



## US Market Wrap

### 7th August 2023: Stocks recover and Treasuries steepen in summer doldrums

- **SNAPSHOT:** Equities up, Treasuries steepened, Crude down, Dollar flat
- **REAR VIEW:** Manheim July used-vehicle price index falls M/M; Saudi Aramco sees global demand as resilient; Fed's Bowman said more rate hikes likely required; Williams stuck to data-dependency; CPB to acquire SOVO; Disappointing TSN earnings; BoEs Pill notes risks UK hasn't raised rates enough.
- **COMING UP: Data:** Chinese Trade, German CPI (Final), US Trade **Events:** ECB Economic Bulletin, ECB Consumer Expectation Survey; US IBD/TIPP Economic Optimism **Speakers:** Fed's Harker & Barkin **Supply:** Japan, UK, Germany & US **Earnings:** Bayer, Porsche SE, Abrdn, Glencore, Eli Lilly.
- **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

The major US stock indices were firmer on Monday with the NDX and SPX showing similar gains while the small-cap Russell 2k underperformed. The strength came despite Apple (AAPL) extending its post-earnings losses, however, Amazon (AMZN) extended its rally. There was little data or catalysts from a US perspective, with the Manheim Used Car Index the highlight - prices fell again in July, but at a slower pace - ahead of the CPI figures on Thursday. Treasuries steepened with the long-end paring Friday's recovery while the front end extended it. Fed Speak was mixed with Bowman's comments from the weekend calling for more hikes while Williams in the NYT said he is still debating whether to hike again. In FX, the DXY was flat with Sterling mildly outperforming, while the Dollar block also saw modest gains, and the Yen notably underperformed. In commodities, oil prices were subdued, shrugging off Saudi jawboning as the market pauses after six consecutive W/W gains; nat gas futures hit their highest levels in several weeks with desks citing hot Texas weather; copper and gold saw modest losses while silver saw a larger decline.

## FIXED INCOME

### T-NOTE (U3) FUTURES SETTLED HALF A TICK LOWER AT 111-04

**Treasuries steepened Monday with the long-end paring Friday's rip while the front end extended it.** 2s -2.3bps at 4.768%, 3s -2.3bps at 4.453%, 5s -0.7bps at 4.158%, 7s +0.8bps at 4.127%, 10s +2.4bps at 4.086%, 20s +4.3bps at 4.424%, 30s +5.0bps at 4.265%.

**INFLATION BREAKEVENS:** 5yr BEI +3bps at 2.422%, 10yr BEI +4bps at 2.415%, 30yr BEI +3.4bps at 2.379%.

**THE DAY:** Treasuries entered the NY session Monday on the back foot already, with the long end playing catch up through the London morning to the weakness in the front end that built through the APAC session with hawkish Fed's Bowman and dovish Fed's Williams the only incremental newsflow entering the new week as contracts pared their rip higher post payrolls from Friday.

T-Notes had already made their session's trough of 110-23 - still a distance north from the pre-NFP c. 110-05 area - before the US session got underway, with some block 5yr fut buying supporting a recovery across the curve into the handover. The Manheim used car price index saw continued declines in July, albeit at a slower M/M pace, ahead of Thursday's CPI figures, albeit saw no notable reaction in Tsys.

T-Notes recovered to local peaks of 111-06 later in the NY morning, failing to eclipse their Globex open peaks of 111-08+, before curve steepening flows entered the market with the long end retracing back lower into the NY afternoon ahead of this week's Treasury refunding auctions while the front end held on to its gains. T-Notes themselves hovered within ranges into the settlement.

### STIRS:



- SR3U3 flat at 94.60, Z3 flat at 94.655, H4 +1.5bps at 94.94, M4 +2.5bps at 95.315, U4 +4.5bps at 95.725, Z4 +5.5bps at 96.055, H5 +5bps at 96.29, M5 +4.5bps at 96.435, U5 +4bps at 96.495, U6 +2bps at 96.56, U7 flat at 96.47.
- SOFR flat at 5.30% as of August 4th, volumes fall to USD 1.369tln from 1.413tln.
- NY Fed RRP op demand at USD 1.811tln (prev. 1.794tln) across 102 counterparties (prev. 102).
- EFFR flat at 5.33% as of August 4th, volumes rise to USD 112bln from 112bln.
- US sold USD 73bln of 3-month bills at 5.290%, covered 2.83x; sold USD 66bln of 6-month bills at 5.265%, covered 2.92x.

