US Market Wrap

25th August 2022: Stocks and duration rally but money markets anchored into Powell

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Fed's Bullard is cautious on inflation; George wants to see three months of consistent data; Bostic says its a coin toss between 50 and 75bps; Harker sees rates at 3.25-3.5% by year-end; Very strong 7yr auction; ECB unlikely to make decision on ending APP reinvestments soon; Mixed German Ifo; China offers more economic support, faces pushback from firms; China/US relations on watch as Senator arrives in Taiwan; EU says US response to JCPOA is "reasonable"; TWTR ordered to hand over some data sought by Musk, but not all.
- **COMING UP**: **Data**: PCE Price Index, Personal Consumption/Income **Events**: Jackson Hole (2/3), UK Ofgem Cap Announcement **Speakers**: Fed's Powell.

MARKET WRAP

Stocks were firmer Thursday, particularly after ramping into the close after a choppy session. The late strength seemingly came from the yield impulse, with the NDX leading the indices, after the Treasury curve bull-flattened in wake of the solid 7yr auction. The hawkish Fed rhetoric on the sidelines of Jackson Hole, particularly from Bullard, kept the front-end anchored, as did the upward revisions to the US Q2 GDP figures and second consecutive fall in the initial jobless claims figure. In FX, the Dollar enters the APAC Friday session on the softer side, with risk appetite in stocks spilling into the high beta currencies (AUD, NZD, CAD), while funders such as the Yen rallied on the improved rate differentials. The softer buck failed to benefit the oil benchmarks which closed lower, finding particular selling pressure in the NY afternoon amid some incremental positive reporting around the Iran deal. However, industrial metals such as copper enjoyed strength.

FED

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.

BOSTIC (2024 voter) gave an interview to the WSJ where he said he has not decided whether a 50 or 75bp increase is appropriate in September, calling it a coin toss at this point in time. Bostic said it is too soon to say the inflation surge has peaked but there are some hopeful signs. He noted ahead of the September meeting there are still key employment and inflation reports due, adding if data remains strong it may make the case for another 75bp hike. Bostic also cautioned that the expectations the Fed could reverse course in short order and reduce rates fairly soon is misguided. He was also upbeat on the economic outlook.

GEORGE (2022 voter) gave an interview where she noted there is more room to hike rates and it is not out of the question the Fed would hold rates above 4% but caveated she is not sure how far the Fed will have to raise rates. George also noted that rates are currently not at a restrictive setting and it is too soon to say what to expect in September with more data coming. Said she wants to see at least three months of consistent data to know where things are going.

HARKER (2023 voter) said the Fed needs to get to a restrictive stance, something he sees happening by year-end at a level above 3.4%, which the Fed could perhaps hold at for a while. He added that if data keeps indicating the Fed needs to do more than that, it should. He wants to see the next inflation report before deciding on September but 50bps would still be a substantial move. He noted supply chain constraints are starting to heal and he does not see the risk of a sustained recession.

BULLARD (2022 voter) reiterated his 3.75-4.00% year-end target and that he likes front loading as it shows you are serious about the fight against inflation, while he said he was not sure what would come after rates get to that bracket. Bullard had a seeming change of tone also: note previously he saw inflation returning to near target in 18 months, but today warned his baseline is that inflation will be more persistent than what many expect, that inflation will be higher for longer, and that the risk is underpriced in the market. Meanwhile, he noted markets are showing outstanding confidence

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in the Fed, and he hopes they are right, saying the risk is that the Fed will have to be higher for longer. On a recession, he said the Fed is taking a recession risk but they do not know one way or the other.

DATA

JOBLESS CLAIMS: US initial jobless claims declined, again, to 243k from 245k and beneath the expected 253k. Meanwhile, continued jobless claims fell to 1.415mln, underneath the consensus 1.442mln and prior 1.434mln. Looking into the release, Oxford Economics note the print remained low enough to ease fears of significant layoffs. However, looking ahead, OxEco adds "initial jobless claims will gradually rise as economic growth slows and businesses focus on trimming inefficiencies in a shakier fundamental environment. However, persistently scant labour supply will prevent a spike in jobless claims as employers will be concerned about how long it might take to fill open positions." Furthermore, on future datasets Oxford states "slower economic growth and more challenging economic conditions (higher costs, reduced consumer demand, and lower profitability) will eventually lead to less encouraging labor market data. However, we don't expect a sharp uptick in jobless claims."

