US Market Wrap

7th November 2022: Equity rebound continues on China re-opening optimism ahead of Midterms & CPI

- **SNAPSHOT**: Equities up, Treasuries down, Crude down, Dollar down.
- **REAR VIEW**: Chinese re-opening rumours continue to swirl; AAPL iPhone production hit by China COVID curbs; ECB's Lagarde notes more hikes to come; Slew of corporate supply; Employment trends fall; Disappointing China trade data.
- **COMING UP**: **Data**: EZ Retail Sales **Event**: US Midterms **Speakers**: BoE's Pill, Fed's Williams, ECB's Nagel, SNB's Jordan **Supply**: Germany, US & UK (syndication).
- **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.

MARKET WRAP

The stock rebound continued on Monday on more China reopening rumours which helped offset concerns from Apple (AAPL), who warned the restrictions were impacting operations, resulting in a temporary reduction of iPhone production. Attention now turns to Tuesday night's US Midterm 2022 elections (preview below) and the US CPI data on Thursday. The Dollar sell-off continued on the reopening rally in China, which helped put EUR/USD back above parity while GBP outperformed and the Yen was flat. Yuan was softer on the disappointing trade data which also capped the upside in antipodeans despite the weaker greenback. Treasury's were lower across the curve while the initial curve flattening was unwound by a busy corporate debt pipeline and lacklustre BoE Gilt sales demand. The latest US employment trends data slipped to 119.57 from 120.17 for October despite the NFP headline beat on Friday, with a slew of Fed speakers due this week we will be eyeing their commentary on the labour market but so far the tone remains that the jobs market is still too hot, as is inflation.

US

US MIDTERM ELECTIONS: All seats in the House up for election, and 35 Senate seats will be up for the vote. The Senate race is currently seen as a toss-up, but in recent days, the polling has been leaning in favour of Republicans, according to FiveThirtyEight; Republicans are expected to take control of the House. FiveThirtyEight sees an 80% chance of the GOP holding between 215-248 seats, adding the fate of the House lies on Iowa’s 3rd District, North Carolina’s 13th District and Colorado’s 8th District, while the three districts along the Texas-Mexico border will also be key. Within the Senate, there is particular attention on the Georgia, Nevada and Pennsylvania races, with Republicans trying to take Georgia and Nevada, while Democrats are looking to take Pennsylvania from the opposition. If the Democrats retain control of the Senate, and the House becomes Republican, it will be difficult to pass legislation over the coming two years, where any House-passed measures would likely be dead on arrival in the Senate, and viceversa. However, the Republicans will likely use the debt limit and government funding limits to leverage the Democrats to force them to the negotiating table on spending cuts, some analysts argue. The Governorship race is for 36 positions, made up of 20 republicans and 16 Democrats. The Governor races could have implications for the 2024 US Presidential Election, with eyes on whether Florida Governor Ron De Santis is to run for President for the Republicans, as well as former President Trump who has been hinting he expects to run again. Inflation and the economy have been the one of, if not the main concern among the electorate; Bank of America suggests that if the Republicans win, it would signal that the electorate wants low inflation, while if the Democrats win, it would imply the electorate wants low unemployment. BofA suggests a Republican win would also lead to tighter monetary policy, and for the yield curve to invert further, while a Democratic win would likely result in looser fiscal policy, and a steeper yield curve. For a full Newsquawk preview, please click here.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 13 TICKS LOWER AT 109-20+

Initial curve flattening unwound by busy corporate debt pipeline and lacklustre BoE Gilt sales demand. 2s +7.4bps at 4.726%, 3s +6.7bps at 4.649%, 5s +6.4bps at 4.393%, 7s +6.7bps at 4.317%, 10s +6.4bps at 4.222%, 20s +7.6bps at 4.573%, 30s +8.0bps at 4.327%.

Inflation breakevens: 5yr BEI +5.6bps at 2.679%, 10yr BEI +5.3bps at 2.540%, 30yr BEI +6.3bps at 2.576%.

