US Market Wrap

23rd August 2022: Dollar takes a hit as US PMIs paint a grim picture

- **SNAPSHOT**: Equities down, Treasuries mixed, Crude up, Dollar down.
- **REAR VIEW**: US PMIs disappointed, new home sales fell & Richmond Fed declined; OPEC+ might lean towards an oil output reduction; Iran drops key demands in JCPOA talks; ECB's Panetta said may have to adjust monetary policy stance further; Weak US 2yr auction; Freeport LNG delays initial production start by one month; ZM guidance misses expectations; INTC and BIP to invest up to USD 30bln in Arizona chip factories.
- **COMING UP**: **Data**: US Durable Goods **Event**: Ukraine Independence Day **Supply**: Germany & US.
- **WEEKLY US EARNINGS ESTIMATES**: [WED] CRM, NVDA; [THURS] DG. To download the report, please click here.

MARKET WRAP

Equities were lower after selling off into the close but the S&P and Nasdaq were relatively contained throughout the session, aside from some chop around the US Open, US PMI data and US close. The macro narrative was driven by the disappointing US PMI data, which missed across the board with a chunky fall in the services PMI. The weak data saw pronounced dollar selling to see the Dollar underperform its FX peers, while Treasuries bull steepened although the weak 2yr auction saw strength pare. Commodities were also buoyed across the board with agricultural goods firming, with metals also bid with industrial power restrictions in China supporting copper and iron prices. Moreover, aluminium prices were supported by upcoming strike action in Norway while gold and silver saw tailwinds from the weaker Dollar. Crude prices rallied from reports OPEC+ might lean towards an oil output reduction if and when Iranian oil returns, sending Brent above USD 100/bbl. On Iran, talks are seeing progress with the latest suggesting Iran has dropped another key demand in the JCPOA talks. Meanwhile, US natgas prices plummeted in the afternoon after the Freeport LNG export terminal announced a delayed resumption of initial operations to mid-November from early October, while it is not expected to restore to 100% functionality until March 2023, adding to the European gas woes. Earnings were mixed with Zoom (ZM) hit on weak guidance and a revenue miss while Palo Alto (PANW) and JD.com (JD) were bid after strong reports.

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PMI's: Overall, US PMI's were disappointing. The manufacturing survey fell to 51.3 from 52.2, beneath the expected 51.9 while Services stumbled to 44.1 from 47.3, despite an expected acceleration to 49.1. The composite fell to 45 from 47.7. The report noted that "Demand conditions were dampened again, sparked by the impact of interest rate hikes and strong inflationary pressures on customer spending, which weighed on activity". Meanwhile, lower new order inflows end efforts to limit spending led to the slowest uptick in employment for almost a year. S&P Global added that "One area of reprieve for firms came in the form of a further softening in inflationary pressures. Input prices and output charges rose at the slowest rates for a year and-a-half amid reports that some key component costs had fallen". The dire report follows what we saw in the dismal NY Fed manufacturing survey, although other regions had been mixed with the Philly Fed returning to positive territory while the non manufacturing Philly Fed entered negative territory and the Chicago National Activity Index entered positive territory.

NEW HOME SALES: US new home sales fell 12.6% in July to 511k, beneath the expected 575k and the prior 585k, and as such printed the slowest pace of sales since January 2016 including pandemic lows. Additionally, new home supply rose to 10.9 months (prev. 9.2mnths), increasing for eight consecutive months, hitting its highest level since 2008. Looking into the data, Oxford Economics note, “despite slowing sales and higher inventory, both median and average home prices rose sharply in July, after falling in June.” Continuing, the July data is the latest evidence of the continued deterioration in housing activity, and as such looking ahead, OxEco adds it “indicates there is downside risk to our forecast for a moderate sales decline in Q3. Significant price decreases will be needed to keep a floor under new homes sales.”

RICHMOND FED: The Richmond Fed survey for August disappointed, as the composite manufacturing index declined to -8 from 0. Looking into the three subcomponents, shipments fell to -8 (prev. 7.0) and volume of new orders slid to -20 (prev. -10.0). Meanwhile, the employment index rose slightly to 11.0 (prev. 8.0). Moreover, the wage index remained elevated, despite, as the survey noted, “a slight downward shift, indicating that a large but shrinking share of firms continues to report increasing wages”. Furthermore, local business conditions index marginally worsened to -14 (prev.

