



US Market Wrap

10th October 2022: Stocks and Bonds off lows as Brainard taunts 'pivot' fiends

- **SNAPSHOT:** Equities down, Treasuries closed, Crude down, Dollar up.
- **REAR VIEW:** Fed's Brainard gives two-way remarks; BoE to end Gilt purchases as planned on Oct. 14th; UK to publish medium-term fiscal plan OBR forecast on Oct. 31st; Conflicting source reports on Germany's position on EU debt for loans to ease energy crisis; RIVN recalls almost all of its cars; JPM's Dimon notes US likely to enter recession in 6--9 months; Fresh US export controls on Chinese chip sector.
- **COMING UP: Data:** Japanese Current Account, UK Jobs, US IBD/TIPP **Speakers:** ECB's Lane, Fed's Harker, Mester, BoE's Bailey, Cunliffe, SNB's Jordan, RBA's Ellis **Events:** Astana Summit **Auctions:** UK, Germany, US.
- **WEEK AHEAD PREVIEW:** Highlights include: FOMC minutes US CPI, G20 finance ministers/central bank heads. To download the report, [please click here](#).
- **CENTRAL BANK WEEKLY:** Previewing FOMC minutes; reviewing RBA, RBNZ, ECB minutes. To download the report, [please click here](#).
- **WEEKLY US EARNINGS ESTIMATES:** [WED] TSM, PEP; [THURS] BLK; [FRI] UNH, PNC, USB, JPM, WFC, MS, C. To download the report, [please click here](#).

MARKET WRAP

Stocks were lower Monday with most of the action coming from Europe in thin US trade amid Columbus Day. However, Fed Speak was something of an olive branch for doves with Vice-Chair Brainard and Chicago President Evans giving two-way remarks, which were interpreted as dovish considering the sensitivity of participants to any signals of a Fed 'pivot'. While departing Evans' comments around an improving labour market didn't garner much attention, Brainard's speech at the NABE later on did, coinciding with a bounce in stocks and Treasury futures into the NY afternoon. Though lower, Treasury futures close off troughs due to a post-Brainard bounce and taking cues from their European counterparts amid conflicting reports on German Chancellor Scholz's warming to joint EU debt issuance to fund energy packages; note US cash bonds trade was closed Monday. The Dollar was bid against major crosses, with attention on the Chinese Yuan as the offshore cross rose above 7.15 amid the US implementing export controls on the Chinese chip sector. Meanwhile, GBP/USD reapproached 1.10 to the downside while UK Gilt yields spiked higher again, which came despite the BoE announcing fresh liquidity measures ahead of the buyback ops ending on Friday.

CENTRAL BANKS

FED: The Vice-Chair Brainard put her focus on slowing growth and monetary lags, in addition to echoing Evans' remarks that there are tentative signs of labour market strains easing. Brainard said the Fed is very aware that unexpected rate or currency moves could interact with financial vulnerabilities, feeding concerns around the state of current bond market liquidity. Brainard did reaffirm that monetary policy will be restrictive for some time, although added that it will take time for cumulative tightening to bring inflation down, which could be interpreted as caution in proceeding at the current tightening pace. Furthermore, she said the real yield curve is now in solidly positive territory at all but the very shortest maturities, and the entire real curve will soon move into positive territory with the additional tightening and deceleration in inflation that are expected over coming quarters. Note some Fed speakers have distinguished recently that they believe in the need for the entire real yield curve to be in positive territory in order to be considered restrictive in the near-term, as opposed to the traditional, longer-term view of restrictive: Fed Funds above the long-term neutral rate estimate (2.5%). Interestingly, Brainard said in her subsequent remarks that easing prematurely is a risk, but at some point, risks could become more two-sided. On inflation, Brainard highlighted that the reversal in goods inflation could suppress the upside in core services, but did warn that strong wage growth and high rental costs mean inflation from core services is expected to ease only slowly. She also added that she assumes there is going to be "stickiness" in housing services inflation.

BOE: The BoE announced it remains on course to end its temporary buy-back auctions at the end of the week and is switching to liquidity support via expanded collateral repos, also for a limited period to help banks with customers that are not entirely hedged against LDI exposure, while the OBR will now publish its medium term fiscal plan just before the next MPC rate meeting, which means a more informed decision, but not necessarily any more supportive in context of funding implications.



FIXED INCOME

T-NOTES (Z2) 13 TICKS LOWER AT 111-02+

Treasury futures saw downside Monday led by European counterparts amid no US cash trade due to the Columbus Day holiday.

