

Morning Overview

European Edition

22/08/2022

WORLD FUTURES

	VALUE	CHG	% CHG		VALUE	CHG	% CHG
S&P 500	4,205	- 27.00	- 0.64	US 10Y	118.17	0.06	0.05
DOW	33,525	- 181.00	- 0.54	US Long Bond	138.59	0.13	0.09
NASDAQ	13,162	- 106.75	- 0.80	Bund	152.42	0.25	0.16
ESTOXX 50	3,710	- 14.00	- 0.38	Crude Oil	89.52	- 1.25	- 1.38
DAX	13,470	- 59.00	- 0.44	Gold	1,755.30	- 7.60	- 0.43
				Bitcoin USD	21,432.29	- 42.21	- 0.20

PREVIOUS DAY MARKET RECAP

USA				US Gov Bonds		
	VALUE	% CHG	% YTD		YIELD	YTD CHG
DOW	33,707	- 0.86	- 7.2	US 2 YR	3.23	2.53
S&P 500	4,228	- 1.29	- 11.3	US 5 YR	3.09	1.84
NDX Comp	12,705	- 2.01	- 18.8	US 10 YR	2.97	1.46
RUSSEL 1000	2,324	- 1.39	- 12.2	US 20 YR	3.44	1.50
CBOE VIX	20.60	5.32	19.6	US 30 YR	3.21	1.30

EUROPE				WORLD Gov BONDS			
	VALUE	% CHG	% YTD		VALUE	% CHG	% YTD
ESTOXX 50	3,730	- 1.25	- 13.2	Bund	152.17	0.18	- 11.0
DAX	13,545	- 1.12	- 14.7	BTP	123.40	0.18	- 15.9
SMI	11,157	- 0.10	- 13.4	Gilt	113.09	- 1.01	- 9.5
FTSE 100	7,550	0.11	2.2	Swiss Conf	152.07	- 0.94	- 6.1
ESTOXX VOL.	24.58	8.44	27.6	JGB	149.71	- 0.33	- 1.2

ASIA				COMMODITIES			
	VALUE	% CHG	% YTD		VALUE	% CHG	% YTD
Nikkei 225	28,795	- 0.47	0.0	Crude Oil	90.77	- 1.38	25.1
Topix	1,993	- 0.10	0.0	Brent	96.72	- 1.83	27.8
S&P/ASX 200	7,047	- 0.95	- 5.3	Gold	1,763	- 0.43	- 4.6
NZX 50	11,764	0.68	- 9.7	Silver	19.18	- 0.81	- 19.2
CSI 300	4,179	0.68	- 15.4	Natural Gas	9.34	- 1.41	152.5

EMERGING MARKETS				FX			
	VALUE	% CHG	% YTD		VALUE	% CHG	% YTD
Shanghai Comp	3,275	0.52	- 10.0	EUR.USD	1.0037	- 0.05	- 11.8
Hang Seng	19,748	- 0.13	- 15.6	GBP.USD	1.1829	- 0.02	- 12.6
Nifty 50	17,560	- 1.12	1.2	USD.JPY	136.97	- 0.07	- 16.0
MOEX (Micex)	2,195	0.04	- 42.0	EUR.CHF	0.9633	0.07	7.8
Bovespa	111,496	- 2.04	6.4	USD.CHF	0.9592	- 0.03	- 4.9
Mexico	48,463	- 0.55	- 9.0	Bitcoin USD	21,475	- 0.20	- 53.7

Market Overview

Asian shares pared some earlier losses but remained mostly in the red. The S&P 500 Index notched its biggest daily decline since June on Friday, sending the benchmark to its first weekly loss in five weeks. US and Europe equity futures remained subdued amid lingering inflationary concerns and with markets looking ahead to the Jackson Hole Symposium for policy clues from Fed Chair Powell. Treasury yields rose 14bps and the US dollar capped its best week since April 2020. Oil was lower amid concern about the return of Iranian supply.

Wheat and corn edged lower ahead of the US farm tour. Oil fell as investors weighed the prospect for more Iranian supply. Asia LNG extended gains, with producers offering spot cargoes for winter above \$60 per million BTU. Base metals climbed, while gold traded at the lowest in more than three weeks.

