newsquawk

US Market Wrap

26th September 2022: Cable hits all-time lows sub-1.04 while bond rout extends

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: BoE will not hesitate to change rates as much as necessary; Poor German Ifo data; Weak 2yr auction; EU nations reportedly delaying Russian oil price cap; ECB's Nagel said rate hikes are required; Fed's Collins noted getting inflation down will require slower employment growth; Low Macy's seasonal workers.
- **COMING UP**: **Data**: Chinese Industrial Profit, EZ M3, US Durable Goods, Consumer Confidence, New Home Sales **Speakers**: Fed's Powell, Bullard, Evans, Kashkari; ECB's Lagarde, de Guindos, Panetta; BoE's Pill **Supply**: Netherlands, Italy, UK, Germany & US.
- **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 extended their sell-off Monday, albeit not as pronounced as Friday, with further fallout from the UK's fiscal plans that saw Cable flash crash to new all-time-lows around 1.0350 (depending on where you look). The BoE later released a statement noting they are monitoring developments in financial markets very closely and will not hesitate to change rates as much as necessary. Note, within the statement it neither denied nor hinted at the possibility of any inter-meeting BoE action. Treasuries saw another major sell-off, led by the belly with cash 10yr yield up 20bps, again, as UK yields made new peaks and angst sustained ahead of US Treasury supply in a vol-ridden market; the 2yr auction today was poor. Oil prices dipped to new troughs amid the sustained Dollar strength, while the Bloomberg Commodity Index hit its lowest in 8 months. There was little US economic data to mull over, leaving the dismal German Ifo survey to fester on global sentiment. The outlook for the US consumer has also dimmed with Macy's (M) being the latest retailer to make drastic Y/Y cuts to its seasonal hiring plans after Walmart (WMT) last week. Attention now falls on Tuesday's Fed speaker deluge, although perhaps more crucially, BoE's Pill. Meanwhile, the US data slate sees durable goods, consumer confidence, new home sales, and Richmond Fed survey.

US

FED: **Collins (2022 voter, neutral)** said getting inflation down will require slower employment growth and a somewhat lower employment rate, and more hikes are required. Further, Collins noted inflation remains too high and raising rates further is necessary to bring inflation to target. **Bostic (2024 voter)** noted the Fed has not fully pulled the reins on the economy and is now getting to what may be seen as more restrictive. **Logan (2023 voter)** made brief remarks that declared inflation is way too high.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 1 POINT & 8+ TICKS LOWER AT 111-11+

Treasuries see another major sell-off, led by the belly, Monday amid further UK spillover ahead of US supply. 2s +9.2bps at 4.306%, 3s +14.4bps at 4.373%, 5s +16.5bps at 4.149%, 7s +18.8bps at 4.062%, 10s +17.9bps at 3.876%, 20s +12.1bps at 4.016%, 30s +8.8bps at 3.700%.

Inflation breakevens: 5yr BEI -7.1bps at 2.38%, 10yr BEI -4.2bps at 2.344%, 30yr BEI -3.8bps at 2.231%.

THE DAY: The selling in govvies got going from the futures open after more touted tax cut measures from the UK Chancellor over the weekend saw the Sterling complex renew heavy sales. Support was found in T-Notes in the London morning at 111-26. A more meaningful bounce in US fixed income was observed in the NY morning as the dust from the UK crash settled taking T-Notes to 112-11+. However, that proved a dead cat as selling resumed into the afternoon with an eye to US supply in a vol-ridden market, not to mention the BoE statement that left open the possibility for inter-meeting action, even if it has not decided to follow through with such at this stage; an 11k Ultra 10yr block sale added to the pressures that stemmed from the belly. T-Notes made session lows of 111-05 in wake of the poor 2yr auction, with the downside capped by a massive 25k T-Note block buy, although that only stopped new lows being made rather than a sustained bounce into settlement.

2YR AUCTION: Another disappointing 2yr auction from the US Treasury after the USD 43bln's worth of notes stopped at 4.290%, tailing the WI by 1.6bps, worse than both August's 1.4bps tail and the six-auction average of stopping on the screws. The 2.51x bid/cover ratio was a smidge up from the prior 2.49x but still worse than avg. 2.57x. The takedown was also indicative of weak end-user demand after Dealers (forced surplus buyers) took 22.2%, slightly better than the prior 23% but worse than the avg. 18.6%. That sustained high Dealer share was a result of a material step-down in Indirects takedown to 53% from 59.7%, while Directs saw a step-up to 24.8% from 17.3%.

