US Market Wrap

8th September 2022: Stocks close firmer, shaking off ECB and Powell hawkishness

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW**: ECB hikes 75bps and signals more to come; Powell remains hawkish ahead of blackout; initial jobless claims at lowest since late May; UK PM Truss unveils energy crisis plan; Big US crude stock build offset by SPR release.
- **COMING UP**: Data: Chinese inflation, Canadian jobs report. Events: EU energy meeting. Speakers: ECB's Lagarde, Fed's Evans, Waller, George.

MARKET WRAP

Stocks were modestly firmer on Thursday and pared reaction to hawkish central bank activity after the ECB hiked rates by 75bps and signalled more is to come while later ECB sources suggested another 75bp hike is not out of the question for their October meeting. Fed Chair Powell also reaffirmed hawkish commitments from the Fed heading into the final day before the blackout period with Waller, George and Evans scheduled to speak on Friday. US data saw initial jobless claims continue their decline and posted the lowest print since late May, pushing back on any expectations around a faltering job market, at least for now. Treasuries were sold across the curve, tracking EZ debt lower after the ECB rate decision while the Euro and Dollar were flat on the session with outperformance seen in CHF - Note, Goldman Sachs Goldman Sachs recommended shorting EUR/CHF after the ECB rate hike, targeting 0.9550. Energy prices settled in the black albeit remain around Ukraine/Russia war lows despite the latest inventory report showing a large surprise build - which did initially weigh on oil prices, but prices quickly pared. In the UK, PM Truss announced her energy crisis plan and although key details will be revealed later this month in the Chancellor's fiscal statement, Truss noted the plan is expected to knock off 5% of inflation. Heading into APAC Friday, attention looks to Chinese CPI for August to see the impact of their recent COVID lockdowns, with some being extended more recently in September.

US

FED CHAIR POWELL stuck to the script, where he reaffirmed the need to act forthrightly and strongly on inflation; noting the longer inflation remains above target the greater the risk. Powell hopes to achieve a period of below-trend growth, aided by Fed policy moves, getting the labour market into better balance. On the August NFP report, Powell highlighted the welcome welcome rise in the labour force participation rate. While there was little too new in Powell's remarks, it was noteworthy he affirmed his hawkishness heading into the FOMC blackout.

FED'S EVANS (non-voter, departing) said he sees rates at 3.25-3.5% by year-end and sees a peak of 4.00%. However, he does not have "heartburn" about getting rates rising to 3.75-4% by year-end or January. On the September meeting, he says the Fed could very well do a 75bp move, but his mind is not made up. He sees US GDP growing 0.5% in 2022, beneath the 1.7% forecast in the June SEP's - which are due to be updated in September. On inflation, he sees Core PCE between 4-5% this year and under 3% next year, perhaps even 2.5%. Evans worries about inflation expectations getting out of hand but he does expect inflation to come down. He will monitor the breadth of inflation and if anything surprises on wages, then they may need to get to a peak rate sooner. He added signs of cooling inflation will not change the need for a terminal rate of 4% but it may not need to be as aggressive in its path to get there.

JOBLESS CLAIMS: Weekly initial jobless claims fell to 222k from 228k, the lowest print since late May and against expectations for a rise to 240k. Oxford Economics notes, "The low level of claims underscores the unusual nature of the economy right now", highlighting the potential activity slowdown but stubbornly tight labour markets. The consultancy says, "employers are more likely to continue to slow the pace of hiring than to lay off a significant number of workers, at least in the near term." Meanwhile, continued jobless claims rose to 1.473mln from 1.437mln, while expectations were for a fall to 1.435mln. Oxford Eco says California more than explained the overall rise in the continued count, saying the spike might be related to the Labor Day holiday, "As with initial claims, we don't expect a sharp rise in continued claims in the near term."

