



## US Market Wrap

### 28th September 2022: BoE intervention catalyses historic bond bid and risk appetite

- **SNAPSHOT:** Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW:** BoE to buy longer-dated Gilts until liquidity improves; Hawkish ECB rhetoric from Holzmann, Rehn, and Kazaks; Naftogaz noted Gazprom paid for Oct. gas transit; Germany fears Nord Stream 1 beyond saving; Bostic wants 75bps rise in Nov. and 50bps in Dec.; Decent 7r US auction; AAPL ditches plans to increase iPhone production; BIIB reports positive Alzheimer's study.
- **COMING UP: Data:** EZ Economic Sentiment, German HICP (Prelim.), US PCE Prices Final, IJC **Event:** Banxico Policy Announcement **Speakers:** ECB's Panetta, de Guindos, Elderson, Lane, de Cos; BoEs Ramsden, Fed's Bullard, Mester **Supply:** Italy.

### MARKET WRAP

Stocks bounced globally as the BoE's decision to restart Gilt purchases reduced UK contagion risks, buoying risk sentiment. SPX and NDX saw gains of c. 2%, while the cyclically-levered RUT rallied over 3%. The energy sector outperformed as part of the broader commodity bounce, while EIA inventory data saw a mild draw in US crude stocks despite a chunky SPR release, sustaining the oil bid. Treasuries catapulted higher after the BoE announced intervention, aided by a strong 7yr auction, seeing the largest fall in yields since 2009. The UK 30yr yield itself fell by a record 100bps+ from 5%. The Dollar saw broad-based weakness as haven bids unwound, while Cable ultimately firmed to 1.09 after troughing at 1.0541 in wake of the BoE announcement.

### GLOBAL

**BOE:** The Bank of England announced market repricing has become more significant in recent days and as of such it will carry out temporary purchases of longer-dated (20yr+) UK govt bonds from 28th Sept until 14th Oct to restore orderly market conditions. The purchases will be carried out on whatever scale is necessary to restore market conditions. Thereafter, the first gilt sale operations will take place on 31st Oct. The MPC's annual target of an GBP 80bln stock reduction is unaffected and unchanged. For clarity, the BoE made no changes to its Bank Rate, while money markets have a 134bps implied hike currently priced in by the November 3rd meeting. Looking in the buyback details, the BoE is set to purchase up to GBP 5bln of bonds per auction, but parameters will be kept under review. The first auction today saw just GBP 2.59bln in bids received and only GBP 1.025bln accepted, with Gilt futures knee-jerking lower in a seeming reaction to the total offers coming in short of the touted GBP 5bln limit, potentially indicative of efficiency/accessibility issues of the buyback which is failing to absorb the maximum amount of Gilts; note liquidity conditions in Gilts still remain "dysfunctional". Looking ahead, buyback auctions will take place every business day from 14:15-14:45BST.

**FED: Bostic (2024 voter)** said a lack of progress means the Fed will need to be moderately restrictive, with rates in the 4.25-4.5% range by year's end; baseline right now is a 75bps increase at November meeting and 50bps in December. Regarding global events, Bostic added he is watching international events but feels the US has considerable momentum and is less susceptible to contagion. Meanwhile, Bostic noted no evidence of dysfunction in the Treasury market at this point. **Bowman (voter)** didn't comment on monetary policy, but called for the need to modernise the Fed's approach to evaluating competition in the banking sector and that the framework for analysing large bank mergers also needs to be updated. **Evans (departing, non-voter)** said he expects to be at the terminal Fed Funds rate by March. Later, Evans added policy rate is beginning to move into restrictive territory, but not now nearly restrictive enough; policy rate of 4.5-4.75% would be a good place to get to by the end of this year or March

**PENDING HOME SALES:** US pending home sales fell 2.0% in August (exp. -1.4%, prev. -0.6%) to 88.4 (prev. 90.2). Pantheon Macroeconomics feared for an even larger fall, but note this outcome is still bad as pending sales have fallen in nine of the past 10 months, dropping by 28% from their October peak, and are closely tracking the plunge in mortgage applications, which have yet to hit bottom. Moreover, Pantheon adds "the latest surge in mortgage rates mean we have to expect applications to keep falling for another couple months at least, so our hopes that home sales would flatten by



the end of the year are now hanging in the balance.” Additionally, PM adds, “closed existing home sales have undershot the pending sales numbers in the past couple months, suggesting that some buyers have walked away between contract signing - when pending home sales are captured - and closing.”

