US Market Wrap

6th October 2022: Dollar bid while Stocks and Treasuries sold ahead of pivotal NFP

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Weak jobs data; Hawkish Fed as Kashkari notes a pause is "a ways away"; Cook acknowledges the risks abroad whilst towing the usual Fed line; BoC's Macklem says more rate hikes will be needed & more to be done on inflation; Musk willing to close TWTR deal at USD 54.20/shr; PTON to cut 500 jobs; Biden marijuana pardon sends weed stocks flying.
- **COMING UP**: **Data**: German Retail Sales, Import Prices, US and Canadian Jobs Reports **Speakers**: BoE's Ramsden; Fed's Williams, Bostic, Kashkari **Holiday**: China.

MARKET WRAP

Stocks and Bonds were sold on Thursday ahead of NFP on Friday with the hawkish rhetoric from the Fed, albeit familiar themes, as higher yields and higher Dollar weighed on the equity complex. The weak jobs data (above consensus layoffs and claims) failed to spark a sustained reaction with the NFP approaching to help gauge a better understanding of the current labour market and to garner how it may affect the Fed's decision-making, with a particular eye on the wages component. Fed speak on Thursday leaned hawkish with Kashkari noting a pause is "a ways away" and it is a very high bar for the Fed to change its stance repeating the focus is on inflation, something Governor Cook also shared but she did also acknowledge the risks abroad. The NFP on Friday will be key on gauging Fed's reaction function as well as the following Fed commentary, but attention will then turn to inflation data next Thursday, as well as the FOMC Minutes next Wednesday. The Dollar surged higher with DXY rising from 110.78 to highs of 112.31 supported by the risk-off tone and higher yields and amid economic concerns in the UK and EU while Yen rose above 145 to test the Japan MOF, albeit there has been no talk of fresh intervention yet. Treasuries bear flattened on Fed speak and fresh supply while crude prices offset the Dollar strength continuing the post-OPEC surge to the disgust of US officials. Marijuana names surged after President Biden announced a pardon to prior federal offenses of simple marijuana possession and asked officials to review how marijuana is scheduled under federal law, which will help towards improving regulatory concerns.

FED

Kashkari (2023 voter) said more work is to be done on inflation and he hopes it can be brought down without resulting in a recession. He is not comfortable saying we are going to pause until we see evidence that underlying inflation is cooling and he noted the Fed is a ways away from a pause. Kashkari also said the bar to shifting policy is very high and is seeing almost no evidence that inflation has peaked but he does acknowledge the risks of overshooting.

Governor Cook spoke for the first time since becoming governor, where she towed the Fed line that restoring price stability will require ongoing rate hikes and then restrictive policy for some time; calling for restrictive policy until the Fed is confident inflation is firmly on the path to 2%. She noted she fully supports the front-loading of policy over the last three FOMC meetings as it puts restraint in place more quickly and may rein in inflation expectations. She noted at some point it will be appropriate to slow the pace of rate hikes to assess the effects of tightening and she is willing to alter the course as data evolves. Cook added the Fed is very attuned to foreign developments including monetary policy abroad, noting financial market spillovers are a two-way street, and there is substantial uncertainty about the size.

Evans (departing) said the Fed is heading to 4.5-4.75% likely by spring time but they will learn the peak rate of FFR as it sees the economy evolve. Evans said the Fed needs a more restrictive setting of policy because inflation is high and they have to go further than where they are now. Evans said they have to look at the momentum of core inflation, and that is what the Fed is most nervous about. Evans noted the discussion at the next meeting will be for either a 50 or 75bps hike and the Fed is looking for 125bps of hikes over the next two meetings, as implied by the dot plots.

GLOBAL

ECB MINUTES REVIEW: The account of the ECB's September meeting provided little in the way of fresh insight into thinking at the Bank, but did provide some colour on the debate between policymakers at the time. In terms of the economic view of the Governing Council, members broadly agreed with the assessment of the current situation presented by Chief Economist Lane. More specifically, it was judged that inflation expectations were still anchored and wage growth remained moderate with little evidence of second-round effects. Additionally, it was argued that growth concerns should not prevent forceful rate hikes as inflationary pressures were seen as unlikely to abate on their own. In terms of the decision itself, a 75bp increase was judged to be a proportionate response to the further upward revisions to the inflation outlook. At the more dovish end of the spectrum, while a 25bp increase was seen as clearly insufficient to address the current inflation outlook, some argued that a 50bp hike would be large enough to signal determination in proceeding with the interest rate normalisation. In the end, the 75bps camp won the debate, arguing that even with such a move, policy would still remain expansionary. Looking further ahead, the size of the upward revision in the staff inflation projection for 2024 was not seen as sufficiently large as to require a more aggressive response, since it was uncertain how much inflation was likely to dampen domestic demand. Finally, on the EUR, it was noted that without a timely reduction in monetary policy accommodation, inflationary pressures resulting from a depreciation of the Euro might increase further, while lower exchange rates provided limited support to economic activity in an environment of continued global supply bottlenecks and shortages.

