US Market Wrap

16th September 2022: FedEx warning weighs on sentiment while yields dip as inflation expectations fall

- **SNAPSHOT**: Equities down, Treasuries up, Crude flat/up, Dollar flat/down
- **REAR VIEW**: UoM consumer inflation expectations ease; FDX and GE issue worrying outlooks; Basra terminal oil spill in Iraq; Saudi and Russia want Brent around USD 100/bbl; GS faces Fed review of its consumer unit. Xi wants military to have capability to take control of Taiwan by 2027
- **WEEK AHEAD PREVIEW**: Highlights include: FOMC, PBoC, BoE, BoJ. To download the report, please click here .
- **CENTRAL BANK WEEKLY**: Previewing FOMC, PBoC, Norges Bank, Riksbank, BoE, BCB, CBRT, RBA Minutes. To download the report, please click here.

MARKET WRAP

Stocks closed lower Friday to mark a weekly decline across major US indices after Tuesday's reminder inflation is still rife, and the result being the Fed will likely have to act more aggressively in the months to come. Markets are now pricing in a terminal rate of around 4.4% (FFR of between 4.25-4.50%) and we will look to see how accurate this is at next week's Fed meeting where we get updated projections for the 'Dot Plot'. Friday's data saw the UoM consumer survey which took away some of the sting on inflationary fears with both the 1yr and 5yr inflation expectations easing a touch, taking at least some pressure off the Fed and confirming what was seen in the NY Fed expectations earlier in the week. However, adding to the woes was the grim outlook update from FedEx (FDX) Thursday evening where it cut guidance and reported very disappointing preliminary Q1 results after the macroeconomic weakness in Asia and services challenges in Europe. General Electric (GE) also issued a profit warning due to supply chain issues. The Dollar printed a fresh post-CPI high at 110.26, albeit sits off the early September peak of 110.79 before returning beneath 110.00 and meandering just above 109.50, a level it has been around after Tuesday's inflation data. Treasuries were bid across the 2-10yr paper but sold in the longer end after the easing of inflation expectations data in Michigan helped relieve some of the hawkish Fed fears with markets now pricing in a c. 18% probability of a 100bp hike next week, down from 30% earlier in the week. Crude prices settled flat as headwinds from the risk-off macro sentiment were offset by supply woes amid the an oil spill in Iraq, and some OPEC jawboning.

GLOBAL

UOM: The preliminary September Uni of Michigan sentiment survey saw the headline rise to 59.5 from 58.5, just short of the expected 60, but nonetheless marking a fourth consecutive rise. The current conditions component saw a minor tick up to 58.9 from 58.6, but also fell short of the expected 60.8. Meanwhile, the forward-looking expectations saw a slightly firmer rise than the consensus to 59.9 from 58, above the 59.7 expected. Analysts at Oxford Economics note despite the modest improvement, the measures remain well below historical averages. But crucially, the inflation expectations were encouraging and echoed what was seen in the NY Fed consumer inflation expectations report earlier in the week. The 1yr slowed to 4.6% from 4.8% and the 5yr expectations slowed to 2.8% from 2.9%. OxEco do warn that although expectations dropped, "uncertainty measures of short- and long-run inflation increased, putting into question whether these improvements will persist". Looking ahead, the consultancy notes consumer sentiment will continue to be restrained from a sustained rally higher given their outlook for a mild recession in H1 2023. The desk also adds the Tuesday CPI is a reminder consumers are still battling high prices for food and housing, despite the decline in gas prices.

