US Market Wrap

10th November 2022: History-making stock and bond bid after 'soft' CPI data pummels the Dollar

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: US CPI comes in softer; Fed speak warms to 50bps in December; FTX outcome yet to be seen; Strong US 30yr auction; Banxico hikes 75bps, as expected; Jobless claims ticks higher; AMZN launches cost-cutting review.
- **COMING UP**: **Data**: German CPI (Final), UK GDP (Prelim.) **Speakers**: ECB's de Guindos, Panetta, BoE's Tenreyro, ECB's Lane **Supply**: Italy, UK I/L Syndication **Holidays**: US Veteran's Day - Floor Trade on CME closed.

MARKET WRAP

Markets saw a session for the history books after the soft US October CPI report saw an immediate dovish reaction, globally, as Treasuries, stocks, and gold rocketed higher whilst the Dollar cascaded lower, with decade-plus record D/D moves across the board. Nasdaq 100 led the major US indices firmer, closing 7.5% firmer and at highs as the rate-sensitive index feasted off the tumble in yields. Fed pricing for the December meeting is now heavily tilted towards 50bps and seen as a >70% chance, as opposed to circa 45% prior to the data, with the terminal rate falling back under 5% in 2023. The deluge of Fed Speak was an afterthought due to the data doing the talking for them, although as expected, many are indicating a preference to move down to 50bps in December, leaving the question open for how far they need to go. Treasuries yields saw their largest daily fall since 2009 (10yr -32bps) with the whole curve rocketing on big flows; the 30yr auction saw record demand despite the rally, as opposed to the awful 10yr the day before. 5yr5yr inflation breakevens, a proxy for longer-term inflation expectations, saw a fall on the initial CPI release but returned to pre-CPI levels (c. 2.35%) as financial conditions eased throughout the session. In crypto, FTX resolution is yet to be found, although given the 'trad fi' developments, Bitcoin enjoyed a chunky 13% rip off its YTD lows.

FED

WSJ's TIMIRAOS (NON-VOTER) tweeted, "The October inflation report is likely to keep the Fed on track to approve a [50bps rate hike] next month. Officials had already signaled they wanted to slow the pace of rises and were somewhat insensitive to near-term inflation data".

KASHKARI (2023), the only speaker Thursday before the CPI data, said any talks of a pivot are premature and Fed is a long long way from its two mandates being in tension. The Minneapolis Fed President said he doesn't know what the Fed will do at the December meeting but thinks they are on a good path now.

HARKER (2023), in his prepared remarks, said he expects the Fed can slow the pace of hikes in the coming months and that the Fed will go on hold sometime next year in a restrictive stance. The Philadelphia Fed President commented after the speech that monetary policy lags by around a year or so. He also added that he favours a possible rate hike pause when the Fed Funds rate reaches around 4.5%.

LOGAN (2023) said CPI data was a "welcome relief" but there is still a long way to go. Believes it could soon be appropriate to slow the pace of rate hikes so the Fed can better assess financial/economic conditions. The Dallas Fed President said she does not see the decision about slowing the pace of rate hikes as closely related to incoming data. Adding that as financial conditions become more restrictive, she is attentive to the potential for nonlinear and unexpected responses to further policy tightening. Logan also said there has been a normal financial market response to tighter monetary policy. She also stressed that the restrictiveness of policy comes from the entire policy strategy—not just how fast rates rise, but the level they reach, the time spent at that level, and, importantly, the factors that determine further increases or decreases. Logan also pushed back on 'pause' speculation, saying the process of the Fed's cooling of the economy is just getting started.

DALY (2024) said the CPI report was good news, but one month of data is not a victory with headline Y/Y still at 7.7%. However, the San Fran. President said the time is now to step down on the pace of rate hikes (previously said there still could be 75bps before Nov. FOMC). Daly said there's still a lot of uncertainty on what the terminal rate will be, but she supports a gradual pace in getting there. She stressed that pausing is not a subject of discussion, saying the real conversation should be about the level at which the Fed holds rates at. To which, she said the Fed probably needs to tighten more than the Sept. Fed forecasts suggested (median 4.6%), saying her own forecast was 4.9% then (Daly said before Nov. FOMC that 4.5-5% terminal was reasonable). Elsewhere, Day said the balance sheet policy is on track and markets continue to be well functioning, noting it's not the time now to start thinking about changing the roll-off. Also said she is not especially concerned about RRP right now, but it is worth watching.

