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US Market Wrap

30th September 2022: Friday's sea of red sees S&P record worst monthly decline since March 2020

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: US Core PCE above expected; Abysmal Chicago PMI; UoM headline revised lower; Brainard notes monetary policy will need to be restrictive for some time to have confidence inflation moving back to 2%; Barkin reserving judgement for size of November hike; Russia officially Annexes the four Ukrainian regions; OPEC+ to cut production by 500k-1mln BPD next week; NKE growth margins to remain pressure through year-end; Soft MU guidance; Weak CCL earnings.
- **WEEK AHEAD PREVIEW**: Highlights include: US ISM, RBNZ, RBA, OPEC+, US and Canadian Jobs Reports. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Reviewing Banxico, RBI; previewing RBA, RBNZ, ECB Minutes. To download the report, please click here.

MARKET WRAP

Equities continued to stumble on Friday to see the S&P break through 3600 heading into the close, and well beneath highs of 4100 just a few weeks ago. Meanwhile, the Dollar index reclaimed 112.00 in the risk of conditions while Treasuries sold off, particularly heading into the settlement - perhaps aided by month/quarter-end flows. Crude prices were also lower in fitting with risk and the Dollar while the latest OPEC+ sources talking of a 500k-1mln BPD output cut did little to support the crude benchmarks ahead of the meeting next week. In equities, earnings were abysmal with Nike (NKE) margins heavily disappointing last night while Micron (MU) cut guidance and Carnival (CCL) posted a deeper loss per share alongside woeful guidance. US data saw PCE come in hotter than expected, in fitting with the hot CPI report, while consumer spending was revised lower - adding to demand concerns and potentially Q3 GDP woes. The Chicago PMI added to the growth concerns after missing all analyst expectations while the final UoM survey was revised lower with inflation expectations revised higher in the 1yr forecast and lower for the 5yr forecast. Fed speak was also hawkish with Brainard affirming her commitment to avoiding pulling back prematurely. On Geopolitics, Russia's President Putin noted Russia will defend its land with all means and will work to increase security in the new regions and called on Kyiv to stop military actions and return to negotiations after confirming the annexation of four Ukraine regions. The annexation led to more sanctions imposed on individuals from the US related to the annexation, something the west deems illegitimate.

FED

Vice-Chair Brainard noted policy will need to be restrictive for some time to have the confidence in inflation moving back to the 2% target, adding she is committed to avoiding pulling back prematurely. Brainard said that uncertainty is high and there are a range of estimates on the peak FFR. Brainard also stated that spillovers of monetary policy surprises between tightly linked advanced economies could be half the size of their own-country effect on local currency bond yields.

Daly (2024 voter) is comfortable with the median Fed rate path projection of 4.0%-4.5% by year-end and 4.5%-5.0% in 2023, while she added the actual rate path will depend on data and expects to hold rates steady for at least all of 2023 after rate hikes. Daly reiterated additional hikes are the right thing to do, but how high depends on the data and they are not on a pre-set course. She hopes to get to 2% inflation by the end of 2023 or close to 2024 but it will chip away at it earlier than that.

Barkin (2024 voter) is reserving his judgement on the magnitude of a November hike until he sees the data but he did suggest the point the risk of inflation festering feels bigger than that of the Fed doing too much. Barkin said the latest PCE data is still consistent with broad based and persistent inflation while the consumption data was "okay" but it may show demand is weakening. On the terminal rate, Barkin suggested it is a hard decision for the Fed to sort out what level is a sufficient one to stop at, noting they need positive real rates to restrain demand and they are just starting to reach that level. He is comfortable with the pace of rate hikes and said it would be a good news story if the Fed did a bit too much and inflation came down. He said there are promising signs inflation pressures are easing, but it may take time to show up in the data while citing supply improvements and easier hiring.

