US Market Wrap

21st October 2022: Fed pivot signal and Yen intervention lifts risk and hits Dollar

- **SNAPSHOT**: Equities up, Treasuries mixed, Crude up, Dollar down.
- **REAR VIEW**: Fed set to reduce hike increment from Dec FOMC; Japan intervenes after Yen hits new lows; Daly says Fed interventions are not QE; Germany suspends the debt brake; SNAP warnings hit ad-levered tech; AXP gives weak guidance; VZ weak sub additions.
- **CENTRAL BANK WEEKLY**: Previewing BoC, ECB, BoJ, CBR, NBH and BCB. To download the report, please click here.
- **WEEK AHEAD PREVIEW**: Highlights include ECB, BoC, BoJ, PMIs, Aus CPI, Tory Leadership Race. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [TUES] UPS, KO, RTX, TXN, V, MSFT, GOOGL; [WED] TMO, BMY, BA, META; [THURS] LIN, MRK, HON, CMCSA, MCD, MA, INTC, AMZN, TMUS, AAPL; [FRI] CVX, XOM, NEE, ABBV. To download the full report, please click here.

MARKET WRAP

Stocks caught a hefty bid and inflation breakevens bounced Friday thanks to dovish Fed developments after Fed whisperer Timiraos at the WSJ suggested the November meeting will be used to discuss a slowdown of Fed tightening. Fed's Daly (non-voter) later echoed that sentiment and even went as far as to mention that Fed intervention is "different from QE", raising speculation on any potential Fed operations akin to the BoE's latest measures. Also supportive of risk was the downside in the Dollar on fresh Japanese intervention in USD/JPY which saw the pair fall from highs just shy of 152.00 to lows of 146.23 taking the DXY to session lows back beneath 112.00 before it reclaimed the level later on, albeit still in the red. The dovish Fed prospects and Japanese intervention helped support Treasuries too, although whether Japan is selling Treasuries or tapping existing reserves to intervene remains to be seen. The Treasury bid was led by the short end, steepening the curve with long bonds remaining lower: 2s30s curve spread rose over 20bps, now sitting under 20bps in inversion. The gains in stocks had now more than offset earlier weakness after earnings last night from Snap (SNAP) gave a rather grim outlook for names that benefit from advertising, weighing on heavyweights Google (GOOGL) and Meta (META), albeit the rally helped Google pare its losses while Meta was off lows, but still closed in the red. Snap (SNAP) was still down 30%. Elsewhere in earnings, American Express (AXP) was hit on weak guidance, warning about its positioning for a potential downturn in the economy, while Verizon (VZ) was hit after weak FIOS video subscribers. We now enter the Fed blackout period from Saturday ahead of the earnings season peak next week.

FED: Fed whisperer Timiraos at the WSJ reported the Fed is heading towards its fourth consecutive 75bp hike in November, in line with expectations and market pricing after the latest September CPI report, although, crucially, he noted the meeting could serve as a critical staging ground for future plans - including whether and how to step down to a 50bps hike in December. It is worth noting one line in the article pointed out that the Fed in December could also lift its dot plot projections while opting for a smaller 50bp hike. Later on, Fed's Daly (2024 voter) came out with a slew of notably dovish remarks - saying she does not want to be too reactive as they can easily find themselves over-tightening and she wants to avoid an unforced downturn by overtightening. She also acknowledged the Fed doesn't just have to keep going up at 75bps increments, they will do a step-down, not to a pause, but to 50 or 25bps increments. She did caveat noting more tightening is needed, but it is clear she is concerned about the risks of over-tightening and is signalling the start of a slowdown in the aggressive policy. She also maintained the view of the Fed dot plots that rates between 4.50-5.00% is "reasonable". Meanwhile, Daly said that interventions to stabilise a dislocated market are "very different from QE", adding that if the Fed had a dislocation in markets it could solve it even as it hikes rates and rolls off the balance sheet. The remarks are particularly striking given its the first time a Fed official (post-COVID) has publicly alluded to renewed Fed operations, raising speculation on whether the Fed could be laying the groundwork for any BoE-esque operations. Elsehwere, Bullard (2024 voter) said he wants rates that put meaningful pressure on inflation and what that level is a key debate for the November and December meetings. Adding that at that point they can make minor adjustments.

