US Market Wrap

13th September 2022: Dollar soars and SPX posts worst day since June 2020 after hot CPI

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Hot US CPI, headline M/M surprisingly rises; Timiraos sees at least a 75bps hike at the Fed next week; Markets pricing in probability of a 100bps hike next week; US reportedly in talks on sanctions against China to deter it from invading Taiwan; Biden considering buying oil at ~USD 80/bbl to refill reserve; Strong 30yr auction; JPM sees Q3 investment bank fees down 45-50%, C sees it down 50%; EMN lowers next Q guidance; Putin to speak with Xi on Sep 15th.
- **COMING UP**: **Data**: UK inflation, US PPI, New Zealand GDP **Speakers**: European Commission State of Union address, ECB's Lane.

MARKET WRAP

Stocks and bonds sold off hard after CPI came in hotter than expected on all metrics, shattering expectations for imminent relief. The Core CPI accelerated while the headline M/M saw a 0.1% gain, despite expectations for a -0.1% print. The hot figures saw stocks tumble, particularly the rate-sensitive Nasdaq as large caps lost a hefty chunk as yields rose seeing Communication, Tech and Consumer Discretionary underperform. The Dollar rallied to see the DXY rise back to levels just shy of 110.00. Money market pricing saw a dramatic hawkish shift with a 75bp hike for September seen as a certainty, while markets are starting to price in the probability of an even larger, 100bp move. The terminal rate also shifted and the FFR is now seen peaking between 4.25-4.50% early next year. Moves had extended in the afternoon, particularly in the Dollar, stocks and market pricing as WSJs Timiraos said the data will see the fed implement "at least" a 75bp hike in September and the prospects for hefty increases in coming months have risen and suggested a terminal rate of c. 4.50% - seeing a near 50% chance of a 100bp hike next week, before paring somewhat into the close to around a 35% probability. Metal prices were hit on the hawkish prospects for the Fed and the rising Dollar, which also hit the oil space but oil was off lows into settlement on reports the Biden admin is considering buying oil to replenish reserves at around USD 80/bbl. Elsewhere, the longer end of the curve found a floor after a strong 30yr bond auction, providing some relief after the dismal 3 and 10yr supply on Monday. Attention now turns to the US PPI report on Wednesday for more colour on the inflationary environment in the US.

GLOBAL

US CPI: August US CPI came in hotter than expected on all fronts, shattering expectations for imminent relief: headline M/M +0.1% (exp. -0.1%; prev. 0%) and headline Y/Y +8.3% (exp. +8.1%; prev. +8.5%); Core M/M +0.6% (exp. +0.3%; prev. +0.3%) and Core Y/Y +6.3% (exp. +6.1%; prev. +5.9%). The component breakdown will be concerning for policymakers given that sticky items such as shelter (+0.7% M/M) and medical care services (+0.8% M/M) accelerated while the volatile energy commodities component (-10.1% M/M) was the main source of relief. While services saw upside, there were still some mild pockets of softness in goods, with used cars -0.1% M/M and other good products seeing modest increases. Analysts have been highlighting the likelihood for goods inflation to pullback at some point, but economist Jason Furman warns, "a lot of things that were supposed to bring down inflation have happened... Labor force returning. Goods prices moderating. But not working." Furman says that Core CPI is running c. 4.5% above the Fed's target, and that while some of that "is probably quirks and transitory", it's "hard to escape some concept of underlying inflation running about 2.5% above the Fed's target", reducing the odds of a soft landing in his view, concluding, "any views on the outlook or policy have to reckon with the large chunk of excess inflation that is not some special factor."

ARMENIA/AZERBAIJAN ANALYSIS: Clashes have been reported once again at the Azeri/Armenian border that left an unknown number of casualties. A ceasefire was reported to have been reached, and then breached shortly after. There were also reported that Armenia has officially called on Russia to activate the Treaty of Friendship and Cooperation, which includes mutual defence, according to Al Jazeera citing Armenian media. Armenian PM said 49 Armenian soldiers are dead as a result of fighting along the border with Azerbaijan - a large number of casualties when compared to prior clashes. For a full Newsquawk preview, please click here.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 21 TICKS LOWER AT 114-30+

Treasuries saw heavy flattening as broadening CPI pressure sees the front-end sold hard with the long-end anchored after a strong bond auction. At settlement, 2s +18.3bps at 3.754%, 3s +15.4bps at 3.753%, 5s +12.8bps at 3.586%, 7s +9.2bps at 3.528%, 10s +5.9bps at 3.422%, 20s +0.3bps at 3.757%, 30s -1.2bps at 3.501%. 5yr BEI +7.6bps at 2.639%, 10yr BEI +3.3bps at 2.461%, 30yr BEI +0.7bps at 2.351%.

