newsquawk

US Market Wrap

6th September 2022: Strong data and corporate issuance sends Dollar and yields flying

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Strong ISM services, weak S&P Global PMI; Plethora of corporate issuance; EU plans windfall tax on energy co.'s; UK PM Truss to freeze energy prices for households; RBA hikes 50bps as expected; Gazprom and China sign gas agreement with payments in RUB and CNY.
- **COMING UP**: **Data**: Australian Real GDP, Chinese Trade Balance, German Industrial Output, EZ Q2 Final Employment. **Events**: BoC, Fed Beige Book, EIA STEO. **Speakers**: BoE's Bailey, Pill, Mann, Tenreyro, Fed's Barkin, Mester, Brainard, Barr.

MARKET WRAP

Stocks were sold across the board as US players returned from the Labor Day holiday, continuing from the selling pressures last week in anticipation of hawkish central bank activity and ongoing energy woes throughout Europe. Meanwhile, the US ISM Services print was better than expected across the board - seeing a kneejerk hawkish reaction. Fixed income was sold heavily on the return, particularly in the UK too on the potential size of UK PM Truss' new energy bill crisis package which could be as high as GBP 130bln, thus require fresh debt issuance to finance the package. Adding to the debt downside in the US was the plethora of corporate issuance usurping government bond demand. The upside in US yields and strong ISM data saw the Dollar index print fresh YTD highs while the rate differentials saw USD/JPY rise to levels not seen since 1998 and EUR/USD briefly slip below 0.9900. Attention now turns to central bank activity with a splurge of BoE and Fed speakers on Wednesday alongside the BoC rate decision ahead of the ECB rate decision on Thursday (previews below). Meanwhile, a week today sees US CPI ahead of the September 21st FOMC with the Fed in blackout period from September 10th.

GLOBAL

ISM SERVICES: The ISM Services was stronger than expected and was in fitting with what we saw in the manufacturing survey, albeit the prices paid drop was not as encouraging. The headline services index rose to 56.9 from 56.7 despite expectations for a decline to 55.1. Business activity accelerated to 60.9 from 59.9, above expectations of a decline to 57.0. The prices paid component remained elevated at 71.5 but slowed from the prior 72.3. New Orders rose to 61.8 from 59.9 and employment rose into expansionary territory at 50.2 from 49.1, although an encouraging development, it can be deemed stale from a signalling viewpoint with August NFP already passed. Meanwhile, the supplier deliveries index fell to 54.5 from 57.8, which marks the lowest level since before the pandemic - an encouraging sign for the improvement of supply chains. The services print differed from the S&P Global print, which saw further declines into contractionary territory for the services sector. However, analysts at Capital Economics suggest the S&P Global PMI data is hard to square with the ISM data while the regional surveys point to a slowing of economic growth rather than a collapse. CapEco concludes "while our tracking models suggest that the risks of recession over the next year or so are rising, we still think the economy is more likely to see a period of below-trend growth rather than an outright contraction."

BOC PREVIEW: The September meeting will be a statement-only affair with no accompanying MPR nor press conference, but BoC Deputy Governor Rogers will deliver the latest Economic Progress Report on September 8th at 16:40BST/11:40ET. The Bank of Canada is expected to hike rates by 75bps to 3.25% after the 100bp hike in July. Analyst forecasts range from 50bp to 100bp, albeit only one desk is expecting another 100bp tightening move from the BoC, and four look for a 50bp move with the vast majority expecting a 3/4 point hike. The market is currently pricing in a 95% implied probability of a 75bp hike, with a 5% probability of a 50bp move. The focus for the BoC remains firmly on hot inflation and housing market issues and the Bank is likely to continue to act to help address these concerns. Looking ahead, markets are pricing in a terminal BoC rate of around 3.8% by Spring-2023, while economists note that the risks are skewed towards a higher peak rate than they currently expect and therefore commentary in the statement around forward guidance will be key. To download the full report, please click here.

