US Market Wrap

30th August 2022: Stocks and bonds sold after hawkish CB speak, strong data, and Taiwan drone shots.

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar flat.
- **REAR VIEW**: Hawkish ECB speak; predominantly hawkish Fed speak; US Consumer Confidence posts a strong beat; JOLTS rise more than expected; German CPI Y/Y slightly hotter than expected; Taiwan fired warning shots at a Chinese drone; Contradicting reports on JCPOA deal; Sources suggest OPEC+ not discussing cutting oil production in Sept; Biden undecided on China tariffs; Musk sends TWTR another deal termination letter; SNAP lays off 20% of workers.
- **COMING UP**: **Data**: Japanese Retail Sales, Chinese NBS/Composite PMIs, German Import Prices & Unemployment, EZ CPI (Flash), Canadian GDP, US ADP & Chicago PMI **Speakers**: Fed's Mester & Bostic.

MARKET WRAP

Stocks were lower Tuesday as part of broader risk aversion amid hawkish central bank speak and China/Taiwan tensions. There had been strength in the index futures in the European session although that reversed into the NY morning, aided by reports Taiwan had fired warning shots at a Chinese drone. On the bright side, for the economy at least, the August US consumer confidence data saw a big jump while July US JOLTS job openings saw a big spike. Strong data isn't necessarily what stock bulls are after, however, as it will only embolden Fed tightening. There was central bank hawkishness on both sides of the pond with more ECB speakers warming to 75bps, while Fed's Barkin and Williams both gave hawkish affirmations after the former said the US is facing "war-like inflation" and the latter suggested restrictive policy should be held through 2023; note Bostic gave relatively more dovish remarks, highlighting that slowing inflation data could give the Fed a reason to slow interest rate hikes. The mix of hawkishness and strong data saw Treasuries bear-flatten. While in FX, the Dollar was flat and Euro bid, aided by further declines in European gas prices; cyclical currencies were hit. In commodities, oil prices saw their largest decline in weeks, back down from their August highs, amid positive supply updates in Iraq, renewed Iran deal optimism, and broader risk aversion.

CENTRAL BANKS

ECB

VASLE: Inflation is more persistent and broad-based and inflation will ease in H1 2023. Vasle doesn't vote in September but supports a policy hike that could exceed 50bps.

KNOT is leaning towards a 75bp hike in September but he is open to a discussion. He said that market pricing is not unwise but he is not convinced that going back to neutral will be enough. Knot added the normalisation of interest rates is an essential first phase and some front-loading should not be excluded. Said ECB must forcefully tackle high inflation and an economic slowdown alone is unlikely to bring inflation back to the medium-term objective and inflation is likely to stay high for quite some time. Knot also warned of several upside risks to inflation and that expectations could become de-anchored while he added an economic slowdown later this year is inevitable. On APP, he expects reinvestments to be discussed later in 2022 while noting any balance sheet unwind would be very gradual.

NAGEL noted the ECB must act decisively to preserve credibility; inflation won't return to target on its own; it should not delay rate hikes out of fear of a recession. Front-loading rate hikes reduce the risk of a painful downturn. Larger rate hikes reduce the risk of expectations getting de-anchored, but they are anchored for now. Nagel said the terminal rate is still unclear.

LANE said every economic analysis points toward an economic slowdown in the Eurozone and he does not rule out a milder technical and temporary recession.

MULLER said the ECB should discuss a 75bps hike in September as the inflation outlook has failed to improve but he is going into the meeting with an open mind. Muller wants to see updated economic projections and hear arguments and he cautioned against being too timid with policy action. Price stability is our main concern and has to come first; we need to keep raising interest rates.

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

STOURNARAS said we will see the peak of inflation this year and it is to gradually decline in 2023. He noted the risks to growth are already tilted to the downside while further and gradual normalisation will be appropriate. He noted the neutral estimate is estimated between 0.5-1.5% but they do not need to take very large steps and they need to be prudent.

WUNSCH said the ECB has to move quickly on rate hikes to a level that may be restrictive, warning they may be heading towards a technical recession or worse. Wunsch also admitted the ECB has been underestimating prices for a year and the inflation problem is more structural than just shocks.

