US Market Wrap

18th October 2022: Equity rebound continues on strong earnings and flat Dollar and yields.

- **SNAPSHOT**: Equities up, Treasuries mixed/flat, Crude down, Dollar flat.
- **REAR VIEW**: BoE confirms Gilt sales on Nov. 1st; Strong GS earnings; AAPL to cut iPhone + production; US Industrial Production beats; US to tap SPR; Iran sends more drones to Russia.
- **COMING UP**: **Data**: UK CPI, EZ CPI (Final), Canadian CPI **Speakers**: Fed's Bullard, Evans & Kashkari; BoJ's Adachi **Supply**: UK & US **Earnings**: Tesla, P&G, Abbott; Nestle; ASML, Deutsche Boerse; Hargreaves Lansdown, Just Eat.

MARKET WRAP

Stocks were firmer in a choppy session Tuesday with a bias towards industrials after strong US production data. There was some later pressure on the major US indices led by Apple (AAPL) after reports in The Information that it had cut iPhone 14 Plus production less than two weeks after its debut. Across the pond, the BoE confirmed that Gilt sales will be commencing from November 1st, refuting FT reports that it could delay the sales. Treasuries were little changed (10yr -2 bps at 3.99%) with the earlier Gilt-led weakness and approaching 20yr auction balanced against lower energy prices and risk aversion. The Dollar was ultimately flat with the DXY trading on both sides of 112.00. US data was mixed with the industrial production figures coming out above expectations with strong manufacturing output and capacity utilisation while the NAHB Housing Market Index for October declined to 38 from 43, the lowest level since August 2012 with the exception of Spring 2020. Oil prices were lower amid the broader choppy risk tone and touted US SPR releases in the backdrop of the latest Russian price-cap proposals out of the EU. Geopolitics are also in focus with the London Evening Standard reporting that UK Defence Secretary Wallace has made an emergency trip to the US to discuss the security situation in Ukraine, including the threat of a nuclear attack. Meanwhile, Reuters reported Iran has promised Russia more drones and missiles.

US

NAHB HOUSING MARKET INDEX: The NAHB housing market index fell to 38 (prev. 46), beneath the expected 43, and printed its lowest level since August 2012, with exception of spring 2020 at the onset of the COVID pandemic. Looking at the internals, the 6-month index dropped to 35 (prev. 46), while the prospective buyers index, and current sales conditions slumped to 25 (prev. 31) and 45 (prev. 54), respectively. The report further indicates that rising interest rates, building material bottlenecks and elevated home prices continue to weaken the housing market. NAHB chief economist notes, “this will be the first year since 2011 to see a decline for single-family starts.” He adds, “given expectations for ongoing elevated interest rates due to actions by the Fed, 2023 is forecasted to see additional single-family building declines as the housing contraction continues.” He concludes, “while some analysts have suggested that the housing market is now more ‘balanced,’ the truth is that the homeownership rate will decline in the quarters ahead as higher interest rates and ongoing elevated construction costs continue to price out a large number of prospective buyers.”

INDUSTRIAL PRODUCTION/MANUFACTURING OUTPUT: Industrial production surprised to the upside in September with a 0.4% advance, against the expected +0.1% and prior -0.1%. A main source driving this strength was manufacturing output which rose +0.4% (exp. +0.2%, prev. +0.4%), largely on stronger durables and nondurables activity. Additionally, mining also gained ground, underpinned by a rise in oil and gas output. However, utilities were weaker as electricity demand declined. In all, industrial production was fairly solid in Q3 even as economic headwinds strengthened. Looking into the releases, industrial production has remained surprisingly buoyant, but Oxford Economics notes, “the sector is unlikely to maintain its resiliency as lingering pent-up demand fades and economic headwinds strengthen.” As such, Oxford looks for the industrial sector to suffer a downturn as the economy experiences a mild recession in H1 ‘23. On top of this, weakening demand, soaring interest rates, and supply chain difficulties will pose significant challenges for industrial activity in the months ahead. Elsewhere, with the rise in headline IP, capacity utilisation lifted to 80.3% (prev. 80.1%, exp. 80.0%), which matches a multi-year high.

