



US Market Wrap

24th August 2022: Bonds sold as markets position for hawkish Powell in Wyoming

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW:** Headline durable goods miss but core strong; Chinese FX regulator warns against shorting CNY; Weak 5yr auction; OPEC production cut not on the table, for now; Mixed reports around Iran Nuclear Deal; Russia mulls oil price cap retaliation; CLF raises price of steel products; AA smelter strike in Norway will end immediately.
- **COMING UP: Data:** German GDP (Detailed), Ifo, US GDP (2nd), PCE Prices Prelim. **Events:** Jackson Hole Symposium (1/3), ECB, CBRT & Banxico Minutes. **Supply:** Italy, UK & US.

MARKET WRAP

Stocks saw mild gains on Wednesday with the small-cap Russell 2k outperforming the SPX and NDX. The data highlight in the US was the durable goods orders for July, where the miss on the headline figure led to the Atlanta Fed Q3 GDP tracker being downgraded to 1.4% from 1.6%, although the core metrics were more promising. The energy sector outperformed with a particularly volatile session for the oil benchmarks amid the overhang from OPEC production cut warnings, big US crude stock draws, weak gasoline demand, Russian price cap retaliation reports, and suggestions the Iran deal is off. Elsewhere, Treasuries were sold as the 10yr yield hit 3.13% after the sloppy 5yr auction, the highest since late June, while traders now position for the Jackson Hole event with Powell speaking Friday. In FX, The Dollar index closes flat after paring earlier strength, although the Yen cross held gains amid the higher US yield impulse.

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US DURABLE GOODS: The Durable Goods data for July disappointed on the headline which was unchanged M/M despite expectations for a 0.6% gain although the prior was revised higher to 2.2% from 2.0%. Ex-transport came in above expectations at 0.3% (exp. 0.2%), matching the prior pace, albeit that was revised lower from 0.4%. Ex-defence rose 1.2% M/M accelerating from the 0.7% beforehand, while the non-defence capital good ex aircraft rose 0.4% above the 0.3% expected. The internals appear better than the headline and Oxford Economics write they do not put too much stock on the headline print in July given the strong rise in June and it was weighed down by some of the more volatile components of the report. The desk summarises, "The challenging backdrop of softer spending, high prices, and tighter financial conditions will weigh on business sentiment and constrain equipment spending growth. On the bright side, gradually improving supply chain conditions will make it easier for businesses to push forward with investment projects, and we don't believe that higher interest rates will overly stress capital expenditure plans". Note, the weaker headline figure was a factor in the downward revision to the Atlanta Fed GDPNow tracker, which now tracks growth at 1.4% from 1.6% for Q3.

POWELL PREVIEW: Chair Powell's speech at the Jackson Hole symposium Friday will be gauged for clues on the Fed's rate path after the July FOMC and minutes saw the case made for a slowing of the pace of tightening – a case strengthened after the softer-than-expected July CPI and PPI data. To download the full report, [please click here](#).

FIXED INCOME

Treasuries were sold Wednesday amid decent core durable goods data and a sloppy 5yr auction, while participants position for Jackson Hole. Futures volumes were strong amid roll activity. 2s +5.7bps at 3.393%, 3s +4.5bps at 3.395%, 5s +5.4bps at 3.235%, 7s +6.0bps at 3.201%, 10s +5.4bps at 3.108%, 20s +5.6bps at 3.556%, 30s +6.2bps at 3.318%. Inflation breakevens: 5yr BEI +4.7bps at 2.924%, 10yr BEI +3.3bps at 2.633%, 30yr BEI +2.4bps at 2.426%.

