



## US Market Wrap

### 9th November 2022: Stocks sold and Dollar bid as crypto crash deepens into US CPI

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar up.
- **REAR VIEW:** Binance pulls out of FTX acquisition; Midterms largely as expected, but Senate a toss up; Awful 10yr auction; META cuts 13% of workforce; Poor DIS earnings; Poland unexpectedly holds rates; Putin to skip G20 summit next week.
- **COMING UP: Data:** US CPI, IJC **Speakers:** Fed's Waller, Harker, Logan, Daly, Mester, George, Williams, BoE's Tenreiro, ECB's de Cos, Schnabel, SNB's Maechler **Supply:** UK, US.

## MARKET WRAP

Stocks were sold through the Wednesday session with US indices leading the losses. A lot of the anxiety appears to be coming from the crypto space with Binance now pulling out of the FTX buyout deal after "looking at the books"; Bitcoin is making new troughs at time of writing at USD 16,090 after opening the week at USD 21,250. Treasuries steepened amid risk aversion and duration pressure after the awful 10yr auction, which raised concerns about who will soak up new Treasury supply as central bank QT extends. Inflation breakevens fell with commodities pressured from risk-aversion /Dollar strength. All eyes to Thursday's CPI and jobless claims data, US 30yr auction, and Fed Speak bonanza.

## GLOBAL

**CRYPTO:** The crypto fallout continued on Wednesday, highlighted by Bitcoin falling another 11% and probing USD 16,000 to the downside, which weighed on other assets as US stocks saw losses of c. 2%. Moreover, due to the general risk-off sentiment, in part due to the crypto crash, the Dollar surged to highs above 110.50. Regarding the crypto situation, in the NY morning the downside accelerated after Coindesk sources noted Binance is highly unlikely to go through with the purchase of FTX "after glancing at crypto exchange's books. Following this, late in the NY session Binance confirmed it is walking away from the FTX deal due to due diligence and reports on mishandling of FTX customer funds. Binance added issues are beyond its control or ability to help. As a result, Bitcoin fell to session lows in wake of these reports, while FTT (the FTX token) saw significant losses as Reuters headlines noted it has seen monthly losses of circa 90%. Robinhood (HOOD) closed lower by circa 14%, likely on fears Sam Bankman-Fried, who took a large stake in Robinhood earlier in the year (7.6% stake, paying USD 648mln at the time in May 2022), might have to sell his stake given the turmoil at FTX.

## FIXED INCOME

### T-NOTE (Z2) FUTURES SETTLED 1+ TICKS HIGHER at 110-10+

**Treasuries steepened amid risk aversion and duration pressure after the awful 10yr auction.** At settlement, 2s -6.3 bps at 4.609%, 3s -6.5bps at 4.514%, 5s -3.4bps at 4.274%, 7s -1.3bps at 4.203%, 10s +0.6bps at 4.134%, 20s +2.9bps at 4.514%, 30s +3.6bps at 4.296%.

**Inflation breakevens:** 5yr BEI -4.9bps at 2.573%, 10yr BEI -3.3bps at 2.473%, 30yr BEI -1.6bps at 2.534%.

**THE DAY:** T-Notes were flat entering the NY Wednesday session at 110-09, following sales in the Tokyo morning to lows of 110-02+ before bouncing in the London morning to highs of 110-15+. Treasury selling picked up as the Dollar IG debt pipeline built, including an USD 8.25bln GE Healthcare six-parter, taking T-Notes to session lows of 110 on the nose. A rocky open for US stocks, with continued crypto pressure, saw some haven demand for USTs, which managed to eclipse the earlier highs in T-Notes to make session peaks of 110-17+, aided by a 5k block buy. The bulls lost momentum into the afternoon with an eye towards the 10yr auction, which was just as well as the contracts slid lower after the largest tail in years, although earlier T-Note ranges were respected. All eyes to Thursday's CPI, 30yr auction, and Fed Speak bonanza.

