US Market Wrap

21st September 2022: Stocks sold, Dollar bid, Curve flattens after 75bps hike & hawkish dots

- **SNAPSHOT**: Equities down, Treasuries flatten, Crude down, Dollar up.
- **REAR VIEW**: Fed hike 75bps accompanied by hawkish Dot Plots; Powell reaffirms Fed's commitment to bring inflation down; Russia announces partial mobilisation and threatens the West; Mixed inventory data; FCX CEO said seeing very strong copper demand; Meta looking to cut costs by 10%; GIS raises FY23 outlook.
- **COMING UP**: **Events**: BoE, SNB, BoJ, Norges Bank, CBRT & SARB Policy Announcements **Speakers**: BoE's Tenreyro & ECB's Schnabel.

MARKET WRAP

Stocks were ultimately sold - SPX fell beneath 3800 - after the Fed hiked 75bps to 3.25-3.5% and provided hawkish Dot Plots, with indices extending to lows in late trade after Powell's presser/Q&A finished. The knee-jerk reaction to the statement and Dot Plots was a hawkish one, with particular attention on the 2023 median rate forecast being bumped to 4.6% from 3.8% in June, towards the hawkish side of both analyst and market expectations. The moves did fade during Powell's presser and Q&A as he warned against gauging the Dot Plot as the Fed's plan, whilst also not providing any new hawkish surprises and touting there still being chances of a soft landing. However, Powell said in his concluding Q&A response that rates will likely get to levels seen in the Dot Plot, reigniting their signalling power. Whether that was the catalyst or not is hard to tell, but stocks went on to sustain new lows into the close. The Treasury curve saw pronounced flattening with the cash 2yr up 6bps and the 30yr down 10bps. The long-end made session peaks after the FOMC, breaking past the earlier highs on haven demand after Putin's military mobilisation announcement.

CENTRAL BANKS

FOMC REVIEW: The Fed hiked by 75bps, as expected, to 3-3.25%, with the touted potential 100bps hike not coming to fruition. The statement was largely a copy/paste job from the July meeting, "the Committee... anticipates that ongoing increases in the target range will be appropriate." The knee-jerk hawkish reaction (bonds and stocks sold while Dollar bounces) has been a result of the latest Dot Plot that saw the terminal rate, 2023 median rate forecast hiked to 4.6% from June's 3.8%, towards the top end of analyst estimates and above money market pricing beforehand of 4.5%, while the 2022 dot plot was also aggressive at 4.4% (prev. 3.4%). The dots implied rate cuts to 3.9% and 2.9% in 2024 and 2025, respectively, while the long-run (neutral) dot was left unchanged at 2.5%, although it's worth highlighting the wider range of estimates beyond 2023. As expected, there were upgrades to the inflation forecasts, more so in the near-term, whilst the unemployment rate forecasts saw sizeable increases with the 2023 forecast now at 4.4% (prev. 3.9%), staying there until 2025, where it has been forecast to drop slightly to 4.3%, reflective of the more aggressive Fed rate path provided. The GDP forecasts also saw downgrades, with one official forecasting a contraction in 2023.

FOMC PRESSER/Q&A: Powell's presser lacked the bite of the Dot Plot with the Fed Chair providing little groundbreaking in his remarks. He kicked off his presser similar to the Jackson Hole speech, affirming the Fed's affinity to bring down inflation to target, adding that the Fed will bring rates further into restrictive territory. Powell also initially pushed back on the Dot Plot, saying it does not represent a plan or commitment for the Fed, although he somewhat contradicted that by saying in the Q&A that it is likely rates would get to the levels in the Dot Plot. The Fed Chair largely touted familiar remarks and soundbites, i.e., when asked what it would take for the Fed to cut rates, he said it would have to be confident inflation is moving back down to 2%. As has been a growing theme, and exhibited in the Dot Plot, there remains a divergence among the FOMC on how far the Fed needs to get into restrictive territory, and Powell danced around that, saying the Fed has now moved to the "very lowest" level of what the Fed considers restrictive, saying there is still a ways to go on rates, without giving specifics on where he sees the terminal aside from his comment that the Fed would likely get to levels in the Dot Plot. On the labour market, Powell stressed it remained very tight, with "only modest evidence" it was cooling off - said job openings and quits remain good indicators of the job market. Powell was not willing to let go of chances of a soft landing, but did say chances are likely to diminish as policy becomes more restrictive or restrictive for longer. He said that commodity prices look like they may have peaked and that if supply shocks also abate it could ease inflationary pressures, providing a pathway to a softer landing. Powell was sanguine on the consumer, saying there are still very significant savings out there to support growth, saying the US is flush with cash. On the balance sheet, Powell said MBS sales are not something he expects to be considering the near term.