CHINA/TAIWAN: Chinese President Xi has reportedly told his military that he wants China to have the capability to take control of Taiwan by force by 2027, according to CIA's Cohen cited by CNN, but US intel does not currently believe China has made a decision. Cohen added although the decision has not been made, he wants to be in a position where if that is what he wanted to do at the time, he would be able to do it. Although, they do still believe Xi's interest in Taiwan is to get control through non-military means. This latest update follows reports in Nikkei this week that President Xi is expected to stack the country's senior military leadership during next month's Communist Party congress with loyalists aligned on his goal of unifying Taiwan and the mainland.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLE 8 TICKS HIGHER AT 114-24

Treasuries rallied in wake of the softer UoM inflation expectations, with the belly leading, ahead of FOMC next week. At settlement, 2s -1.4bps at 3.859%, 3s -4.4bps at 3.815%, 5s -4.8bps at 3.626%, 7s -3.4bps at 3.562%, 10s -1.2 bps at 3.448%, 20s +3.5bps at 3.792%, 30s +3.6bps at 3.516%. Inflation breakevens: 5yr BEI -7.7bps at 2.553%, 10yr BEI -5.4bps at 2.392%, 30yr BEI -2.8bps at 2.303%.

TOKYO/LONDON: T-Notes hit interim highs of 114-22 in the Tokyo Friday session with risk sentiment hit in wake of the ominous FedEx recession warning. However, with Japan and London both away on Monday, there was a degree of book-squaring to account for seeing T-Notes sold to session lows of 114-10+ in the London morning, aided by some block sales with Citi's rates desk noting client sales, "while there was some fingerprints of CB sales involved (to defend FX?). OFTRs were noted as 'well-behaved', but liquidity in OTR has certainly deteriorated in recent days."

NEW YORK: The catalyst of the day was the Uni of Michigan preliminary survey for September, which saw a decline in the much-anticipated consumer inflation expectations, adding to the NY Fed survey declines earlier this week. The curve was lifted, with strength mainly in the front and belly as on the margin, the fall in the survey reduced some of the hawkish pressure on the Fed. The report saw market-implied odds for a 100bps September hike fall to nearly 15% vs 30% area earlier this week. T-Notes hit session highs of 114-30+ not long after, hovering near highs through into settlement, although the front-end saw more sustained strength into the afternoon. Aside from the FOMC, bond traders have their eye on next week's auctions.

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 expires -0.3bps at 96.44, Z2 +3.5bps at 95.47, H3 +4.5bps at 95.415, M3 +4bps at 95.485, U3 +4bps at 95.64, Z3 +4.5bps at 95.84, H4 +5bps at 96.065, M4 +6bps at 96.25, Z4 +6bps at 96.485, Z5 +3.5bps at 96.67.
- Notable flow included a 20k+ buyer of the EDU5/Z5 spread (note the initial '25 Dot Plot is released next week), while option flow was more muted relative to the week.
- NY Fed RRP op. demand at USD 2.187tln (prev. 2.176tln).

CRUDE

WTI (X2) SETTLES USD 0.11 HIGHER AT 84.76/BBL; BRENT (X2) SETTLES USD 0.51 HIGHER AT 91.35/BBL

The crude complex settled firmer but in choppy Friday trade, as despite the general risk-off sentiment, supply-induced factors (Iraq oil spill) led prices into the black. As such, WTI and Brent hit highs of USD 86.18/bbl and 92.66 /bbl, respectively, but on the week oil saw marginal losses. Regarding the day, there were updates regarding Saudi Arabia and Russia, as well as the Iraq Basra oil terminal (details below). In terms of Macro fundamentals, China's COVID situation remains a grey cloud over the demand side of the equation, and ING note "lingering demand concerns over China have hit sentiment, whilst recent weakness in refinery margins is certainly not helping", but given the recent volatility, ING add, "the potential for OPEC+ intervention means that the floor for the market is not too far below current levels".

SAUDI/RUSSIA: Saudi Arabia and Russia reportedly see USD 90-100/bbl as a fair price of Brent that the global economy can absorb, according to Reuters citing sources citing recent signals. Moreover, a price of USD 120-130/bbl is risky and Saudi will prevent that, but at USD 100 it will not have a huge impact on the global economy and Saudi would be comfortable with prices at USD 100/bbl. However, the sources noted Russia wants oil no less than USD 100 to compensate for the discounts, whereas Saudi is more satisfied with that.