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Note, there was also a tweet from FBN's Gasparino which suggested the Fed is increasingly concerned with the systemic risk to the financial system in a rising rate environment, according to Fed Watchers, who add further turbulence in the bond market could force Powell to change its current interest rate policy. It is worth stressing he is not citing any sources and he does not specify who the Fed watchers are and no other reporters have suggested this to be the case.

US DATA

PCE & CONSUMER SPENDING: Core PCE rose by 0.6%, above expectations of a 0.5% gain, accelerating from the prior months 0.1% rise. The Y/Y metric rose 4.9%, above the 4.7% expectation and accelerating from the revised higher 4.7%. Headline PCE rose 0.3% M/M from the prior -0.1% while Y/Y rose 6.2% (prev. 6.4%). The hotter than expected Core PCE is similar to what was seen in the hot August CPI, providing no solace to those hoping for a cooler report on the Fed's preferred gauge of inflation with market pricing for November unphased by the report and still pricing in a 67% probability of a 75bp hike. Analysts at ING highlight Core PCE is a "broader measure of inflation than the core CPI measure and we suspect it will stay close to these sorts of levels for another month or two". Personal Income rose 0.3% M/M, in line with expectations and matching the prior pace. Real consumption rose 0.1%, while the prior was revised lower to -0.1% from +0.2%. Meanwhile adj. consumption rose 0.4%, above the expected 0.2% and acceleration from the prior decline of 0.2%, revised lower from +0.1%. ING write the downward revisions put the monthly profile for consumer spending weaker than what was hoped for and suggest it is not a great story for Q3 GDP and warn some analysts may start to predict a third consecutive quarter of contraction. However, the desk thinks "we will avoid it given a strong contribution from trade, business capex and inventory building, but with residential investment set to be a big drag and consumer spending seemingly flagging it isn't looking to be as strong as we would have liked". Looking ahead, ING note we are left with a slowing growth trajectory and lingering inflation which will lead to more rate hikes and more economic pain.

UOM: Final UoM Sentiment for September was revised lower led by a decline in the expectations component, the headline was amended to 58.6 (exp. 59.5, prev. 59.5), while expectations were lowered to 58.0 (prev. 59.9). Meanwhile, the conditions were revised higher to 59.7 from 58.9. The inflation metrics diverged with 1yr consumer inflation expectations edging higher to 4.7% (prev. 4.6%), although the longer term 5yr slightly fell to 2.7% (prev. 2.8%). Delving into the release, Oxford Economics note, the downward revision to September's prelim reading, though continuing the rebound since a record low of 50 set in June, highlights consumer's precarious position. OxEco adds, “embattled by still-high prices and growing uncertainty over the economic outlook, consumers remain historically pessimistic, and any steps forward are likely to be followed by two steps backwards.” Looking ahead, Oxford add “with a recession around the corner in H1 2023, we expect sentiment to remain depressed in the months to come.”

CHICAGO PMI: Chicago PMI was abysmal, highlighted by the fact it printed 45.7, way beneath the prior 52.2 and the expected 51.8. Further illustrating the poor report, the surprise fall takes the index to its lowest point since June 2020, but Pantheon Macroeconomics note “it is impossible to square with either the recent performance of China’s Caixin manufacturing PMI or the path of orders for Boeing aircraft, both of which influence the Chicago PMI.” As such, Pantheon expects a rebound in October, but the more immediate impact of this report is to push down Pantheon’s forecast for Monday’s ISM manufacturing index. The consultancy adds, “Chicago PMI and the ISM do not always move together month-to-month, but this is a big drop and we can’t ignore it.”

FIXED INCOME

T-NOTE FUTURES (Z2) SETTLED 12 + TICKS LOWER AT 112-02

Treasury's tumbled ahead of the settlement to settle at lows with the curve steeper after hot PCE data and more hawkish Fed speak, although some brief support was seen after a very weak Chicago PMI and revision lower to the UoM headline and mixed inflation expectations. 2s +4.7bps at 4.217%, 3s +6.0bps at 4.248%, 5s +7.8bps at 4.057%, 7s +7.7bps at 3.960%, 10s +7.2bps at 3.819%, 20s +8.1bps at 4.080%, 30s +7.8bps at 3.771%.

