US Market Wrap

31st October 2022: Weak global data sees risk hit and Dollar bid ahead of key events

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Hot Eurozone inflation; Disappointing Chicago Fed PMI; Biden to float windfall tax on energy producers; AAPL iPhone output hit next month due to COVID restrictions; Weak China data, further domestic COVID woes; Treasury revised higher its Q4 funding estimates by USD 150bln.
- **COMING UP**: **Data**: Chinese Caixin Manufacturing PMI, UK & US Manufacturing PMI (Final), US ISM Manufacturing PMI, JOLTS, New Zealand Unemployment **Event**: RBA Policy Announcement **Earnings**: BP; Marathon, Phillips 66, Pfizer, Eli Lilly, Uber, AMD.
- **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.

MARKET WRAP

Stocks were lower to end the month with a sizeable sell-side market-on-close order imbalance. Weak China data and problems in the Russia/Ukraine grain deal (spiking wheat prices) were key factors entering the Monday session, with hot EZ inflation data and weak Chicago PMI and Dallas Fed survey data adding to the global demand woes and Dollar strength. Treasuries were sold across the curve amid hawkish Timiraos tweets over the weekend ahead of FOMC while traders also look to refunding. There was notable selling pressure at the long end late in the session after the Treasury revised higher its Q4 funding estimate by USD 150bln ahead of the Wednesday refunding announcement. Oil prices were lower amid aforementioned demand woes, while US energy producers faced selling pressure as a whole on reports Biden is mulling a windfall tax, although it's unlikely such measures would pass through Congress.

CENTRAL BANKS

FOMC PREVIEW (WED): The Fed is expected to hike its target Fed Funds range by another 75bps to 3.75-4%, with a firm focus on the guidance and Powell's presser as the FOMC looks to step down the pace of tightening as it approaches the terminal rate, roughly in the 4.5-5% area. That comes despite a lack of progress in bringing inflation down, with concerns rising around the risk of overshooting on hikes. As a hawkish offset to expectations around an approaching Fed pause, Powell could use the meeting to signal a higher terminal rate - there are no new SEPs at this meeting - than the September 'Dot Plot' implied [4.6%], whilst continuing to lean on the "higher for longer" messaging. Although dovish risks include Powell signalling 50bps in December whilst failing to guide to a higher terminal rate; too much focus on financial stability also risks shifting expectations to a Fed pause. For the full Newsquawk preview, please click here.

BOE PREVIEW (THURS): With Y/Y CPI running at an uncomfortably high 10.1% in September and the core metric advancing to 6.5%, policymakers are expected to deliver a “significant” rate hike after the 50bps adjustment in September underwhelmed some in the market. Expectations are for the MPC to hike the Bank Rate by 75bps to 3%, according to 18 /30 analysts surveyed by Reuters. In terms of market pricing, a 75bps hike is 95% priced in as bets for 100bps continue to recede. The decision to hike rates is expected to be unanimous, however, there is expected to be a split in views over the magnitude with Dhingra (voted for a 25bps hike in September) and Tenreyro potential dissenters. Note, the Bank has continued to push back on the aggressive level of market pricing with Deputy Governor Broadbent (20th Oct) noting that it remains to be seen if rates need to rise as much as currently priced in by markets. It’s also worth noting that by the time of the meeting, the Bank’s Gilt sale operation (short and medium-term) will have commenced after pushing back the start date in October. Elsewhere, the accompanying MPR projections will be subject to great uncertainty and potentially of limited use given that they can only factor in stated government policy. Given the fiscal event due on October 31st has now been pushed back to November 17th, the MPC will need to base its forecast on the Energy Price Guarantee being maintained for two years, instead of the shorter timeframe that Chancellor Hunt is expected to officially unveil. For the full Newsquawk preview, please click here.

