US Market Wrap

23rd August 2023: Stocks and bonds rally after soft US PMI data into Jackson Hole

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: US PMIs disappoint; New home sales rise; BLS downwardly revised, albeit not as much as expected; Soft Eurozone PMIs; Weak UK PMI; Dismal FL earnings; Soft 20yr bond auction; TSLA to lower German plant production; ANF earnings impress; Venezuela and the US reportedly in talks over possible sanctions relief.
- **COMING UP**: **Data**: US Durable Goods & Initial Jobless Claims **Events**: Fed's Jackson Hole Symposium, Banxico Minutes; BoK & CBRT Policy Announcements **Speakers**: Fed's Harker & Collins **Earnings**: Dollar Tree & Marvell Technology.

MARKET WRAP

Stocks surged on Wednesday with gains led by the Nasdaq with a surge in Communication and Tech names with all eyes on NVDA earnings after hours, with the stock rising c. 3% into results. The upside in the large-cap stocks was supported by a fall in UST yields with yields lower across the cover and the 10yr back at 4.18%, with a lot of the move occurring in wake of the flash US PMI data from S&P Global which was weaker than expected across the board and accompanied by some cautious commentary on the outlook while eyes will now be turning to the JH economic symposium. The move lower in yields and the soft data also saw the dollar pare its morning strength, with the DXY heading into APAC in the red, while EUR/USD completely pared the move lower after the weaker EZ PMIs. Elsewhere in data, the BLS announced its revisions for the prior year, which was not as bad as feared at -306k, which suggests the labour market was not as hot as initially expected last year, but even with the downward revision, job growth was still well above pre-COVID trends. Despite the risk on trade, weaker dollar and huge crude stock draw, energy prices failed to catch a bid and as a result energy stocks were the only sector in the red.

US

S&P GLOBAL FLASH PMI: Overall, the survey disappointed in June with the overall composite inching closer to contractionary territory. Manufacturing contracted further in the US in August, according to S&P Global, with the headline falling to 47 from 49, beneath expectations of a rise to 49.3. Within the services sector, that fell to 51, remaining in expansionary territory, but only just, dipped from the prior 52.3 and beneath expectations of a 52.2 print. The report highlighted that a "near-stalling of business activity in August raises doubts over the strength of US economic growth in the third quarter. The survey shows that the service sector led acceleration of growth in the second quarter has faded, accompanied by a further fall in factory output." On inflation, it noted rising wage pressures and increased energy prices have pushed input cost inflation higher, which will raise concerns over the stickiness of CPI in the months ahead. However, it notes "One upside is that weak demand is starting to limit pricing power, which should help keep a lid on inflation around the 3% mark." On jobs, the report suggests hiring could soon turn into job shedding in the coming months, after a near-stagnation of employment in August. Looking ahead, it writes "A resultant fall in new orders received by firms in August could tip output into contraction in September as firms adjust operating capacity in line with the deteriorating demand environment."

NEW HOME SALES: New home sales for July rose 4.4%, paring June’s decline, to 0.714mln, above the expected (0.705 mln) and the prior (0.684mln). The headline increased to the strongest pace since February 2022, and as such Oxford Economics now “expects new home sales to come under pressure in the months ahead as labor markets soften and homebuying affordability worsens after the latest spike in mortgage rates to a 22-year high”. In addition, the consultancy adds that the rise in rates may hurt new home sales less than existing home sales if home builders again increase their use of incentives to boost sales in a high-rate environment. Regarding the headline, the rise was driven by steep increases in sales in the Midwest and West, while home prices rose M/M but dropped Y/Y. Oxford concludes, “the supply of homes for sale increased, which also argues for a renewed use of incentives if builders want to clear some inventory.”

