US Market Wrap

4th August 2023: Slowing job growth catalyses bond recovery while AAPL sinks stock market

- **SNAPSHOT**: Equities down, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Mixed US jobs report, headline short of expectations, unemployment surprisingly falls, earnings rise; Strong German factory orders; OPEC+ JMMC recommends no change in output policy; Strong AMZN report; AAPL revenue declines Y/Y with iPhone & iPad sales light.
- **WEEK AHEAD PREVIEW**: Highlights include US & China CPI, BoJ SoO and UK GDP. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing RBI and Banxico; Reviewing RBA, BoE and BCB. To download the report, please click here.

MARKET WRAP

Stocks were lower Friday in a choppy session after the sell-off in Apple (AAPL) post-earnings extended and reversed initial gains in the major indices, that's despite the spike higher in Amazon (AMZN). The VIX hit levels north of 17, the highest since late May, while the SPX lost c. 25 handles. NFP saw 187k jobs added (exp. +200k), with yet another sizeable net downward revision, catalysing a massive Treasury rally with the belly strongest (2yr -12bps, 10yr -15bps, 30yr -10bps), although the above-expected average hourly earnings figures raised some eyebrows from an inflation perspective. The Dollar was broadly sold among the majors, aside from CAD after the surprise fall in Canadian jobs, with the Euro and Yen outperforming among the majors - the DXY hit MTD lows of 101.73. The crude complex extended its Thursday's gains after the Saudi/Russia cut extension announcements, marking its sixth consecutive W/W gain, no doubt aided by the softer Dollar.

US

NFP: 187k non-farm jobs were added in the US in July, missing the 200k estimate and towards the bottom end of analyst forecasts which ranged between 185-300k. The prior was also revised lower to 185k from 209k, with the net revisions at -49k. Note that private payrolls jumped to 172k from 128k, while government payrolls were responsible for a much smaller 15k jobs in July vs the high 57k in June. Pantheon Macroeconomics writes, "The big picture here is that the wave of post-Covid catch-up hiring now appears to be over, and modest downward cyclical pressure is now the dominant force in payrolls." Elsewhere, the unemployment rate moved lower to 3.5% from 3.6%, including the prime-age (25-54yr) rate falling to 3.0% from 3.1%, at the same time, the participation rate remained unchanged at 62.6%, indicative of the strength of the labour market in the face of central bank tightening. The average hourly earnings metrics were hot, rising 0.4% M/M (exp. 0.3%, prev., 0.4%), with the Y/Y rising 4.4% (exp. 4.2%, prev. 4.4%), although one also has to consider the average hours worked falling to 34.3 in July, back to the joint-lowest post-COVID. Furthermore, UBS flags seasonal effects in wages, "Average hourly earnings should get pushed up by a calendar shift, just like in July 2022, and then that undue strength should flip to a softer gain than otherwise next month." As far as the Fed is concerned, there have been some differing views publicised on wage inflation, with some, particularly Goolsbee (v, dove), believing wages are a lagging indicator. However, Fed Chair Powell at the FOMC said although the Fed does not think wages were an important part of inflation in the first year of COVID, he would say they are probably going to be an important issue going forward, and Powell was calling for a further softening in labour market conditions to help with their inflation fight. In all, the BLS report is not a groundbreaking development in either direction, although the more moderate pace of jobs added (albeit hardly indicative of a labour market rollover) has seen a slight dovish shift in the market's Fed path after the data with implied probabilities for September and November hikes reducing on the margin, with the market reluctant to bake in another hike. The more pivotal reports are still to come for the Fed, with the July CPI (Aug 10th) and August CPI (Sept 13th) still due before the September 20th FOMC, while the August NFP report (Sep 1st) will be assessed in a similar vein to these July figures.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 29 TICKS HIGHER AT 111-04+

Treasuries rallied with the belly leading after the softer pace of US job growth catalysed short-covering into the weekend. 2s -10.7bps at 4.789%, 3s -11.8bps at 4.470%, 5s -14.3bps at 4.158%, 7s -14.6bps at 4.112%, 10s -13.5bps at 4.054%, 20s -11.6bps at 4.374%, 30s -9.7bps at 4.207%.

INFLATION BREAKEVENS: 5yr BEI +1.8bps at 2.390%, 10yr BEI +0.4bps at 2.375%, 30yr BEI +0.9bps at 2.344%.

THE DAY: Treasuries were mixed entering the NY session on Friday with the front-end having leaked lower through the APAC and London morning, while the long-end had just a mild bid after paring a bounce in the Tokyo morning. A surge in German factory orders provided some weight to sellers, but otherwise, there were few catalysts for USTs. A lack of further selling in JGBs Friday could have only helped stop the rot in US duration. Albeit, T-Notes lost their support at the July low (110-05) late in the London morning, hovering a few ticks beneath ahead of the US jobs report.

