US Market Wrap

11th August 2023: Bond sell-off accelerates after hot US PPI

- **SNAPSHOT**: Equities flat/lower, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Hot PPI, Mixed UoM, inflation expectations ease; Iran slows pace it accumulates weapons grade uranium; Strong UK GDP.
- **WEEK AHEAD PREVIEW**: Highlights include US retail sales, FOMC Minutes, RBA Minutes, PBoC MLF, RBNZ, China Activity Data, UK Jobs & Inflation. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing RBNZ, PBoC MLF, Norges Bank, FOMC Minutes, RBA Minutes; Reviewing Banxico and RBI. To download the report, please click here.

MARKET WRAP

Stocks were choppy (SPX and RUT flat, NDX lower) to end the week with the SPX marking two consecutive W/W losses for the first time since early May. US PPI came in slightly above forecasts, which was enough to ignite a cross-asset hawkish reaction (stocks and Treasuries sold, Dollar bid) at the time, amplified by thin trading conditions, albeit stocks manage to pare off their lows in the NY afternoon. Treasuries bear-flattened, with futures closing at lows after the nudge lower in the Uni of Michigan consumer inflation expectations failed to sustain a recovery attempt. The Dollar was bid broadly, with Sterling the exception in G10 FX, outperforming after UK GDP data came in comfortably above expectations - note that USD/JPY briefly eclipsed the 145 figure, marginally, in late trade. Oil futures firmed through the US session, just managing to clinch their seventh consecutive W/W gain despite the downbeat risk tone and firmer Dollar.

US

PPI: The PPI data was hotter than expected in July for the first time since the January report, at least for the headline M/M, which rose 0.3% (exp. 0.2%) and accelerated from the prior 0.0%, which was revised down from 0.1%. The Y/Y rose 0.8%, up from the prior 0.2% (revised up from 0.1%) and above the 0.7% forecast. The Core metrics, ex Food and Energy, rose 0.3% M/M from the prior -0.1% (revised from +0.1%) and above the 0.2% consensus. Core Y/Y saw a 2.4% gain, above the 2.3% forecast and unchanged from the prior 2.4%. Meanwhile, the super core metric, ex food, energy and trade, rose 0.2% above the expected and prior of 0.1%, while the Y/Y rose 2.7%, matching the prior month's pace, albeit it was revised up from 2.7%. Analysts at Oxford Economics point out "The underlying trends show that PPI inflation is reverting to its pre-pandemic run rate, though progress is likely to be slower in H2 than H1". The desk notes that while this will comfort Fed officials, they will likely maintain a hawkish tone and keep an eye on the jump in services prices to see if it persists in the months ahead. In the near term, the Fed are truly in a data-dependent stance but views among FOMC appear quite mixed with doves Bostic and Harker alluding to no more rate hikes, while Governor Bowman implying more hikes are likely, and others, such as Daly, Powell and Williams, do not want to pre-judge the next decisions given all the data due between now and September 20th (another CPI and NFP report included). Nonetheless, markets are pricing in rates at the terminal with a c. 35% chance of another 25bp hike in November, before being held until May where the first cut is being fully priced, although March is currently seen as a 50/50.

UOM: Prelim University of Michigan saw the headline fall to 71.2 (prev. 71.6), but above the expected 71.0. Current conditions printed 77.4 rising from the prior 76.6 and topping the consensus of 76.9, but forward-looking expectations declined more-than-anticipated to 67.3 (exp. 68.1, prev. 68.3). On the inflation footing, 1yr and 5-10yr ahead encouragingly dipped to 3.3% (prev. 3.4%) and 2.9% (prev. 3.0%), respectively. Pantheon Macroeconomics highlight that the longer-term metric remains in the middle of the 2.7-to-3.1% range since the start of 2021, although, well above the 2019 average of 2.4%. The Fed has made it clear that it wants to see a sustained drop in longer-term inflation expectations, so Pantheon Macroeconomics add the stickiness of the Michigan number is a little worrying. Overall, the consultancy adds, “even longer-term inflation expectations are sensitive to the current rate of headline inflation, which is falling sharply; and think it is just a matter of time before the Michigan measure of five-to-10-year inflation expectations follows.”

FIXED INCOME

T-NOTE (U3) FUTURES SETTLE 21+ TICKS LOWER AT 110-06

Treasuries bear-flattened after hotter-than-expected PPI data catalysed a sharp move in thin trade. 2s +7.4bps at 4.895%, 3s +10.2bps at 4.578%, 5s +10.4bps at 4.307%, 7s +9.9bps at 4.256%, 10s +8.2bps at 4.164%, 20s +4.5bps at 4.453%, 30s +3.7bps at 4.270%.

