US Market Wrap

20th October 2022: Stocks hit after mixed earnings & rising yields

- **SNAPSHOT**: Equities down, Treasuries down, Crude flat, Dollar flat.
- **REAR VIEW**: UK PM Truss resigns; Harker says Fed to keep hiking for a while; Mixed US data, jobless claims lower than the consensus but the Philly Fed survey disappointed; TSLA will not manage to reach FY production target; Impressive IBM & T results.
- **COMING UP**: **Data**: UK GfK, Retail Sales **Events**: Sovereign debt ratings for the UK, Germany and Italy **Speakers**: Fed's Williams.

MARKET WRAP

Stocks were choppy on Thursday. The initial post-open strength pared from highs to losses across major indices coinciding with a sharp move higher in yields, supporting the Dollar off lows to the unchanged mark. There had been some strength in Treasuries in the morning led by Gilts in anticipation of UK PM Truss resigning, which ultimately came to fruition with the UK set to have another PM by the end of next week. However, the upside in Treasuries was short-lived and selling resumed in the afternoon, at an aggressive pace. US data was mixed, existing home sales slowed but were better than expected, and jobless claims were lower than the consensus but the Philly Fed survey was weak overall, with both employment and prices rising - something the Fed would not expect to see as a result of tighter policy. Both Cook and Harker spoke on Thursday calling for continued rate hikes while Harker echoed the minutes calling for policy to be in restrictive territory for some time. Earnings overall were mixed, with Tesla (TSLA) taking a hit after a miss on revenue and warning it won't manage to reach its production target for the FY. Union Pacific (UNP) took a hit after it cut its volume growth forecast on the worker shortage following strikes. Meanwhile, IBM (IBM) and AT&T (T) results were impressive, as were Lam Research (LRCX). Crude prices settled flat with benchmarks moving off highs as it tracked risk sentiment.

US

FED: **Evans (departing)** spoke overnight, noting if the Fed pushes its policy rate much further than planned it could start to weigh on the economy and says he is worried that at some point rate increases could have a non-linear impact with businesses becoming more pessimistic. However, he still sees a policy rate next year of 4.50-4.75% in 2023 as appropriate after the September CPI report. **Harker (2023 voter)** said the Fed will keep hiking for a while and he expects the Fed to stay restrictive for a while. He sees rates likely rising well above 4% by year-end while noting the Fed can pause sometime next year to assess the impact of its tightening on the economy. **Cook** repeated ongoing rate hikes are likely required.

EXISTING HOME SALES: Existing home sales declined 1.5% in September to 4.71mln, marginally above the expected 4.7mln but fell from the prior 4.78mln. Meanwhile, inventory of homes for sale was 1.25mln units, or 3.2mths worth, which was in line with the previous. Moreover, home sales fell in all regions in September but the West, where they were flat; median home prices fell 1.8% M/M and the annual rate of home price growth held steady at 8.4%. Oxford Economics note, existing home sales generally reflect contracts signed a month or two earlier, so most September sales were locked in before the additional 160bps runup in mortgage rates since mid-August. As such, OxEco forecasts for sales to slow from 4.8mln in Q3 to 4.6mln in Q4, but the risk is probably tilted to the downside with mortgage rates around 7%. Lastly, Oxford concludes “home price growth is likely to continue to decelerate, but the limited supply of homes for sale is expected to prevent too steep a decline.”

PHILLY FED: Philly Fed was a disappointing report, as the headline showed a print of negative 8.7, worse than the expected -5.0, but not as deep as the prior -9.9. Looking at the internals, the inflationary gauge of prices paid rose to 36.3, above the previous 29.8, while CapEx dropped to 4.4 (prev. 4.6). Moreover, new orders printed -15.9 (prev. -17.6), but encouragingly employment rose to 28.5 (prev. 12.0), albeit not something the Fed would expect to see with tightening policy. Lastly, the forward-looking 6month index fell to -14.9 (prev. -3.9). Overall, the report “suggests continued overall declines in regional manufacturing conditions this month”. The indicators for current activity and new orders remained negative, while the shipments index remained stable but low. The report adds, “firms continued to indicate overall increases in employment, and the current price indexes continue to suggest increases in prices on balance.” Looking ahead, “the survey’s broad indicators for future activity deteriorated, suggesting that firms expect overall declines over the next six months.”

JOBLESS CLAIMS: US initial jobless claims for the w/e Oct. 15th, which is also the Oct. NFP survey week, saw a surprise fall to 214k from 226k (downwardly revised from 228k), where the street was looking for 230k. JPMorgan notes, "Recent hurricanes have impacted the data, and the surge in filings in Puerto Rico and Florida from the prior two weeks started to come undone during the week ending October 15, which helped push the national total down for that week." However, despite the noise, the bank points to the broader theme of weekly filings generally coming in at low levels, pointing to continued labour market strength. Meanwhile, continued claims for the w/e Oct. 8th rose to 1.385mln from 1.364mln (revised lower from 1.368mln), more than the expected 1.375mln. JPM concludes, "Despite this latest increase, recent low levels of filings for this series also are indicative of labor market strength."

