



US Market Wrap

8th November 2022: Dollar and yields fall into Midterms while Crypto plunges on exchange anxiety

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW:** Binance to acquire FTX; EU regulators say ATVI/MSFT merger may hurt competition; Strong US 3yr auction; Cautious FDX commentary; Fresh China COVID cases; Germany plans to more than double 2023 net debt to EUR 45bln; IBD/TIPP disappoints.
- **COMING UP: Data:** Chinese CPI **Speakers:** Fed's Williams, ECB's Elderson, BoE's Haskel, Fed's Barkin **Supply** : UK, Germany, US.

MARKET WRAP

Major US indices were firmer in a choppy session characterised by cratering crypto prices, taking the allure of the high-risk sectors. That defensiveness was exhibited by the outperformance in the Dow Jones 30 at the index level with flows favouring names with strong balance sheets, although SPX and NDX managed to hold onto gains. The mid-session dive in stock indices coincided with Bitcoin making fresh YTD lows in wake of Binance's acquisition of FTX, with bearish FedEx (FDX) macro commentary twisting the knife, although stocks managed to recover into the close. Treasuries rallied through the session ahead of midterms and haven flows amid the crypto slide. Oil prices were hit with fresh rises in China COVID cases dimming the demand/reopening optimism seen as of late, likely a factor too in the notable fall in US inflation breakevens. FX action saw notable Dollar selling in the NY morning, lifting the risk appetite at the time (ex-crypto).

GLOBAL

CRYPTO: The crypto space was volatile on Tuesday, and saw great weakness across the board highlighted by Bitcoin falling to a 2022 low of USD 17,038 after the Binance and FTX fall-out. The crypto weakness weighed on broader risk assets and was a catalyst to the price action seen throughout the day. Highlighting this, as Bitcoin printed its fresh YTD low in the NY afternoon it resulted in the Dollar paring some losses and US equity futures dropping into the red and to session lows amid the ongoing anxiety around the stability of the major platforms. The events began with exchange FTX earlier appearing to have stopped processing withdrawals, which came after Binance said it intended to offload its holdings of FTX's token FTT, which resulted in the token falling circa 80% on Tuesday. It was then announced that Binance is to acquire FTX with terms not disclosed. Reuters reports that followed noted FTX CEO had told staff that the exchange saw around USD 7bln of withdrawals in the 72 hours before Tuesday morning, as opposed to the millions of dollars in net inflows/outflows "on an average day", with withdrawals "effectively paused". Coinbase (COIN) plunged lower by circa 10% with the broader space, attempting to quell the fears by releasing a statement that it is in a strong capital position and there is no liquidity problem.

IBD/TIPP: The latest IBD/TIPP Economic Optimism index disappointed, as the headline fell for the second straight month to 40.4 in October from 41.6, remaining in contractionary territory for the 15th consecutive month. Regarding the internals, six-month financial outlook fell to 34.3 from 35.4, and confidence in federal economic policies dipped to 38.6 from 41.2. Meanwhile, personal financial outlook marginally rose to 48.4 from 48.2.

US MIDTERM ELECTIONS PREVIEW: 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 20+ TICKS HIGHER AT 110-09

Treasuries rallied through the session ahead of midterms and haven flows as crypto craters. 2s -5.0bps at 4.676%, 3s -7.5bps at 4.574%, 5s -7.8bps at 4.315%, 7s -8.6bps at 4.224%, 10s -7.6bps at 4.138%, 20s -7.0bps at 4.494%, 30s -4.4bps at 4.269%.

Inflation breakevens: 5yr BEI -6.4bps at 2.612%, 10yr BEI -4.1bps at 2.499%, 30yr BEI -3.0bps at 2.545%.

THE DAY: T-Notes were little changed entering NY trade on Tuesday after marking lows of 109-14 in late Tokyo trade before recovering to highs of 109-25+ in the European morning. German front-end was pressured after a poor 2yr auction, while UK Gilts were supported after decent 2038 syndication. After some fleeting weakness from EGBs on reports Germany is doubling its debt issuance for next year, Treasury strength picked up in the NY morning. In lack of major data, desks put the strength to a combination of both the prospects of a split congress as well as some haven inflows as major crypto exchanges come under heavy withdrawals. T-Notes sustained their strength through into the settlement, making session highs of 101-10+, aided by a strong 3yr auction ahead of Wednesday's 10yr.

3YR AUCTION: A strong USD 40bn 3yr offering that stopped at 4.605%, a bigger yield than last month's 4.318%, and representing a 1.2bps stop-through the WI, better than the prior 0.8bps tail and six-auction avg. 0.4bps tail. The 2.57x bid/cover ratio was the same as the prior and above avg. 2.51x. The takedown metrics were just as strong with Dealers (forced surplus buyers) and Directs taking beneath their priors and averages thanks to a step-up in Indirect demand to 62.2% from 53.4%, indicative of strong end demand.

