US Market Wrap

1st November 2022: Fed terminal rate pricing rises after JOLTS bounce ahead of FOMC

- **SNAPSHOT**: Equities down, Treasuries mixed, Crude up, Dollar flat.
- **REAR VIEW**: China re-opening rumours; Mixed US data, as ISM Mfg. tops expected and prices paid falls but JOLTS see a notable rise; Hawkish ECB rhetoric as Nagel says a long way to go on rate hikes; LLY cut FY profit outlook; JNJ to acquire ABMD; Strong UBER EBITDA figures.
- **COMING UP**: **Data**: German Unemployment, EZ Manufacturing PMI (Final), Australian Composite & Services PMI (Final) **Event**: FOMC Policy Announcement & Press Conference **Supply**: Germany **Earnings**: GSK; Maersk, Osram, Vestas Wind; Qualcomm.

MARKET WRAP

Ultimately, stocks were lower on Tuesday with losses led by the Nasdaq with big tech taking a hit once again with the heavyweight Communication, Consumer Discretionary and Tech seeing the largest sectoral losses while Amazon (AMZN) closed beneath USD 1tln market cap after falling 5.5% in the session on continued post-earnings weakness. The sell-off accelerated after the JOLTS data and saw futures pare any overnight gains on rumours regarding a China re-opening (which was met with pushback from officials). The JOLTS data saw a notable rise above expectations which resulted in fresh hawkish market pricing to see market pricing imply a terminal rate north of 5%, with Treasuries seeing pronounced flattening. The rise in the ISM Mfg. survey was an afterthought, where the employment sub-index rose and the prices paid component fell. Oil prices were firmer despite the downbeat risk tone but were buoyed by China reopening rumours, and the Dollar was ultimately flat despite the hawkish market pricing ahead of Wednesday's FOMC - full preview below.

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.

NORGES PREVIEW (THURS): Expectations are divided evenly between a 25bp and 50bp hike going into the policy announcement, from the current 2.25%, with market pricing leaning towards the hawkish option at present. A 25bp hike would chime with the explicit guidance provided in September given concerns that the economy is cooling. However, price pressures continue to ramp up with headline and core CPI both surpassing forecasts for September and thus potentially justifying a 50bp increase. Additionally, and somewhat dependent on the magnitude announced in November, we look for any potential inferences within the statement as to how much tightening to expect next month; reminder, September's guidance implied 25bp at both the November and December meetings. Note, as this is an interim gathering there will not be a fresh set of forecasts, but we will still receive written guidance from the Bank and Governor Bach will host a press conference at 09:30GMT. For the full Newsquawk preview, please click here.

US

ISM MANUFACTURING: ISM manufacturing fell to 50.2 (prev. 50.9), but printed above the consensus of 50.0, while the internals were strong. Highlighting this, the inflationary gauge of prices paid fell back into contractionary territory of 46.6, well beneath the prior 51.7 and expected 52.5. Additionally, new orders and employment both rose encouragingly to 49.2 and 50.0, respectively, from 47.1 and 48.7. On top of this, production rose to 52.3 (prev. 50.6). Despite the prior three readings all improving, Capital Economics still note they are weak readings, and consistent with negative manufacturing output growth and modest declines in manufacturing payrolls. Further on the release, Capital Economics note, it "illustrates that global economic weakness and the earlier surge in the dollar are catching up with the factory sector. But the bigger news is that, partly due to that slowdown in demand, price pressures in the goods sector have collapsed." On the headline, CapEco adds, the decline was completely driven by a fall in the supplier deliveries component to just 46.8 (prev. 52.4), its lowest level since 2009, which is an encouraging sign for supply chains. In addition, there was a decline in the orders backlogs index. Overall, CapEco concludes "the upshot is that the ISM survey adds to the evidence that recovering supply and weaker demand are set to push inflation sharply lower over the coming months."

