



## US Market Wrap

### 14th September 2022: "Cool" PPI helps soothe inflation fears, but not completely

- **SNAPSHOT:** Equities up, Treasuries mixed, Crude up, Dollar flat.
- **REAR VIEW:** PPI offsets some CPI fears; EIA sees chunky 8.4mln SPR release; AMZN sued by California AG over third-party seller pricing agreements; VZ expects decline in Q3 consumer wireless subscribers; IEA OMR cuts 2022 demand growth view; China's Chengdu to gradually ease COVID restrictions from Thursday; Japan's Suzuki refuses to rule out any options regarding intervention.
- **COMING UP: Data:** Japanese Trade Balance, Australian Jobs, US Philly Fed, US Retail Sales **Speakers:** ECB's de Guindos **Events:** SCO Summit **Auctions:** Spain and France.

## MARKET WRAP

Stocks were choppy on Wednesday as markets adjusted to the hot CPI seen on Tuesday with all eyes on the Fed next week to see if they deliver a potential 100bp rate hike. However, stocks ultimately closed in the green thanks to a late session rally ahead of quad-witching expiries on Friday. Some support had been seen in the US morning after US PPI came in pretty much in line with expectations, providing some sort of solace after the hot CPI report on Tuesday - albeit it was not enough to dramatically shift the macro landscape with markets still implying a c. 30% chance of a 100bp move from the Fed with the terminal rate still seen at 4.25-4.50%. The Dollar also pared from post-CPI highs although DXY still remains above 109.50. Crude prices settled in the green after a net draw from the EIA data release. Treasuries were supported after the PPI report but the 10yr futures ultimately settled unchanged and the curve saw further flattening with short-end yields continuing their ascent. Attention now turns to a plethora of data releases on Thursday, including US Retail Sales, Initial Jobless Claims, Philly and NY Fed surveys, Import and Export prices, and the Industrial Production report ahead of Friday's preliminary UoM survey. On this, eyes will be on inflation expectations ahead of the pivotal FOMC next week where we will also receive the updated summary of economic projections.

## US

**PPI:** August producer inflation data provided some relief after the pronounced CPI overshoot Tuesday: headline M/M -0.1% (exp. -0.1%; prev. -0.4%), Y/Y +8.7% (exp. +8.8%; prev. +9.8%); ex-Food/Energy M/M +0.4% (exp. +0.3%; prev. +0.3%), ex-Food/Energy Y/Y +7.3% (exp. +7.1%; prev. +7.7%). As expected, falling energy prices weighed on the headline figures, but Pantheon Macro notes the upside in the core as a "technicality" due to a 0.8% increase in the trade services component, "which measures gross margins for wholesalers and retailers. Ex-trade services, the core rose only 0.2%." Gas station margins were a big factor in the large, broader margin upside, and Pantheon highlights the thick margins as temporary given retail prices will soon start to follow the decline in wholesale gas prices, "Gas stations' margins likely will rise again in September but the gains will reverse over the next few months." Margins were mixed more broadly, with Pantheon adding, "the sustained broad rollover we expect over the next year is not yet underway, but it is now clear that margins for auto dealers - which more than tripled during the pandemic - have now peaked. A substantial drop is now just a matter of time." The consultancy also flags that the jump in healthcare services seen in CPI was not replicated in the PPI, where prices fell M/M. Pantheon, looking at the broader three months to August figures, says, "the key message from these data is that core PPI inflation is now falling across both goods and services." Concluding on the PPI data, "a reminder that the CPI numbers are not the only inflation data worth watching; the message from this report is that disinflation is underway. It has much further to go."

## FIXED INCOME

### T-NOTE (Z2) FUTURES SETTLED HALF A TICK HIGHER AT 114-31

**Treasuries saw more flattening, although the contained PPI report brought the curve off lows.** At settlement, 2s +3.6bps at 3.792%, 3s +3.6bps at 3.792%, 5s +0.9bps at 3.600%, 7s -0.5bps at 3.528%, 10s -1.5bps at 3.408%, 20s -2.9bps at 3.734%, 30s -4.4bps at 3.464%. 5yr BEI +5.3bps at 2.687%, 10yr BEI +2.0bps at 2.470%, 30yr BEI +0.9bps at 2.349%.



**THE DAY:** T-Notes hovered in a relatively tight range post-US CPI through the APAC Wednesday session, with some catch-up sales in the Tokyo morning to find new lows at 114-21+, then finding resistance at 115-02 ahead of the London handover, where another spell of selling was then seen to keep the contracts within range. The arrival of NY participants saw yet another flurry of selling, taking T-Notes to fresh lows at 114-17. However, there was a bounce higher, led by the front-end, after the PPI report came in contained vs expectations, at least in the context of the material CPI overshoot on Tuesday. T-Notes made session highs of 115-06+ as Europe closed up shop, drifting lower slightly into the NY afternoon. Traders now look to some initial September survey data with Philly Fed and Empire State both due Thursday, released alongside retail sales, with industrial production data due shortly after. But perhaps more crucially for the policy outlook will be the UoM consumer inflation expectations on Friday, where any unwanted upward surprises will only increase the chances of more aggressive Fed hikes.

