



US Market Wrap

20th September 2022: Risk hit on heightened Russia/Ukraine tensions, German PPI & hawkish Riksbank

- **SNAPSHOT:** Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW:** Eye-watering German PPI; Riksbank surprise with 100bps hike; Timiraos expects Fed to hike 75bps on Wednesday; US tries to secure international accord on oil price cap; LPR, DPR, Kherson and Zaporozhye to hold Ukraine annexation referendums; Strong US 20yr auction; Building permits miss, Housing starts beat; Putin to speak Wednesday morning; Cool Canada CPI; AAPL to hike App Store prices; F takes extra USD 1bln hit on supply chain costs.
- **COMING UP: Event:** FOMC Policy Announcement/Press Conference. **Speakers:** ECB's de Guindos. **Supply:** Germany.

MARKET WRAP

It was risk off on FOMC-eve with several updates weighing on sentiment. After the close Monday, Ford (F) became the latest industrial giant to provide a warning about results noting how supply chain costs will be about USD 1bln more than expected. Back to Tuesday, German PPI data was much hotter than expected and reignited some inflationary fears in the eurozone while a 100bps hike from the Riksbank was more than what analysts expected (but markets were pricing in a 60% chance of a 100bp move). There were also heightened geopolitical tensions regarding Russia and Ukraine where the separatists are to hold a referendum in Donetsk, Luhansk, Kherson and Zaporozhye on September 23rd-27th. We had been expecting an update from Putin on the matter, where there have been some suggestions he is considering introducing martial law and full mobilisation of the Russian army - the speech has now reportedly been delayed until 06:00BST/01:00EDT Wednesday. The Dollar was supported by the risk off trade while crude prices took a hit and Treasury yields were firmer across the curve after the German PPI and Riksbank rate decisions with all eyes now on the Fed on Wednesday. WSJ's Timiraos noted the Fed is expected to hike 75bp and signal intentions to raise and hold the benchmark rate above 4.0% in the months ahead.

GLOBAL

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](#).

BUILDING PERMITS AND HOUSING STARTS: Building permits tumbled 10% to 1.517mln, well beneath the expected 1.61mln (prev. 1.685mln), while housing starts jumped 12.2% to 1.575mln, notably above the consensus 1.445mln (prev. 1.404mln). For the latter, a surge of 28% in multi-family starts drove the overall gain in August, but single-family starts were also up 3.4%. However, building permits, which are the more forward-looking gauge of housing construction, significantly fell. Moreover, OxEco notes, "the decline in building permits in August suggests that the pace of starts last month won't be sustained", and as such expect starts to moderate over the balance of 2022. In particular, the consultancy adds, "while a shortage of housing persists, single-family homebuilders, in particular, are expected to slow down the pace of construction as buyers retreat to the sidelines", which was highlighted by homebuilder sentiment dropping to an eight-year low in September. Looking ahead, OxEco looks for housing starts to soften from the August pace, and while a shortage of homes continues to persist, more cautious homebuilders are expected to slow the pace of construction in response to higher interest rates and a slowing economy.

RUSSIA/UKRAINE: Russia is moving towards annexing Ukraine's Luhansk, Donetsk and Kherson regions with referendums to take place in each region between September 23rd and 27th. The votes are considered illegal under Ukrainian and international law. If the vote is successful, it is likely any attack on these regions would be deemed an attack on Russia itself - the Russian security council Chief Medvedev noted before the announcement any attacks on Russian territories will justify military response by the Kremlin. Ukraine has vowed to eliminate the threat of annexation, however a poll cited by Sputnik (Russian press) found the majority of people in the DPR, LPR, Kherson and Zaporozhye regions would like to join Russia. Although a time is not yet available, more information will be sought from Russia President Putin's speech on the referendums. The West has been quick to dismiss such annexations, with the US



saying it will never recognise Russia's claims to any annexed parts of Ukraine and will reject Russia's annex unequivocally. Note, there was also a tweet from the head of RT (Russian press) that translated to "Judging by what is happening and still about to happen, this week marks either the eve of our imminent victory, or the eve of nuclear war. I can't see anything third." There has been little else on either of these two outcomes but it is something we are keeping an eye on. On Putin, according to The Guardian citing Forbes Russia and a Kremlin pool journalist, the Russian President's speech is to be at 06:00BST/01:00EDT 21st September.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 16+ TICKS LOWER AT 113-27

Treasuries were sold after Riksbank and German PPI, but came off lows after a strong US 20yr auction. 2s +1.8bps at 3.964%, 3s +3.7bps at 3.937%, 5s +5.9bps at 3.752%, 7s +7.6bps at 3.693%, 10s +8.2bps at 3.571%, 20s +6.6bps at 3.839%, 30s +7.3bps at 3.578%. Inflation Breakevens: 5yr BEI +3.7bps at 2.546%, 10yr BEI +5.4bps at 2.412%, 30yr BEI +4.9bps at 2.318%.

