US Market Wrap

25th October 2022: Dash out of cash as stocks, bonds, and commodities spike higher

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Weak house prices, Richmond Fed and Consumer Confidence data; Weak 2yr auction; Musk to go ahead with TWTR deal as planned on Friday; Sunak names UK cabinet; China to expand demand; Mixed industrial earnings
- **COMING UP**: **Data**: US New Home Sales **Event**: BoC Policy Announcement **Earnings**: Barclays, Standard Chartered; Ubisoft, Santander, BASF, Deutsche Bank, Heineken, KPN, Mercedes-Benz, Puma; Meta, Boeing **Supply**: Italy, UK & US.
- **WEEKLY US EARNINGS ESTIMATES**: [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, bonds, and commodities were all firmer Tuesday while the Dollar saw broad-based selling. The bulk of the 'everything bid' came in the NY morning amid a sharp fall in the Dollar index away from recent cycle peaks. There weren't any obvious catalysts to explain the moves, although some attributed Chinese Commerce Ministry comments at the time about focus on expanding domestic demand and promoting a high level of opening-up as potential drivers, although that seemingly doesn't explain the strong bond bids. Cyclicals outperformed in stocks with the Russell 2k small cap index leading peers, while across the pond, Sunak's appointment as UK PM gave a strong bid to the domestically-focused FTSE 250. The weak US consumer confidence and Richmond Fed data were seemingly an afterthought for stock bulls. Meanwhile, the lowest growth in the Case Shiller 20-city composite index failed to hit housing names that instead took solace in the lower Treasury yields (30yr -12bps). Meanwhile, stock traders now position for large-cap tech earnings.

US

CONSUMER CONFIDENCE: US consumer confidence disappointed, the headline fell to 102.5, beneath the expected 106.5 and even outside of the forecast range while falling from the revised lower 107.8. Most of the decline was due to the fall in the present situation index which printed 138.9 (prev. 150.2) and is primarily driven by the state of the labour market, while the expectations index dipped to 78.1 (prev. 79.5). Regarding expectations, Pantheon Macroeconomics note, “the smaller decline is likely a reflection of stock market volatility and the small rise in gas prices in late September /early October, after they dropped sharply over the summer.” Additionally, the report notes, “concerns about inflation picked up again, with both gas and food prices serving as main drivers. Vacation intentions cooled; however, intentions to purchase homes, automobiles, and big-ticket appliances all rose.” Consumers' assessment of the labour market was mixed, as 48.0% of consumers said jobs were "plentiful," down from 49.2%, however, 11.4% of consumers said jobs were "hard to get," down from 12.4%. Looking ahead, the report concludes “inflationary pressures will continue to pose strong headwinds to consumer confidence and spending, which could result in a challenging holiday season for retailers.”

RICHMOND FED: Richmond fed manufacturing shipments fell into negative territory in October and printed -3 from the prior +14, while composite fell to -10 (prev. 0) and services came in at -8. Furthermore, shipments and volume of new orders fell from 14 and -11 in September to -3 and -22 in October, respectively, but employment was unchanged at 0 as hiring challenges persist. Additionally, the wage index slightly decreased but remain elevated, but business conditions slid to -16 (prev. -5), with considerably more firms pessimistic about conditions over the next six months. On supply chains, the report writes “there was little indication of supply chain relief since August, as the indexes for vendor lead time and backlog of orders remained steady, although both have improved dramatically since earlier this year.” Lastly, the inflationary gauges of average growth rate of prices paid and prices received both increased again in October, while expectations for both over the next 12 months also increased slightly.