THE DAY: T-Notes saw a mild rise through the APAC Wednesday session with Citi's rates desk flagging Asian real money buying focused in the belly. A brief spell of selling in Bunds at the London handover saw some spillover to USTs but the damage was much less pronounced and T-notes went on to print session highs of 117-29 as the dust settled. The contracts pared their strength into the NY handover before dipping into the red, accentuated by the July US durable



goods orders data that saw some better than expected core figures. The selling levelled off into the afternoon, although T-Notes did ultimately hit session lows of 117-03+ after the poor 5yr auction (details below) as the cash 10yr yield made a new high of 3.13%, the highest since late June. Traders now look to Thursday's 7yr auction, initial jobless claims, and Q2 GDP revisions, with a bigger eye to the Jackson Hole event on Friday.

5YR AUCTION: The USD 45bln 5yr auction was disappointing, echoing the 2yr on Tuesday. The 3.230% stop (prev. 2.86% in July) marked a 1bp tail, worse than the prior stop-through of 1bp and the six-auction average tail of 0.4bps. The 2.30x bid/cover ratio deteriorated from the prior 2.46x and avg. 2.44x. Meanwhile, Dealers (forced surplus buyers) were left with a sizeable 20.6%, more than the prior 16.8% and avg. 18%, indicative of weaker end-user demand.

STIRS:

- EDU2 -1bps at 96.628, Z2 -3bps at 95.995, H3 -3bps at 95.955, M3 -3.5bps at 96.02, U3 -4.5bps at 96.205, Z3 -5bps at 96.37, H4 -4.5bps at 96.535, M4 -4.5bps at 96.66, Z4 -4.5bps at 96.84, Z5 -5.5bps at 97.04.
- In options, SR3H3 96.25 straddles were active (25k across exchange and blocks) with Bloomberg reporting it as a seller; 22k SR3Z2 97/97.25/97.50 call flies on exchange; 30k EDX2 95.75/95.50 put spreads blocked.
- US sold USD 22bln of 2yr FRNs at 0.090%, covered 2.57x; sold USD 30bln of 119-day CMBs at 2.970%, covered 3.40x.
- NY Fed RRP op. demand fell to USD 2.237tln from 2.251tln.

CRUDE

WTI (V2) SETTLED USD 1.15 HIGHER AT 94.89/BBL; BRENT (V2) SETTLES USD 1.00 HIGHER AT 101.22/BBL

Oil prices were very volatile Wednesday amid the overhang from OPEC production cut warnings, big US crude stock draws, weak gasoline demand, Russian price cap retaliation, and reports that the US rejected Iran's requests. The earlier threats from Saudi that OPEC could cut production were given colour today by Argus, citing five OPEC+ sources, saying that a formal proposal to reduce production is not on the table, but did warn cuts are possible "if needed", with some sources noting the decision might be made if the Iran deal is revived/Iranian crude export restrictions removed. Meanwhile, supply risk out of Kazakhstan continues to be a thorn in the supply chain with Reuters reporting Black Sea CPC blend crude oil exports have fallen 32% behind schedule so far in August amid Kashagan oilfield maintenance and terminal repairs.

IRAN: After Iran's Foreign Ministry announced it had received the US' response to its nuclear deal, Al-Arabiya reported that the US had rejected Iran's additional demands, suggestive of no deal as it stands. The US reportedly said Iran should not be allowed to enrich uranium beyond a purity level of 4%. That echoed earlier WSJ sources that said the US was unlikely to accept Tehran's demands. Al Arabiya added late that Europeans are in contact with the parties to the agreement to hold a new round of talks. Said differently, back to the drawing board. However, an Iranian Professor flagged by WSJ's Norman suggested the claim it was rejected is false.

PRICE CAP: Bloomberg reported Russia is mulling oil discounts of up to 30% with Asian nations in response to the West's price cap push. Note that follows early August reports in Politico that US Treasury officials are targeting December 5th for the implementation of a price cap scheme on Russian oil in the range of USD 40-60bbl, though officials were said to be determined to keep it above Russia's cost of production which sits around USD 45/bbl. With front-month Brent trading at c. USD 100bln, Russia would be offering oil to Asia at the USD 70/bbl region if it goes ahead with the plans.

