US Market Wrap

24th October 2022: Stocks bid ahead of earnings bombardment while China tech stocks dive

- **SNAPSHOT**: Equities up, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: More assumed Yen intervention; Rishi Sunak named UK PM; Xi secures third term with loyalists by his side; Weak PMI data for US, EZ and UK; AAPL raises Music prices.
- **COMING UP**: **Data**: German Ifo, US Consumer Confidence **Speakers**: BoE's Pill **Earnings**: HSBC; Logitech, ASM, Novartis, Orange, UBS, UniCredit; Alphabet, Google, Microsoft, ADM, General Electric, Coca-Cola, Visa **Supply**: UK, Germany & US.
- **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 were generally bid on Monday despite the downbeat session in Asia, where China and tech stocks were hit after Chinese President Xi secured a third term at the helm while stacking his inner circle with loyalists sparking fears of continued strict policy and tech regulation. US stocks were bid across the board although small caps underperformed somewhat ahead of a plethora of earnings this week in the busiest week of the Q3 season. Meanwhile, Treasuries continued to steepen post-Fed shift from Friday but in a bearish manner on supply from corporates in the long end but also ahead of short-end supply this week. Inflation breakevens also continued to rip higher, something the Fed will not be happy with as the latest messaging (Daly and Timiraos on Friday) suggests the Fed are wanting to step down their aggressive tightening process, but that is seemingly triggering a big easing of market-based financial conditions that threats refuelling inflation. The China news saw pronounced selling in the Yuan, but also the Antipodean currencies which are exposed to the nation. The Yen traded within a wide range on fresh talk of intervention after a sudden drop in USD/JPY overnight once again while GBP was initially supported in wake of Sunak being announced as the incoming UK PM after both Johnson and Mordaunt dropped out of the party race however the rally in Gilts on the new PM saw the fall in yields hurt the pound. Global data was mixed, generally: PMIs out of the US, EU, and UK were poor while the delayed China data saw GDP above expectations on a Y/Y basis and Q/Q while industrial output was also strong although retail sales missed estimates. The trade balance also saw a wider surplus than expected as exports accelerated while imports declined.

US

S&P FLASH PMI: S&P flash PMIs for October disappointed across the board as the manufacturing, services, and composite all declined and printed beneath consensus. Highlighting the poor report, manufacturing fell into contractionary territory reading 49.9 (exp. 51.0, prev. 52.0), while services showed a deeper contraction to 46.6 (exp. 49.2, prev. 49.3), while the composite dropped to 47.3 (exp. 49.3, prev. 49.5). Looking at some of the internals, manufacturing output marginally rose to 50.7 (prev. 50.6), but new orders fell back into contractionary territory and the fall in client demand was the sharpest since May 2020. The report notes, “the US economic downturn gathered significant momentum in October, while confidence in the outlook also deteriorated sharply, with the decline led by a downward lurch in services activity, fuelled by the rising cost of living and tightening financial conditions." Moreover, the report details, “while output in manufacturing remains more resilient for now, October saw a steep drop in demand for goods, meaning current output is only being maintained by firms eating into backlogs of previously placed orders." Looking ahead, S&P declared consumer price inflation should cool in the coming months.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 2 TICKS LOWER AT 109-23+

Treasuries continued their steepening post-Fed shift, but this time selling amid fixed income supply. 2s +0.5bps at 4.496%, 3s -1.7bps at 4.516%, 5s +0.0bps at 4.354%, 7s +1.2bps at 4.301%, 10s +2.2bps at 4.234%, 20s +3.2bps at 4.602%, 30s +6.8bps at 4.372%.

Inflation breakevens continue to rip higher at the long end: 5yr BEI +1.6bps at 2.715%, 10yr BEI +5.1bps at 2.598%, 30yr BEI +10.5bps at 2.636%.

THE DAY: T-Notes were bid out of APAC Monday, extending gains after Friday's dovish Fed developments and Yen intervention. Gilts were providing more external support ahead of Sunak's confirmation to be the new UK PM. Albeit, prices were off highs (110-15 for T-Notes) with some touted block sales in the belly driving the pull-back ahead of the NY handover. A fresh bout of selling picked up as the US session got underway with an eye to this week's 2s, 5s, and 7s auctions on Tues, Weds, and Thurs, respectively, whilst also some long-end supply on Monday to digest as corporates start coming out to line their coffers post-earnings. The selling was capped temporarily after the weak October US flash PMI data, although session lows were made not long after at 109-13, still a ways off their Friday, pre-Timiraos low of 108-26+. Note also there was some support in the NY afternoon stemming from the long end of the curve after Treasury Secretary Yellen noted at SIFMA that the 20yr bond is less liquid, saying no decisions had been made on it, whilst also adding that it was conceivable something could be done regarding Treasury buybacks. As a result, there was incremental richening seen in the 20yr bond on both the 10s20s30s fly as well as a tightening 20yr swap spread amid the heightened prospects of Treasury intervention.