THE DAY: T-Notes had seen modest gains through the holiday-thinned APAC session Monday (Japan away), hitting peaks of 111-21+ at the London handover, failing to test 111-24, the pre-NFP level from Friday. Mild selling crept in through the European morning, aided by hawkish ECB rhetoric and an upturn in overall risk sentiment, not to mention continued selling in UK Gilts despite the BoE's latest liquidity measures with Fitch also applying Sterling pressure after deepening its UK recession forecast. The downside across govies picked up more acutely in wake of Bloomberg reports that Germany is mulling walking back on its opposition to joint-EU debt issuance in order to fund energy support packages (pronounced Bund/BTP spread narrowing observed). T-Notes hit lows of 110-22+ before Europe began closing shop, remaining near lows in holiday-thinned US trade until bouncing after late Reuters sources denied the Bloomberg reports on German-approved joint debt issuance, with the contracts going on to reclaim 111-00 in wake of the two-way remarks from Fed's Brainard at NABE.

CRUDE

WTI (X2) SETTLED USD 1.51 LOWER AT 91.13/BBL; BRENT (Z2) SETTLED USD 1.73 LOWER AT 96.19/BBL

Oil prices were choppy Monday in thin trade due to the US Columbus Day holiday. WTI and Brent fluctuated on either side of Friday's settle for most of the session until dipping lower into the close. On the day, the main energy update was from Ukraine, as the Energy Ministry said Ukraine is halting energy exports due to Russian strikes on the energy system. Elsewhere, Hungary has said it will help build a pipeline to transport Russian crude to Serbia in an effort to ensure continued oil supply to Belgrade despite EU sanctions. Meanwhile, market participants still remain cognizant of Ukraine/Russia updates given the recent escalation in the scale of the war.

RUSSIA: Russian offline primary oil refining capacity has been revised higher by 3.2% for October to 2.8mtn tonnes, according to sources and calculations cited by Reuters.

OSPs: Qatar has set November marine crude OSP at Oman/Dubai +USD 4.55/bbl. Land crude set at Oman/Dubai +USD 5.15/bbl.

PRODUCTION: Repsol (REP SM) Q3 production at 549k BPD (exp. 555k BPD, prev. 540BPD Q/Q); Refining margin indicator in Spain of USD 12.70 per barrel (prev. 23.30/bln Q/Q). Elsewhere, Algeria's Sonatrach noted production at gas fields at South of Berkine with Eni (ENI IM) begins with 1mtn cubic metres per day and to reach 2mtn by year-end.

EQUITIES

CLOSES: SPX -0.72% at 3,613, NDX -1.02% at 10,926, DJIA -0.32% at 29,202, RUT -0.59% at 1,689.

SECTORS: Energy -2.06%, Technology -1.56%, Real Estate -1.19%, Health -0.64%, Consumer Discretionary -0.61%, Financials -0.47%, Communication Services -0.46%, Utilities +0.18%, Materials +0.25%, Consumer Staples +0.29%, Industrials +0.33%.

EUROPEAN CLOSES: EURO STOXX 50 -0.55% at 3,356, FTSE 100 -0.45% at 6,959, DAX 40 +0.07% at 12,272, CAC 40 -0.45% at 5,840, FTSE MIB +0.05% at 20,912, IBEX 35 -0.31% at 7,413, SMI -0.57% at 10,250.

STOCK SPECIFICS: Rivian (RIVN) is recalling nearly all of its vehicles to address a potential problem that could cause drivers to lose steering control, according to WSJ. India IT ministry said **Apple (AAPL)** will make AirPods in the country, via CNBC TV18, with the iPhone 14 to be manufactured by December 2022 at Foxconn facility near Chennai. **Amazon (AMZN)** to invest over EUR 1bln to further electrify and decarbonise transportation network across Europe over the next five years. **Tesla (TSLA)** sold 83,135 (+8% M/M) China-made vehicles in September, breaking its record of monthly sales in China, according to Reuters citing a report released by the China Passenger Car Association. **Ford (F)** reported China Q3 sales down 11% Y/Y to 133,000 units, but reflecting an improvement of 12% over Q2 results as "sales momentum strengthened with the further lifting of pandemic-related restrictions". Elsewhere, UBS downgraded Ford and **General Motors (GM)**; noted the auto industry is quickly moving toward vehicle oversupply following three years of unprecedented pricing power. **Kraft Hein (KHC)** was upgraded at Goldman Sachs who said the Co. is one of the few



consumer staples stocks where the prospect of higher profit margins is not yet fully priced into the stock. **PPG (PPG)** cut Q3 22 adj. EPS view and now sees it between 5-7% below the low end of its 1.75-2.00 guidance (exp. 1.83) as soft demand conditions in Europe and China are expected to continue into Q4. The Pentagon noted deliveries can resume for **Lockheed Martin's (LMT)** F-35 jet under a waiver allowing Chinese-origin alloy to go into an engine part. Traders circulated a Street Insider piece saying **Denbury (DEN)** is in talks with as strategic buyer. Elon Musk and **Twitter (TWTR)** reportedly came close to a deal at USD 50/shr but talks broke down as both sides pushed for concessions the other was unwilling to grant, according to Business Insider sources. **Bio-Rad Laboratories (BIO)** reportedly in talks to combine with **Qiagen (QGEN)** in a deal valued in excess of USD 10bln, according to WSJ sources.

