US Market Wrap

26th October 2022: Big Tech drags indices lower while Dollar slides and Loonie lags on dovish BoC

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Dovish BoC 50bps hike; Poor tech earnings, as MSFT, GOOGL & TXN all disappointed; BA posts surprise loss per share; Chinese state bank intervention; UK medium-term fiscal plan delayed until November 17th; Solid 5yr US auction.
- **COMING UP**: **Data**: German GfK, US Durable Goods, GDP (Advance), PCE Prices Advance **Event**: ECB Policy Announcement **Earnings**: AB InBev, Carlsberg, Credit Suisse, Lufthansa, EDF, Evolution; Amazon, Apple, Intel, Caterpillar, Gilead, McDonalds **Supply**: US 7yr.
- **WEEKLY US EARNINGS ESTIMATES**: [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

The SPX and NDX were lower Wednesday with the tech sector leading the losses after disappointing Microsoft (MSFT), -7.7%, and Alphabet (GOOGL), -9.1%, earnings. The Russell 2k small cap index managed to hold onto strength, aided by the Dollar's weakness, with the DXY falling under 110, making fresh MTD lows (a factor that likely supported the strong 5yr auction today), but the Loonie lagged peers after the shock 50bps BoC hike added to the growing chorus of G10 central banks looking to put the brakes on tightening plans. Treasuries bull-flattened (10yr -9.5bps) with weak tech earnings and a dovish BoC supporting the complex, not to mention a strong 5yr auction. Inflation breakevens fell for a second session which Fed officials will be happy to see after long-end inflation breakevens saw a massive spike after last Friday's WSJ Timiraos article and Fed's Daly comments. Commodities bounced to the Dollar weakness, while oil prices found additional support after the EIA's US inventory data.

CENTRAL BANKS

BOC REVIEW: The Bank of Canada hiked rates by 50bp, which was smaller than the 75bp expectation, albeit the forecasts were very split between a 50 or 75bp move, market pricing however was leaning towards a 75bp hike. The dovish hike was met with the accompanied MPR which lowered its growth estimates, as well as inflation estimates. Within the statement, the BoC noted the effects of recent policy hikes are becoming evident in interest-sensitive areas of the economy suggesting its policy is starting to take effect. Guidance was maintained and the BoC continued to see further rate hikes ahead. Within the press conference, Macklem implied that the 50bp hike was still considered "bigger than normal" and suggested the magnitude of the next hike could be "big" or "normal" - suggestive of either a 50bp or 25bp move in December. Macklem noted the tightening phase will draw to a close, and they are getting closer to that point but they are not there yet. Despite the revision lower to growth forecasts in the MPR, Macklem reassured the BoC do not expect a severe economic contraction but they do expect growth to stall in the next few quarters, and once they are through the slowdown, growth will pick back up. On inflation, he said they are seeing early encouraging signs underlying inflation is coming down, although the statement suggested its preferred measures of core inflation are not yet showing meaningful evidence that underlying price pressures are easing. Macklem had suggested they are trying to balance the risks of under and over tightening which supports the case aggressive tightening is behind them with the BoC clearly cognizant of the risks of doing too much after front-loading their rate hikes. Looking ahead, analysts at RBC expect the end of the tightening cycle is near and are pencilling in one more 25bp hike in December, leaving the terminal rate at 4% although noted the BoC will want to see further easing in monthly core inflation measures and inflation expectations to pause at 4%. Overall a dovish rate decision and forecasts, while the end of the tightening cycle is among us - markets are now implying a terminal rate from the BoC at about 4.27%, as opposed to 4.43% before the decision.

ECB PREVIEW: With headline Y/Y HICP in September advancing to 9.9% from 9.1%, policymakers are set to deliver another outsized rate hike following a 75bps increase in September. In terms of market pricing, a 75bps hike is priced at around 80% and a 50bps increase at 20%. Beyond inflationary developments, growth concerns are continuing to mount in the Eurozone with the composite PMI metric declining to 47.1 in October from 48.1 in September. Nonetheless, with the ECB's 5y5y inflation expectations measure rising to around 2.3% from circa 2.2% at the time of the prior meeting, policymakers will be forced to raise rates again this month. In terms of other measures to be mindful of, source reporting on 13th October suggested that the GC discussed the timeline for the balance sheet reduction at the Cyprus meeting earlier this month. The report noted that the language regarding reinvestments could be tweaked at the October meeting, before outlining plans for a balance sheet reduction in December or February and then commencing QT sometime in Q2 2023. Elsewhere, the upcoming meeting could see policymakers alter the terms of its TLTROs given that banks can currently park cash from operations at the ECB and earn a risk-free profit following recent rate hikes. To download the full Newsquawk preview, please click here.

