US Market Wrap

9th September 2022: Stocks close the week at highs despite more CB hawkishness

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar down.
- **REAR VIEW**: Fed's Waller calls for significant rate hikes; Bullard says 75bps regardless of CPI; ECB QT touted for year-end; CAD jobs miss; EU ministers split on Russian price cap.
- **WEEK AHEAD PREVIEW**: Highlights include US CPI; China activity data; Shanghai meeting; UK data dump. To download the report, click here.
- **CENTRAL BANKS WEEKLY**: Reviewing ECB, BoC, RBA. To download the report, please click here

MARKET WRAP

Stocks closed in the black on Friday with gains seen in Asia and Europe after cooler than expected Chinese CPI overnight supporting the bid. Tech/duration lead the rally despite the latest pullback higher in yields, although the weaker Dollar was supportive for the equity complex. Bonds had been bouncing out of Europe earlier after Thursday's ECB-led selloff, although FT source reports later Friday about the ECB set to announce QT by year-end, alongside Fed's Bullard saying the approaching CPI report shouldn't alter a 75bps September FOMC hike, saw bond strength reverse. The front-end was particularly pressured later on as Fed's Waller, in yet another hawkish leaning speech, said he expects another "significant" hike in two week's time, but he refused to specify what specific size that was. Nonetheless, several desks in the evening added to the chorus of 75bp hike calls from the Fed - which is what market pricing is expecting too. Despite the index-apparent tech strength, the energy sector outperformed, coinciding with a chunky bounce in the oil futures that built gradually through the session - there aren't any obvious catalysts for the bounce, although commentary on Iran discussions has been regressive in recent days, while potentially some shorts covering into the weekend while the EU Energy Ministers proposals on the energy crisis were all in fitting with recent reports, although a Russian oil price cap doesn't appear to have full support. Looking ahead to next week, the Fed enters the blackout period on Saturday ahead of US CPI report on Tuesday - although Fed's Bullard suggested Friday this shouldn't sway the Fed's decision-making for September, which he calls for 75bps.

FED

GOVERNOR WALLER said he supports "another significant hike" at the September FOMC meeting, and when asked about what size that means he responded, "you have to figure that out". On peak rates, he suggested it could be well above 4% if prices do not cool, but if it suddenly slows it may be beneath 4%. He noted inflation is far too high and it is premature to judge it has peaked. He believes forward guidance is becoming less useful at this stage of the tightening cycle and the pace of tightening is uncertain - it all depends on the data but he expects the fed will be required to hike rates until at least early next year. Waller also noted that fears of a recession have faded and the robust US labour market is giving the Fed flexibility to be aggressive in their fight against inflation and there are currently no trade-offs between the Fed's objectives. On the labour market, he suggested if unemployment stays below 5% they can be really aggressive on inflation, adding they can put downward pressure on prices without a really large impact on unemployment. Waller wants to be aggressive with rate hikes when the economy can take a punch, before the labour markets really go down. On the balance sheet, he suggested the rough estimate is that USD 1tln of balance sheet runoff is about 25bps of rate hikes.

GEORGE (2022 voter) said the path of rate hikes and predictable adjustments based on data could improve market functioning and facilitate the balance sheet runoff. George favours "steadiness and purposefulness over speed" regarding rate hikes. The case for continuing to remove policy accommodation is clear cut, but "peak policy rate" is likely just speculation at this point. A "sustained policy response" is required to address inflation; only careful observation of the economy will show how much more tightening is required. She added the Fed should clearly signal its resolve to shrink the balance sheet; may be benefits to announcing desired reserve levels as the balance sheet shrinks. She wants to see a soft landing but there could be a more difficult path to bringing inflation back under control and they need to keep inflation expectations anchored, even if the Fed does not normally respond to supply shocks. She is focused on the path of rates, rather than individual meetings. She also suggested with where rates are, the Fed's MBS portfolio may sit there for a bit and may require sales down the road.

BULLARD (2022 voter) reiterated his call to see rates at 3.75-4.00% by the end of the year, while noting a good CPI report next week shouldn't affect the Fed's September call. Bullard also warned that markets are underpricing "higher for longer" rates.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 7+ TICKS LOWER AT 115-23+

Treasuries bear-flattened after fresh hawkish Fed speak and ECB sources. 2s +7.8bps at 3.569%, 3s +7.0bps at 3.613%, 5s +5.4bps at 3.451%, 7s +4.2bps at 3.420%, 10s +3.9bps at 3.331%, 20s +3.0bps at 3.721%, 30s +2.6bps at 3.467%. Inflation breakevens: 5yr BEI +4.5bps at 2.624%, 10yr BEI +0.6bps at 2.433%, 30yr BEI -1.1bps at 2.364%.