THE DAY: Treasuries were more or less flat throughout the NY afternoon on Friday with a slightly steeper bias after the August PCE data also came in hotter than expected, in fitting with the CPI report a few weeks ago, which saw the longer-end bid from overnight unwind. The latest Chicago PMI data provided some initial support, particularly in the front end, after it came in weaker than all analyst expectations with eyes turning to the national ISM report next week, as well as the September jobs report. Note, the final UoM survey was revised lower due to a revision lower in expectations while the shorter-end inflation expectations saw a marginal revision higher but the longer-dated expectations saw a slight revision lower. Treasuries meandered throughout the afternoon although selling picked up heading into the settlement potentially related to the final month-end flows to settle around lows. There was plenty of Fed speak too, Brainard was

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hawkish talking about her commitment to avoiding pulling back prematurely and that policy will need to be restrictive for some time. Both Daly and Barkin took a data-dependent approach, but both acknowledged the threat of inflation and the latter said the risk of inflation festering feels bigger than that of the Fed doing too much.

STIRS:

- EDZ2 -0.5bps at 95.310, H3 +0.0bps at 95.300, M3 -0.5bps at 95.335, U3 -3.0bps at 95.415, Z3 -4.0bps at 95.505, H4 -5.5bps at 95.665, M4 -7.5bps at 95.820, U4 -8.0bps at 95.940, Z4 -8.5bps at 96.045, Z5 -10.0bps at 96.180.
- NY Fed RRP op. demand USD 2.426bln (prev. 2.372tln), a new record, across 108 bidders (prev. 103).

CRUDE

WTI (X2) SETTLED USD 1.74 LOWER AT 79.49/BBL; BRENT (X2) SETTLED USD 0.53 LOWER AT 87.96/BBL

The crude complex was choppy to end the week, but eventually settled lower, as throughout the NY session oil gradually declined to hit lows of USD 79.14/bbl and 85/bbl in WTI and Brent, respectively. Regarding the day, oil-specific newsflow focussed on OPEC+ sources ahead of next week's meeting while price action tracked the downbeat risk tone and a strong dollar. Elsewhere, EU Ministers have called for extra EU measures to deal with the energy crisis, according to Czech Infrastructure Minister. Although, there remain serious concerns among countries regarding the Commission's response to calls for further proposals. Looking ahead, market participants will be awaiting the OPEC+ meeting next week which takes place on October 5th, details on sources below.

OPEC: OPEC+ oil producers are reportedly mulling lowering their output target to a possible reduction of 0.5-1mln BDP, according to Reuters sources. However, sources caveated the final decision will be clear after the weekend. Separately, according to a Reuters survey, OPEC September oil output rose 210k BPD from August, led by Libya, Saudi Arabia and Nigeria; quota-bound members missed targets by 1.32mln BPD.

FORECASTS: A Reuters oil poll sees Brent 2022 at USD 100.45/bbl (prev. 103.93), and 2023 at 93.70/bbl (prev. 96.67). On WTI, sees 2022 at 95.73/bbl (prev. 99.91), and 2023 at 88.70/bbl (prev. 92.48).

BAKER HUGHES: Oil rig count +2 to 604, Nat Gas -1 to 159, Total +1 to 765.

EQUITIES

CLOSES: SPX -1.42% at 3,588, NDX -1.73% at 10,971, DJIA -1.71% at 28,725, RUT -0.45% at 1,664.

SECTORS: Utilities -1.97%, Technology -1.94%, Consumer Discretionary -1.83%, Consumer Staples -1.79%, Communication Services -1.66%, Health -1.4%, Industrials -1.31%, Financials -1.1%, Energy -0.9%, Materials -0.35%, Real Estate +0.99%.