ECB

In-fitting with market pricing and against a split consensus amongst analysts, the ECB opted to pull the trigger on a 75bps hike, taking the deposit rate to 0.75%. The statement noted that the GC expects to raise rates further over the next "several" meetings, whilst taking a data-dependent and meeting-by-meeting approach. In terms of other measures, the ECB opted to continue with its current reinvestment policy whilst suspending its two-tier system by setting the multiplier to zero. The accompanying staff forecasts saw 2022, 2023 and 2024 inflation projections revised higher with the 2024 forecast of 2.3% indicating that further policy tightening is required. On the growth front, 2022 GDP was revised a touch higher, however, 2023 was slashed to 0.9% from 2.1% with the downside scenario touting the possibility of negative growth. At the follow-up press conference, President Lagarde noted that the decision on rates was unanimous, albeit there were differing views across the council. With regards to the magnitude of hikes going forward, Lagarde noted that 75bps increments are not the norm, but moves will not necessarily get smaller as the ECB heads towards the terminal rate. Note, Lagarde stated that the terminal rate is not known, however, the judgement is that rates are not at a neutral setting yet. Despite guidance that the GC will be following a meeting-by-meeting approach, Lagarde stated that hikes will probably take place at more than two meetings, but fewer than five. Overall, today saw the ECB cement its commitment to deliver on its tightening pledges despite the grim growth outlook for the region, that said, it remains to be seen how much this commitment will hold up as winter approaches. As it stands, market pricing looks for 50bps hikes at the October and December meetings with a further 50bps of tightening envisaged in 2023.

SOURCES: After the meeting and presser, ECB sources via Bloomberg hit which were hawkish in nature suggesting another possible 75bps move in October while adding that ECB's Lane was more hawkish in the meeting than his recent speech. Meanwhile, the sources added QT is expected to be discussed at the non-policy meeting in Cyprus on Oct. 5th and will likely also be debated at subsequent meetings.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 6+ TICKS LOWER AT 115-31

Treasuries were sold Thursday after a hawkish ECB and Powell unwound earlier strength. 2s +4.0bps at 3.487%, 3s +4.6bps at 3.540%, 5s +3.1bps at 3.391%, 7s +2.8bps at 3.373%, 10s +2.3bps at 3.288%, 20s +3.4bps at 3.693%, 30s +4.1bps at 3.446%. Inflation breakevens: 5yr BEI -4.6bps at 2.576%, 10yr BEI -3.8bps at 2.425%, and 30yr BEI -1.2 bps at 2.374%.

THE DAY: Treasuries had entered the NY session in a bull-steepener, with T-Notes pushing to session highs ahead of the ECB decision. Choppy trade after the ECB hiked 75bps saw T-Notes peak at 116-23 before the hawkishness was fully digested to ignited a wave of selling in govvies, aided by Lagarde affirming the more-hikes-to-come mantra as seen in the statement. The selling sustained as Powell began speaking, where the Fed Chair gave yet another hawkish-toned speech ahead of the September FOMC. T-Notes ultimately printed lows of 115-27 just after midday in NY. Friday marks the last day before the Fed blackout with Evans, Waller, and George all scheduled to speak.

REFUNDING: US to sell USD 41bln of 3yr notes and USD 32bln of 10yr notes on Sep 12th; USD 18bln of 30yr bonds on Sept 13th; all to settle on Sept 15th.

STIRS:

- EDU2 -1bps at 96.568, Z2 -2bps at 95.84, H3 -1.5bps at 95.85, M3 -2.5bps at 95.91, U3 -3.5bps at 96.075, Z3 -4 bps at 96.245, H4 -3.5bps at 96.43, M4 -3bps at 96.57, Z4 -3.5bps at 96.72, Z5 -2.5bps at 96.82.
- US sold USD 52bln of 1-month bills at 2.500%, covered 3.03x; sold USD 47bln of 2-month bills at 2.765%, covered 2.93x.
- NY Fed RRP op. demand at USD 2.210tln (prev. 2.207tln).

