



US Market Wrap

14th November 2022: Stocks snap rally streak amid mixed Fed Speak and rising inflation expectations

- **SNAPSHOT:** Equities down, Treasuries down, Crude down, Dollar flat.
- **REAR VIEW:** Beijing to strengthen COVID prevention and control measures; Biden says US "One China" policy has not changed; AAPL slows down some hiring; AMZN to layoff 10k workers; NY Fed 1,3, and 5yr consumer inflation expectations all rise; Brainard nods to 50bps; Waller pushes back on market exuberance; Jordan adds SNB stands ready to buy or sell; Freeport LNG may extend plant outage through December.
- **COMING UP: Data:** Chinese Industrial Output/Retail Sales, UK Unemployment, EZ Employment, Trade Balance, GDP (Flash/Estimate), German ZEW, US PPI **Speakers:** Fed's Barr, Cook, Harker; ECB's Elderson, Villeroy **Supply:** UK, Germany & NGEU.
- **CENTRAL BANK WEEKLY:** Previewing RBA minutes, reviewing Banxico. To download the report, please [click here](#).
- **WEEK AHEAD PREVIEW:** Highlights include: G20, US retail sales, UK Autumn Statement, China activity data. To download the report, please [click here](#).

MARKET WRAP

Stocks were lower on Monday after unwinding NY morning strength. Fed Vice-Chair Brainard supported both stocks and bonds into midday after saying that it is probably appropriate to "soon" move to a slower pace of rate hikes. That took some of the sting out of Fed Governor Waller's Sunday remarks, with the hawk eager to push back on the post-CPI exuberance seen in markets. The Brainard bid soon faded, however, seeing major stock indices cross back into the red heading into the close. Treasuries pared further from their CPI peaks with rising consumer inflation expectations and mixed Fed Speak; cash bonds played catch up after Friday's holiday session. The rise in the NY Fed's consumer inflation expectations across all its 1yr, 3yr, and 5yr tenors adds to the rise seen in Friday's UoM survey, a reminder of the two-way risks still facing the US inflation path despite the latest CPI report. Tuesday's PPI looms. In FX, the Dollar was choppy, but ultimately flat, while the Yen (with Treasuries) pared some of last week's strength. Oil prices sold off through the session with surging Beijing COVID cases (China activity duty due Tuesday) and a mixed Dollar hitting the demand outlook.

US

NY FED CONSUMER SURVEY: The October survey saw consumer inflation expectations rise: one-year rose to 5.9% from 5.4%, three-year rose to 3.1% from 2.9%, and five-year rose to 2.4% from 2.2%, the highest since June. A big driver in the jump can be pinned on volatile energy prices with year-ahead expected gasoline prices marking a survey record one-month jump to 4.8% from 0.5%. It's also worth noting that the move higher in the 3yr and 5yr median inflation expectations was accompanied by greater dispersion in survey respondents' expectations, reducing the signalling of the data on the margin. Nonetheless, the NY Fed survey chimes with the move higher in the UoM survey reported on Friday, and a reminder to the Fed, and markets, of the two-way risks faced still on inflation despite the latest fall in CPI.

WALLER: Governor Waller (hawk) spoke on Sunday, with WSJ citing his reaction to CPI, "the market seemed to get waaaa-aaaay out in front... I just cannot stress this is one data point... We've still got a ways to go." The remarks chime with other Fed speakers that have looked to push back on the post-CPI loosening in financial conditions in anticipation of easier Fed policy and are to be expected from the hawk. Waller added that the loosening of financial conditions "is exactly the situation we had gotten into in July." Back then, there was "a loosening of financial conditions that we were trying not to do." The Governor added that if using a Taylor-type policy rule, short-term interest rates aren't that high, "real rates are barely positive a year out." He also said, "We knew the markets were going to jump for joy [after Nov. FOMC statement signalling a step down in hiking pace]." So the Fed used Powell's press conference to "drive the point home" that it's the ultimate level for rates that matters.

BRAINARD: Vice-Chair Brainard (dove) said in a Bloomberg interview that it is probably appropriate to "soon" move to a slower pace of rate hikes. But, she said exactly what the rate path looks like is difficult to see right now. Brainard reaffirmed her view, which has now been adopted by the broader FOMC, that it will take time for "cumulative tightening" to flow through, so it makes sense to move to a more deliberate pace now. That "deliberate" pace, she believes, will



allow the Fed to be informed by the flow of data when deciding on the terminal rate. She highlighted that the Treasury yield curve is now above 1% in real terms from 1yr-out. Brainard also reiterated her trepidation around the possible spillovers and risks from coordinated central bank tightening. She did look to warn that work is still to be done on inflation, warning of the elevated core services. Brainard continued to warn of unhelpfully high retail markups which are multiple times the increase in average hourly earnings, but she expects them to fall going ahead and contribute to disinflation.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 6 TICKS LOWER AT 112-04

Treasuries pared from their CPI peaks with rising consumer inflation expectations and Fed officials jawboning against market optimism. Since Thursday close, 2s +8.4bps at 4.410%, 3s +6.1bps at 4.245%, 5s +6.4bps at 4.007%, 7s +6.7bps at 3.953%, 10s +5.1bps at 3.880%, 20s +3.6bps at 4.291%, 30s +2.1bps at 4.067%.