STIRS:

- EDZ2 -3.5bps at 94.885, H3 -4bps at 94.80, M3 -2bps at 94.855, U3 -0.5bps at 95.00, Z3 +2bps at 95.17, H4 +3bps at 95.395, M4 +3.5bps at 95.59, U4 +4.0bps at 95.725, Z4 +3.5bps at 95.83, Z5 -0.5bps at 95.975.
- In options, the standout trade was the 100k+ of the SR3Z2 95.75/95.875 call spreads bought for 0.75.
- US sold USD 63bln of 3-month bills at 4.000%, covered 2.56x; sold USD 50bln of 6-month bills at 4.390%, covered 2.56x.
- NY Fed RRP op. demand USD 2.242tln (prev. 2.266tln), across 102 bidders (prev. 100).

CRUDE

WTI (Z2) SETTLED USD 0.47 LOWER AT 84.58/BBL; BRENT (Z2) SETTLED USD 0.24 LOWER AT 93.26/BBL

Oil prices were subdued Monday, albeit off lows, as Chinese import data continues to sit at relatively weak levels, while a stronger Dollar also weighed. WTI and Brent futures hit their lows at USD 82.63/bbl and 91.22/bbl, respectively, in the European morning before bouncing into the NY session as the Dollar pulled from highs after weak flash PMIs, just failing to break above their APAC session peaks of USD 85.92/bbl and 94.40/bbl. There was little major energy newsflow aside from the September Chinese trade data which saw a rise in oil imports M/M to 9.79mln BPD, albeit still remaining several per cent off the levels this time last year amid ongoing lockdowns. There were also fresh COVID concerns overnight after China suspended in-person schooling and dining-in at restaurants in a district in Guangzhou, "stoking concerns about the potential for disruption in the southern Chinese manufacturing hub that’s home to about 19mln people", according to Bloomberg. Meanwhile, in Europe, Bloomberg reported that the continent's largest refinery, Shel's (SHEL LN) Pernis complex (404k BPD capacity), reported its second fault this month.

EQUITIES

CLOSES: SPX + 1.19% at 3,797, NDX +1.06% at 11,430, DJIA +1.34% at 31,500, RUT +0.35% at 1,748.

SECTORS: Health Care +1.91%, Consumer Staples +1.79%, Technology +1.38%, Industrials +1.35%, Financials +1.35%, Communication Svs +0.9%, Utilities +0.82%, Energy +0.48%, Consumer Discretionary +0.48%, Real Estate -0.09%, Materials -0.62%.

EUROPEAN CLOSES: EURO STOXX 50 +1.47% at 3,527, FTSE 100 +0.64% at 7,013, DAX 40 +1.58% at 12,931, CAC 40 +1.59% at 6,131, FTSE MIB +1.93% at 21,982, IBEX 35 +1.79% at 7,680, SMI +1.69% at 10,594.

STOCK SPECIFICS: **Apple (AAPL)** is raising the price of Apple Music, Apple TV+ and Apple One from Monday, 24th October 2022. Of note for competitors **Spotify (SPOT)** and **Warner Music Group (WMG)**. **Tesla (TSLA)** cut Model 3 and Y prices in China due to “a continuation of consistent, fair, and transparent pricing principles to benefit the consumers”; comes amid signs of softening demand. Chinese tech stocks, **Alibaba (BABA), Pinduoduo (PDD), Baidu (BD), and JD (JD)**, saw pressure after President Xi secured an unprecedented third time leading to speculation of a continued crackdown on the country’s tech sector. Highlighting the weakness, **China’s Golden Dragon Index (PGJ)**

was down over 14.5%. **Goldman Sachs (GS)** launched a JV in China with local logistics company Sunjade in a bid to boost investment in Chinese logistics and infrastructure real estate assets. **Medtronic (MDT)** announced its intention to separate its combined Patient Monitoring and Respiratory Interventions businesses. Sumitomo is to acquire the remaining **Myovant Sciences (MYOV)** shares for USD 27/shr for a total of USD 4.9bln. **Phillips (PHG)** missed on sales and adj. EBITDA as it said performance was impacted by operation and supply challenges; immediately reducing the workforce by 4k roles globally. **ServiceNow (NOW)** upgraded at Guggenheim; said the digital workflow software company has admirable profit margins and a dependable customer base. South Korea's Mirae Asset plans to commit about KRW 300bln, or USD 208mln, to help finance Elon Musk's **Twitter (TWTR)** buyout, according to Reuters sources. US officials said to start talks with Chinese chip equipment maker Naura Technology Group over new export restrictions, according to SCMP sources.