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NEW HOME SALES: New home sales fell 10.9% in September to 603k from 677k but above the expected 585k. Delving into the report, Pantheon Macroeconomics note despite the decline it still leaves them much higher than is implied by mortgage demand, after sales surged in August. As such, this disconnect between sales and mortgage demand likely reflects buyers rushing to lock in mortgage deals before rates spiked higher; Pantheon adds the 30yr mortgage rate held broadly steady through July and August but has since risen by nearly 140bp, to 7.16% last week. The supply of new homes rose to 9.2 months of sales, and Pantheon adds “the resilience of new home prices, so far, has been made possible by a lack of existing home inventory, but existing home supply is now rising—albeit from a low level—as homeowners scramble to sell before prices plunge.” While the M/M trend in the median new home price is still positive, just, the consultancy expects it to turn sharply negative over the next year and prices have a long way to fall before the market reaches a sustainable equilibrium.

ADVANCE GOODS TRADE BALANCE: Advance goods trade balance for September saw the deficit deepen by USD 4.9bln to USD 92.22bln. Despite the increase, the trade deficit still sits nearly 27% below its March peak. Looking into the details, exports edge down 1.5% to USD 177.6bln, while imports rose 0.8% to USD 269.8bln, with the former posting its second consecutive decline, as Oxford Economics cites domestic businesses facing pressures abroad, while the increase in imports is the first since March and is likely influenced by businesses gearing up for the holiday season early to avoid disruptions seen last year. Moreover, Oxford adds, “despite the widening in the trade deficit, we continue to see the signs of weakening trade flows with the precipitous decline in ocean freight rates and congestion at domestic ports in October highlighting the impacts of waning demand.” On imports, “the increase likely reflects an effort from businesses to pull goods in early ahead of the holiday season to avoid supply disruptions while exports continue to be pressured by the stronger dollar and weakening global demand”. Looking forward, OxEco expects the goods trade gap to narrow, albeit at a moderate pace.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 17 TICKS HIGHER AT 111-03

Treasuries bull-flattened on the day with weak tech earnings and a dovish BoC supporting the complex. At settlement, 2s -3.6bps at 4.431%, 3s -5.4bps at 4.408%, 5s -4.6bps at 4.211%, 7s -6.1bps at 4.121%, 10s -7.8bps at 4.032%, 20s -9.0bps at 4.399%, 30s -9.1bps at 4.173%.

Inflation breakevens fell for a second session: 5yr BEI -4.6bps at 2.580%, 10yr BEI -6.2bps at 2.452%, 30yr BEI -7.3 bps at 2.459%.

TOKYO/LONDON: T-Notes saw some fleeting selling pressure in sympathy with AGBs during the APAC session after hot Australian inflation data before rallying into the European morning. The contracts found resistance at 111-01+ before paring with Gilts amid a sub-par 7yr sale and as the UK's fiscal update was delayed, finding support around 110-22.

NEW YORK: T-Notes saw better buying develop in the NY morning. A slew of blocks in Dec expiry T-Note calls (likely a play/hedge on Fed pivot expectations) accompanied the grind higher, while weak mega-cap tech earnings couldn't have harmed the bid. T-Notes hit session peaks of 111-08+ in wake of the BoC's smaller hike than expected (50bps vs exp. 75bps), which saw stealth steepening at the time as the front-end led the bounce as another G10 central bank begins to hit the brakes on tightening. The contracts remained rangebound near highs for the remainder of the session, with losses capped after a solid 5yr auction taking the sting off the weak 2yr on Tuesday, and a positive ahead of the 7yr on Thursday. Treasury traders will now be cognizant of foreign event risk as the ECB looms Thursday.

5YR AUCTION: A solid USD 43bln 5yr offering from the Treasury that saw the first stop-through in the tenor since July. The 4.192% high yield marked a 1.8bps stop-through, a big improvement on September's 3bps tail and the six-auction avg. 1.2bps. The 2.48x bid/cover ratio exceeded both the prior 2.27x and avg. 2.36x. Dealers were left with a small 16.5% (avg. 19.4%), where Indirects (an imperfect proxy for foreign demand) saw a big jump to 68% from 59.6%, well above the avg. 61.8%. Assuming the Indirects surge was caused by large foreign demand (only provable when investor class allotment data is released in a few weeks), it's likely that foreign participants are making the most of the recent pullback lower in the Dollar, where FX hedges have also cheapened across October also.