**10YR AUCTION:** The USD 35bln new issue auction was an awful one. The 4.140% stop marked a 3.4bps tail, the largest tail for the 10yr sector for years, and much worse than the prior 1.6bps tail and six-auction avg. 1.3bps tail, also



the third consecutive 10yr tail. The 2.23x bid/cover ratio was well beneath the prior 2.34x and avg. 2.41x. Dealers (forced surplus buyers) took 24.4%, well above the avg. 16.4%, with neither Directs nor Indirects showing up. The auction further raises questions about who will soak up all the new Treasury supply amid a "buyer's strike". The stronger Dollar on the day is also a reminder of the headwinds faced to foreign demand for US assets, not to mention any related Treasury sales from foreign state reserves to fund FX intervention. Treasury swap spreads narrowed in wake of the auction, reflective of the supply glut concerns.

#### STIRS:

- EDZ2 +2.5bps at 94.91, H3 +1.5bps at 94.665, M3 +2.5bps at 94.65, U3 +5bps at 94.845, Z3 +7.5bps at 95.065, H4 +9bps at 95.33, M4 +9.5bps at 95.56, U4 +9bps at 95.73, Z4 +8.5bps at 95.875, Z5 +5bps at 96.16, Z6 flat at 96.115.
- US sold USD 33bln of 17-week bills at 4.300%, covered 3.21x.
- NY Fed RRP op. demand USD 2.238tln (prev. 2.232tln), across 101 bidders (prev. 101).

## CRUDE

**WTI (Z2) SETTLED USD 3.08 LOWER AT 85.83/BBL; BRENT (F3) SETTLED USD 2.71 LOWER AT 92.65/BBL**

**The crude complex trundled lower through the duration of the session as the broader risk aversion and Dollar strength weighed, seeing WTI and Brent futures settle at lows.** On sentiment, the Dollar surged while US stocks saw losses amid further crypto woes and China's COVID situation remaining an overhang as Guangzhou reportedly locked down the third district. Note, the US Midterms were, in broad strokes, as expected and failed to garner any market reaction. Nonetheless, and akin to Tuesday's volume-selling through USD 90/bbl, as WTI slid beneath the round 88/bbl, selling seemingly picked up and accentuated to the downside. Elsewhere, contributing to the downside was the weekly EIA inventory data, which saw a greater US crude build than expected, in fitting with private inventory data on Tuesday night, while gasoline and distillates both drew, as expected, just not as deep as the forecasted.

**OPEC:** IEA's Birol said OPEC+ might need to rethink its output cut decision, and he added the production cut could place further upward pressure on inflation and weaken the global economy. Birol concluded that oil prices flirting with USD 100/bbl are a "real risk" for the global economy.

**OSPs:** Iraq sets December OSP for Basrah Light to Asia at +0.90 vs Oman/Dubai average (prev. +1.70); Europe at -8.20 vs dated Brent (prev. -9.20), and North/South America at -1.70 vs ASCI (prev. -2.00). Meanwhile, Qatar has set December Marine Crude OSP at Oman/Dubai plus USD 4bbl, Land Crude OSP at Oman/Dubai plus USD 4.80bbl.

## EQUITIES

**CLOSES:** SPX -2.08% at 3,748, NDX -2.37% at 10,797, DJIA -1.95% at 32,513, RUT -2.68% at 1,760.

**SECTORS:** Energy -4.88%, Consumer Discretionary -3.12%, Technology -2.65%, Communication Services -1.9%, Financials -1.7%, Materials -1.58%, Industrials -1.45%, Consumer Staples -1.13%, Real Estate -1.09%, Health -1.05%, Utilities -0.84%.

**EUROPEAN CLOSES:** EURO STOXX 50 -0.30% at 3,728, FTSE 100 -0.14% at 7,296, DAX 40 -0.16% at 13,666, CAC 40 -0.17% at 6,430, FTSE MIB +0.36% at 23,780, IBEX 35 +0.52% at 8,040, SMI +0.67% at 10,899.

**EARNINGS:** **Walt Disney (DIS)** missed on profit, revenue and ARPU on Disney+; revenue segments also fell short but do note Disney+ subscribers beat. Disney's profits took a hit from higher costs at Disney+ streaming service, and plans to cut marketing and content budgets. **D R Horton (DHI)** missed on top and bottom line; not providing guidance due to housing market uncertainty. Raised quarterly dividend to USD 0.25/shr (exp. 0.22). **Affirm Holdings (AFRM)** missed on EPS alongside Q2 and FY23 revenue view being light; exec said the slowing economy and worsening consumer credit will hamper GMV growth in the near-term. **Roblox (RBLX)** fell short of Wall St. consensus on revenue and adj. EBITDA; bookings beat. **Upstart (UPST)** posted worse-than-expected results; EPS and revenue missed expectations as did guidance citing challenging economic conditions. **Lucid Group (LCID)** posted a deeper loss per share than expected alongside a miss on revenue. LCID said it may raise up to USD 1.5bln through stock sales to fund its operations.

