US Market Wrap

23rd September 2022: Big Swinging DXY after Sterling decimation and weak global data

- **SNAPSHOT**: Equities down, Treasuries flatter, Crude down, Dollar up.
- **REAR VIEW**: UK unveils "mini-budget" with major tax cuts; Poor European Flash PMIs, renewed inflation pressures; US Flash PMIs surpass consensus across the board; ECB studying options to cut reserve remuneration.
- **WEEK AHEAD PREVIEW**: Highlights include Italy Elections, US PCE, EZ CPI, China PMIs. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Reviewing FOMC, BoE, SNB, Riksbank, Norges Bank, BCB, SARB; previewing Banxico, RBI. To download the report, please click here.

MARKET WRAP

Stocks were sold hard throughout the Friday session with global macro front of mind as the aggressive UK 'mini-budget' and troubling European PMI surveys weighed, seeing the Dollar soar (DXY up over 1.5%, printing session highs of 113.230). Global demand concerns were piqued in the early European session on Germany PMI commentary, "Just when it looked like underlying inflationary pressures might be easing, a fresh surge in energy prices has seen business input costs rise at a faster rate for the first time in five months." The historic sell-off in the UK Gilt market, and pretty much all things denominated in Sterling, after the aggressive tax cuts in the 'mini budget' announcement drove global risk-off from there. GBP/USD hit session lows in the late US session at 1.0840, the lowest since the mid-80s, despite the 10yr UK yield seeing a multi-decade record single-day increase, as investors increasingly shun the country's prospects. The S&P 500 came within earshot of the June low at 3666, although pared further away from it into the close/weekend. US Treasuries saw further flattening after the US long-end faded the initial Gilt-led tumble.

GLOBAL

S&P FLASH PMIS: US flash PMIs for September surpassed expectations across the board, as manufacturing rose to 51.8 (prev. 51.5, exp. 51.1) and services, despite remaining in contractionary territory, printed 49.2 (prev. 43.7, exp. 45.0). Composite lifted to 49.3 from 44.6. Looking at the report, US businesses reported a third consecutive monthly fall in output during September, rounding off the weakest quarter for the economy since the GFC if the pandemic lockdowns of early 2020 are excluded. Nonetheless, for manufacturing and services, "the rate of contraction moderated compared to August, allaying some concerns about the depth of the current downturn." Meanwhile, there was more encouraging news for inflation, as the report adds, "supplier shortages eased to the lowest since October 2020, helping take some of the pressure off raw material prices. These improved supply chains, accompanied by the marked softening of demand since earlier in the year, helped cool overall the rate of inflation of both firms' costs and average selling prices for goods and services to the lowest since early-2021." However, the survey concludes, "inflation pressures nevertheless remain elevated by historical standards and, continue to paint a broad picture of an economy struggling in a stagflationary environment."

ECB: Reuters ECB sources noted the central bank is studying options to cut subsidies to banks via changing TLRO terms to reduce payouts, as well as mulling scrapping ECB remuneration on mandatory reserves or some excess reserves also an option. Without changes, ECB is set to pay tens of billions to banks on the USD 4.5tln worth of banks' reserves after it recently hiked the Depo rate to +0.75%. Elsewhere, ECB's Nagel said unconventional measures should be unwound once their job is done, stopping bond purchases when they have fulfilled their purpose (ECB QT is expected to begin going into 2023).

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 4 TICKS LOWER AT 112-20

Treasuries saw further flattening after the US long-end faded the initial Gilt-led tumble. At settlement, 2s +7.6bps at 4.203%, 3s +7.8bps at 4.220%, 5s +4.5bps at 3.972%, 7s +0.9bps at 3.864%, 10s -2.1bps at 3.687%, 20s -2.7bps at 3.887%, 30s -3.6bps at 3.602%.

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Inflation breakevens: 5yr BEI -7.2bps at 2.44%, 10yr BEI -4.3bps at 2.377%, 30yr BEI -4.1bps at 2.262%.

THE DAY: T-Notes hit session highs of 112-30+ in the European morning Friday with spillover from weak European PMIs driving the initial bid. However, that soon swiftly reversed after the historic sell-off in UK Gilts in wake of the Chancellor Kwarteng's ambitious 'mini-budget'. The spillover sales saw T-Notes make session lows of 111-25 at the NY handover, with cash 10yr and 30yr yields peaking at 3.83% and 3.72%, respectively, with the 10s30s spread hitting a new trough at 12.6bps, exceeding the 2006 trough of -4.4bps, with the 2000 low of -27.4bps the next target. That proved enough to find a strong bid, with IFR citing real money lifting the lows, "pension funds insurers were the big buyers". The moves were exacerbated as shorts took profit, while there was also a decent flurry of OTM call buying seen via block trades for both 2yr and 10yr futures. T-Notes came within a few ticks of their earlier highs of 112-30+ in the NY session but failed to breach the level through into settlement.