THE DAY: After initially edging to session lows of 115-22 in the Tokyo Friday morning, T-Notes went on to recover into the European session, unwinding some of the ECB-induced selling seen on Thursday, hitting session highs of 116-11. A disappointing Canadian jobs report kept T-Notes supported at the NY handover. However, spillover selling from EGBs soon crept in after FT sources suggested the ECB will likely decide to begin QT by year-end. The quick-fire succession of Fed's Bullard (voter) calling for 75bps at the Sept. FOMC, regardless of next week's CPI, gave additional weight to the policy-led selling. After a strong cash equity open for the major US indices, the bond selling dissipated with T-Notes bouncing off interim support at 115-24+. T-Notes eventually reapproached session lows heading into settlement. But note the NY afternoon bear-flattening that came after Fed's Waller called for a "significant" rate hike in September, warning of upside risks to the Fed hiking path.

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 +1.8bps at 96.585, Z2 -4.5bps at 95.80, H3 -6.5bps at 95.785, M3 -6.5bps at 95.84, U3 -7bps at 96.00, Z3 -6bps at 96.18, H4 -5.5bps at 96.37, M4 -5bps at 96.515, Z4 -5bps at 96.675, Z5 -4.0bps at 96.775.
- Standout option trade included 50k+ closing of EDZ2 99/98.50 put spreads and a block of 5k SR3V2 96/95.75 put spreads for 4.75 after Fed's Waller.
- NY Fed RRP op. demand at USD 2.210tln (prev. 2.207tln).

CRUDE

WTI (V2) SETTLED USD 3.25 HIGHER AT 86.79/BBL; BRENT (X2) SETTLED USD 3.69 HIGHER AT 92.84/BBL

Oil prices saw a strong bid Friday, similar to stocks, in lack of any new energy catalysts, although the weaker Dollar helped. The gains see the benchmark futures close flat on the week, and one has to consider some likely short-covering into the weekend after post-Ukraine lows were made on Thursday. Desks continue to point to the supply disruption threats earlier this week from Russian President Putin as a support for the market, as is the 100k BPD production cut announced by OPEC+ on Monday. Meanwhile, the commentary from US officials in recent sessions shows signs of regression on progress towards an Iran nuclear deal, ergo, more official oil supply.

EU: EU energy ministers have asked the EU to propose measures capping the revenues of non-gas power generators, according to a draft meeting summary Friday. Ministers have asked the EU to propose introducing a "solidarity contribution" for fossil fuel companies, as was touted earlier this week. Ministers have asked the EU to design emergency liquidity facilities. Have also proposed emergency temporary interventions including a gas price cap. A price cap for Russian gas was discussed but further work is required on such a measure. The draft said proposals should be delivered by the middle of the month.

EQUITIES

CLOSES: SPX +1.42% at 4,063, NDX +2.04% at 12,573, DJIA +1.09% at 32,121, RUT +1.62% at 1,872.

SECTORS: Communication Svs +4.64%, Energy +2.38%, Technology +1.97%, Cons Disc +1.91%, Materials +1.49%, Industrials +1.29%, Cons Stpl +0.96%, Real Estate +0.94%, Financials +0.85%, Health +0.83%, Utilities +0.42%.

EUROPEAN CLOSES: EURO STOXX 50 +1.64% at 3,570, FTSE 100 +1.23% at 7,351, DAX 40 +1.43% at 13,088, CAC 40 +1.41% at 6,212, FTSE MIB +1.92% at 22,095, IBEX 35 +1.47% at 8,033, SMI +1.15% at 10,914.

STOCK SPECIFICS: Stocks levered to **crypto (BTBT, RIOT, MARA, MSTR, COIN)** benefitted after Bitcoin rose above USD 21k, the highest in two weeks. **Tesla (TSLA)** found support after reports the Co. is mulling a lithium refinery in Texas. **T-Mobile US Inc. (TMUS)** announced a USD 14bln share buyback programme, although CNBC's Faber said investors may have been expecting more. **DocuSign (DOCU)** had a strong report and guidance, as did **Kroger (KR)**, and **Zscaler (ZS)**. **Regeneron (REGN)** was upgraded at both Jefferies and Morgan Stanley after strong high-dose Eylea data. **RH (RH)** reported a decent quarter, but the focus was instead on the gloomy commentary and guidance. **Smith & Wesson Brands (SWBI)** and **American Outdoor Brands (AOUT)** reported disappointing quarters. **Navient (NAVI)** was downgraded at Barclays over concerns regarding student loan forgiveness. **Virgin Galactic (SPCE)** has been downgraded at Bernstein due to ongoing delays and funding concerns in a higher rate environment. **Roblox (RBLX)** is jumping into online ads in efforts to diversify beyond virtual goods, according to CNBC. **Nikola (NKLA)** was the subject of unconfirmed chatter in The Deal that the Co. could have an activist involved, who is touted to be pushing for a sale.