Europe's coal price is set to test new highs after the drying up of the Rhine and a ban on Russian imports. While higher prices may entice other producers to boost output, it probably won't be enough to fill the supply gap. Indonesian miners may be hurt the most by a potential influx of Russian coal to Asia's market.

Market Highlights

Central bankers descend on Jackson Hole this week for the annual Economic Policy Symposium. US Jackson Hole likely to expand the case for restrictive-for-longer policy setting: The 2022 Jackson Hole Economic Policy Symposium kicks off this Thursday 25 August extends through Saturday 27 August, and markets expect Chair Powell's speech to provide further pushback to the notion that the Fed could cut rates next year. Jackson Hole has typically been a setting for framing policy over a longer-term horizon. He'll probably lean hawkish, Bloomberg Economics said.

Germany that just experienced "plunge in affordability" shock in Real Estate. 10y mortgage rates (so-called Pfandbrief yields) have shot back >2% and banks are much more restrictive on real estate lending. Down payments have risen >20% in July from 17% in Q1. Chart <https://tinyurl.com/2s46t7uc>

US houses rent: rent of primary residence, according to data from the Consumer Price Index report, increased further to 6.3% YoY, the fastest pace since 1986. The Dallas Fed says rents will continue to increase in the coming months on a %YoY basis and will peak at 8.4% in May 2023. BofA Charts <https://tinyurl.com/2p8e9699>

Wall Street S&P 500 Price Target for year-end 2022: 5 firms with higher PTs than current \$SPX; 8 firms with lower PTs than current SPX; Bank of America and Piper Sandler (not listed) with lowest year-end PT at 3,600 and 3,400 respectively. Fundstrat table <https://tinyurl.com/4v8fu7tp>

More stocks are taking part in bounceback rally. The stock rally is broadening as the S&P gains 15% from its 2022 low in mid-June. All 11 sectors rose to start Q3. The share of S&P stocks closing above their 50-day moving averages recently surpassed 93%, the highest level since the summer of 2020. While US stocks experienced one of the **best summer rallies on record**, gaining 12% in Jul/Aug, Bloomberg has calculated. Wells Fargo's Chris Harvey: "**The fundamentals are less impressive.** With earnings almost done, operating margins are tracking ahead of Q1's but energy stocks account for 90% of the upside. Other sectors have seen margin declines, like staples, info tech & communication services."

Topdown Charts: big lurch to the bearish side in the equity survey this week. Technicals sentiment moving net bearish, fundamentals back towards the lows. Bond survey likewise back towards the bearish side, with technicals dropping from bullish to neutral, and renewed doubts on the fundamentals. Overall the concern from these two surveys would be a repeat of bonds down and stocks down. Combined surveys macro/fundamental gauge remains weak, downtrending. Consistent with the global PMI dropping below 50. Chart <https://tinyurl.com/4ykhfjzy>.

US corporate debt to equity is currently very low. Non-financial debt as a share of equity (25%) is currently at the low end of historical range. Chart <https://tinyurl.com/2aehh8p4>

Emerging Markets is about a 50-60% discount vs the US. It gives one pause to ponder if all the bad things about EM is already in the price and all the good things about the US is already in the price. Chart <https://tinyurl.com/34xsjphy>.

Macro Headlines

Asia

China cut its benchmark lending rates, adding to easing measures announced last week, as Beijing steps up efforts to spur credit demand in an economy hobbled by a property crisis and a resurgence of COVID infections. The one-year loan prime rate was lowered to 3.65% from 3.7%, the first cut since January. Consensus was for a cut to 3.6%, while it has slashed its five-year mortgage lending rate to 4.3%. The Yuan slumps to near-two-year low as Rate differential widens.

China working to support the Real Estate sector. The Housing Ministry, the Ministry of Finance, and the PBoC, have jointly rolled out new policies, including making special loans through policy banks to support the delivery of presold residential housing projects which are facing difficulties in completion due

to lack of funding. While the news report does not elaborate, given that the PBoC is one of the entities that initiate this plan, the central may be printing money to provide funding to the policies banks for the latter to lend to developers to complete presold projects. The significance of this initiative depends on the lending programme's size which is not yet known.