STIRS:

- EDZ2 +0.5bps at 95.255, H3 +5.5bps at 95.105, M3 +2bps at 95.07, U3 -4.5bps at 95.14, Z3 -10.5bps at 95.255, H4 -13.5bps at 95.46, M4 -15.5bps at 95.645, U4 -18bps at 95.775, Z4 -19.5bps at 95.89, Z5 -23.5bps at 96.11.
- NY Fed RRP op. demand fell to USD 2.299tln from 2.319tln.
- US sold USD 61bln of 3-month bills at 3.270%, covered 2.56x; sold USD 47bln of 6-month bills at 3.850%, covered 2.68x. both had lowest B/C ratios since July 11th.

CRUDE

WTI (X2) SETTLED USD 2.03 LOWER AT 76.71/BBL; BRENT (X2) SETTLED USD 2.09 LOWER AT 84.06/BBL

The crude complex started the week on the back foot, selling off through the NY session, with WTI and Brent losing over USD 2/bbl to settle at lows. Fundamental newsflow for oil was in the passenger seat, and the downside was more a function of broader Dollar strength and market sentiment, as opposed to any specific oil news. Nonetheless, the biggest energy update was the potential delay in the EU imposing Russian oil price caps (details below). On the production front, Exxon (XOM) noted it had completed shut downs of its Gravenchon (240k BPD) and Fos-Sur-Mer (235k BPD) refineries in France amid strikes, according to Bloomberg. In other news, White House Chief of Staff Klain noted the next sale from US strategic reserve is to offset OPEC's production cut.

RUSSIAN OIL: EU nations are said to be delaying the Russian oil price caps amid division among members, according to Bloomberg sources; will likely push back a deal until a broader sanctions package is agreed. The sources further noted that countries may push to have a prelim. deal ahead of an informal gathering of EU leaders on October 6th. Meanwhile, Czech Industry Minister noted nations will agree on the EU energy proposals at the energy ministers meeting on Friday. Elsewhere, Vitol CEO said Russian gas supply cuts put enormous strain on supply-demand in Europe and that high gas prices are to impact 60-80% of demand.

HURRICANE IAN: NHC said Ian is expected to rapidly strengthen on Monday and is expected to produce significant wind and storm surge impacts in Western Cuba, and later updates added Ian has become a hurricane and further rapid strengthening is expected. Following this, Chevron (CVX) announced it is to reportedly shut in two Gulf of Mexico platforms.

EQUITIES

CLOSES: SPX -1.02% at 3,655, NDX -0.51% at 11,254, DJIA -1.11% at 29,260, RUT -1.19% at 1,656.

SECTORS: Real Estate -2.63%, Energy -2.57%, Utilities -2.43%, Financials -1.69%, Materials -1.64%, Communication Services -1.31%, Industrials -1.13%, Health -1.01%, Technology y -0.67%, Consumer Discretionary -0.18%, Consumer Staples +0.01%.

EUROPEAN CLOSES: EURO STOXX 50 -0.18% at 3,342, FTSE 100 +0.03% at 7,020, DAX 40 -0.46% at 12,227, CAC 40 -0.24% at 5,769, FTSE MIB +0.67% at 21,207, IBEX 35 -0.99% at 7,508, SMI -0.64% at 10,072.

STOCK SPECIFICS: Casino names, such as **Las Vegas Sands (LVS), MGM Resorts (MGM), Wynn (WYNN), and Melco Resorts & Entertainment (MLCO)**, all saw decent gains after news Macau is to open to mainland tour groups from China in November. **PG&E (PCG)** firmed after the announcement it is to replace **Citrix (CTXS)** in the S&P 500 at the open on October 3rd. **Apple (AAPL)** has begun manufacturing iPhone 14 in India, according to TechCrunch. Poseidon Acquisition increased its bid to acquire **Atlas (ATCO)** to USD 15.50/shr (prev. 14.45/shr). **Li Auto (LI)** cut its Q3 delivery outlook to 25,500 units (prev. 27,000-29,000 units) and said it is a direct consequence of the supply chain constraint; underlying demand for the company's vehicles remains robust. **Macy's (M)** is to hire more than 41k seasonal workers (prev. 100k in September 2021 plans). Note, last week, **Target (TGT)** announced it will hire 100k seasonal team members, more than **Walmart's (WMT)** 40k seasonal members (prev. 150k in its September 2021 plans). **Planet Fitness (PLNT)** was upgraded at Raymond James; said the Co. has a resilient and recession-resistant business with no interest rate risk and very little near-term debt maturities. **Lyft (LYFT)** was downgraded at UBS who cited its driver survey that indicates drivers prefer Uber and Lyft is not their main app. Elon Musk's deposition in the **Twitter (TWTR)** case is not happening on Monday, according to CNBC reporter tweet; Depositions of both Musk and Twitter CEO Parag Agrawal have been postponed and new timing is unclear, according to Reuters sources. NY Post reported that a settlement is not imminent despite deposition delays.

