US Market Wrap

3rd November 2022: Fed-induced outflows extend ahead of NFP while Dollar soars

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: BoE hikes 75bps with dovish dissenters; Norges hike 25bps; Weak Services ISM; Jobless claims beneath expectations; Challenger layoffs highest since Feb 2021; Labour costs rise smaller than expected; Factory orders in line; Plethora of ECB speak; PTON smashed post earnings while EBAY prosper.
- **COMING UP**: **Data**: EZ Composite/Services PMI (Final), US & Canadian Labour Market Reports **Speakers**: Fed's Collins; ECB's Lagarde & de Guindos **Earnings**: Intesa Sanpaolo, SocGen, Telefonica.

MARKET WRAP

Stocks and Treasuries were lower while the dollar was bid with markets continuing to react to Wednesday's hawkish press conference from Fed Chair Powell. Aside from Powell, we saw the BoE and Norges bank rate decisions where the former hiked by 75bps, as expected, but saw two dovish dissenters (Tenreyro even voted for a smaller 25bp hike rather than Dhingra's choice of a 50bp move). It also noted rates are unlikely to go as high as what markets are pricing in. The Norges bank hiked by 25bps in fitting with prior guidance but was on the smaller side of market expectations. Treasuries saw strong bear-flattening in continued post-FOMC fallout with two-way flows post-BoE. Crude prices saw selling pressure in fitting with risk and a stronger dollar. Attention now turns to US NFP on Friday, where consensus looks for a 200k rise although do note that the White House Press Secretary spoke where she said she expects job gains of 150k over the coming months. There were several data points on Thursday too, the Challenger layoffs saw the highest number of job cuts announced in a single month since February 2021 at 33.8k. The ISM Services PMI fell by more than expected while prices paid rose and employment slipped into contractionary territory. Jobless claims were marginally better than expected while US trade saw a wider deficit than expected. The Q3 labour costs rose 3.5%, less than the 4.1% expectation and cooling heavily from the prior pace of 8.9%, which was revised down from 10.2%. Geopolitical tensions are rife with what appears to be daily missile tests from North Korea and it is something worth keeping an eye on, with the US and others requesting a UN Security Council meeting on Friday to discuss North Korea, while the US and South Korea have pledged to extend military drills in response to the missile firing.

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NFP PREVIEW: The rate of payrolls growth is expected to moderate in October, while the jobless rate is expected to rise a little. There will be attention on the wages measures; any downside could give the Fed cover to downshift the pace of rate hikes in December. A weak headline could also see calls for the Fed to slow its normalisation become louder, as the central bank aggressively tightens policy into restrictive territory to cap inflation, particularly as politicians have an eye on the US midterm elections next week. To download the full Newsquawk preview, please click here.

ISM SERVICES: The ISM Services PMI fell by more than expected, while prices paid rose and employment slipped into contractionary territory. The headline fell to 54.4 from 56.7, beneath expectations of 55.5 while prices paid rose to 70.7 from 68.7, showing inflationary pressures are still evident in the services sector, more than what is seen in manufacturing. The employment component also disappointed, falling to 49.1 (contractionary territory) from 53 - whereas the manufacturing PMI saw an acceleration in employment to 50.0. The services PMI respondents noted they are unable to fill vacant positions with qualified applicants while noting they are tightening the number of new employees m/m due to uncertainty around the strength of the economy. New orders slowed to 56.5 from 60.6 while business activity slowed to 55.7 from 59.1. The supplier deliveries index rose to 56.2 from 53.9 in September, suggesting the sector is still facing supply chain issues. Analysts at Oxford Economics noted the internals of the report suggests the US is heading for a gradual slowdown. Looking ahead, the desk notes "A confluence of challenges will make it hard for services to sustain positive growth in 2023" while "softening demand, elevated inflation, more costly borrowing rates, weaker earnings, and downbeat sentiment will spark a downturn in services." On inflation, OxEco suggests while goods inflation is easing, services inflation is likely to stay relatively robust in the near term.