**THIS WEEK (US items bolded):**

- **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 0.88 LOWER AT 81.94/BBL; BRENT (V3) SETTLED USD 0.90 LOWER AT 85.34/BBL**

**Oil prices were subdued on Monday, shrugging off Saudi jawboning as the market pauses after six consecutive W/W gains.** WTI and Brent futures hit their session peaks of USD 83.30/bbl and 86.73/bbl at the Globex open on Sunday on the heels of Saudi Aramco hiking its September OSPs at the weekend. But, the bid couldn't sustain and selling picked up in the European session and lows were ultimately made in the NY morning at USD 81.52/bbl and 85.03/bbl for WTI and Brent, respectively. Prices initially recovered into the NY afternoon somewhat before unwinding back lower, again, into settlement. There was no obvious catalyst for the sell-off, but likely just a healthy paring after six consecutive weeks of gains. The losses came despite Saudi Aramco CEO commentary on Monday that the Co. sees global demand as resilient; also said China's demand has been stronger than expected and expect it to grow and support the current market recovery.

**EQUITIES**

**CLOSES:** SPX +0.90% at 4,518, NDX +0.87% at 15,407, DJIA +1.16% at 35,473, RUT +0.08% at 1,958.

**SECTORS:** Communication Services +1.88%, Financials +1.36%, Industrials +1.26%, Real Estate +1.21%, Health +1.18%, Consumer Discretionary +1.1%, Consumer Staples +0.85%, Materials +0.7%, Technology +0.27%, Energy +0.15%, Utilities -0.02%.

**EUROPEAN CLOSES:** DAX -0.01% at 15,951, FTSE 100 -0.13% at 7,554, CAC 40 +0.06% at 7,320, Euro Stoxx 50 +0.10% at 4,337, IBEX 35 -0.10% at 9,359, FTSE MIB -0.14% at 28,548, SMI +0.08% at 11,107.

**STOCK SPECIFICS:** **Tesla (TSLA)** announced the departure of CFO Zachary Kirkhorn, although he will serve till year-end; appointed Vaibhav Taneja his replacement. **Campbell Soup (CPB)** is to acquire **Sovos Brands (SOVO)** for USD 23/shr in cash (approx. USD 2.7bln). Note, SOVO closed at USD 18.02 on Friday. **Lucid (LCID)** lowered prices of its Air luxury sedans by up to USD 12,400 in response to increased competition in the US EV market. **Biogen (BIIB)** and **Sage Therapeutics (SAGE)** had the FDA approve cos. first pill to treat postpartum depression but rejected the drug for major depressive disorder; said the Co.s didn't provide substantial evidence of effectiveness and called for additional studies. **Yellow (YELL)** filed for Chapter 11 bankruptcy due to substantial debt from mergers and tense union negotiations. **Veritiv (VRTV)** to be acquired by CD&R for USD 170/shr in cash. Note, VRTV closed Friday at USD 141.21/shr. **DraftKings (DKNG)** upgraded at Wells Fargo; said DraftKings' EBITDA is inflecting more quickly/steeply than previously envisioned and expect its op. momentum to continue. **PayPal (PYPL)** launched its own stablecoin for transfer and payments. EU antitrust regulators open probe in **Adobe's (ADBE)** deal for Figma, noting it may reduce competition. **DaVita (DVA)** was upgraded at UBS citing stronger patient growth as a driver. **Micron (MU)** saw some weakness in the US afternoon with traders suggesting some guidance reaffirmations at a sell side conference (unconfirmed). **Amazon**



**(AMZN)** is set to meet with FTC next week amid expectation of potential antitrust lawsuit against it, according to Reuters source.

**EARNINGS: Tyson Foods (TSN)** missed on profit and revenue and said it will close four more US chicken plants to reduce costs and improve capacity utilization. Expects USD 300-400m of charges which will be recorded through planned closure dates of Chicken processing facilities. Looking at the internals, beef and pork sales volume declined. **Elanco (ELAN)** beat on EPS and revenue; raised FY23 outlook. **Berkshire Hathaway (BRK.B)** reported a solid increase in Q2 operating earnings, bolstered by a jump in its insurance underwriting and investment income. **Viatris (VTRS)** beat on EPS and revenue. Reaffirmed FY total revenues, adj. EBITDA and view.