RBA PREVIEW (TUES): The RBA is expected to hike the Cash Rate Target by 25bps to 2.85% at its meeting on Tuesday, although there are outside calls for a more aggressive increase of 50bps. The central bank surprised markets at the last meeting whereby it slowed the pace of rate hikes, while it reiterated that future rate increases will be determined by data and the Board's assessment of the outlook for inflation and the labour market. The latest inflation data continued to move further above the 2%-3% target which increases the pressure on the RBA to revert to a more aggressive path. For the full Newsquawk preview, please click here.

US

CHICAGO FED: Chicago Fed PMI for October disappointed, as the headline fell to 45.2 from the prior 45.7 and beneath the expected 47.0. The internals of the report were also disappointing, as the inflationary gauge of prices paid rose at a faster pace, signalling expansion. Elsewhere, business barometer and new orders declined at a faster pace, but employment, production and order backlogs all fell at a slower pace. Lastly, inventories rose at a quicker speed but supplier deliveries rose, but at a slower pace.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLE 13 TICKS LOWER AT 110-19

Treasuries were sold across the curve into month-end amid hawkish Timiraos ahead of FOMC while traders also look to refunding. At settlement, 2s +8.1bps at 4.503%, 3s +7.4bps at 4.463%, 5s +7.4bps at 4.262%, 7s +7.2bps at 4.177%, 10s +7.5bps at 4.085%, 20s +5.5bps at 4.444%, 30s +6.7bps at 4.196%.

Inflation breakevens rose: 5yr BEI +3.8bps at 2.666%, 10yr BEI +1.1bps at 2.517%, and 30yr BEI +2.2bps at 2.544%.

THE DAY: Treasuries saw bouts of selling pressure at both the Tokyo and London opens with global govvies pressured as we enter a week dominated by numerous Central Bank updates with Wednesday's FOMC the apex. US participants were particularly attentive to WSJ's Timiraos' tweets over the weekend drawing attention to strong US consumers, "a more resilient private sector means that when it comes to rate rises, the peak or "terminal" policy rate may be higher than expected." Pressure also from EGBs after better-than-expected domestic retail data before another hot EZ CPI print. T-Notes found support at 110-16+ in the European morning before US players faded the sales on their arrival, aided by weak Chicago PMI and Dallas Fed mfg. survey data; some corporate deal flow, including a USD 2.5bln three-part Comcast (CMCSA) offering, didn't make a mark at the time on Treasuries. The futures couldn't break above 110-28 before heading south again in the NY afternoon, extending to new session lows in-post settlement trade after the latest refunding estimates saw the Treasury raise its Q4 debt needs by USD 150bln vs. its August figures.

REFUNDING ESTIMATES: The Treasury released its aggregate borrowing estimates ahead of the refunding announcement on Wednesday. It expects to issue USD 578bln in net marketable debt in January-March 2023, assuming end-March cash balance of USD 500bln. Expects to issue USD 550bln in net marketable debt in the October-December 2022 period (prev. August estimate of USD 400bln), Q4 assumes an end-December cash balance of USD 700bln. Said increase in the Q4 borrowing estimate is due to changes in fiscal activity, greater-than-projected discount on marketable securities, and lower non-marketable funding.

STIRS:

- EDZ2 -5bps at 94.885, H3 -8.5bps at 94.745, M3 -10.5bps at 94.79, U3 -10bps at 94.995, Z3 -10.5bps at 95.19, H4 -10.5bps at 95.43, M4 -10bps at 95.63, U4 -9bps at 95.77, Z4 -8bps at 95.885, Z5 -6.5bps at 96.075, Z6 -7 bps at 96.015.
- In options, a downside-focused block of 21k SOFR Dec. 1yr mid-curve 95.00 puts for 9.5 stands out - targets Dec'23 futures implying a Fed rate above 5% (vs current 4.by December 16th this year.
- US sold USD 66bln of 3-month bills at 4.070%, covered 2.60x; sold USD 52bln of 6-month bills at 4.440%, covered 2.95x.

