US Market Wrap

18th August 2023: Stocks mixed and bonds bid as eyes turn to Jackson Hole

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude up, Dollar flat.
- **REAR VIEW**: Latest Fed poll widely expects rates unchanged in September, with cuts seen by end Q2 '24; Strong ROST report; EL missed on gross margin with FY guidance light; US, Japan, and South Korea in a joint statement commit to coordinate responses.
- **WEEK AHEAD**: Highlights include Jackson Hole, PBoC LPR, Flash PMIs, CBRT, Japan's Tokyo CPI, To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing PBoC LPR, Jackson Hole, BoK; Reviewing PBoC, RBNZ, FOMC Minutes, RBA Minutes, Norges Bank. To download the full report, please click here.

MARKET WRAP

It was a quiet Friday session with little on the calendar where stocks were relatively mixed with RUT outperforming and the NDX lagged primarily due to weakness in Communication names while Consumer Discretionary also disappointed on Friday. On the flipside, defensive sectors such as Utilities and Staples were among outperformers but Energy stocks were the leaders thanks to a slight rebound in crude prices. Crude prices settled near highs, but it was not enough to pare the losses seen earlier in the week following seven consecutive weeks of gains. In earnings, Estee Lauder (EL) took a hit after disappointing guidance and margins while Deere (DE) also took a hit in wake of its report with some implying industrial names have peaked. Treasuries pared recent losses on Friday, with the belly strongest in a quiet calendar but healthy futures activity. The Dollar was flat with attention turning to the Jackson Hole symposium next week with Powell due to speak on the Friday where he will likely reiterate his data dependent tone. Note, the latest Fed poll widely expects Fed to keep rates unchanged in September, with cuts seen by the end of Q2 24. Elsewhere, the trilateral meeting between Japan, South Korea and the US took place today where the three are to coordinate responses to regional challenges, provocations and threats, with the trio calling for peace and stability in the Taiwan strait.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 11+ TICKS HIGHER AT 109-20+

Treasuries pared recent losses on Friday, with the belly strongest in a quiet calendar but healthy futures activity. At settlement, 2s -2.3bps at 4.938%, 3s -3.6bps at 4.647%, 5s -5.2bps at 4.387%, 7s -5.3bps at 4.347%, 10s -5.3bps at 4.255%, 20s -3.5bps at 4.562%, 30s -3.0bps at 4.382%.

INFLATION BREAKEVENS: 5yr BEI -1.1bps at 2.345%, 10yr BEI -1.3bps at 2.324%, 30yr BEI -1.2bps at 2.316%.

THE DAY: Treasuries recovered through the APAC session on Friday. There were growing China fears touted with Evergrande declaring bankruptcy in NY, while much attention on a WSJ article "Investors Fear China's 'Lehman Moment' Is Looming". However, it is worth noting an initial stalling of the Tsy recovery in the Tokyo morning after Japanese CPI data printed in line with expectations.

Regardless, T-Notes climbed to session peaks of 109-28+ at the London handover, on the back of the soft UK retail sales figures, with 109-22+ serving as support until US trade got underway. The cash open for USTs saw a swift paring back of the APAC gains. T-Notes went on to print interim lows of 109-14. But once the opening flow dissipated, contracts recovered again into the NY afternoon to see a high of 109-27+ before selling off once again into settlement. On the curve, the belly was strongest while the wings underperformed, albeit the whole curve still firmer on the day.

Traders now look to next week with Jackson Hole, starting on Thursday, serving as the highlight, albeit we get Flash PMIs on Wednesday and Fed's Gooslbee on Tuesday - it will be interesting to hear the dove's thoughts on the latest US growth pick-up. Treasury participants also have attention on supply with the US 20yr bond auction on Wednesday arriving into an elevated rates vol environment.

STIRS:

- SR3U3+1.3bps at 94.600, Z3 +1.0bps at 94.615, H4 +1.5bps at 94.810, M4 +1.5bps at 95.110, U4 +1.5bps at 95.455, Z4 +2.0bps at 95.755, H5 +3.0bps at 95.970, M5 +4.0bps at 96.100, U5 +5.0bps at 96.160, U6 +7.0bps at 96.240, U7 +7.0bps at 96.210.
- SOFR flat at 5.30% as of Aug 17th, volumes fall to USD 1.343tln from 1.391tln.
- NY Fed RRP op demand at USD 1.819tln (prev. 1.794tln) across 98 counterparties (prev. 101).
- EFFR flat at 5.33% as of Aug 17th, volumes rise to USD 98bln from 96bln.

NEXT WEEK (US items bolded):

- MON: PBoC LPR, German PPI (Jul)
- TUE: **Richmond Fed Index (Aug), Existing Home Sales (Jul), Goolsbee (voter, dove)**, New Zealand Retail Sales (Q2).
- WED: **Flash PMI (Aug), New Home Sales (Jul), 2yr FRN and 20yr bond auctions**, EZ & UK Flash PMIs (Aug), Canadian Retail Sales (Jun).
- THU: **Fed's Jackson Hole Symposium (24-26th Aug), Durable Goods (Jul), Chicago Fed NAI (Jul), Jobless Claims, KC Fed index (Aug), 30yr TIPS auction**, CBRT Announcement, BoI Announcement, BoK Announcement.
- FRI: **Fed's Jackson Hole Symposium (24-26th Aug), Uni of Michigan Final (Aug**), Japan's Tokyo CPI (Aug), German Ifo Survey (Aug), German GDP Detailed (Q2).

