



US Market Wrap

22nd August 2023: Dollar bid, bonds mixed as participants await PMIs and Powell

- **SNAPSHOT:** Equities down, Treasuries mixed, Crude down, Dollar up.
- **REAR VIEW:** Existing home sales touch more dovish than expected; Richmond Fed sluggish, but improves; Barkin suggested US economic growth could reaccelerate before inflation cools; Iraq has not reached an agreement with Turkey to allow an immediate resumption of Northern Oil exports; ATVI to sell streaming rights to Ubisoft in an attempt to win UK MSFT sale approval; MDT raises FY profit guidance; Mixed consumer earnings.
- **COMING UP: Data:** French, German, EZ, UK PMIs, US MBA, PMI & Canadian Retail Sales **Supply:** Germany & US **Earnings:** CRH, Bavarian Nordisk, Bath & Body Works Inc, NVIDIA Corp, Autodesk Inc.

MARKET WRAP

US equity trading was ultimately uneventful, with the horizontal price action seen in recent days continuing, ahead of flash PMI data due Wednesday, and the Fed's economic symposium on Friday. Consumer earnings (LOW, M, DKS) were mixed, and didn't provide any index-level steer, while Activision Blizzard (ATVI) sold cloud rights to Ubisoft in order to win over UK regulators on the Microsoft (MSFT) acquisition. Meanwhile, in fixed income, bonds were more mixed, with the short-end of the Treasury curve remaining under pressure after the Fed's 2024 voter Barkin suggested that US economic growth could reaccelerate before inflation cools, and talked up the prospect of future rate hikes if there were no signs inflation would fall back; the long-end may have taken encouragement from cooling existing home sales data. The Dollar Index itself was tracking the short-end, and rose above Friday's high, though the upside was modest. Crude futures were also sideways. The market's attention will be shifting onto events at Jackson Hole on Friday, but before then, the release of the August flash PMI data on Wednesday will offer a glimpse into growth dynamics, as well as a gauge of what the ISM surveys will look like when they are released in early September. Additionally, all attention will be on [Nvidia \(NVDA\) earnings](#) on Wednesday after-hours.

US

EXISTING HOME SALES: Existing home sales fell 2.2% in July to 4.07mln, beneath the expected (4.15mln) and the prior (4.16mln), and Oxford Economics thinks they likely have further to fall over the rest of the year as higher mortgage rates and a mild recession squeeze demand and keep supply conditions tight. Inventories rose to 3.3 months' worth (prev. 3.1), while the prospect of higher-for-longer mortgage rates will keep more sellers on the sidelines over the coming months. OxEco adds, "even the expected slowdown in the economy probably won't generate much in terms of distressed sales, with the unemployment rate forecast to peak at just over 5% and households' balance sheets in aggregate still in great shape." Overall, reflecting tight supply, the median home price rose by 1.9% Y/Y, although the consultancy does not expect the rebound in price growth to be sustained with the economy still heading for a recession.

RICHMOND FED: Richmond Fed remained sluggish in August, although it rose to -7 from -9. Two of its three component indices, shipments and new orders, lifted to -5 (prev. -6) and -11 (prev. -20), respectively, although the third, employment, fell to -3 (prev. 5). Elsewhere within the release, firms grew more optimistic about local business conditions, as the index jumped to 2 (prev. -9), with the future local business conditions lifting to 10 (prev. 1). Additionally, many firms continued to report reductions in orders backlogs and vendor lead time as these remained negative. On the inflationary footing, all three of the spending indices (services expenditures, prices paid and received) decreased, with the services expenditures index decreasing the most.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 0.5 TICKS LOWER AT 109-02

Treasuries were mixed on Tuesday, with a familiar narrative being cited. At settlement, 2s +4.7bps at 5.039%, 3s +4.6bps at 4.750%, 5s +2.5bps at 4.484%, 7s +0.8bps at 4.437%, 10s -1.0bps at 4.332%, 20s -3.0bps at 4.620%, 30s -4.3bps at 4.413%.

INFLATION BREAKEVENS: 5yr BEI +0.3bps at 2.381%, 10yr BEI -0.1bps at 2.363%, 30yr BEI -0.1bps at 2.357%.