BOJ PREVIEW: The Bank of Japan will conclude its 2-day meeting on Thursday and the central bank widely expected to keep its monetary policy settings unchanged with rates to be held at -0.10% and QQE with yield curve control maintained to target 10yr JGB yields at around 0%. Meanwhile, sources familiar with the central bank's thinking note that the BoJ will likely stick to its guidance for short- and long-term rates to remain at present or lower levels and that it will take additional easing steps without hesitation as needed with an eye on the pandemic's impact on the economy. For the full preview, please click here.

BOE PREVIEW: Expectations are for the MPC to raise the Bank Rate by 50bps to 2.25%, according to most analysts polled in a Reuters survey, though there are some calls for a 75bps move. The decision to hike rates will likely be unanimous, however the vote over the magnitude of the hike could be subject to some dissent in both a hawkish and dovish direction. Money market pricing expects a 75bps rate rise this week, and foresees rates rising to 3.75% by the end of the year. More aggressive market pricing have emerged in wake of larger rate rises at other global central banks – like at the ECB, Fed and Riksbank this week – with the inflationary outlook for the UK bleak following the 80% increase in the October OFGEM price cap, with further advances expected in January and April. However, the recent energy support package presented by newly-appointed UK Prime Minister Liz Truss has shifted the dial on the inflationary outlook. Despite the near-term implications likely being welcomed by the MPC, Oxford Economics expects the price cap "will support disposable incomes and spending, and keep the labour market tighter than anticipated. This would increase the risk of higher inflation in the medium-term." As such, there is a growing belief amongst market participants that the MPC may need to keep their foot to the rate hiking pedal and delay any prospective rate cuts that some had been hoping for in 2023. With this in mind, the statement will be eyed to see if the MPC reaffirms its commitment to act "forcefully" in the face of inflationary pressures. Also of note for the announcement will be focus on the confirmatory vote for the Bank's Gilt selling programme. For the full preview, please click here.

SNB PREVIEW: The SNB is expected to increase the Policy Rate by 75bp to 0.50%, given the still elevated inflation backdrop alongside global Central Bank tightening and a desire for CHF appreciation. However, some desks are calling for a 50bp move – a magnitude that is arguably merited by the tentative signs of stabilisation in domestic inflation. On the flip side, some desks and market pricing (~45% probability) look for a 100bp hike – a view that is perhaps justified by global tightening action, a desire to frontload and in order to ensure that the CHF continues to rise and works to prevent any further external price pressure. Rates aside, we remain attentive for any further downward adjustments to the Exemption Threshold, which is currently 28x, and whether the CHF gets a formal classification at this meeting. For the full preview, please click here.

NORGES BANK PREVIEW: The Norges Bank is expected to hike the Key Policy Rate by 50bp to 2.25%, after delivering an equal magnitude hike in August and providing guidance towards a further rise at this meeting and a faster increase than the June MPR implied. Once again, hawkish action is justified by concern over the inflation situation – however, recent data and ongoing attention around the implications of rate hikes on consumption perhaps serves to offset calls for a hike of a greater magnitude. For the full preview, please click here.

