US Market Wrap

28th October 2022: Stocks rocket into month-end while real yields tumble

- **SNAPSHOT**: Equities up, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Shocking AMZN earnings; Final UoM little changed, but 1yr inflation expectations revised slightly lower; Stubbornly high US ECI/PCE data; Dovish BoJ; Hot European data; Hawkish ECB rhetoric; AAPL beat on EPS & revenue bit miss on iPhone sales.
- **CENTRAL BANK WEEKLY**: Previewing FOMC, RBA, Norges; reviewing ECB, BoJ, BoC, BCB, CBR. To download the report, please click here.
- **WEEK AHEAD PREVIEW**: Highlights include US FOMC, jobs data and ISM. To download the report, please click here.
- **UK TIME CHANGE**: UK Clocks changed from BST to GMT on Sunday, October 30th. As such, the time gap between London and New York is four hours until US clocks change on Sunday, November 6th.

MARKET WRAP

Stocks bounced with a tech bias (NDX > SPX) Friday and closed at session highs entering the weekend, while the S&P approaches its 100DMA. The upside came despite lacklustre Apple (AAPL) earnings and an awful Amazon (AMZN) report, with traders instead pointing to some likely month-end-related buying ahead of next week. It's also worth highlighting that the bulk of the strength came in wake of the US data, where real yields fell and inflation breakevens rallied after the Q3 Employment Cost Index (ECI) and Sept. Core PCE fell slightly as expected, and on margin, supporting the Fed's case for a deceleration to 50bps - an unexpected rise in the ECI could have "muddied" those plans, WSJ's Timiraos noted. Despite the bounce in inflation-linked bonds, Treasuries were sold through the whole session, initially in wake of the dovish BoJ, which was accompanied by further Yen weakening (which reduces Japanese demand for USTs and other foreign debt), and then made worse by some hot European inflation prints and hawkish ECB speak, taking the dovishness out of Thursday's ECB meeting. In FX, the Dollar had been mildly firmer against major pairs for most of the session, although that unwound in late trade (perhaps month-end related), although the Euro was largely sold.

US

UOM: The final UoM data for October was little changed but the headline sentiment was revised marginally higher to 59.9 from 59.8 in the preliminary survey, with the move supported by a rise in current conditions from 65.6 from 65.3, while the forward looking expectations were left unchanged at 56.2 The 1yr inflation expectations were revised lower marginally to 5.0% from 5.1% while the 5yr was left unchanged at 2.9%. Analysts at Oxford Economics write while the economy is embattled by rising prices and growing uncertainty over the economic outlook, consumers remain historically pessimistic while noting that any steps forwards are likely to be followed by two steps back. Looking ahead, OxEco adds "With a recession around the corner in H1 2023, we expect sentiment to remain depressed in the months to come."

PCE DEFLATOR: The Fed's primary inflation gauge, Core PCE, rose 0.5% M/M in Sept. as expected, which was also the same pace as the prior given the downward revision from +0.6% in August, while the Y/Y rose 5.1%, less than the expected 5.2%, albeit up from the prior 4.9%. Pantheon Macroeconomics notes, "The core deflator came agonizingly close to a 0.4% print - to three places, the increase was 0.451% - but the key point here is that the trend rate of increase clearly is slowing. The 4.5% Q3 increase followed gains of 4.7% in the second quarter and 5.6% in the first." Pantheon adds that the Y/Y rate, despite rising, is still down from the peak, 5.4% in Feb/Mar, and expects it to fall quite quickly over the next few months, hitting 4-to-4.25% by next March.

PERSONAL INCOME & SPENDING: Real personal spending in Sept. rose 0.3%, above exp. 0.2% and the same pace as the prior, which was revised up from the initial 0.1%. Personal income rose 0.4%, above exp. 0.3% and the same pace as the prior which was revised up a tenth. The spending bounce was due to an unexpected 0.6% jump in non-durable goods spending, with services consumption rising 0.3%. Spending on durable goods rose at a more sluggish 0.1%, where a 1% bounce in vehicle spending was the anomaly. Pantheon Macro, to wit, "Auto sales appear to have jumped sharply in October - thanks to improving supply meeting pent-up demand - with unit sales up by as much as 9% month-to-month. That would give a hefty boost to total consumption, creating a favorable starting point for Q4 as a whole." The consultancy sees real consumption rising 3% in Q4, up from the Q3 pace of 1.4%. Pantheon highlights the rise in real incomes supporting the spending bounce amid the dip in gas prices, "People are still drawing down their excess pandemic savings - by about $90B in September - but they still have some $1.3T left."

