



US Market Wrap

9th August 2023: Stocks sold and Tsy curve flattens on the eve of US CPI

- **SNAPSHOT:** Equities down, Treasuries flatten, Crude up, Dollar flat.
- **REAR VIEW:** Mixed China inflation data; AI stocks fall further; Larger crude build than expected; Strong 10yr auction; Italy softens bank tax; Australian strikes see gas futures spike.
- **COMING UP: Data:** Norwegian CPI, Italian CPI (Final), US CPI, IJC, Chinese M2 Money Supply, New Zealand PMI (Manufacturing) **Events:** RBI & Banxico Policy Announcement, ECB Economic Bulletin **Speakers:** Fed's Harker & Bostic **Supply:** US **Earnings:** Allianz, Deutsche Telekom, Munich Re., Novo Nordisk, Rheinmetall, Siemens, Antofagasta, Entain, Zurich Insurance & Ralph Lauren.

MARKET WRAP

The major US stock indices were lower in choppy trade Wednesday in somewhat similar price action seen to the rest of the week so far: selling into the European close and recovering from there on. Albeit, the difference this time is that there was some chunky selling into the US close that brought indices back down to lows. Catalysts in America were extremely light, although it was noteworthy the stock recovery accelerated after the US 10yr auction, which saw solid demand and abated some growing fears of too much Treasury supply - on the day, UST curve flattened in light trade with the long-end bid and short-end offered, implied Fed rates in 2024 backed up higher the most, ahead of CPI and 30yr supply. The equity market weakness was led by Nvidia (NVDA)/Nasdaq 100, with AI exuberance losing steam after industry bellwether Super Micro Computer (SMCI) tumbled despite strong results and an upgraded outlook. Note that European stocks held up much better than their US counterparts, with Italian banks leading a recovery after the government softened the blow to its windfall tax. Deflation in China's July CPI/PPI data had little market impact, with the Yuan recovering somewhat, aided by reports China's major state-owned banks are seen selling Dollars to buy Yuan in the onshore spot FX market. The Dollar index was flat. Oil prices extended to the upside, making new highs even after the chunky build in US crude stocks. Note that nat gas futures surged, particularly Dutch TTF (+40%) with concerns over the global LNG market imbalance after a slew of key Australian plants saw strikes announced.

GLOBAL

CHINA CPI: China consumer prices fell at a rate of -0.3% Y/Y in July (exp. -0.4%, prev. 0.0%), slipping into deflation for the first time since February 2021. CPI came in at +0.2% M/M (exp. -0.1%, prev. -0.2%), largely led by a 26% Y/Y decline in pork prices in July. Core CPI rose +0.8% Y/Y (prev. 0.4%), while PPI printed -4.4% Y/Y (exp. -4.1%, prev. -5.4%). The data underscores weak domestic demand with the expected post-COVID rebound in consumer spending failing to materialise. Analysts have suggested that the data further fuels calls for more government support measures, particularly given the weaker trade data earlier this week, and further tensions within the property sector. Some have touted possible rate and RRR cuts later this year. MUFG said that "consumer inflation in year-on-year terms was affected by the pandemic last year and the rebound in consumer spending and pent-up demand after the lockdown", while expecting further monetary policy easing. Pinpoint Asset Management sees the argument for more fiscal stimulus to be rolled out. ANZ's Senior China Strategist suggests "The only bright spot was that the core CPI rebounded to 0.8% due to seasonal tourism during the summer," but that may lack sustainability, adding that "It would be hard to manoeuvre monetary policy. The Politburo meeting called for a stable yuan exchange rate, which would conflict with monetary easing."

FIXED INCOME

T-NOTE (U3) FUTURES SETTLE 22 TICKS LOWER AT 101-207

Treasuries flattened in light trade with the long-end supported after a decent 10yr auction into CPI and the 30yr auction. 2s +4.0bps at 4.798%, 3s +2.9bps at 4.423%, 5s +1.4bps at 4.127%, 7s -0.2bps at 4.073%, 10s -1.8bps at 4.006%, 20s -2.7bps at 4.332%, 30s -3.5bps at 4.170%.

