newsquawk

US Market Wrap

16th August 2023: Dollar firms while stocks and bonds slide amid hot US data and FOMC minutes

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Mixed housing data, very strong IP; Mixed FOMC minutes; Hot UK Core CPI; RBNZ leave rates unchanged but signal no cuts until 2025; Atlanta Fed GDP Now Q3 tracker rises to 5.8%; Investors like TGT and TJX earnings.
- **COMING UP**: **Data**: Australian Jobs Report, US IJC, Philadelphia Fed Business Index **Events**: Norges Policy Announcement **Supply**: Japan and France **Earnings**: Walmart & Applied Materials

MARKET WRAP

Stocks extended their sell-off on Wednesday and particularly into the US close, a move that crescendoed alongside weakness in bonds and commodities, while the Dollar climbed. There is a temptation to pin the late moves on the FOMC minutes, although they were pretty balanced in tone (and stale), and the moves had already begun before then - stocks have been in a downtrend for the past few weeks now. US data was strong, with housing starts and industrial production data both coming in above expectations, while the Atlanta Fed GDPNow Q3 tracker was raised again to 5.8% from 5.0% following the recent string of data. Earnings saw well-received Target (TGT) and TJX (TJX) reports on the back of Tuesday's solid retail sales number. Russell 2k and Nasdaq 100 saw greater losses than the S&P 500, while in sectors, utilities, financials, and staples outperformed, while real estate, communications, and discretionary lagged. Treasuries yields were firmer, and the curve a few bps steeper, after US traders reversed an overnight bid, aided by the hot US activity data. The DXY rose above 103.50 in late trade, while USD/JPY hit peaks of 146.40, rising above levels that had previously seen intervention - the Pound outperformed peers after the hot-leaning UK inflation data kept the hawkish pressure on the BoE. Oil prices tumbled into the NY afternoon despite a chunky 6mln bbl US crude inventory draw with the Dollar strength and cyclical risk aversion weighing. Metals felt the pressure of the firmer Dollar, and spot gold closed comfortably beneath the USD 1,900/oz level, with real yields rising further.

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FOMC MINUTES: The FOMC minutes were in fitting with recent Fed policymaker discussions, emphasising the divergence of views among policymakers. Note that the minutes were from the July meeting, therefore somewhat stale after the soft-leaning CPI report and the slowing pace of job growth in the BLS employment report. The minutes saw that most officials see "significant" upside risks to inflation, which could require further tightening, but a number of participants warned of the risks of accidentally tightening policy too much. Meanwhile, a number also saw economic risks becoming more balanced but overall it noted that uncertainty remains elevated and future policy decisions are to be driven by the totality of data. On inflation, participants said it was unacceptably high and they need to see more evidence that inflation is ebbing. On policy lag, participants said rate hikes were working as intended while the banking system is sound and resilient, but tighter credit conditions are likely to weigh on the economy. On growth, participants said a gradual slowdown in economic activity appeared to be happening but noted the labour market is still very tight but signs are emerging that labour demand is in better balance. Overall, a relatively mixed set of minutes given most saw significant upside risks to inflation which could require further tightening, although a number were warning of accidentally tightening too much - both of which have been noted among Fed commentary in recent weeks.

INDUSTRIAL PRODUCTION: Industrial production jumped 1.0% in July (prev. -0.8%), above the expected 0.3% and on the upper boundary of analyst forecast ranges, almost recouping the losses seen in May and June. Capacity Utilization printed 79.3%, slightly below the consensus of 79.1% but exceeding the prior 78.6%, while Manufacturing Output rose 0.5% (prev. -0.5%) mainly on a surge in motor vehicle production. Back to IP, Oxford Economics think last month's increase will be reversed quickly as the industrial sector is set to face many challenges. Spelling it out, OxEco notes “weakening goods demand, elevated interest rates, tighter lending standards, inventory destocking, and the strong US dollar all portend weaker industrial production in the months ahead”. Nonetheless, the consultancy adds the economy's broad resiliency has been a surprise and thus possible these drags will take longer to materialize.