#### STIRS:

- EDU2 -4.0bps at 96.435, Z2 -7.0bps at 95.475, H3 -7.5bps at 95.430, M3 -7.5bps at 95.520, U3 -8.0bps at 95.705, Z3 -8.0bps at 95.920, H4 -7.5bps at 96.135, M4 -5.5bps at 96.305, U4 -4.0bps at 96.420, Z4 -3.0bps at 96.510, Z5 +1.0bps at 96.695.
- In options, 32.5k SR3Z3 96/95.5/95 put flies for 7 up to 7.5 in blocks, while highlights on Globex trade saw 19.7k 0EV2 95.625/95 put spreads for 6.5, 10k EDU2 96.50 calls for 1.25.
- 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.
- US sold USD 30bln of 119-day CMBs at 3.550%, covered 3.14x.
- NY Fed RRP op. demand at USD 2.226tln (prev. 2.202tln).

## CRUDE

**WTI (V2) SETTLED USD 1.17 HIGHER AT 88.48/BBL; BRENT (X2) SETTLED USD 0.93 HIGHER AT 94.10/BBL**

**The crude complex was firmer on Wednesday as it initially took impetus from the weaker Dollar, and extended on gains in the NY afternoon after an overall crude draw in the EIA's after a chunky 8.4mln SPR release.** As such, WTI and Brent saw gains of circa USD 1/bbl but did hit highs of USD 90.19/bbl and 95.80/bbl, respectively. Although, in the European morning the crude complex was choppy and seemingly picked up as US players entered the market. Elsewhere, there was EU energy updates alongside the IEA OMR.

**EIA:** In the weekly EIA data, there was a larger crude stock build than expected, however, there was a chunky 8.4mln release from the SPR and as such, it totalled an overall 6mln draw for crude - it was also a smaller build than what the private inventory reported Tuesday night. Elsewhere, distillates and gasoline had a greater build and draw than expected, respectively, while crude production was unchanged. Additionally, refining utilisation rose to 0.6% from -1.8%. Following the release, Goldman noted "we were reminded yesterday that the SPR drawdown will end at some point. Ballpark math would suggest there is close to 20mln BBL remaining over approx. 5 weeks."

**EU:** EU Commission President Von Der Leyen said the energy market is being manipulated by Russia and it is not functioning anymore. Additionally, the Commission is proposing measures for member states to reduce electricity consumption and as such will propose a cap on revenues of low-cost electricity generators. Furthermore, the Commission note the proposals will raise more than EUR 140bln. Separately, EU energy chief Simson noted EU monthly gas use is around 10% lower than in previous years and the EU analysing how a cap on all EU gas imports could work.

**PRODUCTION:** Kazakhstan could review its 2022 oil production plan due to the Kashagan outage, according to Interfax. Note, Kazakhstan oil output fell 13% in August from July to 1.2mln BPD amid maintenance on Kashagan and Tengiz oilfields, according to Reuters. Separately, Total (TTE FP) cuts Port Arthur Texas refinery (185k BPD) production because sulfur units were shut for planned work, according to Reuters sources.

**IEA OMR:** Cuts 2022 demand growth view by 110k BPD to 2.1mln BPD (prev. 2.21mln BPD) and world oil production rose 790k BPD in August to 101.3mln BPD. On demand, growth is set to halt in Q4 but rise 2.1mln BPD in 2023 and the report noted the faltering Chinese economy and slowdown in OECD countries undercutting demand. Lastly, more supply from Libya, Saudi Arabia and the UAE was offset by losses in Nigeria, Kazakhstan and Russia.

## EQUITIES

**CLOSES:** SPX +0.34% at 3,946, NDX +0.84% at 12,134, DJIA +0.10% at 31,135, RUT +0.42% at 1,839.



**SECTORS:** Energy +2.85%, Consumer Discretionary +1.3%, Utilities +0.81%, Technology +0.44%, Communication Services +0.37%, Health +0.01%, Consumer Staples -0.11%, Industrials -0.18%, Financials -0.25%, Materials -1.23%, Real Estate -1.39%.

**EUROPEAN CLOSES:** EURO STOXX 50 -0.52% at 3,567, FTSE 100 -1.47% at 7,277, DAX 40 -1.22% at 13,028, CAC 40 -0.37% at 6,222, FTSE MIB +0.49% at 22,413, IBEX 35 -0.10% at 8,055, SMI -1.23% at 10,757.

