newsquawk

# US Market Wrap

## 4th November 2022: Historic Dollar selling as China reopening gains traction, mixed NFP an afterthought

- **SNAPSHOT**: Equities down, Treasuries steeper, Crude up, Dollar down
- **REAR VIEW**: More China reopening optimism; NFP above expectations; Kashkari calls for >5% Fed rate; Collins and Evans tout potential for 25bps; Evans says it is ok to think about a pause; Vitol threatens gas supply to Germany; BoE's Pill keen to carry on QT.
- **CENTRAL BANK WEEKLY**: Previewing Banxico; Reviewing FOMC, BoE, RBA, Norges. To download the report, please click here.
- **WEEK AHEAD PREVIEW**: Highlights include US CPI, Midterms. To download the report, please click here.
- **US 2022 Mid-Term Elections Preview**: GOP expected to take the House but the Senate is a close call. To download the report, please click here.
- **TIME CHANGE**: London-New York time differential returns to 5 hours on Sunday, 6th November

## MARKET WRAP

Stocks and commodities were firmer Friday, with US indices trailing global peers, as growing expectations around China reopening fuelled 'reopening' trades in the backdrop of a mixed NFP report. The Dollar saw pronounced selling with the DXY down 2% at pixel time, its biggest daily fall since 2015, coming against broad non-Dollar currency strength, particularly the China-levered antipodes. Oil prices bounced by c. USD 4/bbl, their largest jump in a month, while industrial metals such as copper surged 8%. The Treasury curve saw pronounced steepening with inflation breakevens widening. While on the Fed path, money markets pared the terminal rate down slightly whilst moving further in favour of a 50bps December hike (vs 75bps) after the mixed October NFP report did little to argue against the Fed's aims to decelerate the pace of tightening.

## CHINA REOPENING

China assets performed very well on China reopening optimism while German Chancellor Scholz said China has agreed to approve the BioNTech (BNTX) vaccine for foreign residents within China. Scholz said they are looking at expanding this to the broader population. There was also commentary from a former Chinese government expert that many new COVID policies will be introduced over the next 5-6 months, adding a "substantive change" to COVID policy is coming soon - adding more talk to the reopening rumours. The commentary added to reports in Bloomberg that suggested China is working on a plan to scrap COVID flight suspensions, but this was quickly downplayed by China’s Foreign Ministry which said it was not aware of the issue. Officials in China were also optimistic about trade: Premier Li said they are willing to promote cooperation in trade and investment, as well as vaccine and manufacturing sectors with Germany. On quarantines, Reuters reported China may soon shorten its quarantine rule for inbound travellers from 10 days to 7 or 8 days.

## NFP

**NFP**: Headline NFP came in at 261k, above expectations of 200k but slowed from the prior 315k, which was revised higher from 263k, seeing the two-month net revision +29 from +11k last month. The unemployment rate ticked up to 3.7% from 3.5% (exp. 3.6%), although it was met with a 0.1% decline in the participation rate to 62.2%. Wages saw the M/M rise 0.4%, above the 0.3% expected while Y/Y rose 4.7% in line with expectations and cooling from the prior 5.0%. The easing is a welcome sign but the M/M rise is not encouraging; note Powell said on Wednesday they are not seeing a wage-price spiral and wages are not the principal story of high inflation. There has been some attention to the household survey within the release too, which saw employment decline by 328k. However, Oxford Economics highlights that "one month doesn't make a trend", particularly with this survey that is more volatile, nonetheless, the increasing divergence between the household and establishment survey is obfuscating the signalling power of the data. Oxford Economics also notes the October report increases the risk the Fed will tighten more than initially anticipated while Fed's Kashkari also noted the jobs report suggests the Fed has to do more than what was expected in the

September SEPs, which Powell alluded to at Wednesday's FOMC rate decision. Looking ahead, analysts at Oxford Economics write they "expect job growth will stall in 2023 Q1 followed by outright job losses in the middle of the year. We expect the unemployment rate to rise next year, making it difficult for the economy to avoid a recession."

## FED

**Collins (2022 voter)** confirmed Powell's comments saying it is time for the Fed to shift the focus from the size of rate hikes to the ultimate destination, she said policy is now in 'restrictive' territory. Looking at the December meeting, she said all options should be on the table including a 75 or 25bps hike. Collins noted smaller rate hikes may be likely to become appropriate in the future and she recognises the risks of hiking too far but it is premature to say how far the Fed will need to hike rates and to where the tightening cycle stops. Collins added the jobs data may be a lagged indicator of the economy and job growth may be catching up to past high demand, however, she did stress the jobs and earnings data is not consistent with the Fed's 2% inflation goal.