FED

WILLIAMS said the overall picture is similar to where it was in July and that inflation is far too high, Fed is focused on bringing it back down. He suggested the Fed needs to get real rates above zero and it needs to have somewhat restrictive policy, but they are not there yet and are quite a ways from real rates being positive. Williams reaffirmed his view for rates needing to rise above 3.5%, but how high they go depends on economic data. He added the Fed is getting rates to an appropriate stance to deal with high inflation but after that, size of rate hikes will be driven by incoming data on inflation. Meanwhile, he said restrictive policy will be needed for "some time,... through" next year. On a pivot, he said it will take "some time" before we see an adjustment of rates moving downward and will take a few years for the Fed to get inflation back to 2% inflation but they will get it done. Overall, Williams was also quite hawkish and in fitting with Powell. Particularly around being in restrictive territory through 2023, further pushing back on any rate cut projections from markets.

BARKIN (2024 voter) said the US faces "war-like" inflation and the Fed is committed to returning it to target but he does not expect it to come down predictably. He does not think the US economy is in a recession today but it is a risk of the Fed getting inflation back down, although a recession does not have to be calamitous. Barkin said that interest rates will need to be restrictive and he noted some slowing in interest rate-sensitive sectors. For the Fed to have an impact on demand, it will have to move real rates above zero across the yield curve.

BOSTIC (2024 voter) said the slowing inflation data may give the Fed a reason to slow interest rate hikes. The overall picture of the economy remains "fuzzy" with inflation still broad-based but jobs data strong. Bostic also warned there are risks of being either too timid or too aggressive in raising rates.

US

CONSUMER CONFIDENCE: US consumer confidence rose to 103.2 in August, its highest level since May, which was well above the expected 97.7 and the prior 95.7. Looking into the subcomponents, the expectations index and present situation index rose to 75.1 (prev. 65.6) and 145.4 (prev.139.7), respectively. Meanwhile, jobs ‘plentiful’ fell to 48.0% (prev. 49.2%) and jobs ‘hard to get’ declined to 11.4% (prev. 12.4%). Delving into the report, the headline increase was mostly due to the surge in expectations, where Pantheon Macroeconomics note, “expectations are more sensitive to movements in gas prices, while the present situation measure mostly tracks the unemployment rate.” Moreover, the expectations print is still well below the trend before the invasion of Ukraine, but Pantheon expects “a further increase in September as the lagged effect of the drop in gas prices kicks in.” On inflation expectations, the 1-year ahead encouragingly fell to 7.0% (prev. 7.4%), which was a seven-month low, but Pantheon concludes “this measure looks ahead only one year, and the Fed is much more interested in the five-to-10- year reading from the Michigan survey. Still, it looks good, and it likely will fall further in September, given its sensitivity to gas prices.”

JOLTS: US JOLTS rose to 11.239mln in July, above the expected 10.45mln and previous 10.698mln. Additionally, the quits rate printed 2.7% (prev. 2.8%), which is the lowest reading since September 2021. Also, Oxford Economics note a sign that the labour market remains extremely tight, the ratio of unemployed per job opening climbed back to a series high of 2.0 - something the Fed keeps a close eye on. OxEco adds, “labor demand held up at a strong level in July after softening in the prior three months and was revised higher for June, confirming the job market remains a bright spot in this slowing economy. Companies continue to hold onto their workers as layoffs held steady at very low levels while workers quit their jobs at a still-high but slightly lower rate.” On the report, the consultancy says “it will take time and a weaker economy to bring labor demand and supply into better balance.” Meanwhile, Oxford declares, “while the labor market is still carrying solid momentum, we expect the hefty pace of job growth will moderate in the second half of the year as companies face a weaker domestic and external backdrop.”

