US Market Wrap

4th October 2022: Stocks and bonds continue ascent with cracks in US data testing Fed resolve

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down
- **REAR VIEW**: JOLTS tumble, Daly acknowledges impact of US policy on other economies, warns of over tightening; OPEC+ production cut to be 1-2mln BPD; Musk and Twitter deal to go through on original terms
- **COMING UP**: **Data**: EZ, UK & US Final PMIs, US ISM Services, ADP. **Events**: RBNZ Policy Announcement, OPEC. **Speakers**: Fed's Bostic, UK PM Truss. **Supply**: UK & Germany.

MARKET WRAP

The rally at the start of October continued with stocks ascending across the board, led by small caps, but all major indices saw gains greater than 2.5%. The E-mini capped out at 3,800 but failed and failed to sustain a break above (we did cross the level after the cash equity close), while analysts also noted momentum indicators were heavily oversold in September, helping to generate the bounce in October so far. There is still speculative chatter surrounding a potential Fed pivot given ongoing financial stability concerns, while economic data has been weakening (as the Fed hopes), with August JOLTs beneath expectations, heavily cooling from the prior, helping to support the case for a Fed slowdown, providing that other data (read: inflation) similarly falls meaningfully lower. Fed 2024 voter Daly acknowledged the impact of Fed policy on other economies, stating that officials had to take it into account to ensure that they do not overtighten, but she caveated that the central bank’s mandate is based on the domestic economy. The risk-on tone saw the Dollar tumble, with DXY testing 110.00 at the lows, levels not seen since the September Fed meeting, while Treasuries added to their bid after the weak data and the Fed pivot chatter. Crude prices also surged, in fitting with risk and the Dollar, but also ahead of the OPEC+ meeting tomorrow where expectations have risen dramatically and we are now expecting a OPEC+ production cut of c. 1-2mln BPD, up from c. 500k-1mln BPD at the end of last week. FT also reported the production cuts will be from current production levels, not from the quota's which many producers do not meet - emphasising the impact of the production cut. The Musk-Twitter (TWTR) saga also appears to be approaching an end, with the former filing to purchase twitter on the original terms, providing the trial is adjourned. Attention lies on the remaining jobs data throughout the rest of the week, particularly the NFP report on Friday as well as Fed speak to gauge Fed expectations on this potential Fed pivot while energy traders will be eyeing the next OPEC+ meeting on Wednesday.

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JOLTS: US JOLTS printed 10.053mln in August, against the expected 10.775mln and the prior (revised lower) 11.17 mln, with job openings taking a significant step lower to the lowest level since June 2021, and as such pushed the job openings rate down to 6.2%. Nonetheless, in signs that the market remains relatively tight, layoff rates held steady at historically low levels and quit rates increased from already elevated levels. Oxford Economics said that “the ratio of unemployed per job opening (which Fed officials pay close attention to) fell 0.3ppts to 1.7%, the lowest level since November 2021. At the same time, the number of quits lifted, reaching 4.2mln after four months of decline,” adding that “while labour demand may be slowing, workers clearly believe that there is plenty of slack left in the market.” At the September FOMC meeting, Fed Chair Powell was committed to raise rates to a “meaningfully restrictive stance” to cool the labour market and bring supply and demand into balance. On this, the report today highlights the Fed is on the right path toward taming the still-hot labour market. Looking ahead, OxEco adds “with another 125bps of rate increases expected before year end, and a softening economic backdrop, we expect further moderation in the labor market in Q4 before a recession in H1 2023 brings about a more marked change.”