ECI: The Q3 Employment Costs Index rose 1.2%, as expected, and down from Q2's 1.3% and from Q1's 1.4%. Looking into the report, private sector wages and salaries rose 1.2%, a notable decline from last quarter's 1.6% surge. The annualized rates still sit at the 5% area, a level inconsistent with the Fed's 2% target, although the Fed will be content with the direction of travel, if not the speed. Ahead of the release, WSJ Timiraos (a Fed insider) wrote, "while the Fed isn't data-point dependent and the decision for next week of 75 basis points seems unlikely to change, another uncomfortably high ECI reading might argue for a somewhat higher terminal rate and could muddy the debate over slowing the pace in Dec." Thus, on the margin, the lack of an acceleration in the latest figures increases the likelihood of the Fed stepping down its hiking pace in December.

PENDING HOME SALES: Pending home sales fell 10.2% (prev. -1.9%) in September to 79.5 (prev. 88.5), way deeper than the expected 5% fall and outside of the consensus range, where the deepest expected fall was -6%. Pending home sales have declined every month this year (aside from May), and the most recent decline pushed the index to its lowest level since the start of the pandemic, and excluding that one-time drop, to the lowest level since 2010. On the data set, Oxford Economics notes, the additional rise in mortgage rates in September dealt another blow to homebuying affordability and pushed both buyers and sellers to the sidelines. As such, OxEco believes looking ahead the decline in pending home sales points to a sizable drop in existing home sales for October.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 22 TICKS LOWER AT 111-00

Treasuries were sold through the session after dovish BoJ, hot European inflation data, hawkish ECB speakers, and stubbornly high US ECI/PCE data. 2s +10.1bps at 4.422%, 3s +10.0bps at 4.383%, 5s +9.4bps at 4.184%, 7s +9.5bps at 4.101%, 10s +6.7bps at 4.006%, 20s +6.1bps at 4.389%, 30s +3.7bps at 4.131%.

Inflation breakevens bounced in wake of the ECI/PCE data: 5yr BEI +5bps at 2.638%, 10yr BEI +5.7bps at 2.512%, 30yr BEI +6.5bps at 2.523%.

THE DAY: T-Notes began their descent during the APAC session, coming on the heels of the dovish BoJ meeting, which given the Yen weakness, can be considered a bearish Treasury development. Selling continued in Europe, led by EGBs as ECB speakers came out in full hawkish force alongside hotter-than-expected regional CPI data, ex-Spain. T-Notes made session lows of 110-25+ in wake of the US ECI and PCE data, which both came in largely as expected, whilst showing some more tentative signs of a downtrend. Honeywell (HON) announcing a three-part USD debt issuance (2yr, 5yr, and 10yr) added to some deal-related selling. But, the downside didn't last long and T-Notes levelled out near lows for the remainder of the session. However, the front end kept selling off into the NY afternoon, returning to levels seen before Thursday's dovish ECB meeting, with traders now positioning into next Wednesday's FOMC.

STIRS:

- EDZ2 -6bps at 94.93, H3 -10bps at 94.825, M3 -13.5bps at 94.895, U3 -14bps at 95.095, Z3 -14bps at 95.295, H4 -14bps at 95.535, M4 -13.5bps at 95.73, U4 -12.5bps at 95.865, Z4 -12bps at 95.975, Z5 -12bps at 96.145, Z6 -11bps at 96.09.
- NY Fed RRP op. demand USD 2.183tln (prev. 2.152tln), across 99 bidders (prev. 97).