NFP PREVIEW: The headline rate of payrolls growth is expected to resume cooling in September, with the consensus looking for 250k payroll additions (vs 315k in August); the jobless rate is seen unchanged at 3.7%, and there will also be focus on the participation rate after a welcome rise in August. Wage growth is expected to continue, although the annual rate is expected to cool a touch. Traders will be framing the data in the context of Fed policy; there are building hopes that the central bank might relent on some of its hawkishness if its policy tightening gives rise to financial stability concerns as it moves policy further into restrictive territory – these concerns could be exacerbated by soft economic data, as seen this week after the release of the Manufacturing ISM and JOLTs data, which fuelled bets that the Fed would not be as aggressive with rate hikes ahead. To download the full Newsquawk preview, please click here.

US JOBLESS CLAIMS: Initial jobless claims rose to 219k, above the expected 203k and the prior, revised marginally lower, 190k, but it is important to note it does not feed into the survey period for Friday's NFP print. Continued claims rose to 1.361mln, above the consensus 1.345mln and prior 1.346mln. On the headline, it was an end to the 10-week streak of below-consensus prints, and Pantheon Macroeconomics note, "the downward trend in claims probably is now over, given the massive tightening in financial conditions. But a rapid increase seems unlikely, because so many firms still report great difficulty in finding and keeping staff, so the bar for letting people go probably is much higher than usual." Looking ahead, Pantheon adds "unfavorable seasonals suggest claims will jump again next week, perhaps hitting 230K for the first time since late August, but we think the underlying trend probably is around 220K." However, that still remains very low as a share of the labour force, but note that such low layoffs have been accompanied by slowing payroll growth this year because the pace of gross hiring has slowed. As such, the consultancy declares "this will remain the key driver of variations in payroll growth for the next few months, at least."

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 19 TICKS LOWER AT 111-30

The curve bear flattened after hawkish Fed commentary and supply despite weak labour market data ahead of Friday's pivotal NFP. At settlement, 2s +9.7bps at 4.248%, 3s +9.0bps at 4.253%, 5s +9.8bps at 4.057%, 7s +8.7bps at 3.958%, 10s +6.3bps at 3.822%, 20s +2.3bps at 4.088%, 30s +2.7bps at 3.792%. Inflation Breakevens: 5yr BEI +3.4bps at 2.350%, 10yr BEI +0.5bps at 2.229%, 30yr BEI -0.1bps at 2.101%.

THE DAY: Treasuries bear flattened on Thursday with Treasuries selling in wake of hawkish Fed commentary although there was a short lived minor bid after the higher than expected jobless claims data, adding to the chorus of soft labor market report this week, including the Challenger layoffs on Thursday, JOLTS on Tuesday and the Manufacturing employment ISM on Monday, albeit the services employment and ADP metrics were encouraging. Attention now lies on Friday's NFP. Fed's Kashkari noted a Fed pause is quite a ways a way and the bar for shifting policy is very high while Governor Cook also towed the Fed's hawkish line but she did also acknowledge financial risks abroad. Corporate issuance was also in the pipeline with GM, TD Securities and Enel in the market today with issuance while the latest auction sizes were released with the US to sell USD 40bln in 3yr notes, USD 32bln in 10yr notes and USD 18bln in 30yr bonds next week, all as expected.

STIRS

- EDZ2 -1.5bps at 95.280, H3 -5.5bps at 95.225, M3 -8.5bps at 95.245, U3 -11.0bps at 95.335, Z3 -12.0bps at 95.455, H4 -12.0bps at 95.645, M4 -10.5bps at 95.825, U4 -9.0bps at 95.955, Z4 -7.5bps at 96.065, Z5 -5.5bps at 96.250.
- NY Fed RRP op. demand USD 2.233tln (prev. 2.231tln), across 101 bidders (prev. 102).
- US sold USD 52bln of 1-month bills at 2.920%, B/C 2.75x; Sold USD 47bln in 2-month bills at 3.230%, B/C 2.53x.