STIRS:

- EDZ2 -4.5bps at 95.26, H3 -5bps at 95.055, M3 -7.5bps at 95.055, U3 -9.5bps at 95.185, Z3 -11bps at 95.365, H4 -11.5bps at 95.60, M4 -10.5bps at 95.805, U4 -10bps at 95.955, Z4 -8.5bps at 96.085, Z5 -3bps at 96.35.
- In options, STIRs standout trade was 35k SR3Z2 96.00/96.25 call spreads blocked for 2 up to 2.75.
- NY Fed RRP op. demand fell to USD 2.319tln from the record 2.359tln.

CRUDE

WTI (X2) SETTLES USD 4.75 LOWER AT 78.74/BBL; BRENT (X2) SETTLES USD 4.31 LOWER AT 86.15/BBL

The oil complex saw big downside to close the week, on account of the risk-off sentiment and significant Dollar strength. As such, aside from the broader macro newsflow and sentiment, energy-specific newsflow has been on the light side. Instead, the recent flurry of central bank hikes/tightening is weighing on the demand side. Highlighting the weakness, WTI front-month fell beneath USD 80/bbl for the first time since January to a trough of USD 78.04/bbl while Brent dropped to lows of 85.50/bbl. Looking ahead, traders may keep an eye on weekend developments as EU member states gear up to meet to discuss further Russian sanctions, where ING note, “there are suggestions that the aim is to come to a preliminary agreement by early October, ahead of an EU leaders’ meeting. Getting all members to agree on a price cap could prove difficult and EU members will want to come to a final decision by 5 December, which is when the ban on Russian seaborne crude into the EU comes into force.”

OSPs: Nigeria made sizeable cuts to its OSPs, highlighted by October Bonny crude lowered to plus 191 cents/bbl vs dated Brent (prev. plus 591 cents/bbl) and Qua Iboe OSP to plus 320 cents/bbl vs dated Brent (prev. plus 758 cents/bbl).

SAUDI ARABIA: Saudi Arabia's Foreign Minister stated that at present there is no demand that is not being met by supply and Saudi is doing its bit to increase oil capacity, according to Energy Intel's Bakr.

BAKER HUGHES: Oil +3 at 602, Nat Gas -2 at 160, Total +1 at 764.

EQUITIES

CLOSES: SPX --1.66% at 3,695, NDX -1.66% at 11,311, DJIA -1.61% at 29,592, RUT -2.82% at 1,680.

SECTORS: Energy -6.74%, Consumer Discretionary -2.29%, Materials -2.03%, Industrials -1.86%, Communication Services -1.77%, Consumer Staples -1.72%, Financials -1.54%, Technology -1.35%, Real Estate -1.3%, Utilities -1.17%, Health -0.53%.

EUROPEAN CLOSES: EURO STOXX 50 -2.29% at 3,348, FTSE 100 -1.97% at 7,018, DAX 40 -1.97% at 12,284, CAC 40 -2.28% at 5,783, FTSE MIB -3.36% at 21,066, IBEX 35 -2.46% at 7,583, SMI -1.54% at 10,138.

STOCK SPECIFICS: **Boeing (BA)** agreed to pay a penalty of USD 200mln to settle SEC allegations of misleading investors about two fatal crashes of its 737 Max aircraft in 2018 and 2019. **Raytheon Technologies (RTX)** was awarded a USD 985.4mln Air Force contract for the Hypersonic Attack Cruise Missile, and fended off rivals **Boeing (BA)** and **Lockheed Martin (LMT)**. **Costco (COST)** beat on EPS, revenue, and total comp. sales ex-fuel. However, COST said it was experiencing higher labour and freight costs and looking ahead has no immediate plans to raise membership prices, but said it would happen at some point. **FedEx (FDX)** remained on watch after announcing its cost-cutting plans on Thursday, and further noted profitability was challenged in Q1; plans to reduce FY23 capital spending and expects the weak trends seen in late Q1 to persist across major geographies. The NFL has reached a multiyear deal with **Apple**

(AAPL) Music to sponsor the Super Bowl Halftime Show, beginning in February 2023. **Qualcomm (QCOM)** said its future automotive business pipeline increased to USD 30bln in orders, up by more than USD 10bln since July. The increase came primarily from orders for its Snapdragon Digital Chassis computer chip. Additionally, increased QCT Automotive revenue growth forecast since November 2021 to greater than USD 4bln in FY26 and greater than USD 9bln in FY31. **fuboTV (FUBO)** was upgraded at Wedbush; sees the stock at a compelling entry point and expressed confidence that fuboTV can successfully raise capital and cut its cash burn rate. **Ally Financial (ALLY)** was downgraded at Wells Fargo, who said it will be difficult for Ally to outperform as used vehicle price continues to decline and as the consumer works through the headwind of inflation. **Tesla (TSLA)** is planning to have thousands of Humanoid Robots within its factories, according to Electrek citing a new job listing. **Fisker (FSR)** CEO said it is to start sales of Ocean EV SUV in India next July and is eyeing local EV production; Co. is scouting for showroom space and is in talks with Indian auto part suppliers. **General Motors (GM)** to invest USD 760mln in Toledo, Ohio plant for electric vehicle drive unit production.