China: China's power outages threaten annualized aluminum capacity of 300,000 tons, on top of the 360,000 that's been suspended since mid-August, Goldman said. Lithium chemicals and battery cathode producers may see the equivalent to about 4%-5% of monthly output disrupted. The bank also noted high risk to grain supply, and rice in particular.

Taiwan's Defence Ministry said 17 Chinese military aircraft and 5 warships continued activities around Taiwan on Saturday, while it detected 12 Chinese aircraft and 5 ships around Taiwan on Sunday in which 5 aircraft crossed the Taiwan Strait median line. Separately, Indiana state governor Holcomb arrived in Taiwan on Sunday night ahead of other scheduled foreign visits to Taiwan this week including a group of Japanese lawmakers on Monday and another US delegation at the weekend.

New Zealand: RBNZ Deputy Governor Hawkesby said the strategy is to get monetary policy conditions comfortably above neutral and that they considered both a 25bps and 75bps hike before deciding to raise by 50bps this month. Hawkesby added that they will have a more balanced view on policy outlook once rates get to 4.00%-4.25% and said there is ambiguity surrounding the Cash Rate peak.

North America

US: Prospective home buyers canceled 63,000 agreements in July, representing 16.1% of all the homes that went under contract in that month, according to a new report from Redfin.

Fed: Barkin says Fed will curb inflation even at risk of recession. Majority of economists predict a 50bp rate hike in September (Reuters poll).

US-South Korea: The US and South Korea began their biggest joint military drills in about five years, involving thousands of personnel, warships, aircraft and armored vehicles. The two-week Ulchi Freedom Shield exercise will include drills to coordinate forces in the event of an invasion from North Korea. An angry response is almost certain from Pyongyang.

Europe

UK plans to enable households to get discounts on electricity bills if they cut use at peak times are set to be announced in the next two weeks. Separately, GPs could write prescriptions for discounts on energy bills for the most vulnerable under a plan drawn up by the Treasury.

UK: Workers at UK's largest container port Felixstowe began an 8-day strike which the union and shipping companies have warned could seriously impact trade and supply chains-

UK short-term inflation expectations went stratospheric after news of a double-digit price surge in July. One-year RPI swaps surged more than 3.5 percentage points to an all-time high of 11.6%. That promises to complicate the picture for BOE policy makers who are set to raise interest rates for a seventh consecutive time in September as they juggle throttling inflation with the growing risks of a recession.

ECB: July Accounts in focus – likely to be hawkish. The Accounts of the July meeting will be released on Thursday. In July, the governing council essentially tore up its forward guidance whereby it "intended" to hike by 25bp in favour of a 50bp hike, and dropped forward guidance altogether for the subsequent meetings.

ECB's Nagel: recession in Germany seems probable if the energy crisis worsens with German inflation rising to 10% in autumn, highest for more than 70 years. ECB must maintain raising interest rates even if the likelihood of a recession increases because inflation will remain too high. From meeting to meeting ECB will make a decision on the size of hikes

Germany: FinMin Lindner wants to launch outlines of a relief package by September, in time for 2023 budget. Habeck argues against extending lifetime of nuclear power plants to save gas. Insa poll shows that nearly two thirds are not happy with work of chancellor Scholz and the coalition.

Germany's July PPI smashed expectations to come in at 5.3% MoM, the biggest single gain since the Federal Republic started compiling its data in 1949 and above the consensus estimate of 0.7%. The data suggests potentially a lot more room on the upside to Eurozone inflation, and a lot more pain for German industries. European PMIs due this week will gather attention, as will Germany's IFO numbers.

Germany may resort to nuclear power to plug part of the gap left by a shortfall in Russian natural gas imports this winter. Operators including EON and RWE have said they're open to discussing the option with lawmakers, but stressed the need for a swift decision.

Greece: PM Mitsotakis announced wage increases and tax cuts, but said they should not undermine efforts to balance finances after Greece formally exited post-bailout "enhanced surveillance".

Others

Russia-Ukraine:

* **Russia doesn't see a diplomatic solution to the war in Ukraine and expects a long conflict,** according to the country's permanent representative to the UN in Geneva. A "politicized" UN has been ineffective as a mediator, Gennady Gatilov told the FT.

* The daughter of a prominent supporter of Russian President Putin was killed in a **car bomb attack** in a suburb near Moscow on Saturday night, according to FT.