ECB PREVIEW: Up until a few weeks ago, expectations for the September meeting had been coalescing around the prospect of an additional 50bps hike by the ECB, taking the deposit rate to 0.5%. However, a source report on 26th August revealed that some policymakers wish to discuss a 75bps rate rise due to the deterioration in the inflation outlook, with the prospect of a looming recession not a justification for slowing or halting policy normalisation. Thereafter, a speech by Germany's Schnabel reinforced the Governing Council's tightening ambitions by noting that both the likelihood and the cost of current high inflation becoming entrenched in expectations are uncomfortably high, and she added that central banks need to act forcefully in this environment. August HICP data saw the headline rate climb to 9.1% Y/Y from 8.9%, and the super-core metric advance to 4.3% Y/Y from 4.0%, prompting concerns that second-round effects from energy inflation are making their way through the economy. Accordingly, the likes of Goldman Sachs, Credit Suisse, BofA, JPM and several others adjusted their calls in favour of a 75bps move, an outcome that markets are currently assigning with an approximate 95% probability. Looking further ahead, markets are pricing just under 175bps of tightening by year-end (including September). Elsewhere, aspects of the Q&A will likely focus on the ECB's plans for its APP reinvestments after reports suggested that it could begin discussing ending reinvestments, albeit a decision is not expected to be forthcoming with rates viewed as the preferred tool for tightening. The accompanying staff economic forecasts will likely see upward revisions to the 2022 and 2023 inflation projections of 6.8% and 3.5% respectively, with Morgan Stanley pencilling in an upgrade to the 2024 forecast of 2.1% to 2.2%. From a growth perspective, 2022 GDP is expected to forecast trivially higher at 2.9% vs. 2.8% in June, with 2023 growth expected to be cut to 0.4% from 2.1%. To download the full report, please click here.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 1 POINT & 2 TICKS LOWER AT 115-19

Treasuries saw pronounced selling as US participants returned to strong ISM Services and a deluge of corporate issuance. At settlement, 2s +9.5bps at 3.493%, 3s +12.8bps at 3.559%, 5s +14.1bps at 3.435%, 7s +13.9bps at 3.416%, 10s +14.1bps at 3.332%, 20s +13.0bps at 3.744%, 30s +13.5bps at 3.480%. Inflation breakevens: 5yr BEI -0.4bps at 2.673%, 10yr BEI +1.0bps at 2.490%, 30yr BEI +3.1bps at 2.403%.

THE DAY: T-Notes made session highs heading into the Tokyo Tuesday session at 116-16 before selling crept in as desks cited catch up to Monday's EGB-led selling, where gas prices rallied in the face of the Gazprom announcement. The selling extended amid the RBA's 50bps hike. Support was found exactly on 116 before some better buying was seen in the London morning, aided by some relatively dovish ECB commentary. Interim highs were made at 116-11 at the NY handover before selling picked up. The downside was emboldened by the deluge of corporate supply announced (21 IG issuers on Monday alone, 15 of which were corporate), with rate-lock-related swap paying/Treasury selling at play. There was also pressure from the UK Gilt space amid uncertainty over the financing of the new PM's energy package. T-Notes made session lows eventually of 115-14+ after the stronger than expected ISM Services, where the 10yr cash yield peaked at 3.35%, closing in on the post-COVID peak of 3.5% made in June. The futures hovered near lows through into settlement.

STIRS:

- EDU2 -6.5bps at 96.59, Z2 -10.5bps at 95.87, H3 -11.5bps at 95.835, M3 -11.5bps at 95.885, U3 -12bps at 96.04, Z3 -12bps at 96.205, H4 -12.5bps at 96.375, M4 -12bps at 96.515, Z4 -11.5bps at 96.66, Z5 -14.5bps at 96.745.
- Block activity saw SOFR Dec'24/Dec'26, Mar'23/Mar'24, and Dec'23/Dec'24 all active, while some chunky put structures were blocked across Eurodollar whites in later trade.
- US sold USD 58bln of 3-month bills at 2.965%, covered 3.06x; sold USD 45bln of 6-month bills at 3.320%, covered 3.14x; sold USD 37bln of 1yr bills at 3.460%, covered 2.75x.

