US Market Wrap

2nd November 2022: Whipsaw action after Powell's hawkish presser takes the shine off a slower hiking pace

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Hawkish Powell presser after leaning dovish Fed statement; North Korea and South Korea fire missiles; China reopening rumours continue to swirl; Russia is to resume participation in Black Sea grain deal; ADP tops expected; US Treasury Quarterly Refunding announcement as expected; AAPL hiring freeze in place for the next year; EL cuts FY profit outlook.
- **COMING UP**: **Data**: Chinese Caixin Services PMI, Swiss CPI, EZ Unemployment, US IJC, Composite/Services PMI (Final), Factory Orders & ISM Services **Events**: Norges Bank & BoE Policy Announcements **Speakers**: BoE's Bailey & Mann; ECB's Lagarde, de Cos, Panetta, Elderson **Supply**: Spain & France **Earnings**: Rolls-Royce, Sainsbury's; ING, BNP, Stellantis, Euronext; ConocoPhillips, Starbucks, PayPal, Moderna.

MARKET WRAP

There was two way price action in wake of the FOMC rate decision with the statement leaning dovish by adding in language about the size of future rate hikes will be determined by policy lags and the cumulative effect of policy on the economy, implying a slowdown is among us. However, in the press conference Chair Powell stressed there is a ways to go on rate hikes and that the December SEPs will likely imply a higher terminal rate than what was said in September. He did add that as they go deeper into restrictive territory, the speed is not as important as the question of how high rates need to go and how long to keep policy restrictive, something he said is very uncertain. Powell also stressed now is not the time for a pause, but did note they would make a decision on the future pace at the next meeting, whether it happens in December or February. The hawkish commentary in the press conference saw the post-statement stock and bond bid completely unwind with stocks closing at lows for the session while T-Notes settled unchanged, with the curve flatter as the front-end sold off. The Dollar completely reversed any losses and was firmer on the session with DXY briefly rising above 112.00 while the Yen moved off its best levels with USD/JPY seeing a low of 145.69 after the statement before moving back above 147.50 in wake of the presser. Aside from the Fed, US ADP came in better than expected although the prior month saw a revision lower with attention now turning to the NFP jobs report on Friday. Geopolitics has been in focus with Russia returning to the grain deal while North Korea has been testing more missiles. In China, despite rumours this week of an easing on the zero-COVID policy, it has shut down an area in Zhengzhou where Foxconn's iPhone plant is based. Crude prices settled higher after a surprise draw in the EIA crude stocks to see stocks in the SPR fall 1.9mln bbls to the lowest level since May 1984 while precious metals were hit after a hawkish Powell.

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FOMC REVIEW: The FOMC hiked rates by 75bps as expected taking the FFR to 3.75-4.00% in a unanimous decision. There was one key addition to the statement, it maintained language that ongoing rate hikes will be appropriate, but it added that "in determining the pace" of future rate hikes, the Fed will take into account "the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments". The topic of deceleration has made it already into the statement, as opposed to an idea floated in Powell's presser/Q&A (which was the expectation heading into the FOMC) - indicative of broader FOMC support into discussions around a slower hiking pace. The "cumulative tightening" also gives a nod to the impacts their aggressive, front-loaded policy is having, and still expected to have. The rest of the statement was exactly the same as September, where it noted recent indicators point to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures.

FOMC PRESSER/Q&A: The key comments from Powell's presser/Q&A included the remark that data suggests rates will need to get to a higher level than the September Dot Plot implied (4.6%), whilst also stressing that it is "very premature" to be thinking about pausing. Both served as hawkish offsets to the dovishness in the statement associated with decelerating the hiking pace in December. Powell said as they get closer to the terminal rate, speed is becoming less important, explicitly saying the time for slower rate hikes may come as soon as December or February, adding that the FOMC will have that discussion at the next meeting, but no decision has been made yet. Powell was eager to point to that theme of the destination (of rates) being the key now, rather than the journey. At the same time, Powell focused on the lags associated with monetary policy, which was dovish on the margin, given a belief in policy lags warrants a degree of caution on policy tightening in order to give "cumulative" (a word that made it to the statement as well as the presser) tightening time to work its way through the economy, which in Powell's words, still faces overheated inflation in the backdrop of a tight labour market that has shown no signs of softening. The Fed Chair repeatedly called on the need to see inflation come down decisively, but also made the distinction that the Fed doesn't need inflation to come down to slow the pace of increases (there are some doves on the FOMC that have gone further to indicate the Fed could pause soon even if inflation hasn't come down). Powell also reiterated the new statement line of policy needing to get to a "sufficiently restrictive" level, which could be read as an implicit concern about overtightening.

