



US Market Wrap

1st September 2022: Dollar prints fresh peaks as US data diverges from RoW

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude down, Dollar up.
- **REAR VIEW:** Goldilocks US Manufacturing ISM; IJC prints third straight decline; Taiwan's Defence Ministry shot down unidentified drone; Russia reportedly mulling as much as USD 70bln in "friendly" currencies; PBoC lowers SLF for all tenors by 10bps; Habeck said no direct talks with Gazprom on the Nord Stream pipeline; Novak noted Russian oil producers support an extension of the OPEC+ deal after 2022; NVDA/AMD face export limitations; UK to give in-depth probe of MSFT/ATVI deal.
- **COMING UP: Data:** US NFP & Factory Orders, EZ Producer Prices.

MARKET WRAP

US stocks indices were lower for the majority of the day, but heading into the close pared losses to finish mixed, with DJIA, +0.5%, in the green and the RUT, -1.8%, underperforming in a choppy session amid strong US data being offset but subsequent hawkish Fed pricing. With month-end in the rearview, traders now look to Friday's NFP after the strong US ISM Manufacturing data and decline in initial jobless claims Thursday will have given confidence over Fed tightening plans. The Treasury curve saw noted bear-steepening as the month-end bid fades, seeing the 10yr cash yield hit 3.3%, with an eye towards the post-COVID June peak at 3.5%. The Dollar was well bid - highlighted by new peaks in the DXY at 109.99 - especially against the Euro after the disappointing PMI data in the EU, particularly Germany, although note some earlier pressure on the buck after source reports suggested Russia is to purchase as much as USD 70bln in "friendly" currencies, supporting the Yuan. Oil prices extended their sell-off, nearing their post-Ukraine lows, partly due to the strong Dollar but also on the demand concerns after weak EU and Chinese data, with the latter also victim to renewed COVID restrictions in Chengdu. China tensions were also on the radar after Nvidia (NVDA) announced the US government is implementing new licence requirements that restrict sales exports to China and Russia. Tech sentiment was also pressured after the UK's CMA announced it is to probe Microsoft's (MSFT) acquisition of Activision Blizzard (ATVI).

US

ISM MANUFACTURING PMI: ISM manufacturing PMI was a strong report across the board, highlighted by the headline which topped expectations at 52.8 (exp. 52.0, prev. 52.8), and new orders and employment both rising back above 50, and into expansionary territory, to 51.3 (prev. 48.0) and 54.2 (exp. 49.0, prev. 49.9), respectively. Additionally, the inflationary gauge of prices paid declined much greater than anticipated to 52.5 (exp. 55.5, prev. 60.0), reaching the lowest level since June 2020. Looking into the dataset, Pantheon Macroeconomics expect a modest rebound in the headline index over the next few months, given the uptick in China's Caixin PMI, which tends to lead the ISM by about three months. As such, Pantheon continues, "ISM has weakened less than the Caixin appeared to imply, because the latter was hit hard by China's lockdowns in the spring, so the ISM will see a smaller rebound too." Moving to prices paid, the consultancy believes "further declines are likely over the next few months and aren't bothered by the reported uptick in the order backlog; the index is not seasonally adjusted and it almost always rises in August". Lastly, PM concludes, the order backlog rise is smaller than usual, and the supply-measures in the survey continue to point to intense downward pressure on margins and, hence, their contribution to core inflation.

JOBLESS CLAIMS: Initial jobless claims printed the third straight decline to 232k, beneath the expected 248k and the prior 373k. Meanwhile, continued claims rose to 1.438mln, bang in line with consensus, and from the previous 1.412mln. Delving into the report, Oxford Economics note, "after trending higher for several months, initial claims have drifted lower, providing more evidence that labor market conditions remain tight despite fairly weak economic growth." Looking ahead, OxEco "don't expect claims to fall sharply from current levels. Rather, in an environment of strong labor demand, we look for employers to slow hiring as the economy softens."

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 29+ TICKS LOWER AT 115-31+



Treasuries bear-steepened as month-end buying dissipates and strong ISM data weighs. At settlement, 2s +6.0bps at 3.510%, 3s +7.7bps at 3.538%, 5s +10.8bps at 3.394%, 7s +11.8bps at 3.361%, 10s +12.3bps at 3.255%, 20s +12.0bps at 3.641%, 30s +11.2bps at 3.367%. 5yr BEI -5.3bps at 2.658%, 10yr BEI -3.4bps at 2.463%, 30yr BEI -1.4bps at 2.340%.

THE DAY: After T-Notes had a post-settlement tumble on Wednesday evening, as desks pointed to the removal of month-end flows, APAC players came in and capped the selling with support found at 116-08. The contracts then hovered slightly firmer all the way through the European morning, finding resistance at 116-17+. The NY handover saw fresh selling commence, aided by a surprise fall in initial jobless claims. There was some support after the claims data passed, aided by a 5yr futures block buy, but fresh lows were made after the August ISM beat to the upside, with the employment sub-index re-entering expansionary territory, although the decline in prices paid was also positive from an inflation-fighting viewpoint, ergo, likely capping some of the bond sales. Troughs in T-Notes were made at 115-23 before paring slightly into the NY afternoon; the cash 10yr yield peaked within a basis point of 3.30%, the highest since June 21st and with an eye towards the cycle peak of 3.5% on June 14th heading into payrolls Friday.