THE DAY: Traders continue to fret over higher-for-longer US monetary policy, ahead of the Fed's Jackson Hole economic symposium this week, and that lifted yields on US 10s to highs not seen in almost 16 years. The short-end was also pressured, with yields on 2s moving back above 5.00%. Traders were also citing the concerns surrounding the longer-term trajectory of the US fiscal health and increased sizes of Treasury issuance ahead of this week's 20yr supply. After the US day got into swing, existing home sales for July were a touch more dovish than the street was expecting, while inventory levels rose, alluding to a cooling in existing home sales, which the Federal Reserve wants to see as it combats high inflation. The recovery was led by the long-end, with the belly-out ending the session in positive territory. In Fed speak, 2024 voter Barkin gave a hawkish set of remarks, where he warned that US economic growth could reaccelerate before inflation cools, and talked up the prospect of future rate hikes if there were no signs inflation would fall back, perhaps keeping the short-end lagging the recovery.

STIRS:

- SR3U3 -0.8bps at 94.578, Z3 -2.0bps at 94.565, H4 -4.0bps at 94.725, M4 -4.5bps at 95.010, U4 -6.0bps at 95.340, Z4 -5.5bps at 95.640, H5 -5.0bps at 95.855, M5 -4.5bps at 95.985, U5 -3.5bps at 96.050 U6 -1.0bps at 96.140 U7 +1.5bps at 96.130.
- NY Fed RRP op demand at USD 1.812tln (prev. 1.825tln) across 98 counterparties (prev. 96).
- US sold USD 60bln of 42-day CMBs at 5.280%, covered 3.27x.

THIS WEEK (US items bolded):

- 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, Bol 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 (V3) SETTLED USD 0.48 LOWER AT 79.64/BBL; BRENT (V3) SETTLED USD 0.43 LOWER AT 84.03/BBL

The crude complex was marginally weaker on Tuesday, albeit within very narrow ranges, on account on the broad Dollar strength and continued concerns over China's economic rebound in thin holiday trade and newsflow. Despite little oil specific newsflow, WTI and Brent saw mild upticks in the US morning after Reuters sources noted Iraq has not reached an agreement with Turkey on Tuesday to allow an immediate resumption of Northern Oil exports. Although, Iraq Oil Minister and Turkish counterpart agreed to hold further talks in future to discuss oil export resumption. As a reminder, Iraq to Turkey oil trade has remained suspended for five with flows of some 450k BPD of oil exports from northern Iraq to the Turkish port of Ceyhan shuttered. Highlighting the narrow ranges, WTI and Brent saw highs of USD 80.37/bbl and 84.66/bbl, respectively, vs lows of 79.60/bbl and 83.85/bbl. Looking ahead, the calendar for the week is fairly sparse with Flash PMIs (Wed) and Jackson Hole the highlights, with private inventory data after-hours today where current expectations are: Crude +2.9mIn, Distillate +0.2mIn, Gasoline -0.9mIn.

LNG: On the LNG front, there is little to note in terms of fresh developments. Woodside Energy CEO overnight said that talks with gas workers remain constructive despite increasingly bitter rhetoric, and added that the market reaction to potential strikes was "fairly irrational" and a sign of market fragility. As a reminder, Woodside workers will be meeting with unions tomorrow for labour negotiations.

EQUITIES

CLOSES: SPX -0.28% at 4,387, NDX -0.19% at 14,908, DJIA -0.51% at 34,289, RUT -0.28% at 1,850.

SECTORS: Financials -0.88%, Energy -0.78%, Consumer Staples -0.52%, Health -0.37%, Technology -0.25%, Industrials -0.2%, Materials -0.09%, Consumer Discretionary +0.1%, Communication Services +0.18%, Utilities +0.28%, Real Estate +0.29%.

EUROPEAN CLOSES: DAX +0.66% at 15,706, FTSE 100 +0.18% at 7,271, CAC 40 +0.59% at 7,241, Euro Stoxx 50 +0.90% at 4,261, IBEX 35 +0.55% at 9,314, FTSE MIB +0.64% at 28,165, SMI +0.29% at 10,880.



