US Market Wrap

15th September 2022: Aggressive rate hike pricing hits stocks, bonds, and commodities

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar flat.
- **REAR VIEW**: Lower jobless claims; Mixed retail sales; Falling prices paid components in both Empire State and Philly Fed surveys; Boeing sees inflation risk lingering for five years; Germany working on takeover of Uniper and two other gas companies; Putin says Russia-China trade to reach new record levels in 2022; AMD PC market continues to track lower than expected.
- **COMING UP**: **Data**: UK Retail Sales, EU Final CPI, US University of Michigan Prelim. **Speakers**: RBA Governor Lowe, ECB's Lagarde & Villeroy, Japanese Vice Finance Minister **Events**: Quad witching.

MARKET WRAP

A broad, risk-off session on Thursday as stocks, bonds, and commodities all dipped while the Dollar outperformed most pairs. There was some brief respite from the stocks and bonds selling after the deluge of US data, which included lower claims, mixed retail sales, and falling prices paid components in both Empire State and Philly Fed surveys, but that faded. The losses in stock indices were led by the rate-sensitive NDX, reflective of the increased liquidity concerns as markets continue to adjust to a more aggressive Fed path in wake of the August CPI data, raising the likelihood of a hard landing. It's also worth highlighting the Quad Witching opex event on Friday, and the associated flows that can add momentum to market moves. Note, the strength in the indices seen last week has now completely unwound, with the SPX at its Sept low of 3898 from Sept highs of 4116 pre-CPI on Tuesday - further weakness will put the June low of 3675 on the radar. The Treasury curve saw more pronounced flattening (2s +8bps, 30s flat) as market participants and strategists prepare for higher Fed rates, with chatter leaning as high as a 5% terminal rate next year; money markets are currently pricing in the terminal Fed rate at the upper end of the 4.25-4.5% target range in Mar'23. Traders now look to Friday's UoM survey, with particular attention on the consumer inflation expectations after the chunky fall in the NY Fed gauges on Monday.

US

RETAIL SALES: The retail sales report was mixed with the headline rising 0.3% in August, accelerating from the prior 0.4% decline (revised lower from 0.00%) and better than the expected flat print. Core retail sales, a more accurate gauge of the consumer, declined 0.3% after the prior month was revised lower to 0.00% from 0.4%. Meanwhile, the control metric disappointed and was flat M/M, despite expectations for a 0.5% rise - which does not bode well for consumer spending - the control metric was also revised lower to 0.4% from 0.8%. Analysts at ING suggest the downward revisions hint at a softer trend in spending. The desk adds the report will likely see Q3 GDP expectations revised down a little but notes that consumer spending isn't just retail sales, adding consumer services are a bigger component of overall spending and total spending should outperform retail. ING conclude "with consumer confidence remaining weak as a result of the squeeze on spending power from inflation, falling equity markets and surveys suggesting growing nervousness on the state of the property market, we continue to favour a 75bp hike from the Federal Reserve rather than 100bp."

JOBLESS CLAIMS: Initial jobless claims printed 213k, beneath the expected 226k and the prior 218k, while continued claims marginally rose to 1.403mln (prev. 1.401mln), less than the consensus 1.475mln. Looking ahead, Oxford Economics note, “while overall economic activity is expected to slow, leading to a mild recession in H1 2023, labor markets for now remain quite tight”, and as such OxEco “expect employers to slow the pace of hiring before conducting any major layoffs and don't see any actual aggregate job losses until mid-2023.” As a result, “claims are likely to remain relatively low, at least in the near term”. Regarding continued claims, the consultancy adds, “we also expect them to remain relatively low until labor market conditions ease more significantly in 2023.”

IP/MFG. OUTPUT: US industrial production fell 0.2% in August, surprising expectations for a rise of 0.1% and unwinding July's 0.5% rise, which was downwardly revised from +0.6%. However, the decline was a result of a 2.4% drop in utility output, which Pantheon Macroeconomics flags as a weather-related drop with no broader implications. Meanwhile, manufacturing output rose 0.1% in August, against expectations for a fall of 0.1%, while the prior was revised lower to +0.6% from +0.7%. Pantheon says output was held back by a 1.4% drop in auto production, "which has flattened in recent months, despite easing supply constraints." But notes output is still above its pre-COVID level, albeit hopes to see further gains as manufacturers seek to rebuild inventory. More broadly, Pantheon highlights the slowdown in output in recent months as energy prices surge, "We're hoping to see a clear revival by the end of the year, but much depends on the speed with which firms reinstate cancelled capex plans, and right now that is very uncertain."

