newsquawk

US Market Wrap

27th October 2022: Yields lower after dovish ECB while big tech takes a hit post-Meta

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude up, Dollar up.
- **REAR VIEW**: Dovish ECB; Mixed earnings, but woeful META numbers; GDP beat; Durables miss; Jobless claims better than expected; Weak 7yr auction.
- **COMING UP**: **Data**: Swiss KOF, German GDP (Flash), EZ Consumer Confidence (Final), Prelim CPI, US PCE Price Index, Uni. of Michigan **Event**: BoJ Policy Announcement **Earnings**: IAG, NatWest; Airbus, Danske Bank, Equinor, Signify, Volkswagen; Chevron, Exxon, Colgate **Supply**: Italy.

MARKET WRAP

Equities were mixed, with underperformance in the Nasdaq after the Meta (META) bloodbath after-hours Wednesday which saw weak guidance and a worrying expenses outlook. The earnings on Thursday morning were more encouraging, with strong results from MCD, MRK, CMCSA, HON, CAT - all constituents of the DJIA which helped the index outperform and close with a decent gain. There were still pockets of weakness however, with NOC, MA and WDC earnings disappointing. Overall, the ECB was dovish and added to the dovish tone of Central Banks this week after the BoC on Wednesday. The ECB hiked by 75bps, as expected, although there was no discussion on QT and they altered guidance slightly to see policymakers drop their "several meetings" guidance with regards to future hikes. Instead, they now expect "to raise interest rates further", but without providing a timeframe. During the presser, however, Lagarde suggested there might be several more hikes as decisions will be data-dependent while she also suggested QT could be discussed in December. The infamous ECB sources later suggested there will be no QT discussion in December, while the Doves implied the removal of the word several from guidance gives them options to end the tightening cycle in December if required, or possibly March, while the Hawks were downplaying the removal. US data overall was mixed with disappointing durable goods, particularly ex transport, while GDP was above expectations but the deflator saw a large miss. PCE for Q3 was in line with expectations, but attention turns to the September PCE on Friday. Jobless claims were marginally better than expected. The weakness in the Euro saw EUR/USD fall sub parity while it helped the Dollar rally although the Yen was flat against the buck. Treasuries rallied in wake of the dovish ECB and mixed US economic data, while the 7yr auction was weak after the fixed income rally.

CENTRAL BANKS

BOJ PREVIEW: The Bank of Japan will conclude its 2-day meeting on Thursday and 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. To download the full preview, please click here.

ECB REVIEW: As expected, the ECB opted to pull the trigger on another 75bps hike, taking the deposit rate to 1.5%. Interestingly, the accompanying statement saw policymakers drop their "several meetings" guidance with regards to future hikes. Instead, they now expect "to raise interest rates further", but without providing a timeframe. This adjustment appears to have been made with the aim of providing maximum flexibility to policymakers and enabling them to take a "meeting-by-meeting" approach as the Eurozone heads into a difficult winter. Elsewhere, the GC opted to change the terms and conditions of the third series of TLTROs and offer banks additional voluntary early repayment dates. Furthermore, the ECB opted to set the remuneration of minimum reserves at the ECB's deposit facility rate (previously the main refi rate). On the balance sheet, despite some hopes for a tweak to guidance on QT, the Bank made no changes to its language regarding reinvestments for PEPP and APP. At the follow-up press conference, Lagarde's qualitative assessment of the Eurozone saw the President caution that activity is likely to have slowed significantly in Q3 and is expected to slow down substantially over the remainder of the year. That said, the fight against inflation will keep the Bank in normalisation mode with inflation judged to be " far too high". When it comes to further rate hikes, Lagarde stated that the GC may need to go beyond normalisation and despite dropping the word "several" from the statement, she conceded that the ECB might need to hike "at the next several meetings". On the balance sheet, Lagarde noted that policymakers did not discuss substantive APP issues today, but would pursue a discussion of the key principles of APP in December, thus disappointing some who may have been looking for a more timely discussion and implementation of QT in early 2023. Overall, the dropping of the "several" meetings guidance in the statement and lack of discussion over QT provided a dovish slant to the announcement with the cycle peak rate seen at around 2.6% vs. circa 2.9% pre-release. In wake of the ECB, sources were mixed with a denial that QT will be discussed in December, while also noting the decision was not a unanimous one with three policymakers voting for a 50bp hike instead. On the guidance, the hawks were down playing the removal of "several" from guidance on further rate hikes while doves stated the guidance tweak paves the ground for ending hiked in December in case of improved inflation outlook or possibly in March.