INFLATION BREAKEVENS: 5yr BEI +4.4bps at 2.416%, 10yr BEI +2.7bps at 2.380%, 30yr BEI +2.4bps at 2.330%.

THE DAY: Very quiet trade through APAC and Europe on Friday after the post-30yr auction Treasury sell-off late on Thursday. Note cash USTs were closed during APAC for the Japan Mountain Day Holiday. T-Notes treaded a thin range of 110-21/110-29 ahead of PPI and Uni of Michigan survey in very low activity. Ahead of the data, a 5k block 5yr buyer was followed up by 2.25k classic bond block seller. And T-Notes ran up against the top-end of their ranges going into the US data, that's despite UK Gilts continuing to move lower after the strong UK GDP figures.

The slightly firmer-than-expected US PPI figures were enough to catalyse a sharp down move in Treasuries. T-Notes fell from 110-27+ to 110-16+ in an immediate reaction before extending lower to troughs of 110-08+ an hour later. The slight fall in the Uni of Michigan's consumer inflation expectations gauges saw a modest recovery in USTs before they began leaking lower again into the NY afternoon. T-Notes ultimately troughed at 110-05+, marking a round trip to the levels we were at just before the NFP release last Friday.

STIRS:

- SR3U3 -1.5bps at 94.595, Z3 -2.5bps at 94.62, H4 -4.5bps at 94.845, M4 -6.5bps at 95.18, U4 -9bps at 95.55, Z4 -10.5bps at 95.865, H5 -12bps at 96.085, M5 -13bps at 96.22, U5 -13.5bps at 96.285, U6 -13bps at 96.375, U7 -11bps at 96.33.
- SOFR flat at 5.30% as of Aug 10th, volumes rise to USD 1.360tln from 1.322tln.
- NY Fed RRP op demand at USD 1.773tln (prev. 1.760tln) across 100 counterparties (prev. 103).
- EFFR flat at 5.33% as of Aug 10th, volumes fall to USD 108bln from 111bln.

NEXT WEEK (US items bolded):

- **MON**: **NY Fed SCE**.
- **TUE**: **Retail Sales (Jul), Import Prices (Jul), Empire State Mfg., NAHB, Fed's Kashkari (v)**, PBoC MLF, RBA Minutes, Japanese Prelim. GDP (Q2), Australian Wage Price Index (Q2), Chinese Industrial Output and Retail Sales (Jul), Japanese Industrial Output (Jul), UK Jobs Report (Jun/Jul), German ZEW Survey (Aug), Canadian CPI (Jul).
- **WED**: **Housing Starts (Jul), Industrial Production (Jul), FOMC Minutes**, RBNZ Announcement, UK Inflation (Jul), EZ GDP and Employment 2nd (Q2).
- **THU**: **Philly Fed Mfg., Jobless Claims**, Norges Bank Announcement, Australian Jobs Report (Jul), EZ Trade Balance (Jun).
- **FRI**: Japanese CPI (Jul), UK Retail Sales (Jul), EZ Final CPI (Jul)

CRUDE

WTI (U3) SETTLED USD 0.37 HIGHER AT 83.19/BBL; BRENT (V3) SETTLED USD 0.41 HIGHER AT 86.81/BBL

Oil futures firmed through the US session on Friday, just managing to clinch their seventh consecutive W/W gain despite Friday's downbeat risk tone and firmer Dollar. WTI and Brent futures had initially entered the NY session on the back foot, marking session troughs at USD 82.23/bbl and 85.84/bbl, respectively. But contracts saw a gradual recovery through into the NY afternoon in lack of any obvious catalysts, that's despite the continued selling in stocks and the bounce in the Dollar after the firmer-than-expected US PPI report. WTI and Brent peaked at USD 83.81 /bbl and 87.35/bbl, respectively, before paring some gains into the settlement. Elsewhere Friday, the IEA maintained its 2023 world oil demand growth forecast, whilst cutting its 2024 forecast by 150k BPD. The agency noted that global oil demand hit a record high of 103mln BPD in June due to stronger-than-expected growth in OECD countries, solid summer air travel, and high Chinese demand. Meanwhile, Reuters sources reported that Saudi Aramco has informed North Asia customers they will receive the full volume of oil requested for September despite the sustained production cuts, with the report noting solid demand despite the higher OSPs; article notes an estimated 50-52mln bbls of Saudi oil to be taken by Chinese buyers in September, well north of August's 38mln bbls. Finally, total US and gas rigs fell for the fifth week in a row (down 5 at 654), with oil rigs flat W/W but nat gas rigs down 5 at 123, according to Baker Hughes.

EQUITIES

CLOSES: SPX -0.11% at 4,464, NDX -0.67% at 15,028, DJIA +0.3% at 35,281, RUT +0.13% at 1,925.