STIRS:

- EDZ2 +1bps at 94.89, H3 +2.5bps at 94.655, M3 +4bps at 94.63, U3 +7bps at 94.80, Z3 +8.5bps at 94.995, H4 +9bps at 95.245, M4 +9bps at 95.47, U4 +9bps at 95.645, Z4 +8bps at 95.79, Z5 +9bps at 96.115, Z6 +11bps at 96.12.
- NY Fed RRP op. demand USD 2.232tln (prev. 2.241tln), across 101 bidders (prev. 107).
- US kept its 1-month, 2-month, and 17-week bill sizes unchanged for the Nov. 9th and 10th auctions.

CRUDE

WTI (Z2) SETTLED USD 2.88 LOWER AT 88.91/BBL; BRENT (F3) SETTLED USD 2.56 LOWER AT 95.36/BBL

Oil prices were lower on Tuesday amid China scepticism despite the weaker Dollar. There were two bouts of selling seen through APAC and US, with some temporary loss paring seen in the European session. After the recent upside in commodities amid optimism around China 'reopening', a surge in cases in Guangzhou and other cities has tempered some of that enthusiasm. The selling in the US afternoon gained momentum as stocks unwound gains, and picked up on volume as WTI broke back beneath USD 90/bbl. Not to mention Oman's Energy Minister forecasting oil prices falling back down after the winter season, saying the state's budget has been set with a USD 55/bbl oil price to give a comfortable cushion. Attention now looms towards the inventory data with the private release due after the close Tuesday ahead of the EIA figures on Wednesday. Current expectations (bbbls): Crude +1.4m, Gasoline -1.1m, and Distillate -0.9m.

EIA STEO: [The monthly report](#) saw the body cut its forecast for 2023 world oil demand by 320k BPD, now sees a 1.16 mln BPD Y/Y increase, whilst raising its 2022 forecast by 140k BPD to a 2.26mln BPD Y/Y increase.

EQUITIES

CLOSES: SPX +0.56% at 3,828, NDX +0.75% at 11,059, DJIA +1.02% at 33,160, RUT -0.05% at 1,808.



SECTORS: Materials +1.68%, Technology +0.92%, Industrials +0.86%, Utilities +0.69%, Real Estate +0.65%, Financials +0.59%, Health +0.5%, Communication Services +0.37%, Consumer Staples +0.34%, Energy +0.05%, Consumer Discretionary -0.3%.

EUROPEAN CLOSSES: EURO STOXX 50 +0.82% at 3,739, FTSE 100 +0.08% at 7,306, DAX 40 +1.15% at 13,688, CAC 40 +0.39% at 6,441, FTSE MIB +0.86% at 23,694, IBEX 35 +0.46% at 7,998, SMI +0.83% at 10,839.

EARNINGS: Take-Two Interactive Software (TTWO) posted a deeper loss per share than expected and missed on revenue; FY revenue view was light, reflecting shifts in its pipeline, fluctuations in FX rates, and a more cautious view of the current macroeconomic backdrop. **Dupont (DD)** topped on EPS and announced a new USD 5bln share repurchase programme; missed on revenue with FY guidance more-or-less inline. **SolarEdge Technologies (SEDG)** beat on revenue and raised next quarter revenue view as an exec noted extremely strong momentum in Europe as well as globally; increased production in the quarter and was able to ship more units. **Lyft (LYFT)** posted a surprise loss per share and fell short on active riders alongside a marginal miss on revenue. **TripAdvisor (TRIP)** missed on EPS and sees Q4 revenue growth at low-single digits vs 2019 levels. Q4 outlook takes into consideration continued strong travel fundamentals despite general macro headwinds. **Planet Fitness (PLNT)** topped on EPS and revenue; raised FY22 guidance.

STOCK SPECIFICS: FedEx (FDX) CFO is projecting a lower demand outlook for the foreseeable future here and does not have a FY earnings outlook for FY23. Co. is cutting back on the vendor headcount and has deferred a number of projects; says it is using assets more efficiently and will lower capital intensity as it goes forward. EU regulators confirmed probe into **Activision (ATVI)** and **Microsoft (MSFT)** deal, saying it may hurt competition for distribution of console and PC video games and operating systems. EU set to decide by March 23rd, 2023, whether to clear or block the deal. **Nvidia (NVDA)** said in Q3, it started production of a new advanced A800 GPU chip for China customers that meets the US export ban, new chip is an alternative to GPU A100 for China customers. **Kohl's (KSS)** announced CEO transition process, where current CEO Gass is to join **Levi's (LEVI)**. On updated guidance, it guided Q3 EPS view above consensus, but SSS fell short. **Foxconn (FXCOF)** plans to invest an additional USD 170mln in **Lordstown Motors (RIDE)**. US House lawmakers will hold a hearing next week to discuss bipartisan marijuana reform issues at the federal and state level, according to Marijuana Moment citing committee notice. **Citigroup (C)** cuts dozens of jobs across its Investment Banking unit, according to Bloomberg. **Barclays (BCS)** also joins rivals in culling Investment-Banking headcount. **Netflix (NFLX)** explores investing in sports leagues and bidding on streaming rights, according to WSJ. **Salesforce (CRM)** let go of fewer than 1k employees on Monday, according to CNBC sources.

