US Market Wrap

17th August 2023: Stocks and bonds slide again with Dollar flat as Yuan and Yen outperform

- **SNAPSHOT**: Equities down, Treasuries mixed, Crude up, Dollar flat.
- **REAR VIEW**: Philly Fed index spikes higher; Initial jobless claims tick lower; Chinese state bank FX intervention; Impressive WMT metrics but warns of uncertainty ahead; CSCO earnings beat; Poor Australian jobs report; CVS affirms FY guidance despite Blue Shield contract doubts.
- **COMING UP**: **Data**: Japanese CPI, UK Retail Sales and EZ CPI (Final) **Events**: Trilateral Summit **Speakers**: ECB's Lane Earnings: Kingspan, Deere and Estee Lauder.

MARKET WRAP

Stocks extended their sell-off on Thursday with differing opinions on what is driving the move lower given a lack of obviously negative catalysts; SPX is now down c. 5% from its July peaks. A culprit being pointed to is the climb to fresh cycle peaks in long-end yields (30yr yield hit a new peak of 4.43%), although while higher yields won't serve to help stocks recover, it's hardly a perfect relationship right now with bonds recovering off lows into the close while stock selling picked up momentum. 0DTE option activity is another strawman for the market weakness - an eerily similar magnitude of losses for the major indices each day this week gives some weight to such technical factors. Fundamentals in the US were solid, with a spike in the Philly Fed mfg. survey to the highest since April 2022 alongside a fall in weekly initial jobless claims - factors that will encourage bond bears. Meanwhile, earnings reports have been largely well received with Cisco (CSCO) firmer post, although Walmart's (WMT) strong report was somewhat shadowed by some commentary regarding uncertainty on the outlook. In FX, the DXY was flat as the risk aversion unwound initial Dollar weakness, with the Yuan outperforming after reports of more state bank FX intervention; Yen was an outperformer too, with a gradual pullback in USD/JPY from new highs at 146.56, note higher JGB yields after an awful 20yr auction from the MoF. Oil prices found some reprieve after three straight days of losses, with the lack of Dollar strength and solid US data supportive.

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PHILLY FED: The August Philly Fed manufacturing index spiked to +12.0, the highest since April 2022, from -13.5 and well above the expected -10.0. The survey's indicators for general activity, new orders, and shipments were all positive for the first time since May 2022. However, the firms reported a decline in employment, on balance, with the index falling to -6 from -1. The price indices remained near long-run averages - prices paid jumped to 20.8 from 9.5. However, and putting a dampener on August's activity, expectations for growth over the next six months were less widespread, as most of the survey's future indices remained positive but declined; the 6m index tumbled to 3.9, the lowest reading since May, from 29.1. In all, the solid Philly Fed reading offsets the tumble in the Empire State regional survey on Tuesday, with the Richmond Fed survey next Tuesday the next regional gauge for August in the run-up to the nationwide ISM data on September 1st.

INITIAL JOBLESS CLAIMS: Initial jobless claims, for the week that coincides with the usual BLS survey period, slowed to 239k from 250k the prior week, in line with analyst expectations. The continued claims data for the preceding week saw an uptick to 1.716mln from 1.684mln, above expectations of 1.7mln. For the initial claims, the 4-week average rose to 234k from 232k. The unadjusted claims number totalled 212.85k, falling 15k from the prior week, while seasonal factors had expected a decrease of 4.8k. Some had been expecting a pick up in claims following the bankruptcy of trucking giant Yellow Corp, which employed c. 30k people, but apart from the brief spike in claims a few weeks back, it hasn't yet appeared to have had a lasting impact on the claims data. Looking ahead, analysts at Pantheon Macroeconomics highlight the jobless claims trend will broadly be sideways over the next few months. The claims data are so far failing to indicate any material softening, or "rebalancing", of the labour market, something which the FOMC minutes highlighted as a prerequisite for the Fed in getting inflation back down to 2%.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 9 TICKS LOWER AT 109-09

Treasuries twisted Thursday as bond yields continued to hit fresh peaks amid more strong US data. 2s -3.4bps at 4.946%, 3s -1.4bps at 4.666%, 5s +1.5bps at 4.423%, 7s +2.4bps at 4.381%, 10s +3.4bps at 4.292%, 20s +4.1bps at 4.584%, 30s +4.3bps at 4.403%.

INFLATION BREAKEVENS: 5yr BEI +2.1bps at 2.355%, 10yr BEI +1.4bps at 2.336%, 30yr BEI +1.0bps at 2.326%.

THE DAY: T-Notes opened at their session peaks of 109-20+ before selling began in the APAC morning, coinciding with the release of the latest weekly Japanese MoF data that saw some notable selling of foreign bonds in the week ending Aug. 12th. T-Notes found interim troughs of 109-08 in the wake of the surprise decline in Australia's employment report. A recovery attempt was scuppered swiftly by an awful demand reception for a Japanese 20yr bond auction.