SECTORS: Technology -0.88%, Communication Svcs -0.48%, Consumer Disc -0.28%, Materials -0.27%, Industrials +0.10%, Consumer Staples +0.19%, Real Estate +0.19%, Financials +0.21%, Utilities +0.51%, Health +0.57%, Energy +1.56%.

EUROPEAN CLOSES: DAX -1.03% at 15,832, FTSE 100 -1.24% at 7,524, CAC 40 -1.26% at 7,340, Euro Stoxx 50 -1.45% at 4,321, IBEX 35 -0.71% at 9,434, FTSE MIB -1.05% at 28,275, SMI -0.61% at 11,082.

STOCK SPECIFICS: **Maxeon Solar Technologies (MAXN)** missed on revenue with Q3 and FY23 guidance light amid downbeat macro commentary. Exec said the global demand environment in the distributed generation market weakened significantly in late Q2 and expects challenging market conditions to persist at least through Q3. **News Corp. (NWSA)** beat on profit and touted AI boost to future sales, but revenue did miss expectations. A US advisory panel will investigate risks in cloud computing, including **Microsoft (MSFT)** role in a recent breach of government officials' email accounts by suspected Chinese hackers. The group will explore risks in cloud infrastructure, prompted by the Microsoft breach. **MercadoLibre (MELI)** appointed Martin de los Santos as its new CFO after current CFO announced he will leave his position to pursue new opportunities outside the company. **Cano Health (CANO)** had disappointing results alongside news it is exiting operations in several markets and is pursuing a sales process. Believes that its liquidity is not sufficient to cover the company's operating, investing and financing uses for the next 12 months. **Flowers Foods (FLO)** surpassed expectations on the top and bottom line and lifted FY23 guidance. **Archer Aviation (ACHR), Boeing (BA)**, and Wisk Aero announced that they have reached a settlement to resolve the federal and state court litigation between the parties on undisclosed terms. **Freeport-McMoRan (FCX)** announced it is investigating a cybersecurity incident; adding a prolonged disruption could impact futures operations, but so far there has been limited impact on production and they are assessing the impact and proactive measures are being taken to address the situation. **Sigma Lithium Corporation (SGML)** announced it is to reach full annualised production capacity of 270k T of triple zero green lithium in Q3; on track to produce 130k T of chemical grade triple zero lithium by Dec'23; it also named Caio Araujo as CFO. **Starbucks (SBUX)** saw a US judge dismiss lawsuit against its board by shareholder activist that is opposed to Co.'s diversity, equity, and inclusion policy. **Wynn Resorts (WYNN)** announced a decision to close online sports betting and iGaming platform, WynnBet, in certain jurisdictions; operations in Nevada and Massachusetts will continue unaffected and ops. in New York and Michigan remain under review.

WEEKLY FX WRAP

DXY swayed on inflation while Antipodeans and Yuan lost out amid downbeat Chinese data

DXY - Overall a choppy but positive week for the broader Dollar and index, largely propped up by risk aversion but with gains hampered by the highlight of the week – the softer-than-expected US CPI. Monday, the index moved in lockstep with yields before detaching from that dynamic come Tuesday – underpinned by risk aversion that day following the Chinese trade data and Moody's downgrading a slew of smaller banks. Solid 3yr and 10yr Treasury auctions kept a lid on gains ahead of US CPI on Thursday. Friday the index experienced trade on either side of 102.50 in holiday conditions. In terms of the CPI release, headline M/M rose by 0.2%, in line with expectations and the prior pace of 0.2%, while the Y/Y was cooler than expected at 3.2% (exp. 3.3%), but it did accelerate from the prior 3.0% pace. A similar story was seen in the core metrics, the M/M rose 0.2%, in line with the expected and prior 0.2%, and the Y/Y rose by 4.7% vs the Refinitiv estimate of 4.8% but was cooler than the prior 4.8%. Fed pricing tilted incrementally dovish post-release, with the DXY printing its weekly low after the release, before rebounding as the dust settled. Traders must be aware of another set of US jobs and inflation reports due before the decision-making September meeting (with the Jackson Hole Symposium held from August 24 to August 26). Sticking with inflation, the index clawed back some earlier Friday losses after PPI printed slightly hotter-than-expected across the board, although Fed pricing saw little change From a technical perspective, the post-CPI weekly low was printed at 101.78, with the high set on the risk-off Tuesday at 102.80 – then matched again on Friday post-PPI. Downside levels, thereafter, include the 4th August low (101.74), and 31st July low (101.53), then 101.50. Under that, the 28th July low (101.35), then the 27th July low at 100.55. Upside levels for the index include the highs from the 2nd and 8th of August (102.78-79), the 3rd August peak (102.84), the 7th July high (103.19), and the 6th July high (103.57).