US

JOBLESS CLAIMS: Initial jobless claims marginally rose to 217k from 214k but slightly below the expected 220k. Meanwhile, continued claims rose to 1.438mln above the consensus and prior of 1.388mln and 1.383mln, respectively. Delving into the report, Pantheon Macroeconomics note, the trivial rise in jobless claims leaves the trend steady, close to 220k. Looking ahead, Pantheon says a “run of favorable seasonals is likely to drive lower numbers over the next few weeks, but this does not necessarily mean all is well in the labor market.” The consultancy further adds “when demand first starts to soften, firms cut back hiring before they start laying off existing staff.” Numerically, PM thinks payroll growth is now slowing sharply, and their preliminary forecast for October is just 50K.

DURABLE GOODS: Durable goods rose by 0.4%, slower than the expected 0.6% gain while the prior saw an encouraging revision higher to +0.2% from -0.2%. The ex-transport component however saw a 0.5% decline, showing gains were primarily in the transport sector, missing the 0.2% gain expected and declining from the prior 0.3%. Ex-Defense saw a substantial 1.4% gain from the previous -0.3%, revised higher from -0.8%. The shipments rose by 0.3%, seeing another gain with the last 16/17 reports seeing shipment gains, albeit it was slower than August's 1.3% rise. The core print, nondefense capital goods ex-aircraft, declined 0.7%, despite an expectation for a 0.5% rise, while the prior was revised lower to 0.8% from 1.4%. Analysts at Oxford Economics note on the headline that high inflation results in an overstatement of the actual strength of durable goods, which the consultancy says is discouraging news for real business investment. The desk notes, looking ahead " The confluence of highly elevated inflation, higher interest rates, weakening demand, softening earnings growth and downbeat sentiment will cause durable goods activity to struggle next year. On an encouraging note, softening activity will lead to a better balance between supply and demand and reduce stress in supply chains." However, on a more positive note, it highlights softening activity will result in a better supply and demand balance and reduce stress in supply chains.

GDP: Q3 GDP data was a touch above expectations at 2.6% (exp. 2.4%, prev. -0.6%) although the deflator metric missed expectations and saw a notable decline to 4.1% from the prior 9.1%. Looking into the report, Capital Economics note the rebound in Q3 GDP looks impressive, but it was entirely due to a 2.7% boost from net external trade. Final sales to domestic purchasers, a better measure of underlying economic demand, increased by only 0.1% annualised, the worst showing since the second quarter of 2020 when the pandemic struck. Moreover, the reports note, the rise in real GDP reflected increases in exports, consumer spending, nonresidential fixed investment, federal government spending, and state and local government spending, but this was partly offset by decreases in residential fixed investment and private inventory investment. Additionally, imports decreased, reflecting the moderation in domestic demand growth. Looking ahead, Capital Economics note, while the 2.6% rebound in Q3 more than reversed the decline in the first half of the year, they do not expect this strength to be sustained, as the consultancy believes exports will soon fade and domestic demand is getting crushed under the weight of higher interest rates. On this, CapEco expects the economy to enter a mild recession in the first half of next year.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 19 TICKS HIGHER AT 111-22

Treasuries rallied in wake of the dovish ECB and mixed US economic data; 7yr auction was weak after the earlier rally. At settlement, 2s -9.3bps at 4.326%, 3s -10.5bps at 4.289%, 5s -9.4bps at 4.097%, 7s -7.6bps at 4.026%, 10s -7.0bps at 3.945%, 20s -5.7bps at 4.333%, 30s -6.5bps at 4.099%

Inflation Breakevens: 5yr BEI +3.4bps at 2.597%, 10yr BEI +2.6bps at 2.462%, 30yr BEI +2.4bps at 2.466%.

THE DAY: T-Notes drifted lower through the APAC session on light volumes with Bunds initially pressured ahead of the ECB. Session lows were made at 110-18 heading into the NY handover, before ripping higher in sympathy with EGBs after the ECB statement leaned on the dovish side, and continuing to bounce as Lagarde's presser continued to err on the cautious side with growth concerns raised, while Lagarde was coy regarding QT discussions, saying that reducing the APP portfolio was discussed at the recent retreat, and the GC deliberately did not discuss substantive QT issues, but would pursue discussions and decide on key principles in December. Later Bloomberg sources noted the ECB doesn't plan to set a QT start date in December discussions. Meanwhile, in the US, Q3 GDP came in at 2.6%, above exp. 2.3%, but September durable goods orders, particularly ex-transport figures, saw notable misses, raising concerns about the health of the manufacturing sector going ahead. T-Notes made session highs of 111-27+ as Europe departed, hovering near the levels into the 7yr auction, which ultimately came in on the weak side. Traders now cast their attention to next week's FOMC, with the Q3 Employment Cost Index due Friday, one of the key wage inflation gauges the Fed keeps track of, and September PCE after the hot CPI data earlier in the month.