GLOBAL

GEOPOLITICS: Russian President Putin, in his televised speech to the nation Wednesday morning, announced that partial mobilisation will begin today (September 21st) whilst threatening the west with "All means of destruction, including nuclear ones", and warned that this is not a bluff. The Russian Defence Minister Shoigu was interviewed in the minutes after Putin and suggested Russia is not fighting just against Ukraine, but NATO and the collective West. For the full Newsquawk analysis, please click here.

US EXISTING HOME SALES: Existing home sales marginally fell 0.4% in August to 4.80mln from 4.82mln, but printed above the expected 4.7mln. Looking at the inventory, the months' worth of supply dropped to 3.2 from 3.3 in July. Delving into the release, Oxford Economics note, "the latest rise in mortgage rates – up nearly 30 basis points since the end of August – has taken a further toll on homebuying affordability that will weigh on home sales in the months ahead," and as such, the consultancy forecast calls for sales to average 4.6mln in Q4, but add the risk is probably tilted to the downside. Highlighting this, OxEco further details, "we expect existing home sales to slow further over the balance of 2022, with a risk that sales will fall short of our forecast of 4.60mn sales in 2022 Q4 – down from 4.80mn in Q3 – as the latest spike in mortgage rates weighs on activity."

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 12+ TICKS HIGHER AT 114-07+

Treasuries saw pronounced flattening leading into and after the FOMC hiked by 75bps and subsequent hawkish Dot Plots. At settlement, 2s +5.9bps at 4.023%, 3s +4.0bps at 3.977%, 5s -0.4bps at 3.749%, 7s -2.8bps at 3.669%, 10s -4.7bps at 3.526%, 20s -8.3bps at 3.762%, 30s -6.1bps at 3.520%. Inflation breakevens: 5yr BEI +1bps at 2.551%, 10yr BEI +0.4bps at 2.409%, 30yr BEI -0.3bps at 2.312%.

PRE-FOMC: Treasuries saw strength first in the Tokyo Wednesday morning, with some spillover from JGBs after the BoJ's latest bond buys. But interim highs in T-Notes were made in the European morning at 114-07+ in wake of Russia's military mobilisation declarations, threatening a nuclear response. The move faded gradually into the NY session with eyes to the FOMC and Dot Plot, and the selling picked up momentum into the US afternoon as the front-end led the move (ergo flattening the curve) to see cash 2yr yields rise above 4% for the first time since 2005. Fresh lows in 5s30s (sub -21bps) were made before the FOMC, likely some spillover from the same German spread inverting for the first time since 2008.

FOMC: In an immediate reaction to the 75bps hike and hawkish leaning Dot Plot, T-Notes sold off to lows of 113-09 from 113-26 beforehand, with the cash 10yr yield spiking to 3.64% from 3.57%. However, the moves in duration unwound before Powell's presser/Q&A began, although the front-end remained under pressure. The duration-led bid extended as Powell spoke, where there wasn't anything too incremental in his remarks, with the Chair largely reaffirming the Fed's commitment to bringing inflation down and the need to hike rates further into restrictive, whilst not giving much away on where he sees the terminal rate. As expected, Powell pushed back on the Dot Plot, saying it's not a plan or commitment, which could maybe be considered dovish as far as the initial hawkish reaction to it became less justified. While the lack of further hawkish surprises, and some subsequent position closing, was likely a big factor in the bid, evident by the gradual move higher through the presser, which took T-Notes to session highs of 114-10 at settlement. Note, in post-settlement trade, Powell said in the Q&A that rates will likely get to levels in the SEPs, which saw some renewed selling pressure Treasuries.

STIRS:

- EDZ2 -7.5bps at 95.355, H3 -9bps at 95.23, M3 -10bps at 95.275, U3 -9bps at 95.445, Z3 -7bps at 95.645, M4-4bps at 96.065, Z4 -1bp at 96.32, Z5 +4.5bps at 96.565.
- US SOFR, as of Sept 20th, fell to 2.26% from 2.27%, lowest since July FOMC hike. -NY Fed RRP op. demand at USD 2.316tln (prev. 2.239tln).
- GC rate opened Wednesday at 2.26%, 1bp above the lower bound in FFR and 4bps beneath RRP, the richest relative level since June.
- Monthly GSE cash inflow into money markets and near-term Fed rate path uncertainty are likely factors keeping the very front-end rich.
- US sold USD 30bln of 119-day CMBs at 3.59%, covered 3.76x (highest since April); stopped through 1bps.