T-Notes were rangebound until the European handover, going on to hit interim lows of 109-05+. That was when the curve began to diverge, where the front end recovered through the European morning, while long end contracts remained near lows into the NY handover.

T-Notes broke through resistance of 109-13 as US trade got underway, taking cues from the front end's recovery. The hot Philly Fed mfg. survey and fall in initial jobless claims saw just a brief spurt lower in contracts before recovering to print US session highs of 109-17. But better selling resumed on the NYSE cash open for both stocks and bonds, and T-Notes trundled lower into the European close, where they printed session lows of 109-03+, that held through the NY afternoon. The cash 10yr and 30yr yields marked fresh peaks of 4.328% and 4.426%, respectively, with the latter the highest in over a decade.

The calendar is empty from a US perspective for the rest of the week, although Japanese CPI on Friday could rock the boat. But otherwise, trade will likely be characterized by book squaring into the weekend, although activity may stay high amid long-end yields entering uncharted territory.

STIRS:

- SR3U3 +0.5bps at 94.59, Z3 +2.5bps at 94.61, H4 +3.5bps at 94.805, M4 +4bps at 95.105, U4 +3.5bps at 95.455, Z4 +2bps at 95.75, H5 flat at 95.95, M5 -2bps at 96.07, U5 -3.5bps at 96.12, U6 -7bps at 96.18, U7 -7.5 bps at 96.155.
- SOFR flat at 5.30% as of Aug 16th, volumes fall to USD 1.391tln from 1.413tln.
- NY Fed RRP op demand at USD 1.794tln (prev. 1.797tln) across 101 counterparties (prev. 105).
- EFFR flat at 5.33% as of Aug 16th, volumes fall to USD 96bln from 102bln.
- US sold USD 81bln of 4-week bills at 5.280%, covered 2.67x; sold USD 71bln of 8-week bills at 5.280%, covered 2.89x.
- US left 6-, 13-, and 26-week bill sizes unchanged at USD 60bln, 69bln, and 62bln, respectively; 13- and 26-week bills sold on Aug 21st, 6-week sold on Aug 22nd; all to settle on Aug 24th.

FRIDAY: Japanese CPI (Jul), UK Retail Sales (Jul), EZ Final CPI (Jul).

CRUDE

WTI (U3) SETTLED USD 1.01 HIGHER AT 80.39/BBL; BRENT (V3) SETTLED USD 0.67 HIGHER 84.12/BBL

Oil prices found some reprieve on Thursday after three straight days of losses, with the Dollar choppy and strong US economic data. The upside for oil gained momentum in the European session, with WTI and Brent futures going on to print session highs of USD 81.08/bbl and 84.88/bbl late in the NY morning, coming on the heels of a decline in US initial jobless claims and a surge in the Philly Fed mfg. survey. Further stock losses in the US capped any further recovery in oil from there. Elsewhere, Zawya reports that Iraq is seeking to revive its largest oil refinery that was damaged during the war by the end of 2024. The Baiji refinery, with a pre-war full output of 120k BPD, produced nearly a third of Iraq's refining capacity before it sustained damage in 2014. Meanwhile, the strengthening hurricane Hilary, currently category 2, is gaining attention, with the storm path set to head over the Port of Los Angeles - it is expected to turn into a major hurricane (category 3 and over), according to the NHC.

EQUITIES

CLOSES: SPX -0.77% at 4,370, NDX -1.08% at 14,715, DIA -0.84% at 34,474, RUT -1.15% at 1,850.

SECTORS: Consumer Discretionary -1.58%, Consumer Staples -1.01%, Technology -0.96%, Industrials -0.84%, Health -0.76%, Real Estate -0.74%, Communication Services -0.59%, Financials -0.5%, Utilities -0.33%, Materials -0.18%, Energy +1.11%.

EUROPEAN CLOSES: DAX -0.71% at 15,677, FTSE 100 -0.63% at 7,310, CAC 40 -0.94% at 7,192, Euro Stoxx 50 -1.32% at 4,228, IBEX 35 -0.78% at 9,278, FTSE MIB -1.03% at 27,879, SMI -0.96% at 10,887.

STOCK SPECIFICS: **Cisco Systems (CSCO)** beat on EPS and revenue with mixed guidance for the next quarter and FY. On call CSCO offered very strong commentary on demand and said product orders were +30% sequentially, with double-digit increases in all customer markets, adding that it was higher than historical order trends of +18-20% sequential order growth. **Walmart (WMT)** initially saw gains of around 3% post-earnings as EPS and revenue beat, alongside raising FY guidance. However, WMT trimmed gains, and more, after cautious commentary as it sees uncertainty in the economy during the rest of year and sees headwinds coming from US student-loan repayments. **Synopsys (SNPS)** earnings beat; Q4 guidance topped expected and raised FY view. **Tapestry (TPR)** fell short on the top and bottom alongside light FY outlook. Raised annual dividend 17% to USD 1.40/shr. Health insurer Blue Shield plans to drop **CVS Caremark (CVS)** as pharmacy-benefit manager, according to WSJ, seeing shares tumble. CVS later affirmed its FY guidance, noting the financial impact of the partial termination of Blue Shield contract is expected to have an immaterial impact on its longer-term outlook. **Wolfspeed (WOLF)** missed on profit and provided soft guidance for the next quarter. **Lumentum (LITE)** next quarter guidance was very light due to the continuation of the current customer inventory correction cycle. Also notes its shipments will be below end-market demand. Note, EPS and revenue beat. **Adobe (ADBE)** was upgraded at Bank of America; said Adobe was on the verge of becoming a leader in AI. **Goldman Sachs (GS)** plans hiring spree of "hundreds" to fix lapses amid Fed’s scrutiny over the past year, according to Bloomberg sources.