CRUDE

WTI (V2) SETTLED USD 1.60 HIGHER AT 83.54/BBL; BRENT (X2) SETTLED USD 1.15 HIGHER AT 89.15/BBL

Oil prices were firmer Thursday, retreating off their Post-Ukraine lows, with massive crude stock builds not enough to unwind the gains. The massive 8.8mln bbl crude stock build was bearish on the face of things, although the 7.5mln bbl SPR release means the net build was a more modest 1.3mln bbls. Gasoline and distillates both saw marginal gains, while refinery utilisation fell 1.8%, deeper than the expected 0.8% fall. Crude production was unchanged on the week at 12.1mln BPD. Note some later comments from US Energy Secretary Granholm said the Biden admin is assessing the need for further SPR oil releases after October, adding that a fuel export ban is not off the table, but not at the top of the list for the Biden admin. Meanwhile, Pentagon spokesperson Kirby said there is still back and forth on the Iran nuclear deal, with gaps remaining, cautioning that parties are not as close to a deal as they had been before. There weren't many other energy market catalysts, with desks instead pointing to Putin's threats from Wednesday to cut supply further in the event of price caps.

PRICE CAP: Belgium's Energy Minister said price caps on only Russian gas would not bring down prices for EU households and businesses; saying a dynamic price cap on all EU gas imports linked to the Asian market would ensure the security of supply. The reservations of caps on Russian supply only were echoed Wednesday by Italy. Meanwhile, Reuters reported that France backs the EU plan for a gas price cap and wants a joint EU buying platform for LNG, but France is sceptical about the proposal for a single revenue cap of EUR 200/Mw/h for non-gas power generators.

EQUITIES

CLOSES: SPX +0.66% at 4,006, NDX +0.50% at 12,321, DJIA +0.61% at 31,774, RUT +0.56% at 1,842.

SECTORS: Health +1.77%, Financials +1.74%, Materials +0.98%, Cons Disc +0.89%, Energy +0.49%, Technology +0.34%, Industrials +0.28%, Real Estate +0.21%, Utilities -0.12%, Cons Stpl -0.17%, Communication Svs -0.44%.

EUROPEAN CLOSES: EURO STOXX 50 +0.29% at 3,512, FTSE 100 +0.33% at 7,262, DAX 40 -0.09% at 12,904, CAC 40 +0.33% at 6,126, FTSE MIB +0.88% at 21,678, IBEX 35 +0.78% at 7,917, SMI -0.14% at 10,790.

STOCK SPECIFICS: **Tesla (TSLA)** China deliveries +173% M/M after July lockdown slump. **Gamestop (GME)** earnings were mixed but it announced a partnership with FTX. **McCormick (MKC)** preliminary earnings disappointed expectations and co. cut its outlook. **Pfizer (PFE)** was awarded a USD 4.9bln Army contract for Paxlovid. **American Eagle (AEO)** earnings missed expectations and paused dividend payments. **First Solar (FSLR)** was double upgraded to buy at Goldman Sachs. **Moderna (MRNA)** was upgraded to buy at Deutsche Bank. **AMD (AMD)** and **Synopsys (SNPS)** rated a new buy at Stifel while **Nvidia (NVDA)**, **Intel (INTC)** and **Lattice Semiconductor (LSCC)** were rated a new hold. **Rivian (RIVN)** and Mercedes-Benz are to make vans at a joint factory in Europe. **Regeneron (REGN)** met primary endpoints met in two pivotal trials investigating novel aflibercept 8 mg in patients with diabetic macular edema (DME) and wet age-related macular degeneration (wAMD). Elon Musk said there have been some promising conversations with **Apple (AAPL)** about Starlink connectivity. **Delta Air Lines (DAL)** CEO expects to report another solidly profitable quarter in Oct; on track to be meaningfully profitable for the year and is looking forward to a return to profit-sharing in February. **Verizon (VZ)** announced it's not seeing customer payment delays or rising bad debt; metrics we're seeing 'bring me a lot of confidence'. Expects improvements to show up in the fourth quarter. **Dell (DELL)** CFO said supply chains for personal computers are back to normal but constraints linger for servers due to the chip shortage. A US judge rejected **AT&T's (T)** bid to dismiss an SEC lawsuit accusing Co. of improperly leaking information to research analysts. **Lowe's (LOW)** said inventory units are down mid-single digits Y/Y; says it's probably in the best in-stock position today than it's been in over three years.