FIXED INCOME

Treasuries were little changed in choppy trade Tuesday with the earlier Gilt-led weakness and approaching 20yr auction balanced against lower energy prices and risk aversion. 2s -1.9bps at 4.437%, 3s -2.6bps at 4.427%, 5s -2.5bps at 4.213%, 7s -2.9bps at 4.117%, 10s -1.9bps at 3.996%, 20s -1.7bps at 4.281%, 30s +0.3bps at 4.018%.

Inflation breakevens: 5yr BEI -7.7bps at 2.493%, 10yr BEI -6.2bps at 2.416%, 30yr BEI -6.2bps at 2.352%.

THE DAY: T-Notes were little changed from Monday's settle (110-22+) entering the NY handover Tuesday after an initial APAC recovery (to a local peak of 111-04) unwound in European trade. That was aided by Gilts after the BoE denied FT reports that it was considering delaying QT. Meanwhile, there were some concerns on the continent after an awful 7yr Bund auction that failed to cover even half of the target EUR 4bln in bids. The NY morning saw T-Notes make another push higher, accentuated by the tumble lower in oil prices at the time, managing to stretch to a session peak of 111-04+, with block buys seen at the time. A rough opening for stocks was part of a broader, cross-asset wave of selling (Dollar strength) that saw T-Notes unwind gains to print a session low of 110-14+ just before midday. One could argue the US data was a factor in the bond bearishness given the surprisingly strong industrial production figures, although the NAHB housing index fell greater than expected. It's also noteworthy that the long-end was weakest with eyes to Wednesday's 20yr bond auction. T-Notes ultimately settled in the black, overcoming a brief spell of late selling after the BoE confirmed (after the Gilt market closed) it would begin Gilt sales on November 1st.

STIRS:

- EDZ2 +2bps at 94.93, H3 +3.5bps at 94.825, M3 +4.5bps at 94.90, U3 +4bps at 95.06, Z3 +2.5bps at 95.23, H4 +1.5bps at 95.465, M4 +1.5bps at 95.675, U4 +1.5bps at 95.825, Z4 +1bps at 95.95, Z5 +1bps at 96.185, Z6 +1.5bps at 96.17.
- US announced another USD 5bln increase to both the 1- and 2-month bill auctions sizes for Oct. 20th, marking the second USD 5bln increase in the month as US bill supply creeps higher.
- NY Fed RRP op. demand rose to USD 2.227tln from 2.172tln.

CRUDE

WTI (Z2) SETTLED USD 2.64 LOWER AT 82.82/BBL; BRENT (Z2) SETTLED USD 1.59 LOWER AT 90.03/BBL

Oil prices were lower Tuesday amid the broader risk-off/Dollar bid in the backdrop of the latest Russian price-cap proposals out of the EU. The majority of the downside was seen in the NY morning, seemingly on broader risk aversion as the Dollar caught a wide bid, while overnight reports of more SPR releases also weighed. WTI (Z2) and Brent (Z2) futures hit session lows of USD 81.30/bbl and 88.77/bbl, respectively, before paring slightly with stocks into the settlement. Energy participants now look to the weekly US inventory data with the private release due Tuesday evening. Current expectations (bbls): Crude +1.4mln, Gasoline -1.1mln, Distillates -2.2mln.

PRICE CAP: The European Commission unveiled its latest proposals that contain a gas price cap on the Dutch TTF benchmarks and efforts to tame volatility in the energy derivatives markets. Furthermore, the Commission wants to form a more robust structure for EU-wide gas purchases and "solidarity agreements" that enable bloc members to tap other members' supply. The proposals are now set to be discussed by a leader summit on Thursday and Friday ahead of an energy minister discussion next Tuesday. Reporting suggests the measures are unlikely to be signed off before November.