PHILLY FED: Philly Fed was a disappointing report as the headline printed a surprise decline of -9.9 (exp. 2.8, prev. 6.2), while most internals were also poor. Highlighting this, employment and new orders fell to 12.0 (prev. 24.1), and -17.6 (prev. -5.1), respectively, while shipments declined to 8.8 (prev. 24.8), its lowest reading since May 2020. However, prices paid encouragingly fell to 29.8 (prev. 43.6), the lowest reading since December 2020, and 6-month growth expectations were subdued, as the future general activity index improved but remained negative at -3.9 (prev. -10.6). Overall, responses to the survey suggest overall declines for the region's manufacturing sector. Exhibited by the survey's indicators for general activity, new orders, and shipments all declined, with the former two registering negative readings; the indicator for employment declined but continues to suggest overall increases. Firms reported price increases overall, however, the price indices suggest price increases are less widespread than in the previous month. The survey's broad indicators for future activity improved but still indicate subdued expectations for overall growth over the next six months.

NY FED: NY Fed was a much more encouraging regional survey, as the headline posted a shallower decline than expected of -1.5 (exp. -13.0, prev. -31.3), and new orders and employment rose to +3.7 (prev. -29.6) and +9.7 (prev. +7.4), respectively. Continuing on the strong report, shipments increased sharply to +19.1 (prev. -24.1), pointing to a rebound after August's significant fall last month, while the inflationary gauge of prices paid was +39.6 (prev. +55.5), the lowest reading since December 2020 and the prices received index fell to 23.6 (prev. 32.6), its lowest level since early 2021. Looking ahead, the index for future business conditions rose six points to 8.2, with the report noting it suggests little optimism about the six-month outlook. The index for future new orders remained depressed, though employment is expected to pick up. Delivery times are expected to shorten. Moderate increases in capital and technology spending are planned for the months ahead.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 15 TICKS LOWER AT 114-16

Treasuries extended their bear-flattening on Thursday after the data deluge failed to break the aggressive Fed expectations. At settlement, 2s +8.5bps at 3.867%, 3s +7.6bps at 3.857%, 5s +7.2bps at 3.667%, 7s +6.7bps at 3.592%, 10s +4.3bps at 3.455%, 20s +1.7bps at 3.755%, 30s +0.8bps at 3.477%. Inflation breakevens: 5yr BEI -4.8bps at 2.654%, 10yr BEI -1.5bps at 2.463%, 30yr BEI -1.2bps at 2.342%.

THE DAY: T-Notes began their descent in the APAC session Thursday, with light futures volumes observed and cash desks noting light activity also. There was some pause in the London morning before the contracts managed to make lows of 114-12+, with the front-end leading, in a knee-jerk reaction to the slew of US data released at 08:30EDT, just beneath Wednesday's pre-PPI trough of 114-17. The cash 10yr yield failed to break past Wednesday's high of 3.476%, with the June peak of 3.50% the next big level. As the data was digested (lower claims data, mixed retail sales, and falling prices paid components in both Empire State and Philly Fed surveys), T-Notes rallied to 114-29, only to drift back lower again, hovering near lows through the NY afternoon. Traders now look to Friday's UoM survey, with particular attention on the consumer inflation expectations after the chunky fall in the NY Fed gauges on Monday. Otherwise, Friday trade will be framed around positioning into next week's FOMC and bond supply.

REFUNDING: US to sell USD 12bln of 20yr bonds (reopening) on Sept 20th, to settle on Sept 30th; to sell USD 15bln of 10yr TIPS (reopening) on Sept 22nd, to settle on Sept 30th.

STIRS:

- EDU2 +0.5bps at 96.443, Z2 -5bps at 95.435, H3 -7.5bps at 95.365, M3 -8.5bps at 95.445, U3 -12bps at 95.60, Z3 -13.5bps at 95.795, H4 -13.5bps at 96.015, M4 -12.5bps at 96.19, Z4 -9.5bps at 96.425, Z5 -6.5bps at 96.635.
- Note, September Eurodollar contracts expire Friday given the UK bank holiday on Monday.
- In options, a busy session in blocks with mainly puts seen across ED and SOFR, with strikes mainly targeting Fed rates from 4% up to 5% within the next year.
- US sold USD 53bln of 1-month bills at 2.670%, covered 2.70x; sold USD 47bln of 2-month bills at 2.925%, covered 2.64x.
- NY Fed RRP op. demand at USD 2.176tln (prev. 2.226tln).