**STOCK SPECIFICS:** **Meta Platforms (META)** will cut the size of its global workforce by 13% or 11k employees and has extended hiring freeze through Q1. Meta says it must become more capital efficient and the revenue outlook is lower than expected at the start of this year but Q4 outlook remains unchanged. **Tesla (TSLA)** CEO Musk reported the sale of at least USD 19.5mln worth of Tesla shares worth USD 3.5bln since Friday. **Taiwan Semiconductor Manufacturing**



**(TSM)** reportedly preparing another multibillion-dollar factory investment in Arizona, according to the WSJ. **Honda Motor (HMC)** lowers FY global retail sales outlook to 4.1mln units (prev. 4.2mln) as well as North America sales guidance but raises Asia sales view.

## FX WRAP

**The Dollar** saw gains on Wednesday amid the broad risk-off sentiment to top 110.500, albeit briefly, to highs of 110.640. Continued China COVID fears and the further crypto fallout were weighing on sentiment, especially the latter after reports suggesting Binance is highly unlikely to go through with the purchase of FTX "after glancing at crypto exchange's books". Moreover, positioning ahead of US CPI on Thursday was a factor, with the data set pivotal in terms of determining direction as another key input for the Fed as it deliberates whether to stick or pivot lower from 75bps hike increments in December. Additionally, Tuesday night US Midterms were in focus earlier, which went mostly as expected (so far) with GOP's leading the House while the Senate is seen as a toss-up. Note, there was little market reaction seen in response. Looking ahead, aside from the aforementioned CPI, there is a slew of Fed speak on Thursday.

**Activity currencies**, GBP, AUD, NZD, and CAD, were notably lower with the Pound the clear underperformer, but the Antipodes also saw steep losses in excess of a per cent against the Buck. There was little in terms of currency-specific newsflow that directly hampered the aforementioned currencies, more just a function of the risk-off trading given the unfavourable macroeconomic conditions. To summarize, RBA's Bullock reiterated known views as he said further rate hikes will be needed and inflation is too high. Meanwhile, Bloomberg reported UK Chancellor Hunt is looking to cut the surcharge on UK bank profits to 3% from 8% as it seeks to shield UK banks from the bulk of corporate tax rise. In terms of key level, Cable had a fall from grace as it fell from highs of 1.1566 to lows of 1.1335, sitting just above at pixel time, while AUD/USD and NZD/USD hit lows of 0.6415 and 0.5874, respectively. UK economic data looms for Friday.

**EUR, CHF and JPY**, were volatile but lower. Swissy was the clear G10 outperformer and only marginally lower against the Buck amid its safe-haven appeal, although the Franc lost some of its haven appeal after hitting resistance circa 0.9800 even though Bitcoin and fellow cryptos collapsed even further. USD/JPY hit a low of 145.18, but the Yen failed to keep its head beneath the pivotal 146.00 and as such rose to highs of 146.79. Lastly, EUR/USD briefly breached parity, again, as the Dollar haven bid and general risk-off weighed on the single currency. Although, the Euro got a fleeting lift after Russia announced a troop withdrawal near Kherson, but the report was downplayed by a senior Ukraine presidential advisor. For reference, although no market reaction, ECB Consumer Expectations Survey noted that although consumers' inflation expectations have reacted to higher inflation and heightened uncertainty, the term structure of inflation expectations remains strongly downward sloping.

**EMFX** was predominantly lower, with only the RUB firming against the Dollar. CNH weakened amid the rise of further China COVID cases, which continues to weigh on the macroeconomic backdrop and the possible reopening picture in China. Meanwhile, the PLN weakened against the EUR after the NBP unexpectedly held rates at 6.75%, against a consensus 25bps hike. In wake of the rate decision, NBP reiterated it could intervene in the FX market and upcoming decisions of the MPC will depend on inflation and economic activity. MXN was weaker amid the sharp declines in the crude complex, where WTI saw losses of circa USD 3/bbl, but the Peso was able to defend the psychological 20.00 mark as the Dollar ran out of momentum heading towards it.

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