



US Market Wrap

19th October 2022: Stocks pare recent gains as global inflation lingers and yields rise

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** Strong NFLX earnings as beat on subscribers; Hot UK and Canadian CPI; Biden confirmed 15mln bbl SPR release; Weak 20yr auction; Raft of UK political resignations; Kashkari say it is possible headline inflation has peaked; Beige Book noted price growth remained elevated, though some easing was noted across several Districts; Solid UAL report.
- **COMING UP: Data:** Australian Employment, US Philly Fed **Event:** PBoC LPR **Speakers:** Fed's Bowman, Cook, Harker and Jefferson **Supply:** Spain & France **Earnings:** AT&T, American Airlines, Phillip Morris; L'Oréal, Hermes, Pernod Ricard, Publicis; Nokia.

MARKET WRAP

Stocks sold off on Wednesday after the Monday and Tuesday bid while earnings still continue to impress, particularly Netflix (NFLX) after-hours on Tuesday which saw a strong quarter with better-than-expected subscriber additions. However, the upside in yields weighed on stocks throughout the session which started after a hot UK CPI print early in the morning while Canadian CPI also came in hotter than expected ahead of the BoC next week. Sectors were predominantly lower but energy stocks were bid thanks to the gains in crude prices as energy markets caught a bid despite Biden's attempt to talk them down after he confirmed a 15mln bbl SPR release. Treasuries saw heavy selling with more Gilt and Bund weakness accentuated by a weak 20yr auction and corporate supply. USD/JPY tested 150.00 to the upside with eyes on potential intervention although CHF was the underperforming currency with both currencies hit by the higher US rates. GBP was also a laggard with the ongoing political circus which saw three officials leave today alone, including the Home Secretary and Chief Whip. The Dollar surged and topped 113, albeit briefly, as it was supported by higher yields and risk-off in stocks. Fed speakers saw Kashkari suggest headline inflation may have peaked, but he is watching core CPI more closely while both Kashkari and Bullard spoke of a possible pause in 2023 once the Fed reaches terminal.

US

BUILDING PERMITS/HOUSING STARTS: US building permits rose 1.4% in September to 1.564mln, above the prior 1.542mln and the expected 1.53mln. Meanwhile, housing starts fell 8.1% to 1.439mln from the previous 1.566mln and the consensus 1.475mln. Looking into the data, the more forward-looking building permits was strong, but the gain was all in the volatile multi-family sector. However, single-family permits declined which points to further softness in starts in the months ahead. As such, Oxford Economics looks for the pace of housing starts to continue to slow to 1.420mln, but the September data and pessimism among homebuilders (who are seeing buyers retreat to the sidelines at a time when they continue to face elevated cost pressures), lend a clear downside risk to that forecast.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 29 TICKS LOWER AT 110-00

Treasuries saw heavy selling with more Gilt and Bund weakness accentuated by a weak 20yr auction and corporate supply. At settlement, 2s +11.1bps at 4.548%, 3s +13.1bps at 4.558%, 5s +12.9bps at 4.344%, 7s +13.3bps at 4.252%, 10s +12.7bps at 4.125%, 20s +10.7bps at 4.390%, 30s +10.7bps at 4.128%.

Inflation breakevens: 5yr BEI +1.5bps at 2.522%, 10yr BEI +1.0bps at 2.429%, 30yr BEI +2.2bps at 2.379%.

THE DAY: T-Notes were sold through the APAC Wednesday session and particularly the European morning in reaction to BoE's Nov. 1st Gilt sales confirmation on Tuesday evening, made worse by hot UK CPI data on Wednesday. It's worth highlighting that selling was led by the front and belly of the UK curve given the BoE said it would be excluding the long-end from initial QT sales. More selling pressure was seen on the continent after Reuters reported Germany is increasing the size of outstanding bonds by over EUR 50bln in total to ease repo pressures. The selling extended into



the NY handover with a couple of corporate deals, including a USD 4bln Lockheed Marting 5-parter, providing additional supply pressure ahead of the US 20yr reopening. A stronger-than-forecast Candian CPI print didn't provide bond bulls with any favours either. T-Notes printed session lows of 109-30+ in a knee-jerk reaction to the awful 20yr auction.

20YR AUCTION: A weak 20yr USD 12bln reopening, particularly with yields already 10bps or so firmer entering the offering. The 4.395% stop marks another big backup from September's 3.820%, yet the offering still tailed by a chunky 2.5bps, tied for worst on record, as opposed to the prior 1.3bps stop-through and six-auction avg. 1.3bps stop-through. The 2.5x bid/cover ratio was worse than the prior 2.65x and avg. 2.69x. The breakdown saw Dealers (forced surplus buyers) left with a chunky 16.4%, up from September's 8.1%, while Indirects took 63.7%, materially down from last month's 75.3%.