CRUDE

WTI (V2) SETTLED USD 3.38 HIGHER AT 85.10/BBL; BRENT (X2) SETTLED USD 3.26 LOWER AT 90.84/BBL

Oil prices tumbled through the Thursday session with pressure after the US avoided a rail strike, with headwinds also from the stronger Dollar and downbeat risk tone. There was particular pressure in products after the US rail strike was avoided given the potential it had to disrupt fuel supplies. Risk appetite was also lacking, with stocks on the backfoot over hard landing concerns as central bank outlooks become increasingly hawkish, weighing on the outlook for global demand.

RUSSIA: Moscow is cutting its oil export duty to USD 44.4/T from October 1st from 52/t in September. Meanwhile, Russian President Putin and Turkish President Erdogan are to discuss deliveries of Russian gas and partial payments in TRY and RUB, according to Sputnik sources. Russian Deputy PM Novak said also that Russian gas exports to the EU will fall by 50BCM in 2022.

EQUITIES

CLOSES: SPX -1.14% at 3,900, NDX -1.71% at 11,927, DJIA -0.56% at 30,961, RUT -1.02% at 1,824.

SECTORS: Energy -2.54%, Utilities -2.53%, Technology -2.37%, Real Estate -2.24%, Materials -1.34%, Industrials -1.07%, Communication Services -1.05%, Consumer Staples -0.89%, Consumer Discretionary -0.67%, Financials +0.31%, Health +0.55%.

EUROPEAN CLOSES: EURO STOXX 50 -0.72% at 3,541, FTSE 100 +0.07% at 7,282, DAX 40 -0.55% at 12,956, CAC 40 -1.04% at 6,157, FTSE MIB -0.21% at 22,365, IBEX 35 +0.37% at 8,085, SMI -0.07% at 10,746.

STOCK SPECIFICS: **AMD (AMD)** continues to see mixed data point in the PC market and continues to track lower than expected. **Boeing (BA)** CEO said co. sees inflation risk lingering for five years and the China stalemate curbing jet sales is not expected to end soon. Moreover, CFO noted if he had to point to one major bright spot it would be demand, but this is not a demand question, this is about supply. Lastly, late engines are the biggest issue for 737 MAX production, and as such sees 737 engine delays lasting into next year, with risk to FY 737 delivery target. **Adobe (ADBE)** to acquire Figma in a deal valued at USD 20bln cash and stock. Following this, ADBE reported earnings where EPS slightly beat and revenue printed in line, but next Q revenue view fell short of expectations. **Tesla (TSLA)** mulls reset of China retail strategy, even though sales are booming and mulls closing some flash showrooms in cities like Beijing, where traffic plunged during COVID restrictions. **Disney (DIS)** CEO said it was mulling merging Hulu streaming service with Disney+, creating a single online option for viewing the company’s movies and TV shows in the US. **Arconic (ARNC)** cut its FY22 revenue outlook to reflect the impact of operational issues and the combination of demand declines and higher unhedged energy costs in Europe. **Danaher (DHR)** announced plans to spin off its environmental and applied sciences unit into a separate company, with the transaction is expected to close in the fourth quarter of 2023. **NextEra Energy (NEE)** plans to sell USD 2bln in equity units, with the company planning to add the proceeds to the general funds of its NextEra Energy Capital Holdings subsidiary. Evercore upgraded **Netflix (NFLX)** basing its opinion on Netflix’s revenue opportunities from its planned ad-supported tier and limits on password sharing. Of note for buy-now-pay-later names, such as **Affirm (AFRM)** and **Block (SQ)**, US CFPB plans to start regulating BNPL companies, and will issue rules or guidance that would see companies regulated like credit card companies, and also plans supervisory examinations. **Morgan Stanley (MS)** is eyeing a major increase in staff for its restructuring business betting that higher interest rates will lead increase demand to repair balance sheets amid following the recent LBO boom, according to FBN's Gasparino. FTC is to crack down on cos. taking advantage of gig workers and outlines areas where FTC will act to protect from unfair, deceptive, and anticompetitive practices. Kanye West informs **Gap (GPS)** he is terminating the partnership, according to WSJ. GIC & Oak Street to acquire **Store Capital (STOR)** for USD 32.25/shr. Note, STOR closed Wednesday night at USD 26.79/shr.