## FIXED INCOME

### T-NOTE (Z2) FUTURES SETTLED 1 POINT & 31 TICKS HIGHER AT 112-27+

**Treasuries catapulted higher after the BoE announced intervention, aided by a strong 7yr auction, seeing largest fall in yields since 2009.** At pixel, 2s -22.0bps at 4.088%, 3s -28.1bps at 4.119%, 5s -29.6bps at 3.918%, 7s -29.4bps at 3.847%, 10s -25.8bps at 3.705%, 20s -16.3bps at 3.976%, 30s -16.0bps at 3.668%.

**Inflation breakevens:** 5yr BEI +2.2bps at 2.424%, 10yr BEI flat at 2.353%, 30yr BEI -2.0bps at 2.209%.

**THE DAY:** T-Notes traded in a range of 111-03+/110-19 range during the APAC Wednesday session and for most of the European morning, although the front-end found better buying momentum heading into the NY session. However, the whole curve spiked higher on the BoE's announcement it would be conducting long-end Gilt purchases every day for a month and delaying its Gilt sales plans (which were scheduled for Monday) until October 31st. The UK 30yr yield saw a record 100bps+ move lower on the session from 5% to under 4%. Meanwhile, T-Notes ripped higher through the US afternoon, catching momentum into settlement after the strong 7yr auction. On the cash curve, the 10yr yield marked its largest D/D decline since 2009 (in excess of 26bps at time of writing).

**7YR AUCTION:** All things considered, a decent offering from the Treasury with the USD 36bln 7yr offering stopping 0.5 bps through the WI for a high yield of 3.898% (a record high 7yr auction yield), not as good as August's 2.8bps stop-through, but better than the six-auction average of being on the screws, and better than the chunky tails seen in the 2yr and 5yr auctions this week. The takedown was less encouraging with Dealers (forced surplus buyers) taking down 12.9% (prev. 8.6% and avg. 11.5%) due to a big step-down in Indirects demand to 62.5% from 75.7%.

### STIRS:

- EDZ2 +2.5bps at 95.33, H3 +14bps at 95.345, M3 +19bps at 95.39, U3 +23.5bps at 95.50, Z3 +27bps at 95.605, H4 +29bps at 95.795, M4 +30bps at 95.975, U4 +30bps at 96.10, Z4 +29.5bps at 96.195, Z5 +26bps at 96.325.
- Block activity, aside from suspected profit taking in ED put condors, saw mainly call structures in SOFR ([here](#)).
- NY Fed RRP op. demand USD 2.367tln (prev. 2.327tln), a new record ahead of quarter-end.
- US sold USD 30bln in 120-day CMB's at 3.590%, covered 3.05x; sold USD 22bln in 2yr FRNs at a high discount margin of 0.092%.

## CRUDE

### WTI (X2) SETTLED USD 3.65 HIGHER AT 82.15/BBL; BRENT (X2) SETTLED USD 3.05 HIGHER AT 89.32/BBL

**Oil prices benefitted from the broader risk appetite Wednesday as the Dollar pared from highs, while bullish EIA US inventory data added to the bid.** The bid for commodities gained momentum after the BoE announced Gilt market intervention, which gave a lift to broader risk assets amid the unwind of haven Dollar demand. Similar to stocks, the oil bid grinded through the session, gaining some momentum again after the EIA data saw a 200k bbl crude stock draw despite the 4.6mln bbl SPR release. The fragile global energy supply backdrop was also highlighted by Tagesspiegel reports that German security agencies worry the Nord Stream 1 pipeline will be unusable forever if repairs are not made quickly due to potential salt water entering and corroding the pipeline.