THE DAY: A very quiet APAC Tuesday saw T-Notes drift ever so slightly higher to session highs of 114-17 before selling picked up into the European morning. The selling was aided by the 100bps Riksbank rate hike and above-forecast German PPI data, although the back end of the Treasury curve was weakest, steepening the curve, with an eye towards the 20yr auction. The selling (and curve steepening) lost momentum in the NY morning, but only after the sustained pressure saw benchmark yields print new peaks, with the 2yr and 10yr yields eclipsing 4% and 3.6%, respectively. There was a slew of block sales in the 5yr and 10yr contracts at the time. But Treasuries came off lows into, and after, the strong 20yr auction (details below), with traders now looking to Wednesday's FOMC and Dot Plot. Elsewhere, note the latest JPM client Treasury survey, for the week ending September 19th, saw the fewest outright short positions since Aug 1st and largest neutrals since Aug 15th.

20YR AUCTION: A decent 20yr reopening from the Treasury. September saw USD 12bln sold at 3.820%, a big cheapening from August's 3.380% and a smaller auction size. The auction stopped-through by 1.3bps, better than the prior 2.5bps tail and the six-auction avg. (adj. for size) 1.2bps stop-through; bid/cover at a strong 2.65x. The takedown was strong thanks to a big step up in Indirects participation to 75.3% from 67%, indicative of end-user demand.

STIRS:

- EDZ2 -2.0bps at 95.315, H3 -1.5bps at 95.370, M3 -1.5bps at 95.530, U3 -2.5bps at 95.715, Z3 -4.5bps at 95.925, Z4 -9.0bps at 96.400, Z5 -9.0bps at 96.515.
- Option flow saw 5k SR3V2 95.25/95.125 put spreads blocked for 0.5, with nothing bigger seen aside from some profit taking in deep ITM puts.
- NY Fed RRP op. demand at USD 2.239tln (prev. 2.218tln).

CRUDE

WTI (X2) SETTLED USD 1.42 LOWER AT 83.94/BBL; BRENT (X2) SETTLED USD 1.38 LOWER AT 90.62/BBL

Crude tracked risk sentiment throughout Tuesday and saw losses with in the afternoon as the Dollar rose and as sentiment slumped with eyes on Russia/Ukraine. As such, WTI and Brent hit lows of USD 83.01/bbl and 89.80/bbl, respectively. Stories of note, the US is trying to secure an international accord on an oil price cap, and Senators are seeking secondary sanctions on Russian oil purchases, according to Bloomberg. Whilst on the European front, Uniper's (UN01 GY) takeover by the German government is close, with expected costs over EUR 30bln, according to Business Insider sources, while other sources the deal is to come on Wednesday and Fortum (FORTUM FH) will exit Uniper as shareholder as a result. Nonetheless, the German government is still intending on implying a gas levy from October 1st. Looking ahead, market participants will have all eyes on the FOMC rate decision on Wednesday, where the central bank is expected to hike by 75bps ([Newsquawk preview available here](#)). Lastly, private inventory data is after hours and expectations are (bbls): Crude +2.2mln, Gasoline -0.4mln, Distillates +0.4mln.

EQUITIES

CLOSES: SPX -1.07% at 3,858, NDX -0.85% at 11,851, DJIA -1.01% at 30,707, RUT -1.22% at 1,788.

SECTORS: Real Estate -2.57%, Materials -1.9%, Consumer Discretionary -1.69%, Communication Services -1.61%, Financials -1.45%, Utilities -1.43%, Industrials -1.23%, Health -1.15%, Energy -0.64%, Consumer Staples -0.53%, Technology -0.51%.



EUROPEAN CLOSES: EURO STOXX 50 -0.93% at 3,467, FTSE 100 -0.61% at 7,192, DAX 40 -1.03% at 12,670, CAC 40 -1.35% at 5,979, FTSE MIB -1.66% at 21,773, IBEX 35 -1.50% at 7,873, SMI -1.29% at 10,480.