THE DAY: T-Notes rose gradually into the APAC Tuesday session after finding support at 115-16 in post-settlement trade on Monday after the poor US auctions. 115-27 held as resistance in a thin APAC session until the London handover, where the bidding extended, gradually, into the US CPI report. T-Notes stood at session highs of 116-04+ before the hotter than expected Aug. CPI data, particularly service-driven Core figures, saw bids evaporate, hammering the futures to 114-30 in a kneejerk reaction. The contracts ultimately made session lows in later trade at 114-23+ (cash 10yr yield high at 3.46%, approaching June peak of 3.50%), with the strong 30yr auction providing some temporary support from the back-end of the curve, before the WSJ Timiraos article said the CPI all but cements a 75bps rate hike "at least", touting a potential 4.5% Fed rate next year.

30YR AUCTION: A decent 30yr auction saw USD 18bln sold at 3.511%, the highest this cycle, which saw a 1.9bps stop-through, better than the prior 1.1bps tail and six-auction avg. 0.7bps stop through. The bid/cover ratio came in at 2.42x, better than the prior 2.31x and avg. 2.37x. The takedown saw Dealers (forced surplus buyers) with 10.9%, slightly worse than last month's 10.8%, but still better than avg. 12.8%. Directs saw a decline in participation to 17.1% from 18.5% while Indirects saw an increase to 72.1% from 70.7%. The strong auction will come as a relief after poor 3yr and 10yr offerings on Monday, especially in wake of the reacceleration in the August CPI data.

STIRS:

- EDU2 -12.0bps at 96.473, Z2 -28.0bps at 95.545, H3 -28.0bps at 95.515, M3 -25.5bps at 95.600, U3 -20.0bps at 95.795, Z3 -17.0bps at 96.005, H4 -15.5bps at 96.210, M4 -14.0bps at 96.365, U4 -13.0bps at 96.465, Z4 -12.0bps at 96.545, Z5 -7.0bps at 96.690.
- In options, heavy put activity in wake of the data, with many blocks across SOFR and ED whites as more aggressive Fed rate paths were priced.
- Note that with EDU2 expiring on Monday, Sept 19th, which is now a UK bank holiday, the final settlement price will be based on the Friday, Sept. 16th 3m Libor fixing.
- NY Fed RRP op. demand at USD 2.202tln (prev. 2.210tln) across 99 bidders (prev. 103).

CRUDE

WTI (V2) SETTLED USD 0.47 LOWER AT 87.31/BBL; BRENT (X2) SETTLED USD 0.83 LOWER AT 93.17/BBL

The crude complex was choppy on Tuesday after broad Dollar strength in the wake of the hot US CPI and reports the US is considering refilling reserves at USD 80/bbl. WTI and Brent saw gains in the European morning and hit highs of USD 89.31/bbl and 95.53/bbl, respectively, but after the aforementioned hotter than expected CPI, oil saw downside amid the broad dollar strength. As such, WTI and Brent reached troughs of USD 85.06/bbl and 91.05/bbl, respectively. Crude settled off lows however after Bloomberg reported US President Biden's administration is considering buying oil at around USD 80/bbl to refill the oil reserves. Elsewhere, there was the OPEC MOMR (details below) and updates regarding the EU price cap. Looking ahead, there is private inventory data after-hours, followed by the weekly EIA on Wednesday. For the former, the expectations are: Crude +0.8mln, Gasoline -0.9mln, Distillates +0.6mln.

EU: EU is reportedly mulling a EUR 180-200 price cap from lower-cost sources (vs guided EUR 200), and eyes taking 33% of extra profits from fossil fuel companies, according to Bloomberg sources. Elsewhere, according to the Guardian, a leaked paper reveals EU is unlikely to cap the price of Russian gas.