**SANCTIONS:** The EU proposed the eighth round of sanctions against Russia on Wednesday, which included an oil price cap for third countries. The proposal is set to go to the bloc's 27 members for discussion. Price caps are expected to generate some pushback from the likes of Hungary.

**IAN:** Hurricane Ian's effect in the offshore Gulf of Mexico is starting to dissipate with 157.7k barrels of oil (prev. 190.4k on Tuesday) and 184mln cubic feet of gas (prev. 184mln) shut in, according to the offshore regulator.

**JAPAN:** Japan will sign a memorandum of cooperation on LNG with Malaysia's Petronas later on Thursday, including emergency measures, according to a Government source cited by Reuters. LNG consumers elsewhere in Asia are also suffering from tight supply and soaring LNG prices, which are bolstered by the fight for fuel. Japan wants to make a similar collab with other Asian countries, such as Singapore.



## EQUITIES

**CLOSES:** SPX +1.91% at 3,716, NDX +1.97% at 11,493, DJIA +1.88% at 29,683, RUT +2.94% at 1,714.

**SECTORS:** Energy +4.4%, Communication Services +3.17%, Consumer Discretionary +2.81%, Materials +2.63%, Industrials +2.24%, Health +2.2%, Financials +1.91%, Real Estate +1.87%, Consumer Staples +1.19%, Utilities +1.1%, Technology +0.92%.

**EUROPEAN CLOSES:** EURO STOXX 50 +0.20% at 3,335, FTSE 100 +0.30% at 7,005, DAX 40 +0.36% at 12,183, CAC 40 +0.19% at 5,765, FTSE MIB -0.52% at 20,852, IBEX 35 -0.05% at 7,442, SMI +0.93% at 10,220.

**STOCK SPECIFICS:** **Apple (AAPL)** reportedly abandoned its plans to increase iPhone 14 production due to lower demand. **Biogen (BIIB)** and **Eisai (ESALY)** reported a positive Alzheimer study; their experimental drug dramatically slowed the disease's progression, reducing cognitive and functional decline by 27%. **Lyft (LYFT)** paused hiring for all US roles through to year-end. **DocuSign (DOCU)** is restructuring its business and will cut its current workforce by about 9%; will see charges of roughly USD 30-40mln and sees majority of restructuring charges will be in Q3 and Q4. Spruce Point short on **Broadridge (BR)**; sees 65-75% downside risk on Broadridge shares and there are very strong indicators that it is losing clients. **VF Corp (VFC)** revised lower its FY23 outlook due to lower-than-expected Q2 results; FY23 EPS view to USD 2.60-2.70 (exp. 3.10) and revenue guidance +5-6% Y/Y (prev. at least 7%). Elon Musk and **Twitter (TWTR)** are still negotiating over depositions as trial nears, according to NY Post sources. **Amazon (AMZN)** plans to close some US call centres in a remote-work shift; expects to save real estate costs, according to Bloomberg

**EARNINGS:** **Cintas (CTAS)** posted a strong report; beat on top and bottom line alongside raising FY23 revenue and EPS view. **Paychex (PAYX)** surpassed Wall St. expectations on EPS and revenue; looking ahead it lifted FY23 EPS view and reaffirmed revenue outlook. **Thor Industries (THO)** beat on the top and bottom line as it saw particular strength in its motorized RV segment, with a 24.5% gain over the prior year. Meanwhile, as it enters FY23, THO noted there remains a level of uncertainty with respect to near-term economic growth and consumer demand but remain confident in the resiliency of our business model.

