



US Market Wrap

19th September 2022: Choppy, illiquid trade ahead of a swarm of Central Bank activity

- **SNAPSHOT:** Equities up, Treasuries mixed, Crude up, Dollar flat.
- **REAR VIEW:** Biden says US forces would defend Taiwan in the event of a Chinese invasion; NAHB misses expectations; UAE to boost oil production capacity; JCPOA discussion not ruled out by Iran; China eases COVID restrictions in Chengdu; Mexico Tsunami warning; Uniper and RWE are closer to long-term LNG deals with Qatar; UK and Japan away for bank holidays.
- **COMING UP: Data:** Japanese CPI, Canadian CPI **Events:** PBoC LPR, RBA Minutes, Riksbank Policy Announcement **Speakers:** ECB's Lagarde **Supply:** US 20yr.
- **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 were modestly firmer Monday as the risk tone improved in the US session after a holiday-thinned trade in APAC and Europe. There were no clear biases on the US index level, although defensive sectors underperformed. Fundamental catalysts were light, with the decline in the NAHB housing index the only noteworthy data point in the US session. That left the tape to be characterised by positioning into the FOMC on Wednesday, not to mention technicals /flows after the quarterly option expiry on Friday. Treasuries saw renewed flattening (2s +8bps vs 30yr -1bps), while the cash 10yr hit fresh cycle peaks of 3.52%. The Dollar was ultimately flat in thin trade, although the slew of central banks this week can be expected to bring some volatility. Oil prices were modestly firmer after NY players unwound the risk aversion-led selling earlier in the session.

US

FOMC PREVIEW (WED): The FOMC is expected to hike 75bps to 3.00-3.25%, while markets are pricing a 20% chance of 100bps, as a spike in August CPI removes opportunity for any near-term relent on tightening plans. Moreover, we will get updated 'Dot Plots' where they will show higher terminal rate forecast with market pricing at 4.5% and sell side estimates ranging up to 5%. For a full Newsquawk preview, [please click here](#).

NAHB: NAHB Housing Market Index reported its ninth consecutive decline to 46.0, beneath the prior 49.0 and expected 47.0, highlighting that US homebuilders became more pessimistic this month as worsening affordability has side-lined many potential homebuyers. On the dataset, it has fallen in every month of 2022 as rising mortgage rates have taken a toll on homebuying affordability and side-lined many potential buyers. Further into the release, Oxford Economics note, "more builders are reducing prices to attract buyers (24% reported cutting prices (prev. 19% in Aug)), and builders are also offering other incentives to buyers including additional amenities and mortgage rate buydowns." As such, the fall in homebuilder sentiment will weigh on housing starts in the coming months. Lastly, OxEco concludes, the print beneath 50 points to further declines in single-family housing starts and declines in prices for new homes.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 12+ TICKS LOWER AT 114-11+

Treasuries saw renewed flattening in light trade amid positioning into Wednesday's FOMC and Dot Plot. At settlement, 2s +8.9bps at 3.949%, 3s +8.8bps at 3.903%, 5s +6.5bps at 3.691%, 7s +5.5bps at 3.617%, 10s +4.3bps at 3.490%, 20s -1.6bps at 3.777%, 30s -0.9bps at 3.510%. Inflation Breakevens: 5yr BEI -4.3bps at 2.502%, 10yr BEI -3.0bps at 2.355%, 30yr BEI -3.5bps at 2.263%.

THE DAY: T-Notes began selling off both during the APAC session and European morning on Monday but liquidity was impaired with both Japan and the UK absent. The downside in T-Notes lost momentum as US players began to arrive,



although on the curve, the front-end remained heavy, seeing more flattening. T-Notes stretched out session lows of 114-07 before paring a few ticks into the NY afternoon in a catalyst-light session. However, the downside in Treasuries finally saw the cash 10yr yield break above its June peak of 1.50% to mark new highs at 3.52%, with technicians now flagging the February 2011 high of 3.76%. While the curve flattening saw the 2s10s spread hit a low of -48bps, eyeing the August lows of -56bps. Traders now look to the 20yr auction on Tuesday ahead of Wednesday's FOMC.