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLE 1 TICK LOWER AT 117-02+

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

Treasuries bear-flattened after a flurry of hawkish Fed and ECB speak, accentuated by strong US data. 2s +3.7bps at 3.464%, 3s +2.3bps at 3.472%, 5s +1.0bps at 3.274%, 7s +0.0bps at 3.215%, 10s -0.4bps at 3.106%, 20s -1.4bps at 3.485%, 30s -2.9bps at 3.218%. Inflation breakevens: 5yr BEI -3.4bps at 2.801%, 10yr BEI -1.8bps at 2.569%, 30yr BEI -0.7bps at 2.386%.

THE DAY: T-Notes had been grinding gradually higher though the APAC and European Tuesday sessions, with spillover from EGBs adding to the short-covering amid further declines in European gas prices. The Dec'22 contracts hit resistance at the 117-16 area, hovering there into the NY handover. Selling soon began to creep in amid some hawkish commentary from ECB's Knot, who said he's leaning towards 75bps, and then Fed's Barkin who said the US faces "war-line inflation". There was a brief haven bid on reports Taiwan had fired warning shots at a Chinese drone, but a solid bounce in US Consumer Confidence for Aug resumed the govvie selling - highlighted by a chunky 26k 2yr/10.4k Ultra 10yr futures steepener - seeing T-Notes trough at 116-24 (cash 10yr yield high 3.15%, highest since June 29th) not long after, paring to the 117 area through into settlement. It's worth highlighting that the (mild) loss paring occurred in tandem with some balanced comments from Fed's Bostic, who said slowing inflation data may give the Fed a reason to slow interest rate hikes. Fed's Williams was also on the wires, interviewed by the WSJ, reaffirming his view for rates needing to be above 3.5%, on the lighter side of some Fed calls for rates above 4%, but saying he sees rates being held there in restrictive territory through 2023. Note also the relative outperformance of the long-end will have been aided ahead of month-end with Bloomberg's estimates for index duration extension at a decent-sized +0.12yr.

STIRS:

- EDU2 +1bps at 96.60, Z2 -1.5bps at 95.90, H3 -4.5bps at 95.855, M3 -6bps at 95.885, U3 -6.5bps at 96.055, Z3 -5bps at 96.245, H4 -4bps at 96.44, M4 -3bps at 96.59, Z4 -0.5bps at 96.765, Z5 +0.5bps at 96.94.
- Light options trade and block activity for STIRs.
- NY Fed RRP op. demand at USD 2.189tln (prev. 2.205tln) across 101 bidders (prev. 99).

CRUDE

WTI (V2) SETTLED USD 5.37 LOWER AT 91.64/BBL; BRENT (X2) SETTLED USD 5.09 LOWER AT 97.84/BBL

Oil prices saw their largest decline in weeks, back down from their August highs, amid positive supply updates in Iraq, renewed Iran deal optimism, and broader risk aversion. The downside in the benchmarks was catalysed in the late London morning amid Reuters reports that Iraq's SOMO can redirect more oil exports to Europe if required, in addition to reports that the civil unrest had not affected oil supply. Gazprom Neft CEO said that it was doubling production at its Zhagrin oilfield to 5.5mln T (more than 110k BPD). Furthermore, TASS reported that OPEC+ is not currently discussing the possibility of reducing oil production, saying it is too early to talk about reductions. The oil selling extended into the NY afternoon, with no relent after Iranian International English reporting, citing a former IAEA official, that "Iran and the US have reached an agreement (on revival of JCPOA), and it will be announced in the next two or three weeks"; later denials from the US did little to revive prices. There were even reports that the Venezuela oil minister is in talks with Chevron (CVX) about reestablishing operations in the country dependent on US permissions.

EUROPE: Germany said Tuesday that it is open to discussing an EU gas price cap at the September 9th EU summit but that there are problems with imposing fixed caps on gas prices. France also announced the need to think about rationing gas to the industry this winter, and the country is studying options for better interconnection with Spain. Following von der Leyen on Monday, there were more calls from EU officials for the need to decouple electricity prices from gas prices. Meanwhile, Gazprom confirmed the Nord Stream 1 will close from 02:00BST on August 31st to 02:00BST on September 3rd, following nomination requests for the pipeline falling to zero KwH/H from 02:00CET time on August 31st.

EQUITIES

CLOSES: SPX -1.10% at 3,986, NDX -1.13% at 12,343, DJIA -0.96% at 31,791, RUT -1.45% at 1,856.