The NFP miss saw T-Notes (U3) trade choppy at first, jumping from 110-05 to 110-13 immediately before swiftly hitting a low of 109-24, all within a minute. But, as the dust settled, the front end sustained a strong bid that filtered out the curve, with the heavy beat long-end struggling at first to track higher, steepening the curve. The front-end strength petered out later in the NY morning, but the belly strength sustained to become the best-performing part of the curve in the afternoon, while the long end also played catch-up, paring a majority of Thursday's losses. T-Notes ultimately peaked at 111-04 ahead of settlement.

On the week, and taking into account the recovery on Friday, US 2yr yields have fallen 9.7bps, 5yr have fallen 2.1bps, 10yr have risen 9.9bps, and 30yr have risen 18.6bps, with the 30yr yields posting their second largest W/W rise of the year. While in TIPS, 2yr yields have fallen 5.5bps, 5yr have risen 2bps, 10yr have risen 11.5bps, and 30yr have risen 16.3bps.

STIRS:

- SR3U3 +1bps at 94.60, Z3 +3.5bps at 94.655, H4 +6.5bps at 94.925, M4 +9.5bps at 95.29, U4 +12bps at 95.68, Z4 +12.5bps at 95.995, H5 +13.5bps at 96.235, M5 +14bps at 96.385, U5 +14bps at 96.45, U6 +15.5bps at 96.54, U7 +15.5bps at 96.475.
- SOFR flat at 5.3% as of Aug 3rd, volumes fall to USD 1.413tln from 1.416tln.
- NY Fed RRP op demand at USD 1.794tln (prev. 1.777tln) across 102 counterparties (prev. 105).
- EFFR flat at 5.33% as of Aug 3rd, volumes flat at USD 105bln.

NEXT WEEK (US items bolded):

- MON: **Fed's Bostic, Bowman, Consumer Credit**, BoJ Summary of Opinions, German Industrial Output (Jun), EZ Sentix Index (Aug).
- TUE: **Fed's Harker, NFIB, International trade, IBD/TIPP index, 3yr auction,** EIA STEO, Chinese Trade Balance (Jul), German Final CPI (Jul), Canadian Trade Balance (Jul).
- WED: **10yr auction**, Chinese Inflation (Jul).
- THU: **Fed's Bostic, CPI (Jul), Jobless Claims, US budget, 30yr auction**, RBI Announcement, Banxico Announcement, OPEC MOMR.
- FRI: **US PPI (Jul), US Uni of Michigan Prelim. Survey (Aug)**, IEA OMR, UK GDP (Jun), French/Spanish Final CPI (Jul).

REFUNDING: US to sell USD 42bln of 3yr notes (prev. 40bln) on Aug 8th, USD 38bln of 10yr notes (prev. 35bln) on Aug 9th, and USD 23bln of 30yr bonds (prev. 21bln) on Aug 10th; all to settle August 15th.

CRUDE

WTI (U3) SETTLED USD 1.27 HIGHER AT 82.82/BBL; BRENT SETTLED USD 1.10 HIGHER 86.24/BBL

The crude complex ended the day, and the sixth consecutive week, with sustained tailwinds from Saudi and Russia supply cuts and the weaker Dollar, in spite of a mixed NFP report. WTI (U3) and Brent (V3) ground higher since the US jobs metrics, printing highs of USD 83.24/bbl and 86.65/bbl, respectively. While headline-driven price action was thin Friday, the OPEC+ JMMC took place where the group, as expected, recommended no change in output policy and as announced Thursday, Saudi Arabia will extend the voluntary cut of 1mln BPD for another month to include September that can be extended or extended and deepened. Further on the OPEC footing, Russian Deputy PM Novak said Friday the deal in June was implemented by 100% and oil production has remained at 9.5mln BPD. Novak added Russia is fully committed to the OPEC+ deal, and global oil demand is to grow by 2.4mln BPD in 2023 but they will closely monitor the market. Separately, following the drone attack in Russia, the Caspian Pipeline Consortium (CPC) said the movement of ships resumed in Novorossiysk. Next week, aside from US CPI, scheduled risk events are sparse amid the quiet summer months, which could give more weight to the inventory figures after the massive crude draws reported this week.

BAKER HUGHES: For the week ending August 4th, oil rigs fell for the eighth consecutive week to 525, down 4 W/W, while nat gas were unchanged at 128, with total down 5 to 659. US drillers cut oil and gas rigs for the fourth week in a row.

EQUITIES

CLOSES: SPX -0.53% at 4,478, NDX -0.51% at 15,274, DJIA -0.43% at 35,065, RUT -0.20% at 1,957.