BLS REVISIONS: The yearly revisions to the BLS establishment survey (March 2022-March 2023) saw a downward revision by 306k, implying that the labour market was perhaps a touch cooler than initially expected during this time, albeit analysts at JPM and Standard Chartered had been looking for a -500k revision, so the reversal was not as much as feared. Given the data comes ahead of the Jackson Hole economic symposium, the Fed speakers, and potentially Chair Powell, may be quizzed on the revisions. Nonetheless, given there is still the July CPI and NFP report due before the September FOMC, Powell will likely reiterate their data-dependent stance. The latest FOMC minutes noted that participants still saw below-trend growth and a softer labour market as necessary to restore economic balance, therefore the downward revisions would likely help somewhat, albeit it may not be enough given expectations were skewed towards a steeper decline and even with the revision, job growth would still be well above pre-COVID averages. Analysts at Oxford Economics note the revisions do not change their call for the Fed to keep policy steady through year-end, or their expectations of the real economy. However, at the margin, Ox Eco suggests Fed officials may see the revisions, alongside moderating wage growth, as a sign their rate hikes are having the intended effect.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 27 TICKS HIGHER AT 109-29

The Treasury curve bull flattened after weak PMI data and ahead of Jackson Hole while a soft 20yr bond auction had little impact. At settlement, 2s -7.7bps at 4.960%, 3s -9.4bps at 4.653%, 5s -10.9bps at 4.370%, 7s -12.3bps at 4.310%, 10s -12.6bps at 4.202%, 20s -11.9bps at 4.498%, 30s -12.7bps at 4.284%.

INFLATION BREAKEVENS: 5yr BEI -0.5bps at 2.386%, 10yr BEI -0.5bps at 2.361%, 30yr BEI -0.8bps at 2.350%.

THE DAY: Treasuries ground higher through the overnight and European session with soft PMIs across the board helping keep the bid alive, reversing some of the moves seen earlier this week where yields hit 16yr highs. The move really picked up steam in the wake of the US PMIs, which were also weaker across the board, accompanied by some daunting economic commentary, with doubts about growth in Q3, noting a fall in new orders received in August could tip output into contraction in September. There was little reaction to the BLS payroll revisions which printed -306k, not as bad as the -500k that was feared by some, and although it shows the jobs market was perhaps slightly cooler than initially thought, it was still well above pre-COVID averages. T-notes continued their grind higher throughout the US session to ultimately hit a peak of 109-31+, marginally above settlement levels. The 20yr auction had little impact on price action across the curve, in overall what was a relatively weak auction.

AUCTION: The US sold USD 16bln of 20yr bonds at a high yield of 4.499%, tailing the WI by 0.9bps, larger than the prior 0.1bps tail and vs. the six-auction average of a 0.3bps stop through. The Bid-to-Cover ratio fell to 2.56x from 2.68x, and beneath the average 2.64x, showing overall demand was weaker than expected. The breakdown saw primary dealers, forced surplus buyers, take 11.4% of the auction, up from the prior and average of 9.6% and 9.9%, respectively. Direct bidders took 20.2%, marginally above the average and a touch lower than the last auction. Indirects took less than average, but a similar amount to the last 20yr supply.

STIRS

- SR3U3 +1.0bps at 94.588, Z3 +3.0bps at 94.595 F3 +0.0bps at 94.600, H4 +6.0bps at 94.790, M4 +9.0bps at 95.095, U4 +11.0bps at 95.450, Z4 +12.0bps at 95.760, H5 +12.0bps at 95.975, M5 +12.0bps at 96.110, U5 +12.5bps at 96.175, Z5 +13.0bps at 96.210, U6 +14.0bps at 96.280, U7 +15.0bps at 96.275.
- NY Fed RRP op demand at USD 1.817tln (prev. 1.812tln) across 96 counterparties (prev. 98)
- US sold USD 50bln of 17wk bills at a high rate of 5.315%, B/C 3.01x.
- SOFR flat at 5.30% as of Aug 22nd, volumes fall to USD 1.307tln from 1.322tln.
- EFFR flat at 5.33% as of Aug 22nd, volumes rise to USD 101bln from 100bln.

THIS WEEK **(US items bolded)**:

- 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 (V3) SETTLED USD 0.75 LOWER AT 78.89/BBL; BRENT (V3) SETTLED USD 0.82 LOWER AT 83.21/BBL

The crude complex ended lower, albeit well off earlier lows, as it pared losses into settlement on improved risk sentiment. WTI and Brent were weighed on in the European morning on supply and demand headwinds, as from the demand side, there was softer-than-expected Eurozone PMIs, while on the supply side, the Turkish Energy Minister said an agreement has been reached to resume the flow of oil from the Iraqi-Turkish pipeline, according to Sky News Arabia. Furthermore, as the Dollar hit highs, WTI and Brent printed lows of USD 77.62/bbl and 81.94/bbl, respectively, around the US equity cash open.