STIRS:

- EDZ2 -5.5bps at 94.875, H3 -7.5bps at 94.755, M3 -10.0bps at 94.800, U3 -12.0bps at 94.945, Z3 -13.5bps at 95.100, H4 -15.0bps at 95.320, M4 -15.5bps at 95.525, U4 -16.0bps at 95.670, Z4 -16.0bps at 95.795, Z5 -15.0bps at 96.040.
- NY Fed RRP op. demand USD 2.242tln (prev. 2.227tln), across 101 bidders (prev. 99).
- US sold USD 33bln of 17-week bills at 4.140%, covered 2.93x.

CRUDE

WTI (Z2) SETTLED USD 2.45 HIGHER AT 84.52/BBL; BRENT (Z2) SETTLED USD 2.38 HIGHER AT 92.41/BBL

The crude complex was firmer for the most part of the NY session, as WTI and Brent hit highs of USD 85.02/bbl and 92.85/bbl, respectively, despite the stronger dollar and risk off tone in markets. Crude prices saw marginal downside in wake of the weekly EIA inventory report (further details below), but following this it reversed and extended on gains throughout the NY afternoon. Gains accelerated to session highs after US President Biden spoke, despite him confirming the sale of 15mln bbls of crude oil from the SPR, and extra oil could also be made available for sale if needed - although this was touted at heavily in recent sessions. Biden added the US will refill SPR when US oil prices are at or below USD 70/bbl. Elsewhere from a US perspective, Economic Adviser Deese stated it needs to keep all options on the table when asked about an oil export ban. Separately, according to a US Treasury Official via Reuters, the G7 price cap on Russian oil exports will not be replicated on OPEC.

EIA: There was an unexpected draw in crude stocks, replicating the private inventory data from Tuesday night, while gasoline drew less than expected but distillates was a surprise build. Additionally, crude production rose 100k BPD to 12mln and refining utilisation dropped -0.4%, more than the expected -0.3%.

NIGERIA: Nigeria LNG has not yet cancelled cargoes since the force majeure announcement, which was reportedly pre-emptive and depends on the duration of the flooding, according to Reuters sources. In addition, Reuters cited Rystad Energy analysts suggesting that the shock threatens nearly 4% of global LNG supply and Europe is the most at-risk customer, with Portugal's Galp warning it would struggle to replace Nigerian cargoes.

EQUITIES

CLOSES: SPX -0.67% at 3,695, NDX -0.40% at 11,103, DJIA -0.33% at 30,423, RUT -1.58% at 1,726.

SECTORS: Real Estate -2.55%, Financials -1.59%, Health -1.38%, Utilities -1.26%, Consumer Discretionary -1.17%, Materials -1.13%, Industrials -0.69%, Consumer Staples -0.38%, Technology -0.26%, Communication Services -0.12%, Energy +2.94%.

EUROPEAN CLOSES: EURO STOXX 50 +0.21% at 3,471, FTSE 100 -0.17% at 6,924, DAX 40 -0.19% at 12,741, CAC 40 -0.43% at 6,040, FTSE MIB -0.22% at 21,472, IBEX 35 -0.36% at 7,583, SMI -0.91% at 10,482.

STOCK SPECIFICS: Netflix (NFLX) beat on EPS and revenue while net subscriber additions were more than double the expectations which halted a trend that saw it lose subscribers for the past two quarters while Q4 additions were also above expectations. However, Q4 EPS and revenue guidance fell short of the expected. Procter & Gamble (PG) beat on EPS and revenue; results were helped by a 7% boost in organic sales. Sees FY EPS at low end of guidance due to FX impacts. Travelers Companies (TRV) surpassed St. consensus on top and bottom line, but core income fell; was hurt by hurricane-related claims and lower returns on its investments. Intuitive Surgical (ISRG) posted a stellar report; topped on profit and revenue and raised FY22 procedure growth view; said core business strengthened despite a challenging macroeconomic environment and some lingering pandemic impacts. ASML (ASML) topped on EPS and