JOLTS: US JOLTS rose to 10.717mln in October (prev. 10.28mln) above the expected 10.0mln, in what was an unwelcome print from the Fed. Meanwhile, the quits rate held steady at 2.7%. The report highlights that the labour market remains tight, as the demand for workers continued to outpace the number of unemployed people looking for work. As such, this imbalance continues to put further pressure on inflation, as JOLTS continues to disrupt hopes of a continued decline after the notable fall in JOLTS in August from July's 11.239mln. On the dataset, Pantheon Macroeconomics says, "JOLTS numbers echo the results of a host of private sector surveys showing that labor demand is still high, but softening." Meanwhile, Pantheon says the "quits rates remain elevated, relative to the unemployment rate, but the gap is narrowing as labor market conditions normalize."

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED HALF A TICK LOWER AT 110-19+

Treasuries saw pronounced flattening as rising job openings data reignited hawkish Fed pricing. 2s +4.4bps at 4.545%, 3s +3.4bps at 4.489%, 5s +1.6bps at 4.265%, 7s +1.2bps at 4.174%, 10s -1.6bps at 4.061%, 20s -6.5bps at 4.383%, 30s -7.9bps at 4.127%.

Inflation breakevens: 5yr TIPS +4.6bps at 1.615%, 10yr TIPS +4.3bps at 1.556%, 30yr TIPS +0.0bps at 1.655%.

THE DAY: Treasuries entered the NY session Tuesday on the front foot after a broad pullback in yields post-RBA, with short-covering touted. T-Notes hit session highs of 111-20+ in the NY morning, with a cash 10yr yield low of 3.92%, before selling began to creep in. That gained some momentum on the revision higher in the final S&P Manufacturing PMI for October, before more front-end led selling accelerated after the JOLTS job openings data for September saw an unexpected rise, raising concerns on wage pressures/inflation. The rise in the ISM Mfg. survey was an afterthought, where the employment sub-index rose and price paid component fell. T-Note selling levelled off at 110-15+ entering the London close. All eyes to Wednesday's refunding and FOMC (preview here).

STIRS:

- EDZ2 -1.0bps at 94.880, H3 -6.5bps at 94.685, M3 -7.5bps at 94.720, U3 -7.5bps at 94.925, Z3 -5.0bps at 95.150 H4 -3.5bps at 95.410, M4 -3.5bps at 95.615, U4 -2.5bps at 95.765, Z4 -2.5bps at 95.885, Z5 -1.0bps at 96.095, Z6 +0.5bps at 96.055, Z7 +3.0bps at 95.960.
- Higher terminal rate plays post-JOLTS: 13.4k SR3H3 95.00/94.875/94.75/94.625 put condors for 2.5 and 4k SR3G3 95.00/94.75 1x2 put spreads for 0.75.
- Market maker, PNT options, notes, "People are now starting to position for 2023 now by selling call skew/vol for rates on hold for start of next year... More to come we think"
- US sold USD 39bln of 1yr bills at 4.505%, covered 2.83x.
- NY Fed RRP op. demand USD 2.201tln (prev. 2.275tln), across 102 bidders (prev. 112).

- SOFR volume (repo trades ex specials) surged to a post-COVID high (ex-year-end) for October month-end and Fed Funds volume dropped to the lowest since Jun. Likely as foreign banks step back from FF/IOR arb more now for window dressing, potentially as balance sheet constraints kick in.

CRUDE

WTI (Z2) SETTLED USD 1.84 HIGHER AT 88.37/BBL; BRENT (F3) SETTLED USD 1.84 HIGHER AT 94.65/BBL

The crude complex saw gains in the US morning, in fitting with the initial risk on theme highlighted by equities starting on the front foot and the dollar noticing losses, albeit these then reversed but crude held its ground thanks to the China re-opening rumours overnight, despite some official pushback. In wake of the US ISM manufacturing & JOLTS data, the risk sentiment reversed but WTI and Brent managed to hold onto their gains, albeit to settle off best levels. In the US morning, WTI and Brent hit highs of USD 89.45/bbl and 95.55/bbl, respectively. On oil specific newsflow, the White House Energy advisor said the US is to buyback 200mln barrels to refill SPR, while a Bloomberg Survey noted OPEC October crude output rose 30k BPD to 29.98mln BPD, with the output steady last month after the group pledged symbolic cut. Looking ahead, after-hours there is private inventory data, where the expectations are: Crude (exp. +0.4mln), Gasoline (exp. -1.4mln), Distillate (exp. -0.6mln).