CRUDE

WTI (X2) SETTLED USD 0.69 HIGHER AT 88.45/BBL; BRENT (Z2) SETTLED 1.05 HIGHER AT 94.42/BBL

The crude complex was choppy on Thursday in the aftermath of OPEC, albeit in pretty narrow ranges as oil settled firmer just off session highs. Regarding the day, fundamental oil specific newsflow was pretty thin, but there was a fair few updates on gas and power. As such, in Britain the National Grid cautions that Britain could see planned events with customers without power for three-hour blocks, while the situation in Europe could impact British gas and electricity imports. While there was further US rhetoric on OPEC+ and EU gas price proposals (further details below).

OPEC: US President Biden reeled out familiar commentary noting he is disappointed by the OPEC+ decision and is looking at options. Furthermore, White House economic adviser Deese added the production cut decision is disappointing because it is unnecessary and unwarranted; lack of oil supply continues to be significant challenge. Nonetheless, Russian Kremlin declared the decision to cut output was aimed at stabilising the market, and OPEC+ has confirmed credentials as an organisation which is responsible for stability of markets.

EU: Some EU nations (inc. Poland, Greece and Italy) have drafted a new proposal for an EU gas price "corridor", according to a document cited by Reuters. Proposing a "dynamic price corridor" for all wholesale gas transactions. Separately, EU officials note the decision to implement price cap for Russia oil for third countries needs to be discussed more with G7. As such, will require another unanimous decision to approve price-setting mechanism. Cap will have to adapt to market prices, be set below market but at a level Russia would still want to sell.

OSPs: Saudi sets the November Arab Light OSP to Asia at Oman/Dubai +USD 5.85 (Unch.) and to N.W Europe at Ice Brent +USD 0.90/bbl; to the US at ASCI +USD 6.35/bbl. Elsewhere, UAE's ADNOC sets November Murban crude OSP at USD 92.45/bbl

BANK RESEARCH: Goldman Sachs noted that if sustained through to December 2023, cuts made by OPEC+ would lead to USD 25/bbl upside vs. prev. 2023 Brent forecast of USD 107.50/bbl.

EQUITIES

CLOSES: SPX -1.02% at 3,744, NDX -0.76% at 11,485, DJIA -1.15% at 29,926, RUT -0.87% at 1,751.

SECTORS: Utilities -3.3%, Real Estate -3.2%, Consumer Staples -1.46%, Financials -1.45%, Health -1.3%, Industrials -1.09%, Materials -1.02%, Technology -0.85%, Consumer Discretionary -0.71%, Communication Services -0.65%, Energy +1.82%.

EUROPEAN CLOSES: EURO STOXX 50 -0.48% at 3,431, FTSE 100 -0.78% at 6,997, DAX 40 -0.37% at 12,470, CAC 40 -0.82% at 5,936, FTSE MIB -1.04% at 21,139, IBEX 35 -0.91% at 7,511, SMI -0.92% at 10,381.

STOCK SPECIFICS: **Peloton (PTON)** plans to cut about 500 jobs, roughly 12% of its remaining workforce, in the cos. fourth round of layoffs this year. **Amazon (AMZN)** is hiring 150k employees to help deliver a great holiday experience, the same as 2021. Note, **Walmart (WMT)** is only hiring 40k Christmas workers in 2022, far fewer than 2021's 150k, while **Target (TGT)** is hiring 100k workers, the same as the 2021 holiday period. **General Electric (GE)** lays off workers at its onshore wind business which will impact workers in North America, Latin America, the Middle East and Africa, while Co. also lays off 20% of US onshore wind workforce. Elon Musk said he is willing to close the **Twitter (TWTR)** deal at USD 54.20 on October 28th and requests a stay of Twitter litigation, according to a court filing. Separately, representatives of Twitter and Musk continued to talk on Thursday to work out an agreement for Musk purchase to proceed; parties racing to seal a pact by Monday, according to WSJ sources. Vista Equity Partners is exploring a deal to take **Compass (COMP)** private, Business Insider reports. **Pinterest (PINS)** was upgraded at Goldman Sachs who expressed confidence in Pinterest's ability to further monetize its operations and capture more ad dollars. A French court of appeal lowered the EUR 1.1bln antitrust fine against **Apple (AAPL)** to EUR 0.37bln, via Reuters sources. **Alphabet's (GOOG)** Google has unveiled its new series of phones and a watch that undercut the price of Apple. **Medical Properties Trust (MPW)** was subject to a negative call from Bear Cave. US President Biden will take executive action to end US approach to marijuana (**MJ, MSOS, TLRY, CGC**); Biden is to pardon all prior federal offenses of simple marijuana possession.