PRODUCTION: Kazakhstan cut its daily oil production by 7% amid planned maintenance at its Karachaganak oil field, according to the energy ministry.

OPEC MOMR (SEP): On the demand front, 2022 world oil demand growth remained unchanged from the last report to 3.1mln BPD, as it did for 2023 at 2.7mln BPD, with total oil demand averaging 102.7mln BPD. Meanwhile, total oil demand is still expected to average around 100mln BPD in 2022, and in 2023 is expected to be supported by a still-solid economic performance in major consuming countries, as well as potential improvements in COVID-19 restrictions and reduced geopolitical uncertainties. Regarding supply, prelim data indicates that global oil supply in August increased by 1.3mln BPD M/M to average 101.3mln BPD, up by 5.6mln BPD Y/Y. Elsewhere, Saudi Arabia boosted output to 11.051

mln BPD in August, a rise of 236k BPD. Lastly, despite the likely economic challenges, there is an expectation for higher oil demand as the EU is set to lead global gas-to-oil switching due to soaring prices of natgas and supply uncertainties during the winter. As such, the switching is expected to boost oil consumption in the region by about 200k BPD. For full details of OPEC MOMR, please click here.

COMMENTARY: Morgan Stanley cut its Brent oil forecast by USD 12 to USD 98/bbl for Q3. Meanwhile, Barclays said it remains constructive on oil prices despite intensifying headwinds to demand, as the supply side remains supportive.

EQUITIES

CLOSES: SPX -4.33% at 3,932, NDX -5.54% at 12,033, DJIA -3.94% at 31,104, RUT -3.80% at 1,830.

SECTORS: Communication Services -5.63%, Technology -5.35%, Consumer Discretionary -5.22%, Real Estate -3.84%, Industrials -3.79%, Financials -3.77%, Materials -3.54%, Consumer Staples -3.31%, Health -3.27%, Utilities -2.69%, Energy -2.45%.

EUROPEAN CLOSES: EURO STOXX 50 -1.65 at 3,586, FTSE 100 -1.17% at 7,385, DAX 40 -1.59 at 13,188, CAC 40 -1.39% at 6,245, FTSE MIB -1.36% at 22,304, IBEX 35 -1.59 at 8,064, SMI -0.93% at 10,888.

STOCK SPECIFICS: **Eastman Chemical (EMN)** lowered its Q3 EPS view as it noted demand has slowed more than expected in August and September as well as higher than expected costs. **Oracle (ORCL)** missed on EPS while revenue printed inline, as an executive said strengthening USD had a significant impact. However, the Cerner acquisition will positively impact revenue and EPS in the coming quarters. Highlighting this, revenue jumped 18% Y/Y as it was boosted by the recent acquisition. Law firm Geradin Partners sues **Alphabet's (GOOG)** Google in the UK and Netherlands for up to EUR 25bln in damages over adtech practices. **AppLovin (APP)** noted it does not intend to submit another proposal to combine with **Unity (U)**, and has withdrawn its initial proposal. **Cheniere Energy (LNG)** lifted FY22 guidance alongside raising its share repurchase programme by USD 4bln and annual dividend 20%. **Rent The Runway (RENT)** is laying off 24% of its corporate workforce and is cutting USD 25-27mln in fixed costs to deal with an uncertain macro backdrop. **Adobe (ADBE)** was downgraded at BMO Capital Markets, who said there are concerns on the long-term durability of Adobe's Creative Cloud. **Starbucks (SBUX)** interim CEO Schultz stated so far it has been immune to any recognition whatsoever that there is a downturn in customer traffic and a downturn in average ticket. Moreover, staff turnover rates are falling, and they peaked during COVID-19 pandemic. **Corteva (CTVA)** expects inflationary pressures to be lesser in 2023 than in 2022, but still significant. The US Commerce Department noted its National Institute of Standard and Tech signed an R&D deal with **Google (GOOGL)** to produce chips that researchers can use to develop new nanotechnology and semiconductor devices. Chips are to be manufactured by **SkyWater Technology (SKYT)** at its Bloomington, Minnesota, semiconductor factory. The **Twitter (TWTR)** whistle-blower said a top Twitter sales exec told him Twitter knew it had a problem with Chinese access to Twitter advertising, and added "we're making too much money from these sales. we're not going to stop. We need something that will make the employees more comfortable." **Paramount Global (PARA)** is reportedly considering discontinuing its Showtime streaming service and shifting its content into Paramount+, according to WSJ citing sources.