MESTER (2022) reaffirmed her hawkish stance saying the main risk on inflation is that Fed doesn't hike enough, but did say the October CPI shows signs of moderation. Nonetheless, said the Fed needs to press forward on rate rises to cool inflation with upside inflation risks remaining. The Cleveland Fed President said it's unclear how high rate hikes must go and how long policy stays restrictive.

GEORGE (2022) said a more measured approach allows policymakers to judge the economy's response to rate hikes, saying a steady and deliberate approach to rate hikes is advantageous. The Kansas City President said the degree of tightening needed depends on the economy and inflation dynamics, which cannot be predetermined. George said it could very well be required to hold higher rates for some time to convince households to hold on to savings, noting inflation is down but still uncomfortably high.

GLOBAL

US CPI: US CPI was softer than expected across the board, as headline M/M and Y/Y printed 0.4% (exp. 0.6%, unchanged) and 7.7% (exp. 8.0%, prev. 8.2%), respectively, while the core metrics came in at 0.3% M/M (exp. 0.5%, prev. 0.6%) and 6.3% Y/Y (exp. 6.5%, prev. 6.6%) on a Y/Y basis. Delving into the internals, new vehicles M/M +0.4% is the smallest pace of increase since March and used vehicles have seen four consecutive months of price declines now, while shelter M/M at +0.8% is still hot, although the 'sticky' OER component falls to +0.6% from +0.8%, the lowest since July, with most of the gain in shelter coming from lodging away from home. Used vehicle prices declined by 2.4% M/M, with Capital Economics adding the auction data points to further significant declines in the coming months. Overall, OxEco says CPI showed that the bulk of US inflation issues are attributed to supply shocks, rather than demand and monetary policy cannot address supply-driven inflation issues. The consultancy says one could argue that rental inflation in the US is also a supply issue because of the underbuilding of affordable housing over the past decade. Looking ahead, CapEco says, “expect this to mark the start of a much longer disinflationary trend that we think will convince the Fed to halt its tightening cycle early next year, with the policy rate peaking at 4.50% to 4.75%, and to begin cutting rates again before the end of 2023.” On an aside, it is worth bearing in mind that this CPI report will not have the final say as to what the Fed will opt to do at their next meeting, with one more set of jobs, inflation, and survey reports due before the FOMC’s Dec 13-14th confab. Perhaps more importantly, is that if the declines do go on to represent a trend lower, the data argues for a lower Fed terminal rate than what would be required if the CPI data remained high, or worse, accelerated, which has been reflected by money markets repricing a lower terminal rate in 2023 after the release.

JOBLESS CLAIMS: Initial jobless claims rose to 225k from 218k, and above the expected 220k. Meanwhile, continued claims also exceeded consensus to print 1.493mln (exp. 1.475mln) from, the revised higher, 1.487mln. Delving into the release, Pantheon Macroeconomics note, the IJC data is all about the seasonals and does not change the underlying flat trend. As a result, Pantheon looks for claims to drop to only about 200K next week. Moreover, the wider picture is that, for the most part, firms are choosing to slow the pace of hiring in response to tighter financial conditions and weaker demand rather than lay off existing staff.