THE DAY: T-Notes were flat entering the NY handover Monday after hitting session highs of 110-06 at the futures reopen, whilst troughing at 109-24+ in the London morning. Nonetheless, that ignored the curve's stealth flattening that continued post-Friday's China reopening buzz and the mixed NFP report. Selling in T-Notes soon resumed after the US IG corporate debt pipeline picked up, whilst being exacerbated by a poor reception for the BoE's 7-20yr Gilt sale. T-Notes made new session lows of 109-19 at midday in NY, hovering close to lows from there, while on the curve, the duration selling unwound a lot of the earlier flattening. Looking ahead, October CPI data on Thursday serves as the week's data apex, while 3s, 10s, and 30s auctions on Mon., Tues., and Wed. Not to mention the slew of Fed speak.

STIRS:

- EDZ2 -1.0bps at 94.880, H3 -2.5bps at 94.625, M3 -3.0bps at 94.585, U3 -6.5bps at 94.730, Z3 -7.5bps at 94.910, H4 -8.5bps at 95.150, M4 -8.0bps at 95.380, U4 -7.0bps at 95.555, Z4 -5.5bps at 95.710, Z5 -2.5bps at 96.025.
- US sold USD 64bln of 3-month bills at 4.120%, covered 2.72x; sold USD 50bln of 6-month bills at 4.490%, covered 2.89x.
- NY Fed RRP op. demand USD 2.241tln (prev. 2.231tln), across 107 bidders (prev. 108).

CRUDE

WTI (Z2) SETTLED USD 0.82 LOWER AT 91.79/BBL; BRENT (F3) SETTLED USD 0.65 LOWER AT 97.92/BBL

The crude complex was choppy to start the week, albeit within narrow ranges, as WTI and Brent eventually settled slightly lower on a day of thin newsflow but attention remains on China's reopening. On this, oil-specific updates were few and far between but so were global macro headlines as desks cited market participants awaiting US CPI, Midterms, and the inevitable wave of Fed speech following the meeting last Wednesday. Although, further eyes were on the China COVID picture after more WSJ sources noted that Chinese leaders are considering steps toward reopening, albeit with no timeline. Additionally, despite the risk-on conditions, highlighted by the much weaker Dollar and gains in US stocks, WTI and Brent could not piggyback the sentiment and close in positive territory. Lastly, according to Reuter’s sources, India's ONGC applies to the new Russian operator to retain 20% in Sakhalin-1 project.

EQUITIES

CLOSES: SPX +0.97% at 3,807, NDX +1.11% at 10,977, DJIA +1.31% at 32,829, RUT +0.55% at 1,809.

SECTORS: Communication Services +1.83%, Energy +1.75%, Technology +1.64%, Health +1.08%, Industrials +1.07%, Financials +0.92%, Consumer Staples +0.88%, Materials +0.79%, Real Estate -0.05%, Consumer Discretionary -0.61%, Utilities -1.93%.

EUROPEAN CLOSES: EURO STOXX 50 +0.56% at 3,708, FTSE 100 -0.48% at 7,299, DAX 40 +0.55% at 13,553, CAC 40 +0.00% at 6,416, FTSE MIB +0.90% at 23,493, IBEX 35 +0.25% at 7,962, SMI -0.7% at 10,737.

STOCK SPECIFICS: **Apple (AAPL)** warned COVID restrictions in China were impacting operations, and iPhone 14 production had been temporarily reduced due to restrictions at its assembly plant in Zhengzhou, China. The **Foxconn (FXCOF)** factory is operating at “significantly reduced capacity”, but is reportedly aiming to resume full production at its Zhengzhou plant by the second half of November. **Meta (META)** reportedly plans to lay off employees this week, according to NYT, but the exact number of layoffs is unclear. **Berkshire Hathaway (BRK.B)** reported better-than-expected earnings, although it did report an overall loss as a falling stock market ate into the value of its investment portfolio. **Philip Morris (PM)** has completed its offer for **Swedish Match (SWMAY)**, becoming the owner of 82.59% of shares. **Gold Fields (GFI)** decided not to increase its takeover bid for **Yamana Gold (AUY)** after a surprise joint bid by a pair of rival miners (a USD 4.8bln from precious metals groups Pan American and Agnico Eagle trumps GFI's), according to the FT. **IAA (IAA)** is to be acquired by **Ritchie Bros (RBA)** for USD 46.88/shr in cash and stock transaction valued at USD 7.3bln. IAA closed Friday at USD 39.25/shr. **DoorDash (DASH)** was upgraded at Oppenheimer, who pointed to improving margins at US restaurants among other factors. **Okta (OKTA)** was upgraded at Guggenheim, who called the stock’s current valuation “too compelling to ignore.” **Biogen (BIIB)** is reportedly considering new options in its search for a CEO after talks with a Senior Research Executive from **Johnson & Johnson (JNJ)** reached an impasse, according to STAT News.