CRUDE

WTI (X2) SETTLED USD 1 LOWER AT 82.94/BBL; BRENT (X2) SETTLED USD 0.79 LOWER AT 89.83/BBL

Oil prices were ultimately lower after the Russian-induced bid faded as the Dollar rallied and the mixed US inventory data. Strength in the European morning was stoked on the back of Russia's military mobilisation plan announcements, adding further geopolitical risk to the complex. Session highs were made in the WTI and Brent November contracts at USD 86.68/bbl and 93.50/bbl, respectively, in wake of the threats. There was also a shutdown at BP's (BP/ LN) Husky Toledo Refinery (160k BPD) after a fire, with fatalities reported. The strength in oil prices ultimately faded in the US session, with attention shifting towards the Fed that saw US yields and the Dollar rally, hurting commodities. Elsewhere of note: Norway's prelim. Aug oil production rose to 1.774mln BPD from 1.646mln BPD; Russian Economy Minister sees Urals prices at USD 70/bbl in 2023 and USD 65/bbl in 2025; UAE's ADNOC is mulling a bid for oil trader Guvnor, Bloomberg reported.

US INVENTORIES: The EIA data saw a 1.1mln bbl build in crude stocks, similar to the private data, although given the 6.9mln bbl SPR release that was a net 5.8mln draw; Cushing stocks built 300k bbls, while crude production was flat at 12.1mln BPD. In the products, gasoline and distillate stocks saw builds of 1.6mln and 1.2mln bbls, respectively, while refinery utilisation rose by a decent 2.1%.

EQUITIES

CLOSES: SPX -1.73% at 3,789, NDX -1.80% at 11,637, DJIA -1.70% at 30,183, RUT -1.53% at 1,760.

SECTORS: Consumer Discretionary -2.37%, Communication Services -2.29%, Materials -2.21%, Financials -2.11%, Health -1.69%, Technology -1.6%, Real Estate -1.57%, Energy -1.48%, Utilities -1.38%, Industrials -1.34%, Consumer Staples -0.35%.

EUROPEAN CLOSES: EURO STOXX 50 +0.71% at 3,491, FTSE 100 +0.63% at 7,237, DAX 40 +0.76% at 12,767, CAC 40 +0.87% at 6,031, FTSE MIB +1.20% at 22,035, IBEX 35 -0.01% at 7,872, SMI -0.44% at 10,430.

STOCK SPECIFICS: **Meta (META)** is looking to reduce costs by at least 10%, while **Google (GOOGL)** has required some employees to apply for new jobs if they wish to remain at the company, according to WSJ. **General Mills (GIS)** beat on EPS and raised FY23 outlook. GIS said given the strength of Q1 and confidence in our ability to adapt to continued volatility ahead, we are increasing our FY outlook for net sales, operating profit, and EPS growth. **United Airlines (UAL)** removed 25 **Boeing (BA)** 777-200 airplanes from service after discovering it failed to perform a required inspection on wing leading-edge panels. **Stitch Fix (SFIX)** posted a deeper loss per share than expected and missed on revenue. Guidance was light, both Q1 and FY23 revenue fell short, as an exec said the macroeconomic environment and its impact on retail spending had been a challenge to navigate. **Coty (COTY)** raised Q1 LFL sales growth view to 8-9% (prev. 6-8%) and sees skincare portfolio revenue doubling to USD 500-600mln by FY25. **Walmart (WMT)** plans cautious holiday hiring amid slowing US economy, and looks for 40k seasonal workers vs 150k in its September 2021 plans. **Chemours (CC)** cut adj. EBITDA and FCF view citing changes in Titanium Technologies segment outlook; said TT segment slowdown is most notable in Europe and Asia, "lower demand coupled with continued high input costs". Adds to the negative updates from chemical names such as **Olin (OLN), Eastman Chemical (EMN), Dow (DOW), and Huntsman (HUN)**. **Warner Music (WMG)** named **YouTube (GOOGL)** business chief Robert Kyncl as its next CEO, according to WSJ sources. **UnitedHealthcare (UNH)** and **Peloton (PTON)** are to collaborate on an interactive fitness platform. **Nvidia (NVDA)** CEO noted the vast majority of customers are not affected by US restrictions on AI chip shipments to China and US rules still leave large space for us to sell AI chips in China. **Beyond Meat (BYND)** COO has been suspended, effective immediately, following reports he has been charged after allegedly biting a man's nose; operations activities will be overseen on an interim basis by Jonathan Nelson, Senior Vice President, Manufacturing Operations. **Bank of America (BAC)** CEO Moynihan said long-term competitiveness of Chinese banks is a concern. **DXC Technology (DXC)** reportedly tapped advisers after receiving takeover interest, according to Bloomberg.