## FX WRAP

**The Dollar** was significantly lower Wednesday, reaching a trough of 112.550 in contrast to a 114.780 high after the BoE's announcement of emergency Gilts purchases pushed yields lower globally, improving sentiment among investors fearing rising rates and UK contagion. However, it is not easy to determine the catalyst, as it is sufficient too that the Buck had already lost some upside momentum prior to the aforementioned BoE intervention. However, the decision to purchase longer-dated Gilts in unlimited amounts starting from today until October 14th was accompanied by a rollback in the scheduling for the sale of APF holdings to the end of next month from October 3rd, and resulted in a sharp retreat in yields that spilled over to other bond markets and boosted sentiment broadly. This in turn lifted funding, high beta and activity currencies along with Gold to the detriment of the Greenback and pushed the DXY lower. The strong 7yr auction later on only added to the Dollar selling as US yields moved lower.

**Sterling** initially failed to take full advantage of the Buck, where Cable spiked to 1.0838 or so on the initial buyback news before soon hitting troughs near 1.0540, but as the Dollar selling extended, Cable went on to flirt with 1.09 in later US trade. BoE intervention was aimed to halt a crisis that developed after the UK's budget-busting fiscal stimulus plan panicked investors and left UK pensions and mortgage lenders at dire risk. Lastly, while the bond purchases could buy time for the financial sector to address funding issues and the BoE to hike rates enough to assuage investors' inflation fears, only time will tell.

**Activity currencies**, NZD, AUD, and CAD, were firmer with the former the outperformer and the latter the underperformer, albeit still firmly in the black against the Buck amid the favourable risk environment, highlighted by the pullback in the Dollar. As such, the aforementioned currencies benefitted from the wider macroeconomic sentiment as opposed to anything currency specific. Nonetheless, the Loonie also saw tailwinds from the bounce in the crude complex to see USD/CAD hit a low of 1.3608, running out of momentum ahead of the round 1.36. For the Antipodeans, in the European morning, AUD/USD hit a trough of 0.6364, the lowest since April 2020, but after the BoE statement and risk revival, the Aussie pared these losses and gained to reach a peak of 0.6530, at pixel time in the US afternoon. NZD/USD followed suit and bounced from 0.5566 to a peak of 0.5733 ahead of ANZ's business survey as market participants await for further, or independent, direction.

**Safe-havens**, CHF and JPY, saw gains vs the Greenback but the Swissy notably outperformed the Yen. The Franc was a major beneficiary of the debt revival, but also gained against the Euro amidst heightened concern over the Eurozone energy crisis as German security agencies reportedly expressed doubt over both strands of the Nord Stream 1 pipeline



and whether they might be unusable forever, according to Tagesspiegel citing Government sources. USD/CHF recoiled from 0.9965 to lows of 0.9747, and EUR/CHF reversed to under 0.9450 from 0.9525. USD/JPY saw a high of 144.86, and once again fell short ahead of the major 145 options expiries, as traders remain wary of getting caught long close to the 145.90 peak that preceded the intervention plunge.

**EUR** gained on Wednesday following the aforementioned constructive macro environment, although in the European morning EUR/USD hit a low of 0.9537 but the single currency just managed to stay above its 20yr low of 0.9528. Elsewhere, there was a slew of ECB speak, where Rehn said the ECB requires a "significant" rate hike in October, be it "75 or 50bps or something else", which Kazaks echoed this, calling for 75bps with smaller steps after that. Holzmann noted the need to assess QT in nations where it begun and 75bps is a good figure for October whilst 100bps is currently too much; does not see rates being lowered in 2023. On Thursday there is a range of European data, most notably German State CPI as well as further ECB speak.

**EMFX** was mainly in the black against the Buck, aside from the TRY, which was the underperformer on the back of the gains seen in the crude complex. MXN, BRL, and ZAR were the EM outperformers amid the risk-on sentiment, while the spike in Gold prices also supported the Rand. Although, Eskom said loadshedding will remain implemented at Stage 4 throughout the night and will continue until diesel stocks have been fully replenished. Meanwhile, for the BRL, economy minister Guedes says they are going to set up a semiconductor factory in Brazil; already have an executive order for that.

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