STIRS:

- EDU2 -2.8bps at 96.595, Z2 -4.0bps at 95.895, H3 -5.0bps at 95.820, M3 -6.0bps at 95.845, U3 -6.5bps at 96.010, Z3 -7.0bps at 96.195, H4 -7.5bps at 96.385, M4 -8.5bps at 96.530, U4 -9.0bps at 96.625, Z5 -13.5bps at 96.800.
- US sold USD 53bln of 1-month bills at 2.470%, covered 2.65x; sold USD 48bln of 2-month bills at 2.730%, covered 3.02x.

CRUDE

WTI (V2) SETTLED USD 2.94 LOWER AT 86.61/BBL; BRENT (X2) SETTLED USD 3.28 LOWER AT 92.36/BBL

Oil prices extended their sell-off Thursday, reapproaching their post-Ukraine lows, amid China lockdowns and European data dips. The selling developed in the APAC session amid disappointing Chinese Caixin PMI data and new COVID restrictions in Chengdu, China. The Germany-led decline in the European PMIs only added to the demand outlook pressure, accelerating the pace of the decline in oil prices. Prices chopped sideways, seeing a brief bout of buying after the beat on US ISM, before ultimately dipping to fresh session lows in late trade of USD 85.98/bbl and 91.81/bbl for WTI (V2) and Brent (X2), respectively. On energy newsflow, there were no major updates on the Iran nuclear deal, although Reuters sources noted Chevron (CVX) has asked the US government to expand its license to operate in Venezuela. Meanwhile, there was rhetoric from both Germany and Russia...

NORD STREAM: Current grid data suggests Nord Stream 1 flows are expected to resume early Saturday, in line with the maintenance schedule, with first shipment orders from 02:00 CET. Meanwhile, German Economy Minister Habeck said there are no direct talks with Gazprom, stating that neither Gazprom nor Russia can be relied on for gas, including the Nord Stream pipeline this winter.

NOVAK: Russian Deputy PM Novak said Russian oil producers support an extension of the OPEC+ deal after 2022, saying Russia and its partners will discuss an extension in October. The official said the idea of imposing price caps on Russian oil is "utterly absurd". Adding that Russia will not supply oil and oil products to countries which will support restrictions.

EQUITIES

CLOSES: SPX +0.36% at 3,969, NDX +0.02% at 12,274, DJIA +0.47% at 31,657, RUT -1.75% at 1,816.

SECTORS: Health +1.65%, Utilities +1.42%, Communication Services +1.05%, Consumer Discretionary +0.86%, Consumer Staples +0.71%, Financials +0.36%, Real Estate +0.35%, Industrials +0.14%, Technology -0.48%, Materials -1.38%, Energy -2.3%.

EUROPEAN CLOSES: Euro Stoxx 50 -1.72% at 3,456; FTSE 100 -1.86% at 7,148; DAX -1.60% at 12,630; CAC 40 -1.48% at 6,034; IBEX 35 -1.02% at 7,806; FTSE MIB -1.19% at 21,302; SMI -1.79% at 10,660.

STOCK SPECIFICS: **Micron (MU)** is to invest USD 15bln through to the end of the decade in a new Idaho FAB. **3M (MMM)** plans to eliminate jobs as part of a broader cost-cutting drive in response to the slowing economy. **Nvidia (NVDA)** said the US government is implementing new license requirements that restrict sales exports to China, and Russia, to reduce risks that the products will be used by the Chinese military. Moreover, **AMD (AMD)** was told to stop



shipping its top AI accelerator to China but does not expect a significant business impact. US appeals court affirmed a win for **Apple (AAPL)**, HTC and ZTE against allegations that imports of their devices infringe wireless technology patents. **Boeing (BA)** executive said that certification of the 737-7 Max is expected by the end of the year, and the 737-10 Max in H1 2023. UK CMA is to refer the **Microsoft (MSFT)** and **Activision Blizzard (ATVI)** deal to an in-depth probe. MSFT is ready to work with the CMA and ATVI still expects the deal to close at the end of MSFT's fiscal year ending June 2023. **Walt Disney (DIS)** is reportedly exploring a membership programme similar to Amazon's Prime service, that could offer discounts or special perks to encourage customers to spend more on its streaming services, theme parks, resorts and merchandise, according to WSJ. **Costco (COST)** August sales accelerated growth from July. **Amazon (AMZN)** introduced a new service to help sellers store bulk inventory and ease distribution to tackle supply chain issues; will launch in 2023 and will allow sellers to send inventory to any location. **Forma Therapeutics (FMTX)** is to be acquired by **Novo Nordisk (NVO)** for USD 20/shr in cash, or USD 1.1bn. **Netflix (NFLX)** will charge brands premium prices to advertise on its coming ad-supported platform, according to WSJ, a sign that it has strong interest from companies that have long looked to reach its audience. **Illumina (ILMN)** wins trial against the FTC regarding the acquisition of Grail. **Comcast (CMCSA)** is looking to cut up to USD 1bn from budgets at its TV networks, according to Bloomberg.