-13) whilst firms' expectations of conditions over the next six months stayed steady in August after marked improvement in July. Elsewhere, there was suggestion of additional supply chain relief as the indices for vendor lead time and backlog of orders decreased again, falling to -14 and -24. Lastly, the report notes, the average growth rate of prices paid was virtually flat in August, while the average growth rate of prices received increased somewhat.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 3 TICKS LOWER AT 117-20

Treasuries bull-steepened after weak US PMI data but the disappointing 2yr auction saw strength pared. At settlement, 2s -3.5bps at 3.302%, 3s -2.8bps at 3.347%, 5s +0.0bps at 3.177%, 7s +0.6bps at 3.135%, 10s +1.1bps at 3.046%, 20s +0.3bps at 3.494%, 30s +1.0bps at 3.251. 5yr BEI +5.1bps at 2.882%, 10yr BEI +2.4bps at 2.603%, 30yr BEI +1.8bps at 2.402%.

TOKYO/LONDON: T-Notes had seen a bid into the London handover Tuesday with stock futures stumbling at the time, while Citi's rates desk noted Asian real money and EU bank buying in the belly. The contracts hit interim highs of 118-03+ before paring alongside the bounce off of lows in stocks, with some slithers of positivity in the German PMI data enough to buoy risk.

NEW YORK: The selling accelerated at the NY handover to hit session lows of 117-14+ (cash 10yr yield high of 3.08%), with inflationary concerns stewing in wake of oil prices bouncing; Saudi's threats of production cuts have added a new supply concern. Buying picked up in Treasuries later in the morning, led by the front-end, after the US Flash PMIs surprised to the downside, warning about receding demand in wake of rate hikes and inflationary pressures. T-Notes hit session highs of 118-07 before paring into the afternoon. The sloppy 2yr auction (details below) added to the paring, with a sizeable 9k Ultra 10yr block sale seen in wake of also. Traders now look to Wednesday's 5yr auction.

2YR AUCTION: A weak 2yr auction from the Treasury where the cut-size, USD 44bln (prev. 45bln) offering still saw a chunky 1.4bps tail (prior 0.6bps stop through and avg. 0.3bps stop through) to stop at 3.307%, the highest stop since 2007. Other metrics were also indicative of weak demand with the 2.49x B/C ratio beneath both the prior and average of 2.58x and 2.59x, respectively. Dealers (forced surplus buyers) were left with a sizable 23% also (prev. 17.9% and avg. 17.4%) with declines in the takedown shares of both Directs and Indirects. Note that ahead of the auction, BMO's strats suggested the uncertainty over the September FOMC hike increment ahead of key risk events (JH, NFP, CPI) could limit demand amid the potential for a cheaper entry point. BMO also flagged the unattractive relative value profile of the 2yr, gauged by the richness of the tenor on the 1s/2s/3s cash butterfly.

STIRS:

- EDU2 +1.0bps at 96.638, Z2 +0.5bps at 96.025, H3 +2.5bps at 95.980, M3 +4.0bps at 96.050, U3 +5.5bps at 96.245, Z3 +5.5bps at 96.415, H4 +4.5bps at 96.575, M4 +3.0bps at 96.700, U4 +1.5bps at 96.795, Z4 +0.0bps at 96.880, Z5 -4.0bps at 97.095.
- NY Fed RRP op. demand rose to USD 2.251tln from 2.236tln.
- US sold USD 60bln of 21-day CMBs at 2.200%, covered 2.45x.

CRUDE

WTI (V2) SETTLED USD 3.38 HIGHER AT 93.74/BBL; BRENT (V2) SETTLED USD 3.74 HIGHER AT 100.22/BBL

Oil prices were firmer on Tuesday, as the crude complex saw sustained gains throughout the day which began in the European morning and continued until settlement. Highlighting the strength, WTI and Brent hit a high of USD 94.22/bbl and 100.45/bbl, respectively, as the latter topped 100/bbl for the first time since August 12th. Regarding the day, news flow was centered around OPEC updates, the Iranian nuclear deal and further natural gas developments, which comes ahead of private inventory data after hours. On this, current expectations (bbls): Crude -0.9mln, Gasoline -1.5mln, Distillates +0.6mln.