revenue; Q4 guidance above expectations. In commentary, sees limited impact on 2023 shipments from new US rules and are starting to see diverging demand dynamics per market segment; overall demand for our systems continues to be strong. **United Airlines (UAL)** topped on profit and revenue; now expects Q4 adj. operating margin to be above 2019 for the first time. **Prologis (PLD)** beat on FFO but missed on revenue; cut FY22 core FFO view. **Adobe (ADBE)** prelim FY23 EPS and revenue view fell short of expected; guidance at USD 19.1-19.3bln (exp. 19.8bln) and 15.15-15.45 (exp. 15.46), respectively. **Olaplex Holdings (OLPX)** sees Q4 revenue down 20% and cuts Q3 and FY22 revenue view; announced the resignation of COO Tiffany Walden. **Generac (GNRC)** cut FY forecast and now sees sales of +22-24% (prev. +36-40%); downgraded Q3 adj. EPS view to 1.75 (exp. 3.21). **Starbucks (SBUX)** entered into an agreement to sell Seattle's Best Coffee brand to **Nestlé (NSRGY)**. **AT&T (T)** reportedly in talks with investors regarding plans for a fiber build-out which could be valued at roughly USD 10-15bln, according to Bloomberg

FX WRAP

The Dollar was heavily bid on Wednesday to help the DXY rise from lows at 111.920 to highs of 113.09, although any gains north of 1.13 were not sustained. The upside in the buck was met with risk off trade with downside in equities, across the board, while rates also saw a decent move higher, further supporting the Dollar. Data was mixed with housing starts continuing their decline but building permits actually rose M/M although the 30yr mortgage rates continue to climb. Fed speak saw Kashkari note it is possible headline inflation has peaked but he has not seen evidence core inflation is peaking, while speaking on a pause he said his best guess is the Fed can pause hikes some time next year but he favours rate hikes until core inflation starts to cool, noting the Fed's rate changes take a year or so to work through the economy.

The Euro was weighed on by the stronger buck seeing EUR/USD fall sub 0.9800 while the September HICP inflation data for September (final data) came in a touch cooler than expected at 9.9% vs exp. 10.0%. Meanwhile, on the ECB, Vasle said the ECB should hike rates by 75bps in both October and December while the latest ECB Reuters poll sees analysts expect to hike rates by 75bps in October.

GBP was a point of interest once again and saw hefty downside and was among underperforming currencies with ongoing political woes weighing with the Home Secretary being asked to resign, while both the Chief Tory whip and deputy whip have also left. The inflation data in the AM came in hotter than expected at 10.1% (exp. 10.0%).

The Yen saw further weakness and tested 150.00 to the upside with investors on their toes in anticipation of more potential JPY intervention, or at least jawboning. There was commentary from BoJs Adachi who noted monetary policy does not directly control FX while repeating the BoJ's dovish guidance and issuing caution about shifting towards tighter policy. Meanwhile, the Finance Minister said there is no change to the thinking on FX and they are in frequent communication with the MOF. **CHF** was the underperformer, however, seeing the Franc tumble through parity vs the buck to highs of 1.0063 while EURCHF rose above 0.9800.

Antipodean currencies were weaker but AUD was the underperformer as it remains more susceptible to weakness than NZD after the latest dovish RBA decision while New Zealand inflation is still rife. Nonetheless, both currencies were weaker in fitting with a firmer dollar and downbeat risk tone. The Aussie straddled 0.6300 vs its US peer awaiting the September labour market report and the Kiwi hovered mostly under 0.5700 in the run up to NZ trade later on Thursday.

CAD was weaker, but not to the same extent as other activity currencies with some of the weakness offset by the higher oil prices but also hotter than expected inflation data. This saw a marked shift in BoC pricing ahead of next week's decision, with markets pricing in a greater chance of a 75bp hike but economists are pencilling in a 50bp hike (albeit the poll was before the CPI data).

Scandi's were mixed with NOK finding tailwinds from the rising Brent prices, helping it offset the downbeat risk tone, which in turn weighed on SEK despite hawkish Riksbank rhetoric after Floden said a 1ppt hike was quite modest and rates are still low.

EMs were lower across the board against the Buck, with the ZAR the underperformer and seeing headwinds from the losses in gold. Elsewhere, EMs largely fell victim to the broad Dollar bid amid risk off sentiment on Wednesday. Nonetheless, TRY was the relative outperformer and was flat against the Greenback, at pixel time, which comes ahead of CBRT rate decision on Thursday; central bank is expected to cut by 100bps to 11%. Moreover, BRL settled off worst levels and pared some losses after the BCB's USD 1bln sale at spot repo auction. Conversely, the RBI was inactive as the INR joined the CNH at a fresh all-time low.



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