CRUDE

WTI (V2) SETTLED USD 0.01 HIGHER FROM FRIDAY AT USD 86.88/BBL; BRENT (X2) SETTLED USD 2.91 LOWER AT USD 92.83/BBL

Oil benchmarks were sold on Tuesday, unwinding their Monday bounce amid risk aversion and the associated Dollar strength, as well as Saudi cutting its OSPs. Note that WTI futures haven't settled since last Friday due to the Labor Day holiday. The selling on Tuesday picked up in the London session in lack of an obvious energy catalyst, something which Citi's energy desk says is "prompting a reassessment of the OPEC+ decision [on Monday] to trim production targets by 100k BPD for October", given the lack of sustained support and that participants view the cut as insignificant in the face of the potential demand headwinds. Looking ahead, US energy inventory data, both the private and the EIA figures, will be delayed by a day due to the holiday on Monday.

SAUDI OSP: The demand equation also took a knock after Saudi Aramco announced some significant cuts to its OSPs for August, specifically a USD 4/bbl cut to Asia. Citi notes that while it may be a broader demand issue, it could be an indication that the record premium charged for September was too aggressive to maintain, renewed Russian supply could also be a factor, highlighted by Reuters reports Tuesday of Gazprom and China's CNPC signing a long-term gas supply agreement with payments to be made in Roubles and Yuan.

RUSSIA: Russian Energy Minister Shulginov said Russia will respond to price caps on Russian oil by shipping more oil to Asia, adding that Russia and its partners are considering setting up their own insurer to facilitate oil trade. Elsewhere, US Deputy Treasury Secretary Adeymo said on Bloomberg TV that India is considering joining the Russian price cap plan.

OPEC: The latest OPEC+ meeting on Monday saw the bloc implement a 100k BPD oil production cut for October, taking the agreed upon OPEC+ production levels back to August and reverting the 100kBPD production hike in September. OPEC+ will also be on stand by and can call for a meeting at any time in September if necessary and it will be called upon by Saudi Arabia. The next meeting will take place on October 5th.

EQUITIES

CLOSES: SPX -0.41% at 3,908, NDX -0.72% at 12,011, DJIA -0.55% at 31,145, RUT -0.96% at 1,792.

SECTORS: Communication Svs. -1.26%, Energy -1.08%, Technology -0.68%, Consumer Staples -0.63%, Consumer Discretionary -0.33%, Materials -0.33%, Financials -0.29%, Health Care +0.02%, Industrials +0.16%, Utilities +0.22%, Real Estate +1.02%.

EUROPEAN CLOSES: EURO STOXX 50 +0.3% at 3,500, FTSE 100 +0.18% at 7,300, DAX 40 +0.87% at 12,871, CAC 40 +0.19% at 6,105, FTSE MIB +0.00% at 21,481, IBEX 35 -0.26% at 7,842, SMI +0.29% at 10,851

STOCK SPECIFICS: **Amazon (AMZN)** is under FTC scrutiny amid its deals for **iRobot (IRBT)** and **1Life Healthcare (ONEM)** being probed. **FedEx (FDX)** saw selling pressure after a downgrade at Citi. **CVS (CVS)** is to buy **Signify Health (SGFY)** for USD 8bln, or USD 30.50/shr. **DropBox (DBX)** found support after an upgrade at BofA. **Bed, Bath, and Beyond (BBBY)** shares were sold amid the news of its CFO committing suicide over the weekend. **Norwegian Cruise Line Holdings (NCLH)** found support after being touted as a long-term buying opportunity at Stifel. **Sitio Royalties (STR)** and **Brigham Minerals (MNRL)** are to merge in a USD 4bln deal, marking one of the largest O&G deals this year, WSJ reported. **CoStar Group Inc. (CSGP)** and **Invitation Homes Inc. (INVH)** will replace **PVH Corp. (PVH)** and **PENN Entertainment Inc. (PENN)** in the S&P 500 on September 19th. **Altria's (MO)** Juul reached a USD 439mln multi-state settlement over marketing. **Citizens Financial (CFG)** CEO said home equity line of credit (HELOCs) and revolving credit use are rising, but added it will take a long time to normalise loan demand. **Bank of America (BAC)** CEO said customers had spent 10% more in August Y/Y.