CRUDE

WTI (Z2) SETTLED USD 1.37 LOWER AT 86.53/BBL; BRENT (F3) SETTLED USD 0.94 LOWER AT 94.83/BBL

Oil prices were lower on Monday with weak China data and a stronger Dollar into month-end applying sustained pressure. Prices were already on the back foot out of APAC after Chinese factory activity saw an unexpected decline in October. There was a brief spell of strength in the US morning, but that ultimately unwound to see WTI (Z2) and Brent (F3) futures mark session lows of USD 85.30/bbl and 94.25/bbl near settlement.

WINDFALL TAXES: US energy producers saw their share prices hit on reports President Biden is floating a windfall tax on energy producers. A White House official confirmed that Biden will call on oil and gas companies to invest record profits in lowering costs for American families, warning that if oil and gas companies don't act, Biden will ask Congress to consider tax penalties and other restrictions. The proposals have drawn cynicism given the huge hurdles required to pass such measures in Congress, and the timing of the proposals on the cusp of the midterm elections. Note that Biden is to speak publicly Monday at 20:30GMT/16:30EDT on the topic.

ADIPEC: The energy conference so far has seen comments from the likes of Vitol, whose CEO noted significantly lower demand for oil products, warning of demand destruction for more months. Vitol also said China is unlikely to see a demand rebound until H2 2023. US Energy Envoy Hochstein said the US has called on oil producers to increase output. Occidental Petroleum (OXY) said the Co. appreciates what OPEC+ does to the balance of the market and would like the US government to gain better appreciation for relationships as the corporations have in the Middle East.

EQUITIES

CLOSES: SPX -0.7% at 3,871, NDX -1.22% at 11,405, DJIA -0.39% at 32,732, RUT -0.00% at 1,846.

SECTORS: Communication Services -1.67%, Technology -1.34%, Utilities -0.94%, Materials -0.89%, Financials -0.73%, Consumer Discretionary -0.69%, Consumer Staples -0.62%, Industrials -0.34%, Real Estate -0.22%, Health -0.08%, Energy +0.6%.

EUROPEAN CLOSES: EURO STOXX 50 +0.13% at 3,617, FTSE 100 +0.66% at 7,094, DAX 40 +0.08% at 13,253, CAC 40 -0.10% at 6,266, FTSE MIB +0.55% at 22,652, IBEX 35 +0.51% at 7,956, SMI +0.46% at 10,822.

STOCK SPECIFICS: **Apple (AAPL)** iPhone output at a major contract manufacturing facility in China could drop by 30% next month due to COVID restrictions. **Emerson Electric (EMR)** to sell a majority 55% stake in its climate technologies unit to **Blackstone (BX)**, in a deal that would value the business at USD 14bln, including debt; announced its quarterly earnings where it beat on EPS and revenue but EPS view for the next Q and FY fell short. **ON Semiconductor (ON)** beat on EPS and revenue; midpoint of next Q revenue view was short of consensus. **Thermo Fisher (TMO)** confirmed it has entered into a definitive agreement to acquire The Binding Site Group for roughly GBP 2.25bln or USD 2.6bln, led by European private equity firm Nordic Capital; announced a USD 1bln share buyback programme for Q4 2022. Investor Tilman Fertitta has taken a 6.1% stake in **Wynn (WYNN)**, according to an SEC filing. **Credit Suisse (CS)** invited at least 20 banks to join the syndicate for a CHF 4bln rights issue that should help the lender finance another multi-year restructuring programme, Bloomberg reports citing sources. **TuSimple (TSP)** faces federal investigations into whether it improperly financed and transferred technology to a Chinese start-up, according to the WSJ. **Keurig Dr Pepper (KDP)** was downgraded at Truist; believes the company's coffee business will prove to be a drag on sales and profit growth through 2023. **Petrobras (PBR)** was in focus after Lula won the Brazilian President election. Following this, JPM issued caution around PBR noting this new admin has openly criticised how has been run and discussed likely changes at the co. **Electronic Arts (EA)** reached an agreement with **Disney's (DIS)** Marvel for a three-game deal. US Senate Majority Leader Schumer said Congress is "very close" to passing a marijuana banking and expungements bill after working with Republicans. **Amazon (AMZN)** is reportedly starting an in-house line up of sports talk shows, according to NY Post. **Microsoft (MSFT)** has not offered any remedies to EU antitrust regulators reviewing its proposed acquisition of **Activision Blizzard (ATVI)** ahead of a full-scale probe, according to Reuters sources. Elon Musk instructed **Twitter** engineers to work on a Vine reboot that could be ready by year-end, according to Axios citing sources.