**Kashkari (2023 voter)**, in an interview with AP News, said the jobs report shows why more rate hikes are needed and he sees the Fed terminal rate "higher" than his prior Sept. view of 4.9% (Fed median was 4.6%), but not sure how much higher.

**Evans (non-voter; retiring early 2023)** shared the line that from here on out, rate hikes are not front-loading anymore and that he supported a 75bp hike this week but it makes sense for the Fed to shift to smaller hikes, but he does want to see more data. He spoke on a pause, saying it is possible to be thinking about such, even if it is for a year from now, adding the Fed could step down to 25bps hikes when they are closer to the peak policy rate, or when risks become more two-sided. Meanwhile, he did caveat that if inflation reports are not favourable and the Fed still wants to hike expeditiously, 50bps moves can be done repeatedly, noting a 50bps move is still a very large increase and he sees disappointing inflation reports ahead.

## FIXED INCOME

**T-NOTE (Z2) FUTURES SETTLE HALF-A-TICK HIGHER AT 110-01+**

**Treasuries saw pronounced steepening amid China reopening optimism and mixed US jobs data keeping the Fed's deceleration plans in play**. At settlement, 2s -5.1bps at 4.650%, 3s -5.6bps at 4.580%, 5s -2.5bps at 4.327%, 7s +0.1bps at 4.251%, 10s +3.6bps at 4.161%, 20s +8.4bps at 4.505%, 30s +10.2bps at 4.254%.

**Inflation breakevens**: 5yr BEI +7.6bps at 2.620%, 10yr BEI +6.8bps at 2.478%, 30yr BEI +7.8bps at 2.507%.

**THE DAY**: T-Notes entered the NY handover Friday on the back foot, albeit choppy trade in a thin overnight range of 109-25/110-03 ahead of the US jobs report; wings were weakest on the curve. There were some noted block sellers at both the Tokyo and London morning, with the former region back from holiday; continued noise around China reopening saw 'reflationary' macro trades prosper. T-Notes knee-jerked to session lows of 109-10+ on the back of the better-than-expected NFP headline jobs added, although soon pared losses as the details were digested: a nudge higher in both the unemployment rate and M/M wage growth, as well as some data quality concerns due to the continued divergence between the household and establishment surveys. Fed pricing moved marginally more in favour of 50bps (vs 75bps) in December in wake of the data. T-Notes went on to print session highs of 110-12 before paring into the London close, trading rangebound from there on, although the whole curve continued to steepen through the session. Attention now moves to next week's CPI, refunding auctions, and Fed speak.

**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.

**STIRS**:

- EDZ2 +4bps at 94.89, H3 +6bps at 94.655, M3 +7bps at 94.625, U3 +7bps at 94.79, Z3 +7bps at 94.98, H4 +7bps at 95.24, M4 +6bps at 95.46, U4 +5bps at 95.625, Z4 +4bps at 95.765, Z5 +0.5bps at 96.05, Z6 -1.5bps at 96.025.
- NY Fed RRP op. demand USD 2.231tln (prev. 2.220tln), across 108 bidders (prev. 105).

## CRUDE

**WTI (Z2) SETTLES USD 4.44 HIGHER AT 92.61/BBL; BRENT (Z2) SETTLES USD 3.90 HIGHER AT 98.57/BBL**

**Oil prices surged on Friday for their biggest daily gain in a month, with pronounced Dollar weakness and China reopening optimism fuelling the complex**. The strength was built during the APAC session and through into the NY morning, where peaks were made at USD 92.60/bbl and 98.72/bbl for WTI and Brent front-month contracts, respectively. Prices hovered near highs for the remainder of the session.

**SUPPLY**: Bloomberg reported Friday that Vitol is threatening to suspend gas deliveries as soon as next week to a German state-controlled energy business in a legal standoff that could cost the German company around EUR 1bln. Meanwhile, WSJ reported that US and allies have reached an agreement on which sales of Russian oil will be subject to a price cap, "Each load of seaborne Russian oil will only be subject to the price cap when it is first sold to a buyer on land, meaning resales of the same oil won't have to fall under the cap". Finally, the latest Baker Hughes US Rig Count (w/e Nov. 4th) saw Oil +3 at 615, Nat Gas -1 at 155, and Total +2 at 770.