EUROPEAN CLOSES: EURO STOXX 50 +1.19% at 3,318, FTSE 100 +0.18% at 6,893, DAX 40 +1.16% at 12,114, CAC 40 +1.51% at 5,762, FTSE MIB +1.45% at 20,648, IBEX 35 +0.91% at 7,366, SMI +1.39% at 10,267.

STOCK SPECIFICS: **Nike (NKE)** slumped amid growth margin pressures. NKE beat on EPS and revenue but noted growth margins would remain under pressure through the year amid discounts and a stronger Dollar. As such, NKE guided gross margin down 200bps-250bps Y/Y, against guidance down more than 100 bps. **Micron (MU)** missed on EPS and significantly cut the next Q outlook for profit, revenue, and gross margins. In commentary, MU said it is responding to the weak environment by decreasing supply growth through significant cuts to FY23 CapEx. Results were impacted by rapidly weakening consumer demand and significant customer inventory adjustments across all end markets. **JPMorgan (JPM)** is to hire 2,000 engineers through the end of the year despite a worsening economy. The US FAA informed **Boeing (BA)** it has not completed key work needed in order to certify the 737 MAX 7 by December, according to a letter seen by Reuters. **Rent-A-Center (RCII)** cut its Q3 EPS and revenue view; said current economic conditions have impacted retail traffic and customer payment patterns. **Carnival (CCL)** reported a deeper loss per share than expected and clearly missed on revenue; and forecasts a Q4 loss. **Microsoft (MSFT)** seeks formal EU approval for the **Activision (ATVI)** deal, according to Bloomberg. **Tesla (TSLA)** plans to build 1.6mln Model Y and Model 3's globally in Q3 2023; plans to produce 495k Model Y, Model 3's globally in Q4, sharply higher than Q3, according to Reuters sources. Bloomberg reported the "Super Agent" Ari Emanuel is said to seek an Elon Musk and **Twitter (TWTR)** settlement; however, CNBC's Faber noted serious settlement talks are not underway.

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WEEKLY FX WRAP

Intervention and Sterling resurrection knocks Dollar off fresh peaks

USD/GBP - It seems almost incredulous to say that the run in to month, Q3 and Japan's H1 financial year end was even more eventful than last week or the ones that preceded it, but the Pound suffered a dizzying fall of flash crash proportions, Gilts caved in to the point of tipping the UK into full blown debt crisis and inflation data continued to thwart hopes of a peak in price pressures. Add to all that the ongoing European energy crisis, compounded by alleged attacks on the Nord Stream pipeline, plus rising tensions between Russia and Ukraine, not to mention other areas of geopolitical conflict or contention, and one can see the enormity of what went on. In major currency circles, the spotlight was trained mainly on Sterling as it succumbed to further fallout from the mini budget after the Chancellor touted additional tax cuts, with Cable collapsing to around 1.0350 and the Eur/Gbp cross soaring to circa 0.9230 before a gradual recovery that gathered momentum when EU participants returned to their desks for the start of business and the trading day on Monday. Subsequently, the BoE issued a statement of intent to monitor developments very closely given the significant repricing of assets, and Chief Economist Pill provided more assurance on Tuesday, but the Pound's revival really picked up pace when the Bank physically intervened to prevent dysfunction turning into total failure by launching a temporary or rather emergency Gilt buy-back scheme, while postponing plans to kick-off QT from next Monday to the end of October. Meanwhile, the BoE also underscored the other key message from Pill's damage limitation speech, that it aims to assess the whole situation and respond accordingly at the November MPC policy meeting rather than raising rates immediately in knee-jerk or rash fashion. Interim tightening bets were duly rolled over in anticipation of a significant hike at the next scheduled gathering, and probably exacerbated by the fact that the Bank opted to stick to 50 bp this month and most in the market were wagering on 75 bp. However, Sterling was grateful for the much needed bond back-stop and Cable proceeded to pick off more gaps on the way back up to 1.1235, at best, while Eur/Gbp reversed to just over 0.8750 before basing and awaiting next week's draft OBR forecasts for an official, independent assessment of Kwarteng's fiscal plan that has been back several times by PM Truss. In contrast to the rebounding Pound, the Buck's bull run stopped and petered out irrespective of supportive factors, like Fed officials maintaining a hawkish line in terms of guidance. US data did not really help the Greenback on balance, as highlights such as firmer than forecast core PCE prices, a sub-200k weekly jobless claims print, much more upbeat than expected consumer confidence and above consensus durable goods were offset by disappointing surveys, including the Chicago PMI and final UoM findings to a lesser extent. The DXY peaked at 114.780 earlier in the week and troughed at 111.560 on Friday and somehow seems destined to close out lower than it started around 112.000 compared to a fraction above 113.000.