FX WRAP

The Dollar was firmer to start the week and printed a session high of 111.670, with hawkish WSJ Timiraos comments over the weekend cited ahead of a catalyst-filled week, namely the FOMC on Wednesday, followed by BoE on Thursday, and NFP on Friday. The Greenback saw through a disappointing Chicago PMI Monday which was beneath expected on the headline, while the inflationary gauge of prices paid rose. Furthermore, the Greenback benefited from the risk-off sentiment, which was in turn due to market participants awaiting the key risk events, as well as further China COVID curbs, and another leg higher in Eurozone inflation, not to mention food/geopolitical concerns after issues in the UN grain deal. Participants now look to US manufacturing ISMs, JOLTS, and construction spending on Tuesday ahead of the continuation of US earnings season.

Activity currencies were lower to varying degrees, with the Pound the G10 underperformer and saw losses in excess of a per cent against the Buck. Highlighting this, Cable lost a couple of round numbers to print a low of 1.1461. Nothing too incremental although the fallout continues in the UK over Home Secretary Braverman, while UK PM Sunak and Chancellor Hunt stated it is unavoidable that all Britons will pay more tax. For the Loonie, aside from the broad Dollar bid, it was also weighed on by the fall in the crude complex, which comes ahead of Canadian global manufacturing October PMI on Tuesday. Meanwhile, the Kiwi was the 'relative' outperformer, and flat against the Buck, but its Antipodean peer wasn't so lucky as AUD/USD fell to 0.6369 as market participants await the key RBA rate decision on Tuesday, where the central bank is expected to hike the main rate 25bps to 2.85%. Furthermore, the Aussie was underpinned by the risk-off theme as investors shunned riskier assets ahead of the key macro events for the week.

Safe-havens, JPY and CHF, were weaker with the Yen underperforming the Swissy vs the Greenback. USD/JPY rebounded to highs of 148.84, closer to the pivotal 149.00 level, again, in the face of wider UST/JGB spreads post-BoJ and pre-FOMC. Additionally, on intervention, Finance Ministry data showed Japan spent a record USD 42.8bln on multiple interventions in the FX market this month to attempt to cushion the Yen's fall. USD/CHF traded within a narrow range between 1.0032-0.9960 ahead of Swiss manufacturing PMI on Tuesday.

The Euro was lower as EUR/USD fell to a trough of 0.9873. Eurozone inflation data for October Y/Y printed another record as it soared to 10.7% (prev. 9.9%), and well above the expected 10.2%, as the reading painted ECB efforts to control runaway price growth in a bad light while markets prepared for another aggressive Fed hike. Elsewhere, there was little to report as ECB's Lane released slides on currency pegs, a euro area perspective, and Visco said rate rises must continue to reduce the risk of persistent high inflation, and there are no doubts that rates are not yet in line with the objective of the 2% inflation target. Lastly, de Cos noted recession risks are spreading and the outlook has darkened significantly.

EMFX was mixed. BRL saw strong gains, as did the RUB, but CNY/CNH and ZAR saw significant losses and the MXN was flat. For the Brazilian Real, Lula won the Presidential Election over the weekend and will take over from incumbent Bolsonaro early next year. Although, following Lula's win, JPMorgan noted Petrobras (PBR), as a state-owned enterprise (SOE), directions do change with an alteration in the country's political leadership as this new admin has openly criticised how Petrobras has been run. Elsewhere, the Yuan was hit on further COVID restrictions in China, as well as an unexpected decline in October Chinese factory activity. Lastly, the ZAR was hit on losses in the yellow metal.