US Market Wrap

2nd September 2022: NFP rally evaporates on EU energy woes heading into labor day weekend

- **SNAPSHOT**: Equities down, Treasuries up, Crude up, Dollar flat.
- **REAR VIEW**: Goldilocks NFP report; Gazprom extends NS1 halt; G7 agree on Russia price caps; Gaps still remain on JCPOA; META and QCOM partner on VR chips.
- **WEEK AHEAD PREVIEW**: Highlights include ECB, BoC, RBA; OPEC, EU Energy Meeting; UK PM announcement. To download the report, please click here.
- **NOTE**: US Labor Day is on Monday and the Desk is open as usual on Sunday 4th, until 18:00BST/13:00ET on Monday 5th at which point the service will halt. Re-opening on the same day at 22:00BST/17:00ET.

MARKET WRAP

Stocks caught a bid after the August jobs report which was seen as a "goldilocks" report. Wages were cooler than expected while the unemployment rate rose to 3.7% from 3.5%, albeit alongside a decent move higher in the participation rate. The headline NFP was marginally above expectations but the pace has cooled from the prior, rising 315k in August, slowing from the 526k in July - a welcome sign for the Fed who are looking for a slowdown in the labour market. Attention is now heavily on the September 13th August CPI report with money market pricing little changed and still remains around a 75% probability of a 75bp move in September. The post NFP optimism completely unwound, and more, on renewed European energy woes after Gazprom announced Nord Stream 1 operations would be halted as they found a leak and it will remain shut until this is repaired, crushing hopes of resumption from Saturday after maintenance. The news sparked a typical risk off move with stocks and oil prices falling from highs while bonds and the dollar caught a bid, taking DXY back to unchanged levels and around YTD highs. Treasuries extended to fresh highs with pronounced bull steepening while the afternoon move was led by their German counterpart. Ahead of the NS1 update, the G7 agreed on Russian price caps where more details will be announced in days, while Siemens Energy suggested the shutdown of NS1 is completely unnecessary and not needed. Meanwhile, in Iran gaps reportedly still remain on talks, according to a US official. On OPEC+, sources suggested they are to consider a rollover or a cut at the September 5th meeting. On China, the Trump era tariffs are to continue, pending a review.

GLOBAL

NFP: The US jobs report was marginally above expectations, with the headline rising 315k (exp. 300k, prev. 526k), while labour force participation rose to 62.4% (prev. 62.1%), seeing the unemployment rate rise to 3.7% (exp. 3.5%, prev. 3.5%). Capital Economics note “this only happened because the labour force rose by 786,000, easily outpacing the 442,000 increase in household measure of employment.” Elsewhere, both average earnings metrics came in cooler than expected, M/M rose 0.3% (exp. 0.4%, prev. 0.5%) and Y/Y 5.2% (exp. 5.3%, exp. 5.2%), as CapEco note “the rise in average hourly earnings suggests that, amid a broader easing in measures of labour shortages, wage growth is slowing”. Overall, CapEco suggest "labour market conditions are beginning to slow more markedly, which we expect will contribute to weaker economic growth over the coming years". As for the Fed, the desk notes with easing labour market conditions also contributing to weaker wage pressures, that will help to push back on some of the Fed’s recent hawkishness. Money markets still assign a 75% probability of a 75bp move for September but attention now turns heavily to the August CPI report on September 13th to help gauge the Fed's reaction function, as well as monitoring Fed speak. Analysts at Capital Economics write the jobs data “it seem to favour a smaller 50bp rate hike from the Fed next month, rather than a 75bp increase, but officials will put a lot more weight on August’s CPI data, due the week after next". WSJ's Timiraos on the data said it "isn’t likely to significantly change Fed officials’ views about how much to raise the fed-funds rate at their Sept. 20-21 policy meeting", adding "The decision over how much to raise rates this month is likely to come down to how quickly Fed Chairman Jerome Powell wants to get rates high enough to further slow economic activity."