FX WRAP

The Dollar was ultimately flat Thursday with the index marking a range of 109.33-110.25. There were offsetting moves in rates as the hawkish ECB was offset by Chair Powell's remarks leaning on the hawkish side ahead of the blackout this weekend. Meanwhile. the US exceptionalism narrative was supported by the fall in weekly initial jobless claims data, pushing back on the likelihood of any sudden deterioration in the labour market.

The Euro was flat vs the buck and Yen but saw mild gains vs the Pound. EUR/USD saw incremental downside in wake of the ECB hiking 75bps and guiding towards further rate increases to get to neutral, with Lagarde then revealing there is a long way to go and the likelihood ranges from more than two more hikes to less than five to reach the terminal rate. The cross made a peak at 1.0029 into the ECB meeting and never managed to reclaim the level, troughing at 0.9929.

The Yen was slightly weaker vs the buck, with USD/JPY peaking at 144.55 on the session, failing to breach Wednesday's multi-decade peak at 144.98 amid speculation on FX intervention at 145.00. Data saw Japanese Q2 GDP revised higher to 3.5% from 2.2%, while MoF reported a pick-up in foreign bond buying by Japanese investors in the latest week.

The Franc was firmer amid Swiss adjusted jobless rate dipping unexpectedly, but more a factor of expectations the SNB will play catch up to the ECB at the next quarterly review, not to mention Goldman recommending shorting EUR/CHF down to 0.9550. SNB's Jordan spoke positively about the ECB's hike, adding that it would not create difficulties for the SNB if the ECB hiked by even 100bps. Jordan said no decision has been made yet ahead of the September meeting, saying the stronger Franc tends to help rather than hurt, whilst refusing to rule out currency intervention. SNB's Maechler added later there are initial data points indicative of inflation stabilizing, but it is too early to call it a trend.

The Pound was weaker vs the buck, seeing Cable dip beneath 1.1500. All eyes were on UK PM Truss' energy bill announcement but details were left quite light and sterling saw little impact but she suggested the energy intervention is expected to curb peak inflation by up to 5% while Citi lowered their peak UK inflation estimate to incorporate the energy action and they now see inflation peaking at 11.7% from 17.4% previously. The overall cost of the measures will be set out by the Chancellor in a fiscal statement later this month.

Cyclical currencies were mixed, the Antipodes were subdued amid the choppy risk tone around central bank activity. AUD saw weakness in APAC trade after commentary from RBA's Lowe hinted toward hiking at a slower pace. He said further rate rises will be required but they are not on a preset path and the case for a slower pace of rate hikes becomes stronger as the level of the Cash Rate increases. Meanwhile, Australian trade data posted a narrower surplus than expected. NZD was also weaker vs the buck but AUD outperformed NZD, helping AUD/NZD rise above 1.1150. CAD saw marginal strength against the Dollar, albeit primarily as a function of oil prices while BOC's Rogers echoed the BoC statement from Wednesday. She repeated inflation is increasingly broad-based and that rates will need to rise further while frontloading is a key strategy to avoid an inflation spiral. She did also note it would be nice to get a buffer provided by a stronger CAD.

EMFX was mixed, Real saw decent strength vs the buck while the Peso was flat. Meanwhile, Brazil saw inflation decline slightly more than expected while Mexico's inflation was in line with expectations. The Rand was weaker on the move lower in gold prices while trade data disappointed and manufacturing production declined in July, albeit less than expected MM but the Y/Y print missed expectations. Strong copper prices supported CLP while COP was flat but it found some support from the rise in oil prices. The Yuan was stronger vs the buck onshore but offshore it was marginally weaker - attention turns to China CPI Friday while Thursday saw the PBoC USD/CNY fixing stronger than expected once again, something it has been doing a lot recently.