US GDP: US GDP 2nd estimate for Q2 was revised up to -0.6% (exp. -0.8%) from -0.9%, while the deflator was revised higher to 9.0% (exp. 8.7%, prev. 8.9%). Nonetheless, the upward revision to the headline is due to stronger consumption, which was revised significantly higher to 1.5% from 1.0%, as Pantheon Macroeconomics notes the retail sales data signalled that this was coming. Additionally, gross domestic income rose at a 1.4% rate, after a 1.8% gain in Q1, where PM states "usually GDP is revised towards the GDI number, so we are reasonably confident that when the comprehensive revisions are published in October, the declines in GDP in Q1 and Q2 will be revised away." Nonetheless, the negative GDP print still reflected a sizeable 1.8ppt drag from inventories, though weaker domestic demand was also to blame. Furthermore, removing trade and inventories, final sales to domestic purchasers, a better gauge of domestic momentum, shrank 0.2%.

FIXED INCOME

T-NOTE (U2) FUTURES SETTLE 17 TICKS HIGHER AT 117-25

Treasuries bull-flattened after a strong 7yr auction, while the front-end remained pressured amid hawkish Fed rhetoric and the fall in initial claims data. At settlement, 2s -1.0bps at 3.376%, 3s -3.0bps at 3.362%, 5s -5.0bps at 3.157%, 7s -7.5bps at 3.122%, 10s -8.0bps at 3.026%, 20s -9.6bps at 3.460%, 30s -8.6bps at 3.234%. Inflation breakevens: 5yr BEI -3.7bps at 2.894%, 10yr BEI -3.7bps at 2.611%, 30yr BEI -4.5bps at 2.398%.

SEP/DEC ROLL PROGRESS: ZT 62.5% complete, ZF 60.9%, ZN 65.9%, TN 71.9%, ZB 56%, UL 71.2%

THE DAY: A quiet APAC Thursday session saw T-Notes hover sideways around their prior settle 117-08. Strength was built in the London morning with Bunds leading. There were few catalysts aside from the German Ifo survey which beat expectations although the commentary was dire for the economic outlook. T-Notes hit interim highs of 117-16+ before paring slightly into the NY handover. The ECB minutes were a non-event with little market reaction, but the second-consecutive fall in the US initial claims data and upward revisions to Q2 GDP, led by consumer spending, saw T-Notes dip to session lows of 117-03+, only to pare to the little changed mark soon after. The session was peppered with some sideline Jackson Hole commentary from the likes of George, Bostic, and Harker, although none of them shook the boat from a Fed narrative standpoint. The solid 7yr auction (details below) saw T-Notes extend to session highs, while later remarks from Fed's Bullard warning about inflation lasting longer than markets expect and the need for "higher for longer" only added to the flattening of the curve as the front-end lagged and duration closed near highs.

7YR AUCTION: A solid 7yr auction that saw USD 37bln sold at 3.130%, materially cheaper than last month's 2.73%, and marking a 2.8bps stop-through, better than the prior 0.5bps stop-through and the six-auction avg. of a 0.3bps tail. The 2.65x bid/cover ratio exceeded both the avg. 2.46x and prior 2.6x. The takedown also showed solid end-user demand as Dealers took 8.6% (prev. 10.6% and avg. 13.9%) amid a jump in Indirect participation to 75.7%.

STIRS:

- EDU2 flat at 96.628, Z2 +0.5bps at 96.00, H3 +1.5bps at 95.97, M3 +1.5bps at 96.035, U3 +2.5bps at 96.23, Z3 +3bps at 96.40, H4 +4bps at 96.575, M4 +4.5bps at 96.705, Z4 +4.5bps at 96.885, Z5 +5.5bps at 97.095.
- Options flow was more muted Thursday, although futures saw the H3/U3 spread blocked in 10k, while SOFR white and red bundles were also active in blocks.
- NY Fed RRP op. demand fell to USD 2.188tln from 2.237tln, the lowest since Aug 16th amid cash management bill issuance.

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- US sold USD 58bln of 1-month bills at 2.310%, covered 2.37x; sold USD 53bln of 2-month bills at 2.610%, covered 2.73x.

CRUDE

WTI (V2) SETTLES USD 2.37 LOWER AT 92.52/BBL; BRENT (V2) SETTLES USD 1.88 LOWER AT 99.34/BBL

Oil prices were lower Thursday as the recent upside loses some momentum despite renewed OPEC production cut threats, aided by incremental Iran deal positivity. Oil prices had entered the NY session on the front-foot as WTI and Brent (V2) futures hit session highs of USD 95.76/bbl and 102.47/bbl, respectively, supported by the OPEC President saying to WSJ that he is open to oil-production cuts touted by other officials earlier this week. However, the strength soon unwound, in lack of a bearish catalyst, and the selling sustained into the settlement, with some hints that the Iran deal may still be on adding pressure on the benchmarks in later trade.