* Russian Defence Ministry said Russian Kalibr missiles destroyed an ammunition depot containing

missiles for US HIMARS rocket systems in Ukraine's Odesa region.

* **Ukrainian President Zelensky warned of a potential escalation by Russia** ahead of Ukraine's Independence Day on Wednesday.

* UK PM Johnson, US President Biden, German Chancellor Scholz and French President Macron stressed in a call the importance of ensuring the safety and security of nuclear sites in Ukraine.

* UN Secretary-General Guterres said it is important that all governments and the private sector **cooperate to bring Russian food and fertilisers to the market**, while he added that they are getting more food and fertiliser out of Ukraine and Russia is important to further calm commodity markets and lower prices for consumers. Guterres also said they are working hard with parties to remove obstacles in financing and insurance to enable Russian fertiliser and food exports.

* **Russia is to shut the Nord Stream 1 pipeline for three days from August 31st** which Gazprom said was due to maintenance being required for the pipeline's only remaining compressor.

* The Credit Derivatives Determinations Committee said that it expects to hold an auction to settle Credit Default Swaps related to Russia's defaulted debt in the first half of September.

Ukraine was upgraded to CCC+ from SD by S&P following the completion of Ukraine's Eurobond restructuring. The sovereign restructured about \$22.6bn in sovereign Eurobonds and about \$1.5bn of state-guaranteed Eurobonds after receiving majority bondholders' consent to extend principal and interest payments by 24 months. Ukraine has strong and committed international financing support and the restructuring has helped ease its burden until September 2024. Thus S&P notes that near-term risks to liquidity and ability to pay debts are "manageable". The above rating action comes after Fitch, which also upgraded Ukraine last week to CC from RD on the same grounds.

Turkey: post its 100bp rate cut, Turkey revised its reserve requirement ratio from 20% to 30% for treasury bond collateral requirements. The central bank also asked banks to maintain an amount equal to loans that exceed the 10% loan growth rate level (vs. end-2022) for a year, in the form of securities. As per the new measures, banks need 90% in bond collateral if a commercial loan is given at more than 1.8x the reference rate. The central bank is trying to ensure banks to cut commercial loan rates to below the 30%-level with the higher collateral requirement.

Pakistan may hike its key rate by 75 bps to 15.75% in an attempt to slow inflation set to top the central bank's 18%-20% target, Bloomberg Economics said. That's contrary to consensus to stand pat at 15%.

Saudi Arabia: Saudi Arabia is getting its hands on minerals critical for batteries and taking a stake in the EV supply chain, Anjani Trivedi writes. It's turning what stands to be a huge threat to its economy into a long-term benefit. It shouldn't be a surprise if firms and nations soon end up swapping their dependence on Saudi oil for critical battery materials, much like they've had to do with China.

Israel: Israel's central bank is posed to extend its tightening cycle to the longest since 2008, responding to the fastest inflation in over a decade. Economists are almost unanimous that policy makers will raise the benchmark by 50 bps today to 1.75%.

Mexico: Mexico arrested a former attorney general and issued 20 warrants for military leaders and troops in a mass roundup over the still-unresolved case of 43 students who vanished in 2014. Jesus Murillo Karam was detained on charges of torture and other abuses.

Chile: Chileans will probably reject the draft of a new constitution, according to two of the final polls before next month's referendum. About 45.8% of respondents plan to vote against the proposed charter on Sept. 4, a Pulso Ciudadano survey showed. Just 32.9% supported it.

Company Headlines (A-Z)

Adani Power has agreed to acquire DB Power, a company that owns and operates a running 2x600 MW thermal power plant in Chhattisgarh in India, at an enterprise value of INR 70.2bn (\$879mn).

Applied Materials eased fears of a slowdown with a strong revenue forecast for the fourth quarter, though sticky supply chain snarls pinched its margins. Revenue is expected to be US\$ 6.65bn, plus or minus US\$ 400m, in the current quarter, compared with the US\$ 6.57bn estimated by analysts. Applied Materials also beat Q3 expectations with a record revenue of US\$ 6.52bn, thanks to a flurry of orders from chipmakers building capacity in a bid to ease a widespread supply crunch. Investors are relieved to see the outlook, said Summit Insights Group analyst Kinngai Chan, but warned of risks from the weakness in end markets such as electronics.