CRUDE

WTI (Z2) SETTLED USD 1.18 LOWER AT 87.90/BBL; BRENT(F3) SETTLED USD 1.27 LOWER AT 93.77/BBL

The crude complex was lower to end the week as the strong Dollar weighed, but WTD gains remain. Oil-specific newsflow was on the lighter side on Friday, although there were very strong Chevron (CVX) and Exxon (XOM) earnings, where the latter reported its best-ever quarterly profit which was fuelled by soaring energy prices. While CVX, in wake of its second-highest ever quarterly profit, said results were driven by soaring global demand for its oil and gas and rising production from its US oilfields. Elsewhere, the Caspian Pipeline Consortium (CPC) noted it is hard to predict when repair work at the morring terminal will finish due to weather, which comes after Reuters reports on Wednesday that the CPC postponed the second loading facility launch at its Black Sea terminal until early November from mid-October after repairs due to bad weather. Further on the production front, LyondellBasell (LYB) Houston, Texas refinery (268k BPD) ran at 86% capacity in Q3, or 215k BPD due to work, and intends to operate the Houston refinery at above 90% of capacity in Q4. Lastly, the weekly Baker Hughes rig count saw oil rigs down 2 at 610, nat gas down 1 to 156, seeing total fall 3 to 768.

EQUITIES

CLOSES: SPX +2.46% at 3,901, NDX +3.17% at 11,546, DJIA +2.59% at 32,861, RUT +2.25% at 1,846.

SECTORS: Technology +4.52%, Communication Services +2.98%, Utilities +2.86%, Financials +2.48%, Real Estate +2.39%, Industrials +2.38%, Consumer Staples +2.22%, Health +1.7%, Materials +1.03%, Energy +0.64%, Consumer Discretionary -0.3%.

EUROPEAN CLOSES: EURO STOXX 50 +0.24% at 3,613, FTSE 100 -0.37% at 7,047, DAX 40 +0.24% at 13,243, CAC 40 +0.46% at 6,273, FTSE MIB -0.27% at 22,529, IBEX 35 -0.06% at 7,916, SMI +0.56% at 10,766.

STOCK SPECIFICS: **Amazon (AMZN)** slumped following a poor report; missed on revenue, AWS, subscriptions, online, and physical stores sales. Next Q revenue guidance light of expected. Exec said Amazon was preparing for what could be a slower growth period and the stronger USD led to a USD 900mln headwind larger than it had anticipated. **Apple (AAPL)** firmed; beat on top and bottom line, but iPhone sales fell short of the expected. CFO said the performance was better than it had anticipated, despite FX being a significant negative as it saw nearly 10ppt Y/Y impact. **Intel (INTC)** surged; topped expectations on EPS and revenue. Q4 and FY22 revenue guidance short of consensus reflecting continued macroeconomic headwinds. Is taking steps to ‘optimise’ its headcount in Q4, which includes USD 3bln cost reductions in 2023. **T-Mobile (TMUS)** firmed; beat on EPS but missed on revenue, while all key metrics topped forecasts. Reaffirmed FY postpaid net customer view. **Chevron (CVX)** mildly firmer; reported second-highest ever quarterly profit, and as such beat on top and bottom line; driven by soaring global demand for its oil and gas and rising production from its US oilfields. **Exxon (XOM)** firmed; smashed profit expectations as soaring energy prices fuelled a record-breaking quarterly profit. **L3 Harris Technologies (LHX)** was weaker; missed on profit and revenue and cut FY guidance as an exec cited that despite its progress and rising demand, the current backdrop remains a challenge. **Pinterest (PINS)** surged; beat on EPS, revenue and MAUs; sees Q4 revenue growth of around 5%. **Google (GOOGL)** is planning a legal challenge to India's antitrust crackdown on Android, according to Reuters citing sources. **Gilead Sciences (GILD)** gained; beat on EPS and revenue while raising FY EPS view.