US FX WRAP

USD was choppy but ended flat, albeit within thin ranges, as market participants now await Jackson Hole next week with the week's key risk events in the rear view ahead of a very thin docket on Friday. On Thursday, initial jobless claims, for the week that coincides with the usual BLS survey period, slowed to 239k from 250k the prior week, in line with analyst expectations. Meanwhile, Philly Fed +12.0 (exp. -10, prev. -13.5) printed the highest since April 2022, with prices paid and new orders rising to 20.8 (prev. 9.5) and 16 (prev. -15.9), respectively, and employment dipping to -6.0 (prev. -1.0). Prior to this, the Dollar saw weakness amid **Yuan**-related headlines, which have been plentiful this week, after Bloomberg sources said China reportedly told state banks to escalate Yuan intervention this week. As a result, the Yuan was firmer vs the Greenback and continued to strengthen on Thursday.

Antipodeans were the G10 underperformers against the Buck with the AUD underperforming the NZD. The Aussie saw weakness on the back of a bleak jobs report where the unemployment rate rose to 3.7% (exp. 3.6%, prev. 3.5%) and jobs fell by 14.6k (prev. 32.6k) against an expected 15k rise. As such, AUD/USD printed a low of 0.6366, but as the Dollar dipped and the Yuan rebounded the Aussie benefitted to see the cross hit a peak of 0.6450. NZD/USD traded between 0.5904-63 in light of anything currency specific ahead of RBNZ’s Governor Orr speaking overnight.

CHF, **EUR**, **CAD** and **GBP** were all more-or-less flat against the Buck in light currency-specific newsflow, highlighted by the Euro and Loonie ‘underperforming’ (down 0.1%) with the Swissy and Pound ‘outperforming’ (+0.1%). Nonetheless, the Loonie saw tailwinds on the back of WTI’s revival after three straight days of losses. Cable traded between 1.2704-87 and resides towards the bottom end of the range, at pixel time, as the relentless rise in Treasury yields continued to weigh on risk sentiment and see flows head towards the Dollar. All attention for Sterling watchers will be on July retail sales on Friday, in lack of much else on the docket. EUR/USD hit a trough of 1.0857, which it currently sits just above of, and a peak of 1.0918, with the single currency extending to the downside after breaching a key fib at 1.0880.

JPY was the G10 outperformer against the Buck, albeit well-off earlier best levels. USD/JPY made an eighth straight day with higher highs and higher lows, which desks note is its longest streak since just before October's BoJ intervention-driven collapse from 32-year highs. On the day, the Yen initially staged a recovery vs its US rival despite disappointing Japanese data on the eve of CPI. USD/JPY reached a peak of 146.56 in APAC trade without a word from the MoF before gradually paring back lower, perhaps aided by yield differentials after the poor JGB auction (more below), all the way into the NY handover where the pair stalled around 145.63 and could have been capped by 1.1bln option expiry interest at 145.50. However, as risk sentiment soured through the US afternoon the Yen came back off best levels to sit around 146.00. The MoF auctioned a 20yr JGB auction to particularly poor demand, with lower accepted prices and the widest tail since 1987. In terms of specifics, MUFG note the yield on the 20yr JGB auction generated from the lowest price was 6bps higher than the average with a bid-to-cover of 2.8 – the lowest since September last year.

NOK was flat vs the Buck after the Norges Bank rate decision, despite seeing initial strength in the aftermath amid participants seeing enough encouragement in the accompanying statement. The bank, as expected, hiked its key policy rate 25bps to 4.0%, but said the future policy rate path will depend on economic developments, and if the economy evolves as currently anticipated, the policy rate will be raised further in September. The post-meeting presser was perceived on the dovish side, however, and saw a wave of short covering in EUR/NOK and USD/NOK.

EMFX was predominantly firmer vs the Greenback, with the MXN and TRY underperforming with the latter weighed on by higher crude prices. BRL was cushioned by BCB Chief Neto who said there was a high bar to a quicker pace of rate cuts vs the current 50bp pace, in addition to Brazil's IGP-10 inflation index coming in less negative than forecast. Separately in LatAm, the CLP was underpinned by a rise in copper prices rather than undermined by Chile's Centre for Copper and Mining Studies (CESCO) warning that Codelco (world's largest copper mine) is at risk of insolvency amid rising costs and growing debt.