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 20+ TICKS LOWER AT 109-11+

Treasuries were sold in a choppy session after UK-led strength reversed into the NY afternoon. At settlement, 2s +6.0bps at 4.612%, 3s +9.4bps at 4.655%, 5s +10.1bps at 4.452%, 7s +10.1bps at 4.359%, 10s +9.9bps at 4.228%, 20s +10.0bps at 4.488%, 30s +9.5bps at 4.222%.

Inflation Breakevens: 5yr BEI +6.6bps at 2.603%, 10yr BEI +6.1bps at 2.510%, 30yr BEI +7.3bps at 2.483%.

THE DAY: T-Notes entered the NY session off their interim lows (109-19+) after Tokyo/London handover selling unwound by dovish remarks from BoE's Broadbent, lifting USTs in turn. The contracts printed session highs of 110-07+ in further sympathy with UK Gilts going into PM Truss' resignation statement before better selling kicked in after lower initial jobless claims data and a pick-up in the Philly Fed mfg. survey's prices paid index. The selling was capped in the wake of the fall in existing home sales and deeper-than-expected decline in the Sept. leading indicators, although offers resumed as Europe departed and an eye towards the USD 21bln 5yr TIPS auction, as well as next week's coupon supply. Fed's Harker and Cook both spoke, but neither said anything less/more hawkish than the current Fed consensus. T-Notes made session lows of 109-10+ ahead of settlement.

REFUNDING: US to sell USD 42bln of 2yr notes on Oct. 25th, USD 43bln of 5yr notes on Oct. 26th, and USD 35bln of 7yr notes on Oct. 27th; all to settle on Oct 31st. To sell USD 24bln of 2yr FRNs on Oct. 26th, to settle on Oct. 31st.

STIRS:

- EDZ2 -4.5bps at 94.830, H3 -4.5bps at 94.710, M3 -7.0bps at 94.735, U3 -10.5bps at 94.845, Z3 -12.5bps at 94.980, H4 -13.5bps at 95.190, M4 -13.5bps at 95.390, U4 -14.0bps at 95.530, Z4 -14.0bps at 95.655, H5 -14.0 bps at 95.760, M5 -13.5bps at 95.830, U5 -14.0bps at 95.870, Z5 -13.5bps at 95.900, H6 -13.5bps at 95.910, M6 -13.0bps at 95.910, U6 -13.0bps at 95.910.
- US sold USD 67bln of 1-month bills at 3.430%, covered 2.35x; sold USD 57bln of 2-month bills at 3.690%, covered 2.49x.
- Treasury announced 3- and 6-month T-Bill auction sizes unchanged at USD 57bln and 45bln, respectively.

CRUDE

WTI (Z2) SETTLED USD 0.01 LOWER AT 84.51/BBL; BRENT (Z2) SETTLED 0.03 LOWER AT 92.38/BBL

The crude complex was firmer for the most part of the NY session, but into settlement, WTI and Brent fell into negative territory but settled flat, with downside seen as the risk-off sentiment in markets accelerated, seeing the Dollar pare earlier losses while stocks extended on losses. As such, the complex seemingly traded off macro fundamentals as opposed to any specific newsflow, which was very light on Thursday. Nonetheless, White House's Klain said the US will register record oil production in 2023 and it will do whatever it can to curb Russian oil revenue, while from the other side of the pond EU Council President Michel noted the proposals on energy are a good balance to reach a deal on Thursday; with a deal possible, but difficult. Elsewhere, on the supply front, Kazakhstan's Tengizchevroil plans to start oil supplies to Finland via rail in October, while Total&Dunga started oil supplies to the BTC pipeline via Aktau port in September, according to Reuters sources.

EQUITIES

CLOSES: SPX -0.80% at 3,665, NDX -0.51% at 11,046, DJIA -0.30% at 30,333, RUT -1.24% at 1,704.

SECTORS: Utilities -2.51%, Industrials -1.91%, Consumer Discretionary -1.74%, Financials -1.58%, Consumer Staples -1.42%, Health -0.81%, Materials -0.7%, Real Estate -0.41%, Technology +0.07%, Energy +0.18%, Communication Services +0.36%.