## EQUITIES

**CLOSES**: SPX +1.36% at 3,771, NDX +1.56% at 10,857, DJIA +1.26% at 32,403, RUT +1.13% at 1,800.

**SECTORS**: Materials +3.41%, Financials +1.87%, Communication Svs +1.76%, Technology +1.67%, Industrials +1.59%, Real Estate +1.29%, Consumer Staples +1.14%, Energy +1.02%, Consumer Discretionary +0.86%, Utilities +0.57%, Health Care +0.57%.

**EUROPEAN CLOSES**: EURO STOXX 50 +2.65% at 3,688, FTSE 100 +2.03% at 7,334, DAX 40 +2.51% at 13,459, CAC 40 +2.77% at 6,416, FTSE MIB +2.54% at 23,282, IBEX 35 +0.94% at 7,942, SMI +0.83% at 10,799.

**STOCK SPECIFICS**: **PayPal (PYPL)** was softer after lowering FY revenue guide and total payment volume fell short of expectations. It did beat on EPS and revenue, however. **Starbucks (SBUX)** gained following beats on profit, revenue and all comparable sales; said its investments in new equipment and higher wages for workers are paying off. **Atlassian (TEAM)** plummeted in wake of a profit miss and next quarter revenue guidance being light. **Corteva (CTVA)** posted a shallower loss per share than expected and beat on revenue, while it reaffirmed FY22 guidance and expects record demand for grain and oilseeds in 2022. **Hershey (HSY)** surpassed the street consensus on top and bottom line and raised FY22 sales growth and EPS view. **Warner Bros Discovery (WBD)** sank following a worse-than-expected loss per share and a miss on revenue. It also announced it moved the US launch of its combined streaming service to Spring 2023. **Carvana (CVNA)** plummeted; posted a deeper loss per share than expected and missed on revenue; sees sequential reduction in retail units sold in Q4 as increased car prices and higher interest rates were key factors in denting demand. **DoorDash (DASH)** closed in the green after it beat on adj. EBITDA and revenue while next quarter gross order value beat expectations. **Twilio (TWLO)** sank after it pulled its 30%-plus revenue growth target noting it is not achievable. Its loss per share was not as bad as feared, however, and the co. also beat on revenue. Shares of China-based companies that trade in the US, such as **Alibaba (BABA), JD (JD), Pinduoduo (PDD), and Bilibili (BILI)** gained after continued reports that China would ease its strict COVID protocols. In Europe, Puma plummeted and Adidas surged after it was confirmed the Puma (PUM GY) CEO is to become the new **Adidas (ADS GY)** CEO.

## WEEKLY FX WRAP

**Rollercoaster ride for DXY amid FOMC and NFP, whilst China's reopening rumours bolstered the Yuan**

**USD -** Topsy-turvy trade was experienced ahead of the Fed as a month-end squeeze faded before the Buck bounced firmly with the aid of upbeat US manufacturing PMI, ISM, JOLTS and construction spending releases. However, the Dollar witnessed even more volatility and whipsaw price action on FOMC day as guidance in the accompanying statement had a dovish tilt, but Fed Chair Powell pushed back on a pivot in the post-meeting press conference. To recap, the FOMC hiked rates by 75bps as expected to lift the FFR to 3.75-4.00% in a unanimous decision. The Fed maintained its language that ongoing rate hikes will be appropriate but 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". At the presser, Chair Powell said they still have some ways to go and data suggests the ultimate level of rates will be higher than previously expected. On Friday, the US jobs report was mixed/neutral and saw headline NFP topping forecasts at 261k (exp. 200k) whilst the Unemployment Rate ticked higher to 3.7% (exp. 3.6%, prev. 3.5%) and Earnings MM rose to 0.4% (exp. 0.3%, prev. 0.3%). The data led to a fleeting upside in the DXY before recoiling back down under 112.00 and found support at 111.50, with the index still set for a higher weekly European close just above the middle of a 110.40-113.15 weekly range.

**CNY, CNH, JPY -** The Yuan was in focus this week amid several bouts of reopening rumours, but unconfirmed and played down by China's Foreign Ministry. As a reminder, China's Health Authorities are to hold a presser on targeted

COVID prevention on November 5th at 15:00 local time (07:00GMT/03:00ET). A former Chinese government expert told a conference that many new COVID policies will be introduced over the next 5-6 months and added a "substantive change" to COVID policy is coming soon. Furthermore, Bloomberg sources reported that China is working on a plan to scrap COVID flight suspensions, although this was later downplayed by the Foreign Ministry, which suggested the nation's COVID policies are consistent and clear. The PBoC Yuan fixings towards the latter half of the week were guided firmer than expected. All-in-all, USD/CNH looks set to end the European session towards the bottom of its 7.1798-7.3546 weekly range (at the time of writing). A similar story for the Yen that was surrounded by speculation about further intervention amidst almost daily jawboning from Japanese officials, but no affirmation about actual action, with the pair trading on either side of its 10 and 21 DMAs throughout most of the week, with USD/JPY set to end the European week towards the middle of a 145.66-148.84 range.