BASRAH TERMINAL: Initial Reuters sources noted that oil exports in Iraq's Basra port, which has four loading platforms and can export up to 1.8mln BPD, were halted on Thursday night due to a spillage, and that the spill was 'huge' and efforts to contain it could take more than a week. Although Bloomberg sources noted that the oil terminal is to resume pumping in a few hours. That was followed by Iraq's Basra Oil Co. announcing the spill at Iraq's Basra oil terminal is contained and exports are being gradually resumed. It's still unclear at this stage how much has resumed and the timeline to full capacity.

PRODUCTION: Kazakhstan energy ministry expects to stick to its oil production plans of 85.5mln tonnes this year, and added the Kashagan oilfield will resume output "in October at best". That follows Thursday's update that the country may review its 2022 oil output plans amid the outage in Kashagan.

BAKER HUGHES: US Rig Count (w/e Sep 16th): Oil +8 at 599, Nat Gas -4 at 162, Total +4 at 763.

EQUITIES

CLOSES: SPX -0.72% at 3,873, NDX -0.55% at 11,861, DJIA -0.45% at 30,822, RUT -1.48% at 1,798

SECTORS: Energy -2.17%, Industrials -2.06%, Materials -1.56%, Financials -0.97%, Consumer Discretionary -0.84%, Communication Svs. -0.59%, Technology -0.48%, Utilities -0.37%, Health Care -0.27%, Real Estate +0.03%, Consumer Staples +0.25%.

EUROPEAN CLOSES: EURO STOXX 50 -1.21% at 3,498, FTSE 100 -0.66% at 7,234, DAX 40 -1.81% at 12,721, CAC 40 -1.31% at 6,077, FTSE MIB -1.10% at 22,120, IBEX 35 -1.25% at 7,984, SMI -1.30% at 10,607.

STOCK SPECIFICS: **FedEx (FDX)** plummeted after providing a very downbeat update, as it reported poor prelim Q1 results with adj. EPS and revenue both missing expectations alongside withdrawing FY23 earnings guidance. **General Electric (GE)** was in the red after its CFO said Q3 profitability will be impacted by supply chain woes, and FCF is also being affected by issues in the supply chain. The **Boeing (BA)** Defense, Space and Security President and the **Raytheon Technologies (RTX)** CEO are being sanctioned by China over their involvement in Washington's latest arms sales to Taiwan. **Huntsman (HUN)** resided in the red in the wake of cutting Q3 22 adj. EBITDA view and added it has been impacted by the persistent and extraordinary European energy costs - HUN is the third chemical company to cut guidance this week after **DOW** and **EMN**. **NCR's (NCR)** board approved a plan to separate NCR into two independent, publicly traded companies, with one focused on digital commerce, and the other on ATMs; separation is targeted for the end of 2023. **Uber (UBER)** was lower after news it is investigating a computer network breach, and as such had to shut several internal communications and engineering systems, although it has since noted there is no evidence sensitive customer data was accessed. **JetBlue (JBLU)** expects flown capacity for Q3 22 to be roughly flat vs Q3 19 and continues to see a strong demand environment extend beyond the summer peak. **International Paper (IP)** was softer following a downgrade at Jefferies, who pointed to decelerating orders and an inventory glut in the industry. **Texas Instruments (TXN)** boosted its quarterly dividend +8% to USD 1.24/shr (prev. 1.15) and announced a USD 15bln share repurchase programme. **Goldman Sachs (GS)** is reportedly facing Fed review of money-losing consumer unit, according to Bloomberg.

WEEKLY FX WRAP

Buck boosted by inflation and then Sterling capitulation

USD: Another whipsaw and hectic week, strewn with data, Central Bank activity, rampant bond yields, risk aversion and geopolitically focused newsflow. The Dollar was apprehensive ahead of US CPI as the Euro rebounded sharply amidst hawkish ECB rhetoric and in response to Ukraine reclaiming key areas in the East of the country from Russia after a concerted counter-attack. However, headline inflation readings topped consensus and core metrics accelerated further to dash hopes of a peak in consumer prices, and the Greenback regained all and a lot more of its declines as a result. Indeed, the DXY eclipsed 110.00 compared to a 107.670 low earlier on Tuesday, as Fed rate hike expectations tilted towards 100 bp for the September FOMC from a fully factored 75 bp, but the index faded and failed to retest best levels through broadly in line and softer than previous PPI prints, mixed retail sales, jobless claims and regional surveys, with the latter showing slowdowns in sub-components for prices paid. Moreover, NY Fed and UoM inflation expectations eased across the board and nudged the index back below 110.00 from a marginally higher 110.260 weekly best that was forged in large part at the expense of Pound weakness.