FX WRAP

The Dollar was bid going into FOMC before accelerating further after the Fed hiked by 75bps with accompanying aggressive dot plots. The DXY hit a high of 111.63 in wake of the statement but moved well off highs in the press conference, albeit not on one particular comment, as Powell stressed once again the dot plots are not a set plan or commitment, taking DXY to c. 110.75 before he later noted it is likely rates will rise to levels in the SEP - terminal is seen at at 4.6% in 2022 - taking DXY back to c. 111.00.

The Euro hit fresh lows vs the buck of 0.9814 in wake of the Fed statement, but as the market reversed in the press conference the Euro returned to c. 0.9900 while similar was seen with the Yen with both currencies trading off yield differentials. **USD/JPY** saw a high of 144.70 before paring to c. 144.40 as short-end yields eased off highs while yields from the belly out moved lower taking the Yen to unchanged levels vs the buck. The Euro remains hampered by ongoing geopolitics with Russia and Ukraine after Putin announced partial mobilization of the Russian army and gave the west a nuclear threat. Overnight we get the latest BoJ rate decision, full preview available here.

CHF was weaker vs the buck but saw gains against the Euro ahead of the SNB's rate decision on Thursday, where the central bank is expected to hike rates by 75bp, although calls vary from 50-100bps, full preview available here.

Gold prices were choppy in wake of the FOMC, with the hawkish dot plots weighing on the precious metal to lows of USD 1,655/oz, before paring in the press conference to highs of USD 1,687/oz. However, prices were off highs heading into the US close.

Cyclical currencies were mixed. GBP saw pronounced downside while the AUD and NZD were flat vs the buck but NZD outperformed AUD. CAD saw slight weakness and briefly tested 1.3450 after the Fed rate decision before paring to c. 1.3400. GBP sold off to fresh multi decade lows at 1.1239 (lowest since 1985) after the Fed rate decision with attention now turning to the BoE rate decision on Thursday (preview here) and the fiscal statement on Friday.

EMFX was mixed. Rouble saw strength despite the heightened geopolitical tensions after Putin threatened nuclear war and declared partial mobilization of the Russian army. ZAR was flat as it was supported by the eventual rally in gold prices with eyes on the SARB rate decision. MXN was also flat; Mexican retail sales were above expectations in the AM but the message from the Fed could imply Banxico may need to hike more too, although recent commentary has suggested they do not have to follow the Fed step by step. BRL was weaker vs the buck ahead of the BCB rate decision Wednesday evening where they are expected to leave rates unchanged at 13.75%. The Lira was flat ahead of Thursday's CBRT rate decision where rates are expected to be maintained at 13%.

Scandi's saw SEK tumble despite the 100bp rate hike on Tuesday while NOK firmed against the buck, Euro and SEK ahead of the Norges Bank rate decision on Thursday - expected to hike by 50bps to 2.25% and present a hawkish revision to the repo path.