## US FX WRAP

**The Dollar** was flat to start the week in a day of thin newsflow and narrow parameters amid typical summer trading conditions. Nonetheless, there was hawkish Fed commentary over the weekend from Governor Bowman, as she noted more rate hikes will likely be required, although NY Fed's Williams was relatively dovish in a NYT interview, saying he's currently debating whether another hike would be required. On data, the Manheim Used Vehicle index fell by 1.6% in July, a smaller decline than June, with the report noting it is "an indicator of slowing wholesale price declines, at least when compared to the month-over-month losses we've seen since April". With the calendar sparse, all attention will be turning to US CPI on Thursday.

**Euro** was flat and within tight ranges, highlighted by a low and high of 1.0966 and 1.1017, respectively. Despite saying this, the German Industrial Output data in June fell by more than expected, declining 1.5% (exp. -0.5%) and accelerating from the prior decline of 0.2% M/M. Meanwhile, the EU Sentix Index of investor confidence for August was not as bad as feared, printing -18.9 (prev. -22.5, exp. -24.3). However, it still remains weak with the current situation index at -20.5, although the expectations rose by 7.3pts to -17.3. The report noted that Germany is weighing heavily on the region, falling to -30.7, with the present situation index falling by 7.3pts and expectations printing -26. Technicians are looking to see if EUR/USD closes sub-1.10, a level it hovered around for on Monday while on the upside 1.1050 is seen as resistance.

**Yen** was the G10 underperformer and saw losses against the Greenback with USD/JPY hitting a high of 142.59. During APAC, the BoJ Summary of Opinions from the July meeting were released, which stated the bank needs to patiently continue with monetary easing toward achieving the price stability target. The SoO noted that given that there are increasingly significant upside and downside risks to the outlook for prices, it is appropriate for the Bank to conduct yield curve control with greater flexibility in order to respond to these risks.

**Activity currencies**, GBP, AUD, NZD, CAD, were all firmer to varying degrees against the Buck, and performing in that respective order. As previously mentioned, newsflow has been sparse to start the week but Cable looks to end the US session as the G10 outperformer and towards the top of a 1.2714-89 range, with Friday's peak at 1.2792 ahead of the psychological 1.2800 mark. BoE Pill, in a Q&A, said inflation remains much too high and he has seen a lot of news on inflation persistence, but caveated that there is risks on both sides on UK inflation. Pill warned there are risks the UK hasn't raised rates enough.

The Dollar block closes the session with modest gains as the DXY gave back some of its earlier upside and risk turned more constructive, with the Aussie and Kiwi taking the opportunity to nurse some of last week's losses. Highlighting the tight ranges, AUD/USD and NZD/USD traded between 0.6556-93 and 0.6086-6117, respectively. Ahead, Aussie and Kiwi traders will be eyeing the Chinese trade data on Tuesday followed by Chinese inflation data on Wednesday. CAD was flat Monday after its underperformance on Friday on the surprise negative Canadian jobs report.

**EMFX** was mixed. COP, RUB, and HUF were firmer, MXN flat, while the CNY, TRY, BRL, CLP, and ZAR saw losses with the latter underperforming amid headwinds from the losses in the yellow metal. For the Chilean Peso watchers, Finance Minister Marcel noted the different US-Chile monetary policy approaches lead to a weaker domestic currency and the recent gains in the Dollar should not have a significant impact on inflation. Marcel added the stronger Dollar will likely be temporary and should not have impact on local monetary policy. Note, the Chilean Central Bank cut its rates by 100bps to 10.25% at the end of July. For the Yuan, the PBoC set the USD/CNY mid-point at 7.1380 vs the prior 7.1418, and beneath the expected 7.1656. Regarding the Real, Brazilian inflation continues to show signs of slowing with the IGP-DI Inflation Index for July falling 0.4% (exp. -0.3%), albeit not as fast as the prior decline of 1.45%. Analysts at Rabobank "now see that the BRL and other EM currencies are enjoying less gains from carry trade strategies. Going forward, with Fed Funds rate held at high levels until yearend and local relative fiscal fragility, we see the USDBRL trading at 5.05 by end-2023 and 5.15 by end-2024".



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