



US Market Wrap

29th August 2022: Stocks and bonds sold as Jackson Hole rout emboldened by ECB's flirtation with 75bps

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar down
- **REAR VIEW:** ECB's Schnabel warns about inflation expectations, Lane not as hawkish as colleagues; China implements more COVID curbs; BP touted to restart Whiting refinery this week; DoJ in early stages of antitrust suit against AAPL; Germany says energy supply better than feared.
- **COMING UP: Data:** German HICP (Prelim.), EZ Consumer Confidence (Final), US Consumer Confidence & JOLTS **Speakers:** Fed's Williams & Barkin **Supply:** Italy.
- **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 lower Monday in a choppy, rangebound session accentuated by the UK bank holiday. Treasuries were sold in sympathy with EGBs, in otherwise light trade, amid a slew of weekend hawkish ECB speak and catch-up to Powell's Jackson Hole speech. The front-end initially led the bond weakness after ECB hawks opened the door to a 75bps September hike, although some balanced-in-tone comments from ECB's Lane capped the downside. The Euro outperformed, not just amid the latest ECB spew, but also as regional gas prices tumbled, with desks pointing to German Chancellor Scholz's remarks that Germany is better prepared for the winter than initially feared. Meanwhile, the global oil benchmarks broke out to fresh August highs, aided by the softer Dollar, and amid the overhang from OPEC production cut suggestions and Middle East geopolitical uncertainty. Industrial metals were sold amid the broader risk aversion. Aside from ISMs and NFP this week, traders have their attention on Fed speak and month-end flows. On the latter, Goldman's latest pension rebalancing model suggests a "very small for sale following Friday's selloff... model estimates USD 3bln of US equities to SELL for month-end", while the bank's total estimated rebalancing for August is for USD 16bln of US equities to be sold. Elsewhere, Bloomberg reports Treasury index duration extension of +0.12yr, while Citi's month-end FX model points to EUR buying and JPY selling, and Morgan Stanley's models point to USD selling vs G10s ex-CHF.

CENTRAL BANKS

ECB: ECB chief economist **Lane** spoke, following a plethora of speakers over the weekend, and in short he did not sound as hawkish as some of his colleagues. In particular, Lane makes the point that, in reference to the magnitude of individual moves, it makes sense to allow the financial system to absorb rate changes in a step-by-step manner. Explicitly, the same cumulative rate increase taken in a calibrated multi-step series is less likely to result in adverse feedback loops vs a smaller number of larger increases. Remarks which, seemingly push-back on recent sources /commentary around 75bp - albeit, Lane does not directly mention any magnitude for September and at the July meeting Lane (as Chief Economist) proposed a 50bp hike, despite the guidance provided in June for 25bp. Moreover, on inflation, Lane said long-term inflation expectations remain close to the two per cent target, while near-term inflation expectations are quite elevated. Regarding the weekend, **ECB's Schnabel** said both the likelihood and the cost of current high inflation becoming entrenched in expectations are uncomfortably high and said that central banks need to act forcefully in this environment. **ECB's Villeroy** said a significant rate increase is needed in September and that they should get rates to neutral by year-end with neutral somewhere between 1.00%-2.00%. **ECB's Kazaks** said the ECB should discuss 50bps and 75bps hikes in September and that a 50bps rate increase is the least the bank should do, while he added that Euro zone recession risk is substantial and a technical recession is likely. **ECB's Rehn** said its action time for the ECB with a weak Euro a key point and that a 'significant' hike in interest rates is needed in September, while he added it is too early to publicly discuss quantitative tightening. Lastly, in terms of bank commentary, Danske Bank predicts ECB will raise rates by 75bps next week, which will be followed by 50bps in October and 25bps in December.

FIXED INCOME



T-NOTE (Z2) FUTURES SETTLE 18 TICKS LOWER AT 117-03+

Treasuries were sold in sympathy with EGBs, in otherwise light trade, amid a slew of weekend hawkish ECB speak and catch-up to Powell's Jackson Hole speech. At settlement, 2s +3.4bps at 3.427%, 3s +5.6bps at 3.449%, 5s +6.8bps at 3.265%, 7s +7.7bps at 3.215%, 10s +7.5bps at 3.110%, 20s +6.3bps at 3.501%, 30s +4.3bps at 3.248%. Inflation breakevens: 5yr BEI -4.1bps at 2.828%, 10yr BEI -0.9bps at 2.586%, 30yr BEI +0.9bps at 2.391%.

THE DAY: Treasuries opened the week on the backfoot with APAC traders catching up to Powell's hawkish-in-tone Jackson Hole speech and the slew of ECB hawkishness over the weekend. Price action was likely more pronounced amid the light liquidity conditions with volumes (outside of roll activity) very low, no doubt aided by the UK bank holiday. Bunds were leading the sell-off amid weekend commentary from multiple officials, including ECB's Schnabel, on the bleak domestic inflation situation with the likes of Kazaks going as far as mentioning 75bps – in fitting with Friday's sources. T-Note Dec futures hit session lows of 116-28+ at the handover to Europe, paring somewhat into the NY session later, aided by month-end duration index extension (exp. +0.12yr), but finding resistance at 117-08. It's worth noting the front-end recovered to a much greater magnitude with desks touting short-covering; ECB's Lane also gave some comments later on that balanced some of the hawkish speak over the weekend. The later session was devoid of macro catalysts seeing Treasuries range-bound.