Thereafter, WTI and Brent ground higher in line with general risk sentiment, highlighted by stocks continuing to print session highs and the Dollar hitting session lows into settlement. However, the crude complex did give up some of the made-up ground after Bloomberg reported that Venezuela and the US are reportedly in talks over possible sanctions relief.

Elsewhere, crude-specific newsflow was fairly sparse on Wednesday in thin-holiday conditions, although the weekly EIA data saw a deeper crude draw, -6.135mln, than expected (exp. -2.9mln). However, in-fitting with the APIs Tuesday night, Gasoline stocks saw a surprise build. Distillates were a slightly larger build than expected, while production rose 100k BPD to 12.8mln BPD.

Lastly, over to Australia, Woodside Energy is meeting unions for talks as strike threats loom over Australian LNG facilities. Talks are expected to continue until the evening, according to Bloomberg, with little known in terms of timings, and ahead of Chevron's Gorgon and Wheatstone workers ballot tomorrow (Full Newsquawk analysis available here).

Looking ahead, there is little scheduled on the calendar aside from Nvidia earnings after-hours and the start of Jackson Hole, where Fed Chair Powell is speaking at 10:05EDT/15:05BST on Friday.

EQUITIES

CLOSES: SPX +1.10% at 4,436, NDX +1.60% at 15,148, DJIA +0.54% at 34,472, RUT +1.04% at 1,870.

SECTORS: Technology +1.92%, Communication Services +1.9%, Real Estate +1.46%, Industrials +0.99%, Financials +0.93%, Consumer Discretionary +0.83%, Consumer Staples +0.63%, Utilities +0.45%, Health +0.29%, Materials +0.18%, Energy -0.3%.

EUROPEAN CLOSES: DAX +0.15% at 15,728, FTSE 100 +0.68% at 7,321, CAC 40 +0.08% at 7,247, Euro Stoxx 50 +0.15% at 4,267, IBEX 35 +0.02% at 9,316, FTSE MIB +0.24% at 28,234, SMI +0.93% at 10,977.

STOCK SPECIFICS: **Tesla (TSLA)** reportedly lowered the production target of its German plant to 4,350/week in July and August (vs 5,000/week in March), and plans to reduce it further, according to Reuters citing Business Insider. **Analog Devices (ADI)** slightly missed on the top and bottom line with next quarter guidance light of expectations. **Foot Locker (FL)** revenue missed, it paused its dividend, and lowered the outlook, cutting its FY adj. EPS and revenue view and said it saw a softening in trends in July. **Advance Auto Parts (AAP)** missed on profit with revenue in line accompanied by mixed guidance where it cut FY EPS view but raised the revenue guide. It also initiated a strategic review and named Shane O'Kelly as the new CEO. Interim CFO sees 'additional headwinds' in H2 '23. **Urban Outfitters (URBN)** surpassed expectations on profit, revenue, gross margin, and comp. sales. Exec said Q2 sales strength continued to date in Q3. **Kohl's (KSS)** beat on EPS and gross margin while revenue marginally missed it also backed its FY23 EPS view. **Abercrombie & Fitch (ANF)** topped consensus on EPS and revenue as well as boosting the FY outlook. **Peloton (PTON)** posted a deeper loss per share than expected with next quarter guidance light, citing a seasonal slowdown in hardware sales. Doesn't expect to remain FCF positive for two upcoming quarters. **Apellis (APLS)** released a safety update about Syfovre, a drug used to treat degenerative eye disease. Apellis said that no direct cause has been found between a side effect and a particular filter needle used. **Netflix (NFLX)** has continued to add new users in the US after its crackdown on customers sharing their passwords, according to Bloomberg citing Antenna Research; data suggests co. is on track for another strong quarter of growth at home. Esmark said it will not make a bid for **US Steel (X)**; noting it respects the position of United Steelworkers (USW) which is supporting **Cleveland Cliff's (CLF)** offer for US Steel. SpaceX is working with **Cloudflare (NET)** to boost the performance of SpaceX's satellite internet service Starlink, according to The Information citing sources. **NextGen (NXGN)** is reportedly exploring a sale and is taking advice from Morgan Stanley, according to Reuters citing sources.

