



US Market Wrap

28th August 2023: Stocks catch a bid with APAC optimism seeping through to Europe and the US

- **SNAPSHOT:** Equities up, Treasuries up, Crude flat/up, Dollar down
- **REAR VIEW:** China cutting stamp duty on stock trades to help boost the market; US 2yr auction saw more demand than 5yr; MMM reportedly agrees to pay > USD 5.5bln for earplug lawsuits; DHR to acquire ABCM; Eyes on further US Hurricanes; Holzmann tows his usual hawkish line.
- **COMING UP: Data:** Japanese Unemployment Rate, German GfK, Spanish Retail Sales & US JOLTS **Events:** Hungary Policy Announcement **Speakers:** Fed's Barr & RBA's Bullock **Supply:** Japan, Germany & US.
- **WEEK AHEAD:** Highlights include US ISM, PCE and NFP, Australian, Swiss and EZ CPI, ECB Minutes, Chinese PMIs, To download the report, please [click here](#).
- **CENTRAL BANK WEEKLY:** Previewing ECB Minutes; Reviewing Fed Chair Powell, PBoC LPR, CBRT and BoK. To download the full report, please [click here](#).

MARKET WRAP

It was a quiet summer session on Monday but stocks managed to hold onto their gains seen in the US morning with the SPX and NDX both seeing gains of c. 0.5%, while the RUT outperformed. The upside followed what was seen in Asia and Europe with Chinese stocks buoyed by China cutting its stamp duty on stock trades to help boost the market. On Monday, UST yields were lower across the curve with a steeper bias. The front loaded supply ultimately had little impact, apart from some concessions leading into the 2yr, where the 2yr saw more solid demand than the 5yr. Crude prices were mixed, WTI saw marginal gains, while Brent saw marginal losses, with the former buoyed by hurricane risk with warnings of Tropical Storm Idalia off the Gulf Coast which could turn into a hurricane and disrupt supply, while Hurricane Franklin became the first hurricane of the season. Activity overall was quite light on Monday with UK players away for the bank holiday while there are several key risks due later in the week, including US PCE and NFP to see if the Fed gets their desired slowdown in both prices and the jobs market to help bring inflation back to target.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 6+TICKS HIGHER AT 109-20+

The treasury curve bull steepened on Monday in quiet trade with supply limiting the upside in the front end and belly ahead of key risk event later in the week. At settlement, 2s -1.5bps at 5.041%, 3s -3.2bps at 4.694%, 5s -3.6bps at 4.397%, 7s -4.4bps at 4.321%, 10s -3.9bps at 4.200%, 20s -2.5bps at 4.480%, 30s -1.8bps at 4.277%.

INFLATION BREAKEVENS: 5yr BEI -2.3bps at 2.339%, 10yr BEI -1.7bps at 2.316%, 30yr BEI -1.5bps at 2.307%.

THE DAY: Treasuries grinded marginally higher throughout most of the session, with lows of 109-10 seen overnight in contrast to highs seen in the US morning at 109-23+ with IFR highlighting that early month-end index-linked buyers were lifting the long end of the curve. However, the move then pared somewhat ahead of the US supply, which saw a decent 2yr auction and more mixed 5yr relative to the prior's and six auction averages (more below). Although price action was somewhat limited on Monday there are several key risk events this week, including US PCE on Thursday and the NFP on Friday, with participants looking to see if the Fed get their desired slowdown in both price pressures and the labour market to help with returning inflation to the 2% goal, there is also 7yr supply due Tuesday ahead of month-end.

2YR SUPPLY: Overall, a decent auction with the 2yr auction tailing by 0.4bps with a high yield at 5.024% vs the WI of 5.028%, seeing the highest yield in a 2yr auction since 2006. The Bid to cover was also strong at 2.94x, above the prior 2.78 and average 2.71x. The breakdown of bidders saw direct take 20% of the auction, relatively in line with the prior and six auction average, while indirect bidders took home 64.22% of the auction, slightly beneath the prior and slightly above the average, leaving the dealers, who are the forced surplus buyers, take just under 15%, above the prior, but beneath the average.