INVENTORIES: EIA confirmed market expectations for a 3.3mln bbl crude stock draw in the latest week, although given the record 8.1mln SPR release, the net draw marked a massive 11.4mln bbls, the largest draw since April. Crude production fell again by 100k BPD to 12mln, while Cushing, Oklahoma stocks built 0.4mln bbls for the eighth straight week. The products saw draws too but were much smaller, while refinery utilisation rose 0.3%. Bloomberg reported that gasoline demand dropped off sharply, with the four-week demand rolling basis falling by 2.24% to 8.86mln BPD, barely above the same period in 2020.

EQUITIES

CLOSES: SPX +0.30% at 4,141, NDX +0.28% at 12,918, DJIA +0.19% at 32,971, RUT +0.84% at 1,935.

SECTORS: Energy +1.2%, Real Estate +0.71%, Financials +0.52%, Communication Svs. +0.38%, Consumer Discretionary +0.37%, Utilities +0.35%, Industrials +0.33%, Materials +0.25%, Consumer Staples +0.24%, Health Care +0.12%, Technology +0.04%.



EUROPEAN CLOSES: Euro Stoxx 50 +0.41% at 3,667; FTSE 100 -0.22% at 7,472; DAX +0.20% at 13,220; CAC 40 +0.39% at 6,387; IBEX 35 -0.33% at 8,199; FTSE MIB +0.23% at 22,431; SMI +0.73% at 11,013

EARNINGS: Intuit (INTU) earnings beat on EPS and revenue although Q1 EPS and FY23 EPS view were lower than expectations. However, revenue guidance was more or less in line and it authorised a USD 2bln buyback. Advanced Auto Parts (AAP) missed on EPS and revenue and cut its FY EPS outlook. Nordstream (JWN) saw a beat on EPS and revenue but it cut its FY revenue growth outlook. Toll Brothers (TOL) beat on EPS and revenue was in line but it lowered its FY22 delivery outlook.

STOCK SPECIFICS: Apple's (AAPL) iPhone 14 event will take place on September 7th. Peloton (PTON) will begin selling a selection of equipment and accessories, including its OG Bike, on Amazon (AMZN), according to CNBC. Match (MTCH) filed an antitrust lawsuit against Apple (AAPL) in India over monopolistic conduct and high commissions for in-app purchases, according to Reuters. Bed Bath & Beyond Inc (BBBY) has reportedly found a financing source to shore up its liquidity as it tries to weather recent missteps, according to WSJ citing sources. Tattooed Chef, Inc. (TTCF) announced an expanded distribution agreement with Walmart (WMT) that will increase the availability of its branded products at stores across the US. Turquoise Hill Resources (TRQ) received an improved offer from Rio Tinto (RIO LN), valuing TRQ at USD 3.1bln (prev. USD 2.7bln, which was rejected by TRQ). Paychex (PAYX) CEO Martin Mucci is to retire as CEO but will remain as Chairman. Multiple users of Block's (SQ) Cash App have reported hackers stealing their funds, and fraudsters are selling access to accounts on the dark web, according to Vice.

TWITTER: SEC's Corporation Finance Office of Tech. has written to Twitter (TWTR) CEO Agrawal, in the letter dated June 15th requested disclosing the methodology used in calculating monetizable daily active users (MDAUs) and assumptions used. They wish to know how the error of overstatement of MDAUs was discovered, when and by whom. Meanwhile, legal experts told FBN that the SEC is certain to investigate the Twitter (TWTR) whistleblower charges with a focus on years of alleged disclosure of fraudulent info about bots to investors. Separately, Twitter is facing privacy scrutiny from Ireland and France, according to Tech Crunch. The Twitter and Musk hearing ended and a judge will take the matter under advisement and a Delaware judge is to decide on Musk's data request later. Twitter's Lawyers said Musk hasn't shown why bot data is relevant to the deal; tells judge bot data is "explicitly an estimate"; says Musk wants data do-over to a get a different number.