SECTORS: Technology -1.49%, Utilities -1.2%, Consumer Staples -1.02%, Real Estate -0.99%, Industrials -0.65%, Financials -0.42%, Health -0.36%, Communication Services -0.31%, Materials -0.26%, Energy +0.03%, Consumer Discretionary +1.91%.

EUROPEAN CLOSES: DAX +0.37% at 15,952, FTSE 100 +0.47% at 7,564, CAC 40 +0.75% at 7,315, Euro Stoxx 50 +0.71% at 4,335, IBEX 35 +0.66% at 9,368, FTSE MIB -0.41% at 28,586, SMI +0.14% at 11,103.

EARNINGS: **Apple (AAPL)** revenue declined 1% Y/Y, showing a fall for the third consecutive quarter. In addition, products, iPhone and iPad sales missed. Do note, both EPS and revenue beat with iPhone sales growing by double digits in China during Q3, while iPhone reached all-time revenue record in India. Furthermore, the Q3 revenue guide was light. **Amazon (AMZN)** surpassed expectations on the top and bottom line with the sales breakdown beating on all major metrics, such as AWS and cloud; next quarter revenue guidance also strong. **Booking Holdings (BKNG)** beat on EPS and revenue and expects gross bookings to grow in Q3. **Fortinet (FTNT)** missed on the top line alongside cutting FY revenue guidance. Note, EPS beat and raised FY profit outlook. **DraftKings (DKNG)** posted a shallower loss per share than expected and beat on revenue, monthly unique players and ARPU; lifted FY23 guidance. **Opendoor Technologies (OPEN)** next quarter revenue guide was well short. Note, EPS surprise profit and revenue beat. **Icahn Enterprises (IEP)** posted a surprise loss per share and missed on revenue alongside cutting quarterly dividend to USD 1.00/shr (prev. 2). **Atlassian (TEAM)** surpassed St. expectations on the top and bottom line with Q1 revenue guide also strong. **Motorola Solutions (MSI)** topped consensus on the top and bottom line and lifted FY profit view noting momentum entering H2 is strong. Exec said it continued to see strong demand in all technologies and regions and had record Q2 orders and record-ending backlog.

STOCK SPECIFICS: **Tupperware Brands (TUP)** finalized an agreement with its lenders to restructure its existing debt obligations, improving overall financial position by amending certain credit obligations and extending the maturity of certain debt facilities to allow it to continue with its turnaround efforts. **Nikola (NKLA)** CEO will step down effective immediately due to a “family health matter.” **Google (GOOGL)** to face slimmed-down antitrust suit over search deals, winning ruling to limit antitrust claims, according to Bloomberg.

WEEKLY FX WRAP

NFP, BoE, RBA, PMIs, and US rating downgrade from Fitch headline the busy week that was

DXY - A choppy week overall, influenced by Fed comments, risk aversion, bond selloff, and tier 1 economic data – with the index looking to end the European session towards the bottom week’s 101.53-102.84 parameter. The Index this week was largely fuelled by the rise in yields, with the US 10yr rising from a 3.9270% low to levels comfortably above 4.00% - with the whole US curve above the level. The downside in bonds emanated from Fitch downgrading US’ rating on the eve of the Treasury Quarterly Refunding announcement which confirmed increased coupon sizes. Fitch downgraded US long-term ratings to 'AA+' from 'AAA', with a stable outlook. Fitch cited increasing debt, weak governance, and anticipated fiscal decline over 3 years, leading to debt standoffs. Analysts suggested the decision is to have a limited impact on markets. (full Newsquawk analysis can be found here). Datawise, we had softer ISM Manufacturing PMI and JOLTS which printed beneath expectations, but had a modest impact. The US labour market report saw the headline miss forecasts (187k vs exp. 200k), while hawkish elements included higher-than-expected wages alongside an unexpected dip in the unemployment rate. DXY on balance saw losses as the dust settled, with the index falling from 102.50 to 102.25 in an immediate reaction, before extending to new lows of 102.10 around 15 minutes later. Fed pricing has seen a 25bp hike implied probability for September fall marginally to 17% from 20%, with the implied Nov meeting Fed rate falling slightly to 5.41% from 5.43%; Dec'24 implied Fed rate has fallen to 4.16% from 4.23% - the Dollar selloff was attributed to unwind of the bond selloff earlier in the week. DXY rose above its 100 DMA (102.33) and the 50 DMA (102.39) throughout the week before finding daily support in between the DMAs on Thursday, just to be taken down on Friday under 102.00, below the 100WMA around 102.06, and below Tuesday’s 101.84 low.