IRAN: White House Press Secretary Jean-Pierre said the US will agree to the Iran deal if it's in the US' interest. That followed WSJ citing EU's Borrell saying the bloc has "...just received the US answer [to Iran's response] and it is a very reasonable counterproposal". Meanwhile, Iranian sources told regional journalist, Abas Aslani, that the US has not given a yes or no on the nuclear deal, but gave detailed comments; said that the review process is underway in Tehran, and will continue as long as needed. The reports also said the final report will be submitted to the decision-making level after due process.

EQUITIES

CLOSES: SPX +1.41% at 4,199, NDX +1.75% at 13,144, DJIA +0.98% at 33,292, RUT +1.52% at 1,965.

SECTORS: Materials +2.26%, Communication Svs. +2.06%, Technology +1.68%, Real Estate +1.56%, Industrials +1.53%, Financials +1.52%, Consumer Discretionary +1.29%, Health Care +1.1%, Energy +0.76%, Utilities +0.6%, Consumer Staples +0.46%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.19% at 3,674; FTSE 100 +0.11% at 7,479; DAX +0.39% at 13,271; CAC 40 -0.08% at 6,381; IBEX 35 -0.15% at 8,187; FTSE MIB +0.10% at 22,454; SMI +0.45% at 11,062.

STOCK SPECIFICS: **Amazon (AMZN)** will shut down Amazon Care virtual health service that it initially created for its employees by year-end, according to Washington Post. WaPo added that it was a surprising move given its recent investment in the health-care space. Of note for telehealth stock names, such as **Teladoc Health (TDOC), Hims & Hers Health (HIMS), and Amwell (AMWL)** who all saw gains. **Amazon (AMZN)** and **Plug Power (PLUG)** signed a green hydrogen deal where Amazon is adopting green hydrogen to help decarbonise their operations. **Ford (F)** is increasing Mustang Mach-E prices between USD 3k-8.1k, depending on trim, as order banks re-open. F is also increasing shipping costs by USD 200 on all models, according to Automotive News. Downside in **Activision Blizzard (ATVI)** in the NY morning was attributed to M&A blog suggesting the UK is preparing a Phase 2 review of the deal with **Microsoft (MSFT)** – unconfirmed. **Twitter (TWTR)** caught a bid in late trade after a Delaware judge ordered the social media co. to hand over some data sought by Musk, but rejected may of Musk's data demands, calling them "absurdly broad". TWTR will turn over data from 9k accounts reviewed by TWTR in the Q4 audit. **Altria (MO)** raised its dividend by 4.4% to USD 0.94 /shr. US State Department said it approved possible foreign military sale to Australia of **Lockheed Martin's (LMT)** UH-60M Black Hawk helicopters and related equipment for the cost of USD 1.95bln, while **General Dynamics (GD)** Land Systems is to provide Abrams tanks to Poland under a USD 1.1bln foreign military sales order. The FCC is reportedly launching an investigation into **mobile carriers' (VZ, T, etc.)** use of customer geolocation data, according to Reuters citing the agency.

EARNINGS: **Salesforce (CRM)** saw losses after weak Q3 guidance alongside cutting its FY EPS and revenue view. Although, it did beat on EPS and revenue, while the board approved its first-ever share repurchase programme of USD 10bln. **Autodesk (ADSK)** was in the green after it beat on top and bottom line alongside giving an upbeat financial forecast as the co. called demand “robust". **Dollar Tree (DLTR)** was lower in wake of cutting FY22 EPS view as well as Q3 EPS and revenue guidance falling short. DLTR cited the impact of pricing-related investments at its Family Dollar stores. **Nvidia (NVDA)** was choppy following a miss on revenue as it cited weaker gaming revenue, while data centre revenue was somewhat short of expectations due to impacts on supply chain disruptions. **NetApp (NTAP)** firmed after it surpassed St. consensus on profit and revenue as an exec said the performance was fuelled by broad-based demand across its portfolio and geographies. As such, it set all-time Q1 company highs for billings, revenue, gross profit dollars, operating income and EPS. **Abercrombie & Fitch (ANF)** saw notable losses after posting a surprise loss per share as well as missing on revenue. Additionally, it cut FY sales forecast, citing the impact of inflation. **Peloton (PTON)** plummeted in the wake of reporting a much deeper loss per share than expected as well as missing on revenue. Peloton

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also said its connected fitness business would remain challenging into 2023. **Snowflake (SNOW)** surged in the wake of topping Wall St. expectations on revenue alongside lifting FY23 revenue view.