FX WRAP

The Dollar was bid throughout the majority of the session after Tuesday's post-PMI downside, although the DXY now sits off highs and is unchanged in a range of 108.35-109.11. Focus is shifting to the Jackson Hole event which starts Thursday with Powell not speaking until Friday. Going into Jackson Hole, market pricing leant hawkish on Wednesday and is now towards a 75bp hike in September with 60% odds, from about 45% on Tuesday with expectations that Powell will push back on a Fed pivot - our Newsquawk preview is [available here](#). Data Wednesday saw the headline durable goods unchanged for July although the internals were better, and given the jump in the June report, the unchanged print in July shouldn't be a concern but it did help with an Atlanta Fed GDP Now downgrade to 1.4% for Q3 from 1.6%. Meanwhile, with month-end approaching Morgan Stanley's month-end model signals USD weakness and suggests the Dollar should trade softer against G10 FX.

The Euro was flat against the Dollar but bid against major crosses aside from SEK and NOK. Given the Dollar's slight gains, EUR/USD remained beneath parity while attention turns to the German IFO data and ECB Minutes on Thursday while ECB's Schnabel is set to speak at Jackson Hole, albeit not until Saturday. The Euro caught a bid in the afternoon which appeared to coincide with the downside in oil prices, albeit nat gas prices continued to sky rocket, and the bid occurred into the London fix, so potentially some option-related flow.

The Yen was weaker against the buck and USD/JPY reclaimed 137.00, a level it sits above at pixel time, with weakness in the Yen reacting to the hawkish pricing shift ahead of Jackson Hole which saw US Treasury yields higher across the curve, aided by a weak US 5yr auction. CHF was weaker against the Dollar as well, including the Euro albeit only marginally with a slight bid in stock indices reducing haven demand.

Cyclical currencies were generally weaker, with AUD and NZD the underperformers. AUD/USD dipped back under its 50 DMA (0.6915) as it sits towards the bottom of its 0.6880-6933 range, currently hovering around 0.6900. NZD/USD sits at the bottom of a 0.6164-0.6232 parameter. CAD was more cushioned on the jump in oil prices albeit price action in crude was very volatile Wednesday amid updates regarding OPEC production cuts, the JCPOA, and Russian oil discounts (see our [Crude wrap](#) for full details). GBP was also weaker while the rise of natural gas prices gave the pound little favour and attention turns to BoE speak throughout Jackson Hole.



Scandi's performed well and NOK managed to slightly outperform SEK thanks to the gains in Brent crude prices. Riksbank's Floden spoke and said there is no reason to decide on policy ahead of time with another inflation print ahead, adding there is also no reason to exclude anything in terms of monetary policy, including the size of rate hikes. He spoke on the SEK noting it is weak but primarily due to the Dollar but the Crown is not in focus for what the Riksbank is doing right now, but it does affect inflation.

EMFX was mixed with BRL seeing some weakness while MXN saw gains on hotter than expected 1st half month inflation data, with both the M/M and Y/Y headline and cores rising above expectations, while overnight Banxico's Borja said there is a firm conviction among various market participants that Banxico will not be able to separate itself from monetary actions taken by the Fed in this hiking cycle, however, Borja noted the Banxico will have to complete the hiking cycle before starting to think about how long interest rates should remain at a certain level. Meanwhile, Brazil's mid-month inflation saw a greater decline than expected MM but Y/Y was above expectations at 9.6%, but down from the prior 11.39%. ZAR saw mild gains against the Dollar, buoyed by slightly hotter than expected CPI data and a small move higher in gold prices.

CNH was weaker but did see some volatility after Reuters reported that the Chinese FX regulator informally warned several banks against shorting CNY. The report hit amid the Yuan testing two-year lows vs the buck. The regulator did add they have not seen financial institutions unreasonably buying large amounts of foreign exchange while the CNY remains relatively resilient vs other non-USD currencies after the rapid gains in the Dollar. The FX regulator in China also noted that FX expectations are stable which helps keep the CNY rate basically stable at reasonable and balanced levels.

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