CRYPTO: Despite not being the main event on Thursday the FTX fallout continued, although it did not translate to further downside in crypto due to risk appetite post-US CPI. On Wednesday evening it was reported FTX is seeking emergency funding to meet withdrawal requests and without funding it would result in bankruptcy. That was followed on Thursday by it finally reopening withdrawals, but the exchange is still seeking a potential rescue partner of as much as USD 9.4bln, with many names linked. Highlighting this, FTX has reportedly spoken to Tron’s Justin Sun, Kraken, and Daniel Loeb, amongst others. Furthermore, FTX US noted trading may be halted in a few days but, for the meantime, withdrawals are and will remain open. Overall, it appears FTX's downfall was rooted in poorly performing investments made during the crypto rout and Sam Bankman-Fried used customer deposits to partially finance his trading firm earlier this year, hence the need for financial rescuing.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 2 POINTS & 6 TICKS HIGHER AT 112-16+

Treasuries yields saw their largest daily fall since 2009 after the soft CPI data saw the whole curve rocket. 2s -29.0bps at 4.338%, 3s -33.9bps at 4.189%, 5s -33.3bps at 3.950%, 7s -32.3bps at 3.891%, 10s -31.5bps at 3.827%, 20s -27.9bps at 4.245%, 30s -25.6bps at 4.063%.

Inflation breakevens: 5yr BEI -5.5bps at 2.480%, 10yr BEI -2.2bps at 2.422%, 30yr BEI -0.8bps at 2.507%.

THE DAY: Treasuries were supported gradually into the APAC Thursday session on haven demand amid the crypto crash, seeing T-Notes hit an interim peak of 110-25+ at the London handover. T-Notes then pared through the European morning to session lows of 110-12+ for little apparent reason other than corrective price action and positioning for US CPI, only to drift higher again into the NY handover. Fixed Income smashed through the roof after the much softer-than-expected inflation data, T-Notes surged from 110-20 to 111-24 in an immediate reaction, with nearly 500k Dec'22 contracts traded in the proceeding 30 minutes (2.4mln traded on the day at time of writing), with some massive block buys in the 2yr and 5yr futures noted - not to mention 75k 5yr Mar'23 111/112 calls spread lifted for 6 up to 7. The 10yr contracts went on to print session highs of 112-17 before midday in NY, hovering close to the levels through into the settlement, with a stellar 30yr auction keeping the curve supported. Note cash bonds will not trade on Friday due to the Veterans Day holiday, although futures will be open and potentially an outlet for any risk transfer around the preliminary November Uni of Michigan survey.

30YR AUCTION: The USD 21bln 30yr new issue saw exceptional demand in wake of the rates vol compression post-CPI, night and day vs the 10yr new issue on Wednesday. The 4.080% high yield marked a 3.3bps stop-through the WI, the highest stop-through in years and well above the six-auction avg. 0.6bps. The 2.42x bid/cover ratio exceeded the prior 2.39x and avg. 2.38x. Dealers (forced surplus buyers) were left with a minuscule 9.7%, down from the avg. 12%, with strong Directs demand and average Indirects.

REFUNDING: US to sell USD 15bln in new issue 20yr bonds on Nov. 16th and USD 15bln in 10yr TIPS reopening on Nov. 17th, both to settle on Nov. 30th. To sell USD 57bln of 3-month bills and USD 45bln of 6-month bills on Nov. 14th, both settling on Nov. 17th.

STIRS:

- EDZ2 +9bps at 94.99, H3 +16bps at 94.82, M3 +22bps at 94.865, U3 +30.5bps at 95.145, Z3 +36.5bps at 95.425, H4 +40bps at 95.725, M4 +41bps at 95.965, U4 +40bps at 96.125, Z4 +38bps at 96.25, Z5 +33bps at 96.485, Z6 +30.5bps at 96.425. Fed terminal rate priced back under 5% in 2023 after CPI.
- NY Fed RRP op. demand falls to USD 2.201tln from 2.238tln, across 95 bidders (prev. 101).
- US sold USD 67bln of 1-month bills at 3.580%, covered 2.65x (six-auction avg. 2.48x); sold USD 57bln of 2-month bills at 3.850%, covered 2.68x (avg. 2.58x).

