US Market Wrap

26th August 2022: Stocks turn negative on the month after Powell gives little to doves

- **SNAPSHOT**: Equities down, Treasuries mixed, Crude up, Dollar up.
- **REAR VIEW**: Hawkish-in-tone Powell offers little new information; ECB sources tout 75bps for Sep and QT later this year; US & China reach prelim. agreement on audit inspections; More Iran deal hopes; Soft US PCE data; UoM inflation gauges revised lower with sentiment revised higher; DoJ mulling lawsuit against AAPL; Whiting refinery return timeline unknown; AAPL supplier Foxconn and Toyota restart Sichuan plants.
- **WEEK AHEAD PREVIEW**: Highlights include: US jobs report, ISM; China PMIs; EZ inflation. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Reviewing Powell at Jackson Hole, PBoC, ECB Minutes, BoK. To download the report, please click here.

MARKET WRAP

Stocks were sold in wake of Fed Chair Powell's hawkish-in-tone Jackson Hole speech, albeit it contained little new /surprising. The price action in stocks was more framed around Powell's decision to not provide an olive branch to doves, giving little reason for a risk rally after two sessions of strength and with bearish flow dynamics to consider. On which, Goldman notes "rallies still are meant to be faded especially in the context of a.) lack of CTA demand (asymmetry all to the downside) and b.) any further rally in equities and fixed income will only increase pension rebalancing into the end of the month." Goldman's latest month-end pension signal currently indicated a "small for sale" amid a low volume week, "As of [Thursday's] close, our GS model estimates $9bn of US equities to SELL for month-end." Elsewhere, the Treasury curve flattened Friday with Powell's hawkish affirmations pressuring the front-end while duration was propped on soft PCE data and with an eye to month-end with Bloomberg noting the index extension estimate at +0.12y. Oil prices were choppy after slowing consumer data in the US and more Iran deal optimism weighed on the demand and lifted the supply outlook, alongside book squaring into the weekend. While in FX, the DXY firmed amid the broader risk-off, although the Euro was relatively well supported vs other crosses amid Reuters ECB sources saying that a 75bps September hike will be discussed, with later Bloomberg sources saying that QT could be on the table for 2022. Note ECB hawks Knot and Holzmann were both out later in the session publicly giving credence to a 75bps hike option.

FED

Chair Powell’s speech at Jackson Hole did not reveal anything by way of new information. The Fed chair emphasised that it would be moving rates into ‘sufficiently restrictive’ territory, where it will likely be held for some time, in order to return inflation to target. Powell reiterated that the decision on September 21st on whether the Fed will lift rates by 50bps or 75bps will be driven by the “totality” of data since the July meeting. That puts a great deal of emphasis on the US jobs report due on September 2nd, and the US CPI report due September 13th. On the tone of incoming data, Powell welcomed July’s lower inflation readings but added that this was still short of what needed to be done before the Fed is confident that inflation was coming down. Echoing what was said in the recent meeting minutes, Powell said that at some point, as the Fed’s policy stance tightens further, it would be appropriate to slow the pace of rate hikes, but with rates at the current long-run estimate of neutral between 2.25-2.50%, now was not the place to stop or pause rate hikes. Powell’s remarks did not contain any fresh insight on where the Fed thinks the terminal rate is (it was estimated to be between 3.75-4.00% in the June SEP, and those forecasts will be updated at the September meeting), nor was there any indication on how long the Fed would stay at terminal; instead, Powell emphasised that restoring price stability would take some time, requiring ‘forceful’ use of the central bank's tools. In an immediate reaction, the implied probability of a 50bps or 75bps fluctuated, but is ultimately still looking like it is a coinflip (that will most likely be determined by incoming data); additionally, money markets are still pricing rates to rise to between 3.50-3.75% by the end of the year, and still are pricing a Fed rate cut in Q3 of 2023.

Bostic (2024 voter) said there is still a long way to go and they need to get closer to a restrictive range between 3.5-4.75%. Moreover, Bostic added he is hopeful to get there by year-end and he suggested they could stay at that level if they see the economy start to slow. Bostic said they need to make sure we do not overreact and that it is premature to think about rate cutting - he wants to get rates to the target and then hold. He said he is leaning towards 50bp but it still depends on the incoming data, reiterating it is a coin toss.

Bullard (2022 voter) spoke where he noted that today's markets respond quickly to projects paths of policy and the long and variable lag is not as accurate as it was historically and we are already starting to see some real effects of their rate hikes already.