CHALLENGER LAYOFFS: US challenger layoffs rose to 33.843k in October from 29.989k, and as such saw the highest number of job cuts announced in a single month since February 2021. The report notes, so far this year employees announced plans to cut jobs is down 16% from last year, and is the lowest recorded January-October total since

Challenger began tracking monthly job cut announcements in 1993. Furthermore, Challenger adds “we saw an unexpected boon in available jobs from the Job Openings and Labor Turnover Survey this week, but at least some of that can be attributed to seasonal hiring needs.” Looking ahead, the report adds, “we are beginning to see more job cut activity in the fourth quarter, historically when the bulk of cuts occur, as companies finalize budgets and plans. Many companies are anticipating a downturn, and with a still-tight labor market and the Fed’s rate hikes, more cuts will be on the way as we enter 2023,”

JOBLESS CLAIMS: Initial jobless claims slightly fell to 217k (prev. 218k) and marginally beneath the expected 220k, as the steady trend continues. However, Pantheon Macroeconomics noted they are braced for noise over the coming weeks due to seasonal issues. Nonetheless, the consultancy sees no signs yet that the clear downshift in businesses’ hiring plans are being accompanied by more layoffs. Highlighting this, it is much easier to stop hiring than to begin firing, especially if you think any downturn will be relatively mild, because re-hiring people who have been laid off likely will be difficult in a tight labor market. As a result, Pantheon concludes this calculation will change in the event of a sustained slowdown in demand or a recession, but it isn’t happening yet. Note, continued claims rose to 1.485mln from 1.438mln and greater than the 1.45mln consensus.

LABOUR COSTS/PRODUCTIVITY: The Q3 labour costs rose 3.5%, less than the 4.1% expectation and cooling heavily from the prior pace of 8.9%, which was revised down from 10.2%. However, Q3 productivity disappointed and printed 0.3% beneath the expected 0.6%, but notably up from the prior -4.1%. On the latter, the modest comeback came after two-quarters of negative growth but the boost from the higher output (2.8% rise) was largely offset by increase in hours worked (2.4% rise). Going forward, OxEco thinks productivity gains won't be strong enough to offset the pressure of higher labor costs, and as such unlikely to see the productivity revival that many hoped for at the onset of the pandemic. On top of this, cyclical and structural factors will keep upward pressure on wages, leading unit labor costs to stay elevated. Oxford concludes, “while pricing power supported corporate earnings in Q3, we look for dynamics to shift as revenues are squeezed by the oncoming recession. Low productivity growth and elevated compensation costs will keep upward pressure on unit labor costs.”

CENTRAL BANKS

BOE REVIEW: In-fitting with the majority of expectations and market pricing, the BoE hiked by 75bp; however, this was subject to dovish dissent from Dhingra (50bp) and Tenreyro (25bp) – dissent which, to surmise, was justified by the headwinds to the domestic economy and policy transmission lags. As such, and as the BoE explicitly pushed back on peak market pricing (again), an immediate dovish reaction was seen. Interestingly, the line that “…further increases in Bank Rate might be required for a sustainable return of inflation to target, albeit to a peak lower than priced into financial markets.” was the judgment of a “majority” of the MPC – though, it is unclear whether the other members took issue with the further hikes or the pushback on peak market pricing. However, this failed to pick up too much steam given the FOMC’s read across to broader fixed income action with Gilts now free to catch up with this and while the BoE has gone to lengths to pushback on market pricing, they retained the “respond forcefully” language. For the majority of the MPC, the justification for 75bp was to reduce the risks of more extended and costly tightening later. Alongside this, fresh forecasts were released, which gave a particularly grim outlook for the economy, looking for a QQ GDP print of -0.5% in Q3 2022 vs -0.1% expected in September. The inflation forecast now shows a peak around 11% in Q4, which is marginally hotter than the prior meeting’s projection of “just under” – note, the forecasts account for the 17th October statement from Chancellor Hunt in relation to the Energy Price Guarantee, which the BoE assumes will feature some fiscal support after the initial six-month period. Reminder, the full Autumn Statement will be released on November 17th. Overall, the meeting was in-line with market expectations on the magnitude of tightening, although the BoE has gone to great lengths to pushback on peak market pricing while retaining the optionality to “respond forcefully” if necessary. For December, pricing continues to imply a 50bp increase; though, it remains to be seen if more members will join the dovish chorus of Dhingra, Tenreyro and some global peers in applying a greater weighting to growth and policy transmission.