HOUSE PRICES: US Case Shiller house prices recorded a second consecutive M/M decline in August of -1.3% in the 20 major cities, beneath the expected -0.5% and the prior -0.7%, taking the year-on-year rate of appreciation down to 13.1% from 16%. Delving into the details, every city experienced a price fall, but once again most of the major pain is on the West Coast with Seattle down 3.9% and San Francisco down 4.3%, but New York, Cleveland and Chicago saw much smaller falls, ING wrote. Moreover, the demand for houses is weakening as mortgage rates surge while housing inventory for sale is on the rise, meaning further large price falls are probable. As such, analysts note, whilst it is bad news for new homeowners, it can help to get broader inflation lower quickly. Looking forward, home price data is reported with a two-month lag and so do not reflect the most current conditions in the housing market; mortgage rates have increased about 180 basis points since mid-August. As such, Oxford Economics “expect home price inflation to slow in the remainder of 2022, falling to single digits by year-end and to 0% by Q2 2023.” Reasoning this, Oxford concludes “with home sales falling as deteriorating affordability sidelines many buyers, prices will have to adjust. However, inventory remains low, and we think that will keep a floor under home prices.”

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLE 26+ TICKS HIGHER AT 110-18

Treasuries rallied as part of a broader global sovereign bid with the belly outperforming while the front-end underperformed amid a weak 2yr auction. At settlement, 2s -1.2bps at 4.486%, 3s -5.1bps at 4.468%, 5s -9.8bps at 4.259%, 7s -11.8bps at 4.183%, 10s -12.2bps at 4.110%, 20s -11.3bps at 4.485%, 30s -9.9bps at 4.263%.

Inflation breakevens pared from recent peaks: 5yr BEI -6.3bps at 2.638%, 10yr BEI -5.6bps at 2.528%, 30yr BEI -8.3 bps at 2.542%.

THE DAY: T-Notes were firmer out of Europe and APAC Tuesday as part of broader global govvie strength, with the belly strongest ahead of 2yr note auction and some observed block buys helping the bid. The bullish momentum really picked up in the NY morning as part of a broader cross-asset bid amid some pronounced, broad-based Dollar weakness. The upside was somewhat of a head-scratcher given the moves came ahead of the weak US data (fall in consumer confidence and Richmond Fed indices), not to mention several more US corporate issuance announcements, including a seven-part USD 9bln bond deal from United Health (UNH). Regardless, T-Notes went on to print peaks of 110-31+ in the late NY morning, before paring somewhat into the 2yr auction, which was poor, albeit no further selling developed out the curve ahead of the 5yr and 7yr offerings on Wednesday and Thursday, respectively.

2YR AUCTION: A weak USD 42bln offering from the Treasury where the new cycle high stop of 4.460% still saw a 1.2 bps tail, not as bad as last month's 1.6bps tail but still worse than the six-auction avg. 0.2bps. The 2.59x bid/cover ratio was actually firmer than both the prior 2.51x and avg. 2.57x. The takedown saw Dealers (forced surplus buyers) left with 24.2%, up from last month's 22.2% and the avg. 19%, that increase was largely a result of a step-down in Indirect bidder demand.

JAPANESE SELLERS: Japanese life insurers' investment plans show a preference to cut holdings of foreign debt, mainly US Treasury bonds, in the second half of the fiscal year ending March amid elevated FX hedging costs, according to Nikkei citing the investment plan release. The article noted that the total level of selling is expected to be close to the amount in the first half, which was JPY 5.5tln according to MoF data).

STIRS:

- EDZ2 +2bps at 94.905, H3 +1.5bps at 94.815, M3 +1bps at 94.865, U3 +3bps at 95.03, Z3 +4.5bps at 95.21, H4 +6bps at 95.455, M4 +6.5bps at 95.655, U4 +7bps at 95.795, Z4 +7.5bps at 95.91, Z5 +12bps at 96.095, Z6 +14bps at 96.04.
- In options, the standout was 40k SR3H3 95.50/95/94.50 put flys bought for 14.5/15 in blocks.
- NY Fed RRP op. demand USD 2.196tln (prev. 2.242tln), across 102 bidders (prev. 102).

CRUDE

WTI (Z2) SETTLED USD 0.74 HIGHER AT 85.32/BBL, BRENT (Z2) SETTLED USD 0.26 HIGHER AT 93.52/BBL

Oil prices were firmer on Tuesday in a choppy session characterised by significant Dollar weakness. The oil futures had been selling off during the European session, eventually seeing WTI and Brent hit troughs of USD 83.06/bbl and 91.62/bbl at the NY handover. A pronounced pick-up in Dollar selling in the lack of an obvious catalyst saw oil and broader assets all catch a strong bid through the NY morning. WTI and Brent topped out before midday at USD 86.03 /bbl and 94.38/bbl, respectively. Traders now look to this week's US inventory data with the private release due later Tuesday. Current expectations (bbls): Crude +1.0mln, Gasoline -0.8mln, Distillate -1.1mln.