INFLATION BREAKEVENS: 5yr BEI -0.7bps at 2.364%, 10yr BEI -1bps at 2.349%, 30yr BEI -1.1bps at 2.311%.



THE DAY: T-Notes hit their peak (111-20, just shy of Tuesday's 111-22 peak) at the Tokyo open on Wednesday, before paring back to Globex open lows (111-13) shortly after. Chinese inflation data was mixed but showed consumer prices in deflationary territory for the first time in more than two years. Meanwhile, JGBs extended their bid on Wednesday after Tuesday's strong 30yr auction, aided by a BoJ buying operation. T-Notes were rangebound during the European morning with activity and catalysts both thin. There was a disappointing German 10yr auction that had little impact.

Contracts broke out to the downside into the NY handover, with T-Notes troughing at 111-08+ with some hesitation ahead of the 10yr and potentially another busy slate of IG Dollar corporate supply. However, the debt deal pipeline turned out much smaller than Tuesday, and T-Notes recovered later in the NY morning. Buying activity accelerated after a downbeat open for cash stocks before a 13.7k 2yr fut block seller capped the strength. But that resistance didn't last long as a chunky 16.5k 5yr block buyer soon followed to bring contracts to the top-end of trading ranges. T-Notes managed to clip their APAC peaks of 111-20 on the back of the strong 10yr auction later on but pared again into settlement with traders positioning into the CPI print with half an eye on the 30yr auction. Note that the curve flattened into the close with long-end futures remaining more supported while the front end dipped lower.

10YR AUCTION: An impressive USD 38bln 10yr auction from the Treasury with a marginal 0.1bp tail for a stop of 3.999%, better than the prior tail of 1bp and six-auction avg. 0.8bp. The 2.56x bid/cover ratio was also better than the prior and average. The breakdown saw Dealers (forced surplus buyers) left with just 9.5% (prev. 12.4%; avg. 13.9%), and in a similar fashion to the 3yr auction on Tuesday, saw Indirects surge in demand (72.2% from 67.7%; avg. 67%) and a marginal decline in Directs (18.3% from 19.9%; avg. 19.1%). The strong demand reception comes despite being on the eve of the July CPI figures and should rest some concerns over near-term market imbalances after the Treasury ramped its coupon supply. The 30yr on Thursday is up next.

STIRS:

- SR3U3 -0.5bps at 94.595, Z3 -0.5bps at 94.645, H4 -2.5bps at 94.90, M4 -4bps at 95.27, U4 -5bps at 95.68, Z4 -4.5bps at 96.025, H5 -4.5bps at 96.27, M5 -4bps at 96.425, U5 -3.5bps at 96.495, U6 -1.5bps at 96.60, U7 +1bps at 96.545.
- SOFR flat at 5.30% as of Aug 8th, volumes fall to USD 1.340tln from 1.349tln.
- NY Fed RRP op demand at USD 1.797tln (prev. 1.778tln) across 106 counterparties (prev. 103).
- EFFR flat at 5.33% as of August 8th, volumes rise to USD 110bln from 106bln.
- US sold USD 48bln of 17-week bills at 5.31%, covered 3.19x.

THIS WEEK (US items bolded):

- **THU:** CPI (Jul), Jobless Claims, US budget, 30yr auction, Fed's Bostic & Harker, 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).

CRUDE

WTI (U3) SETTLED USD 1.48 HIGHER AT 84.40/BBL; BRENT (V3) SETTLED USD 1.38 HIGHER AT 87.55/BBL

Oil prices extended to the upside on Wednesday, finding sympathy with the global energy bid despite mixed US inventory data. WTI and Brent futures were rangebound during the APAC session before catching a bid as European trade got underway, alongside broader risk appetite. Prices were running near highs into the EIA inventory data, where a 6mln bbl crude stock failed to ignite a sell-off, and WTI and Brent futures went on to print peaks of USD 84.65/bbl and 87.65/bbl, respectively, in the aftermath; the products saw a net draw of 4.4mln bbls; crude production jumped a massive 400k BPD in the latest week, but the EIA noted that was due to a re-benchmarking. However, prices failed to sustain their post-EIA highs for long, with stocks under pressure into the European close, and the WTI and Brent futures saw a dip to interim support in at USD 83.00/bbl and 86.30/bbl, respectively. However, prices then recovered again into the settlement, coinciding with stocks recovering significantly after the European close.