STOCK SPECIFICS: **Apple (AAPL)** told developers that it would hike App Store prices in Europe and Asia in October due to a strong USD; has also hiked hardware prices in some areas this year - seeing AAPL close green. **Boeing (BA)** and China's Civil Aviation Administration took part in a special meeting on 737Max aircraft operation review. A federal judge ruled against a DoJ antitrust challenge to **UnitedHealth's (UNH)** USD 13bln acquisition of **Change Healthcare (CHNG)**, rejecting government claims that the deal would unlawfully suppress competition and limit innovation in health-insurance markets, according to WSJ. **Bank of America (BAC)** CFO said deposit balances remain "steady at record levels" and they are seeing upper end wealth balances rotate off bank's deposits. On consumers, BAC is still seeing consumer spending continuing through September and says they are in great shape. **Ford (F)** warned costs in Q3 could be USD 1bln higher than expected due to increased supplier costs and parts shortages; factors contributed to a shortfall in finished vehicles ready to sell. **Olin (OLN)** updated Q3 outlook; downgraded EBITDA view and now expects it to be between USD 530-550mln (prev. 727mln). **Cognex (CGNX)** raised Q3 revenue guidance as it cited a faster-than-expected inventory recovery from a fire at its primary contract manufacturer. **Meta (META)** had a group of US states argue to an appeals court that it should reinstate an antitrust lawsuit against Facebook because of ongoing harm from the cos. actions. Separately, an EU court adviser says antitrust authority may assess if Meta complies with EU privacy rules. **Nike (NKE)** was downgraded at Barclays who noted continued volatility for the co. in China as well as demand erosion in North America and elsewhere. **Norwegian Cruise Line (NCLH)** was upgraded at Truist who cited a fall in cancellations and subsequent rebooking's at lower prices. **Microsoft (MSFT)** increased its quarterly dividend 9.7% to USD 0.68 (prev. 0.62). **Nvidia (NVDA)** announced new 'ADA Lovelace' graphics chips for gaming and the new graphics chips will be made by **TSMC (TSM)** on the '4N' chip making process. RTX 4090 chips will start at USD 1,599 and will be available from October 12th. **Hertz (HTZ)** plans to order up to 175k EVs from **General Motors (GM)** over the next five years, according to Bloomberg. **Gap (GPS)** is eliminating about 500 corporate jobs in a move to reduce expenses amid declining sales and profits, according to WSJ citing sources.

FX WRAP

The Dollar was supported by the risk off tone and the move higher in yields which started from the European morning after very hot German producer prices data as well as a surprise 100bp hike from the Riksbank. Yields extended on fresh cycle highs with the 10yr yield hitting highs of 3.60% while the 2yr edged closer to 4% ahead of the Fed rate decision on Wednesday. The latest Timiraos article suggested the Fed will move by another 75bps and noted that attention turns to the dot plot where they are expected to show rates will rise and be held above 4.0% in the months ahead.

The Euro was softer against the Dollar and flat vs GBP, JPY, and AUD but it outperformed CAD and NZD amid the poor risk environment. The German Producer Prices gave a worrying signal after rising 45.8% Y/Y, above the expected 37.1% print which sent both EGB and UST yields higher. Any hawkish support in the Euro after the German data was offset by heightened tensions in Russia and Ukraine after Russia announced referendums to join Russia in Donetsk, Luhansk, Kherson and Zaporozhye.

Scandi were weaker vs the euro and the Dollar on Tuesday but the SEK was the outperforming Scandi currency after the Riksbank hiked by 100bps, above the 75bps expected although markets were implying a 60% probability of a 100bp hike at the time. Riksbank also confirmed QE will continue in accordance with the decision in June but they are expected to cease at the end of the year while it also signalled more rate hikes ahead. Its latest guidance now signals a peak rate around late 2023 or early 2024.

The Yen saw weakness against the buck, again, due to the aforementioned rise in US yields while overnight saw the August CPI data come in hotter than expected on the headline but ex food and energy was slightly cooler than expected. Attention lies on both the BoJ and Fed rate decisions later in the week.

Cyclical currencies were weaker, particularly NZD once again seeing AUD/NZD continue its ascent higher with the cross rising above 1.13 and briefly above 1.1350. GBP tested last week's low of 1.1348 ahead of the BoE rate decision on Thursday and Fiscal statement on Friday, which are the next catalysts other than risk sentiment. CAD saw particular weakness, albeit not as weak as the Kiwi, after the latest CPI data came in cooler than expected and the average of the BOC eyed measures (core, common and trim) also edged down slightly to 5.23% from 5.30% - helping the inflation has peaked narrative. Moreover, we heard from BoC Deputy Governor who said the bank will continue to do whatever is necessary to restore price stability and maintain confidence it can meet 2% target, and thinks August inflation data is still too high but data shows we are headed in the right direction, Additionally, to avoid de-anchoring and to bring inflation sustainably back to target, some suggested a substantial slowdown or even a recession be engineered.



EMFX was mixed but generally weaker with RUB leading the losses amid a Russian stock market crash of c. 10% after referendums were announced in the Donetsk, Luhansk, Kherson and Zaporozhye regions. CNH and CNY were weaker. Overnight, China left their LPR unchanged Tuesday, while Mizuho flagged that the bank "interestingly added liquidity via a 14d reverse repo, for the first time in over 2m." The PBoC also later announced it is to push a forward interest rate liberalisation reform and strengthen the supervision of deposit rates - adding rates are currently in a reasonable range. BRL added to its Monday gains while Valor reported Brazil will announce a budget freeze on 22nd September. MXN was softer, a preliminary estimate from the INEGI stated Mexico's economy likely grew 2.9% in August.

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