JPY, CHF - A volatile week for the JPY driven by the BoJ's actions and traditional haven status, whilst the CHF saw influence from risk aversion and domestic data. JPY was initially hit after the BoJ's unscheduled JGB auction undermined its back-door YCC tweak on Friday last week, with a second unscheduled auction undertaken on Thursday. However, with risk aversion largely dominating the latter half of the week, USD/JPY looks to end the European week around the middle of a 140.68-143.88 weekly parameter and above its 100 DMA at 141.27. The CHF was on a softer footing following the region's CPI print which cooled from the prior reading to be in line with the market's forecast at 1.6% and below the SNB's Q3 CPI YY forecast of 1.7%. CHF later reversed course amid the risk tone alongside Friday's post-NFP losses in the USD, with USD/CHF looking to end the European week relatively flat within a 0.8664-8805 weekly range.

AUD, NZD, CAD - Overall, a downbeat week for the Antipodeans. Pressure emanated from central bank decisions and broader risk sentiment, with the Aussie and Kiwi both set to end the European week lower. CAD also looks to end the week on a softer footing as it failed to garner much traction from rising oil prices and was undermined by its own jobs release. Antipodean kicked off the week on a firmer footing amid more Chinese stimulus talks, but thereafter slumped following the RBA's latest announcement whereby it maintained its Cash Rate Target unchanged at 4.10% (vs split views between 25bps hike and unchanged) and noted that some further tightening of monetary policy may be required. The RBA reiterated that the Board remains resolute in its determination to return inflation to target and will do what is necessary to achieve that, while it also reaffirmed a priority to return inflation to target within a reasonable timeframe and expects inflation will be back in the 2-3% target range in late 2025. Adding fuel to the fire was the surprise contraction in Chinese Caixin Manufacturing PMI (although Services topped forecasts later in the week) – AUD/USD looks to end the week with losses in a 0.6514-6739 weekly range. Kiwi saw pronounced downside the day after the RBA following New Zealand Q2 unemployment rising more than expected (3.6% vs exp. 3.5%, prev. 3.4%), while the Labour Cost Index missed expectations on both QQ and YY terms – which could provide the RBNZ with some comfort ahead of the 16th August decision. The Loonie failed to benefit from the pre-JMMC crude price action while a surprise shedding of jobs in July and an expected uptick in the unemployment rate led to initial CAD weakness. USD/CAD looks to end the week toward the top of its 1.3151-3393 weekly range.

EUR, GBP - A mixed week for the European majors with the former just about able to eke out a week of gains on the back of the post-NFP dollar sell-off. Sterling dealt with the BoE which came to market with a 25bps rate hike, taking the Base Rate to 5.25% and disappointing some outside calls for a larger 50bps move. The decision to raise rates was subject to an 8-1 vote with Dhingra the lone dissenter whilst the magnitude of the rate hike was subject to hawkish dissent from Mann and Haskel who backed a 50bps increase. The forecasts embedded in the accompanying MPR saw the 2023 inflation projection held at 5% whilst the two-year forecast was revised higher to 1.5% from 1.0%, but ultimately still seen below target and therefore indicative that the MPC judges the current rate path to be tighter than required to return inflation to mandated levels. From a growth perspective, GDP is seen at 0.5% per annum from 2023-2025. ING suggests a "hike in September seems likely, but by November we think the news on services inflation and wage growth should be looking a little better". GBP/USD looks to end the European week with modest losses within a 1.2620-2872 parameter after trading on either side of its 50 DMA (1.2734) on Friday. The single currency meanwhile largely digested revisions lower in S&P Global PMIs, which underscored increasing recession risks in Europe, whilst services signalled a contraction in business activity. The PMIs also showed divergence – HCOB writes that "While the French service companies have put the brakes on their activity, Spanish companies are still expanding at a rather healthy pace, despite a considerable slowdown since the first quarter. Spanish companies are also still in a hiring mood, while Italian firms have started to cut employment. The contrasting economic performance is making the already-difficult job for the ECB even more challenging." Aside from that, it was largely a Dollar and Sterling-driven story for the Euro. EUR/USD ekes mild gains heading into the final hours of this week's European session, looking to end the week towards the top of a 1.0912-1045 range.

Yuan - The Chinese Yuan's actions during the week were largely influenced by PMI data and expectations surrounding potential stimulus measures. The surprise contraction in the Caixin Manufacturing PMI on Tuesday had a notable impact, leading to a rise in USD/CNH. The week also featured mixed signals from other economic indicators, and the market closely watched the government's policy actions and export controls. From a central bank perspective, commentary from a PBoC official suggested RRR cuts, open market operations, MLF and all structural policy tools need to be flexibly used to maintain reasonably ample liquidity in the banking system, adding that the PBoC will guide banks to effectively adjust mortgage interest rates and support banks to reasonably control the cost of liabilities. USD/CNH looks to conclude the European week modestly firmer in a USD 7.1327-2130 parameter.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com