7YR AUCTION: A disappointing USD 35bln 7yr offering from the Treasury as far as bidding metrics are concerned, although less worrisome when contextualised against the rally into the auction. The 4.027% high yield marked a tail of 1.1bps, worse than both September's 0.7bps stop-through and six-auction avg. 0.4bps stop. The 2.34x bid/cover ratio was worse than the prior and avg. 2.57x. Dealers (forced surplus buyers) were left with 14.1%, more than the prior 12.8% and avg. 11.9%, with tepid demand from Indirects (unlike Wednesday's 5yr), albeit slightly firmer than last month.

STIRS:

- EDZ2 +1.0bps at 94.985, H3 +3.0bps at 94.920, M3 +7.0bps at 95.020, U3 +11.0bps at 95.225, Z3 +13.0bps at 95.425, H4 +14.0bps at 95.670, M4 +13.5bps at 95.860, U4 +12.5bps at 95.985, Z4 +11.5bps at 96.090, H5 +10.5bps at 96.170, M5 +9.5bps at 96.215, U5 +9.5bps at 96.245, Z5 +9.0bps at 96.260.
- US sold USD 67bln of 1-month bills at 3.600%, covered 2.48x; sold USD 57bln of 2-month bills at 3.820%, covered 2.67x.
- NY Fed RRP op. demand USD 2.152tln (prev. 2.187tln), across 97 bidders (prev. 101).

CRUDE

WTI (Z2) SETTLED USD 1.17 HIGHER AT 89.08/BBL; BRENT (F3) SETTLED USD 1.25 HIGHER AT 95.04/BBL

The crude complex was firmer on Thursday; throughout the NY session oil pared losses seen in the European morning, despite a lack of oil-specific catalysts. Nonetheless, the pick-up seen in oil in the NY morning seemingly coincided with a rise in US equity futures. However, WTI and Brent managed to hold onto the momentum despite the stronger Dollar and sell-off in stocks. In terms of levels, WTI and Brent hit highs of USD 89.79/bbl and 95.30/bbl, respectively. In earnings, TotalEnergies (TTE FP) and Shell (SHEL LN) both reported strong earnings, highlighted by the latter doubling profits Y/Y with the CEO expecting oil price volatility to continue into 2023. Elsewhere, Russian President Putin noted Saudi Arabia's MBS supports balancing oil markets and oil price is not that important, adding that predictability and stability is important for oil markets. Lastly, Nigeria crude loadings for December saw Forcados at 216k BPD, and Bonga 124k BPD (prev. 90k BPD in Nov).

EQUITIES

CLOSES: SPX -0.61% at 3,807, NDX -1.88% at 11,191, DJIA +0.61% at 32,033, RUT +0.11% at 1,806.

SECTORS: Communication Services -4.12%, Technology -1.25%, Consumer Discretionary -0.72%, Health -0.58%, Materials -0.26%, Real Estate unch., Consumer Staples +0.04%, Energy +0.27%, Utilities +0.68%, Financials +0.75%, Industrials +1.14%.

EUROPEAN CLOSES: EURO STOXX 50 -0.02% at 3,604, FTSE 100 +0.25% at 7,073, DAX 40 +0.12% at 13,211, CAC 40 -0.51% at 6,244, FTSE MIB +0.90% at 22,590, IBEX 35 +0.64% at 7,921, SMI -0.98% at 10,711.

STOCK SPECIFICS: **Meta (META)** missed on EPS but beat on revenue; average price per ad declined more than expected. Q4 revenue guidance was light and FX was a significant headwind to advertising growth. It also raised its expense guidance at a time of slowing revenues. **Merck (MRK)** beat on the top and bottom line, as did its key pharma sales. MRK raised its FY22 adj. EPS view. **McDonald's (MCD)** topped consensus on profit and revenue; comp. sales were also stronger than expected. Although, it did add currency shifts hurt its global revenue, despite higher menu prices and promotions helping to drive US sales. **Honeywell (HON)** beat on profit citing strong growth in advanced materials, commercial aerospace and building products businesses but missed on revenue. HON raised FY sales growth, margin, and adj. EPS view and reaffirmed FY FCF view. **Caterpillar (CAT)** surpassed Wall St. expectations on EPS and revenue as robust demand, low inventories and higher prices helped it mute the impact of higher material and freight costs. **Align Technology (ALGN)** notably missed on EPS and revenue as it said results reflect continued macroeconomic uncertainty, weaker consumer confidence and a significant impact from unfavourable FX rates across all currencies. **Mastercard (MA)** beat on EPS and revenue; sees next quarter revenue growth impacted 6-7% by FX. **ServiceNOW (NOW)** beat on profit despite missing on revenue and Q4/FY subscription revenue guidance coming in short. **Twitter (TWTR)** issued a notice which said it is to be delisted from NYSE, effective on Friday. Separately, Elon