5YR SUPPLY: The 5yr auction drew a high yield of 4.4%, above the prior 4.17% and average 4.372%, seeing a tail of 0.1bps vs the 4.399% WI. The Bid-to-Cover ratio of 2.54x was weaker than the prior 2.6x and average of 2.71x, implying



weak demand. The breakdown saw dealers take home 13.8%, relatively in line with the prior 13.5%, but above the average 12.2%. Direct bidders took a step back for this auction, taking just 18.3% vs the prior 22.1% and beneath the average of 19%, but this was offset by a rise in indirect demand, which took 67.9%, above the prior 64.38%, but beneath the six auction average of 68.8%.

STIRS:

- SR3U3 -0.5bps at 94.540, Z3 +0.0bps at 94.510, H4 +0.5bps at 94.650, M4 -0.5bps at 94.920, U4 -1.0bps at 95.285, Z4 +0.5bps at 95.650, H5 +3.5bps at 95.945, M5 +5.0bps at 96.125, U5 +5.5bps at 96.215, U6 +5.5bps at 96.305, U7 +5.5bps at 96.305.
- NY Fed RRP op demand at USD 1.709tln (prev. 1.687tln) across 97 counterparties (prev. 94).
- SOFR flat at 5.30% as of Aug 25th, volumes unchanged at USD 1.344tln.
- EFFR flat at 5.33% as of Aug 25th, volumes down to USD 103bln from 105bln.

CRUDE

WTI (V3) SETTLED USD 0.27 HIGHER AT 80.10/BBL; BRENT (V3) SETTLED USD 0.06 LOWER AT 84.42/BBL

WTI and Brent were slightly divergent to start the week, albeit within narrow ranges, in thin headline newsflow as attention lies on weather updates and, for gas, further Australian Chevron strike updates. On the former, and supporting the crude complex, is the potential that Tropical Storm Idalia off the Gulf Coast could turn into a Hurricane and disrupt supply, in addition to Hurricane Franklin becoming the first Major Hurricane of the season. Meanwhile, on the demand footing, the continued fears of further US rate hikes may dent demand further, with markets pricing in an over 60% probability of a 25bp hike in November, with rate cuts not fully priced until July of 2024. Aside from the aforementioned updates, news was few and far between with a bank holiday in the UK also reducing activity with volume about half of what was seen on Friday. As such, participants will be awaiting the weeks key risk events in the form of JOLTS (Tues), Chinese PMIs, US PCE (Thurs), US NFP & ISM Manufacturing (Fri).

GAS: Dutch TTF saw notable upside on Monday, while US gas was more contained after further updates regarding Chevron (CVX) strikes in Australia. Overnight, Offshore Alliance confirmed that following the Wheatstone offshore platforms vote it now has support for action across three of CVX's facilities and as such protected industrial action notices are set to be filed "shortly". Following this, Chevron Australia spokesperson received notices for Protected Industrial Action at Gorgon and Wheatstone facilities for activities commencing 7th September; recognise employees have the right to take PIA and will take steps to maintain "safe and reliable options".

EQUITIES

CLOSES: SPX +0.63% at 4,433, NDX +0.74% at 15,052, DJIA +0.62% at 34,559, RUT +0.83% at 1,869.

SECTORS: Communication Services +1.05%, Technology +0.81%, Industrials +0.79%, Real Estate +0.77%, Materials +0.74%, Energy +0.73%, Financials +0.59%, Consumer Staples +0.46%, Consumer Discretionary +0.37%, Health +0.23%, Utilities -0.04%.

EUROPEAN CLOSES: DAX +1.03% at 15,793, CAC 40 +1.32% at 7,325, Euro Stoxx 50 +1.34% at 4,292, IBEX 35 +1.62% at 9,490, FTSE MIB +1.19% at 28,545, SMI +0.75% at 11,040.

