# US Market Wrap

## 17th October 2022: Dollar slides amid risk rally after UK's fiscal U-turn

- **SNAPSHOT**: Equities up, Treasuries mixed, Crude flat, Dollar down.
- **REAR VIEW**: UK fiscal U-turn; Disappointing NY Fed Manufacturing; Strong BAC earnings and is not cutting investment banking jobs; GS plans major overhaul; China's state banks selling Dollars.
- **COMING UP**: **Data**: German ZEW, US Industrial Production, Capacity Utilisation **Speakers**: Fed's Bostic, Kashkari; ECB's Schnabel **Supply**: UK & Germany **Earnings**: Goldman Sachs, JNJ, LMT, Netflix, United Airlines, Interactive Brokers; Roche.
- **WEEK AHEAD PREVIEW**: Highlights include China CCP Congress; Inflation data from UK, NZ, EZ, Japan, Canada. To download the full report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing RBA minutes, PBoC, CBRT; Reviewing FOMC. To download the report, please click here.

## MARKET WRAP

Monday saw a UK-catalysed risk rally after the new chancellor, Hunt, announced a large reversal of most of the measures in the 'mini-budget', supporting the Pound and supporting broader risk appetite (Dollar weakness). US banks were supported after Bank of America was the latest to report strong net interest income amid the higher rate environment, although did mention a slowing consumer whilst caveating that spending was still strong. Treasuries steepened (2s -5bps at 4.45% vs 10s +1bps at 4.02%) after the buoyant risk tone eventually unwound the earlier duration bid catalysed after the UK's fiscal U-turn. There was little data aside from the October NY Fed mfg. survey, which declined more than expected with mixed internals, although there was little fanfare or reaction. Oil prices were choppy/flat, failing to benefit from the weak Dollar and risk appetite, while attention gravitates to more EU meetings this week as the bloc attempts to make progress (last push?) on Russian price caps.

## US

**NY FED MANUFACTURING**: NY Fed Manufacturing fell to -9.1, beneath the expected -4.0, and the prior -1.5. Regarding the internals, the inflationary gauge of prices paid rose to 48.6 (prev. 39.60), while employment fell to 7.7 (prev. 9.7), and the new orders index was unchanged at 3.7. The forward-looking six-month business conditions index dropped back into negative territory at -1.8 (prev. +8.2). Overall, the report adds, unfilled orders and shipments were little changed, delivery times held steady, and inventories edged higher. Labour market indicators pointed to a slight increase in employment and the average workweek. Moreover, input price increases picked up, while the pace of selling price increases held steady. Looking ahead, Oxford Economics notes, “manufacturing activity will continue to decelerate in coming months, and a significant slowdown is expected heading into 2023.” Oxford expects “weakening demand conditions domestically and abroad, high inflation, and rising interest rates will heavily weigh on growth in H1 2023.” As such, “the weakness in manufacturing won't prevent the Fed from raising rates, however, as inflation remains stubbornly high.”

## FIXED INCOME

**T-NOTE (Z2) FUTURES SETTLED 3+ TICKS LOWER AT 110-22+**

**Treasuries steepened after buoyant risk tone unwinds earlier duration bid on UK fiscal U-turn**. 2s -4.9bps at 4.458%, 3s -5.3bps at 4.453%, 5s -2.5bps at 4.241%, 7s -1.5bps at 4.146%, 10s +0.6bps at 4.013%, 20s +2.3bps at 4.300%, 30s +4bps at 4.015%.

**Inflation breakevens**: 5yr BEI +5.2bps at 2.563%, 10yr BEI +4.6bps at 2.468%, 30yr BEI +5.7bps at 2.398%.

**THE DAY**: T-Notes edged firmer through the APAC Monday session and gained momentum in the European morning in sympathy with their European counterparts after the UK fiscal U-turn. The contracts kept climbing into the NY Fed Empire mfg. survey (the data highlight), which was mixed, and printed session highs of 111-13 not long after. T-Notes then began drifting lower as risk assets extended gains, where govvie weakness was being led by the long-end, steepening the curve as stocks held their strength.