SAUDI: Energy Minister Abdulaziz said Tuesday that Saudia Arabia was ready to send more oil to Europe if approaching EU sanctions on Russian crude led to shortages. In his comments at a conference, he defended the OPEC+ decision to cut production as necessary in order to build a buffer if sanctions or any other events led to a major drop in global supply. He noted exports to Europe have already risen to 950k BPD from 190k BPD Y/Y whilst noting Saudi was in conversations with a slew of European countries to boost supply. The official also criticised the use of state reserve releases to push down on prices.

EU: Germany Economy Minister Habeck said that EU members have agreed on joint purchases for gas and have agreed to find a mechanism against price spikes. Habeck said he had asked the Commission to come up with a concrete proposal soon. The German official also announced plans to connect the hydrogen pipeline between Spain and France with Germany.

EQUITIES

CLOSES: SPX +1.63% at 3,859, NDX +2.10% at 11,670, DJIA +1.07% at 31,837, RUT +2.73% at 1,796

SECTORS: Real Estate +3.94%, Materials +2.53%, Communication Svs. +2.38%, Consumer Discretionary +2.34%, Utilities +2.02%, Technology +1.93%, Industrials +1.35%, Consumer Staples +1.27%, Financials +1.18%, Health Care +0.78%, Energy -0.05%.

EUROPEAN CLOSES: EURO STOXX 50 +1.64% at 3,585, FTSE 100 -0.01% at 7,013, DAX 40 +0.94% at 13,052, CAC 40 +1.94% at 6,250, FTSE MIB +1.40% at 22,289, IBEX 35 +1.49% at 7,794, SMI +1.74% at 10,779.

STOCK SPECIFICS: **Twitter (TWTR)** shares accelerated their gains after CNBC and Bloomberg reported the deal with Musk is intending to close the deal on Friday as planned. **Coca-Cola (KO)** beat on EPS and revenue; raised FY guidance amid demand remaining steady despite multiple price hikes due to rising costs. **3M (MMM)** missed on revenue but beat on profit; cut FY22 outlook amid macroeconomic challenges and the strengthening USD. **General Motors (GM)** surpassed on profit helped by rebounding sales, but missed on revenue; reaffirmed FY outlook. GM added supply chain constraints are easing, allowing it to increase inventories on dealer lots. **General Electric (GE)** fell short on EPS and cut FY EPS view due to supply chain issues and higher costs. Note, it topped consensus on revenue. **UPS (UPS)** posted a mixed report; beat on EPS but revenue missed. UPS was helped by expanded profit margins as it raised prices. **Corning (GLW)**, **Apple (AAPL)** supplier, EPS and revenue printed in line, but next Q guidance was light of expected. **Raytheon Technologies (RTX)** missed on revenue and cut its FY22 revenue view. However, RTX beat on profit and raised its FY EPS view. **Qualtrics (XM)** posted a surprise profit per share and beat on revenue; strong guidance as it raised FY22 outlook. Some advertisers were initially all-in on **Netflix's (NFLX)** ad tier, but many are now planning to buy ads on competitors like **Amazon (AMZN)** or **Disney (DIS)** instead, according to Business Insider. **Meta (META)** Pay partnered with **JPMorgan (JPM)** to expand Meta Pay as a checkout option to their network of merchants.

FX WRAP

The Dollar took a hit on Tuesday amid an overall dovish reaction perhaps supported by a flurry of weak data points with weak home prices showing more signs of slowing, although the moves had already occurred before the Richmond Fed disappointed and consumer confidence missed expectations, with the prior month downwardly revised. The Dollar saw pronounced downside while stocks and bonds caught a hefty bid (crypto also followed the bid). With the Fed in blackout and the last messaging from Daly and WSJ's TImiraos being rather dovish, the weak data could have added to the arguments for a slowdown in aggressive policy after November. DXY found support just above the 50dma (110.70) with a low of 110.75 and traded well off highs seen earlier of 112.130.