BUILDING PERMITS/HOUSING STARTS: Building permits rose 0.1% M/M in July, from 1.441mln to 1.442mln, missing the expected 1.463mln. Single-family permits in July rose 0.6% M/M to 930k from 924k, with multi-family permits at

464k, down 0.2% M/M from 465k. Housing Starts rose 3.9% in July to 1.452mln, above expectations of 1.448mln, paring some of the 8% decline in June, while single-family starts rose 6.7% to 983k from 921k and multi-family units starts were unchanged at 460k. The rise in single-family permits and starts helped offset the relatively unchanged multi-family figures. Pantheon Macroeconomics suggests rising single-family starts will continue to offset the falling multi-family starts, leading to a further increase in the August and September starts data, resulting in a positive contribution from residential investment to GDP growth in Q3.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLE 6+ TICKS LOWER AT 109-18

Treasuries yields rose after US traders reversed an overnight bid, aided by hot US activity data. 2s +2.8bps at 4.982%, 3s +2.8bps at 4.680%, 5s +3.4bps at 4.412%, 7s +4.0bps at 4.363%, 10s +4.5bps at 4.266%, 20s +5.2bps at 4.551%, 30s +4.8bps at 4.367%.

INFLATION BREAKEVENS: 5yr BEI +0.1bps at 2.361%, 10yr BEI +0.8bps at 2.342%, 30yr BEI +2.2bps at 2.337%.

THE DAY: T-Notes hit session lows on the globex open at 109-24 before they recovered through the APAC Wednesday session, ultimately hitting peaks of 110-05+ at the NY handover, despite some turbulence after hotter-than-expected UK inflation data - note the RBNZ left rates unchanged but signalled no cuts are expected until 2025.

The cash open for USTs saw selling led by the long end, steepening the curve after the London session saw some flattening. Hot housing starts data added to the moves, and T-Notes hit initial troughs of 109-23 in the wake of the hot industrial production data. It was not one-way trade lower from there, however, with Treasuries finding some strength later in the NY morning. But, better selling returned as Europe began closing shop, with a lot of attention on the Atlanta Fed's Q3 GDPNow tracker rising again to 5.8% from 5.0%. T-Notes ultimately printed session lows at settlement of 109-16, coming in the wake of the FOMC minutes, which were mixed in tone. The curve was a touch steeper ultimately on the day.

Traders now look to Thursday's Philly Fed mfg. survey (after the weak NY Fed survey on Tuesday) and initial jobless claims (after a surprise jump last week). Friday has nothing scheduled from a US perspective so expect some early book squaring into the weekend - although Japanese CPI could set the tone given the rising volatility and influence (on global yields) of JGBs.

STIRS:

- SR3U3 -1.5bps at 94.555, Z3 flat at 94.655, H4 -3bps at 95.065, M4 -3.5bps at 95.42, U4 -3.5bps at 95.73, Z4 -3 bps at 95.955, H5 -3.5bps at 96.09, M5 -3.5bps at 96.155, U5 -3bps at 96.19, U6 -4bps at 96.255, U7 -3.5bps at 96.20.
- SOFR flat at 5.30% as of Aug 15th, volumes rise to USD 1.413tln from 1.333tln.
- NY Fed RRP op demand at USD 1.797tln (prev. 1.744tln) across 105 counterparties (prev. 98).
- EFFR flat at 5.33% as of Aug 15th, volumes fall to USD 102bln from 103bln.
- US sold USD 50bln of 17-week bills at 5.305%, covered 3.02x.