Mester (2022 voter) reiterated the Fed will need to take rates above 4% and hold them there for some time. She noted the Fed has not gotten to neutral yet due to negative real rates while she highlighted there is a difference between the short-term and medium/long-term neutral rates. For September, she said the debate is between 50 or 75bps but her decision will be made from the data - the July inflation n report was welcome news but the Fed needs to see more convincing data that inflation is coming down.

US DATA

PERSONAL INCOME & SPENDING: US Core PCE price index Y/Y rose 4.6%, beneath the expected +4.7% and prior +4.8%, while Core M/M rose 0.1% (exp. +0.3%, prev. +0.6%). The headline PCE M/M prices fell 0.1% (prev. +1.0%) while Y/Y came in at +6.3% (prev. +6.8%). CapEco notes, “with headline PCE inflation still at 6.3% and core PCE inflation at 4.6%, we don’t expect the Fed suddenly to announce a pivot at Jackson Hole. But even better news on inflation over the coming months is likely to convince the Fed to change course next year, despite any hawkish rhetoric coming from officials now.” Meanwhile, personal income rose 0.2% in July, under the expected +0.6% and prior +0.7% (revised up from +0.6%), and consumption rose 0.1% (exp. +0.4%, prev. +1.0%, revised down from +1.1%). With real personal spending under expectations, CapEco “now expect third-quarter real consumption growth to be 1.6% annualised, whereas we previously had it tracking above 2%. With prices beginning to drop back, however, there is still time for a pick-up in real spending growth over the final two months of this quarter.”

UOM: UoM headline final for August was revised higher to 58.2 from 55.1, and way above the expected 55.2. Meanwhile, the forward-looking expectations component was revised up to 58.0 from 54.9 and the current economic conditions gauge was revised to 58.6 from 55.5. Furthermore, the inflation gauges were encouragingly revised lower, with the shorter-term 1yr to 4.8% (prev. 5.0%) and the longer-term 5yr to 4.8% (prev. 5.0%). Delving into the report, Oxford Economics note, “though July's decelerating inflation figures and the more resilient consumer spending showcased by the second Q2 GDP reading are heartening, headwinds will remain pointed to the downside for consumers in the coming months. The August reading of 58.2, though an improvement, remains historically low.” As such, OxEco adds, looking ahead, “price pressures and economic uncertainty remain elevated, making any sustained rallies for sentiment unlikely.”

FIXED INCOME

T-NOTE (U2) FUTURES SETTLED 6+ TICKS LOWER AT 117-18+

The Treasury curve flattened Friday with Powell's hawkish affirmations pressuring the front-end while duration was propped on soft PCE data. At settlement, 2s +1.8bps at 3.393%, 3s +2.9bps at 3.393%, 5s +3.9bps at 3.197%, 7s +2.9bps at 3.139%, 10s +1.1bps at 3.035%, 20s -2.3bps at 3.438%, 30s -2.9bps at 3.205%. Inflation breakevens: 5yr BEI -5.4bps at 2.865%, 10yr BEI -3.2bps at 2.594%, 30yr BEI -1.1bps at 2.389%.

SEP/DEC ROLL PROGRESS: ZT 83.2% complete, ZF 81.1%, ZN 83.4%, TN 87%, ZB 75.2%, UL 83.6%

THE DAY: A quiet APAC session with light volumes aside from futures roll activity and angst around UK energy prices. T-Notes hit session highs of 117-29+ in wake of the lower-than-expected July Core PCE as well as soft consumption and income data. ECB sources, via Reuters, calling for discussion of a 75bps September hike saw Treasuries pare strength. The curve then flattened after Powell's Jackson Hole speech largely saw hawkish reaffirmations rather than any surprises, the simultaneously released Uni of Michigan survey that saw a decline in consumer inflation expectations capped some of the front-end selling. Note also that the front-end pared to pre-Powell levels into the futures settlement, while Fed Funds futures imply a 60% chance of a September 75bps hike vs 50bps priced at 40%.

STIRS:

- EDU2 +0.3bps at 96.628, Z2 -0.5bps at 95.99, H3 +0.5bps at 95.965, M3 -0.5bps at 96.02, U3 -2.5bps at 96.19, Z3 -3bps at 96.36, H4 -2.5bps at 96.54, M4 -3bps at 96.67, Z4 -4bps at 96.84, Z5 -5.5bps at 97.04.
- NY Fed RRP op. demand declined to USD 2.182tln from 2.188tln.

