



US Market Wrap

14th August 2023: Nasdaq leads gains on NVDA rally while bonds continue to bear-flatten

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude down, Dollar up.
- **REAR VIEW:** NY Fed Survey of Consumer Inflation Expectations sees 1yr, 3yr, and 5yr ahead all decline; Continued concerns around China's economic recovery; X rejects CLF buyout bid; TSLA cuts prices in China for some Model Y versions; NVDA named top pick at Morgan Stanley.
- **COMING UP: Data:** Japanese GDP, Canadian Industrial Output, Production, Retail Sales, Unemployment, UK Unemployment, Swedish CPI, German & EZ ZEW, US Import & Export Prices, Retail Sales, Business Inventories, Canadian CPI **Events:** RBA Minutes **Speakers:** Fed's Kashkari **Supply:** Japan, UK & Germany **Earnings:** Pandora, Legal & General & Home Depot.
- **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

Risk conditions were choppy in a day of quiet newsflow but stocks managed to settle predominantly in the green with an upside led by the Nasdaq thanks to the upside in Nvidia (NVDA) after MS named the stock a top pick ahead of earnings while the super cap names (AAPL, MSFT and AMZN) also saw a decent session. The moves saw the Tech and Communication sectors outperform, while defensive sectors such as Utilities, Consumer Staples and Real Estate were the laggards. SPX and NDX managed to close in the green while the DJIA was flat and RUT was red, the downside in RUT was led by losses in regional banks while more woes at Nikola may have also helped with the underperformance. In material names, US Steel (X) soared after it was announced the co. had rejected an offer to be bought by Cleveland Cliffs (CLF) while Esmark later revealed it also offered to buy the steel producer for USD 35/shr. In FX, the Dollar firmed on Monday with DXY reclaimed 103 as yields continued to advance which in turn saw USD/JPY rise above 145.50, levels not seen since November 2022 with participants cognizant of any potential Japanese intervention if the Yen weakness continues. The Treasury curve saw more bear flattening in the wake of Friday's PPI data in a quiet session but risks overnight include the China activity data and the RBA Minutes ahead of Tuesday's US retail sales. Crude prices fell victim to the stronger buck with both WTI and Brent settling lower, albeit after seven weeks of consecutive gains.

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NY SCE: The NY Fed Survey of Consumer Expectations saw median 1yr ahead inflation expectations fall to 3.5% from 4.1%, the lowest since April 2021, while the 3yr and 5yr ahead both dipped to 2.9% from 3.0%. The report notes that year-ahead price growth expectations for food, medical care, and rent declined to their lowest levels since at least early 2021. Moreover, labor market expectations strengthened, and households' perceptions about their current financial situations and expectations for the future improved. The report later added that the share of respondents expecting to be better off a year from now is the highest since September 2021.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 6 TICKS LOWER AT 110-00

Treasury bear-flattener continues Monday post-PPI in quiet summer trade ahead of a sparse US data calendar. At settlement, 2s +7.4bps at 4.969%, 3s +6.8bps at 4.649%, 5s +5.2bps at 4.360%, 7s +3.4bps at 4.293%, 10s +1.9bps at 4.187%, 20s +0.8bps at 4.464%, 30s +1.3bps at 4.285%.

INFLATION BREAKEVENS: 5yr BEI -0.8bps at 2.406%, 10yr BEI -1.2bps at 2.368%, 30yr BEI -0.8bps at 2.324%.



THE DAY: Treasuries opened on the backfoot for the globex open, extending the downside from last Friday's hot-sided PPI figures. T-Notes printed initial lows at the open of 109-30+, swiftly paring back above the 110 figure but failing to recover much further, with JGBs opening lower after the holiday on Friday.

Contracts recovered a bit further into the London handover, with risk sentiment in APAC hampered after China Country Garden faced more debt payment delays. Blocks of an 8.4k 5yr seller and a 4.6k/4k 2yr/5yr steepener capped a more meaningful recovery, albeit T-Notes ultimately peaked at 110-10 at the NY handover.

Better selling resumed as US trade got underway in the absence of any particular catalysts, with the front end leading again. It's worth flagging the thinner trading conditions, which probably added to the size of the moves, with T-Notes ultimately troughing at 109-24+ and the cash 10yr yield peaking at 4.215%, the highest since November last year. After absorbing a 12.5k 5yr block seller, contracts pared losses later in the NY morning. The decline in the NY Fed's consumer inflation expectations helped the recovery too. The front end lagged, flattening the curve further.