YEN INTERVENTION: There was more intervention from Japan on Friday after USD/JPY tested 152.00 to the upside before ultimately moving to lows of 146.23 in a quick, aggressive manor - price action that is indicative of official intervention. Japanese officials said they would not comment on the matter when asked by newswires. However, a sources piece in Nikkei noted both the BoJ and government decided to intervene by buying the Yen and selling the

Dollar. It is not clear whether the BoJ/MoF used existing Dollars within its reserves to buy the Yen, or sold Treasury holdings to source the Dollars. Economist, and ex-Treasury official, Brad Setser noted "the last intervention [in September] mapped to a drop in the securities portfolio, not a fall in MOF/BoJ deposits. But they equally have plenty of cash on hand so they wouldn't need to sell bonds, and if they did sell, it would be the near dated stuff I would think." The MoF will release its October reserves data at the beginning of November, which should be telling on whether it tapped existing reserves (gauged via changes in foreign currency deposits at central banks/BIS) or sold Treasuries.

FIXED INCOME

TREASURY WRAP: T-NOTE (Z2) FUTURES SETTLE 14 TICKS HIGHER AT 109-25+

Treasuries saw pronounced steepening after WSJ's Timiraos telegraphed a smaller December hike, while Fed's Daly alluded to potential Fed intervention "different from QE". 2s -12.3bps at 4.487%, 3s -13.0bps at 4.525%, 5s -10.2bps at 4.348%, 7s -6.7bps at 4.289%, 10s -1.1bps at 4.215%, 20s +8.8bps at 4.575%, 30s +10.3bps at 4.318%.

Inflation breakevens: 5yr BEI +7.7bps at 2.683%, 10yr BEI +2.6bps at 2.530%, 30yr BEI +4.3bps at 2.516%.

OVERNIGHT: Entering Friday there was selling seen across global bonds after Germany approved the debt brakes suspension to fund their EUR 200bln energy support scheme, while initial Yen weakness (new peaks in USD/JPY made at 151.94) further reduced the Treasury demand outlook for Japanese players, who are a key cohort of buyers for the Treasury market.

NEW YORK: Selling at the London/NY handover saw T-Notes print session lows of 108-26+. That soon changed after WSJ's Timiraos penned a pre-FOMC blackout piece noting officials are all set for a 75bps hike in November but are looking at dialling back the increment to 50bps in December, with the front-end leading the curve, while inflation breakevens rallied higher. There was even more Treasury buying in wake of the BoJ intervening to prop up the Yen, not to mention Fed's Daly who spoke particularly dovish, echoing the earlier WSJ piece about dialling back the hike increments soon, warning of the risks of overtightening. Daly raised eyebrows (and Treasuries) further by saying Fed intervention to stabilise a dislocated market is very different from QE, saying if there was a dislocation, Fed could solve it even as it hikes rates and rolls off the balance sheet. T-Notes made session highs of 109-31 at noon in NY, hovering near highs into the settlement/weekend.

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 +9bps at 94.92, H3 +12.5bps at 94.84, M3 +14bps at 94.88, U3 +15bps at 95.005, Z3 +16.5bps at 95.155, H4 +17.5bps at 95.37, M4 +16.5bps at 95.555, U4 +15bps at 95.685, Z4 +13.5bps at 95.795, Z5 +7.5bps at 95.975, Z6 +3bps at 95.93.
- NY Fed RRP op. demand USD 2.266tln (prev. 2.234tln), across 100 bidders (prev. 99).

CRUDE

WTI (Z2) SETTLED USD 0.54 HIGHER AT 85.05/BBL; BRENT (Z2) SETTLED USD 1.12 HIGHER AT 93.50/BBL.

Oil prices were modestly firmer on Friday, but perhaps not as strong as expected given continued China reopening optimism and Fed-induced risk appetite, with pronounced Dollar weakness. The oil benchmarks closed essentially flat on the week, and perhaps it's noteworthy that more gains couldn't be made Friday given the pronounced Dollar weakness and broader risk appetite, with other commodities (i.e. metals) performing much better. That's not to mention the latest OPEC+ production cuts hanging over the market. Note also some fresh headline-driven upside Friday on Bloomberg reports citing a statement that Saudi and China are said to be ready to cooperate on oil market stability. Meanwhile, the Baker Hughes US rig count for the week saw oil rigs +2 at 612 and nat gas flat at 157, leaving the total +2 at 771.