FX WRAP

The Dollar sell-off continued on Monday after the strong decline on Friday with ongoing talk of a reopening in China, despite pushback from officials, which saw the DXY test 110.00 to the downside with technicians eyeing a 50% fib retracement level at 109.705. Attention also turns to the midterms on Tuesday which is expected to see Republicans take the House from the Democrats but the Senate is a close call, while polling has been leaning in favour of Republicans in recent days. Analysts at ING suggest that if Biden loses control of congress, it may be a USD negative. ING writes "The bigger downside risk for the dollar is that the Republicans secure control of both the House and the Senate, which would imply a hamstrung administration unable to deliver fiscal support in a downturn. A split Congress (House control going to the Republicans) may be mostly priced in, and the implications for the dollar could be relatively limited."

The Euro benefitted from the weaker dollar which helped EUR/USD rise above parity from lows of 0.9900. In the Eurozone, the latest EZ Sentix Index was better than expected while ECB's Kazak and Villeroy both supported ongoing rate hikes, noting inflation has not clearly peaked. Villeroy said the ECB is not far from neutral, and beyond that, the hiking pace could be more flexible and slower. Kazaks stressed there is no pivot and that the discussion about the size of the hiking steps is appropriate, adding the decision in December will depend on the economy and whether the ECB adjusts other instruments. Meanwhile, President Lagarde reiterated her usual tone noting inflation must be brought back down to 2% and it is much too high.

The Yen was flat vs the buck and resides sub 147.00 despite the upside in US yields, while any commentary from Japanese officials remains key regarding any potential intervention. **CHF** saw gains vs the Dollar and was flat vs the Euro while **gold** prices were marginally lower but well off morning lows.

Antipodeans firmed against the buck thanks to the Dollar's weakness, risk-on environment and more China reopening talk, however, the gains were rather limited after weak China trade data last night with AUD/USD failing to rise above 0.6500 and NZD/USD failing to breach 0.5950. Data overnight looks at the AIG Services Index ahead of Consumer Confidence, as well as the NAB Business Conditions and Sentiment for Australia, while New Zealand has the 1 and 2yr inflation and monetary conditions to digest.

GBP was the outperformer on apparent short covering after last week's dovish BoE which saw two dissenters. Technicians flagged a rise in Cable above 1.1398 and a fib of 1.1528 adds to the bullish structure with bulls eyeing the November 1st high of 1.1566 - GBP/USD topped out at 1.1541 from a low of 1.1291 on Monday. CAD was marginally weaker than the Dollar with oil settling slightly lower although USD/CAD was off highs (1.3553) and hovers around 1.3500, at pixel time.

The Yuan was weaker vs the softer Dollar despite optimism on reopening rumours overnight., however, Yuan was weaker with disappointing trade figures overnight. On the reopening narrative, analysts at ING suggest a larger relief rally appears a bit premature while the latest trade data suggest slowing global demand is a major drag on Chinese growth.

EMFX was mixed TRY, MXN, RUB and ZAR firmed although BRL was notably weaker. In Brazil, the BCB started public consultations regarding the methodology used to calculate capital requirements for financial institutions. Meanwhile, analysts at MUFG look at positioning and suggest both ZAR and BRL positions are currently the most stretched held among leveraged funds.