WEEKLY FX WRAP

DXY scales 112.500, with Fed guidance and peer subsidence

USD/GBP/JPY - The Dollar is on course to net hefty and widespread gains, partly on US fundamentals and overall risk considerations, but also thanks to significant depreciation in rival currencies due to specific bearish factors. An undoubtedly hawkish midweek FOMC event gave the Greenback upside momentum, with dot plots raised markedly through year end to a loftier terminal rate after a 3rd successive 75 bp hike into the ‘very lowest’ end of what the Fed considers restrictive, per Chair Powell, and the Buck received another boost via better than expected preliminary PMIs, in stark contrast to far from flash EU outturns in the main. In DXY terms, 112.860 traded compared to a low for the index at 109.350, and several basket components endured declines of a similar or greater magnitude, including the Pound that plunged from a peak around 1.1460 to circa 1.0900 trough. For Sterling, the final straw came from the UK’s mini budget that proved anything but given the amount of tax cuts unveiled and financial assistance pledged to offset soaring energy bills for households and businesses. Indeed, the DMO ramped up its issuance remit accordingly and markets drastically re-priced BoE tightening prospects just a day after the MPC ‘only’ hiked by another half point, on the demand side implications of the fiscal largesse, and to the detriment of Cable and the Gbp in general as investors fretted about Government borrowing and the overall state of the economy. Elsewhere, the Yen was reeling post-FOMC and beyond the perceived 145.00 red line against the Dollar towards 146.00, as the BoJ maintained all ultra-accommodative policy settings and Governor Kuroda reaffirmed the need to stay patient and continue with powerful easing. Moreover, he ventured as far as saying that forward guidance may not require more than a tweak for 2-3 years, while adding that he does not expect or anticipate any request from the Japanese Government to tackle currency weakness, even if still rapid and moves are one-sided. Hence, the arguably even more excessive price action that followed rumours and confirmation that the MoF had intervened ‘decisively’ in conjunction with the BoJ just hours after the post-meeting press conference. Usd/Jpy recoiled all the way down below 140.50 before holding and probing a Fib retracement at 143.11 in the face of high octane bond yields and a lack of local participants on the 2nd of two market holidays that flanked the week.

AUD/NZD/EUR - Aussie and Kiwi losses stacked up alongside the broad deterioration in sentiment that hit underlying commodities hard, and the former also slumped in sympathy with the Yuan irrespective of the PBoC’s persistent rear guard efforts to prop up the Renminbi via counter-cyclically buffered daily fixings. Note, the onshore reference rate never topped 7.0000 even though the Cny dropped from 6.9963 to 7.1296 and Cnh to 7.1462 from 6.9912. Aud/Usd reversed 210 pips from just shy of 0.6750 following RBA minutes and commentary reaffirming the likelihood of a slowdown in the pace of rate increases and Nzd/Usd almost 250 pips from just over 0.6000. Meanwhile, the Euro caved convincingly through parity to the verge of 0.9700, regardless of steep downside in EGBs, largely hawkish ECB rhetoric, several big and a few huge upside option expiries along the way. Mostly below forecast Eurozone PMIs were a drag on Friday, but the Russian gas and oil supply issue kept the single currency pressured and the situation worsened on Wednesday when the aggressor announced the partial mobilisation of forces to continue its special mission in Ukraine and President Putin issued a broadside warning to the West plus NATO that all means of destruction, including nuclear ones, will be used in the case of a threat to the territorial integrity of Russia, adding this is not a bluff.

CHF/SEK/NOK/CAD - The Franc is holding up better than fellow G10s following remarks from SNB head Jordan reiterating hawkish intent and commitment to be active in FX that was in the accompanying statement post-75 bp hike yesterday, but Usd/Chf is still above 0.9800 and nearer the apex of a 0.9851-0.9621 range as the markets were looking for a full point. Nevertheless, Eur/Chf is closer to 0.9468 than 0.9715 awaiting the Italian election this weekend with an element of political premium, or insurance. Conversely, Eur/Sek and Eur/Nok are both elevated around range tops amidst aversion that has wiped out even more of the fleeting gains made by the Swedish Krona on the back of a bigger than consensus 100 bp Riksbank rate rise, while the Norwegian Crown slipped when the Norges Bank merely matched expectations for a 50 bp hike and indicated 25 bp more in November. However, the Nok subsequently tumbled with Brent and the same fate befell the Loonie as WTI eyes Usd 78/brl and Usd/Cad approaches 1.3600 having been down around 1.3228 at one stage. Note also, Canadian CPI metrics cooled more than anticipated and retail sales were worse than feared to weigh on BoC tightening perceptions relative to the Fed among others.

EM/PM - Widespread weakness vs the Usd or even the Eur, if applicable, as the steeper ramp up in rates, real and implied, compounds flight and recession risk, but direct intervention and further monetary tightening cushioned some from a worse fate, like the Zat, Inr, Krw, Hkd, Twd, Thb and Php. However, Gold was undermined by the Buck and spike in US cash (10 year benchmark almost 3.83% from a fraction beneath 3.45% at the opposite end of the spectrum), hitting a Usd 1640/oz or so base from nigh on Usd 1688 apex.