**STIRS**:

- EDZ2 +1.5bps at 94.91, H3 +3bps at 94.79, M3 +4.5bps at 94.855, U3 +5bps at 95.02, Z3 +6bps at 95.205, H4 +6.5bps at 95.45, M4 +6bps at 95.66, U4 +5.5bps at 95.81, Z4 +5bps at 95.94, Z5 +2.5bps at 96.17, Z6 +1bps at 96.15.
- US sold USD 63bln of 3-month bills at 3.820%, covered 2.49x; sold USD 50bln of 6-month bills at 4.245%, covered 2.66x.
- NY Fed RRP op. demand USD 2.172tln (prev. 2.222tln), across 98 bidders (prev. 95).

## CRUDE

**WTI (Z2) SETTLED USD 0.15 LOWER AT 85.46/BBL; BRENT (Z2) SETTLED USD 0.01 LOWER AT 91.62/BBL**

**The crude complex was choppy/flat to start the week in spite of the firm risk-on sentiment throughout broader markets following the UK's U-turn on the "mini-budget"**. WTI and Brent eventually settled off session lows, which were USD 83.70/bbl and 90.83/bbl, respectively. Oil-specific newsflow was light, with the highlight being the EU set to offer a last-resort plan for a gas-price cap on Dutch TTF, according to a document cited by Bloomberg. On the OPEC front, following a myriad of speak over the weekend, Algeria's Energy Minister echoed familiar rhetoric from the group that the decision to reduce output is a purely technical response to the world economic circumstances. Elsewhere, India's ONGC plans to take a stake in the new Russian entity managing the Sakhalin 1 energy project, seeking to retain a 20% stake, according to Reuters sources, which came after Russia unilaterally terminated Exxon's (XOM) interest. Lastly, the French energy minister, on the refinery strike, noted 28.1% of petrol stations faced supply problems at 14:00GMT on Monday, down from the 30% on Sunday.

## EQUITIES

**CLOSES**: SPX +2.66% at 3,678, NDX +3.46% at 11,062, DJIA +1.87% at 30,188, RUT +2.78% at 1,735.

**SECTORS**: Consumer Discretionary +4.23%, Real Estate +3.9%, Communication Services +3.34%, Technology +3.09%, Financials +2.58%, Materials +2.55%, Industrials +2.25%, Utilities +2.18%, Health +1.75%, Energy +1.24%, Consumer Staples +1.13%.

**EUROPEAN CLOSES**: EURO STOXX 50 +1.77% at 3,441, FTSE 100 +0.90% at 6,920, DAX 40 +1.70% at 12,649, CAC 40 +1.83% at 6,040, FTSE MIB +1.86% at 21,319, IBEX 35 +2.37% at 7,557, SMI +1.67% at 10,502.

**STOCK SPECIFICS**: **Goldman Sachs (GS)** reportedly plans a major overhaul to combine its units, according to Reuters sources, with an announcement due on Tuesday; follows earlier WSJ reports it is combining investment banking and trading units. **Apple (AAPL)** froze plans to use China's YMTC chips amid political pressure, according to Nikkei. Separately, Morgan Stanley named it a "top pick" for its ability to withstand an economic downturn. **Bank of America (BAC)** beat on EPS and revenue, while FICC revenue increased 27% Y/Y; drop in Q3 profit was due to setting aside funds to cover soured loans from a potential deterioration in the US economy. BAC is not cutting jobs in investment banking at this stage. Moreover, CFO said Q4 net interest income is expected to be at least USD 1.25bln more than Q3 (USD 15.12bln vs exp. USD 14.60bln). Activist investor Starboard has built a near 5% stake in **Splunk (SPLK)** and plans to push the co. to take action to boost its stock price, according to WSJ. **Bank of New York Mellon (BK)** surpassed consensus on top and bottom line, and added performance in the Q benefited from higher interest rates and strength in client volumes. Additionally, net interest revenue surged 44% Y/Y. **Continental Resources (CLR)** announced a definitive agreement to be acquired by its founder via the Hamm Family at USD 74.28/shr. Note, CLR closed Friday at USD 68.22/shr. **Archaea Energy (LFG)** to be acquired by BP (BP/ LN) for about USD 4.1bln, or USD 26/shr. Note, LFG closed Friday at USD 16.88/shr. Rupert Murdoch is mulling recombining **Fox (FOX)** and **News Corp (NWSA)**, according to the WSJ. **Roblox (RBLX)** released its key September metrics and announced Daily active users (DAUs) were 57.8mln, +23% Y/Y; hours engaged 4bln, +16%, and estimated bookings between USD 212-219mln, up 11-15%. **Charles Schwab (SCHW)** beat on EPS and revenue; was bolstered by record retail inflows. **CVS Health (CVS)** has reportedly decided not to go ahead with a **Cano Health (CANO)** deal, according to Dealreporter. US sued **Cigna Corp (CI)** for artificially inflating payments from the Medicare program and submitting false information. **Visa (V)** and **Mastercard (MA)** receive new Government scrutiny over debit-card routing; FTC is examining whether the Co.'s security tokens prevent online debit-card payments from going over other networks, according to WSJ sources.