FX WRAP

The Dollar was firmer on Monday and traded within wide parameters, highlighted by a high of 114.580 and a low of 113.040, as apart from Sterling woes the Buck benefitted from macro fundamentals such as relative US economic outperformance and the demand for the Greenback amid the increasingly unfavourable market sentiment. Nonetheless, Cable hitting an all-time low favoured the Buck, but as Sterling pared some losses, DXY faded from its highs. Elsewhere, little market attention has been paid to Fed speak on Monday, but Collins (2022 voter, neutral) said getting inflation down will require slower employment growth and a somewhat lower employment rate, and more hikes are required. Elsewhere, technicians note the Dollar index is ripe for a correction heading into month-end, sitting at its most overbought since 2010 after hitting a 20yr peak, but a pullback could be a buying opportunity and eventually result in a test of 2002/01 highs and long-term technical targets above 120. Looking ahead, there is a slew of Fed speak all week with Bullard, Kashkari, Evans, and Powell (on crypto) all scheduled for Tuesday, whilst the data highlight is PCE on Friday.

Sterling was the talk of the town on Monday as Cable hit an all-time low amid investor fears about clashing UK fiscal and monetary policies after Chancellor Kwarteng touted more tax cuts over the weekend. GBP/USD traded within a huge range, with the Refinitiv low at 1.0386 as opposed to a 1.0931 high, as Sterling saw the most pronounced pressure in the APAC session, and while the Pound staged a decent recovery, even crossing into the black at one point, it resumed its downwards descent into the NY session. This came after the BoE released a statement that it is monitoring developments in financial markets very closely in light of the significant repricing of financial assets, and it will not hesitate to change rates as much as necessary, but crucially, not doing anything at this juncture. Looking ahead, participants have their eyes peeled for any further updates/inter-meeting action from the BoE, as the most recent statement neither denied nor hinted at the possibility of any inter-meeting measures, as well as scheduled remarks from BoE's Pill on Tuesday.

Activity currencies, NZD, AUD, CAD, were lower against the Buck, to differing degrees of weakness, although all down over a per cent as the NZD underperformed. Firstly, the Aussie, as well as general risk-aversion was hit hard by the collapsing metals, as iron-ore, precious metals, and copper all saw notable losses. As such, AUD/USD hit lows of 0.6438, whilst NZD/USD trough was at 0.5759. For the Kiwi, RBNZ Governor Orr said New Zealand's tightening cycle is very mature and there is still a little bit more to do in terms of tightening, echoing his remarks from August 25th.

EUR was weaker vs the Greenback as the cross bottomed out at 0.9569. For the single currency, Cable’s record low was seen as a broader drag on Europe, with EUR/USD lower, but aside from that, poor German Ifo data, much weaker than forecast Belgian business confidence and widening BTP-Bund yields spreads after a right-wing alliance won Italy's election all weighed on the Euro. On top of this, there was a plethora of ECB speak with namely Nagel noting decision ECB rate hikes are required as risk is high that inflation expectations get de-anchored, and de Cos adding Q3 Eurozone data points to sharp economic downturn slowdown and ECB to stay extremely vigilant of inflation expectation; ECB needs to be vigilant over possible de-anchoring.

JPY saw losses, highlighted by USD/JPY surpassing 144.50 to highs of 144.78 amid Treasury-JGB yields surging, again, as the BoJ remains accommodative while condoning the MOF's intervention to guard against sharp Yen falls. As such, for the Yen, juicy yield spreads outweighed intervention potential.

CHF, like its peers, fell victim to the surging Buck amid the aforementioned woes in the UK. SNB's Maechler spoked in late trade, affirming the bank's intentions to bring down inflation whilst declining to comment on possible further interest rate moves.

EMFX was lower. The BRL was the notable underperformer, although MXN, RUB, ZAR, and COP all saw losses in excess of a per cent against the Buck. EMs fell foul to the general risk environment and demand for the Dollar, as opposed to any currency-specific headlines.

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