US FX WRAP

The Dollar was choppy on Wednesday and is currently lower, at pixel time, hovering just above lows of 103.30 after earlier printing highs of 103.980. The Buck was bid through the US morning and saw an initial bid after disappointing

Eurozone PMIs which was later accentuated after weak UK data. In terms of chronological order out of Europe, the far-from-flash French survey readings were closely followed by an even worse German services print and then trumped by broad-based weakness on the UK front. However, after printing the aforementioned highs the Greenback saw a pullback of its own on soft US PMIs, where Manufacturing fell deeper into contractionary territory than expected, accompanied by Services also disappointing, edging closer towards the contractionary level. The Buck never managed to regain momentum when new home sales beat and benchmark BLS payroll revisions undershot at -306k (exp. around -500k), and faced even further pressure from the Yen as yields continued to crater. Looking ahead, eyes will be on Nvidia earnings after-hours then Jackson Hole with participants awaiting Chair Powell on Friday.

Antipodeans were among G10 outperformers, with the AUD outperforming its counterpart as it benefitted from the risk-on sentiment and a drawback in the Dollar, as opposed to anything currency specific. In addition, the rise in two of Australia's largest exports, iron ore and gold, helped propel AUD/USD to highs of 0.6479. NZD/USD currently trades towards the top of its daily range, 0.5928-85, with the strength coming in spite of Australian PMIs slipping further below 50.0 and NZ retail sales considerably worse than forecast in Q2. The calendar ahead is sparse for the antipodes with all focus on the aforementioned macro events.

GBP was the G10 underperformer, albeit only seeing slight losses vs the Dollar, as the disappointing PMIs weighed, as Services, Manufacturing, and Composite all declined, with the former two slipping into contractionary territory. As such, Cable printed a low of 1.2616 vs. a high of 1.2717, and currently resides in the middle of the range as the Pound managed to regain composure alongside the bounce in risk sentiment as subsequent Dollar slide.

EUR, CAD, CHF, and JPY, all saw gains against the Buck to varying degrees, with the latter outperforming amid a favourable yield environment to see USD/JPY recoil to 144.55 after printing a earlier peak of 145.89. On top of this, the Yen was supported by forecast-beating Japanese PMI data. EUR saw losses on the previously stated soft EZ PMI data but later retraced the losses, and more, on the reverse in the Dollar to see EUR/USD hit a high of 1.0871, a level it roughly sits around heading into APAC trade. USD/CHF traded within narrow parameters, 0.8774-8817, as the Franc was bereft of any Swiss specifics. USD/CAD breached 1.3600 to the upside, albeit briefly, as it suffered a double whammy due to a deeper retracement in crude prices and Canadian retail sales missing consensus, ex-autos in particular. As such, the cross was at highs as the crude complex was at lows but heading into settlement the Loonie managed to pare all the weakness as sentiment improved to see oil pare some losses and equities extend to the upside.

EMFX was predominantly firmer, with TRY, flat, and RUB weaker residing as the laggards. CLP surged higher in line with the pickup in copper prices, while MXN and BRL benefitted from the risk-on conditions and general Dollar weakness. ZAR saw tailwinds from the surge in spot gold regardless of softer than expected SA inflation data. Elsewhere, intervention helped the Yuan resume its recovery as the PBoC set another heavily weighted onshore reference rate, but there were also productive talks between US Commerce Secretary Raimondo and China's US ambassador Xie Feng ahead of the former's upcoming trip to Beijing and Shanghai. Meanwhile, the RBI reinforced INR purchases by reportedly asking some banks to refrain from taking fresh non-deliverable forward arbitrage positions. TRY finally got some respite on the eve of the CBRT as Turkey's Energy Minister said an agreement was reached to resume the flow of oil from the Iraqi-Turkish pipeline.