FED: **Daly (2024 voter)** Said the Fed has to understand the impact of rising rates and dollar strength on global financial conditions, adding that the central bank must take that into account so it does not overtighten policy – perhaps a nod to the impact of the Fed at times of financial stability concerns, although she did caveat that the Fed's mandate requires focus on domestic economy. Note: Vice-Chair Brainard (voter) last week specifically suggested the monetary policy spill overs between tightly linked advanced economies could be half the size of their own-country effect on local currency bond yields. Barkin (2024) has also cautioned of the potential spill over effect of a stronger Dollar. At the same time, Brainard affirmed her commitment to avoiding a premature pullback, while Barkin stressed the risk of inflation festering is greater than the risk of the Fed doing too much. So it appears the Fed are acknowledging the risks of Fed policy, but reaffirming their commitment to bring inflation down at the same time. **Governor Jefferson (voter)** toes the Fed line and reaffirmed the Fed is resolute in bringing inflation back to 2% target and is committed to taking further steps if necessary and elevated inflation is what concerns him the most and he is to keep an eye on food and housing prices to see how that impact future inflation.

FIXED INCOME

Treasuries continued their ascent, particularly the belly with ongoing chatter of a Fed pivot, constructive risk tone and signs of a cooling labour market. 2s -0.2bps at 4.103%, 3s -1.6bps at 4.097%, 5s -3.4bps at 3.849%, 7s -3.3 bps at 3.742%, 10s -2.4bps at 3.627%, 20s -2.3bps at 3.970%, 30s -1.2bps at 3.695%.

THE DAY: Yields along the Treasury curve were at lows as US players arrived amid a constructive tone for risk assets, with global equities rallying, bond yields falling, and energy prices picking up. The firm tone of risk trading was being framed as a continuation of the action seen at the start of the week, while others noted that market expectations of where the Fed's terminal rate will eventually be have narrowed in recent days, with the market now pricing terminal is somewhere between 4.25-4.50% in Q1 2023 (last week, that pricing was generally implying hikes to 4.50-4.75%). The 'easier Fed' argument appears to be premised on the notion that the Fed might be more willing to halt its aggressive hawkishness to tame inflation if financial stability risks sufficiently threaten the global economy, while recent commentary from independent institutions (like some on the UN and IMF) have also warned of the global dangers of the Fed hiking too aggressively, which is being seen by some as a plea to the Fed to 'go easy' if it can. However, in recent commentary, Fed officials appear to be unrelenting in their approach to lift rates and manage inflation, even if that meant the economy tilted into a recession - although Fed officials have acknowledged the concerns, with Daly noting we have to understand the impact of rising rates and dollar strength has on global financial conditions, and they have to take that into account so the Fed does not end up overtightening policy. She did however caveat the Fed's mandate focuses on the domestic economy, however. Next week's CPI data (due 13/Oct) might be more influential in determining how much scope that the Fed has to ease off the brakes, should it choose. Tuesday's JOLTs data for August came in below consensus, adding to the narrative that the labour market was cooling, which the Fed will welcome; analysts will be closely watching the ADP data on Wednesday, weekly claims data on Thursday and the key nonfarm payrolls report on Friday for signs of labour market weakness; the Fed's hiking trajectory has largely been premised on a solid labour market, where joblessness is seen picking up to 4.4% this year (from the current 3.7%).

STIRS

- EDZ2 +0.0bps at 95.305, H3 -2.5bps at 95.295, M3 -1.0bps at 95.375, U3 +1.5bps at 95.520, Z3 +5.0bps at 95.670, H4 +7.5bps at 95.875, M4 +8.5bps at 96.055, U4 +9.0bps at 96.180, Z4 +9.0bps at 96.285, Z5 +11.5bps at 96.485.
- NY Fed RRP op. demand USD 2.237tln (prev. 2.253tln), across 105 bidders (prev. 102)
- US sold USD 38bln in 1yr bills at 3.955%, B/C 2.68x.

CRUDE

BRENT (Z2) SETTLED USD 2.94 HIGHER AT 91.80/BBL; WTI (X2) SETTLED USD 2.89 HIGHER AT 86.52/BBL; WTI (Z2) SETTLED USD 2.80 HIGHER AT 85.50/BBL

The oil complex rallied amid a constructive tone for risk assets on Tuesday, where equities rallied, the USD fell, and commodities gained. Crude was further underpinned by reports suggesting that OPEC and its partners could lower output by as much as 2mln BPD, above the range of expectations the market had coming into this week.