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:

- EDZ2 -5bps at 95.42, H3 -8bps at 99.335, U3 -10bps at 95.545, Z3 -10bps at 95.74, Z4 -9bps at 96.40, Z5 -7bps at 96.60.
- Notable flow included push back against 100bps pricing for Wednesday FOMC with 45k SR3U2 bought via blocks, with additional volume buying on exchange; decent FFV2 buying was observed too.
- Traders suggested the lack of any fresh policy articles from WSJ's Timiraos indicating a Fed preference for 100bps as a rationale for pushing back on 100bps pricing.
- Option highlights include 14k EDM3 95/95.75 risk reversals traded between 3-1; 13k SR3F3 95/94.75 put spreads blocked for 3.75.
- In bills, US sold USD 56bln of 3-month bills at 3.270% (prev. 2.965%), covered 2.57x; sold USD 43bln of 6-month bills at 3.780% (prev. 3.320%), covered 2.75x.
- NY Fed RRP op. demand rose to USD 2.218tn from 2.187tn.

CRUDE

WTI (X2) SETTLED USD 0.60 HIGHER AT 85.36/BBL, BRENT (X2) SETTLED USD 0.65 HIGHER AT 92.00/BBL

Oil prices unwound their earlier losses as risk assets bounced through the US session Monday. With London and Japan away, it was harder to read too much into the low liquidity moves earlier also. But, aside from the risk tone/strong Dollar, earlier losses were pinned on comments from Iran's Foreign Ministry spokesperson Kanaani suggesting JCPOA discussions have not been ruled out as a possibility. Other factors included Iraq's Basrah Oil Company saying, via Reuters, that oil exports returned to normal after being halted on Friday due to the terminal spillage. There was further bearish supply updates, with Kuwait saying it has plans to raise output whenever the market requires it, in addition to the UAE's Adnoc announcing plans to increase its production capacity over the next decade. However, on the bullish side, note that several lockdowns in China have been lifted, capping the downside from a global demand perspective. While reports suggest OPEC has missed its production target in August by over 3mln bbls.

EUROPE: German utility giants Uniper (UN01 GY) and RWE (RWE GY) are close to long-term LNG deals with Qatar to help replace Russian gas, according to Reuters sources; parties are likely to agree 15yr supply deals, potentially announced within weeks. Meanwhile, German Economy Minister Habeck said gas storage capacity is approaching 90% but the country is no longer buying gas at any price. Habeck said that Germany will have two LNG terminals in operation this winter, although storage will be empty come the end of winter.

EQUITIES

CLOSES: SPX +0.69% at 3,900, NDX +0.77% at 11,953, DJIA +0.64% at 31,020, RUT +0.81% at 1,813.

SECTORS: Materials +1.63%, Consumer Discretionary +1.34%, Industrials +1.33%, Utilities +1.32%, Financials +1.12%, Technology +0.82%, Consumer Staples +0.65%, Communication Services +0.44%, Energy +0.08%, Real Estate -0.21%, Health Care -0.54%.

EUROPEAN CLOSES: EURO STOXX 50 -0.02% at 3,499, DAX 40 +0.49% at 12,804, CAC 40 -0.26% at 6,061, FTSE MIB +0.15% at 22,145, IBEX 35 +0.08% at 7,990, SMI -0.04% at 10,606.

STOCK SPECIFICS: **Tesla (TSLA)** concluded production line optimisation at the Shanghai factory, according to the Shanghai Government. Separately, Tesla China, responding to media reports that it is mulling closing some urban showrooms in China, says it is still expanding domestic sales channels at a normal pace. **AutoZone (AZO)** posted a strong report, as it beat on EPS and revenue whilst SSS also topped consensus amid continued strength in its commercial business. **Apple (AAPL)** said its new iPhone 14 models contains a **Qualcomm (QCOM)** chip that can talk to satellites, but have additional custom-designed Apple components used in the phone's biggest new feature. **Take-Two Interactive (TTWO)** said a hacker published authentic, pre-release footage from the development of Grand Theft