CRUDE

WTI (Z2) SETTLED USD 0.64 HIGHER AT 86.47/BBL; BRENT (F3) SETTLED USD 1.02 HIGHER AT 93.67/BBL

The crude complex was very choppy on Thursday and saw two-way action, but ultimately settled firmer on the risk-on sentiment highlighted by the significantly weaker Dollar. Regarding the day, after the softer-than-expected US CPI report oil saw upside, in-fitting with the global dovish reaction, but then after the cash open WTI and Brent pared all these gains, and more, on a seeming lack of fundamental headlines. Nonetheless, Citi notes, the CPI data and Buck weakness may have been a short-term distraction, but the focus still lies around the COVID outbreak in China's Guangzhou, and the measures to contain it. So far, the government has stopped short of a full lockdown, but five districts of the city have been slated for mass testing, and the further concern is that a lockdown could still be imposed. Elsewhere, Citi notes, "OPEC+ production cuts and the EU embargo on seaborne deliveries of Russian crude oil taking effect December 5 remain key offsetting supports. We continue to view the market as in transition from a 3Q surplus toward a 1Q deficit, but the net gain in price to confirm that assessment has certainly been limited and inconsistent so far."

EQUITIES

CLOSES: SPX +5.54% at 3,956, NDX +7.49% at 11,605, DJIA +3.70% at 33,715, RUT +6.11% at 1,867.

SECTORS: Technology +8.33%, Real Estate +7.75%, Consumer Discretionary +7.7%, Communication Services +6.32%, Materials +5.55%, Financials +5.13%, Utilities +4.76%, Industrials +4.23%, Health +2.59%, Consumer Staples +2.46%, Energy +2.22%.

EUROPEAN CLOSES: EURO STOXX 50 +3.18% at 3,846, FTSE 100 +1.08% at 7,375, DAX 40 +3.51% at 14,146, CAC 40 +1.96% at 6,556, FTSE MIB +2.58% at 24,394, IBEX 35 +1.15% at 8,133, SMI +1.98% at 11,120.

STOCK SPECIFICS: **Amazon (AMZN)** launched a cost-cutting review focused on unprofitable businesses, according to WSJ sources; looking closely at its Alexa unit. **Beyond Meat (BYND)** posted a deeper loss per share than expected and missed on revenue; cut FY22 revenue outlook as operating environment continues to be affected by near-term uncertainty related to macroeconomic issues. **Tapestry (TPR)** cut FY revenue outlook amid the strong Dollar and China COVID restrictions; but, beat on top and bottom line. **Nio (NIO)** beat on revenue and expects deliveries to nearly double in the current quarter from a year ago; albeit posted a wider-than-expected loss. **Rivian (RIVN)** posted a shallower loss per share than expected and reaffirmed its production schedule, even in the face of supply chain issues. **Cano Health (CANO)** missed on EPS and revenue; cut FY22 revenue outlook driven by lower-than-expected capitated revenue from new members. **Six Flags (SIX)** missed on the top and bottom line; announced an agreement with investment firm H Partners that raised the cap on H Partners' stake in the company to 19.9% (prev. 14.9%). **Bumble (BMBL)** issued a weak current-quarter revenue forecast noting its users are renewing subscriptions at a slower rate as consumers cut back on discretionary spending in the face of inflation. **Apple (AAPL)** supplier **Foxconn (FXCOF)** sees revenue growth flat in the Oct-Dec quarter but sees growth for consumer electronics declining slightly in Q4. **ZipRecruiter (ZIP)** surpassed on profit and revenue; raised next quarter and FY22 revenue guide. **Becton Dickinson (BDX)** missed on profit and FY revenue view was light of consensus; beat on revenue and raised quarterly dividend 4.6% to USD 0.91 /shr. For **Altria (MO)**, Juul has secured financing to avoid bankruptcy and plans to cut 30% of jobs, or 400 employees, according to WSJ. **Roper Technologies (ROP)** raised quarterly 10% to USD 0.6825/shr. **Coinbase (COIN)** is laying off staff in its second round of cuts this year, according to The Information citing a co. spokesperson. US Transportation Department Inspector General opens audit into FAA's oversight of key feature on **Boeing (BA)** 737 max, according to a statement.