Musk reportedly told Twitter employees that he does not plan to cut 75% of jobs. **Credit Suisse (CS)** intends to raise USD 4bln from investors, cut thousands of jobs and shift its focus from investment banking towards its rich clients. **Samsung Electronics (SSNLF)** posted a strong report for current Q metrics, but it warned it expects tech and memory chip demand to remain weak in Q as well as a temporary slowdown in demand for foundry in H1 2023 but annual growth is expected from H2 2022. **Shopify (SHOP)** posted a shallower loss per share than expected and beat on revenue but missed on GMV. **Northrop Grumman (NOC)** missed on revenue. **Comcast (CMCSA)** exceeded the St. expectations for both EPS and revenue. **Spotify (SPOT)** pulls audiobook purchases from the iOS app after **Apple (AAPL)** blocks updates, according to The Verge.

FX WRAP

The Dollar saw a decent bid on Thursday primarily led by a weaker Euro after a Dovish ECB. US data was mixed, the Q3 GDP data was a touch above expectations although the deflator metric missed expectations and saw a notable decline to 4.1% from the prior 9.1%. Q3 PCE was in line with expectations at 4.5% but we get the up-to-date September PCE report on Friday for a more accurate picture of the pricing pressures the US economy is facing. On this, will see how it relates to the hotter-than-expected CPI report. Jobless claims came in a touch beneath expectations at 217k and marginally rose from last weeks 214k. The downbeat risk sentiment in stocks was also supportive of the Dollar albeit it was barely phased by the move lower in yields with fixed income in general trading off the ECB.

The Euro was weaker vs the buck after a dovish ECB followed by ECB sources which sent EZ yields tumbling seeing EUR/USD fall back beneath parity, once again. The ECB opted for another 75bp hike, however, there was no language around QT within the statement although President Lagarde suggested they will discuss it at the December meeting (Bloomberg sources later in the session pushed back on this, however). The ECB also tweaked its guidance somewhat by dropping the word "several" when talking about rate hikes over upcoming meetings, which implied an earlier end to the ECB's tightening cycle. However, Reuters sources later suggested that the hawks are playing down the removal of "several" from guidance on further rate hikes while doves were saying the guidance tweak paves the ground for ending hikes in December in case of improved inflation outlook or possibly in March.

The Yen saw marginal gains vs the Dollar with USD/JPY hovering around 146 with an intraday range of 145.12 to 146.92 with the lower yields giving a helping hand to Japan ahead of tonight's BoJ rate decision, full preview is available here. Note, Reuters suggested Japan's government outlay for economic stimulus is JPY 39tln, according to a final draft. There had also been reports in NYT that China, Japan and India have all sold Treasuries in recent weeks to help support their currencies.

The Yuan was weaker on Thursday, both offshore (CNH) and onshore (CNY) amid the rise in the Dollar and despite reports that China state-owned banks were seen dumping dollars to push CNY higher, according to Bloomberg citing traders. Meanwhile, overnight the PBoC set the USD/CNY mid-point at 7.1570, in line with expectations but stronger than the prior 7.1638.

The antipodeans were mixed with AUD falling vs the buck while NZD was flat, with NZD outperforming after commentary from RBNZ Governor Orr that more work needs to be done to get inflation back to target, helping AUD/NZD fall sub 1.11 amid the widening policy divergence between the RBA and the RBNZ. Also adding to AUD woes was the downbeat risk sentiment, stronger buck and weaker metal prices. The Looney was flat vs the Dollar after the post-BoC dovishness on Wednesday while it was somewhat supported by firmer oil prices. USD/CAD saw a low of 1.3496 but failed to maintain that level before paring to above 1.3550. GBP saw weakness and Cable fell sub 1.16 in fitting with the stronger dollar and downbeat risk tone while the weakness in the Euro saw EURGBP test 0.8600 to the downside.

EMFX was mixed. RUB and ZAR saw marginal weakness despite South African PPI being hotter than expected. TRY was flat despite the CBRT raising year-end inflation estimates to 65.2% from 60.4%. MXN and BRL saw gains, particularly the BRL after the BCB rate decision last night which saw the BCB maintain its rate at 13.75% as expected while maintaining guidance that it remains ready to resume tightening if required, while also noting it would maintain the tight policy until inflation returns to target. Mexican trade data posted a narrower deficit than was expected while the jobless rate also improved.

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