NAT GAS: Dutch TTF futures surged 40% on Wednesday, coming on the back of a slew of strikes across Australian LNG plants at a time when Europe increasingly relies on seaborne supply. There was strong upside, albeit not to the same extreme degree, in US natural gas futures too. Analysts point to Asia being dependent on Australian supply of natural gas and, therefore, will likely need to compete with Europe to find supplies elsewhere across the globe as long as the strikes go on.



EQUITIES

CLOSES: SPX -0.7% at 4,468, NDX -1.12% at 15,102, DJIA -0.54% at 35,123, RUT -0.85% at 1,931.

SECTORS: Technology -1.51%, Communication Services -1.24%, Consumer Discretionary -1.20%, Financials -0.78%, Materials -0.47%, Industrials -0.09%, Health -0.05%, Consumer Staples +0.13%, Utilities +0.17%, Real Estate +0.20%, Energy +1.22%.

EUROPEAN CLOSES: DAX +0.49% at 15,853, FTSE 100 +0.80% at 7,587, CAC 40 +0.72% at 7,322, Euro Stoxx 50 +0.65% at 4,317, IBEX 35 +0.57% at 9,354, FTSE MIB +1.31% at 28,308, SMI +0.35% at 11,096.

STOCK SPECIFICS: Penn (PENN) and ESPN entered a long-term exclusive strategic alliance for US online sports betting. PENN secured exclusive rights to the ESPN Bet trademark for online sports betting in the US for an initial 10-year term. Note, DraftKings (DKNG) saw notable weakness. Akamai Technologies (AKAM) beat on EPS and revenue and raised next quarter and FY guidance. WeWork (WE) posted a wider loss per share than expected and missed on revenue; exec said substantial doubt exists about its ability to continue to stay in business, amid cos. losses, projected cash needs, and increased member turnover. Carvana (CVNA) raised Q3 adj. EBITDA view. Axon Enterprise (AXON) beat on the top and bottom line; lifted FY revenue guide. Lyft (LYFT) had a mixed report; it posted a surprise profit per share and active riders beat, while revenue was in line and revenue per active rider missed; next quarter revenue view topped expected. However, desks note shares tumbled as investors feared the cos. focus on competitive pricing to gain market share would hamper its path to profitability. Rivian Automotive (RIVN) posted a shallower loss per share than expected and revenue beat. Said due to the progress seen on its production lines, production ramps, and the supply chain outlook, it raised 2023 production guidance. Take-Two Interactive Software (TTWO) missed on profit with weak guidance, but it did beat on revenue. Fleetcor Technologies (FLT) beat on EPS and revenue, while guidance was largely better-than-expected. Toast (TOST) beat on revenue while Q3 an FY23 sales view topped expectations. General Motors (GM) CFO noted the co. has built over 1k Cadillac Lyriqs in July, and production is rising but it has not been able to build EVs fast enough to meet demand, while it also unveiled the Cadillac Escalade EV with a starting price of USD 130k. For Apple (AAPL), it was ruled the tech giant can keep app store rules for now as a top court rejected Epic's lawsuit over Apple payment rules. Teamsters Amazon (AMZN) announced their strike has now extended to the Central Valley warehouse. Xylem (XYL) was hit after a Spruce Point short, noting it has concerns about the accuracy of the cos. cash liquidity given findings of two sets of financial statements and its ability to meet Wall St's aggressive financial expectations. Adobe's (ADBE) Figma deal review from the EU has been extended by 10 working days and has been set to January 8th of 2024, noting the deadline has been extended following a decision from the EU to open an in depth probe of the deal. Wendy's (WEN) announced it has raised prices in May and expects a 7% price increase for the FY. Verizon (VZ) CFO said they are raising prices on mix and match plans by USD 3-5, adding the hikes will be a tailwind going into Q4. Reuters sources reported STG is nearing a deal to buy Avid Tech (AVID) for just over USD 27 /shr (currently trades c 26.50/shr after reports last week STG and other PE firms were among bidders for the name).