NORGES REVIEW: Overall, the announcement was in-fitting with the guidance provided by the Bank in September; though, going into the decision expectations were evenly divided between 25bp and 50bp however, market pricing was skewed towards the larger increment and thus the 25bp hike 'disappoints' this somewhat. A 25bp hike was delivered despite the deteriorating inflation situation, a development that Norges Bank explicitly referenced and said could have merited a larger increment of tightening. However, the Committee continues to place emphasis on the growth situation writing "there are signs that some areas of the economy are cooling down" and acknowledging the tightening effect that the higher policy rate is beginning to have. For the December gathering, the Committee points to a further hike being likely. Reminder, the repo path from September implied 25bp increases would be delivered at both the November and December gatherings. Finally, the subsequent presser from Governor Bache didn’t provide much additional colour on the statement.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 19 TICKS LOWER AT 110-01

Treasuries saw strong bear-flattening in continued post-FOMC fallout with two-way flows post-BoE. At settlement, 2s +12.9bps at 4.699%, 3s +13.2bps at 4.636%, 5s +10.4bps at 4.355%, 7s +9.5bps at 4.256%, 10s +6.7bps at 4.128%, 20s +2.1bps at 4.422%, 30s +2.9bps at 4.153%.

Inflation breakevens: 5yr BEI -10.4bps at 2.549%, 10yr BEI -9.2bps at 2.415%, 30yr BEI -6.5bps at 2.430%

THE DAY: T-Notes saw selling crescendo into the London morning Thursday as Europe played catch up to Wednesday's FOMC, with the dovish Norges meeting an afterthought. The contracts made session lows of 109-12 while BoE Governor Bailey spoke after the mixed BoE meeting (75bps hike but dovish guidance), only to catch a bid to 110-01 later in the NY morning, with the data coming in mildly on the weaker side, although the bounce in ISM Services' prices paid sub-index was not a welcome sign. T-Notes hovered within their trading range for the rest of the session with participants positioning for Friday's NFP.

STIRS:

- EDZ2 -3.5bps at 94.850, H3 -7.5bps at 94.590, M3 -11.5bps at 94.555, U3 -13.5bps at 94.720, Z3 -15.5bps at 94.910, H4 -16.5bps at 95.165, M4 -16.0bps at 95.395, U4 -14.5bps at 95.570, Z4 -13.0bps at 95.720, Z5 -6.5bps at 96.040, Z6 -4.5bps at 96.040.
- December ED puts gained traction amid hedges for year-end funding stress.
- UK Sonia strip hesitant to rally despite BoE's push back on market path.
- US sold USD 67bln of 1-month bills at 3.620%, covered 2.53x; sold USD 57bln of 2-month bills at 3.880%, covered 2.75x.
- NY Fed RRP op. demand USD 2.220tln (prev. 2.230tln), across 105 bidders (prev. 108).

CRUDE

WTI (Z2) SETTLED USD 1.83 AT 88.17/BBL; BRENT (F3) SETTLED USD 1.49 LOWER AT 94.67/BBL

The crude complex was lower on Thursday which was a function of the risk-off sentiment of trade and broad Dollar bid, as opposed to any oil-specific newsflow. In the NY morning, WTI and Brent hit lows of USD 87.60/bbl and 94.19/bbl, but settled off these levels. With a lack of new fundamental newsflow on Thursday, market participants' focus still remains around key themes such as China's reopening picture and geopolitical concerns. On Thursday, the US Department of Energy sells around 15mln bbls of SPR oil in the latest tender, with Valero (VLO) the largest buyer in the December sale in the final contract awards, whilst Equinor (EQNR NO) and Macquarie are to also receive final SPR contracts. Elsewhere, according to State News Agency, Iraq's SOMO seeks to expand its oil exports to Europe amid Russian exports decline to that market and the need for alternative supplies.