EQUITIES

CLOSES: SPX +2.36% at 3,752, NDX +2.39% at 11,310, DJIA +2.47% at 31,082, RUT +2.26% at 1,741.

SECTORS: MATERIALS +3.46%, FINANCIALS +2.92%, CONS DISC +2.92%, ENERGY +2.76%, TECHNOLOGY +2.65%, INDUSTRIALS +2.65%, HEALTH +2.21%, UTILITIES +1.84%, CONS STPL +1.55%, COMMUNICATION SVS +0.85%, REAL ESTATE +0.68%.

EUROPEAN CLOSES: EURO STOXX 50 -0.46% at 3,476, FTSE 100 +0.37% at 6,969, DAX 40 -0.29% at 12,730, CAC 40 -0.85% at 6,035, FTSE MIB -0.62% at 21,567, IBEX 35 -1.29% at 7,545, SMI -0.46% at 10,425.

EARNINGS: **American Express (AXP)** beat on EPS and revenue; FY EPS view missed expectations at 9.25-9.65 (exp. 9.90). Although, provisions for credit losses of 778mln vs benefit of 191mln and said it was primarily driven by growth in card member loans, and changes in macroeconomic forecasts. **Verizon (VZ)** surpassed St. consensus on top and bottom line; FY EPS view was maintained, however it reprted a 9% Y/Q drop in FIOS video subscribers. VZ has begun a new cost savings programme that is expected to provide a reduction in annual costs of between USD 2-3bln by 2025. **Snap (SNAP)** beat on profit but missed on revenue with quarterly sales growth the slowest on record. Forecasted no revenue growth for Q4. SNAP weakness, weighed on peers with **Pinterest (PINS), Meta (META), and Alphabet (GOOGL)** all lower, although GOOGL losses were reversed but it still underperformed the market. **CSX (CSX)** topped on profit and revenue; benefitted from higher shipment volumes and higher prices. **Tenet Healthcare (THC)** marginally missed on revenue but the Q4 outlook was short of expected. Said it is working to recover from a cyber-attack earlier this year and a COVID spike among its workers. **Whirlpool (WHR)** posted a poor report; fell short on EPS and revenue alongside cutting FY forecast as it sees challenges persisting into H1 ’23. **SVB Financial Group (SIVB)** beat on revenue, but lowered its 2022 outlook for deposits, net interest income and net income margin.

STOCK SPECIFICS: The US government is reportedly mulling a security review regarding Elon Musk's deal to acquire **Twitter (TWTR)**, according to Bloomberg. However, since The White House said it is not aware of a National Security review, albeit commentators note there is no reason the White House would be informed. Following this, according to NY post citing sources, the deal is still on track. It was later reported Elon Musk’s **Twitter (TWTR)** takeover debt is to be held by banks due to turbulent markets; banks may sell some of the USD 13bln of Twitter debt around year-end, according to WSJ sources. Kushner offered to buy **Veris Residential (VRE)** in a deal that would be worth about USD 4.3 bln including debt, according to WSJ. **Toyota Motor (TM)** said its total global output in the year through March is likely to fall below its initial target of 9.7mln units due to an ongoing semiconductor shortage, with the automaker expected to revise down its outlook, according to Kyodo News. **Apple (AAPL)** industrial design chief Hankey is reportedly departing the co., according to Bloomberg.

WEEKLY FX WRAP

Greenback reflexes muscles before Yen resurgence

USD - A tweet by Fed watcher and WSJ correspondent Timiraos knocked the Dollar off its lofty perch as he opined that the FOMC is barreling towards a fourth straight 75 bp hike next month, but added that the meeting could serve as a critical staging ground for future plans, including whether and how to step down to 50 bp in December (see 13.54BST post on the Headline Feed for more extracts and a link to the full piece). However, the Buck recoiled further after dovish sounding remarks from Fed’s Day and what smacked of Japanese intervention (details in the paragraph below), with the DXY down to 111.680 having exceeded the prior w-t-d peak set on Monday, at 113.950 vs 113.200 against the backdrop of yet another romp in US Treasury and other global bond yields as curves continued to bear-steepen. On that note, the 10 year benchmark breached 109-00 in futures terms and 4.33% in cash from a 111-13 high and 3.91% low respectively. The debt rout was not the only story or theme driving sentiment or determining direction by any means, but among the main reasons behind risk aversion alongside further political turmoil in the UK and ongoing geopolitical issues. Data-wise, survey based indicators highlighted weakness in manufacturing and housing sectors, but industrial production, manufacturing output, capacity utilisation and weekly claims for October’s NFP catchment period were all better than expected.