Bed Bath & Beyond plunged 40.5% on Friday after losing 19.6% the day before, following an SEC filing released on Wednesday showing that **Ryan Cohen** had sold his stake in the company.

Berkshire Hathaway announced that the company has the approval from the Federal Energy Regulatory Commission to increase its 20% stake in **Occidental Petroleum** to as much as 50%. The news that the Oracle of Omaha is going to get control of the company sent the share price of Occidental Petroleum 9.9% higher on Friday.

Cineworld Group shares plummet 80% on London Stock Exchange amid reports that the company is preparing to file for bankruptcy within weeks after struggling to rebuild attendance from pandemic lows. Shares plummeted on fears the world's second-largest cinema group is preparing to file for bankruptcy after saying this week it was discussing a capital restructuring due to poor ticket sales. During Friday's midday trading, the company's stocks fell 82% after the Wall Street Journal reported that the indebted cinema group is expected to file a Chapter 11 petition in the US and insolvency proceeding in the UK.

Credit Suisse investment bankers are bracing for brutal cutbacks. Staff anticipate deep cuts from the latest emergency restructuring, as the Swiss bank gives up its ambitions to be a titan of Wall Street.

Deere reported a rise in quarterly profit as higher equipment demand coupled with a robust pricing environment helped the world's largest farm equipment maker to offset inflationary cost pressures. Deere

sees full-year earnings to be in the US\$ 7.0-7.2bn range compared with previous outlook of US\$ 7.0-7.4bn. The firm's net income was US\$ 1.88bn for the quarter, compared with US\$ 1.67bn a year earlier. Total net sales and revenue rose about 22% to US\$ 14.10bn. The stock dropped 5.2% in premarket trading but ended the session up +0.5%, outperforming the market by +1.8%.

Huobi Group, the popular Asian crypto exchange, founder Leon Li is in talks to sell his majority stake in the company at a potential ~\$3bn valuation.

MGM China Holdings, the Chinese arm of US-based **MGM Resort International** will inject MOP 4.8bn (\$594mn) into its Macau unit MGM Grande Paradise to re-tender for a license to operate its gaming business. In a filing, the company said that if MGM is awarded the new concession, co-chairperson Pansy Ho will be the MD.

Phillips 66, a large US refiner, has offered to acquire the public units of petroleum services company **DCP Midstream** at a \$7.2bn valuation.

Prosus has announced it is acquiring the remaining 33.3% stake in **iFood** from **Just Eat Takeaway.com** for €1.5bn in cash with an additional contingent cash consideration of up to €300mn dependent on the food delivery sector re-rating over the next 12m. Following the transaction, Prosus will own 100% of iFood. In our view, this transaction reflects Prosus's confidence in the long-term potential of iFood, and remains consistent with management's more selective and conservative approach to investments mainly focused on their core ecommerce assets.

Snap revealed more than 1 million subscribers have signed up to its Snapchat+ premium service six weeks after its launch. Snapchat+ features include an option to be more visible to celebrities.

Tapestry: Credit Suisse raises target price to US\$ 49 from US\$ 46, encouraged by strong earnings guidance for FY2023.

Tesla: Elon Musk on Sunday announced the price of Tesla Inc.'s "Full Self-Driving" feature will rise by 25% next month, from \$12,000 to \$15,000.

Turkcell, the Turkish telecommunication provider, reported sound 2Q22 results. Revenue and EBITDA grew 17% q/q each, mostly on higher ARPU in all segments. Free cash flow was negative US\$18mm, mostly on high capex levels and interest payments. Net debt increased by 19% q/q due to the TRY depreciation, while LQA net leverage remained unchanged at 1.3x. Cash position remained sound, covering 1.7x of ST debt.

Main Economic Data / Central Banks / Government ALL TIME CET

09:00 SZ Money Supply M3 YoY
10:00 SZ Domestic Sight Deposits CHF
10:00 SZ Total Sight Deposits CHF
14:00 CA Bloomberg Nanos Confidence
14:30 US Chicago Fed Nat Activity Index

Main Company Earnings Today (A-Z)

- Palo Alto Networks Inc - PANW US - Q4 2022 Earnings Release
- Zoom Video Communications Inc - ZM US - Q2 2023 Earnings Release

Source: various external sources



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