## FX WRAP

**The Dollar** was lower to start the week and printed a trough of 111.910. The downbeat NY Fed mfg. survey, highlighted by the headline declining more than expected, and the inflationary gauge of prices paid rising was an added pressure. However, the weakness had already begun beforehand amid the Sterling bid and broad risk-on sentiment after new UK Chancellor Hunt pledged to withdraw more tax cuts amid other details. In turn, the UK's fiscal U-turn seemingly bolstered risk sentiment and diminished the Buck's safe-haven appeal, for now. Looking ahead, big banks continue reporting on Tuesday with Goldman Sachs the highlight, as well as a slew of Fed speak, and survey data.

**Activity currencies**, GBP, AUD, NZD, and CAD, all saw gains in excess of a per cent against the Buck amid the broad risk-on sentiment, with the **Pound** the outperformer, following the aforementioned U-turn from the new UK Chancellor which resulted in risk-on impetus. Further on this, Hunt confirmed that other tax cut proposals contained in the mini-budget would be overturned and the energy price cap shortened from two years to next April pending a review. As such, Cable printed a high of 1.1439, but fell short of the October peak of 1.1495, as desks note it has some major resistance nearby and not all of the UK's economic risks have vanished.

**AUD**, **NZD**, and **CAD** all piggybacked the risk-on sentiment and broad Dollar weakness, as opposed to anything currency specific, with AUD/USD and NZD/USD printing highs of 0.6312 and 0.5649, respectively, while USD/CAD reached a trough of 1.3700, as the Loonie ran out of momentum attempting to break the key level to the downside. Looking ahead, on Tuesday there is Q3 New Zealand CPI, followed by RBA minutes, where the central bank decided to scale down the pace of tightening from 50bps to 25bps, as well as Canadian CPI on Wednesday.

**EUR** and **CHF** firmed vs the Dollar. Aside from the extensive risk-on and haven Dollar slide, the single-currency gained from European natgas prices falling to their lowest since at least July, albeit still far higher than pre-Ukraine invasion and pandemic levels. On key levels, EUR/USD topped out at 0.9852, whilst the USD/CHF managed to surpass parity to highs of 1.0055. Note, the latest weekly Swiss sight deposit balances showed a rise in domestic bank accounts. Regarding the week ahead, aside from the known macro fundamentals, the key risk event is Eurozone inflation data on Wednesday, on top of any further central bank rhetoric.

**The Yen** was marginally lower, although USD/JPY hit a 32yr high of 148.96, and there was further jawboning as the Yen slipped closer to 149.00. Although, the Yen was ultimately propped up by external factors as Japanese PM Kishida said officials must refrain from commenting on FX levels and Finance Minister Suzuki declined to comment when asked if there has been any stealth intervention following the decisive action taken on September 22nd. Additionally, USD/JPY is just beneath the pivotal level of 149.00, with traders wondering what might trigger another round of Japanese intervention to cushion the fall.

**EMFX** was predominantly in the black, with TRY and CNY/CNH the underperformers, which were flat against the Greenback. For the Yuan, there were Reuters reports that state banks were selling Dollars raised in FX forwards to stop the fall in the Yuan, although more broadly, the Chinese Government is sticking with its zero-COVID policy. The BRL gleaned traction via the latest second-round election poll showing Lula with over 50% support. Lastly, ZAR was supported by the strength in gold, albeit well off best levels.