STIRS:

- EDZ2 +7bps at 94.975, H3 +7bps at 94.885, M3 +8bps at 94.945, U3 +7.5bps at 95.105, Z3 +7bps at 95.28, H4 +6.5bps at 95.515, M4 +6bps at 95.71, U4 +5.5bps at 95.845, Z4 +5.5bps at 95.96, Z5 +6.5bps at 96.155, Z6 +6.5bps at 96.105.
- US sold USD 24bln of 2yr FRNs at a high discount margin of 0.140%, covered 2.65x.
- US sold USD 33bln of 17-week bills at 4.180%, covered 2.92x.
- NY Fed RRP op. demand USD 2.187tln (prev. 2.196tln), across 101 bidders (prev. 102).

CRUDE

WTI (Z2) SETTLED USD 2.59 HIGHER AT 87.91/BBL; BRENT (Z2) SETTLED USD 2.17 HIGHER AT 95.69/BBL

The crude complex pared into the black during the NY session and extended on gains throughout to see WTI and Brent hit highs of USD 88.41/bbl and 96.25/bbl, respectively. Note that Brent interest now shifts to the Jan'23 contracts given the Dec'22 options expire Wednesday. Oil-specific newsflow was light today, but the complex did bounce in wake of the EIA inventory data, where there was a larger crude build than expected, in fitting with Tuesday's private inventory data, while distillates saw a surprise build and gasoline a greater draw than expected, also replicating the private data. Additionally, weekly crude production remained at 12mln but refining utilisation fell to -0.6% (exp. 0.3%) from -0.4%. Elsewhere, according to Reuters sources, CPC postponed the second loading facility launch at its Black Sea terminal until early November after repairs due to bad weather. As a reminder, initial plans, touted by Kazakhstan, expected full capacity to return by mid-October; Russian and Kazakhstan export volumes have been suppressed due to just one of the three terminals operating. Lastly, Exxon (XOM) announced two new offshore Guyana discoveries at Sailfin-1 and Yarrow-1 wells in Starbroek block; the third major development on schedule for 2023 start-up

EQUITIES

CLOSES: SPX -0.74% at 3,830, NDX -2.26% at 11,405, DJIA +0.01% at 31,840, RUT +0.46% at 1,804.

SECTORS: Energy +1.38%, Health +1.12%, Materials +0.67%, Consumer Staples +0.65%, Industrials +0.34%, Financials +0.28%, Utilities -0.05%, Real Estate -0.15%, Consumer Discretionary -1.05%, Technology -2.23%, Communication Services -4.75%.

EUROPEAN CLOSES: EURO STOXX 50 +0.55% at 3,605, FTSE 100 +0.61% at 7,056, DAX 40 +1.09% at 13,195, CAC 40 +0.41% at 6,276, FTSE MIB +0.45% at 22,389, IBEX 35 +0.97% at 7,870, SMI +0.42% at 10,818.

STOCK SPECIFICS: **Boeing (BA)** posted a surprise loss per share and missed on revenue; CEO said earnings were significantly impacted by losses of USD 2.8bln on fixed-price development programmes in the defense business. **Microsoft (MSFT)** beat on EPS and revenue; commentary was poor as exec. noted PC sales were worse than expected and sees weaker PC and ad demand to continue into Q2. Looking ahead, Q2 segment breakdowns were light of expected and sees FY23 revenue to have a negative FX impact of 5%. **Alphabet (GOOGL)** missed on top and bottom line; Q4 headcount will be significantly lower than Q3, and will focus on moderating operating expense growth. CFO expects even larger FX headwinds in Q4, and expects that strong performance last year will continue to weigh on ad revenue growth in Q4. **Visa (V)** surpassed consensus on profit and revenue; raised dividend 20% to USD 0.45/shr and announced a 12bln share buyback programme. **Texas Instruments (TXN)** beat on EPS and revenue; guidance was poor as Q4 EPS and revenue view light and expects most of its end markets to decline, potentially with the exception of the automotive market. **Seagate (STX)** continued the theme of poor tech reports, as it missed on EPS and revenue; next Q guidance was way short of consensus. **Spotify (SPOT)** reported a deeper loss per share than expected; revenue came in slightly above forecasts and its monthly active user total exceeded estimates. **Harley-Davidson (HOG)** beat on EPS and revenue; reaffirmed FY22 revenue view. HOG noted higher shipments and strong pricing helped the Co. post strong results. Of note for **Live Nation (LYV)**, US President Biden said admin is looking at fees involving concert tickets and resort fees. **Apple (AAPL)** is developing its largest iPad yet (16-inch screen) that it aims to release in Q4 next year, according to The Information citing sources. **Zillow (Z)** reportedly is to lay off 300 employees, according to TechCrunch. **Tesla (TSLA)** faces US criminal probe over its autopilot technology; US DoJ probe involves co. claims that Tesla cars can drive themselves with its autopilot activated, according to Reuters sources. **Pfizer (PFE)** reportedly being probed in Italy over allegedly hiding USD 1.2bln profit, according to Bloomberg.