WEEKLY FX WRAP

USD/JPY/CNH-CNY: A US holiday-shortened week, but plenty more volatility and choppy price action as the Dollar gathered momentum to reach new 2022/multi-year peaks on Wednesday before waning broadly, with the DXY printing 110.790 at best and then retreating to 108.350 amidst relatively strong recoveries in rival currencies. The Buck was boosted intermittently by upbeat fundamentals, like the services ISM, and hawkish Fed rhetoric, including chair Powell's JH symposium speech remix, plus comments from Bullard, Brainard and Waller to name just a few. However, Greenback gains were forged mainly at the expense of the Yen and Yuan to the point of psychological levels that appear to have prompted more concern and concerted efforts to repel by the officialdom in Japan and China. Indeed, a meeting was convened between the MoF, BoJ and FSA only a day after Usd/Jpy almost touched 145.00, and top currency diplomat Kanda said there was agreement on the need to watch markets with a strong sense of urgency, the authorities will not rule out any step and are ready to take action in the FX market, with the BoJ and Govt extremely worried about recent Yen moves. Moreover, Governor Kuroda joined others on the rapid moves are undesirable front, adding that they heighten uncertainty and make it difficult for companies to do business, and the headline pair retraced all the way back to circa 141.50 at one stage on Friday where a cluster of supports were tested, but ultimately held. Meanwhile, the PBoC used its daily onshore fixings to help turn the tide for the Cny and Cnh as the latter approached 7.0000 following disappointing Chinese trade data, and the firmer than forecast midpoints gave the Yuan enough protection to overcome softer than consensus CPI prints and an even more pronounced slowdown in the PPI.

AUD/EUR/CAD: All looking for independent direction from their respective Central Banks and/or macro releases if ranked high enough and sufficiently away from median expectations, but the Aussie was somewhat underwhelmed by the latest 50 bp RBA rate hike and accompanying statement that inferred a slowdown in the pace of tightening ahead, subsequently echoed by Governor Lowe. Similarly, the Euro was unimpressed with the ECB going for a 'jumbo' 75 bp, signalling further increases to combat inflation and removing tiering via a zero multiplier, and the Loonie gleaned little if anything from the BoC going the same size just a day before even though the accompanying statement also guided for more tightening and the amount to be determined on getting inflation back to target. Nevertheless, Aud/Usd rebounded to 0.6877 from a low around 0.6700 on a sharp improvement in overall sentiment that lifted iron ore and copper and Eur /Usd popped over 1.0100 from a fresh y-t-d/two decade trough at 0.9865, with some assistance from hawkish ECB sources suggesting another ¾ pt hike could be on the table in October when QT may also be discussed (albeit an ECB insider is reported to have said 50 bp more likely). Elsewhere, Usd/Cad recoiled as WTI oil regrouped, to sub-1.3000 from from a virtual double top above 1.3200, but bounced back over the 21 DMA (standing at 1.3018 or so today) in response to a bleak Canadian jobs report.

CHF/NZD/GBP: The Franc whipsawed between 0.9870-0.9548 and 0.9787-0.9634 parameters against its US and Eurozone peers respectively, but is ending the week towards the upper ends of those ranges against the backdrop of rising SNB rate expectations and seemingly the tacit blessing of the SNB on the grounds that a stronger Chf depressed external price pressures. Back down under, the Kiwi took on board mixed NZ electronic card consumption vs manufacturing sales (former encouraging and latter worrying), though tracked overall risk and moves in main counterparts as Nzd/Usd held off assaults on 0.6000 to peer above 0.6150 and Azd/Nzd climbed from the low 1.1100 area to test offers and resistance around 1.1200. In the UK, Sterling was cautious awaiting the Conservative Party leadership contest result and gave favourite Truss a warm welcome as new PM, but reversed course before she unveiled her energy price freeze package and rallied in sympathy vs its US counterpart while mourning the sad passing of the Queen. Cable got to within pips of 1.1650 having slumped to its lowest mark since 1985 not much farther from 1.1400, with TSC testimony from the BoE not as hawkish as remarks from Mann just two days prior.

SCANDI/EM: Considerably weaker than anticipated Norwegian inflation metrics and a shock contraction in mainland GDP did not do lasting damage to the Nok as Brent crude staged a firm comeback, while the Sek gleaned some traction pre-Swedish elections from more aggressive Riksbank rate calls via Nordea. Conversely, the Try was undermined by more expensive oil and another upturn in Turkish CPI, not long after the CBRT surprisingly cut rates, in contrast to the

NBP raising its benchmarks by another 25 bp and Governor Glapinski saying it hasn't finished the cycle of monetary tightening yet. Elsewhere, similar sized hikes and/or guidance for further tightening were delivered along with more direct intervention.