OPEC: OPEC+ might lean towards an oil output reduction when and if Iranian production returns, according to nine OPEC+ sources cited by Reuters. As a reminder, Saudi Energy Minister said on Monday OPEC+ may need to tighten output to stabilise the market and that the oil futures "disconnect" may force OPEC+ action. Elsewhere, according to WSJ, Saudi Arabia and allies are open to oil-output cuts to keep prices high, and the comments from the Saudi Energy Minister have been backed by some OPEC members. As such, OPEC+ are reportedly willing to back production cut in case of a global recession.

IRAN NUCLEAR DEAL: Iran reportedly dropped another key demand as part of nuclear deal talks, according to Reuters and CNN. Iran had previously demanded that as a condition of re-entering the JCPOA, the IAEA had to close its investigation of undeclared nuclear material found at Iranian sites in 2019, but Iran has now dropped that demand.

NATGAS: Freeport LNG anticipates initial production can commence in early to mid-November (prev. early October) and ramp up to sustained level of at least 2BCF per day by end of November. This came as Freeport LNG stated it has completed a detailed assessment of alternatives for resuming operations at its liquefaction facility following June 8th incident. While, in March 2023, anticipates being capable of operating at 100% of our capacity. Note, in early August, Freeport LNG said it continues to believe that it can complete the necessary corrective measures, along with the applicable repair and restoration activities, in order to resume initial operations in early October.

EQUITIES

CLOSES: SPX -0.26% at 4,127, NDX -0.07% at 12,881, DJIA -0.47% at 32,909, RUT -0.16% at 1,913.

SECTORS: Energy +3.61%, Materials +0.97%, Consumer Discretionary +0.32%, Industrials +0.19%, Technology -0.25%, Financials -0.38%, Consumer Staples -0.45%, Utilities -0.62%, Communication Services -0.71%, Health -1.39%, Real Estate -1.46%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.16% at 3,652; FTSE 100 -0.61% at 7,488; DAX -0.27% at 13,194; CAC 40 -0.26% at 6,362; IBEX 35 -0.71% at 8,226; FTSE MIB +0.97% at 22,380; SMI -1.37% at 10,933.

STOCK SPECIFICS: **Intel (INTC)** advanced Smart Capital and introduced a first-of-its-kind semiconductor co-investment programme for manufacturing build-outs. As such, it signed an agreement with **Brookfield (BIP)** to jointly invest up to USD 30bln in leading-edge chip factories in Arizona. **Alcon (ALC)** acquired **Aerie Pharmaceuticals (AERI)** for USD 15.25/shr or USD 770mln. Note, AERI closed Monday at USD 11.15/shr. **Warner Bros. Discovery (WBD)** said the premiere of “House of the Dragon” drew 9.986mln viewers across linear and HBO Max platforms, the largest audience for any new original series in the history of HBO. **Pinduoduo (PDD)** plans to launch a cross-border e-commerce platform next month which will target the US as its first market. **ConocoPhillips (COP)** had a US court uphold a tribunal's USD 8.75bln award to ConocoPhillips over the expropriation of its Venezuelan oil assets.

TWTR/MUSK: **Twitter (TWTR)** reportedly has major security problems that pose a threat to its own users' personal information, according to CNN citing a whistle-blower. Following this, a TWTR spokesperson said the whistle-blower was fired from his senior executive role at Twitter in January 2022 for ineffective leadership and poor performance while CEO Parag Agrawal responded, warning employees to expect further headlines throughout the coming days while denying the claims. Meanwhile, Musk has subpoenaed the whistle-blower, Peiter Zatko and the allegations are set to be investigated by US lawmakers, according to WaPo. Meanwhile, Musk has been ordered to provide information on potential investors for the Twitter buyout plan.

EARNINGS: **Zoom (ZM)** plummeted after it missed on revenue alongside guidance also being light. Highlighting this, Q3 and FY23 guidance both fell short for EPS and revenue as the CFO said it is having some difficulty attracting new, paying subscribers. Note, it beat on EPS. **JD.com (JD)** posted a notable beat on EPS as well as topping on revenue. Moreover, JD saw a 9.2% increase in active customer accounts, albeit this was just below expectations. **Palo Alto (PANW)** surged in the wake of surpassing St. consensus on top and bottom line alongside boosting share buyback programme to USD 1bln. Additionally, the board approved a 3-for-1 stock split and raised FY guidance. **JM Smucker (SJM)** saw gains after it topped on EPS while revenue printed in line, and looking ahead it increased FY23 financial outlook for net sales, EPS and FCF. **Macy’s (M)** beat on profit and revenue while the CEO said supply chain pressures eased as Q2 progressed. However, for FY22 the co. cut sales and EPS guidance.