PRODUCTION: Russian oil output stood at 9.9mln BPD in Oct (vs 10.8mln BPD in Sep), according to IFX citing Russian Deputy PM Novak. Meanwhile, according to Energy Intel citing the NNPC Chairman, Nigeria’s production can hit 2.2mln BPD by 2023 and the Bonny light oil force majeure may end on Monday. In Libya, the NOC chief stated oil output is at at 1.2mln BPD (vs 1.163mln BPD in Sep due to power issues).

COMMENTARY: Marathon Petroleum (MPC) CEO noted US oil demand is still below 2019 levels, and believes there will be a continued recovery. Looking ahead, MPC maintains a bullish outlook towards refining environment into 2023. Phillips 66 (PSX) announced it expects Q4 utilization to be in the low-mid 90% range, while BP (BP/ LN) earnings were very impressive recording revenues USD 12bln above expectations, while noting for FY22 it sees reported upstream production being slightly higher Y/Y, but Q4 is seen being slightly lower Q/Q, primarily in gas regions.

EQUITIES

CLOSES: SPX -0.41% at 3,856, NDX -1.02% at 11,288, DJIA -0.24% at 32,653, RUT +0.25% at 1,851.

SECTORS: Communication Services -1.81%, Consumer Discretionary -1.35%, Technology -0.86%, Consumer Staples -0.28%, Real Estate -0.21%, Industrials -0.06%, Health +0.06%, Materials +0.24%, Utilities +0.4%, Financials +0.41%, Energy +0.99%.

EUROPEAN CLOSES: EURO STOXX 50 +0.93% at 3,651, FTSE 100 +1.29% at 7,186, DAX 40 +0.64% at 13,338, CAC 40 +0.98% at 6,328, FTSE MIB +0.63% at 22,795, IBEX 35 +0.53% at 7,999, SMI -0.39% at 10,785.

STOCK SPECIFICS: **Abiomed (ABMD)** is to be acquired by **Johnson & Johnson (JNJ)** for USD 380/shr in upfront cash payment or USD 16.6bln. Note, ABMD closed Monday at USD 252.08/shr. **Eli Lilly (LLY)** cut its FY profit outlook; seeing a negative impact from a stronger dollar, increased cancer drug competition and lower insulin prices. **Uber Technologies (UBER)** posted a deeper loss per shr than expected, but beat on revenue and offered solid EBITDA figures and guidance. The profit loss was largely due to unrealized losses on equity investments such as its stake in Didi. **Pfizer (PFE)** surpassed Wall St. consensus on profit and revenue while it also raised its FY outlook. **Stryker (SYK)** missed on EPS but marginally beat on revenue; execs said that worsening foreign currency and ongoing inflation pressured earnings and will impact FY results. On this, is taking additional actions to address these issues. **SoFi Technologies (SOFI)** posted a shallower loss per share than expected and beat on revenue and lifted its outlook. **Hologic (HOLX)** reported better-than-expected quarterly results and issued an upbeat outlook. Said it saw “unprecedented strength” across its core businesses. **Fox's (FOX)** top and bottom line figures were above estimates with top-line growth driven by an 8% jump in advertising revenue thanks to higher political advertising sales. Additionally, co. authorised a USD 4bln share buyback programme. **Goodyear Tire & Rubber (GT)** missed on EPS and marginally beat on revenue. Sees raw material costs up to USD 500mln in next quarter and expects Y/Y cost increases of USD 300-400mln in H1 ’23 with most occurring in Q1. Assumptions include the impact of the stronger dollar and higher transportation and supplier costs. **Intuit (INTU)** reportedly paused hiring in Credit Karma due to 'Revenue Challenges', according to Bloomberg citing a letter. **Meta (META)** and **Snap (SNAP)** were bid after an FCC commissioner said the government should ban TikTok, according to an interview with Axios. **Upstart (UPST)** laid off about 7% of its total workforce (140 employees) amid weakening demand for loans. **Charter (CHTR)** Spectrum raised internet prices by USD 5/mth to USD 80, according to Ars Technica. **Walmart (WMT)** announced annual Walmart+ membership is half-price for two days.