FINANCIALS: **Wells Fargo (WFC)** CFO said lower-income customers are seeing signs of financial stress. **JPMorgan (JPM)** sees Q3 investment bank fees down 45-50% Y/Y and Q3 shaping up to be a solid Q for markets business and expects unit revenue to rise 5%. **Morgan Stanley (MS)** has no immediate plans for layoffs and is feeling pretty good about workforce size. **Citigroup (C)** CFO has seen some pickup in bank loans and bridge loans, and is seeing continued strength in treasury and trade business. Meanwhile, it sees investment banking rev. declining 50% Y/Y in Q3.

FX WRAP

The Dollar surged on Tuesday after hot CPI, which saw the Dollar rise north of 109.50 while a further tailwind was seen in later trade after the WSJ's Timiraos noted the inflation report supports the case for the Fed to hike rates by "at least" 75bps and increases the prospects of hefty increases continuing in the coming months. The report saw markets start to price in a probability of nearly 50% for a 100bps hike in September, while the Dollar extended to fresh highs of 109.74. Heading into the release, markets had been pricing in c. 90% chance of a 75bp move, but the hot CPI has led markets to expect a more aggressive Fed. Looking ahead, the terminal rate expectations have also risen with markets expecting a peak rate of 4.25-4.50% in 2023, vs a peak of 3.75-4.00% before the data. Nomura is now calling for a 100bp hike in September, and raised their terminal rate view by 50bps to 4.50-4.75%.

The Euro was weaker as the Dollar surged in the wake of hot CPI which took EUR/USD to around parity, before breaking beneath the level in later trade on the Timiraos article. However, the Euro was relatively flat vs GBP and firmer against Scandi's which were hit on lower oil prices and weaker stocks, although CHF outperformed the Euro. With the

Fed looking set to continue on an aggressive monetary policy stance, the Euro will be sensitive to rate differentials with market pricing in a terminal rate in the Eurozone of nearly 2.5%, nearly 200bps lower than the US.

The Yen was also hit on the rate differential play as the yields in the US rallied, particularly the front end to see USD /JPY give back some of its recent strength. As such, the cross approached YTD lows again with an intraday high of 144.68, albeit in late trade the Yen dipped back beneath 144.50. The hot inflation data saw gold prices briefly fall beneath USD 1,700/oz before later reclaiming the level.

The Yuan was weaker amid the Dollar strength while USD/CNY finished flat on the return from the holiday. US-Sino relations are on watch with the latest sources via Reuters suggesting the US is in early talks regarding China sanctions to deter it from invading Taiwan while Taiwan is lobbying the EU to prepare a possible sanctions package. Talks are reportedly at early stages, and no details were provided of what is being considered.

Cyclical currencies tracked the risk complex lower and the Dollar strength only added to its woes. Antipodes were slammed to see AUD/USD fall from highs of 0.6916 to lows of 0.6733, a level it currently resides around while weaker metal prices in general also weighed. NZD/USD saw more losses vs the buck to see NZD/USD dip beneath 0.6000. AUD /NZD saw marginal gains above 1.12 to briefly rise above 1.1250 before paring. CAD also fell victim to the lower risk appetite and the stronger dollar while weaker oil prices only added to the CAD's woes. For GBP, cable tumbled from highs of 1.1738 back to lows of 1.1499, a level that held going into the US equity close. Highs were seen going into US CPI data supported by a rise in UK average earnings for July with better than expected unemployment data.

EMFX was predominantly weaker on the hot inflation report with BRL an underperformer with the BCB nearing an end of their tightening cycle while it looks like the Fed are only just beginning after Tuesday's data. ZAR saw weakness propelled by the weaker gold prices after the hawkish reaction to the CPI. RUB managed to gain vs the Dollar while TRY was only marginally weaker despite the risk off tone.