SECTORS: Energy -3.38%, Materials -1.71%, Industrials -1.47%, Utilities -1.46%, Real Estate -1.45%, Consumer Discretionary -1.11%, Technology -1.08%, Consumer Staples -0.99%, Communication Svs. -0.79%, Health Care -0.66%, Financials -0.42%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.24% at 3,561; FTSE 100 -0.88% at 7,361; DAX +0.53% at 12,961; CAC 40 -0.19% at 6,210; IBEX 35 -0.12% at 7,979; FTSE MIB -0.08% at 21,825; SMI +0.01% at 10,897.

STOCK SPECIFICS: Elon Musk sent a letter to **Twitter (TWTR)** on Aug 29th, notifying he is terminating the merger agreement for additional bases separate from bases set forth on July 8th. TWTR responded saying "as was the case

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.
Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.
newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

with your July 8, 2022 purported notice of termination, the purported termination set forth in your August 29, 2022 letter is invalid and wrongful under the Agreement". Separately, Musk's lawyers are asking to move the Twitter trial from October to November. **Boeing (BA)** won an order from China Airlines to buy 16 787-9 jets for around USD 4.6bln. Meanwhile, Ryanair (RYA ID) was negative on BA saying it has not hit its production target and Boeing is facing a lot of challenges on the production line. It also alleged that the Seattle management does not seem capable of delivering promised aircrafts. **Alphabet's (GOOGL)** YouTube's top business executive is leaving the business, according to WSJ. **Nvidia (NVDA)** is reportedly working closely with **TSMC (TSM)** to manufacture its top-end processors and is considering the adoption of the foundry's 3D SoIC (system on integrated chips) technology in its HPC chip production shortly, according to DigiTimes sources. **Tesla (TSLA)** sued Louisiana, claiming its laws restrict its ability to sell EVs directly to customers and violates its constitutional rights, WSJ reported. **First Solar (FSLR)** announced it will spend USD 1.2bln to expand its solar panel manufacturing operations in the US which will create hundreds of jobs and a new factory in the Southeast. **TSMC (TSM)** announced its 3nm chip production technology will enter production "soon" but inflation and ongoing difficulties in the supply chain are pushing up the cost of building new plants, according to Nikkei Asia Review. **Baidu (BIDU)** posted a strong quarter, where it beat on EPS but revenue fell slightly short. CEO noted they are seeing signs of recovery and notes the Y/Y decline of ad revenues narrowed in June and July. **Best Buy (BBY)** beat on EPS and revenue with better-than-expected comp sales, other than in the US. Moreover, it also withdrew financial guidance for FY25. **Corning (GLW)** is to build a new optical cable manufacturing plant in Arizona to supply **AT&T (T)** and others. AT&T said its to offer fibre internet service to more than 100k households in Mesa, Arizona. **Meta's (META)** Facebook is to shut down its standalone gaming app in October. **Intel (INTC)** chose **Check Point Software (CHKP)** to enable security for new Intel pathfinder for Risc-V platform. China ETFs **PGJ** and **KWEB** saw downside, as US-listed Chinese shares tumbled on geopolitical and regulatory concerns. As Taiwan's military fired warning shots at a Chinese drone and **Alibaba (BABA)** reportedly among a number of cos. that have been selected by US regulators for audit inspections, according to Reuters sources. **Goldman Sachs (GS)** is reportedly weighing a pivot for its consumer banking arm, according to Business Insider. **Snap (SNAP)** is reportedly planning to lay off 20% of its 6,400 employees, according to The Verge citing sources.

FX WRAP

The Dollar was flat on Tuesday with DXY trading between 108.26 at the lows at 109.110 at the highs. The overall risk sentiment was downbeat but that did little to support the buck which is trading around YTD peaks while we approach month-end rebalancing, flows could also be counteracting its haven demand with Sell Side models signalling USD weakness. It is worth noting that Fed speak has been largely hawkish (in fitting with Powell's remarks on Friday) while participants will be eyeing the upcoming NFP jobs report on Friday and the August CPI report on September 13th ahead of the September 27th FOMC.