OPEC: Oil contracts rallied on expectations that OPEC+ will tighten supply further by announcing an output cut after its policy meetings on Wednesday. Heading into this week, the expectation was that the group would lower output by between 0.5-1mln BPD, although reporting on Monday suggested that the eventual size of the cut could exceed that range, while reports today suggested that a cut of 2mln was in consideration, or more according to the FT. Our OPEC primer can be accessed here.

OIL PRICES: Meanwhile, at an industry event, energy trader Trafigura said it sees plenty of scenarios where oil prices could end next year at USD 100/bbl, a theme echoed by Gunvor's CEO, who expects Brent will average USD 100 next year too; Vitol's CEO is beneath that range, however, and expects crude to trade around USD 85 next year. At the conference, industry players were noting that oil consumption remained resilient, and the world was facing supply constraints. Aramco's CEO said the market was disregarding the reality that global spare capacity to raise production was thin. Elsewhere, Citi Research updated its projections on oil, sees Brent averaging USD 75/bbl in 2022.

EQUITIES

CLOSES: SPX +3.06% at 3,790, NDX +3.14% at 11,583, DJIA +2.80% at 30,316, RUT +3.91% at 1,775.

SECTORS: Energy +4.34%, Financials +3.79%, Consumer Discretionary +3.56%, Materials +3.54%, Industrials +3.49%, Technology +3.3%, Communication Svs. +2.72%, Health Care +2.33%, Utilities +2.15%, Real Estate +1.62%, Consumer Staples 1.53%.

EUROPEAN CLOSES: Euro Stoxx 50 +4.22% at 3,483; FTSE 100 +2.57% at 7,086; DAX +3.76% at 12,668; CAC 40 +4.24% at 6,040; IBEX 35 +3.12% at 7,695; FTSE MIB +3.19% at 23,531; SMI +2.68% at 10,566

STOCK SPECIFICS: Elon Musk confirmed reports that both parties intend to proceed to close the **Twitter (TWTR)** deal on original terms, providing the trial is adjourned. **Boeing (BA)** reportedly does not expect approval for 737 MAX 10 before summer 2023, according to a letter from the FAA to Congress. **Apple's (AAPL)** exports of India-made iPhones surpassed USD 1bln in a five-month period, according to ET Now. **Micron (MU)** plans to spend up to USD 100bln over the next two decades or more to build a huge computer chip factor complex in upstate New York, NY Times reported. **Foxconn (FXCOF)** reported September sales +40.4% Y/Y with Q3 revenue better than expected; maintains FY22 guidance issued in August, adding that the Q4 outlook was cautiously positive. **Poshmark (POSH)** is to be acquired by Naver at USD 17.90/shr or USD 1.2bln enterprise value. **Rivian (RIVN)** delivered 6,584 vehicles in Q3, and said that the figures were in line with its expectations, and it believes it is still on track to deliver on its 25k annual production guidance. **Samsung Electronics (SSNLF)** plans to more than triple its production of advanced semiconductors by 2027, including 1.4-nanometer chips, Nikkei said. **Gilead Sciences (GILD)** was upgraded at JPMorgan, which said shares were undervalued. **Domino's Pizza (DPZ)** was upgraded at UBS, which said that concerns of slowing demand for pizza were overblown. **Hasbro (HAS)** cuts FY22 revenue forecast; now sees 'flat-to-slightly-down' (prev. 'mid-single digits'). Baring Private Equity Asia reportedly made an approach for **DXC Technologies (DXC)**, talks are ongoing, according to Bloomberg citing sources.