NZD/AUD - Although risk sentiment broadly improved once the BoE took steps to shore up Gilts and UK assets in general, the Kiwi and Aussie both remained depressed alongside commodities on growing global growth/recession concerns, not least in China. Moreover, Nzd/Usd and Aud/Usd were undermined by the strong prospect of RNBZ/RBA-Fed rate divergence if the Antipodean Central Banks slow the pace of tightening beyond the latest 50 bp moves tipped for next week's October meetings. Note also, the Aussie in particular fell in sympathy with the Yuan until Chinese intervention turned the tide around, with Aud/Usd towards the middle of its 0.6364–0.6537 weekly band and Nzd/Usd also pretty equidistant between 0.5566-0.5759 parameters.

CHF/CAD/JPY/EUR - Risk, rates and their US peer's performance in relation largely aversion and rampant yields were primary drivers for the Franc, Loonie Yen and Euro, but Usd/Chf was attentive to moves in Eur/Chf as well post-Italian election and amidst BTP underperformance. The SNB repeated that it is ready to curb excessive strength or weakness as a reminder, while Usd/Jpy was ever conscious that the MoF/BoJ could switch from jawboning to another decisive round of selling and the Yen also saw bouts of repatriation demand. Elsewhere, Usd/Cad kept a close eye on WTI that was extremely whippy and Eur/Usd ultimately piggy-backed Cable following volatility in tandem with EGB/UST spread fluctuations and ECB speakers sparring with Fed counterparts on the subject of further rate normalisation. The Franc firmed up within 0.9966-0.9740 extremes, the Loonie pared back from 1.3832 having been near 1.3560, the Yen spent the bulk of the week inside 144.00-145.00, after a Sterling slump-inspired spike to 143.28 on Monday, and the Euro probed 0.9850 from a sub-0.9550 low.

SCANDI/EM - The Nok markedly underperformed the Sek as already bearish seasonal dynamics were made even worse by the security threat to Norwegian oil sites that forced Equinor to raise its state of readiness to emergency level, while the Huf plumbed record lows despite the NBH's best efforts to sign off the hiking cycle with a flourish via a 125 bp increase, as Hungary's feud with the EU and energy supply issues continued to weigh heavily. The Try was undermined by Turkish fundamentals plus geopolitics and President Erdogan 'urging' the CBRT to ease again, but the Zar recouped some declines as Gold rebounded sharply from the low Usd 1600/oz zone towards 21 DMA/200 WMA aligning resistance around Usd 1680, the Mxn was boosted by Banxico's 75 bp hike and the Cnh/Cny by the aforementioned Chinese intervention. To recap, the PBoC warned speculators not to bank on placing one-way bets against the Renminbi, state banks were told to stock up for Yuan intervention and then the country's FX regulator reportedly requested that banks trade spot closer to daily midpoint onshore fixings (that have been well below the mark in terms of the Usd/Cny reference rate).

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