It's a largely quiet week from a US data perspective, with Tuesday's retail sales and a few regional Fed surveys being the highlights, which serve to embolden the "summer feel" of markets this week.

STIRS:

- SR3U3 -0.8bps at 94.588, Z3 -3.0bps at 94.585, H4 -6.0bps at 94.780, M4 -9.0bps at 95.085, U4 -9.5bps at 95.450, Z4 -9.0bps at 95.765, H5 -8.5bps at 95.990, M5 -7.5bps at 96.140, U5 -6.5bps at 96.215, U6 -3.0bps at 96.345, U7 +0.5bps at 96.325.
- SOFR flat at 5.30% as of Aug 11th, volumes fall to USD 1.347tln from 1.360tln.
- NY Fed RRP op demand at USD 1.799tln (prev. 1.773tln) across 103 counterparties (prev. 100).
- EFFR flat at 5.33% as of Aug 11th, volumes fall to USD 105bln from 108bln.
- US sold USD 76bln of 3-month bills at 5.295%, covered 3.12x; sold USD 68bln of 6-month bills at 5.290%, covered 2.78x.

THIS WEEK (US items bolded):

- 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 0.68 LOWER AT 82.51/BBL; BRENT (V3) SETTLED USD 0.60 LOWER AT 86.21/BBL

The crude complex started the week on a weaker footing, after seven consecutive weeks of gains, amid the firmer Buck and continued concerns around China. On the latter, there is Chinese activity data overnight which will be closely eyed following a string of downbeat economic data, raising concerns surrounding the recovery of the nation's post-COVID demand. Newsflow and headline activity has been few and far between on a typical summer trading day, but WTI and Brent saw gradual upside ahead of settlement, although just before it settled a strong move lower saw most of that earlier move pared.

On the day, Shell (SHEL LN) said export operations resumed at Nigeria's Forcados terminal on August 13th following reports on July 13th of a leak at the export terminal that saw loadings suspended. Elsewhere, Russia's July seaborne oil product exports are up 3.8% M/M, while Kazakhstan Energy Ministry noted it may adjust oil production forecast for 2023 due to power outages. Meanwhile, the US EIA announced it sees the September shale production -19k BPD at 9.415 mln BPD, vs the -15k BPD in August. Looking ahead, the aforementioned Chinese data will be watched as well as US Retail Sales (Tues) and FOMC Minutes (Wed) in addition to US retailer earnings.

EQUITIES



CLOSES: SPX +0.57% at 4,489, NDX +1.18% at 15,205, DJIA +0.07% at 35,307, RUT -0.24% at 1,920.

SECTORS: Technology +1.85%, Communication Services +1.04%, Consumer Discretionary +0.39%, Health +0.33%, Materials +0.19%, Industrials +0.03%, Financials -0.18%, Energy -0.33%, Consumer Staples -0.52%, Real Estate -0.54%, Utilities -0.83%.

EUROPEAN CLOSES: DAX +0.46% at 15,904, FTSE 100 -0.23% at 7,507, CAC 40 +0.12% at 7,349, Euro Stoxx 50 +0.16% at 4,328, IBEX 35 -0.05% at 9,430, FTSE MIB +0.57% at 28,435, SMI +0.26% at 11,110.

STOCK SPECIFICS: **US Steel (X)** rejected a buyout offer from **Cleveland-Cliffs (CLF)** which implied a total consideration value of USD 35/shr or 7.3bln. Following this, US Steel announced it is reviewing strategic alternatives. Towards the end of the session, Esmark announced an all cash public offer for US Steel Shares (X); deal is for an offering for USD 35/shr, which helped support X even further. **Tesla (TSLA)** cut the prices of its Model Y Performance and Model Y Long Range vehicles in China. Chinese EV names such as **XPeng (XPEV)** and **Nio (NIO)** saw weakness as a result. **Boeing (BA)** is viewed to be the front-runner in discussions to sell around 25 widebody 787 jets to India's Indigo, according to Reuters sources. **AMC Entertainment (AMC)** won court approval of a stock conversion plan with fears it will allow co. to issue more shares to raise capital, a move that will dilute the worth of each common share. **Nikola (NKLA)** is recalling most of its battery-powered commercial trucks after an outside investigation indicated a defective battery part likely caused a fire in one of the trucks, according to WSJ. **Apple (AAPL)** supplier **Foxconn** cut its FY23 revenue guide to 'slightly decline' y/y (prev. "flat") due to global economic and geopolitical uncertainties. **Okta (OKTA)** was upgraded at Goldman Sachs citing a favourable risk reward and expectations for an inflection in subscription revenues. **Keysight Technologies (KEYS)** was downgraded at BofA noting the likelihood of worsening order trends. **Intuit's (INTU)** Alex Chriss named new **PayPal (PYPL)** CEO effective from September 27th, according to CNBC. **Nvidia (NVDA)** was named a 'top pick' at Morgan Stanley heading into earnings; believes the recent selloff is a good entry point, as despite supply constraints, MS still expects a meaningful beat and raise quarter. Wells Fargo lowered its target price on **Hawaiian Electric (HE)** and maintained an underweight rating, citing wildfires in Maui as a looming risk.