WHITE HOUSE: The Biden admin is looking to release another 10-15mln barrels from the Strategic Petroleum Reserve (SPR). This would represent the final bbls in the initial plan to release 180mln bbls of Crude from the SPR as c. 165mln have already been delivered or put into contracts since its initiation, Bloomberg reported. Furthermore, Bloomberg added the Biden admin is still weighing limits on exports of fuel to keep more gasoline and diesel inside the US, but Bloomberg suggests this will likely not happen before the midterms. The White House has since announced they will make an announcement tomorrow on lowering gas prices.

EQUITIES

CLOSES: SPX +1.14% at 3,720, NDX +0.77% at 11,148, DJIA +1.12% at 30,524, RUT +1.16% at 1,756

SECTORS: Industrials +2.36%, Materials +1.91%, Utilities +1.79%, Financials +1.64%, Consumer Discretionary +1.42%, Consumer Staples +1.31%, Real Estate +1.27%, Technology +00.83%, Energy +0.75%, Health Care +0.57%, Communication Svs. +0.54%.

EUROPEAN CLOSES: EURO STOXX 50 +0.64% at 3,463, FTSE 100 +0.24% at 6,936, DAX 40 +0.92% at 12,765, CAC 40 +0.44% at 6,067, FTSE MIB +0.93% at 21,518, IBEX 35 +0.72% at 7,611, SMI +0.64% at 10,566.

EARNINGS: **Goldman Sachs (GS)** beat on EPS, revenue, and trading revenue. GS also confirmed it is introducing a realignment of its business. In commentary, Goldman said layoffs depend on the economic environment, but there are no other plans for future job cuts. **Johnson & Johnson (JNJ)** surpassed St. consensus on top and bottom line helped by a growth in pharmaceutical sales. In commentary, JNJ noted continued unfavourable currency impact and higher costs of inventory manufactured in 2022 will negatively impact FY23. **Lockheed Martin (LMT)** beat on EPS but missed on revenue, it also reaffirmed 2022 outlook and announced additional USD 14bln in share buyback programme and increased quarterly dividend by 7% to 3/shr. **Hasbro (HAS)** missed on EPS while revenue was in line, it also reiterated FY guidance and said results were impacted by an acceleration of consumer products shipments by our retailers into Q2 due to anticipated supply chain challenges. **State Street (STT)** exceeded expectations on profit and revenue and raised NII growth forecasts.

STOCK SPECIFICS: **Twitter (TWTR)** has reportedly locked employee stock accounts in 'anticipation' of a deal, according to Bloomberg. **Apple (AAPL)** reportedly cut its iPhone 14 Plus production less than two weeks after its debut, according to The Information. Activist investor Starboard Capital reportedly took a significant stake in **Salesforce (CRM)**, according to CNBC's Faber. **Intel's (INTC)** MobilEye IPO is set to be priced between USD 18-20/shr, according to Bloomberg. Earlier WSJ reported, Mobileye IPO is now targeting under a USD 20bln valuation which was originally expected to have a USD 50bln valuation. **Amazon (AMZN)** was named a top pick at Citi for both a hard and soft economic landing, saying it would perform well under either scenario. **Microsoft (MSFT)** laid off more employees this week, becoming the latest tech company to show signs of concern about future demand, according to WSJ. Earlier this year MSFT said that it planned to reduce staff by less than 1%. **Target (TGT)** was upgraded at Jefferies; said TGT will benefit from an easing of supply chain issues and improved inventory positioning. **FuboTV (FUBO)** sees Q3 revenue above expectations (at least USD 215.5mln (exp. USD 209.6mln)); CEO is pleased with progress to achieving positive cash flow by FY25. Moreover, FuboTV is to cease the operation of Fubo Sportsbook. US FDIC said banks are to face bigger deposit insurance payments under new FDIC rules, approving an increase in insurance assessment rates. **Apple (AAPL)** introduced next-generation Apple TV 4K and next-gen iPad Pro with M2 chip. **Oracle (ORCL) and Nvidia (NVDA)** announced the addition of tens of thousands of Nvidia GPU chips, including A100 and H100, to Oracle Cloud. **McDonald's (MCD)** is to reportedly sell **Krispy Kreme (DNUT)** doughnuts at 9 locations in latest menu experiment, according to CNBC. The **Kroger (KR)** and **Albertsons (ACI)** merger is expected to see US Senate antitrust panel announce a hearing, according to a Reuters source.