EARNINGS: **Conagra Brands (CAG)** beat on EPS and revenue, while looking ahead it reaffirmed guidance. Said the strength of our brands and continued execution of the Conagra Way playbook resulted in strong sales and adjusted operating profit during the first quarter. **Constellation Brands (STZ)** surpassed on top and bottom line. FY23 adj. EPS view topped expected. **McCormick & Company (MKC)** missed on EPS and revenue, and noted over the coming months it will be aggressively eliminating supply chain inefficiencies. FY EPS guidance of 2.64-2.69 (exp. 2.84). Reaffirmed FY revenue.

FX WRAP

The Dollar was firmer on Thursday and hit a high of 112.310, seeing a weaker Euro and Pound leaving only the chance of a shock in Friday's NFP to derail the Buck. Regarding the day, US initial jobless claims and rising layoffs failed to deter the Buck’s surge, as Fed officials including Kashkari and Mester continued to push back against the notion that any policy pivot is forthcoming. Meanwhile, Cook spoke for the first time since becoming a Governor and noted restoring price stability will likely require ongoing rate hikes and then restrictive policy for some time. There is a need to keep the restrictive policy until Fed is confident inflation is firmly on the path to 2%. Lastly, desks note the Dollar was also bolstered from rising Treasury yields even as rates on Gilts and Bunds rose faster since it reflects higher European inflation, recession, fiscal and financial market risk premia. On Friday the NFP is the major risk event, and after that the attention shifts to CPI next week.

Activity currencies, NZD, GBP, AUD, and CAD, were all lower and saw losses in excess of a percent against the Buck, with the Kiwi the relative underperformer. Currency specific newsflow was fairly light on Thursday, as the aforementioned currencies were more weighed on by the broader Dollar bid and risk sentiment. However, the Loonie was the relative outperformed among activity currencies in wake of BoC Governor Macklem who said, amongst others, we need further information before we consider moving to a more finely balanced decision-by-decision approach; and more rate hikes will be needed and more is to be done on inflation. Following these remarks, money markets priced in a 60% chance of a 50bps BoC rate hike on October, in contrast to roughly 50% before. Note, USD/CAD hit a high of 1.3755 in contrast to a 1.3565 low. The Pound was hit amidst renewed stress in UK debt and heightened BoE tightening expectations in STIR contracts, with Cable sub-1.1150 from a peak just under 1.1400. Note, on the BoE buyback operation the central bank bought 154.5mln, up from the zero acceptance rates the two prior days. Looking ahead, the main risk event on Friday market participants await is the key NFP report, but do note there is also Canadian jobs, BoE’s Ramsden, and the Australian RBA Financial Stability Review.

Safe-havens, CHF and EUR, were the G10 outperformers, albeit still notably in the red, vs the Greenback amid the Dollar strength, but do note the Yen outperformed its Swissy counterpart. Regarding the Yen, USD/JPY grinded higher throughout the NY session to peak of 145.13, and back above the pivotal 145 mark as it continues to get closer to the MoF intervention level, despite no chatter of this, yet. Meanwhile, the Franc failed to maintain momentum beneath 0.9800 as the USD/CHF hit a low of 0.9782, but recoiled to highs of 0.9914 later in the session.

EUR, akin to its peers, saw weakness amid the renewed Buck bid with EUR/USD falling from a 0.9926 high to a trough of 0.9789. The single currency was hindered by continued woes out of Europe, regarding the ongoing energy crisis and recessionary/inflationary fears, and as such desks note it may take more than a small payrolls disappointment to boost EUR/USD. Moreover, for reference ECB minutes noted inflation was far too high and likely to stay above the Governing Council’s target for an extended period, projected inflation path remained tilted to the upside over the entire projection horizon.

EMFX saw broad declines against the Buck and couldn’t manage to fend off the extended Dollar surge. Although, the MXN bucked the trend and stayed close to 20.0000 in stark contrast to the PLN that underperformed amidst comments from NBP Governor Glaplinski who left the door ajar for further tightening, but described recent Zloty depreciation as no catastrophe.