US FX WRAP

The Dollar saw a mild bid on Monday in quiet summer trade with DXY rising above 103.460 in what was a choppy day of risk conditions. The Dollar rose above the July 7th high at 103.19 and the 200dma at 103.29 to see a daily high of 103.46, the highest since June 30th. The highlight of the day was the NY Fed survey of consumer expectations, which saw inflation expectations move lower, with the 1-year ahead view falling to 3.5% from 4.1%, the lowest since April 2021, while the 3yr and 5yr both fell to 2.9% from 3.0% but sparked little dollar reaction. Attention turns to US retail sales data on Tuesday.

The Euro saw weakness, as initially it held just beneath the 55dma at 1.0942 before eventually breaking above that to hit a high of 1.0959 in the European morning but it had failed to touch the 10dma resistance at 1.0965. EUR/USD then fell back beneath the 55dma and extended to lows in the afternoon of 1.0875 as the Dollar hit its peaks albeit driven by little news; once the dust settled the pair had bounced from the trough reclaiming the 1.09 handle.

The Yen was the underperformer vs the Buck with USD/JPY hitting a high of 145.58, levels not seen since November 2022 with participants cognizant of any Yen intervention from Japanese officials. Attention turns to Japanese GDP data overnight while US retail sales will also be eyed on Tuesday and any implications it has on the UST yield curve which could have a knock on effect to the Yen.

The Yuan was weaker on the session with concerns around China property developer Country Garden after sources in China Securities Journal dismissed reports it was seeking a bond payment extension. Elsewhere, there were more signs of distress at Evergrande seen after it announced its NEV group will face the risk of discontinuing its business without access to a new round of significant funding. Overnight, the focus will be on China's activity data in the form of industrial production/output and retail sales.

Antipodes saw mild weakness vs the Dollar in choppy risk conditions, with AUD attempting to rise above 0.6500 on two occasions but failing to hold above the level with participants eyeing the upcoming RBA minutes release. Similar price action was seen in NZD/USD which tested 0.6000 to the upside twice but failed to breach the psychological level finding an intra-day high at 0.5992.



GBP also saw mild weakness vs the Dollar with eyes turning to the UK jobs and earnings data and its implications for UK Monetary policy. Currently, market prices in a 87% probability of a 25bp hike in November, with rates seen peaking at c. 5.82% in March 2024, implying a bank rate of 5.75% up from the current 5.25%, with potential for another move up to a 6.00% peak.

CAD was also weaker vs the Buck with USD/CAD heading into the APAC session towards the upper end of its intraday 1.3434-80 range with weaker oil prices weighing on the Loonie ahead of Canadian CPI on Tuesday.

EMFX was mixed. RUB saw choppy price action after the CBR announced it is to hold an unscheduled rate decision on August 15th at 08:30 BST / 03:30 EDT. The meeting comes 1 month ahead of the meeting initially planned for the 15th September but follows commentary from the CBR that it still sees no threat to financial stability in the current Rouble dynamics, and that a key rate increase was possible at next meetings. Elsewhere, in LatAm, the Argentinian Peso in the parallel informal market saw a record low of 695 but then pared to 685. The initial weakness was seen after the far-right candidate, who wants to abolish the central bank and dollarize the economy, unexpectedly won a primary election over the weekend. The move then prompted the Argentine central bank to hike rates to 118% from 97% previously, according to a source, while traders cited by Reuters noted the central bank bought USD 220mln following the accelerated devaluation. Elsewhere, LatAm FX was mixed, the BRL and COP saw notable weakness vs the Dollar while the MXN was also softer, but the CLP saw gains vs the Dollar. The CLP gains followed the release of the Chile Central Bank meeting minutes which noted they discussed cutting rates by 100bps and 75bps (ultimately settled for a 100bp cut), while it also revealed that future rate cuts might be of a smaller magnitude than the recent 100bp cut.

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