JPY/CHF - The traditional funding currencies paid the price of divergence and less competitive premiums, irrespective of the ever present prospect of intervention from Japan’s MoF and the SNB, as the Yen slumped from just over 148.50 to almost 152.00 before the Greenback retreated, and the Franc came tumbling after within a 0.9920-1.0148 range. The pullback in Usd/Jpy when the Dollar and index were derailed and the latter retreated to a fresh Friday base, albeit marginal at 112.700, came with predictable shouts of official action, though unsubstantiated/unconfirmed and nowhere as effective as the actual selling that took place on September 22. Moreover, the BoJ stuck rigidly to its ultra-accommodative stance and is widely tipped to maintain all easy settings next week after offering to buy unlimited amounts of JGBs in defence of YCC and regardless of Japanese headline and core inflation accelerating to 3% y/y, marking the fastest pace for the latter since 2014. Nevertheless, a later and deeper reversal to probe 146.50, may well be construed as intervention given related pressure on the DXY, down to 111.710, with added impetus from a dovish sounding Fed's Daly (rental price inflation is starting to slow, don't want to be too reactive and can easily find yourself overtightening, would like to avoid an unforced downturn). Back to the Franc, and a wider Swiss trade surplus boosted by a pick-up in watch exports barely impacted.

GBP - As noted above, it proved to be another long, dramatic and politically focused week for Sterling that started in relief following new Chancellor Hunt's removal of all bar two of the remaining tax cuts from the mini budget. Cable climbed to circa 1.1440 in acknowledgement then faded and never managed to return as the knives really came out for PM Truss who might have been thinking that removing her previous neighbour, Kwarteng, from Number 11 Downing Street was sufficient to keep her in residence, but the backlash and rebellion was ultimately too strong and she duly resigned on Thursday. The Conservative Party is now seeking another new leader in time for October 28 and before the medium term fiscal plan that is still scheduled to be unveiled on Halloween, with two previous challengers in the running again and an 'older' face among the bookies' favourites as Johnson could conceivably regain the role of Tory chief and UK Premier.

AUD/NZD/EUR/CAD - Simply put, what a difference a day makes, or in truth only a few short hours, as the combination of what looks like a second MoF/BoJ attempt to arrest the Yen's slide and the aforementioned dovish-leaning Fed rhetoric lifted other majors from the doldrums and to higher recovery highs vs the Buck. Aud/Usd reached 0.6379 from just shy of 0.6200 at worst earlier in the week and post-paltry Aussie payroll gains plus a forecast from the Treasurer that 0.25% could be lopped off GDP due to floods and Nzd/Usd rebounded to 0.5766 from nearly 0.5550 at the opposite end of the spectrum after failing to sustain altitude when NZ Q3 CPI surpassed consensus and raised RBNZ rate hike expectations markedly. Elsewhere, the Euro reclaimed 0.9800+ status within 0.9875-0.9706 extremes, but witnessed volatility on EGB/UST fluctuations, mixed Eurozone data and had a stream of hefty option expiries to navigate, and the Loonie was whippy in tandem with WTI between 1.3879 and 1.3652, but also had hawkish BoC pricing to factor in as Canadian CPI and retail sales beat consensus and tilted the odds in favour of 75 bp from 50 bp for next Wednesday.

SCANDI/EM - A clear contrast in performances from/fortunes for the Sek and Nok, with the former sharply depreciating on Swedish economic concerns and the latter gleaning a degree of traction from a wider Norwegian trade surplus and net gains for Brent crude. On the EM front, yet more intervention from China, India, Hong Kong to name a few, but with varying degrees of success, while the Try was subjected to more unorthodox CBRT policy and a bigger than forecast 150 bp cut to key rates that more than offset latest measures aimed at enhancing Liraisation.