FX WRAP

Dollar downside continues after weaker data, and market pricing more dovish than the Fed's latest projections

The Dollar sold off on Tuesday, seeing the DXY fall from a high of 111.89 to a low of 110.100, back to levels not seen since mid-September. The weight on the dollar has been due to the optimistic risk tone, as stocks rallied after the decimation in September, and with market pricing now more dovish than the Fed's projections, alongside disappointing data. Today's economic releases saw factory orders in line with expectations, flat M/M after the prior 1% decline, while JOLTS data for August was beneath expectations; the NFP report due Friday will help give a broader understanding of the labour market trends; any further cooling could add to the argument that the Fed does not need to be so aggressive, but of course inflation would have to cool as well (CPI due October 13th). Fed's Daly noted the central bank has to understand the impact that rising rates and dollar strength has on global financial conditions, and that must be taken it into account so the Fed does not overtighten policy, but she did stress their mandate requires focus on the domestic economy.

The Euro benefited greatly from the slide in the Dollar, helping EURUSD come close to parity once again vs lows of 0.9807. Commentary from the ECB's Villeroy was also supportive; the central banker said interest rates will be raised as much as necessary to lower core inflation, and called for rates to go to neutral by year-end without hesitation. Meanwhile, President Lagarde reiterated her view that inflation was undesirably high, and it is difficult to say whether or not it had peaked. Some short covering may also have been in play which emboldened the move higher in the Euro, as was the positive risk tone to see the single-currency outperform peers.

The Yen firmed against the buck albeit remained near intervention levels; USD/JPY saw a high of 144.95, albeit the pair now resides closer to 144.00 thanks to the weakness in the buck and the bid into fixed income helping push US rates lower. **CHF** saw solid gains vs the Greenback, similar to the Euro. **Gold prices** added to the bid to see the precious metal reclaim USD 1,700/oz to a high just shy of USD 1,730/oz, supported by the lower greenback and the move lower in yields.

The Aussie was weaker despite the downbeat risk tone and softer USD, although the weakness stemmed from the RBA overnight who surprised with a smaller than expected hike of 25bps (consensus was looking for 50bps), but the board reaffirmed its commitment to returning inflation to its 2-3% target over time, and still expects further hikes ahead. The central bank said that the 25bps hike would help achieve its goals, while the size of future moves will be data dependent.

AUD/USD hit a low of 0.6452 from highs of 0.6547, with some of the dovish blow offset by a weaker buck. The decision also weighed on NZD/USD ahead of the RBNZ tonight, which is expected to hike by 50bps to 3.50% (our full preview is available here. AUD/NZD saw weakness after the RBA rate decision, after a decline to 1.1309 at the lows.

GBP continues its recovery rally, seeing highs of 1.1489 today vs lows of 1.1282, with the rally initially supported on the hope that the UK Government would bring forward its medium-term fiscal plan to the end of the month, giving the BoE an opportunity to factor the details into its decision making when it meets on November 3rd; however, the Chancellor denied these reports, and it is still set to be released on November 23rd. The latest BoE buyback operation accepted zero offers today with the central bank reportedly now asking for the identity of sellers, which ING suggests means that the Old Lady wants to keep the operation targeted to pension funds - and the zero acceptance today perhaps shows that pension funds aren't doing as bad as feared - easing some of the financial stability concerns in the UK.

The CAD also performed well on Tuesday due to its cyclical nature, while the rally in crude markets and weaker greenback only added strength to the Looney. CAD watchers will be eyeing the OPEC+ meeting on Wednesday to gauge the reaction to oil prices with the latest source reports implying a 1-2mln BPD production cut from current production levels (not quotas) and potentially even over 2mln barrels. Meanwhile, domestically, the Canadian jobs report is due on Friday to see if it marks a fourth consecutive month of job losses.

EMFX was mixed. BRL was flat vs the weaker Dollar after the surge on Monday, in wake of the first round of election results while it now appears as if the other candidates, Gomes and Tebet are to support Lula in the election, helping his chance of victory with the two receiving a combined 7% of votes, which would have taken Lula's vote above the 50% threshold. MXN saw marginal gains vs the buck but ZAR was an outperformer on the rise in gold prices despite escalated loadshedding from Eskom.