FX WRAP

The Dollar saw notable losses Wednesday to lows of 109.620 following a deeper retreat or retracement in line with US Treasury yields, partly due to perceptions of a Fed pivot towards less aggressive tightening following another 75bps rate hike at the upcoming FOMC policy meeting, but also on the back of broader repositioning that prompted a short squeeze in other currencies. Note, the Dollar saw little reaction in wake of the US data, where trade balance printed a deeper deficit and new home sales were better than expected. Ahead of the FOMC next Wednesday, the main data points this week are GDP on Thursday as well as UoM and Core PCE on Friday, with ECB risk also.

The Loonie was the G10 underperformer, albeit still firmer, but saw weakness in wake of the BoC rate decision where the bank hiked by 50bps, against slightly greater expectations for a 75bps hike, although do note there was no clear-cut consensus going in. Moreover, the accompanying statement noted that the effects of recent policy rate increases are becoming evident in interest-sensitive areas of the economy, with housing activity decelerating sharply, while spending by households and businesses is softening. USD/CAD climbed to around 1.3650 but pared back on reflection of guidance for further tightening and the line that the Bank’s preferred measures of core inflation are not yet showing meaningful evidence that underlying price pressures are easing. In the press conference, Governor Macklem noted the tightening phase will draw to a close and that moment is getting closer, but "not there yet". A saving grace for the currency was the gains seen in the crude complex.

Activity currencies, NZD, AUD, and GBP, all saw significant gains in excess of a per cent against the Buck on Wednesday, with the Kiwi the outperformer, as they all benefitted from the broader pullback in the Greenback. Cable hit a high of 1.1638, with technicians noting that level is the 2022 downtrend line, but Sterling-specific newsflow was fairly light aside from the announcement that the UK medium-term fiscal plan has been delayed until November 17th, which did weigh on Gilts at the time. The antipodes continued to benefit from the improved risk sentiment, highlighted by the gains in commodities, on top of Aussie Q3 CPI topping expectations and lifting 50bps RBA hike bets. On levels, AUD /USD topped 0.6500 to the upside to highs of 0.6511, while NZD/USD peaked at 0.5845 but ran out of momentum ahead of the round 0.5850. Looking ahead, Aussie trade data is due on Thursday ahead of PPI on Friday.

Safe-havens, Yen and Franc, all observed strong gains on account of the Dollar weakness as opposed to anything currency specific, highlighted by USD/JPY hitting a low of 146.23. The key risk event for the Yen watchers is the BoJ rate decision on Friday where the central bank is widely expected to keep its monetary policy settings unchanged with rates to be held at -0.10% and QQE with yield curve control maintained to target 10yr JGB yields at around 0%. The central bank will also release its latest Outlook Report containing board members’ median forecasts for Real GDP and Core CPI, which the Japanese press noted will include an increase in the current fiscal year CPI forecast to the high-end of 2% from the prior 2.3% view.

The Franc hit lows of 0.9853 having earlier in the session breached 0.9950 to the upside. Note that the SNB's Dollar swap line with the Fed saw little take-up in this week's auctions, with reports suggesting likely pushback from the SNB against domestic banks who were likely using the facility to arb cheap Dollar funding to make a profit in Swiss money markets.

The Euro, akin to its peers, gained against the Dollar far above 2022's well-defined downtrend line, after a smaller-than-expected BoC hike that desks note has increased doubts about peak Fed rates. Nonetheless, for the single-currency all attention will be on the ECB rate decision on Thursday, and the following presser, as aside from the size of the hike markets will also be focusing on discussions around the balance sheet and measures to address excess liquidity.

Scandi’s firmed with the NOK benefitting from the crude complex residing in the black, while **EMs** were mixed. CNH and CNY saw strong gains against the Dollar and continue to recover from record lows after major Chinese state-owned banks sold USD in both onshore and offshore markets in late trade on Tuesday to prop up the weakening Yuan. Meanwhile, the ZAR also significantly firmed on the back of rising gold prices and news the South African Government is considering taking on 1/3 to 2/3 of Eskom's debt. MXN, RUB, and BRL were all weaker with attention for the Real watchers on the BCB rate decision after-hours, where the central bank is expected to hold rates at 13.75%. Lastly, TRY was flat.