BANK COMMENTARY: Goldman Sachs forecasts crude oil demand rising almost 5mln BPD into year-end as refineries ramp up just as supply tightens. Although, GS maintains its forecast of USD 115/bbl for Brent Q1 2023, with risks skewed to the upside.

EQUITIES

CLOSES: SPX -1.06% at 3,719, NDX -1.98% at 10,690, DJIA -0.46% at 32,001, RUT -0.53% at 1,779.

SECTORS: Technology -3%, Communication Services -2.83%, Financials -1.07%, Consumer Discretionary -0.88%, Health -0.44%, Consumer Staples -0.33%, Real Estate +0.01%, Utilities +0.45%, Materials +0.78%, Industrials +1.04%, Energy +2.04%.

EUROPEAN CLOSES: EURO STOXX 50 -0.80% at 3,593, FTSE 100 +0.62% at 7,188, DAX 40 -0.95% at 13,130, CAC 40 -0.54% at 6,243, FTSE MIB -0.43% at 22,706, IBEX 35 -1.25% at 7,868, SMI -0.91% at 10,707.

EARNINGS: **Booking Holdings (BKNG)** beat on EPS, revenue, and gross travel bookings and posted an upbeat outlook as travel demand remains strong. **eBay (EBAY)** beat on the top and bottom line; next Q guidance was more-or-less inline. **Moderna (MRNA)** notably missed on profit while revenue beat. It also cut its FY forecast for COVID vaccine sales. **Qualcomm's (QCOM)** EPS was in line and marginally beat on revenue; next quarter guidance missed expectations. **Cigna (CI)** surpassed Wall St. consensus on top and bottom line; raised FY22 outlook. **Peloton (PTON)** posted a deeper loss per share than expected and issued a weaker-than-expected next-quarter guidance. **Etsy (ETSY)** reported a better-than-expected quarter, saying its business remained strong in a volatile economic environment. **Roku**

(ROKU) said it expected advertising revenue and device sales to fall in the current quarter, as revenue guidance was light. On employment, has started taking steps to significantly slow the rate of hiring and other OpEx growth in late Q2. ROKU CFO also announced intentions to retire next year.

STOCK SPECIFICS: Activist investor Carl Icahn has accumulated a USD 700mln stake in **Crown Holdings (CCK)**, making him the second largest shareholder with a stake of about 8%, according to WSJ. **Nikola (NKLA)** decided not to provide volume or revenue guidance for Q4 and will be reducing headcount by 7% this month and cutting its OpEx and CapEx spending by 20-30% in 2023. It also lowered its guidance for Q4 and 2023 amid current conditions. **Lyft (LYFT)** confirmed it is planning to lay off hundreds of staffers, or 13% of its workforce **-** but it did note it will not affect prior guidance. **Amazon (AMZN)** confirmed it is to pause incremental hires in the corporate workforce as it is facing an unusual macroeconomic environment, but it still intends to hire a meaningful number of people in 2023.

FX WRAP

The Dollar was bid on Thursday, extending the post-Fed bid to see DXY rise above 113 to highs of 113.150 for the first time since October 21st with the hawkish impact from Powell following through to Thursday. There were several data points on Thursday too, the Challenger layoffs saw the highest number of job cuts announced in a single month since February 2021 at 33.8k. The ISM Services PMI fell by more than expected while prices paid rose and employment slipped into contractionary territory. Jobless claims were marginally better than expected while US trade saw a wider deficit than expected. The Q3 labour costs rose 3.5%, less than the 4.1% expectation and cooling heavily from the prior pace of 8.9%, which was revised down from 10.2%. Attention now turns to US NFP on Friday, where consensus look for a 200k rise although the White House Press Secretary spoke where she said she expects job gains of 150k over the coming months.