THIS WEEK (US items bolded):

- 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) SETTLES USD 1.61 LOWER AT 79.38/BBL; BRENT (V3) SETTLES USD 1.44 LOWER AT 83.45/BBL

Oil prices tumbled into the NY afternoon on Wednesday despite a chunky US inventory draw with Dollar strength and cyclical risk aversion weighing. There was no particular energy market catalyst for the selling, where the solid US industrial production and housing starts data failed to sustain any recovery, with desks pointing instead to China's continued lack of recovery, as Tuesday's data indicated. The EIA's reported 6mln bbl draw in US crude stocks failed to prevent the selloff too, and perhaps bears used the +100k BPD increase in crude production to 12.7mln BPD as fuel; product inventory changes on the week were net flat. WTI and Brent futures settled at lows coinciding with the Dollar hitting its apex in wake of the FOMC minutes. More broadly, prices are down c. USD 5/bbl from their peaks back on August 10th, with the benchmarks set for their first W/W loss since mid-June.

EQUITIES

CLOSES: SPX -0.76% at 4,404, NDX -1.07% at 14,876, DIA -0.52% at 34,766, RUT -1.28% at 1,872.

SECTORS: Consumer Discretionary -1.27%, Communication Services -1.21%, Real Estate -1.2%, Energy -0.9%, Technology -0.88%, Health -0.78%, Materials -0.66%, Industrials -0.55%, Consumer Staples -0.28%, Financials -0.21%, Utilities +0.46%.

EUROPEAN CLOSES: DAX +0.14% at 15,789, FTSE 100 -0.44% at 7,357, CAC 40 -0.10% at 7,260, Euro Stoxx 50 -0.09% at 4,285, IBEX 35 +0.03% at 9,350, FTSE MIB -0.93% at 28,170, SMI +0.03% at 10,988.

STOCK SPECIFICS: **Intel (INTC)** confirmed the termination of its **Tower Semiconductor (TSEM)** acquisition as it anticipated it would not receive China approval; will pay a termination fee of USD 353mln to Tower. **Tesla (TSLA)** reportedly cut prices for the Model S and X in China. Follows news this week that it cut prices for select Model Y versions in China as it reignites an EV price war. **Apple (AAPL)** supplier Foxconn has begun iPhone 15 production in India. Apple is making the iPhone 15 at Foxconn plant's plant in Tamil Nadu, which reduces its reliance on China. DoJ is reportedly probing its pricing practices around **Visa's (V)** token technology, according to Bloomberg. **Amazon (AMZN)** is imposing fees on sellers who ship products themselves; is charging new levy even with an antitrust suit looming, according to Bloomberg. Secretaries of State for seven US states wrote to the FTC Chair to voice opposition to **Kroger's (KR)** proposed USD 24.6bln acquisition of **Albertsons (ACI)**. **ArcelorMittal (MT NA)** is discussing a possible bid for **US Steel (X)**, according to Reuters sources. Follows **Cleveland-Cliffs (CLF)** and Esmark having bids of USD 35/shr, or ~USD 7bln total, rejected. Note, the US Steel Workers union said they would only endorse the bid by CLF.

EARNINGS: **Target (TGT)** beat on profit and gross margin but missed on revenue and comp. store sales. Looking ahead, TGT cut its profit view for the next quarter and FY with an exec saying it continues to take a cautious approach to planning its business in anticipation of continued near-term challenges on the topline. The CEO added with inflation rates moderating, it has started to see consumer confidence begin to recover from recent lows. **Agilent Technologies (A)** lowered its FY23 guidance but do note EPS and revenue beat expectations. **Coherent (COHR)** guidance for both the next quarter and FY was exceedingly light. However, it surpassed Wall St. expectations on the top and bottom line for the current quarter. **TJX Companies (TJX)** topped consensus on EPS, revenue, and comp. store sales growth and it raisedthe FY24 outlook and said Q3 is off to a very strong start and seeing tremendous buying opportunities in the marketplace. **Jack Henry & Associates (JKHY)** FY24 profit view was light, but it did beat on the top and bottom line. **Mercury Systems (MRCY)** missed on the top and bottom line as well as providing soft FY guidance.