WEEKLY FX WRAP

Positioning, politics, plus policy pivots and perpetuation

USD/GBP/JPY - The Dollar and index extended declines on a mixture of long liquidation, further intervention and recalibration of Fed tightening expectations through the pre-FOMC blackout period as US Treasury and other global bond yields retreated sharply, from 4.29% to a fraction below 3.90% for the 10 year benchmark before settling around the psychological 4% mark, at writing. Moreover, the Buck was undermined by a stronger recovery in the Pound as uncertainty over the next UK PM ended promptly with the withdrawal of Sunak’s rivals and subsequent confirmation that Hunt would retain his position as Chancellor in the new Cabinet to oversee radical changes in fiscal policy having removed almost all of the unfunded tax cut pledges put forward by his predecessor. Indeed, Cable hit highs just shy of 1.1650 and a key technical level close by (Fib retracement aligning with a chart wave) from around 1.1260 and the DXY bottomed at 109.530 compared to a 112.540 peak. However, the Greenback looks set to end the week off worst levels amidst renewed Yen weakness within a 145.12-149.69 range in wake of the BoJ’s latest policy meeting and continuation of ultra-easy rate and QQE settings complimented by dovish guidance. On that note, Governor Kuroda delivered another press conference giving little sign of a shift in stance any time soon as he insisted that inflation will be back below target by the next fiscal year and beyond, while adding that the Bank is ready to provide more accommodation if necessary and monetary policy is not aimed at any specific FX rate. Hence, the onus is on the Government to ensure that currency moves are not excessive, rapid and too one-sided.

CAD/EUR - Aside from tracking moves in crude, broad risk sentiment and its US peer, the Loonie was looking for independent direction from the BoC given a marked paring back of hike expectations to leave markets split between 50 bp and 75 bp. In the event, the Bank opted for half point and signalled that the cycle is nearing an end, albeit not there yet. To recap, the accompanying statement noted that the effects of recent 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. Nevertheless, preferred measures of core inflation are not yet showing meaningful evidence that underlying price pressures are easing, and in the presser Governor Macklem said the BoC remains far from the goal of ensuring that inflation is low, stable, and predictable. Conversely, the ECB was widely tipped to make it back-to-back 75 bp hikes and did not disappoint, but there were dovish elements alongside the rate announcements that were somewhat undetected for a while amidst all the headlines about TLTRO adjustments. In short, terms and conditions of

TLTRO 3 were adjusted and banks were offered additional voluntary early repayment dates, while the remuneration of minimum reserves was set at the deposit facility rate instead of the main refi, but this detracted from the tweak to forward guidance from more tightening over the next several meetings to a more general increase rates further. In the presser, President Lagarde countered by saying that the GC may need to go beyond normalisation and therefore hike at one or more future meetings, though she responded to a question about QT with a no substantial APP issues were discussed and key principles will be on the agenda for December, which suggests the process is highly unlikely to start in early 2023. Usd/Cad is in the low 1.3600 zone between 1.3774-1.3496 bounds and Eur/Usd above 0.9900 within 1.0093-0.9808 extremes following hot Eurozone inflation data that knocked EGBs off lofty recovery perches (Bunds sub-138.50 from 140.92, but still comfortably above the w-t-d low seen on Monday, at 135.23).

AUD/NZD/CHF - The Aussie and Kiwi endured somewhat contrasting fortunes as the former was hit harder by external factors, such as a collapse in iron ore and other commodities, bar oil, plus Yuan depreciation, irrespective of domestic data that should have been supportive, like Q3 CPI. In fact, inflation beat consensus and hit multi-decade peaks to nudge up the probability of the RBA reverting to 50 bp tightening increments on November 1 from the downsized 25 bp move earlier this month, but Aud/Usd and the Aud/Nzd cross are both soft, latter even though Nzd/Usd lost impetus following a brief spike through the 50 DMA. Elsewhere, the Franc has been equally volatile, though more inversely correlated with its US peer and conscious of SNB reserve action via hefty drawdowns in Swiss bank sight deposits.

SCANDI/EM - A pronounced rebound in Brent from Usd 91.22/brl at one stage to Usd 92.27 at the other extreme and the Eur's post-ECB retreat gave the Nok a boost, while the Sek overcame several downbeat Swedish data points and survey releases to regain composure, but the Cnh and Cny unwound the bulk of their retracement gains vs the Usd on a combination of Chinese growth concerns, ongoing Covid restrictions and pressure on tech stocks due to US controls. The Brl was cautious pre-Brazilian election and post-unchanged BCB rate to confirm the end of the road in terms of tightening, albeit with a caveat to resume if the current SELIC level is not high enough to combat inflation, and the Try was troubled by yet another jump in year end Turkish inflation projections. On the flip-side, the Zar drew positives from SA's medium term budget and a pledge to take on one to two thirds of power utility Eskom's debt, and the RBI may get an unexpected boost to compliment intervention as the RBI is due hold an unscheduled meeting on November 3 to explain why it has failed to meet the inflation remit for 3 quarters in a row.