EUROPEAN CLOSES: EURO STOXX 50 +0.62% at 3,492, FTSE 100 +0.27% at 6,943, DAX 40 +0.20% at 12,767, CAC 40 +0.76% at 6,086, FTSE MIB +1.07% at 21,701, IBEX 35 +0.80% at 7,644, SMI -0.03% at 10,480

STOCK SPECIFICS: **Tesla (TSLA)** beat on EPS but missed on revenue; said it is expected to miss its vehicle delivery target this year, but downplayed concerns about softening demand after its revenue missed estimates. **AT&T (T)** surpassed on the top and bottom line, with wireless postpaid additions and wireless revenue topping consensus, with the latter rising 5.6%, the best Q improvement in more than a decade. Adding to the strong report, T raised its FY22 adj. EPS view. **IBM (IBM)** beat on profit and revenue and raised its FY outlook. IBM also saw improved results in multiple business segments, including software, consulting and infrastructure. **Allstate (ALL)** said it would report a Q3 loss, and catastrophe losses will grow for the Q, largely due to the impact of Hurricane Ian. **American Airlines (AAL)** topped Wall St. estimates on EPS and revenue while lifting its Q4 EPS view, adding to the strong list of airline earnings reports seen so far, including DAL and UAL. **Dow (DOW)** beat on EPS and revenue although posted a 56% fall in Q3 profit amid soaring energy prices and a slower-than-expected recovery in demand. **Las Vegas Sands (LVS)** reported a deeper loss per share than forecasted but beat on revenue; said travel restrictions and reduced visitation continue to impact its results. **Equifax (EFX)** reported poor earnings; missing on EPS and cutting Q4 guidance. **Nucor (NUE)** beat on revenue but missed on profit. The steel maker expects Q4 22 earnings to be decreased from Q3 22. Texas AG sued **Google (GOOGL)** over facial and voice data collection, according to CNBC. Murata Manufacturing, a company that makes components for the iPhone (AAPL), believes decreasing smartphone sales will continue into 2023. **Oracle (ORCL)** is targeting annual revenue of USD 65bln by 2026 with an operating margin of 45% including Cerner, according to comments at its analyst day

FX WRAP

The Dollar was ultimately flat/lower on Thursday with DXY trading between 112.160 and 113.09 as an afternoon stock sell off gave a helping hand to the Dollar, as did the rise in yields. Data was mixed with jobless claims being better than expected at 214k while the Philly Fed Business index disappointed on the headline with a rise in prices paid, employment while the new orders remain in negative territory and the six month outlook deteriorated. Fed speak saw officials stick to familiar themes, Harker was on the hawkish side, noting Fed is to keep hiking for a while and rates will be restrictive for some time. He also spoke of a pause next year but noted rate hikes are to continue, as did Fed's Cook.

The Yen was weaker vs the buck and USD/JPY rose above 150.00 for the first time since 1990, but did not garner much attraction above that level seeing a high of 150.21. There was more commentary overnight from officials with Japan's FX diplomat Kanda stating excessive FX moves are not good and they cannot comment on whether they have intervened. Kanda said they can not tolerate excessive FX moves, noting excessive disorderly FX moves have negative effects and Japan can take responses as needed. Meanwhile, Finance Minister Suzuki said there is no change in the stance of acting against speculative moves Overnight, the BoJ issued an emergency bond-buying operation to cap yields as well - keeping the policy differential with the Fed at extremes.

The Euro was mildly bid vs the Dollar and flat against GBP. Data in the EZ Thursday focussed on German Producer Prices which were hotter than expected. There was no ECB speak on the account of the blackout period ahead of the October meeting one week from today with markets fully pricing in a 75bp hike, and would be fitting with many comments from officials in recent weeks.

CHF was flat against the Euro and the buck although USD/CHF did initially pare off parity thanks to a weaker buck in the afternoon, but the later stock and bond rout supported the Dollar from lows taking USD/CHF back above parity.

Antipodean currencies managed to just about hold their ground against the risk off move in stocks with both Aussie and Kiwi finding a decent bid in the morning, which coincided with the earlier stock strength. Both currencies were well off highs with AUD/USD trading between 0.6229 and 0.6356 with AUD falling beneath 0.63 as risk assets fell, taking the pair back to flat. NZD saw similar price action between a range of NZD 0.5624 to 0.5742. The Aussie managed to outperform the Kiwi despite a grim jobs report overnight; seeing just 900 jobs added in September, well short of the 25k expected.

GBP was pretty flat in a volatile session for the pound; upside was seen early on in the anticipation that UK PM Truss was leaving which saw Cable hit a session high of 1.1335. However, as she confirmed her resignation the move unwound, which was also supported by a move lower in risk assets as well. Nonetheless, the UK returns to the Conservative party leadership contest with a new PM due by the end of next week.

Scandi's were weaker vs the Euro on the downbeat risk tone. SEK found little support from ongoing hawkish commentary from the Riksbank with Ingves noting there is no need to be cautious when moving forward with rate hikes, noting if we do not act now, it could lead to even more severe/negative effects later on. Will do what is necessary to bring inflation back to target.

EMFX was mixed. In India, the RBI stepped in to sell more USD when the INR slumped to a new record low and the BI hiked 50bp to assist the IDR, but the TRY was hampered by the CBRT delivering a larger than expected 150bp rate cut (-100 bp anticipated) and flagging a final reduction of the same size in the easing cycle. Conversely, the ZAR pared declines with Gold and the BRL outperformed, partly on a softer USD and pre-round two Brazilian election positioning.