STIRS:

- Dollar STIRs saw selling most pronounced in the whites amid the ECB opening the door to 75bps.
- EDU2 -3.8bps at 96.588, Z2 -7bps at 95.915, H3 -5.5bps at 95.905, M3 -5.5bps at 95.95, U3 -5.0bps at 96.13, Z3 -5bps at 96.30, H4 -4bps at 96.49, M4 -4bps at 96.625, Z4 -5.5bps at 96.78, Z5 -9bps at 96.94.
- Option block standouts include 10k 1x2 S0V2 96.75/96.25 put spreads, 10k SR3Z2 97/97.25/97.50 call flies, and 20k EDZ2 96.75/96.25 put spreads.
- US sold USD 61bln of 3-month bills at 2.880%, covered 3.03x; sold USD 47bln of 6-month bills at 3.235%, covered 2.88x.
- NY Fed RRP op. demand rose to USD 2.205tln from 2.182tln.

CRUDE

WTI (V2) SETTLES USD 3.95 HIGHER AT 97.01/BBL; BRENT (V2) SETTLES USD 4.10 HIGHER AT 105.09/BBL Oil prices broke out to fresh August highs in thin, Monday trade, aided by the softer Dollar, amid the overhang from OPEC production cut suggestions and Middle East geopolitical uncertainty. There were few obvious catalysts for price action although desks continued to cite last week's OPEC commentary about the potential for production cuts as having shifted the market's distribution of outcome to the upside. Meanwhile, civil unrest continued in Libya over the weekend, resurfacing concerns around the stability of the country's oil production and exports. While over in the Persian Gulf, following Iraq's Sadr announcing his resignation from politics, unrest has brewed and curfews have been announced - something to keep an eye on in case of any production headwinds for the OPEC member. At the same time, some supply uncertainty in the US has dissolved with Reuters reporting BP's (BP/ LN) Whiting, Indiana refinery (450k BPD) may begin restarting this week after last week's shutdown.

EUROPE: The Czech Republic, which is currently holding the EU's rotating presidency, has called for an emergency EU energy minister meeting on September 9th, with a potential gas price cap on the table to combat parabolic price rises. Czech officials have suggested other measures such as market intervention by states or even the ECB could be discussed. Separately, note German Chancellor Scholz announced Monday that Germany would hold up better than initially feared through the winter due to its ahead-of-schedule energy storage preparations. Those comments were touted as a catalyst for the pronounced downside in European gas futures during the session.

EQUITIES

CLOSES: SPX -0.67% at 4,030, NDX -0.96% at 12,484, DJIA -0.57% at 32,099, RUT -0.89% at 1,883.

SECTORS: Technology -1.28%, Real Estate -0.87%, Communication Svcs. -0.78%, Financials -0.76%, Health Care -0.70%, Materials -0.69%, Consumer Discretionary -0.54%, Industrials -0.44%, Consumer Staples -0.14%, Utilities +0.25%, Energy +1.54%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.92% at 3,570; DAX -0.61% at 12,892; CAC 40 -0.83% at 6,222; IBEX 35 -0.92% at 7,989; FTSE MIB -0.24% at 21,841; SMI -0.36% at 10,902.



STOCK SPECIFICS: **3M's (MMM)** plan to use controversial bankruptcy rules to shield itself from 230k lawsuits over military earplugs has failed as the lawsuits move to trial and could cost billions of Dollars, according to Bloomberg. US DoJ reportedly in the early stages of drafting a potential antitrust complaint against **Apple (AAPL)**, according to Politico, a sign that a long-running investigation may be nearing a decision point and a suit could be coming soon, perhaps by the end of the year although no final decision has been made. **Walmart (WMT)** offered to buy the 47% of South African retailer Massmart that it doesn't already own for USD 377.6mln. That values Massmart at 53% above Friday's close. **Netflix (NFLX)** was reportedly considering its new advertising-supported tier at USD 7-9/mth, half its current popular plan, although it later denied those reports. EU antitrust regulators will not appeal a court ruling that scrapped its EUR 997mln (USD 991mln) fine against **Qualcomm (QCOM)** because it would be difficult to convince Europe's top court of the merits, according to Reuters sources. **Bristol Myers (BMY)** missed a main goal in its mid-stage trial for the treatment of stroke. **Etsy (ETSY)** will reportedly require US sellers using its platform to self-verify their bank accounts or provide Plaid with their username and password for accounts, which is reportedly resulting in pushback from sellers who are considering leaving Etsy, according to Reuters. **Pinduoduo (PDD)** saw strong beats on EPS and revenue and noted they saw a recovery in consumer sentiment in Q2. **Catalent (CTLT)** beat on EPS but missed on revenue and revenue guidance was beneath expectations. **T-Mobile (TMUS)** customers are to get Apple TV+ in its Magenta MAX plan. Elon Musk subpoenas **Twitter (TWTR)** whistle-blower and is seeking documents on spam, security vulnerabilities and compliance with FTC consent order. **Disney (DIS)** launched a new podcast series, 'Disney Hits' podcast. **Globalstar (GSAT)** caught a bid after TF International Securities analyst said it was most likely to partner with Apple (AAPL) for satellite communication. **Ford (F)** is reportedly is working on a mystery electric truck that's not an F-150 Lightning, according to The Verge. **AMD's (AMD)** new four CPUs in its Ryzen 7000 series (the "X" line) remain unchanged from the prices of the Zen 3 Ryzen 5000 lineup, ranging from USD 299 to 799, according to Wccfttech citing a "leak" (unconfirmed). Solaredge Technologies (SEDG) sold off when the US Trade Panel announced it is to probe the co. **BlackBerry's (BB)** USD 600mln patent sale is in doubt as Canadian-led lending syndicate bails, according to The Globe and Mail.