GBP was weaker and an underperformer after the BoE rate decision, which hiked by 75bps as expected, but with two dovish dissenters as Dhingra voted for 50bp and Tenreyro opted for a 25bp hike. The central bank also said their implied rate path will not be as high as what markets are currently pricing in. The opposite of what happened last night at the Fed which enhanced hawkish market pricing, seeing GBP/USD fall to lows of 1.1155 from highs of 1.1421 pre-BoE.

The Euro was lower, as well, after the rising Dollar saw EUR/USD see a low of 0.9731 from highs of 0.9839 with the cross trading on policy differentials after the latest ECB decision saw a dovish shift, at least from the doves, while hawks were downplaying their removal of the word "several" when referring to upcoming hikes. Although the Fed's statement was dovish, Powell's message was clear that more is to come on rate hikes and a pause would be premature while ECB messaging signalled they could perhaps stop hiking in December if warranted. There were a vast amount of ECB speakers on Thursday, Kazaks said they need to do more on interest rates and a recession in the Eurozone is in his baseline, but he expects it to be shallow. He continued saying there is no need to pause at the turn of the year, noting a 50 or 75bp hike in December is possible, but right now it is impossible to determine the terminal rate. Panetta said further adjustments are warranted but warned larger than expected hikes could create heightened volatility. Nagel said they should not refrain from further hikes, noting there is a good chance Germany could enter a recession, while he said not replacing maturing assets is one way for QT, ie a passive runoff. Visco said market expectations of a 3.00% terminal rate are within the ranges the ECB could reach, while Centeno said the policy will be clearer once inflation has peaked. President Lagarde said a recession is not sufficient to tame inflation while also saying there is still a way to go on rates. Note, EU unemployment in September was in line at 6.6% but the prior was revised up by 0.1% to 6.7%.

The Yen was weaker vs the buck and rose above 148.00, albeit the Yen fared better vs the Euro, GBP, CHF, AUD, NZD and CAD, with fears of more Japanese intervention on the horizon if USD/JPY were to rise back above 150 with the increased amount of jawboning from officials earlier in the week helping keep a cap on USD/JPY for now. Geopolitical tensions are also rife in Japan with more North Korean missile strikes happening almost daily.

The antipodes were weaker as risk assets stumbled as markets digest Wednesday's Fed. AUD underperforms the NZD, again, falling sub 0.6300 while AUD/NZD fell beneath 1.09 despite a wider-than-expected trade balance in Australia overnight. Meanwhile, in New Zealand, there was commentary from the RBNZ which said they have high confidence they can get inflation under control and noted labour shortages are the single most constraining factor for businesses in New Zealand. Governor Orr also stressed he is laser-focused on returning inflation to its 1-3% target.

The Loonie was weaker, albeit only marginally in comparison to other cyclical currencies despite the weaker oil prices and rampant Dollar. USD/CAD traded between 1.3683 and 1.3808 before hovering around 1.3270 throughout the afternoon ahead of the Canadian and US jobs report on Friday. Technical levels include the 21dma at 1.3708 with support at 1.3683 (Thursday's low) ahead of the 10dma at 1.3638 while technicians see resistance at the high today of 1.3808 ahead of the October 21st high of 1.3854.

Scandi's were mixed with SEK flat against the Euro, while NOK was weaker and being weighed on by lower Brent crude prices. Moreover, Swedish PMI data helped SEK outperform its NOK counterpart after a rise to 56.9 in the Services sector from 55.1.

EMs were also mixed, with weakness in ZAR after falling gold prices and disappointing PMI data while RUB was the underperformer. TRY was flat vs the buck after CPI was more or less in line with expectations at 3.54% M/M or 85.51% Y/Y with PPI at 157.69% Y/Y. BRL saw strength after Lula invited former Economy Minister Meirelles to take over the Finance Ministry in 2023. Meanwhile, Brazilian inflation accelerated to 0.45% from 0.12% on the IPC-Fipe inflation index for October. CNH was stronger vs the buck but CNY was weaker overnight after disappointing China Caixin PMI reports. Meanwhile, CZK gained vs the Euro after the CNB maintained rates at 7.0% as expected but a couple of hawkish dissenters opted for a 75bp move instead.