STOCK SPECIFICS: UK CMA announced **Microsoft (MSFT)** submitted a new deal for review after the original deal was blocked. Microsoft will not acquire cloud streaming rights to all current and future **Activision (ATVI)** games released during the next 15 years. As such, **Ubisoft (UBSF)** announced it has signed a deal for streaming Call of Duty and other ATVI games once the MSFT/ATVI deal is complete. **Medtronic (MDT)** beat on EPS, revenue, gross margin, and operating margin; raised FY adj. EPS view. **Zoom Video Communications (ZM)** beat on the top and bottom line alongside raising FY23 guidance. **Dick's Sporting Goods (DKS)** missed on profit, revenue, gross margin, and comp. sales alongside cutting FY23 adj. EPS view amid elevated inventory shrink. **Lowe's Companies (LOW)** beat on EPS, gross profit, and gross margin but missed on revenue, affirmed FY23 outlook and remains confident in mid-to-long term outlook for home improvements. **Coty (COTY)** slightly missed on profit but beat on revenue, posted continued gross and operating margin expansion and sees FY24 sales growth outlook at the top of the mid-term target range, coupled with margin expansion. **Macy's (M)** Q3 EPS guide was light and said it continues to take a cautious approach on consumer and continue to see uncertainty in the macroeconomic environment. **Novavax (NVAX)** updated COVID vaccine shows response against a new variant. **Baidu (BIDU)** surpassed expectations on the top and bottom line. Added it is well positioned to capitalise on opportunities arising from generative AI and LLM. **Fabrinet (FN)** earnings beat and extended its share buyback programme up to an additional USD 47.6mln. **SoftBank's (SFTBY)** Arm Holdings filed for a US IPO. **Charles Schwab (SCHW)** announced cost cutting measures including job cuts (unspecified amount), to save USD 500mln annually, but a one-time cost of USD 400-500mln. Thoma Bravo set to close USD 2.3bln **ForgeRock (FORG)** deal as DoJ passes on suit, according to Bloomberg.

US FX WRAP

The Dollar was firmer on Tuesday amid slight risk-averse conditions as market participants await the next major risk events, in the form of August Flash PMIs (Wed) ahead of Jackson Hole and Fed Chair Powell speaking on Friday. For the record, existing home sales for July were a touch more dovish than the street was expecting, while inventory levels rose, alluding to a cooling in existing home sales. Richmond Fed remained sluggish in August, although it rose to -7 from -9, with the internals mixed. Barkin (non-voter) spoke a couple of times but added little new, as he noted consumer spending and economic strength make it possible the US economy could reaccelerate before inflation cools and he will not prejudge outcome of Fed's September meeting. The Dollar hit a high of 103.710 eclipsing last Friday's 103.680 weekly peak in the process.

EUR, CHF, GBP, and CAD were all lower against the Buck to varying degrees with the Euro the relative G10 underperformer. The Loonie was weighed on by the downbeat crude prices, while USD/CHF popped back over 0.8800 from 0.8766 at one stage following a smaller Swiss trade surplus and dip in key watch exports. EUR/USD hit a low of 1.0834 on account of the aforementioned Dollar strength, as opposed to anything Euro-related, with the July 6th low of 1.0832 the key next level to the downside. Cable hit a high of 1.2800 but later reversed to lows of 1.2719 with no prop from weak UK CBI industrial trends or healthier looking public finances for that matter. Looking ahead, HCOB data is the calendar highlight out of Europe for the rest of the week.

Antipodeans and **JPY** were firmer, with the Kiwi outperforming, although they pulled off best levels against the Buck. Despite this, NZD/USD and AUD/USD managed to maintain 0.5900+ and 0.6400+, respectively, against the Greenback on risk grounds awaiting independent impetus from NZ retail sales and Australian flash PMIs. Yen is around 146.00, at pixel time, between 146.39-145.50 parameters ahead of Japan's preliminary PMIs, supported by a double bottom and capped by the 10 DMA long with some intraday tech hurdles.

EMFX was predominantly firmer. RUB, ZAR, BRL, MXN were all in the black, while CLP was flat, and the Yuan and TRY were weaker. CNH and CNY received a boost from the PBoC most skewed onshore reference rate on record before fading and the BRL took positives from BCB rhetoric. To recap, Chief Neto stated that core inflation is very persistent and reiterated that interest rates still need to be in restrictive territory, while Monetary Policy Director Galipolo said the Bank had room to start easing, but maintain contractionary monetary policy.

Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited ("Newsquawk") on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.