FX WRAP

The Dollar was marginally firmer Monday while risk assets were generally bid too, with stocks finding gains while Treasuries bear-steepened. The preliminary October PMI data was disappointing, with the manufacturing PMI slipping into contractionary territory while the services and composite both declined more than expected - painting a rather bleak picture of the US economy. There had been some weakness in the buck overnight with DXY seeing a low of 111.760 before paring back to 112.0 at pixel time on fresh speculations on Japanese intervention given sharp currency moves.

The Yen was very volatile and saw a wide range between lows of 145.64 and highs of 149.69 with the pair now trading around the 149.00 level after fresh attempts of Yen support on speculated intervention once again from Japanese Officials. Analysts at Goldman Sachs write "Japan's current policy mix is clearly unsustainable; it is intervening in both the fixed income and foreign exchange markets, firmly entrenched in the classic "open-economy trilemma,"...while ultimately unsustainable, it is "working" to some degree". The desk notes the "yen's beta to US rates has fallen since the first intervention operation, and repeated intervention steps will likely keep it that way for a while, in part by inducing two-way volatility into USD/JPY". GS writes this is unsustainable in the medium term but believes this policy mix could be in place for some time. However, the strategists believe the trend in USD/JPY should still be higher at a time of ongoing Fed rate hikes, higher global rates, and their own forecast of a relatively soft landing in the US.

The Euro was flat vs the buck but saw gains vs the Pound with EUR/USD testing 0.99 to the upside but failing to rise above the psychological level while the latest PMI data was mixed with the EU manufacturing PMI falling more than expected deeper into contractionary territory while the services component was in line with expectations but the composite fell short of expectations. S&P Global noted, "The eurozone economy looks set to contract in the fourth quarter given the steepening loss of output and deteriorating demand picture seen in October, adding to speculation that a recession is looking increasingly inevitable." However, with global PMI data also struggling, the impact was fairly minimal. Attention looms to Thursday's ECB decision.

The Pound was weaker vs the buck and the Euro albeit off worst levels after the UK PM race came to a close with former Chancellor Sunak set to take the helm from Tuesday, supporting Gilts while UK CDS also narrowed although the move lower in yields weighed on sterling somewhat despite seeing initial gains to his victory. We will be looking for any commentary around the upcoming budget which was scheduled for October 31st (ahead of the BoE on November 3rd) and whether Rishi Sunak will keep this date as planned, or delay it. Meanwhile, UK PMI data was also disappointing, both the manufacturing and services components slipped deeper into contractionary territory while noting "GDP therefore looks certain to fall in the fourth quarter after a likely third quarter contraction, meaning the UK is in recession." BoE's Ramsden also spoke agreeing with this take from S&P Global, adding the BoE has to take account of the fall in the value of the pound which has been relatively stable. Ramsden also pushed back on any imminent changes to the BoE's reserve remuneration that has the Treasury on the hook for billions, saying no conversations have taken place with the Treasury.

Antipodeans and the Yuan were hit hard on Monday given the former's exposure to China with concerns mounting after China President Xi secured a third term while keeping loyalists within his inner circle, which sparked strong sales in China assets with the Yuan seeing its largest one-day drop since August 2019 on fears of strict policy from the CCP. More domestically, participants will be eyeing Australia's budget Tuesday. Meanwhile, Australian Treasurer Chalmers is widely tipped to downgrade the forecast for growth, partly due to the recent flooding that he has said may shave 0.25% off GDP over coming quarters. Back to China, delayed China data was released with GDP above expectations on a Y/Y basis and Q/Q while industrial output was also strong although retail sales missed estimates. The trade balance also saw a wider surplus than expected as exports accelerated while imports declined.

The Loonie was weaker vs the buck and rose above 1.3700 likely to the disappointment of the BoC after Macklem recently warned if CAD depreciation continues the BoC will have to do more. Attention is now on the BOC rate decision due Wednesday where analysts are now looking for a 75bp hike after the hot CPI data, in line with market pricing - although several analysts are still calling for a 50bp hike.

The Real depreciated in wake of a wider-than-forecast Brazilian current account deficit while the latest Brazillian election poll sees Lula edge a gain on Bolsonaro with 52% of support vs Bolsonaro's 46.2%, with support for Lula rising from 51.1% while Bolsonaro support fell from 46.5%, according to the latest AtlasIntel poll.

The Peso was flat vs the Dollar while the latest half months inflation came in mixed with headline Y/Y and M/M cooler than expected but the core metrics were hotter than expectations.