FX WRAP

The Dollar was ultimately flat on Tuesday but the DXY traded either side of 112.00 with lows of 111.76 and highs 112.46. US data was mixed with the industrial production figures coming out above expectations with strong manufacturing output and capacity utilisation while the NAHB Housing Market Index for October declined to 38 from 43, the lowest level since August 2012 with the exception of Spring 2020. The yield curve was mixed but with a steeper bias with risk assets continuing their recovery this week as earnings overall surprised to the upside, particularly for the banks.

The Euro saw mild gains vs the Dollar and saw more strength vs the Pound. EUR/USD held onto 0.9800 with a low of 0.9813 while technicians eye 0.9858 as a fib level of resistance and would be deemed positive if it settled above this, currently sitting just beneath. There were several ECB speakers again on Tuesday with Makhlouf saying it is absolutely necessary to continue hiking rates while Herdotou noted the normalisation process is to include "several" more rate hikes. Currently, markets imply a terminal rate of 3% on July 23, a fair bit away from the current 0.75% rate. The latest data saw the German ZEW Economic sentiment improve, albeit remain in negative territory rising to -59.2 from -61.9 and above the expected decline to -65.7. The expectations component in October saw an improvement but the current conditions deteriorated, a similar picture to that of the US in the latest UoM survey.

The Yen remains in intervention territory with USD/JPY above 149.00 and seeing a high today of 149.34. There was some immediate JPY strength in the morning on reports the BoJ and FSA are to hold the 17th cooperation on financial stability which saw USD/JPY fall to lows of 148.68 before paring the majority of the move. Sudden price movements in the Yen have been quite noticeable recently, a similar move was seen around US CPI release last Thursday and has raised questions on any potential stealth intervention from Japan - although nothing has been confirmed.

Antipodean currencies were mixed, AUD saw mild losses vs the Dollar while NZD was bid which helped AUD/NZD fall sub 1.11. The bid into the NZD was supported by hot inflation metrics in New Zealand which then spurred on several calls from banks for the RBNZ to hike by 75bps at its next meeting from the prior pace of 50bps, and much quicker than the RBA's last smaller than expected 25bp hike. The latest RBA minutes were also released which were dovish overall after it noted the 25bps decision was finely balanced and warranted by the scale of hikes already delivered and lags in policy, while also noting higher rates abroad are to lower global growth and lessen inflation. However, it did repeat further rate hikes are likely over the period ahead and rates are not especially high.

GBP and CAD, were weaker with GBP/USD choppy on mixed reports out of the Bank of England with an initial FT piece suggesting the Central Bank was to delay its planned gilt sales although this was later dismissed by the BoE and gilt sales are to go ahead from November 1st, after the fiscal plan announcement on October 31st ahead of the November BoE rate decision on November 3rd. CAD saw weakness vs the buck as oil prices tumbled while risk assets were also off highs which saw USD/CAD rise above 1.3800 albeit it did pare somewhat back beneath the round level ahead of the BoC rate decision next week where analysts expect a smaller, 50bp rate hike on October 26th, although the terminal rate is expected to be higher than initially thought.

EMFX was mixed. BRL saw gains while MXN was weaker, alongside RUB and ZAR. MXN was weighed on by the lower oil prices while ZAR was lower despite flat gold prices. The Lira was relatively flat after the CBRT raised its required maintenance ratio to 5% as part of its Liraization plan with more steps to come this year and next. Reports later noted the CBRT's move to raise the required level of bond holdings for FX deposits means that banks must hold an additional TRY 80-100bln of bonds, via Reuters citing bankers.