CRUDE

WTI (V2) SETTLED USD 0.54 HIGHER AT 93.06/BBL; BRENT (V2) SETTLED USD 1.65 HIGHER AT 100.99/BBL

Oil prices were choppy on Friday after slowing consumer data in the US and more Iran deal optimism weighed on the demand and lifted the supply outlook, alongside book squaring into the weekend. Mild gains out of APAC /Europe were unwound in the NY morning after the soft July Core PCE, consumption, and income data added to concerns over a slowing economy. Furthermore, an Iranian official said to regional press that "the US has accepted an important part of Iran's demands, and the EU is trying to finish Vienna Talks", marking the latest revival of deal hopes. While in the background, desks are becoming concerned over the timeline for restart at the BP Whiting refinery.

WHITING REFINERY: BP's (BP/ LN) Whiting, Indiana refinery (435k BPD) restart timeline is still unknown due to all units needing to be checked for damage following the sudden loss of power on Wednesday, Reuters reported Friday citing sources. Citi's energy desk warns the outage is growing into a bigger market risk the longer the outage lasts with any extended outage allowing crude oil supplies to back up in to the Cushing, Oklahoma delivery point for WTI. The desk noted the outage would also reduce Midwest products supplies.

EQUITIES

CLOSES: SPX -3.32% at 4,059, NDX -4.10% at 12,605, DJIA -3.03% at 32,282, RUT -3.53% at 1,892.

SECTORS: Technology -4.28%, Consumer Discretionary -3.88%, Communication Services -3.87%, Industrials -3.51%, Materials -3.12%, Financials -3.04%, Health -2.79%, Real Estate -2.53%, Consumer Staples -2.48%, Utilities -1.54%, Energy -1.07%.

EUROPEAN CLOSES: Euro Stoxx 50 -1.93% at 3,603; FTSE 100 -0.70% at 7,427; DAX -2.26% at 12,971; CAC 40 -1.68% at 6,274; IBEX 35 -1.51% at 8,063; FTSE MIB -2.49% at 21,895; SMI -1.14% at 10,937.

STOCK SPECIFICS: US DoJ is drafting a possible antitrust lawsuit against **Apple (AAPL)** that could be filed by the end of the year, according to Politico sources. **Electronic Arts (EA)** was the focus of reports suggesting that **Amazon (AMZN)** will put in an offer to acquire it, according to USA Today citing "GLHF" sources. Following this, CNBC's Faber said Amazon is not expected to make a bid for Electronic Arts, with the stock paring pre-market strength. **Merck's (MRK)** talks to buy **Seagen (SGEN)** stalled as the companies have, so far, failed to agree on a price, according to Bloomberg. **Molina Healthcare (MOH)** received California 'crown jewel' contract win after California's Department of Health Care Services announced its intent to award contracts to commercial managed care plans. Wells Fargo called the California awards a "near worst case" for the **Centene (CNC)**. **Everbridge (EVBG)** is working with an adviser to explore strategic options, including a possible sale, according to Bloomberg. **Micro Focus (MFGP LN)** is to be acquired by **OpenText (OTEX)** for GBP 5.32/shr, implying an enterprise value of around USD 6bln on a fully diluted basis. Acquisition seen closing in Q1 2023. **Panasonic (PCRFY)**, **Tesla (TSLA)** supplier, is in talks to build an additional USD 4bln EV battery plant in the US, according to the WSJ. Panasonic is looking at Oklahoma as the location, though there are no guarantees that an agreement will be reached. **General Motors (GM)** to suspend production at its Mexico Silao plant from August 29th to September 5th due to supply chain issues. Judge rules 3M **(MMM)** cannot use bankruptcy to stop 230k jury trials brought by soldiers.

EARNINGS: **Workday (WDAY)** was in the black after it beat on EPS and revenue and lifted its FY23 adj. EPS view. Moreover, exec said it continued to see strong global demand and continued momentum. **Ulta Beauty (ULTA)** topped St. consensus on SSS as well as top and bottom line. Looking ahead, it raised FY22 EPS and revenue outlook as exec said strong consumer demand and broad-based momentum across its business continued. Affirm (AFRM) plummeted in wake of posting a deeper loss per share than expected as well as next Q and FY23 view coming in light. **Dell Technologies (DELL)** was lower as it beat on EPS but missed on revenue, while guidance was also poor. CFO said it was seeing customers become more cautious given the current macroeconomic environment and sees FX continuing to be a headwind, ~ 500bps in Q3 and ~400bps for FY. **Farfetch (FTCH)** surged after it posted a shallower loss per share than expected and beat on revenue. **Gap (GPS)** posted a surprise profit per share and topped on revenue.