FX WRAP

The Dollar Index saw its greatest losses in a single day since 2009, according to Refinitiv data, falling to lows of 108.090, a level not seen since mid-September after the softer-than-expected US CPI report. The aforementioned report was the key macro catalyst on Thursday and resulted in a dovish reaction across markets, and as such plunging the Dollar lower, as Fed pricing is now heavily tilted towards a 50bps hike in December as opposed to 75bps prior to the release with a terminal rate priced back beneath 5% for 2023. Although, it is worth noting this CPI report will not be the nail in the coffin to what the Fed will opt to do at their next meeting, as there is one more set of jobs, inflation, and survey reports due before the FOMC's Dec 13-14th confab. Elsewhere, there was a plethora of Fed speak on Thursday, albeit failing to garner much of a reaction amid the CPI data, but nonetheless, Harker, Logan, Daly, Mester, George, and Kashkari all spoke. For the record, initial jobless claims ticked higher but largely due to seasonal effects. The docket for Friday is very quiet with only prelim UoM for November scheduled, and no Fed speech on the radar amid US Veteran's Day holiday.

Activity currencies, GBP, AUD, NZD, and CAD, all saw notable gains (in that order) against the Buck, and while the Loonie was the 'underperformer' it still surged in excess of a per cent. Without sounding like a broken record, the strength in the aforementioned currencies was down to the resurgence in risk-on sentiment in wake of the US CPI report. As such, Cable breached 1.1700 to a high of 1.1719 at pixel time (vs a 1.1353 low), as it managed to break the psychological level heading into the close, while AUD/USD and NZD/USD hit highs of 0.6624 and 0.6034, respectively. USD/CAD hit a low of 1.3321, as all the respective crosses hit their best levels since September, and adding to the strength the Pound saw its biggest daily advance since March 2020. For the Loonie watchers, BoC Governor Macklem heavily spoke and said there is scope to cool the labour market without causing the kind of unemployment surge we have typically experienced in recessions. Macklem reiterated that slightly negative growth is possible over the next few quarters, and that's not a severe recession, but it is a significant slowing of the economy. He also didn't give anything away with regards to the size of the next hike. Looking ahead, New Zealand Manufacturing PMI, followed by a slew of UK data on Friday.

The Yen was the G10 outperformer and recoiled back beneath 142.00 to lows of 140.63, at pixel time, from a remarkable high of 146.59. Desks noted it made sense that the Yen got an especially big boost from the Greenback's demise given a marked retreat in US Treasury yields allied to the much less hawkish Fed tightening perceptions, though the magnitude of the move in USD/JPY was exceptional and arguably more one-sided than those that forced Japan's MoF to act when the headline pair was soaring. Indeed, a dramatic turnaround ensued regardless of dovish commentary from BoJ Governor during Tokyo trade.

Euro and Swissy, as expected, soared against the Greenback and akin to peers hit best levels since September as the Dollar outflows severely benefitted the pair of them. Moreover, there was a raft of ECB speak, with nothing too incremental. Additionally, ECB has raised the limit for Eurosystem's securities lending against cash collateral from EUR

150bln to 250bln as of Nov. 10th, and Schnabel said it is "to ease collateral scarcity and support market functioning around the year-end".

Scandi's gained against the Greenback, with the SEK and NOK seeing similar strength as both relished the revival in risk sentiment spurred by the US inflation data after the latter failed to derive too much momentum via stronger than forecast Norwegian CPI in stark contrast to PPI.

EMFX were firmer across the board, aside from the BRL, which was significantly weaker vs the Dollar. On this, the Real depreciated sharply amidst dovish rhetoric from the BCB's Director of International Affairs, Economic Policy Director Guillen (monetary policy tightening in other countries will be deflationary for Brazil, but may impact the exchange rate in the short term) and reports that Brazilian President-elect Lula's Party is considering removing the 'Bolsa Família' social programme from the 'Spending Cap' rule for four years. ZAR benefitted from gold seeing gains of circa 2.75% after the US CPI report. MXN was firmer but saw little reaction from the expected 75bps hike from Banxico to 10%. Within the release, Banxico noted available indicators anticipate a moderate expansion of world economic activity during the third quarter, although the outlook for 2023 has continued to deteriorate, and for the short term, forecasts for headline inflation were revised marginally downwards, while those for core inflation were revised slightly upwards.