GBP/CAD: As noted above, Sterling endured a particularly rough ride and the omens were bleak following Monday's raft of worse than forecast UK GDP, IP and Output data. Conversely, average earnings surpassed expectations and the ILO jobless rate fell against consensus for no change, though Cable advances were relatively short-lived given the aforementioned CPI inspired Buck revival later that day and a deeper retreat ensued when inflation missed on the downside in stark contrast to the US outturns. Nevertheless, the Pound held in, and well above 2022/37 year lows until the last session of the week when ONS retail sales slumped far more than feared and proved to be the final straw, with Cable collapsing to 1.1350 at one stage and Eur/Gbp touching 0.8772 or 1.1400 in the reciprocal cross vs 1.1738 and 0.8626 at the other end of the scale. All this in the run up to next week's busy domestic agenda, including the delayed BoE policy meeting, mini budget, and of course the funeral of Queen Elizabeth II. Elsewhere, Loonie losses between 1.2955-1.3307 parameters against its US peer were partly oil induced, but also due to increasingly sour sentiment and perceptions that BoC-Fed policy will likely diverge in wake of the latest disappointing Canadian LFS vs upbeat US BLS report.

CHF: Some payback for the Franc on Friday, mainly in retracement after Usd/Chf and Eur/Chf hit troughs of 0.9480 and 0.9533 respectively yesterday on rising SNB tightening bets before a wire poll revealed less aggressive analyst views, with 15/23 of those polled looking for a 75 bp hike, 7 for another 50 bp and only 1 call for 100 bp. Note, market pricing is much more evenly balanced between ¾ pt and one percent.

JPY/EUR/NZD/AUD: The Yen is outperforming, partly on safe haven grounds, but the turning point for Usd/Jpy and Jpy crosses arrived with the first real sign that Japan is ready to turn words of intervention into action. In short, the headline pair got close to 145.00 again post-US inflation data and prompted another round of official commentary expressing concern over excess and one-sided moves, but this time with the backing of reported BoJ rate checking and a doorstep meeting conducted by Finance Minister Suzuki reiterating intent to intervene promptly and using all available options. The headline pair is currently around 143.00, albeit still some distance from the 141.85 w-t-d base, in keeping with Eur /Usd that topped out a fraction below 1.0200 to straddle parity where a confluence of option expiry interest was seen throughout the week. The Euro derived underlying support from higher EGB yields against the backdrop of ongoing energy supply angst and Eurozone recession risk, as ECB members and sources underscored guidance for more policy normalisation, while the Kiwi held up a bit better than the Aussie down under after an encouraging NZ GDP recovery and full reopening offset a wider than anticipated current account deficit. Moreover, Aud/Usd was inversely correlated to Usd/Cny and Usd/Cnh to a large degree and both were unable to defend the psychological 7.0000 level, irrespective of better than expected Chinese activity data, not to mention PBoC support in the form of out-of-kilter firm midpoint reference rates. On top of all that, Aussie labour data fell a tad short of expectations (payrolls sub-forecast and jobless rate ticked up) and RBA Governor Lowe repeated that the pace of hikes will likely slow as rates move further into/beyond neutral.

SCANDI/EM: The retracement in Brent crude and gloomy market mood took a toll on the Sek and Nok, leaving a lot resting on the Norges Bank and Riksbank to revive fortunes, while more Eskom load-shedding and Gold's meltdown undermined the Zar, the Pln and Czk were hampered by dovish-leaning remarks from the NBP and CNB, and the Huf suffered from more investor concerns over Hungary's stand-off with the rule of law and potential loss of EU funding. Elsewhere, more intervention stemmed rather than turned the tide for the likes of the Krw and Inr.