The Euro was propelled by weakness in the Dollar, seeing EUR/USD edge closer back towards parity, finding a high at 0.9976 on Tuesday from lows of 0.9849. EZ data saw a mixed German Ifo survey with banks flagging significantly tighter credit standards in Q4 vs the latest ECB lending survey for Q4. Attention now lies on the ECB rate decision due Thursday, full Newsquawk preview available here.

The Yen strengthened vs the buck to the delight of the BoJ and MoF with USD/JPY falling sub 148.00 and managing to hold there for now. With the sudden price movements on Monday there were reports in Kyodo that Japanese intervention may have been several hundred billion's worth of Yen. Analysts at Nomura are not confident in the Yen appreciation and maintain their view of USD/JPY at 155 is their target for the end of November with the Yen likely to push to the 150-155 range. It is also worth highlighting reports in Nikkei that Japanese life insurers investment plans show a preference to cut holdings of foreign debt, mainly US Treasury bonds, in the second half of the fiscal year ending March amid elevated FX hedging costs. Nikkei noted the total level of selling is expected to be close to the amount in the first half of the year. BoJ Governor Kuroda said sharp one-sided Yen weakening is not desirable for the economy and the BoJ will work closely with the government to monitor financial and currency market moves and their impact on Japan's economy and prices.

The Aussie saw strong gains propelled by the risk on tone and weaker Dollar but it outperformed its Antipodean counterpart after the latest Australian budget. The budget is now seen at 1.5% of GDP for 2022/23, with 2023/24 seen at 1.8% and 2024/25 seen at 2.0%. Growth forecasts were in line with expected at 3.25% for 2022/23 albeit this was seen slowing to 1.5% the year after before accelerating to 2.5% in 2024/25. Inflation forecasts were also in line with expectations at 5.75% for the year before accelerating to 4.5% next year and staying there until 2024/25. Analysts at Rabobank highlight Treasurer Chalmers also suggested that Australia needed to maintain a prudent fiscal position (particularly after what was seen with the UK fiasco) seeing him pave the way for tax hikes and tax cuts to address a national debt and deficit larger than expected. Attention now turns to the inflation data Wednesday in Australia, which will be used to determine whether the RBA will opt for another slower 25bp hike at their meeting next week - something that markets are currently pricing in. On inflation, Rabobank noted the budget "made good some election promises in terms of offering cheaper childcare (only from next year) and more affordable prescription medicines. However, direct measures to appease the impact of the increase in the cost of living were light." The desk noted this should support expectations that the central Bank can still hike by 25bps next week, but caveated the inflation data could alter the view somewhat.

The Pound was the outperforming currency seeing Cable reclaim 1.13, 1.14 and test 1.15 while EUR/GBP fell sub 0.8700. The move happened amid the UK Cabinet Reshuffle after PM Sunak secured victory in the Tory party leadership contest on Monday while the overall Dollar weakness was also supportive, taking Cable to its highs to test 1.15. The round level has not been surpassed since the middle of September and poses quite a formidable obstacle after a couple of close attempts earlier this month.

The Looney saw gains thanks to the tumbling buck and risk tone which would be a welcome sign for Macklem ahead of Wednesday's BoC rate decision, although USD/CAD is well above where it was since the latest BoC meeting which was acknowledged by Macklem a few weeks back noting if CAD does not appreciate vs the Dollar the BoC will have to do more. A full Newsquawk BoC preview can be found here.

EMFX was mixed. The Real was weaker despite the risk tone, Dollar weakness and above-consensus inflation data. The Peso saw gains, primarily due to macro conditions, while the latest Mexican economic activity data was better than expected. The Rouble saw gains while the Lira was flat. The Yuan was firmer thanks to the Dollar but there was some earlier weakness in after the PBoC set the USD/CNY mid-point at 7.1668 vs exp. 7.1348 (prev. 7.1230); the weakest level since 2008. In CEE, the Hungarian Forint derived more traction from reports that Hungary may agree to EU conditions for aid.