ADP: US ADP national employment reported a 239k increase in October, above the expected 193k and the prior, revised lower, 192k, ahead of the key NFP on Friday. However, on the dataset, due to it being only the third print of ADP under the new methodology it still remains to be seen how reliable a guide it is to payrolls. As such, Pantheon Macroeconomics notes, “unless the ADP method is permanently biased to the downside, it will have to overshoot, sooner or later.” Regarding NFP on Friday, the consensus looks for 200k, while Pantheon is sticking with their forecast of a 175K increase in total October payrolls.

CENTRAL BANK PREVIEWS

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.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 1+ TICKS HIGHER AT 110-20

Treasuries saw mild flattening after the Fed opened the door to slowing the pace of hikes, whilst Powell guided to a higher terminal rate. At settlement, 2s +2.5bps at 4.566%, 3s +1.5bps at 4.498%, 5s -1.2bps at 4.246%, 7s -0.8 bps at 4.158%, 10s +0.3bps at 4.055%, 20s +1.8bps at 4.396%, 30s -1.1bps at 4.114%.

Inflation breakevens: 5yr BEI +3.5bps at 2.706%, 10yr BEI +2.9bps at 2.549%, 30yr BEI +1.8bps at 2.531%.

THE DAY: T-Notes were rangebound between 110-16+ to 110-25+ right up into the FOMC, with a lack of direction despite geopolitical angst out of APAC (Russia "tactical nukes" comments, as well as North and South Korean escalation) and weak EU PMIs. The US quarterly refunding saw no changes to coupon sizes, as expected, while there was no meaningful progress towards a Treasury buyback operation either, as some had speculated. Note 20yr cash bonds cheapened on the 10s20s30s fly given there had been some premium priced on a potential cut to the sector, which didn't materialise. The hot ADP data, after the rise in JOLTS job openings Tuesday, also failed to break trading ranges ahead of Friday's jobs report. The FOMC statement, which opened the debate to a slower pace of tightening in

December, saw T-Notes run to session highs of 111-09, only to unwind in Powell's presser as the Fed Chair offset the dovishness by confirming speculation that rates will need to get to a higher range than the September Dot Plot forecasted (4.6%), whilst also emphasizing that it is "very premature" to be thinking about pausing on rates.

REFUNDING: US to sell USD 40bln of 3yr notes on Nov. 8th, USD 35bln of 10yr notes on Nov. 9th, and USD 21bln of 30yr bonds on Nov. 10th. The one change made was the increase in 5yr TIPS auction by USD 1bln. Looking to Q1, the TBAC recommended that Treasury maintains nominal coupon auction sizes at current levels. There was nothing concrete on buyback operations, where the Treasury indicated it was still gathering information regarding the potential costs and benefits. On T-Bills, the Treasury's presentation to the TBAC shows an expected USD 250bln increase in bill issuance in Q4 and a USD 300bln increases in Q1.

STIRS:

- Fed Funds futures now imply a 57% chance of a 50bps hike in December, while Fed is now priced at/above 5% through September 2023.
- EDZ2 +0.5bps at 94.885, H3 -1bps at 94.675, M3 -4bps at 94.68, U3 -6.5bps at 94.865, Z3 -7bps at 95.08, H4 -7 bps at 95.345, M4 -5.5bps at 95.57, U4 -4.5bps at 95.725, Z4 -3bps at 95.86, Z5 +1.5bps at 96.11, Z6 +3bps at 96.085.
- NY Fed RRP op. demand USD 2.230tln (prev. 2.201tln).
- US sold USD 33bln of 17-week bills at 4.28%, covered 3.14x.