FX WRAP

The Dollar returned from the Labor Day weekend on the front foot to post fresh YTD highs at 110.57 after breaching the Labor day high of 110.27. The upside in the buck was accompanied by soaring Treasury yields, with a deluge of corporate supply, and strong ISM data which more than offset the weak S&P Global data. There were no Fed speakers on Tuesday but we hear from Mester, Barkin, Brainard and Barr on Wednesday ahead of Powell on Thursday. Given a lack of Fed speak post-NFP, we will look to see how they reacted to the August jobs report and for any clues on September, and the rate path going ahead.

The Euro was weaker amid ongoing gas concerns in Europe with the shut off from Russia and some dovish ECB speak, but the stronger buck also gave no favours which drove EUR/USD beneath 0.9900 as eyes now turn to the ECB rate decision on Thursday - for the Newsquawk Preview, please click here.

The Yen plummeted and was the underperforming currency amid the US yield surge, widening the rate differentials between the US and Japan to see USD/JPY rise to 143.07 at the highs, levels not seen since 1998. The downside in the Yen came despite the risk aversion, with analysts at ING noting "the Yen’s role as a safe haven has been eroded by Japan’s worsening trade position, and the USD/JPY rally may have further to go until Japanese authorities intervene."

GBP managed to eke out a gain vs the buck on apparent short covering after UK PM Truss was appointed as UK PM. The upside in UK yields was also supportive after Gilts were hit on Truss' potential energy bill plans which could cost between GBP 90-130bln and would likely require debt issuance, which helped keep Cable above 1.15 in the Dollars march higher. We are yet to hear many details about the touted tax cuts, but tax cuts would be seen as inflationary and could spark more action from the BoE, however, if the energy price caps included help reduce inflation to the consumer, not as much action may be needed from the BoE - there are several BoE speakers on Wednesday, including Bailey, Pill, Man and Tenreyro.

Antipodes were lower in tandem with risk appetite and the stronger Dollar while the RBA hiked by 50bps as expected and maintained guidance, noting rates are not on a preset path and the size and timing of future hikes will be guided by incoming data - attention now turns to Aussie GDP Wednesday.

CAD was flat vs the buck and hovers around 1.3150 at pixel time in anticipation of a hawkish BoC decision on Wednesday, which helped offset the buck's rally, the decline in oil prices, and downside in stocks. Attention is now on the BoC rate decision where a 75bp hike is expected, although some banks do not rule out the risk of another 100bp move. Full Newsquawk preview available here.

The Yuan was weaker on both onshore and offshore currencies with ongoing COVID lockdowns in parts of Shanghai while reports over the weekend noted up to 65mln citizens are in lockdown. Meanwhile, on Labor Day, the PBoC cut its Forex RRR by 200bps - a further sign of support from the PBoC after cutting the SLF on Thursday by 10bp. Note, Gazprom and China signed a gas agreement with payments in RUB and CNY.

EMFX was generally weaker amid the stronger Dollar and risk aversion in markets, although there were a few standouts. **The Lira** was flat vs the Dollar which was supported by lower oil prices meanwhile later reports noted the Turkish Finance Ministry is working on a Treasury-backed package for SME companies in Turkey. **LatAM FX** was weaker in general on Tuesday amid the stronger buck and CLP gave back its gains on Monday. An impressive **CLP** rally was initially seen on Monday after voters rejected the new constitution, which would have been a sharp shift from its market-friendly constitution, Reuters noted. JPMorgan noted the outcome may force a more moderate and gradual reform impulse, and that they expect positive market momentum thanks to less uncertainty and lower risk premiums ahead. **BRL** was also weaker and saw little reaction to the commentary from BCB Director Bruno Serra. Serra noted the inflation control process is in its early stages and the BCB must keep its guard up due to challenging scenarios abroad and they must be cautious in the eventual end of the tightening cycle - he is bothered by 2024 inflation expectations being unanchored from target. **The Rand** was undermined by Gold testing support into USD 1700/oz and yet more Eskom load-shedding. In CEE, the **HUF** lagged fellow currencies in the eastern bloc, as Hungary threatened to block the renewal of EU sanctions against Russian individuals and entities without the delisting of three oligarchs, although WSJ sources suggested Hungary has since backed down.