FX WRAP

The Dollar was bid on Monday with DXY rising from lows of 112.61 to 113.31. Regarding the day, US cash bond markets were closed on account of Columbus day, and, albeit with thin liquidity, Treasury futures sold off and are indicative of a move higher in yields when they reopen. The risk tone on Monday was sour with stock selling continuing from the tail end of last week after push back from Fed officials on a potential pivot, keeping the dollar supported while further escalation on the Russia-Ukraine war also weighed on sentiment. Back to Fed speak Vice-Chair Brainard spoke later in the session and reiterated monetary policy will be restrictive for some time and it will take time for cumulative tightening to bring inflation down. Additionally, the Vice-Chair added easing prematurely is a risk, but at some point risks could become more two-sided. Looking ahead, attention this week lies on the US CPI on Thursday and FOMC Minutes on Wednesday, our FOMC minutes preview can be found [here](#).

The Euro was weaker with EUR/USD falling beneath 0.9700 despite a move higher in EZ yields, particularly after Bloomberg noted Germany reportedly supports joint EU debt for loans to combat the energy crisis, a u-turn on his prior view. Although, Reuters sources later noted German Government rejects report saying Chancellor Scholz backs joint EU debt for loans to ease energy crisis, "such plans are not known in the government". Moreover, BBG sources added Scholz is reluctant to approve another debt-financed instrument that would include grants while he is also cautious regarding the incoming Italian government. The initial news, and consequent move in Bunds, saw the Euro spike higher. Although, this move was very short lived and EUR/USD continued lower, perhaps on the concerns of an over-indebted economy with high recession risk as evident in a sub-forecast and deeper negative Sentix index this morning, all while fears of restricted energy supplies grow.

GBP saw further downside against the buck and was flat against the Euro while Cable managed to keep hold of 1.10. The BoE affirmed its commitment to halt Gilt purchases at the end of this week, but it did reiterate it will stand ready to increase the size of its daily auctions if required. It also announced it is launching a temporary expanded collateral repo facility which enables banks to ease liquidity pressure facing their client liability driven investment funds. The latest BoE buyback operation accepted more than the prior day with the overall number of offers also increasing ahead of the planned termination. Meanwhile, the Treasury announced the UK will publish its medium-term fiscal plan OBR forecast on October 31st, ahead of the BoE rate decision on November 3rd. The ongoing UK woes saw Fitch report a deeper recession in the UK is now likely as rates rise faster and expects GDP to decline 1% in 2023, vs its prior forecast of -0.2% in September.

The Yen was weaker vs the buck seeing USD/JPY rise to highs of 145.85 with eyes on potential Japanese intervention around these levels given we were in the territory when the MoF intervened in September while although cash treasury markets were closed, T-Note futures sold off implying higher US yields. On key levels, the USD/JPY YTD peak of 145.90 on September 22nd is the key level to keep an eye on.

Antipodeans underperformed, seeing AUD and NZD lower by 1% vs the buck with AUD finding a low of 0.6275 while NZD/USD found a low of 0.5545. AUD/NZD sold off to initially breach 1.13 to the downside, before paring above the level with the NZD relatively outperforming the AUD since the dovish hike from the RBA last week. The downbeat risk tone also weighed on the sensitive risk currencies. CAD also saw weakness vs the dollar but was a cyclical currency outperformer finding some strength with the earlier rise in oil prices, although as oil pared, so did CAD gains.

Scandi's were mixed. SEK saw pronounced weakness but the NOK was flat vs the buck, seeing the NOK heavily outperform its SEK counterpart after hotter than expected Norwegian inflation metrics which led to DNB revising its call for the Norges bank to hike by 50bps in November, followed by a 25bp move in December and January.

EM's were predominantly firmer against the Buck, aside from the RUB which saw losses amid the ongoing Ukrainian war. Nonetheless, ZAR, MXN, and BRL all saw slight gains, with the former firming despite weakness in gold prices. For the Real, the BCB announced it expects some FX law changes in December and Petrobras (PBR) is to lower natgas



prices to distributors by an average 5% beginning November 5th, according to a statement. CNY and CNH saw weakness amid the dollar strength while the US implemented export controls on the Chinese chip sector which saw China chip stocks lose nearly USD 9bln worth of value in response to the curbs.

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