FX WRAP

The Dollar was choppy throughout Thursday but saw a bout of strength heading into the close amid the worsening risk sentiment. There was a slew of US data that was mixed to softer than expected on balance. In short, retail sales missed consensus in ex-auto and control group terms, but the headline topped, while regional surveys mixed as Philly Fed disappointed, but NY Fed was more encouraging. Industrial production declined along with capacity utilisation. In response, irrespective of below forecast jobless claims and a more encouraging headline NY Fed reading, the DXY slipped to a new session low, with particular focus on slowdowns in both the Philly and NY Fed survey prices paid components. Nonetheless, attention turns to the UoM prelim survey for September on Friday ahead of the pivotal FOMC meeting next Wednesday, as central bank outlooks become increasingly hawkish, weighing on the global growth outlook.

Activity currencies were weaker amid the risk aversion, with Antipodes, GBP and CAD all noticing relatively similar losses against the Buck. Firstly, the Loonie initially saw headwinds from the losses seen in the crude complex, with the US rail strike aversion weighing on energy products particularly, but the Dollar bid into the close saw USD/CAD print a high of 1.3240, the weakest level vs the greenback since 2020, and extending beyond the key triple top of 1.3205. Elsewhere, Cable slipped beneath 1.15 to lows of 1.1462, where diverging US-UK rates, increased UK government spending, and near-double digit inflation remain hindrances for Sterling ahead of the delayed BoE meeting.

For the antipodes, Australia's latest employment report saw a marginal miss on the headline at +33.5k (exp. +35k), but it pared some of the 40.9k decline in July. However, the unemployment rate ticked up to 3.5% from 3.4% while the participation rate rose to 66.6% from 66.4%, as expected. Moreover, it was encouraging that the gains were led by a 58.8 k gain in full-time employment while the headline was let down by a 25.3k fall in part-time jobs. For the Kiwi, New Zealand GDP was better than expected with the Q/Q rising 1.7% in Q2, above expectations of 1.0% and more than offsetting the prior 0.2% decline. Meanwhile, the Y/Y print for Q2 rose 0.4%, above the 0.2% expectation but not as fast as the prior 1.2%. Looking ahead, RBA Governor Lowe is speaking on Friday as well as New Zealand Manufacturing PMI data.

The Franc was very choppy after seeing pronounced strength in the US morning, on track to be the clear outperformer, but as the session extended the Franc pared those gains and is flat, at pixel time. Nonetheless, USD/CHF managed to breach 0.9600 to the downside earlier to a low of 0.9957, while registering a new post-2015 peak against the Euro beyond 0.9550 amidst a further hawkist shift in SNB rate expectations ahead of this month's quarterly policy review. Furthermore, the Franc has seen remarkable strength over the last week with USD/CHF falling from 0.9870 to 0.9475 before rebounding back above 95 amid the dollar strength after US CPI this week.

The Euro, along with the CHF, was the relative G10 outperformer and was flat against the Buck. Regarding the day, EUR/USD hovered either side of parity with a high and low of 1.0017 and 0.9957, respectively, but desks note option expiry interest could well have exerted more directional influence given the 1.6bln residing from 0.9990 to parity for the NY cut, but the cross was also contained by semi-psychological support into 0.9950 and near term resistance in the form of Wednesday's circa 1.0024 intraday high. Looking to Friday, the final HICP for August is due, as well as ECB's Lagarde and Villeroy speaking at a Bank of France event.

The Yen saw mild losses against the Greenback and traded within a point range with a peak of 143.80 and a trough of 142.80, as fears of a BoJ intervention near recent highs abated.

The Yuan weakened above 7.00 in the USD/CNH cross for the first time since 2020 with zero-COVID, geopolitical tensions, and PBoC support applying pressure on the Yuan - as is the Dollar's broader ascent. CNY saw weakness during onshore trading, perhaps aided by the US Senate Committee advancing its sweeping bill to boost security assistance for Taiwan, an act that would give Taipei USD 4.5bln for defence over four years. Global Times editor Hu XIjin had warned beforehand that if this is passed it will lead to the complete elimination of the US' One-China policy and China will take strong countermeasures.

EMFX was predominantly weaker, with only the RUB firming vs. the Buck. BRL, MXN, and ZAR were the underperformers with the latter weighed on by a combination of the weakness in gold, which fell through several key support levels, and general risk aversion. CLP was weaker amid a slip in copper prices as metals continue to take a hit after the hot CPI on Tuesday. Lastly, for the BRL, JPMorgan said it is optimistic on Brazil's capital markets for 2023 and Brazil may see follow-on offerings after elections.