CRUDE

WTI (U3) SETTLED 0.86 HIGHER AT 81.25/BBL; BRENT (V3) SETTLED USD 0.68 HIGHER AT 84.80/BBL

The crude complex was firmer, settling near highs, but not on the week as WTI and Brent ended seven consecutive weeks of gains from mounting demand concerns. On Friday, newsflow was very sparse on top of a light calendar amid typical summer trading conditions, which saw oil recoup some of its weekly losses and hit highs of USD 81.61/bbl and 85.08/bbl, respectively. However, on the week, the complex saw weakness amid the continued fall out from grim Chinese economic data and the not as strong as expected post-COVID recovery. Further dampening the world's largest oil importer is that it continues to be on shaky economic footing due to property market trouble. Nonetheless, back to Friday, Kazakhstan could redirect oil exports via Russia's Baltic ports if the Black Sea situation worsens, according to Kaztransoil's deputy head. Separately, according to Reuters sources, Marathon Galveston Bay Texas refinery (593k) is back to normal operations after steam loss. Lastly, Baker Hughes US Rig Count (w/e Aug 18th) saw oil down 5 at 520, Nat Gas down 6 at 117, leaving the total declining 12 to 642. Looking ahead to next week, the key event is Jackson Hole Symposium (24-26th August) where Fed Chair Powell is speaking on Friday. Aside from that, Richmond Fed (Tues) and Flash PMI (Wed) are the highlights.

EQUITIES

CLOSES: SPX -0.01% at 4,369, NDX -0.14% at 14,694, DJIA +0.07% at 34,500, RUT +0.51% at 1,859.

SECTORS: Energy +0.94%, Utilities +0.39%, Consumer Staples +0.37%, Real Estate +0.28%, Industrials +0.12%, Technology +0.11%, Health -0.01%, Materials -0.08%, Financials -0.13%, Consumer Discretionary -0.32%, Communication Services -0.98%.

EUROPEAN CLOSES: DAX -0.65% at 15,574, FTSE 100 -0.65% at 7,262, CAC 40 -0.38% at 7,164, Euro Stoxx 50 -0.34% at 4,213, IBEX 35 -0.11% at 9,268, FTSE MIB -0.42% at 27,762, SMI -0.46% at 10,835.

STOCK SPECIFICS: **WeWork (WE)** is to implement a 1-for-40 reverse stock split. Starboard Value reported a 9.9% stake in **Bloomin' Brands (BLMN)**. California regulators are reviewing **Medical Property Trust's (MPW)** deal with Prospect Medical and have placed a deal on hold, according to WSJ. MPW responded saying the WSJ article was fake and misleading; DMHC's request was deemed immaterial and didn't require disclosure and it fully expects to obtain final approval from DMHC. MPW has been advised it is highly unlikely that regulators will not approve the deal. **Verizon (VZ)** is interested in partnering with **Disney (DIS)** on ESPN streaming; Disney wants partners to help with distribution and marketing, while Verizon is adding streaming bundles to help attract customers, according to The Information. US ADRs of Chinese companies such as **Alibaba (BABA), JD (JD), Nio (NIO), and PDD (PDD)** all saw pronounced weakness as China continues to be on shaky economic footing due to property market trouble and its post-COVID recovery not as strong as expected. **Amazon (AMZN)** is significantly expanding its own shipping service that competes with **FedEx (FDX)** and **UPS (UPS)**, according to Business Insider citing sources. **Regeneron's (REGN)** Veopoz received FDA approval as the first treatment for children and adults with chaple disease.

EARNINGS: **Ross Stores (ROST**) beat on EPS, revenue, and comp. sales alongside raising its H2 outlook for sales and earnings. **Estee Lauder (EL)** missed on gross margin with FY guidance light alongside forecasting a surprise loss per share for the next quarter. Note, EPS and revenue beat. **Applied Materials (AMAT)** beat on the top and bottom line with next quarter guidance better-than-expected. **Keysight Technologies (KEYS)** next quarter outlook was light, however, it did beat on EPS and revenue. **Farfetch (FTCH)** missed on revenue, digital GMV, brand platform sales and lowered FY23 group GMV outlook and adj. EBITDA margin growth outlook. **XPeng (XPEV)** posted a deeper loss per share and gross margins unexpectedly fell. Note, the automaker beat on revenue, delivered 23,205 vehicles in Q2 (+27.3% Q/Q) and sees Q3 deliveries between 39-41k. XPEV also expects gross margin to recover once operating efficiency continues to improve.