FX WRAP

The Dollar was hit on Monday to start the week, seeing the DXY fall sub 109.00 after printing a fresh YTD high at 109.48 during APAC as the region reacted to the hawkish Powell on Friday and rejected a test of 109.50 to see the buck extend to lows throughout the European morning as the Euro caught a bid. Ahead, the week will be littered with tier-1 risk events including US NFP, ISMs, and several Fed speakers, while month-end flows will be on the radar. Citi's month-end FX model points to EUR buying and JPY selling while Morgan Stanley's models point to USD selling vs G10s ex-CHF.

The Euro firmed to see EUR/USD briefly rise above parity again to a high of 1.0028 amid month-end trading, falling gas prices, and after several hawkish ECB updates on Friday and over the weekend. Ahead of the ECB next week, Danske Bank now expects a 75bp hike after hawkish commentary and the latest source reports implying a 75bp move should be discussed in September while some of the hawks, including Knot and Holzmann, have expressed an openness to a 75bp hike. Meanwhile, Schnabel also spoke hawkishly, saying both the likelihood and the cost of current high inflation becoming entrenched in expectations are uncomfortably high and said that central banks need to act forcefully in this environment. However, ECB's Chief Economist Lane did not sing the same hawkish tone as his colleagues. In particular, Lane makes the point that, in reference to the magnitude of individual moves, it makes sense to allow the financial system to absorb rate changes in a step-by-step manner. Explicitly, the same cumulative rate increase taken in a calibrated multi-step series is less likely to result in adverse feedback loops vs a smaller number of larger increases.

The Yen was weaker as US yields rose across the curve which saw USD/JPY hit 139.00 before paring to c. 138.75 at pixel time as the rate differentials weigh on the Yen. Over the weekend, BoJ Governor Kuroda reiterated the view regarding transitory inflation in Japan, in which he stated they have 2.4% inflation but is almost wholly caused by rising international commodity and food prices, while they expect inflation to approach 2% or 3% by year-end but decelerate again to 1.5% next year.

The Franc was weaker against both the Dollar and Euro with havens retreating throughout the afternoon as equities rebounded from lows back to positive territory. On data, Switzerland's trade surplus narrowed while attention turns to the Swiss CPI data on Thursday.

Cyclical currencies saw marginal gains against the Dollar. CAD was buoyed by firmer oil prices and AUD supported by stronger than expected retail sales. GBP/USD reclaimed 1.1700 from a 1.1649 low and EUR/GBP meanwhile continued grinding higher amid the strength in the single currency with UK players away for the bank holiday. NZD/USD rose from a 0.6103 trough to test and later breached 0.6150 to the upside, with little resistance seen ahead of 0.6200.



The Yuan was weaker alongside disappointing Chinese Industrial Profits, with USD/CNH topping 6.9000 before finding some resistance at around 6.9300 and failing to breach the level to the upside. The onshore spot yuan (CNY) finished the domestic trading session at the weakest close vs the US since August 20th, 2020. Analysts at Goldman Sachs upped their forecasts and have joined the call for USD/CNY to hit 7.000 (prev. 6.7500) over the next three months citing a slowing economy. The bank sees USD/CNY 6.8500 (6.6000) in six months and 6.7000 (6.5000) in a year.

EMFX was predominantly firmer against the buck with TRY and RUB weaker vs the buck while ZAR, BRL, MXN COP and CLP saw gains. In Brazil, Petrobras is to cut aviation gas prices in September after announcing it would cut jet fuel prices while BRL watchers are digesting the latest presidential debate between Lula and Bolsonaro while the latest jobs report saw 218.9k jobs created in July. COP saw gains vs the buck despite falling copper prices. EMs in general are all paying particular attention to the Fed's "higher for longer" signalling at a time when many EM Central Banks are very near a peak in their tightening cycles and analysts are concerned about the impact it may have on risk assets, particularly EMFX.

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