CRUDE

WTI (Z2) SETTLED USD 1.63 HIGHER AT 90.00/BBL; BRENT (Z2) SETTLED USD 1.51 HIGHER AT 96.16/BBL

The crude complex was firmer on Wednesday after surprise crude stocks draw, which supported the crude complex throughout the majority of the US session, as WTI and Brent hit highs of USD 90.36/bbl and 96.50/bbl, respectively. Note, oil saw little reaction in wake of the FOMC rate decision despite a choppy dollar after a dovish statement and hawkish press conference. WTI and Brent were lower in the European morning with the weakness coinciding with shipping-giant Maersk cutting its FY22 global container demand forecast whilst noting that a slowdown in the global economy will lead to a softer market in the ocean. The EZ manufacturing PMIs accentuated the move lower after revisions lower across the board with commentary flagging further recessionary concerns coming to fruition. Price action picked up in the US session in wake of the the weekly EIA data which showed a surprise draw in crude, in-fitting with private inventory data on Tuesday night, while distillates unexpectedly built and gasoline drew less than expected. On crude stocks, there was a 1.9mln draw from the SPR and as such stocks in SPR fell in the latest week to lowest since May 1984. Elsewhere, macro fundamentals such as China reopening, and geopolitical concerns remain in focus. On the latter Iran dismissed reports it is preparing to attack Saudi Arabia while on the former there are still fears regarding China's reopening after it locked down areas in Zhengzhou.

OPEC REUTERS SURVEY: October oil output -20k BPD M/M to 29.71mln BPD, the first decline since June. Moreover, OPEC's Quota-Bound members undershoot its October output target by 1.36mln BPD (prev. 1.32mln BPD M/M).

EQUITIES

CLOSES: SPX -2.50% at 3,759, NDX -3.39% at 10,906, DJIA -1.55% at 32,147, RUT -3.36% at 1,789.

SECTORS: Consumer Discretionary -3.79%, Technology -3.47%, Communication Services -3.04%, Real Estate -2.62%, Materials -2.57%, Energy -2.25%, Industrials -1.76%, Consumer Staples -1.73%, Health -1.69%, Financials -1.28%, Utilities -1.02%.

EUROPEAN CLOSES: EURO STOXX 50 -0.79% at 3,622, FTSE 100 -0.58% at 7,144, DAX 40 -0.61% at 13,256, CAC 40 -0.81% at 6,276, FTSE MIB +0.03% at 22,802, IBEX 35 -0.38% at 7,968, SMI +0.18% at 10,803.

EARNINGS: **Advanced Micro Devices (AMD)** profit was in line but missed on revenue with guidance for next Q and FY falling short. However, analysts were encouraged after AMD said Q4 sales were likely to be flat, helping to soothe some concerns about the downturn in demand for PC chips, with some taking it as a sign that this may have bottomed while a lot of the weakness was already seen in the pre-announced results a few weeks back. **Estee Lauder (EL)** cut its FY23 profit outlook; citing higher costs, a stronger US dollar and COVID lockdowns in China. **Paramount (PARA)** was beneath consensus on profit and revenue. **Livent (LTHM)** profit was more-or-less inline, but missed on revenue and cut FY22 revenue view. Said inflation and other economic factors are crimping the production of the metal used in EV batteries. **Mondelez (MDLZ)** topped street consensus on EPS and revenue; raised FY profit outlook. **CVS Health (CVS)**

beat on EPS and revenue; raised FY profit view. In Q3, CVS recorded a pre-tax charge of USD 5.2bln related to opioid-related claims. **Caesars (CZR)** surpassed Wall St. consensus on EPS and revenue; said October was the strongest month in the history of Las Vegas for the co. **Chegg (CHGG)** beat on EPS and revenue as well as adj. gross margin and subscribers growing Y/Y.