NS1: Gazprom said the transport of gas to the Nord Stream 1 pipeline has been completely halted until faults are rectified and there is no timeline for fixing the turbine nor the restart of gas supply. Gazprom said this came during routine maintenance works where an oil leak was detected. Note, earlier reports said Gazprom is to restart gas flows via Nord Stream 1 as planned on Saturday after maintenance, however, the latest update gave no new timeline so how long the supply will be out for remains unclear. Following the halt, a German Economy Ministry spokesperson made no comment on Gazprom other than how unreliable Russia is while reiterating other officials that Germany is far better prepared than a few months ago, adding that gas storage is 84.3% full so its October target will be met in the first days of September. Siemens Energy questioned the shut down noting in the past these types of leaks have not led to a shutdown of operations and it does not constitute a technical reason for stopping operation, adding it can be sealed on site, rather than in a specified workshop as Gazprom claimed. It also added there are enough turbines available for NS1 to operate.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 21+ TICKS HIGHER AT 116-21

Treasuries saw pronounced bull-steepening after the 'Goldilocks' NFP was a mark in favour of a soft landing. At settlement, 2s -12.0bps at 3.402%, 3s -10.9bps at 3.440%, 5s -10.9bps at 3.301%, 7s -8.9bps at 3.284%, 10s -7.0bps at 3.195%, 20s -3.3bps at 3.617%, 30s -3.0bps at 3.344%. 5yr BEI +1.3bps at 2.670%, 10yr BEI +1.3bps at 2.473%, 30yr BEI +2.7bps at 2.363%.

THE DAY: T-Notes were hovering sideways in tight ranges Friday ahead of the jobs report. The 'Goldilocks' print, exemplified by decent job growth with cooling wage growth, saw some spikey price action that led to T-Notes (Z2) troughing at 115-28+ not long after the release, aided by a 5k block sale straight after the data with desks noting steepeners being plied on. However, the rally at the front-end picked up momentum - data incrementally reduces the need for a front-loaded tightening cycle - and brought the rest of the curve with it to see T-Notes peak at 116-26 later in the morning. The contracts pared slightly into the European close, although the contracts remained above their pre-NFP level (116-06), with some later support from haven demand after Gazprom dashed hopes of the Nord Stream pipeline reopening on Saturday.

STIRS:

- EDU2 +6.0bps at 96.653, Z2 +8.5bps at 95.970, H3 +13.0bps at 95.945, M3 +15.0bps at 95.990, U3 +14.5bps at 96.150, Z3 +13.0bps at 96.315, H4 +11.5bps at 96.490, M4 +10.5bps at 96.625, U4 +9.5bps at 96.705, Z4 +9.0bps at 96.765, Z5 +9.0bps at 96.880.
- NY Fed RRP op. demand unchanged at USD 2.173tln.

CRUDE

WTI (V2) SETTLED USD 0.26 HIGHER AT 86.87/BBL; BRENT (X2) SETTLED USD 0.66 HIGHER AT 93.02/BBL

The crude complex ended the week marginally higher, but choppy footing as it tracked risk appetite. Nonetheless, for the majority of the session the crude complex saw notable gains on the back of strong risk and the weaker dollar after the goldilocks US NFP print. Highlighting this, WTI and Brent both saw highs after the aforementioned data at USD 89.66/bbl and 95.32/bbl, respectively. However, towards the latter end of the session oil came well off its highs following the downbeat risk tone sparked by Nord Stream 1 updates (further details above). Looking ahead, market participants will be cognizant of OPEC+ next week (Newsquawk preview here), as well as any further updates from JCPOA and Nord Stream 1.

RUSSIAN OIL: G7 Finance Ministers agreed on a price cap for Russian oil, and it will also develop a targeted mitigation mechanism to avoid harming oil-consuming countries, with the aim to implement the price cap with the timeline of related measures in the EU's 6th sanctions package. Regarding the price cap, G7 FinMins said the initial price cap is based on a range of technical inputs and the price level will be revisited as necessary. Separately, US Treasury Dept. said there will be three Russian oil price caps, one for crude and two for refined products and the US will detail how it will be implemented in the coming days. Russia's Kremlin said it will stop selling oil to countries which support price caps for Russian oil and as such will ship oil to countries which act in accordance with market rules. On price caps, Kremlin said it will lead to significant destabilisation of the global oil market.

OPEC+: According to Reuters sources, OPEC+ is to consider a rollover or cut at the September 5th gathering, and is likely to keep output quotas unchanged for October. However, some sources would not rule out a cut to bolster prices. Sources that say the output quotas are likely to be left unchanged, citing factors including tight supply and political backlash amid elevated energy prices. However, sources stressed the outcome is uncertain and weekend consultations are possible.