FX WRAP

The Dollar was flat on Tuesday, albeit traded between 110.70 at the lows and 111.780 at the highs with a risk off bias and a slew of key data points ahead of Wednesday's FOMC rate decision. The data saw JOLTS come in higher than expected, something the Fed does not want to see, at 10.717mln vs exp. 10mln, and rising from the prior 10.053mln, disrupting hopes of a continued decline after the notable fall in JOLTS in August from July's 11.239mln. The ISM data was marginally above expectations at 50.2 (exp. 50.0) and just about kept its head above contractionary territory. The components were encouraging, with new orders rising albeit still in contractionary territory while employment rose to 50.0 from 48.7 while perhaps most importantly, prices paid declined into contractionary territory despite an expected rise to 52.5 from 51.7. The supplier deliveries index also declined, an encouraging sign for supply chains, which was one of the primary drags on the headline. All attention turns to the FOMC on Wednesday, with the latest Jolts data seeing market pricing for the Fed terminal rate rise north of 5% with commentary on guidance being key at Wednesday's rate decision and press conference. There is also NFP on Friday with ADP and Challenger Layoffs due ahead of the BLS report.

The Euro saw marginal losses vs the buck and hovers beneath 0.99, at pixel time, after printing a high earlier in the session of 0.9953. There was little of note out of Europe although the September import prices in Germany were softer than expected while some late session ECB commentary hit, with Nagel and De Cos, with Nagel more hawkish than de Cos. Nagel said there is still a long way to go on rate hikes, and called for the ECB to act decisively, as they have done in the last three meetings, adding QT should start in early 2023 and there is a danger longer term inflation expectations will exceed the target. Meanwhile, de Cos noted they are yet to reach the end of rate hikes and called for a careful and gradual approach to QT. The Euro did see some strength overnight/early morning as the Yuan gained on rumours of an easing of COVID restrictions albeit there was some pushback from Chinese officials, but the Yuan managed to hold its strength vs the Dollar.

The Yen saw some slight gains against the Dollar, with USD/JPY seeing a low of 147.00 although it failed to hold these levels and pared back north of 148.00. There was more commentary from BoJ officials, with Kuroda noting they must maintain easy policy to support the economy which is in the midst of recovering from the pandemic's impact, adding the BoJ and government policies complement each other and they are in close contact.

Antipodeans were mixed, with NZD outperforming the Aussie as AUD/USD hovers around 0.6400 and on the unchanged mark in wake of the RBA rate decision overnight. On this, the central bank hiked by 25bps to 2.85%, as widely expected, although there were a couple of outside calls ahead of the meeting for a return to more aggressive policy after recent hot inflation data but this was ultimately not seen from the RBA which did weigh on the Aussie. Note, Governor Lowe did state they will return to larger hikes if it is deemed necessary. The weakness in AUD supported Kiwi as the RBNZ remained more hawkish than the RBA. NZD/USD saw decent gains rising from lows of 0.5809 to test 0.5900 before paring around half the move while AUD/NZD fell sub 1.10.

GBP was marginally bid vs the dollar but Cable failed to hold above 1.15 as the dollar strengthened off lows. There was a bid into the Pound early on after a revision higher to the final UK manufacturing PMI while there was a lot of attention on the BoE's first Gilt sale operation, which saw a B/C of 3.26x in it's GBP 750mln 3-7r Gilt sale albeit there was no follow through reaction to Sterling.

The Loonie was flat against the buck and well off highs with USD/CAD reversing from lows of 1.3531 to 1.3667. Albeit, the headline pair is still around the same level after the BoC's 50bp rate hike last week, which was on the smaller side of forecasts. Attention now turns to the Canadian jobs report (as well as the US jobs report) on Friday, and the FOMC on Wednesday to gauge more direction in the pair while the gain in oil prices did little to support the looney.

EMFX was generally stronger against the buck, although RUB and TRY were more-or-less flat with ongoing discussions between the Turkish and Russian Presidents about the Black Sea grain initiative. BRL was the outperformer as ex-President Bolsonaro's chief of staff made moves towards a Government transition. ZAR saw a bid as it tracked the move higher in metal prices and largely ignored stage 1 and 2 loadshedding announcements.

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