bln of 5yr notes on Aug 24th; USD 37bln of 7yr notes on Aug 25th; all to settle on Aug 31st. Also to sell USD 22bln in 2yr FRN reopening on Aug 24th, settling on Aug 26th.

STIRS:



- EDU2 -3bps at 96.628, Z2 -7bps at 96.015, H3 -11.5bps at 95.955, M3 -13bps at 96.01, U3 -12.5bps at 96.195, Z3 -12.5bps at 96.36, H4 -11.5bps at 96.53, M4 -11bps at 96.67, Z4 -9bps at 96.88, Z5 -6bps at 97.135.
- US sold USD 60bln of 3-month bills at 2.740%, covered 2.69x; sold USD 47bln of 6-month bills at 3.110%, covered 2.93x.
- NY Fed RRP op. demand rose to USD 2.236tln from 2.222tln.

CRUDE

WTI (V2) SETTLED USD 0.08 LOWER AT 90.36/BBL; BRENT (V2) SETTLED USD 0.24 LOWER AT 96.48/BBL

Oil prices were flat, albeit saw big ranges, with Saudi supply threats complimenting Iran deal uncertainty and Dollar strength. It was choppy trade for the oil benchmarks with WTI and Brent (V2) hitting session highs of USD 91.03/bbl and 97.28/bbl, respectively, in the late European morning before better selling developed through the NY handover to take the contracts to session lows of 86.28/bbl and 92.36/bbl. However, later comments from the Saudi Energy Minister via Bloomberg threatening to dial back supply helped lift benchmarks into the afternoon.

SAUDI: Saudi Energy Minister said to Bloomberg News that OPEC+ may need to tighten output to stabilise the market, saying the oil futures "disconnect" may force OPEC+ action, referencing the lack of liquidity in markets. The official added that the market is overlooking limited spare capacity. Saudi also said the group will soon start work on a new accord for post-2022. The minister warned that OPEC+ has the means to deal with market challenges including cutting production at any time and in different forms.

EUROPE: European energy/power prices surged on Monday amid continued supply uncertainty. Part of that is the overhang from Gazprom's Friday announcement that the Nord Stream 1 pipeline is to be halted from August 31st to September 2nd for maintenance. But that was also exacerbated on Monday after CPC announced suspended loadings from two of the three ports at its Black Sea terminal in Russia due to damage, not providing a timeline for its repair. To make matter worse, outages at Norwegian and UK gas fields were observed.

IRAN: The US State Department said Monday afternoon that the notion the US has delayed the Iran nuclear deal negotiation in any way is not true, saying it will respond to Iran's response as soon as consultations are finished, with issues that still need to be resolved. The US said it was encouraged that Iran appears to have dropped some of its non-starter demands and also said a deal is closer now than it was two weeks ago. But it also said that had there been a clear Iranian response, not sure there would be a back and forth in the way, there is now between the parties.

EQUITIES

CLOSES: SPX -2.07% at 4,140, NDX -2.66% at 12,890, DJIA -1.90% at 33,065, RUT -2.41% at 1,911.

SECTORS: Consumer Discretionary -2.84%, Technology -2.78%, Communication Services -2.66%, Financials -2.18%, Real Estate -2.08%, Industrials -1.94%, Materials -1.58%, Health -1.36%, Utilities -1.36%, Consumer Staples -1.09%, Energy -0.22%.

EUROPEAN CLOSES: Euro Stoxx 50 -1.93% at 3,658; FTSE 100 -0.22% at 7,533; DAX -2.32% at 13,230; CAC 40 -1.80% at 6,378; IBEX 35 -0.64% at 8,284; FTSE MIB -1.64% at 22,164; SMI -0.56% at 11,094

STOCK SPECIFICS: **Signify Health (SGFY)** surged following news **Amazon (AMZN)** is among the bidders for the co., joining **CVS Health (CVS)** and **UnitedHealth (UNH)**. The auction could value Signify at more than USD 8bln; with bids due around Labor Day, but it is possible an eager bidder could strike a deal before then. **Apple (AAPL)** will unveil its new iPhone on September 7th, with sales to begin on September 16th, Bloomberg reported, gearing up to release the new iPhone earlier than usual, which will give its current quarter an extra sales boost. **Tesla (TSLA)** CEO Musk tweeted that after the wide release of the new FSD Beta software, the price of FSD will rise to USD 15k (prev. USD 12k) in North America on September 5th. The current price will be honoured for orders made before Sept 5th, but delivered later, he added. **Ford Motor (F)** was in the red after it had a USD 1.7bln jury verdict ruled against the co., which involved a fatal truck crash that called into question the roof strength of older-model Super Duty pickups. Separately, F is to cut 3k jobs globally (2k salaried and 1k agency positions), according to an internal letter cited by Automotive News. **Netflix (NFLX)** saw losses after CFRA downgraded the stock to "Sell" from "Hold" as it said it is likely to underperform the S&P 500 after surging 40% from its mid-July lows. **DocuSign (DOCU)** was lower following a downgrade at RBC Capital to "Sector Perform" from "Outperform". RBC sees a long path to a turnaround amid execution issues and the current absence of a permanent CEO, among other issues. **Computer Services (CSVI)** surged in the wake of news it is to be acquired by



Centerbridge and Bridgeport for USD 1.6bln or USD 58/shr. Note, CSVI closed Friday at USD 37.88/shr. **Oracle (ORCL)** faces a lawsuit over "global surveillance" of five billion people; accused of "violating the privacy" of billions of internet users, according to Tech Monitor citing court documents filed Friday.