WEEKLY FX WRAP

A whipsaw week for FX mostly led by the Dollar, with all focus on Jackson Hole

DXY - Overall, a choppy week for the broader Dollar and index during the week of the Jackson Hole Symposium, with the DXY reaching a weekly peak just shy of the YTD high (109.29) at 109.27 earlier, before slipping to its 107.54 trough (at the time of writing), and ultimately set to end the European week with losses. The early-week bid was seemingly a function of risk-off sentiment alongside Nord Stream-induced jitters in the EUR (more below) but thereafter, the index focused on Fed officials as the main event loomed. The Fed's ex-dove Kashkari was one of the first out the gate and struck a hawkish tone which underpinned the index at the time. Overall, the commentary on the sidelines of the Symposium was mostly hawkish, although 2024-voter Bostic said he may lean towards a 50bps September hike, a day after being "split" between 50bps and 75bps. Data-wise, a minimal move was seen on the backwards-looking Q2 GDP (2nd) and Q2 PCE data, alongside the IJCs, but softer-than-expected monthly PCE dragged the DXY back toward the weekly low. Thereafter, Fed Chair Powell expressed a data-dependent approach (jobs and inflation due before the Fed meeting) with commentary that was in line with recent Fedspeak; nonetheless, the index printed a fresh weekly trough shortly after, possibly influenced by the EUR following ECB sources and with the Powell risk out of the way (more below). Finally, heading into month end, Citi's month-end FX model points to EUR buying and JPY selling, whilst Morgan Stanley's models point to USD selling vs G10s ex-CHF.

EUR, GBP - Both are set for a week of gains amid the decline of the Buck. EUR saw an early-week dip under parity amid jitters over a potential supply disruption as Russia is to shut the Nord Stream 1 pipeline for three days from August 31st - Gazprom cited maintenance, but then reversed as German Flash PMI metrics were received better than the pessimistic French release, whilst the EZ-wide and UK metrics were more mixed. The overall themes of the PMI releases were contracting growth and less intense price pressures. It's also worth keeping in mind some energy dynamics that will likely influence inflation - French and German year-ahead power futures rose to fresh highs, with the former topping EUR 1,000/MWh on Friday, whilst the UK energy regulator announced an 80% rise in energy bills and warning prices could get significantly worse next year. The main central bank update from Europe was Reuters sources suggesting Some ECB policymakers want to discuss a 75bp hike in September, due to a deterioration in the inflation outlook, with the source adding that a looming EZ recession should not slow/halt policy normalisation; reminder, ECB's Schnabel and Villeroy speak on Saturday. From a technical perspective, EUR/USD and GBP/USD are each looking to end the European week at the top of their respective ranges. EUR/USD rose back above parity and extended on gains on the aforementioned ECB sources in a 0.9899-1.0089 weekly band, whilst Cable clocked in a range of 1.176-1900.

AUD, NZD, CAD - Antipodeans lead the charge this week with some additional tailwind seen amid a rise in commodities (particularly copper) as the Dollar declined. AUD/USD rebounded from a 0.6854 trough, though its 50, 10, and 21 DMAs (at 0.6916, 0.6945, and 0.6974 respectively on Friday), to a fresh weekly high at 0.7009. NZD/USD printed a 0.6155 weekly low before finding some resistance at its 50 DMA on Thursday, whilst Friday's session saw upside capped for the Kiwi as the AUD/NZD cross topped 1.1200 for the first time since around 2017, as the cross eyed 1.1250 to the upside. Meanwhile, USD/CAD had to juggle a choppy Dollar alongside an even more frantic crude market, but USD/CAD looks to end the European week towards the bottom of a 1.2893-1.3063 weekly range.

JPY - A relatively contained weekly range for USD/JPY when compared with G10 peers. USD/JPY largely oscillated in 136-137 parameters for most of the week with the pair juggling Dollar action and a see-sawing risk profile. Aside from that, pertinent JPY-specific news flow was light and little reaction was 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. The pair look set to end the week flat in a 135.80-137.71 range.

CNH - The Yuan was in focus this week as the CNH fell to its lowest level since September 2020 after the PBoC's rate actions in which it cut the 1-Year LPR by 5bps to 3.65% and reduced the 5-Year LPR by 15bps to 4.30% vs expectations for a 10bps cut to both, while the extension of factory power cuts in Sichuan did not help sentiment in the Chinese currency. Furthermore, the Chinese FX regulator has "informally" warned several banks against shorting the CNY. Sources added that China has not seen financial institutions unreasonably buying large amounts of FX, and the CNY remains relatively resilient vs other non-USD currencies following recent rapid Dollar gains. On Friday, the US and China reached a prelim agreement on audit inspections as had been touted throughout the latter half of the week. USD /CNH hit a high of 6.8875 from a 6.8326 base and looks set to end the European week in the middle of that bracket.