IRAN NUCLEAR DEAL: White House National Security Council spokesperson stated “it is clear from Iran’s response that the gaps still remain. Iran’s response didn’t put us in a position to close a deal as we won’t close a deal unless Iran meets the terms we have set forth. We are not there yet,” according to Iran International.

BAKER HUGHES: US Rig Count (w/e Sep 2nd): Oil -9 at 596, Nat Gas +4 at 162, Total -5 at 760.

EQUITIES

CLOSES: SPX -1.03% at 3,926, NDX -1.44% at 12,098, DJIA -1.07% at 31,318, RUT -1.09% at 1,802.

SECTORS: Communication Services -1.85%, Real Estate -1.68%, Health -1.43%, Consumer Staples -1.39%, Technology -1.29%, Utilities -1.06%, Industrials -0.98%, Consumer Discretionary -0.84%, Financials -0.83%, Materials -0.09%, Energy +1.81%.

EUROPEAN CLOSES: Euro Stoxx 50 +2.54% at 3,544; FTSE 100 +1.86% at 7,281; DAX +3.33% at 13,050; CAC 40 +2.21% at 6,167; IBEX 35 +1.62% at 7,932; FTSE MIB +2.91% at 21,921; SMI +2.14% at 10,891

STOCK SPECIFICS: **Broadcom (AVGO)** beat on EPS and revenue alongside commentary which noted it expects solid demand across end markets to continue in Q4, reflecting continued investment by its customers in next-generation technologies in data centres, broadband, and wireless. Q4 revenue view also topped expectations. **Lululemon (LULU)** beat on EPS and revenue with Q3 revenue guidance above expectations. Moreover, it also raised FY EPS and revenue view. **Google (GOOGL)** plans to accept the use of third-party payment services on its smartphone app in most major countries, but not in the US, according to Nikkei. **Apple (AAPL)** and **Samsung (005930 KS)** could benefit as India aims to speed product safety approvals that will harm the domestic tech industry, according to Reuters. The initiative aims to cut five to eight weeks from testing time for devices from earphones to smartphones. **Meta (META)** and **Qualcomm (QCOM)** are teaming up to develop custom chipsets for virtual reality products. **Starbucks (SBUX)** named Laxman Narasimhan as its next CEO; will work closely with interim CEO Howard Schultz before assuming the CEO role and joining the Board on April 1st, 2023. **NortonLifeLock (NLOK)** acquisition of Avast has been cleared by the UK CMA. **Ford (F)** total US vehicle sales +27.3% to 158,088 in August. **Kohl's (KSS)** has reportedly been offered as much as USD 2bln by Oak Street Real Estate Capital to purchase its real estate, according to Reuters sources. **Aurora Innovation (AUR)** CEO included a sale option in memo to board; sees an **Apple (AAPL)** and **Microsoft (MSFT)** takeover as potentially appealing, according to Bloomberg. **Netflix (NFLX)** execs told ad buyers the launch date of its ad service would now be November 1, 2022, instead of the initially announced early 2023, according to TechCrunch. US FTC appealed the court ruling earlier this week that backed the **Illumina (ILMN)** and Grail merger.

WEEKLY FX WRAP

Weekly gains for the Buck and Euro, whilst high-beta FX were undermined, and Yuan was in focus

DXY - Overall, a week of gains for the Dollar index, albeit DXY has come off best levels after printing a fresh YTD peak at 109.99 – a whisker away from the 110.00 mark on Thursday, in the wake of the stronger-than-expected ISM Manufacturing PMI data coupled with risk aversion throughout the week. However, a “goldilocks” US jobs print (NFP above forecast, unemployment ticking higher with participation, and cooler-than-expected wage growth) took the index back down under the mid-point of this week’s 108.29-109.99 parameter, whilst Fed pricing did not see a material change (75% for 75bps) ahead of the pivotal US CPI release on September 13th. Aside from the above, newsflow for the Buck has been somewhat quieter this week vs the prior week. Ahead, Monday sees the US Labour Day market holiday, whilst the only notable pieces of data later in the week include ISM Services PMI and weekly IJCs.