WEEKLY FX WRAP

Dollar's safety credentials keeps it out of China's reach

USD/CNY-CNH - The DXY remained technically challenged, but the Buck firmly bid amidst risk-off positioning largely prompted by heightened concerns over Chinese growth following a string of disappointing data emanating from the world's second biggest economy. Conversely, US macro releases continued to support the soft landing narrative, including retail sales, industrial production, initial claims and a surprisingly strong Philly Fed business index that counterbalanced a broadly bleak Empire State survey. Hence, the Greenback extended its recovery from mid-July lows, with some traction from Treasury yields ramping higher (10 year to almost 4.33% from around 4.15% at the other extreme) and a hawkish line in the latest FOMC minutes (many officials see significant upside inflation risks that could require additional tightening) along the way. Using the index for reference, it peaked at 103.680 on Friday from a low of 102.770 at the start of the week and built a firmer base to potentially close above Fib resistance at 103.484 or even a trendline at 103.600 that would expose June 14's 103.756 apex. However, much could depend on what else China pulls out of the bag in its strenuous stimulus efforts and rear guard action to prop up the Yuan before attention turns to Fed Chair Powell at Jackson Hole next Friday. Indeed, the PBoC caught markets off guard when it cut 1 year MLF and 7-day reverse repo rates by 15 bp and 10 bp respectively and followed up with reductions to standard lending facilities, while continuing to set well beyond expected midpoint fixes for Usd/Cny. Moreover, Chinese state banks increased intervention in both the onshore and offshore units, while the PBoC added a bit more intent to its usual mission statement regarding the Yuan via a vow to resolutely prevent over-adjustment risks of the exchange rate. All this before a 1000+ pip above forecast reference rate to end the week, anticipated LPR easing and perhaps another RRR cut. Usd/Cny settled at 7.2833 within 7.3170-7.2488 extremes and Usd/Cnh held circa 7.3000 in late EU trade between 7.3484-7.2592 bounds.

JPY/CHF - Although Japanese officials were conspicuous by absence towards the end of the week and data was mainly bleak (marked exception being Q2 GDP ex-private consumption), the Yen staged a decent comeback vs the Dollar and other rivals in Jpy cross terms, all things considered. Usd/Jpy retreated to the low 145.00 zone compared to a circa 146.56 pinnacle and lost bullish momentum as a result, in part thanks to overall risk aversion and the Yuan regaining a degree of poise. Conversely, the Franc slipped to a new sub-0.8800 low against its US counterpart and was unimpressed by USTs paring more losses from Thursday's trough or a flatter yield curve having been rattled earlier in the week by the surprise resignation of Switzerland's Chancellor.

NZD/AUD - The Kiwi emerged with the upper hand down under, and rightly so given NZ vs Aussie specifics. To recap, the RBNZ held rates in line with consensus and thereby confirmed that the tightening cycle is over, but with a hawkish twist as it lifted the projected OCR path to signal restrictive policy for longer - essentially 5.5% is now seen as the peak and no change until 2025. Meanwhile, RBA minutes had a dovish tilt in that the Board sees a credible path back to the inflation target with the Cash Rate at current 4.10%, and this view was backed up by fractionally softer than forecast wage prices in advance of a downright poor set of labour metrics. Nzd/Usd held fairly comfortably above 0.5900, while Aud/Nzd reversed from 1.0876 to 1.0782 and Aud/Usd to 0.6366 from a distant 0.6522 high.

EUR/CAD/GBP - Current comparatively flat standings vs the Buck give a false impression of the truth in context of moves, as the Euro straddled 1.0900 amidst a myriad of big and sometimes hefty option expiry interest inside a 1.0846-1.0959 range. Eur/Usd was also attentive to EGB-UST differentials and tech impulses, like the Loonie that had some key Canadian data to contend with as well. Nonetheless, Usd/Cad rallied from 1.3434 to 1.3574 even though headline CPI was hotter than expected and in stark contrast to Sterling that advanced from 1.2617 to 1.2787 at best before getting knocked out of stride by dire UK retail sales ready (albeit weather impacted). Prior to that, hot average earnings overshadowed other cooler employment developments and a sticky core CPI outweighed headline disinflation to boost 25 bp BoE hike pricing for September to virtually 100%.

SCANDI/EM - The gloomy market mood took its toll on the Sek and Nok, but the latter gleaned a tad more protection from the Norges Bank delivering on guidance and signalling one more ¼ point tightening move next month before a potential pause/end. Meanwhile, the Inr held off all time lows vs the Usd with assistance of the RBI via Indian state banks, the Rub received a huge boost from the CBR raising rates 350 bp at its emergency policy meeting on top of Russia reportedly mulling a return to capital controls imminently, and the Brl was supported by BCB Chief Neto lifting the bar for a faster pace of easing plus a Brazilian Government official drawing a line in the sand at 5.0000. On the flip-side, more woe for the Try as the latest CBRT survey revealed loftier Turkish CPI forecasts, a firmer Usd/Try and one year repo rate, while the Ars was officially devalued following a swing to the extreme right wing in Argentina's primary Presidential vote.