**GBP, EUR -** GBP was already down ahead of the BoE, but extended declines when the MPC matched expectations for a 75 bp hike, but two doves dissented (Dhingra voting for 50 bp and Tenreyro only 25 bp). Nevertheless, guidance flagging potential for further forceful tightening was maintained and countered by another knockback against market pricing and Sterling weakened further in response. Meanwhile, post-BoE commentary from Chief Economist Pill and MPC member Mann provided little in the way of fresh insight and largely stuck to the BoE's script; though, commentary from officials re. QT has drawn focus. From a fiscal perspective, reports via The Telegraph flagged that UK Chancellor Hunt is mulling an increase in the headline rate of Capital Gains Tax, with all eyes on the Nov 17th Autumn budget and its subsequent effect on monetary policy. GBP/USD is poised to end the European week under 1.1300 but off its 1.1145 weekly low (vs 1.1613 weekly high). Elsewhere, the EUR was flanked by hefty and sometimes very large option expiries, but remained heavy following recent ECB action and as Eurozone PMIs were downbeat - "After a weak third quarter of PMI and official GDP data, the latest survey results for the start of the fourth quarter suggest the eurozone economy is now headed for a winter recession." S&P Global said. On Friday, some hawkish vibes were seen from ECB President Lagarde - the President reiterated familiar lines that a recession would not be sufficient to tame inflation and added that we are likely to see wages "catching up" to some extent with higher inflation. EUR/USD looks set to end the European week in the middle of a 0.9728-9975 range.

**NZD, AUD -** Kiwi outperformance down under on strength within the Q3 NZ HLFS and unwinding of hawkish RBA bets in the Aussie after another 25bp hike, as some were looking for a return to half point increments on the back of stronger than forecast Q3 inflation data. To recap, the RBA hiked the Cash Rate Target by 25bps to 2.85%, as expected, and vs some outside bets for a 50bps increase whilst Governor Lowe said the board has judged it appropriate to raise rates at a lower magnitude and will return to larger rate hikes if deemed necessary. The governor also suggested they will hold the rate if the situation requires it, and rates are not on a pre-set path. Following the decision, analysts at ING believe "it looks more probable now that the RBA will simply stick to a 25bp rate increase pace until it believes it has taken rates high enough." On Friday, the RBA's Statement on Monetary Policy (SoMP) said the board expects rates will need to increase further and policy is not on a pre-set path, while they will hike in larger steps or pause if considered necessary. Furthermore, the RBA cut economic growth forecasts in which it sees GDP at 2.9% in December 2022, 1.4% in December 2023 and 1.6% in December 2024, while it lifted the inflation forecast which it sees at 8.0% in December 2022, 4.7% in December 2023 and 3.2% in December 2024. AUD/USD was also boosted by the aforementioned China reopening rumours, with the pair looking to end the European week closer to the top of a 0.6270-0.6492 range, after topping its 21 and 10 DMAs (at 0.6341 and 0.6394 respectively on Friday). NZD/USD meanwhile topped its 50 DMA (0.5830 on Friday) to end the European week nearer to the top of 0.5738-5942 weekly parameters.

**CAD, NOK -** For petro-FX, underlying traction was derived from oil as WTI remained firm, but still, CAD was hampered in wake of the BoC's smaller-than-expected 50bp hike last week and signal that the end of the tightening cycle is approaching. Meanwhile, the LFS released at the same time as the US labour market report showed a healthy jobs market – with the Employment Change showing an addition of 108.3k (exp. 10.0k) – driven by full-time employment, whilst the unemployment rate remained at 5.2% (vs exp. 5.3%). USD/CAD is poised to close the European week towards the bottom of a 1.3511-1.3808 boundaries, with the 50 DMA seen at 1.3494 on Friday. Meanwhile, the NOK was undermined after the Norges Bank stuck with the guided 25bp hike, despite expectations being torn between 25 /50bp, while the statement once again highlighted that the slowing Norwegian economy is carrying greater weight for policy decisions than above-target inflation. EUR/NOK resides towards the lower end of 10.1662-3665 weekly parameters heading into the European close.