FX WRAP

The Dollar was lower Tuesday and printed a session low of 109.360 as market participants positioned themselves ahead of the US Midterms elections Tuesday, with half an eye to Thursday's CPI data. On top of this, the initial risk on sentiment following the US open also weighed on the Greenback. Note, IBD/TIPP economic optimism disappointed but did not garner any market reaction. That only tells some of the story, however, as whilst the Buck was a casualty of the aforementioned themes, it was choppy amid the volatility in the crypto space in wake of the Binance and FTX fallout. As such, Bitcoin printed a new YTD low, beneath USD 17,500, in the New York afternoon amid heightened tensions which resulted in clear risk-off sentiment as stocks went into the red and the Dollar pared its weakness, but this was soon reversed to send the Dollar back lower, once again, albeit not to session lows. On the Midterms, desks see the results boding poorly for President Biden as polls predict a Republican win in the House and tight Senate battle that tilted away from the Democrats.

Activity currencies, NZD, AUD, CAD, and GBP were all firmer and to similar degrees against the Buck amid the initial risk-on tone of trading on Tuesday and a broader pullback in the Dollar. Although, trading conditions were choppy with the volatility in the crypto space having a broader market impact after news Binance is to buy FTX. Nonetheless, NZD /USD hit a high of 0.5999 and ran out of momentum trying to top the key round level, while AUD/USD managed to just pierce 0.6550 to the upside, albeit very briefly. Cable traded between 1.1599-1.1431 but is well within that range, at pixel time, as it retraced off lows on the aforementioned Dollar weakness. BoE's Chief Economist Pill was on the wires and said reiterated that there is more to do, and need to raise rates to tighten monetary policy, while the bank is not going to be moving at a pre-defined pace at every meeting. In APAC trade, the Australian AIG services index disappointed and fell, while consumer sentiment fell 6.9%. Meanwhile, New Zealand inflation for Q4 was higher than the prior. Looking ahead for the currency group, the Pound looks the most vulnerable to calendar-induced volatility ahead of BoE's Haskell on Wednesday and economic data on Friday.

Safe havens, JPY and CHF, were firmer although the Yen saw much greater gains than the Swissy. For the Yen, desks cited it enjoying the more benign yield environment and perhaps regaining a safety premium given the pronounced fallout in cryptos amidst the rift between FTX and Binance. In terms of levels, USD/JPY hit a low of 145.32 in contrast to



a high of 146.93, but it resides much closer to the former level, at the time of writing. Moreover, BoJ Summary of Opinions from the October meeting stated that Japan's consumer inflation is likely to continue accelerating as firms pass on higher costs. Meanwhile, USD/CHF traded between a narrow 0.9927-9838 as traders largely took SNB Chairman Jordan's comment in stride, where he noted policy decisions must be based on firm commitment to price stability objective; policy decisions must not be based exclusively on inflation forecast.

Euro also saw gains and continued its rally against the Dollar, as it breached parity to highs of 1.0096, a level not seen since mid-September. The strength seen in the single-currency came amid the previously mentioned Dollar selling and lower Treasury yields. There was a slew of ECB speak on Tuesday, namely Wunsch, de Guindos, Enria and Nagel, where Wunsch said the view of the terminal rate at 3% may be optimistic.

Nokkie saw weakness as the downside in the crude complex weighed on the Krone. Although, its Scandi peer the **SEK** extended its outperformance on the back of next year's budget draft showing SEK 40bln worth of economic stimulus rather than anything more expansive, but also took on board comments from Riksbank's Bremen in favour of a rate path inferring higher levels for longer compared to the latest one.

EMFX was mixed. RUB, MXN, and TRY saw losses and as such the underperformers, while ZAR and BRL firmed on account of the falling Dollar. For the BRL, Brazil's Vice-President elect Alckmin signed documents creating Brazil's transition Government. The ZAR saw tailwinds from the initial strength seen in spot gold, but CNH/CNY was weighed on by the further China COVID restrictions/cases.

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