STOCK SPECIFICS: 3M (MMM) +5.3%: Tentatively agreed to pay more than USD 5.5bln to resolve over 300,000 lawsuits claiming it sold the US military defective combat earplugs. Note, the settlement is about half the roughly USD 10bln some financial analysts predicted 3M could end up paying. **Amgen (AMGN) +0.1%** **Horizon Therapeutics (HZNP) +5.1%:** FTC suspended its challenge of AMGN's USD 27.8bln acquisition of HZNP. **Danaher (DHR) +2.4%** **Abcam (ABCM) -4.3%:** DHR is to acquire ABCM for USD 24/shr in cash or roughly USD 5.7bln. ABCM closed Friday at USD 23.36/shr. Note, on Friday Reuters sources said DHR was in the lead to acquire ABCM, prevailing over a bid from **Agilent (A)**. **Jabil (JBL) +8.9%:** Announced a prelim. agreement with BYD Electronic relating to the sale of its Mobility business in a potential transaction worth approx. USD 2.2bln. **XPeng (XPEV) +5.3%:** Announced the acquisition of Didi's Smart Auto development business for roughly USD 744mln. **RPT Realty (RPT) +17.3%** **Kimco Realty (KIM) +0.2%:** RPT to be acquired by KIM for USD 11.34/shr in an approx. USD 2bln deal; expected to be immediately accretive to key financial and operating metrics. **CrowdStrike (CRWD) -3.7%:** Downgraded at Morgan Stanley; warned in a note to clients that the cos. upcoming earnings report could show slowing revenue growth ahead. **Intel (INTC) +1.1%** **Micron (MU) +2.5%:** US Commerce Secretary Raimondo said she discussed INTC and MU in talks with Chinese commerce



ministry officials. **Boston Scientific (BSX)** +6%: Announced positive results for its treatment for patients with atrial fibrillation, or abnormal heartbeats. **Amazon (AMZN)** increased the free shipping minimum to USD 35 (prev. 25) for non-Prime members in some markets to match the minimum order amount required by **Walmart (WMT)**.

US FX WRAP

The Dollar was marginally weaker to start the week, albeit on very thin newsflow and narrow parameters, highlighted by the index printing a high of 104.180 vs. a low of 103.970. As mentioned, there is little new to report on Monday with a bank holiday in the UK also weighing on activity and volumes, as market participants await the week's key risk events in the form of JOLTS (Tues), Chinese PMIs, US PCE (Thurs), US NFP & ISM Manufacturing (Fri).

Activity currencies, AUD, NZD, GBP, and CAD were relatively contained against the Greenback but outperformance was seen by the Aussie amid tailwinds from an upward revision to final retail sales and more Chinese initiatives aimed at propping up equities. As such, AUD/USD hit highs of 0.6439 and remained above 0.6400 all session. GBP and NZD saw ever so mild gains, with the CAD flat as without sounding like a broken record, currency-specific headlines were light. The Pound was even further blighted by the UK holiday. For the record, Cable traded between 1.2566-2610, with NZD /USD and USD/CAD between 0.5896-5928 and 1.3571-3611, respectively. Looking ahead, RBA's Deputy Governor Bullock is speaking on Tuesday.

EUR and CHF saw marginal gains, while the **JPY** was the G10 underperformer and witnessed mild losses vs. the Buck. On the Yen, Goldman Sachs expects USD/JPY to weaken to levels last seen more than 30 years ago if the BoJ sticks to its dovish stance. As such, GS adds over the next six months the cross is projected to reach 155 – the weakest since June 1990 – with a more 'forceful' BoJ response a risk to bank's forecast. For the single-currency watchers, ECB's Holzmann sees a case for a rate hike if no surprises turn up and added they should start debate on ending PEPP reinvestments. Separately, Nagel said the central bank will see what we have to do in September, and will give no signals today. There is little slated on the docket for Tuesday, but after that there is a slew of European data with ECB minutes and Eurozone CPI (Thurs) the highlights.

Scandis were mixed, with SEK seeing strong gains vs the buck and the NOK flat against the Buck. There was some respite for the NOK after the sharp retracement in Norwegian retail sales as Brent recovered from ~ USD 84/bbl to test USD 85/bbl to the upside. The SEK might have paid attention to Riksbank Floden's estimation that the currency is 20% too cheap as well as gleaning traction from an improvement in risk appetite.

EMFX was mixed, with RUB, ZAR, and TRY seeing gains, Yuan flat, while BRL, MXN, and HUF saw losses. The latter's weakness comes ahead of the NBH on Tuesday, where the central bank is expected to cut its interest rate by 100bps to 14% to revive a stagnating economy. MXN drew some encouragement from a narrower-than-expected Mexican trade deficit, but the BRL was hampered by a decline in Brazilian bank lending and the Yuan failed to sustain recovery momentum through 7.2700 vs. the Buck even though the US Commerce Department said the US and China have agreed to launch an export control enforcement information exchange, with a view to meeting at least once a year.

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