The Euro was supported on Tuesday on familiar themes from Monday with lower gas prices supporting the single currency while there was also a plethora of ECB speak with many hawkish officials signalling an openness to a 75bp hike in September, all aiding EUR/USD keep its head above parity. Traders now look to Wednesday's EU CPI data after the more-or-less in line German figures Tuesday.

The Yen was flat vs the buck but lower vs the Euro, and weaker against cyclical currencies. USD/JPY traded between 138.06 and 139.06 and if the cross was to dip beneath 138.00, technicians target a Fib level at 137.26 - the 76.4% Fib of the 139.38-130.40 decline.

The Franc was weaker vs the EUR on policy divergence between the ECB and SNB amid the hawkish ECB speakers, while the haven was relatively flat vs cyclical currencies which were weaker in general on the downbeat risk tone.

Cyclical currencies were weaker across the board on the downbeat risk tone which saw the S&P 500 dip beneath the 4k handle amid the Taiwan tensions and hawkish central bank speakers. AUD/USD broke through several levels of support, including the 21 DMA (0.6960) and 10 and 50 DMA which both reside at 0.6912 to break 0.6900 and hit lows of 0.6846, a level it resides just above at pixel time. Note Australian Building Approvals slumped in July, falling 17.2%, much larger than the expected 2.0% decline. NZD was also lower vs the buck but it was a relative outperformer in the cyclical space which appeared to benefit from AUD/NZD tailwinds. CAD was the cyclical laggard after the slump in oil prices sent the CAD lower while GBP also saw selling pressures vs both EUR and USD. On GBP, Citi noted "Gilts have performed worst across August, as such GBP is a buy into month end, but the better than average performance of UK equities dampens the signal". There was also Sterling pessimism amid a fresh call from Goldman Sachs for a peak UK inflation rate of 22% and downgrades to its GDP forecasts.

The Yuan was relatively flat both for the onshore and offshore and was fairly unreactive to reports that the Taiwan military fired warning shorts at a Chinese drone near an offshore island - something the Global Times Chief Editor Huxijin warned "may trigger a war". Meanwhile, on US/China Trade, US President Biden is said to be undecided about

Copyright © 2022 Newsquawk Voice Limited. All rights reserved.
Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.
newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

easing tariffs on Chinese imports, according to WSJ citing US Commerce Secretary Raimondo. The Sources suggested options include reducing tariffs on consumer products and starting a fresh process to permit importers to request exemption tariffs. While another option sees a new investigation under Section 301 which targets Chinese subsidies and practices of state-owned firms to protect sectors such as IT, EVs, BioTech, and Aerospace - which could lead to the introduction of a new set of tariffs. Elsewhere, the PBoC sets its USD/CNY mid-point at 6.8802 vs exp. 6.9076 (prev. 6.8698).

EMFX was generally weaker due to the risk aversion. LatAm FX was sold across the board with COP and BRL down the most. BRL was hit after soft inflation data while MXN and CLP were weaker, but not to the same extent as their LatAm peers with MXN weakness perhaps limited after hawkish commentary from Banxico's Heath. Mexico also saw an improvement in the jobless rate while Heath said it is very premature to think about the end of the upward cycle of monetary policy in Mexico, noting the Fed will continue to hike rates for a while and Mexico will have to do the same. The Brazilian inflation index for August was beneath expectations and declined 0.7%, better than the expected 0.54% decline. Meanwhile, source reports suggested Brazil's 2023 budget will lower the welfare programme to BRL 400/family but a Presidential message is expected to indicate their intention to increase it. Ahead of October elections, polling suggests Lula is leading the race as it stands, but his lead has narrowed from May. ZAR saw weakness in fitting with weaker gold prices. In CEE, the NBH hiked rates as expected by 100bps which was followed with hawkish commentary, noting the currency cycle of rate hikes will continue and inflation is expected to rise further. Elsewhere, Czech Q2 GDP was revised higher in the final reading to 3.7% Y/Y and 0.5% Q/Q.

Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited (**"Newsquawk"**) on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.