FX WRAP

The Dollar was bid on Monday due to the risk-off tone across markets and ahead of the Jackson Hole symposium where we will look for clues from Fed speakers about their next steps, although given they have abandoned forward guidance it is unlikely we will get anything concrete and they will reiterate their data dependent stance and how there is still a lot of data between now and the September meeting for the Fed to make their decision. There is also the expectation that the Fed will not want to sound dovish despite the July CPI report and will dismiss the idea of rate cuts next year and reiterate they need to continue with rate hikes until at a "moderately" restrictive level. Treasury yields were higher across the curve ahead of the Jackson Hole symposium with markets now pricing in a 50/50 bet on either a 75bp or 50bp move in September. The DXY hit a high of 109.100 to test the YTD peak of 109.29.

The Euro was weaker with the strength of the Dollar weighing on the single currency, while energy supply fears were exacerbated after the unscheduled Nord Stream 1 maintenance update on Friday. As such, EUR/USD fell sub 1.0000 again to lows of 0.9927 after falling through the YTD tough of 0.9950 to test the 20-week Bollinger bands at 0.9925 as support. ING also noted the impact of weakening Asian FX on EUR/USD: "Asian FX remains under heavy pressure and will prompt intervention to sell dollars and support local currencies. Asian FX reserve managers will then need to sell EUR/USD to re-balance FX portfolios to benchmark weightings."

The Yen was weaker against the rising buck, despite the risk-off tone as the rise in US yields more than offset the haven nature of JPY. Although, the Japanese currency was firmer against the EUR and GBP, although CHF marginally outperformed its haven counterpart. USD/JPY saw a low of 136.71 in the morning before rebounding to highs of 137.64 in the afternoon as Treasury yields started to rise while participants are awaiting the Jackson Hole Symposium, which if Powell delivers a hawkish speech will widen the policy/yield differentials with the BoJ/Japan. Meanwhile, CHF was softer against the Dollar but appreciated against the Euro to see EUR/CHF fall sub 0.9600 to lows of 0.9572. Analysts at Goldman Sachs last week noted they "believe the appreciation of the Swiss Franc represents an ongoing regime change in Switzerland, to respond to the era of high inflation, and that rising recession and political risks in the Euro area add further appreciation pressure on the currency". The desk also sees EUR/CHF falling to the "lows 90s or even high 80s" if the Eurozone enters a recession, something they expect to happen with risks tilted towards a more severe outcome.

Cyclical currencies were mixed with AUD and NZD relatively flat against the buck, which are holding up quite well in comparison to other FX pairs, despite the risk-off tone, while GBP and CAD were both weaker. The antipodes were supported overnight on commentary from RBNZ's Hawkesby who suggested they considered both 25 and 75 bp moves before settling for a 50bp hike this month while adding they will have a more balanced view on the policy outlook once rates hit 4.00-4.25% while RBNZ'd Richardson noted the recent strong inflation pressure was a surprise. The AUD was the marginal outperformer, however, which appeared to be supported somewhat by the PBoC LPR cuts to support the Chinese economy with AUD the relative outperformer due to its exposure to China's economy but the FX pairs were both met with headwinds of the rising buck and stumbling equity prices which saw the antipodes well off highs.

GBP was weaker against the buck but firmer against the Euro with Cable hit by the risk-off tone while concerns remain in the UK on the energy price crisis while Citi now predicts inflation to hit 18% in January 2023. USD/CAD was hit by the stronger dollar, risk-off sentiment as well as a collapse in oil prices in the morning, which sent USD/CAD to highs but despite oil prices rebounding to unchanged levels, it failed to offset the earlier move. The lows were triggered by optimism around the Iran nuclear deal, a stronger dollar and a downbeat risk tone, however oil prices bounced off lows after the Saudi Energy Minister said OPEC+ may need to tighten output to stabilise the market and the oil futures disconnect to the real market may force OPEC+ action.

CNH was weaker after the PBoC easing which saw rate cuts to the 1yr and 5yr LPR rates after the MLF and RRP cuts last week as the Central Bank attempts to support the economy after weak July Activity data, meanwhile China is reportedly planning to provide USD 29bln in special loans to troubled developers. The PBoC rate cuts saw a 5bp cut to the 1yr and a 15bp cut to the 5yr, despite expectations for a 10bp cut for both which prompted the Yuan to fall to levels not seen since September of 2020. Adding to Yuan's woes were power restraints where Sichuan extended power cuts due to its worst drought in decades. However, Fitch Ratings expect the regional power rationing is unlikely to persist.

EMFX was mixed. ZAR was flat against the Dollar despite lower gold prices. However, looking ahead analysts at TS Lombard wrote core inflation in South Africa is accelerating while the SARB faces structural constraints on economic growth that limit its willingness to raise interest rates, adding negative real interest rates will provide little defence for the ZAR as the dollar appreciates. RUB was weaker on choppy oil prices and ongoing geopolitical concerns after an air defence system was reportedly triggered near the Crimean city of Sevastopol and an object was been shot down,



according to Tass citing an official. There is also a UN Security Council meeting on Tuesday regarding the Zaporizhzhya nuclear power plant. LatAm FX was mixed, BRL and CLP firmed while MXN was flat and COP was weaker. Lastly, Israeli shekel saw weakness against the Buck after the central bank hiked rates 75bp to 2%, more than the expected 50bp to 1.75%.

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