**STOCK SPECIFICS:** **Amazon (AMZN)** was sued by California AG over third-party seller pricing agreements; says Co. keeps prices "artificially high", according to Bloomberg. **McDonald's (MCD)** CEO sees a minor US recession next year but a bigger one in Europe; expects 2023 to be a challenging year. **Nucor (NUE)** prelim. Q3 EPS view was cut to between USD 6.30-6.40 (exp. 7.97) amid considerably lower steel mills earnings. **Apple (AAPL)** aims to be the first co. to use an updated version of **TSMC (TSM)** latest chipmaking technology next year, with plans to adopt it for some of its iPhones and Mac computers, Nikkei reports. Elsewhere, Morgan Stanley notes early iPhone lead time and pre-order data suggests iPhone14 cycle starting off stronger than expected. **Microsoft's (MSFT) Activision (ATVI)** deal faces in-depth probes in Brussels now as well as London, according to FT. Meanwhile, MSFT also gave guidance for its Q1 23 personal computing, intelligent cloud and devices revenue - all in line with expectations. **Starbucks (SBUX)** raised its long-term guidance. Over the next three years, it now sees annual EPS growth at 15-20% (prev. 10-15%) and global revenue growth seen at 10-12% (prev. 8-10%). Additionally, in the same 3-year period, US SSS growth is seen rising 7-9% (prev. 4-5%). **Johnson & Johnson (JNJ)** announced a USD 5bln buyback programme and reaffirmed its FY22 adj. operational sales growth and EPS view. **Alphabet (GOOG)** had an EU court cut its record antitrust fine from EUR 4.34 bln to EUR 4.125bln. **Comcast (CMCSA)** raised its share buyback programme to a total of USD 20bln, with USD 9bln already purchased to date in 2022. **Keurig Dr Pepper (KDP)** raised its quarterly dividend ~7% to USD 0.20/shr (prev. USD 0.1875/shr). **Raytheon Technologies (RTX)** reiterated its FY22 adj. EPS and revenue outlook and expects share repurchases of at least USD 2.5bln in FY22. CEO added FY sales will probably be at the lower end of guidance. **Dow (DOW)** gave poor guidance, where Q3 EBITDA view was short of expected and also expects approximately USD 600mln lower Q3 net sales and Op. EBITDA. Berenberg downgraded **Bristol-Myers Squibb (BMY)** citing that it is running out of room to gain. **Twilio (TWLO)** is reducing its workforce by roughly 11% and expects to incur costs of between USD 70-90mln. **Tesla's (TSLA)** German factory expansion has been postponed, as it looks to take advantage of US EV and battery manufacturing credits in the US. **Rivian (RIVN)** CEO said they are seeing some semiconductor related supply constraints ease up. **3M (MMM)** sees the appeal of earplug bankruptcy ruling taking 4-6 months. **Verizon (VZ)** CEO noted price rises increased churn in Q3 and sees declines in Q3 consumer wireless subscribers. Regulators are reportedly frustrated with the progress **Citigroup (C)** has made in the two years since they reprimanded the bank for problems with the systems it has in place to prevent costly mistakes, according to WSJ sources. **Netflix (NFLX)** estimated its ad-supported tier will reach 40mln unique viewers worldwide by Q3 2023 with 13.3mln from the US, according to WSJ sources.

## FX WRAP

**USD:** The Dollar was flat on Wednesday paring back some of the post CPI rally as it pared from extremities. The dollar pared from highs of 109.93 after failing to rise above 110.00 and now hovers around 109.70. Yields were marginally lower in the long end of the curve (by 2-3bps) but the front end was slightly higher as the curve continued to flatten. The latest US PPI data was more encouraging than the hot CPI on Tuesday, although it did little to alter the hawkish Fed narrative with markets still implying over a 30% chance of a 100bp hike next week. Commentary from JPMorgan's Feroli noted the bank thinks the odds of a 100bp hike - while certainly not zero - are lower than one third. The desk believes calls for a larger than 75bp hike are reasonable but notes a 100bp hike would make more sense if the committee thought the peak funds rate was above 5%, which they doubt. Note, the SEPs released next week will help give us a clue to where they believe the terminal rate is. Looking ahead to the rest of the week, data sees US retail sales on Thursday, alongside initial jobless claims, Philly and NY Fed surveys and Import and Export prices - albeit none are likely to alter the Fed's thinking going into next week given their focus on inflation but retail sales will help with how the consumer is holding up. Thursday also sees the US Industrial Production, Manufacturing Output and Capacity Utilisation report while Friday sees the preliminary September UoM data.