Auto VI, offering an extensive and unauthorised look at the making of one of the biggest games in the industry. FDA approved **bluebird bio (BLUE)** gene therapy for a rare and lethal brain disease in children. Starboard Value took a 9% stake in **Wix (WIX)** in a bid to push for improvements, according to Reuters sources. **Bank of New York Mellon (BK)**, Warburg Group, and **Deutsche Bank (DB)** are to pay EUR 60mln to German tax authorities over the country's "cum-ex" tax scandal, according to Handelsblatt. **Adobe (ADBE)** was downgraded at Wells Fargo, who said Adobe's planned acquisition of online design firm Figma is a good product fit but that the USD 20bln price tag leaves little room for error. **Ralph Lauren (RL)** announced long term growth targets, where it backed its FY23 revenue view of up high single digits. **xPENG (XPEV)** launched its City Navigation Guided Pilot programme, where it aims to expand the coverage of the cos. driver assistance system to city driving scenarios from highways and parking lots. **Marriott (MAR)** CEO does not think overall lodging demand has been permanently impacted by pandemic, according to CNBC. Boeing (BA) was optimistic on its Middle East forecasts for passenger and cargo demand; expects to see demand for nearly 3k commercial jets valued at USD 765bln over the next two decades. **Ralph Lauren (RL)** aims to be "opportunistic" in M&A; sees average-unit growth offsetting inflation, according to its CFO at an analyst day. Business Insider reported **Netflix's (NFLX)** aggressive move into ads made noise, but **Disney's (DIS)** pitch for ad tier Disney+ Basic is winning over advertisers with lower pricing and seasoned sales teams.

FX WRAP

The Dollar was flat on Monday and off highs amid a choppy risk environment but further flattening in yields with the 10yr reaching fresh cycle highs of 3.50% while the 2yr yield neared 4%, topping out at 3.97% - which initially supported the buck. The DXY rose to 110.18 at the highs on Monday but failed to rise above Friday's high of 110.26 ahead of the fresh cycle peak of 110.79. All attention this week is on Wednesday's FOMC with all key data points now in the rear-view mirror - the remaining risk is a fresh WSJ article from Fed friend Nick Timiraos, but his latest article on Monday just noted how Powell abandoned his initial script for the Jackson Hole to put to sleep the idea of a Fed pivot. Our full FOMC preview is [available here](#).

The Euro was slightly weaker on Monday but hovered either side of parity. ECB's de Guindos spoke, noting the ECB has not discussed the exact level of neutral while de Cos stressed the magnitude of the slowdown is key regarding monetary policy decision, and he noted that inflation pressures are stronger than expected.

The Yen was sold vs the buck to see USD/JPY above 143 again after attempting to dip beneath the round level in the afternoon but the firmer US yields acted as a headwind for the Yen with a very risk-heavy week ahead, including the BoJ rate decision on Thursday and Fed rate decision on Wednesday as the next major JPY catalysts.

Cyclical currencies were mixed, AUD, GBP and CAD were relatively contained. Attention for GBP lies on the BoE rate decision Thursday while the UK was away on bank holiday for Queen Elizabeth II's state funeral. AUD was flat against the buck while CAD saw marginal weakness. NZD was the clear underperformer, however not on a single fundamental catalyst other than a downbeat risk tone overnight, but as that pared in the afternoon, the Kiwi failed to recover, albeit the AUD did so further pressure was weighed on the kiwi by the AUD/NZD cross which rose above 1.1250 today taking the cross to fresh cycle peaks and highs not seen since late 2017. However, it is worth clarifying when reading into these moves liquidity was thin Monday on account of the UK bank holiday while Japan was also away.

CNY and CNH were weaker vs the buck on fresh geopolitical concerns after US President Biden confirmed the US troops would defend Taiwan "if in fact there was an unprecedented attack" from China, he told CBS on Sunday. Meanwhile, China's central bank injected CNY 2bln via 7-day reverse repos at an unchanged rate of 2.00%, injected CNY 10bln via 14-day reverse repos with the rate cut to 2.15% (prev. 2.25%) in its first 14-day reverse repo operation since January. However, there were encouraging developments on COVID after the city of Chengdu exited its lockdown with 21mln people now allowed to leave their homes provided they test regularly.

EMFX was mixed. BRL saw pronounced strength after the former president of the Brazilian Central Bank Meirelles formalised his support for presidential candidate Lula which would be seen as an encouraging move for investors, which also buoyed Brazilian stocks. MXN saw mild gains vs the buck but there is a risk now after the 7.8 magnitude earthquake struck Mexico and has resulted in Tsunami warnings along the coast of Mexico - there have been no immediate reports of damages but the story is still developing. Elsewhere in LatAm FX, CLP was flat vs the buck while COP saw gains. ZAR was weaker amid the ongoing power issues in South Africa.



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