FX WRAP

The Dollar pared some of its recent strength with the index falling sub 109, once again, to lows of 108.06 before paring to c. 108.50. The greenback started selling leading into the US PMI data for August which ultimately disappointed on all headlines. As such, this propelled the Dollar selling while yields also declined, although interest rate probabilities for September are still at 50/50 for a 50bp or 75bp move with eyes all on Jackson Hole for more clues. Looking ahead, analysts at MUFG remain bullish and note in the difficult economic circumstances “it is hard to argue against an even stronger US dollar in the coming months with a dovish Fed pivot looking less likely in the near-term as well”.

EUR/USD was supported by the weaker buck in wake of the US PMI, which saw EUR/USD briefly reclaim 1.0000 to the upside, albeit as the buck moved off lows the cross gave up the round figure. Elsewhere, there was mixed news in the afternoon on natural gas with Freeport LNG (US exporter to Europe) delaying their initial production restart by a month with the facility not expected to return to 100% functionality until March 2023. On the flip side, Norway announced they expect to maintain their current high level of natural gas output until 2030. On data, the EZ PMIs were mixed with the manufacturing printing above expectations but slowing a touch from the prior while services fell by more than expected, leaving the composite marginally above expectations but slowing from the prior month. S&P Global noted “The latest PMI data for the eurozone point to an economy in contraction during the third quarter of the year”. ECB’s Panetta also spoke, where he may have to adjust their monetary policy stance further, noting the probability of a recession is increasing while a recession would mitigate inflation pressures. Analysts at Rabo highlight while EUR/USD hit a 20-year low and with Cable beneath 1.20, the trading range for EUR/GBP has been marginal, highlighting the strength of the Dollar has been driving price action. However, Rabo adds it could “also be interpreted as evidence that both the EUR and GBP find themselves in the midst of economic quagmires developing in both the Eurozone and the UK”.

The Yen was bid against both the buck and Euro, primarily due to the weaker buck while the soft US data sent Treasury yields lower, accelerating its gains to see USD/JPY print a low of 135.82 from highs of 137.71 overnight. The risk tone wasn’t all that bad after the slump on Monday, but equities were rather rangebound throughout the majority of the session while **CHF** saw gains against the weaker buck but the EUR outperformed the swissy. **Gold** prices were supported after the weak US data and weaker Dollar.

Cyclical currencies were bid amid the weaker buck, as the antipodes outperformed while AUD is benefiting from higher base metal prices with industrial power restrictions in China supporting copper and iron prices, and aluminium prices have been supported by upcoming strike action in Norway. Meanwhile, separate reports note German Aluminum maker Speria is to decide on possible cuts next month and the smelter is reportedly considering halving output due to high energy costs. **AUD** reclaimed 0.6900 while **NZD** rose above 0.6200, seeing AUD/NZD flat on the session trading between 1.1124 and 1.1153. The Australian PMI’s declined overnight with the manufacturing survey falling to 54.5 from 55.7, but remaining in expansionary territory. The Services PMI fell sub 50 to 49.6 from 50.9, indicating a slowdown of activity in the services sector while the compose also dipped beneath 50, to 49.8 from 51.1.

GBP was supported by the weaker dollar helping Cable reclaim 1.18 although the Sterling fell against the Euro. UK PMI’ s missed expectations for the manufacturing and composite surveys, with manufacturing seeing a chunky decline to 46.0 from 52.1, beneath the expected 51.1. Services, however only ticked down to 52.5 from 52.6, above expectations of 52. **CAD** was bid against the buck to see USD/CAD fall sub 1.30, while it was also buoyed by gains in the oil space after sources suggested that OPEC+ might lean towards an oil output reduction when and if Iranian production returns.

Scandi’s were both firmer against the Dollar and the Euro with outperformance in NOK on the gains in oil prices while Norway’s Energy Minister announced they expect to maintain their current high level of natural gas output until 2030.

EMFX was mixed. RUB was slightly weaker vs the Dollar while BRL and MXN firmed, particularly BRL with firmer agricultural prices, particularly corn prices. Additionally, Agroconsult cited by Reuters suggests Brazil will produce over 300mln tonnes of grains in 2022/23 despite some farmers potentially cutting fertilizer applications. CLP outperformed on the rally in copper prices with copper buoyed by power restrictions in China which could affect production out of China. TRY was weaker from the higher oil prices with Turkey a net importer of oil.