EARNINGS: Okta (OKTA) earnings were better than expected on EPS and revenue, but it lowered its FY23 billings view which led to several downgrades, as well as abandoning longer-term goals. **Campbell Soup (CPB)** EPS and revenue were in line with expectations while guidance was slightly better than expected. **Nutanix (NTNX)** posted a narrower loss per share than expected and revenue was above expectations while revenue guidance was also strong.

FX WRAP

The Dollar was notably firmer on Thursday and hit a fresh YTD peak and 20yr high of 109.990 in the wake of the stronger-than-expected ISM Manufacturing PMI data, which set the Buck up for gains throughout the NY session. The Greenback had seen a dip lower in the European morning as the Yuan strengthened on source reports suggesting Russia is to purchase as much as USD 70bn in "friendly" currencies, which took the index to a low of 108.75, in proximity to the 10 DMA at 108.69, but later bounced off the lows and surged in wake of the US data, which started on the fall in initial jobless claims and only continued on the aforementioned strong manufacturing PMI data. Looking ahead, all eyes are fixated on Friday's NFP report which is likely to shape expectations on the Fed's rate path.

The Euro was the G10 laggard and saw losses of around a per cent against the Buck as EUR/USD breached back beneath parity, to lows of 0.9912. Technicians note the YTD low of 0.9899 and the December 2002 low of 0.9860, as the next crucial support levels for the single currency. Moreover, EUR/USD was already residing at session lows, albeit above parity, prior to the US data after the sloppy German and subsequent EU PMI data, but the Dollar-bullish US layoffs and jobless claims sent Treasury yields soaring and 2-year Bund-Treasury yield spreads wider. Lastly, desks note if Friday's US jobs report is solid, major highs lows and highs from 2002 and 2001 by 0.9600 will be targeted once 0.99005 gives way.

Activity currencies all saw weakness against the Buck to varying degrees, with the Antipodeans the underperformers and the CAD the relative outperformer, with GBP somewhere in between. AUD/USD hit a 6-week low of 0.6772 after the US data, with the Aussie also seeing headwinds by inflation-recession fears resulting in commodities noticing losses. Meanwhile, NZD/USD reached a trough of 0.6061, which came in the NY afternoon, accentuating the weakness seen in the APAC session amid the unexpected Chinese PMI contraction. Elsewhere, USD/CAD hit a high of 1.3207, as the cross breached the pivotal 1.32 level for the first time since mid-July - the Loonie saw notable pressure from the losses in the crude complex. Lastly, Cable printed the lowest since the end of March 2020 at 1.1501 as the Pound marginally managed to stay above the pivotal figure amid the broader Dollar strength, as well as the BoE continuing to be seen falling behind the inflation-fight curve.

Safe-havens, CHF and JPY, experienced losses although the Yen's were much more pronounced. Highlighting this, USD/JPY hit a 24-year high of 140.22 as surging Treasury yields widened the gap over BoJ-suppressed JGB yields, and the Thursday peak breached the pivotal 140 target level the market's been focused on for some time. Moving to the Swissy, it initially managed to evade the Dollar strength but eventually faltered after some brief support from the slightly firmer than expected inflation reading as the ECB-SNB pricing gap narrows. For the Swissy, the SNB next meets in September and participants have been attentive to the possibility of intra-meeting action before then.

The Yuan caught a bid on source reports that Russia is said to be mulling as much as USD 70bn in "friendly" currencies to slow the RUB surge "before shifting to a longer-term strategy of selling its holdings of the Chinese currency." In an immediate reaction to this USD/CNH fell from 6.9100 to 6.8860, before stabilising around mid-range at the time. China has seen several notable updates overnight and in the European morning: 1) Another firmer CNY fixing by the PBoC was overlooked (6.8821 vs exp. 6.9810). 2) Chinese Caixin Manufacturing PMI unexpectedly fell into contractionary



territory. 3) China locked down its Chengdu city of 21m people, and 4) Taiwan reportedly downed a civilian drone near Kinmen after the usual protocol to repel the drone failed to achieve the goal. USD/CNH traded in a 6.8892-9203 range throughout the day.

EMFX was weaker across the board vs the Buck, with the BRL and ZAR the underperformers. The latter was weighed upon the weakness in spot gold, which fell back beneath the pivotal USD 1,700/oz level. For the BRL watchers, Brazilian GDP for Q2 rose more than expected, and in separate news Petrobras (PBR) lowered gasoline prices to BRL 3.28/ltr from 3.53/ltr starting Friday. Elsewhere, the Lira was the EMFX outperformer and only saw slight losses vs the Buck as it was supported by the weaker oil complex, while Goldman Sachs raised its Turkey 2022 GDP growth forecast to 5.5% from 3.5%, as well as raising its 2022 current account deficit forecast to USD 45bln from 36bln.

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.