EUR, GBP - EUR losses were limited amid hawkish ECB commentary and as nat gas prices continued to tumble on the prospect of EU intervention. The week saw hotter-than-expected August flash CPI for the EZ, whereby all metrics printed above forecast, although the upside for the single currency was capped throughout the week by Nord Stream 1 jitters as Russia shut off the taps for three days, citing maintenance. However, spirits lifted on Friday amid reports that flows via the pipeline are expected to resume on Saturday, although this is yet to happen. Most notably this week, a plethora of hawkish ECB hit the wires – with Knot leaning towards a 75bps move, whilst Muller, Holzmann, and Vasle left the door open for a hike larger than 50bps, and Lane did not rule out a milder technical and temporary recession. Villeroy, Stournaras, Wunsch, and Nagel were also among the speakers. On that note, ahead of next week’s ECB, BNP Paribas joined BofA, GS, Nordea, and Danske Bank in forecasting a 75bps hike, but ING opts for a 50bps increase as it keeps the door open for further hikes. Markets are pricing in a 92% chance of a 75bps hike at the time of writing. EUR /USD looks to end the week around parity in a 0.9912-1.0078 weekly band. Sterling is set for a week of losses vs the USD and the EUR. There were minimal updates from a UK perspective ahead of the UK PM/Conservative Leader announcement on the 5th of September. GBP/USD declined from a 1.1760 weekly peak to a 1.1498 trough at worst but looks to end the European week around 1.1550. EUR/GBP rose from a 0.8482 weekly low, through its 21, 50, and 100 DMAs, to a weekly peak at 0.8676.

AUD, NZD - The antipodeans are set for losses as the European session comes to an end. AUD felt some mild reprieve from better-than-expected Chinese NBS PMIs, only to be disappointed by an unexpected contraction in the Chinese Caixin Manufacturing metric. Furthermore, copper prices were also on the backfoot this week and only provided the Aussie with headwinds. AUD/USD heads to the European close towards the bottom of this week’s 0.6771-6956 range. The RBA is expected to raise rates again at its meeting next week with the ASX 30 Day Interbank Cash Rate Futures indicating an 84% expectation of a 50bps increase in the Cash Rate Target to 2.35% and a recent Reuters poll also showed 27 out of 29 economists were calling for a 50bps hike. Elsewhere, NZD/USD looks to end the European week around the 0.6100 mark in a 0.6050-6194 weekly range.

CAD, NOK - Petro-FX pairs are poised for weekly losses amid the slide in crude prices in the run-up to next week’s OPEC+ and EU energy meetings. USD/CAD looks set to end the session in Europe north of 1.3100 within a 1.2972-3207 weekly parameter. NOK saw a double whammy from oil alongside the Norges Bank upping its foreign currency purchases. EUR/NOK briefly breached 10.000 to the upside and is set to end the week around that level after clocking a 9.7197-10.0665 weekly range.

JPY, CHF - Traditional havens were weaker throughout the week with USD/JPY printing a fresh 24-year peak as the pear broke past the 140.00 barrier to a 140.80 high vs a weekly low of 137.55. Finance Minister Suzuki hit the wires on Friday and repeated that recent FX moves are big and they will take appropriate action on FX if necessary. The CHF was also interesting this week as the aforementioned hawkish ECB rhetoric somewhat widened ECB-SNB pricing, thus helping EUR/CHF rebound from a 0.9611 weekly low to a 0.9866 peak, although slightly hotter-than-forecast Swiss CPI did slow the move.

Yuan - The Yuan was in focus this week after several failed attempts by the PBoC at guiding the CNY higher vs the USD via fixings, rate cuts, and reports of state-owned bank intervention. To recap, China's state-owned banks were seen selling US Dollars in the onshore spot market, according to traders cited by Reuters Wednesday, following several sessions where a firm CNY fixing by the central bank proved futile. Furthermore, the PBoC lowered the rates of Standing Lending Facility (SLF) for all tenors by 10bps from August 15th, which provides temporary liquidity from the PBoC, and coincided with China’s second-largest city-wide lockdown since Shanghai in June, in the city of Chengdu. The Chinese currency caught a bid on source reports that Russia is said to be mulling as much as USD 70bln in "friendly" currencies to slow the RUB surge "before shifting to a longer-term strategy of selling its holdings of the Chinese currency. To sum up some major themes from China this week, 1) firmer CNY fixings by the PBoC were overlooked/futile. 2) Chinese Caixin Manufacturing PMI unexpectedly fell into contractionary territory. 3) China locked down its Chengdu city of 21mln people – the second largest lockdown since Shanghai in June, 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 looks to end the European session around the middle of a 6.8841-9325 range.