FX WRAP

The Dollar sold off slightly on Thursday while stocks grinded higher amid encouraging US data in the form of a revision higher to Q2 GDP (albeit still contractionary) while the jobless claims figures were better than expected. Attention now turns to Powell's speech on Friday, although there were several speakers on Thursday. Bostic said he has not decided between 50 or 75bps for September. George wanted to see more data, particularly three months of consistent data to see where things are going while she did not rule out holding rates above 4%. Harker sees rates at 3.4% and then perhaps held there for a while. Bullard reiterated his case for rates between 3.75-4.00%, adding his baseline is that inflation will be more persistent than what many expect, saying it will be higher for longer, and that the risk is underpriced in the market. The common theme from all the Fed Speak has been a lack of appetite to give anything to the doves. The DXY itself briefly dipped beneath 108.00 to lows of 107.97 but it managed to reclaim the level and sits well off the lows going into Friday.

The Euro closes flat around 0.9970 after unwinding strength out of APAC that took it to highs above parity, whilst also seeing some volatility amid the chunky option expiries at the NY cut which saw EUR 1.24bln roll off between 0.9950-55 and 2.7bln between 1.0000-10. Data was mixed with the German Ifo Business climate missing expectations although the current conditions and expectations were better than expected while German GDP was revised higher to 1.8% from 1.5% for Q2. The latest ECB minutes saw little market reaction: members agree it was appropriate to take further steps on the path of monetary policy normalisation, please click here for the full minutes. In late trade, and ahead of Jackson Hole, ECB sources hit Reuters which noted the Central Bank is unlikely to take any decision on ending its asset purchase programme reinvestments in September, and a decision is not urgent, suggesting a decision on rates and reinvestments "may be too much for markets".

Yen crosses were varied amid the JPY firmer against the USD, the GBP and EUR, but softer vs the AUD, NZD and CAD and flat against CHF. USD/JPY almost matched Wednesday's high of 137.24 after printing an intraday trough at 136.33, with little immediate action seen in wake of BoJ’s Board Member Nakamura suggesting JPY has weakened significantly so far this year, high volatility has had a big impact on Japan's economy, but it is premature to tweak the BoJ's dovish guidance now. US Treasury yields were lower across the curve, albeit price action didn't really occur until after the strong 7yr note auction in the NY afternoon, with USD/JPY hardly changed in wake of.

Cyclical currencies were bid, particularly the antipodes which found a benefit from the marginally softer Dollar and rising stock and commodities. AUD rose from a low of 0.6901 through its 50, 10 and 21 dma at 0.6914, 0.6955 and 0.6972, respectively. AUD was the outperformed, however, while NZD/USD was hit with resistance around the 50dma at 0.6250, seeing AUD/NZD reclaim 1.12 to the upside with NZD finding headwinds after weak retail sales data. CAD saw marginal gains but primarily as a function of the Dollar while the fall in oil prices acted as a headwind. GBP/USD traded between 1.1785 and 1.1864 ahead of BoE's Bailey speech on Friday at a time where analysts are forecasting a dire inflationary outlook, more so than the BoE's own forecasts.

The Yuan firmed against the buck on both offshore and onshore crosses despite further support measures announced. China unveiled USD 44bln in new support to help the economy, adding to the tremendous support seen already this week from the PBoC and programmes to help the property sector. However, some of China's sate-backed financial firms are said to be pushing back on calls to support the Chinese property sector amid the exposure risk on their balance sheets, according to sources cited by Reuters. Separately, WSJ reported that China and the US are nearing a deal re. the inspection of Chinese company audit records within Hong Kong, via WSJ citing sources.

EMFX was mixed: BRL and MXN weakened against the buck with the Peso hit by weak economic activity data rising 1.6% in June, cooling from 2.1% and beneath the expected 2.0% while the latest Banxico minutes were in fitting with the prior statement. CLP saw solid gains thanks to the rise in copper prices while ZAR was buoyed by higher gold prices. TRY was marginally weaker in wake of the CBRT minutes which noted the Committee expects disinflation process to start on the back of measures taken and decisively implemented for strengthening sustainable price and financial stability and said it will continue to use all instruments to help with a fall in inflation after the CBRT cut rates by 100bps at its last meeting.

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