US FX WRAP

It was a quiet day in FX on Thursday with the Dollar flat and trading in tight parameters as attention turns to the key US CPI report on Thursday, but it is worth noting this will only tell part of the story for the Fed with several other data points released before the September 20th FOMC. Nonetheless, the report is expected to show a pick up of prices on headline Y/Y to 3.3% from the prior 3.0%, while the M/M is seen matching last month's 0.2% pace. The core readings are also seen matching the prior month's report, with M/M expected at 0.2% and Y/Y at 4.8%.

The Euro saw marginal gains vs the Dollar with the pair trading within the 1.0950 and 1.10 band with the marginal upside supported by higher EZ yields relative to global peers. Meanwhile in Italy, the government decided to soften its stance on the windfall taxes on banks, supporting stocks. EUR/USD found support near its 50 DMA (1.0951) but remained caged to a 1.0953-95 range. The next levels to the upside include the psychological 1.10, the 7th August high (1.1017), then the 4th August peak at 1.1042. To the downside, support may be seen at the 50 DMA (1.0925) and thereafter the 3rd August low (1.0912).

The Yen was also weaker vs the Dollar with USD/JPY hitting a high of 143.72 from lows of 143.01 with the Yen rather sensitive ahead of the US CPI report on Thursday. The report has the potential to push the cross to a fresh August high above 143.89. ahead of the c. 145.00 high seen in June/early July.

The Yuan saw marginal gains on both offshore and offshore currencies following the hotter than expected Chinese CPI report, which rose 0.2% M/M in July, up from the prior -0.2% and above expectations of -0.1%. There was initially greater strength out of APAC trade after reports China state-owned banks had been selling Dollars to buy Yuan in the onshore spot FX market.



Antipodeans saw marginal selling on Thursday largely tracking risk sentiment, where the turnaround in US equities once Europe departed for the day helped the risk-sensitive currencies pare off worst levels. The hotter-than-expected Chinese CPI, albeit still negative, initially supported the Antipodeans somewhat in the morning after hefty losses seen earlier in the week, however, the downbeat risk tone eventually saw AUD hit a low of 0.6518, breaching the initial APAC low of 0.6525 and NZD hit a low of 0.6045, also testing its APAC low, before paring somewhat. Note, New Zealand 1yr inflation expectations eased to 4.2% from 4.3%, but the 2yr expectations rose to 2.83% from 2.79%.

The Pound looks to end the US session with modest losses in a 1.2713-81 range. Technicians highlight resistance for Cable in the 1.2785-90 region which marks the highs from the last three sessions, and above that, the 2nd August peak sits at 1.2805.

The Loonie was flat vs the Dollar with USD/CAD moving off its highs of 1.3454 back to unchanged levels just above 1.34 thanks to the strong oil prices.

EMFX was mixed, **MXN** saw gains in wake of CPI data and ahead of the Banxico rate decision on Thursday, [Newsquawk primer is available here](#). The MXN strength was also likely supported on the upside in Crude. **BRL** was relatively flat vs the Dollar despite a beat on its June retail sales while analysts see the Brazilian IPCA price index relatively unchanged in July from June. **COP** was a clear outperformer tracking the gains in crude prices while **CLP** was relatively flat despite some mild gains in copper. In Argentina, the **ARS** weakened to fresh historic low of 600 per USD in the parallel informal market, according to Reuters citing traders. Elsewhere, **RUB** weakened and the CBR announced it has decided not to carry out FX purchases from August 10th until year-end; adding it will not mirror the Finance Ministry's operations related to implementing the budget rule. CBR said the decision was taken in order to reduce volatility in financial markets but it will continue to conduct its own FX sales related to use of rainy-day funds at RUB 2.3 bln per day. **ILS** saw gains after WSJ reported that the US and Saudi Arabia have agreed to broad terms for the normalisation of Israel's ties with Saudi Arabia; noting a deal hoped to be confirmed within the next nine-to-12 months.

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