STOCK SPECIFICS: **Oracle (ORCL)** laid off as many as 200 employees in its cloud unit on Tuesday, according to Business Insider reports. **Dupont (DD)** terminated its acquisition of **Rogers (ROG)** as the parties could not obtain the timely clearance from all the required regulators. **Tupperware (TUP)** said it may not be able to comply with the covenants in its credit agreements; issue raises doubts about its ability to continue as a growing concern. **Intuit (INTU)** said in November it will report Q1 results higher than previously forecast despite uncertainties around its Credit Karma unit. **Tesla (TSLA)** reportedly closed its flagship showroom in Beijing's Parkview Green as it adjusts its sales and service strategy in its second-largest market. **Boeing (BA)** gave a slew of updates at its investor day, but some of them were that BA noted it is not like we do not have a few risks ahead, but they are more manageable than previous ones. BA targets free cash flow of USD 10bln in 2025/26, and expects FCF of USD 1.5-2bln in 2022 and 3-5bln in 2023. **Opendoor (OPEN)** reportedly laid off 18% of workers in a wave of housing cutbacks, according to Bloomberg. **Apple (AAPL)** has put hiring freezes in place for the next year, according to Business Insider sources. One source said they were told by colleagues the pause could last through September 2023.

FX WRAP

The Dollar was ultimately firmer, but that only tells half of the story, as the Buck saw notable downside in wake of the Fed rate decision, where they raised rates by 75bps, as expected, but added dovish language as it noted it will take into account cumulative tightening, policy lags, and economic and financial developments in determining the pace of future rate hikes. As such, DXY fell to session lows of 110.400 from circa 111.40. However, in Chair Powell's press conference he put a hawkish spin on things, as he said rates will need to get to higher than September Dot Plot forecasted (median 4.6%), and it is very premature to be thinking about pausing. In wake of these remarks, the Buck unwound the majority of weakness seen after the aforementioned statement and pulled back to levels seen prior to the rate decision, before extending to highs with DXY briefly rising above 112.00. Just for reference, the Dollar saw little reaction in wake of the ADP data which was above the expected and prior, but with it being only the third print under the new methodology it still remains to be seen how reliable a guide it is to payrolls on Friday. Looking ahead, market participants will be awaiting any Fed speak from Friday (on account of blackout) on top of NFP.

Activity currencies, NZD, AUD, GBP, and CAD, were lower across the board, as the respective crosses against the Dollar, all printed highs in wake of the dovish statement, which induced risk-on trade, but then reversed to lows on the hawkish Powell presser. Highlighting the extent of the moves, Cable moved higher to 1.1564 from circa 1.1470, before falling to sessions lows of 1.1397. Prior to the pivotal FOMC, it was pretty sideways trade for the aforementioned currencies as market participants awaited the key risk event. Looking ahead, for the Sterling watchers there is the BoE rate decision on Thursday, where expectations are for the MPC to lift rates by 75bps, but could be subject to a split vote, and further focus will be on how committed the MPC is to further tightening. Elsewhere, there is Canadian jobs data on Friday.

JPY was the G10 outperformer and saw slight gains against the Greenback, but in-fitting with others, it resides at session highs of 147.71 and unwound the majority of strength seen on Wednesday. USD/JPY hit a session low of 145.69 after the Fed rate decision, but the Yen was noticing decent strength before this, as traders noted it managed to make what could be a decisive break, through 147.00 from a technical and psychological standpoint following more verbal intervention overnight that sparked another round of stealth action rumours. However, the press conference saw a strong reversal with USD/JPY now back above 147.50.

EMFX was mixed against the Buck, with MXN the outperformer and still firming against the Buck in spite of previously mentioned risk-off theme, as it was still aptly supported by the gains in the crude complex while a more hawkish Fed could translate to a more hawkish Banxico. CNH was firmer heading into the Fed as the Yuan derived some support from ongoing speculation over a China reopening although there are still remaining concerns in Zhengzhou. Akin to its peers the Yuan then lost these gains, and some more, after Powell's rhetoric. For the ZAR, it was initially firmer and supported by the gains in gold which was aided by a newswire poll predicting a rise in the value of Gold during the current quarter and more upside next year. However, as the Powell presser went on spot gold turned to losses as did the Rand. Looking to the rest of the week, there is Turkish CPI on Thursday.

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