US FX WRAP

The Dollar was firmer Wednesday with DXY hitting a high of 103.52 in late US trade, after the FOMC minutes which said most officials saw "significant" upside risks to inflation, which could require further tightening, which got the headline attention, albeit the internals were more balanced. Helping support the buck before that was a set of strong US data prints, particularly the Industrial Production which smashed expectations, while building permits missed but housing starts beat.

The Euro fell victim to the stronger dollar with EUR/USD falling from highs of 1.0934 in the European morning before hitting lows of 1.0878 heading into the APAC session. Within the Eurozone, the Q2 GDP was in line at 0.6% on a Y/Y basis and 0.3% Q/Q, also in line with expectations, while the Industrial Production for June data was much better than expected.

The Yen was softer on Wednesday to see USD/JPY hit a high of 146.38, above the September intervention level of 145.92. The move was driven by upside in both the Dollar and UST yields, with highs in the pair seen at highs heading into Asia trade. Note we get Japanese CPI data on Friday.

Antipodes were softer but the Kiwi outperformed the Aussie in the wake of the RBNZ rate decision. The Central Bank left rates unchanged as expected at 5.5% while its guidance noted it agreed the OCR will need to remain at restrictive levels for the foreseeable future, thus raising its OCR forecast for December 2024 to 5.5% from 5.30%, suggestive of no rate cuts until 2025. AUD/NZD cross briefly tested 1.08 when NZD was at its best levels. Attention now turns to the Australian labour market data at 02:30BST/21:30EDT. RBNZ Deputy Governor Hawkesby is to speak at the Financial Services Council annual conference on Thursday too.

Pound was the outperformer on Wednesday following the UK inflation data which saw the headline Y/Y in line at 6.8% but the core metric was hotter than expected at 6.9%, maintaining the prior pace. The hot core print coupled with Tuesday's hot wages data has only emphasised hawkish expectations for the BoE with a 25bp fully baked in for September, with a c. 15% probability of a larger 50bp move.

Loonie saw weakness vs the buck as the Dollar strength and the tumbling crude prices were too much for the Looney to handle with the pair hitting a high of 1.3543.

The Yuan was softer vs the Dollar despite best efforts from officials where Premier Li Quang vowed that China is to meet its annual economic targets and it is to boost consumption and investment. Meanwhile, a PBoC-backed paper stated recent yuan fluctuations are "normal", and that expectations for yuan exchange rates are stable, adding the Yuan decline is to ease in H2. Meanwhile, Bloomberg sources reported China has asked some funds to avoid net equity sales as the market sinks.

NOK and SEK were weaker on Thursday in fitting with the risk off trade. NOK saw added pressure ahead of the Norges Bank rate decision due Thursday morning with the weakness stemming from the reversal in crude prices seen this week. The Norges Bank is expected to hike rates by 25bps to 4.00%, in fitting with its recent guidance, while markets assign a 12% probability of a 50bp move. A full Newsquawk Preview is available here.

EMFX was generally weaker due to the risk off tone and stronger buck. Nonetheless, the Rouble surged to just 93 vs the Dollar from highs of 98.20 after reports that Russian Authorities may bring back the compulsory sale of FX revenues "at any moment" even though part of export revenues are now in Roubles and Rupees, according to Reuters citing a high-level source who said the move could be imminent, while also adding authorities are discussing options for supporting the Rouble. In LatAm, the CLP saw weakness in fitting with the downside in copper prices while a cabinet reshuffle saw Aurora Williams appointed as the Mining Secretary, Williams had previously served as the mining minister from 2014-2016. BRL was flat vs the Dollar amid more commentary from BCB Chief Neto who repeated the fight against inflation has not been won and BCB needs to continue the process, although acknowledging that core inflation has fallen, but it is still far above target. However, given recent price hikes from state-owned oil co. Petrobras, inflation fears are rising in Brazil even as the BCB undergoes monetary easing. COP saw weakness in fitting with the crude price action.