**EUR:** EUR/USD initially reclaimed parity in the morning as the dollar eased off best levels overnight, paring back the extremities seen after Tuesday's CPI. The cross hovered either side of parity amid some hefty option expiries around the NY cut (EUR 1.9bln worth) but ultimately dipped beneath the round level once again. Analysts at SocGen suggest US yields could overshoot to the upside from here due to peak rate repricing and would cause at least one more bout of Dollar strength. SocGen adds "EUR/USD probably still hasn't seen its low, likely settling in now for a long bottoming-out period and a cold autumn". ECB's Lane spoke but he didn't really add too much new after the ECB last week and reiterated guidance they expect to continue hiking rates over the next several meetings. He noted the risks to the inflation outlook are primarily to the upside and over the medium term, warned inflation may turn out to be higher than expected.



**JPY:** The Yen firmed against the buck, pairing some of the weakness after the hot CPI in the US where USD/JPY rose to highs just shy of 145.00 overnight before more jawboning ensued - at a similar level to where the jawboning started last week. The Japanese Finance Minister Suzuki said FX intervention is among the options being considered and FX moves are apparently rapid. He added they are very concerned about sharp yen weakening and will take necessary steps if such moves persist. Meanwhile, Nikkei reported the BoJ conducted a rate check on FX in apparent preparation for currency intervention. Analysts at Rabobank see the risks of actual FX intervention as very limited and notes there is no indication that the BoJ is planning to move away from its very accommodative policy settings with interest rate differentials look set to favour the USD vs the JPY for some time yet. Rabo explains it does not make sense for FX intervention at a time when the BoJ is following very loose policy. The bank suggests any FX intervention ordered by the MoF would have to be huge to have any impact and would more likely merely provide an opportunity for speculators to sell the JPY at better levels.

**CYCLICALS:** The activity currencies were flat against the buck with a choppy risk environment which ultimately saw stocks relatively unchanged on the day although GBP outperformed. AUD/USD held onto 0.6700 while NZD/USD hovered around 0.6000. USD/CAD saw a high of 1.3206 matching a triple to around the 1.3205 level.

**GBP:** UK inflation data was cooler than expected rising 9.9% Y/Y (exp. 10.2%) and cooled from the prior 10.1%, M/M rose 0.5% in August, down from the prior and expected 0.6%. Core CPI accelerated a touch to 6.3%, in line with expectations, with the core M/M rising 0.8%, in line with expectations but accelerating from the prior 0.3%. The report noted, "Food and non-alcoholic beverages made the largest upward contribution to the monthly rates in August 2022, while falling prices for motor fuels resulted in a large offsetting downward contribution". Analysts at ING expect inflation to stay around 11% into early next-year before falling back more dramatically. In terms of BoE reaction, ING is not convinced this data is enough for a 75bp rate hike next week but says it is a pretty close call as hawks will be worried about the recent move lower in GBP and market pricing is closer to 75bp than 50.

**CNY:** The Onshore Yuan (CNY) was weaker overnight as it reacted to the stronger buck following CPI, although CNH saw mild gains supported by reports China's Chengdu province plans to gradually ease COVID restrictions. Note, China's cabinet announced it is to extend tax reliefs for some small firms and it is encouraging commercial banks to make medium and long term loans to support equipment upgrades at an interest rate no higher than 3.2%. The PBoC will make a special re-lending facility of CNY 200bln to support the initiative and the 1yr re-lending facility will be rolled over two times and it will cap interest rates for firms upgrading equipment in Q4 at 0.7%. Meanwhile, on COVID, Moderna (MRNA) noted that they have been speaking with the Chinese government about supplying COVID-19 vaccines - a move which could help tackle its zero-COVID policy.

**SCANDIS:** The SEK was weaker vs both the Euro and the Dollar despite Swedish CPIF coming in hotter than expected, rising 9.0% Y/Y, accelerating from an 8.0% gain and more than the expected 8.8%, while CPIF M/M saw a 1.5% gain, above the 1.4% consensus and more than offsetting the prior decline of 0.2%. Analysts at Nordea highlight this is far above the Riksbank's view and there is no doubt monetary policy will be tightened swiftly. The bank expects "the Riksbank to hike rates by 75bp in September, by 75bp in November and by 25bp in February 2023". Meanwhile, the Swedish PM announced she would resign after losing the close election. SEK watchers will now be eyeing the Riksbank next week where they are expected to hike rates by 75bps. NOK was flat against the buck and weaker against the Euro but losses were perhaps limited by the upside in Brent crude prices and helped NOK rise against the SEK.

**EM's:** EMFX was mixed with gains seen in BRL, MXN and COP despite disappointing Brazilian retail sales while Lula's lead on Bolsonaro in polls has slipped to just two points. CLP was weaker amid a slip in copper prices as metals continue to take a hit after the hot CPI on Tuesday. Gold prices were also lower which led to ZAR weakness too. Adding to ZAR woes was the ongoing electricity supply crisis, where Eskom announced Stage 4 loadshedding will continue to be implemented throughout Thursday and Friday with the possibility of lower stages from Saturday morning.

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