Yuan - The Yuan was in focus this week amid the top-tier data headlined by the Chinese inflation (or rather deflation) metrics – which further affirmed, following the disappointing trade data on Tuesday, weak domestic demand with the expected post-COVID rebound in consumer spending failing to materialise. That being said, Y/Y CPI printed slightly above expectations while core CPI Y/Y rose +0.8% (vs prev. 0.4%). Desks expect China to cut its rates and RRR whilst the call for more fiscal stimulus grows. CNH saw strength post-inflation and extended on gains amid reports that China's major state-owned banks have been seen selling dollars to buy the Yuan within the onshore spot FX market. Next week, Chinese activity data in the form of Retail Sales and Industrial Production will be eyed for more hints on the health of demand. Nonetheless, USD/CNH is set to end the European day at the top of a 7.1808-2611 weekly band. Nearby upside levels include the 6th July high (7.2743) and the 30th June peak (7.2856).

AUD, NZD, CAD - Overall, a tumultuous week for the non-US Dollars, mostly influenced by sentiment and Chinese data. Tuesday marked the deepest losses in the wake of the aforementioned Chinese trade data, Wednesday saw a partial recovery, driven by the waning Dollar and a slight uptick in sentiment at the time. Thursday's session had the AUD and NZD capitalising on the Dollar's post-CPI losses, extending their rebound. AUD/USD and NZD/USD set the weekly highs of 0.6617 and 0.6118 on Thursday as the Dollar knee-jerked lower post-CPI, with the former seeing a 0.6497 weekly low on Tuesday after the Chinese data. AUD/USD sees its YTD low at 0.6456. NZD/USD heading into the European close around weekly lows near 0.6000 - NZD faces potential challenges due to reports of New Zealand's intelligence agency detecting activities linked to China's services. This could strain relations between New Zealand and the nearby major economy. NZD/USD sees the next low under 0.6000 at 0.5990 (1st Jun low) and the YTD low at 0.5985 (set on 31st May). USD/CAD is flat around its 200 DMA (1.3448) in a 1.3427-56 intraday parameter at the time of writing. CAD failed to benefit from the weekly gains in crude prices amid the broader market sentiment throughout the week – possibly amid some technical influence - with USD/CAD rising above its 100 DMA (1.3386 on Friday) and 200 DMA (1.3448 on Friday) during the week. The pair looks to end the European session towards the top of its 1.3356-3502 weekly range but under its 50 WMA (1.3460).

JPY, CHF - A softer week for the traditional havens but on two separate magnitudes – with the JPY the marked laggard. Monday was a choppy day for the currencies but on Tuesday their resilience was showcased in the face of pronounced Dollar strength but amid a risk-off mood. Thursday posed hurdles for the Yen, especially when against the Euro, as the cross dug into levels last seen in 2008, whilst gains in bond yields only proved as headwinds for the Japanese currency. USD/JPY rose from a 141.51 weekly low to a high at 144.90, just shy of the 3rd July peak (144.91) and then the 30th June high (145.07). Above that, it looks like clean air until the 10th November 2022 high at 146.59. EUR/JPY is set to end the week at levels last seen at the start of September 2008, with the cross rising from a 155.80 weekly low to a 159.22 peak, with the next level to the upside the 1st September 2008 high (159.63). USD/CHF saw a more contained week between 0.8698-8783 ranges, and EUR/CHF is set to end the week towards the middle of a 0.9581-0.9649 range.

EUR, GBP - Both saw a subdued week, mostly as a function of the Dollar. EUR on Tuesday had to tackle risk aversion in the form of downbeat Chinese trade alongside surprise reports of an Italian windfall tax on banks' profits – which the Meloni government later watered down after markets were spooked. Furthermore, the single currency has to ponder the inflationary implications of the rise in European gas prices amid supply fears emanating from potential Australian LNG strikes, which underpinned the currency at one point. Across the channel, there wasn't much out for the UK during the week aside from UK GDP on Friday which surpassed expectations and boosted Sterling upon release. Sterling traders will be eyeing next week's UK jobs and inflation metrics to influence market pricing. EUR/USD looks to end the European week towards the bottom end of a 1.0929-1.1065 weekly band after finding support at its 50 DMA (at 1.0935 on Friday) towards the latter end of the week. GBP/USD is set to end the week between a 1.2666-2819 weekly parameter but within last week's 1.2620-2873 range. EUR/GBP is set to end the week with modest gains, whilst on Friday the cross found resistance at its 100 DMA (0.8669) which also resides near its 200 WMA (0.8671).