Inflation breakevens: Since Thursday's close, 5yr BEI -3.7bps at 2.437%, 10yr BEI -3bps at 2.387%, 30yr BEI -3.1bps at 2.474%.

THE DAY: T-Notes extended their downside Monday, printing session lows at the futures reopening of 111-27+ on the back of hawkish remarks from Fed's Waller. Two-way flows were in EGBs and Gilts during the European morning, with ECB's Panetta placing emphasis on the risk of policy errors. Cash Treasuries were playing catchup post Veterans Day. The BoE's short-end Gilt sales saw good enough demand, quelling fears of a repeat of last week's global bond selloff after the weak belly offering. It was choppy trade for T-Notes for the rest of the session with highs made at 112-06+, while later (expectedly) dovish remarks from Fed's Brainard capped an attempt to test the APAC lows in wake of the rise in the NY Fed survey's consumer inflation expectations. For the week, highlights include a slew of regional Fed surveys, PPI (Tues), Retail Sales (Weds), Industrial Production (Weds), UK Autumn Statement (Thurs), China activity data (Tues), and 20yr bond auction (Weds), all in the backdrop of a slew of Fed Speak.

STIRS:

- EDZ2 -3.3bps at 94.983, H3 -5.5bps at 94.78, M3 -7.5bps at 94.78, U3 -8bps at 95.03, Z3 -8.5bps at 95.325, H4 -8bps at 95.66, M4 -7bps at 95.93, U4 -7bps at 96.105, Z4 -6.5bps at 96.24, Z5 -6bps at 96.48, Z6 -6.5bps at 96.40.
- US sold USD 65bln of 3-month bills at 4.155%, covered 2.63x; sold USD 51bln of 6-month bills at 4.440%, covered 2.86x.
- Note, Wrightson expects "increases of \$5 billion apiece in the 4- and 8-week bills within the next two or three weeks", with Treasury cash flow so far softer than it expected.
- NY Fed RRP op. demand USD 2.165tln (prev. 2.201tln), across 103 bidders (prev. 95).

CRUDE

WTI (Z2) SETTLED USD 3.09 LOWER AT 85.87/BBL; BRENT (F3) SETTLED USD 2.85 LOWER AT 93.14/BBL

Oil prices were lower Monday with surging Beijing COVID cases and a mixed Dollar hitting the demand outlook, selling through the whole session to settle at lows. Major newsflow for the complex was fairly thin to start the week, with the highlight arguably the OPEC MOMR for November which revised down its forecast for world oil demand growth for 2022 and 2023 cut by 100k BPD. Moreover, oil demand in Q3 22 and Q4 22 is revised lower due to the zero-COVID-19 policy in China, ongoing geopolitical uncertainties and weaker economic activities ([for full Newsquawk summary click here](#)). Elsewhere, US Treasury Secretary Yellen said they will determine the price level for the Russian oil price cap in the coming weeks. While on US production, the EIA forecasts total shale regions oil production for December +91k BPD to 9.19mln BPD (prev. 99k BPD rise seen in November), the highest since March 2020.

OPEC: OPEC+ "may discuss adjustments to members' oil production baselines in early December as many of them struggle to meet their agreed quotas", according to Energy Intel. "Delegates said it is too early to predict what might happen in Vienna in terms of any potential changes to the alliance's production policy or baseline adjustments. "

BANK COMMENTARY: JPMorgan expects Brent to re-test USD 100/bbl in Q4 2022 and average USD 98/bbl in 2023. JPM still sees the global oil market in a deficit in Q4 2022, and the projected surplus in 2023 has been expanded to 0.9 mln BPD. On Russia, crude production can stabilise around 10mln BPD in H2 2023, following a shallow dip in Q1 2023.



NATGAS: Henry Hub Nat Gas Jan'23 futures saw downside early in the NY afternoon, which it has since maintained after Freeport LNG informed customers it will likely scrap more cargoes. In addition, the major US LNG exporter may extend plant outage through December.

EQUITIES

CLOSES: SPX -0.89% at 3,957, NDX -0.98% at 11,700, DJIA -0.63% at 33,536, RUT -1.14% at 1,861.

SECTORS: Real Estate -2.65%, Consumer Discretionary -1.71%, Financials -1.54%, Utilities -1.26%, Technology -0.97%, Consumer Staples -0.91%, Industrials -0.68%, Energy -0.51%, Communication Services -0.27%, Materials -0.21%, Health +0.03%.

EUROPEAN CLOSES: EURO STOXX 50 +0.49% at 3,887, FTSE 100 +0.92% at 7,385, DAX 40 +0.62% at 14,313, CAC 40 +0.22% at 6,609, FTSE MIB +0.58% at 24,596, IBEX 35 +0.84% at 8,166, SMI -1.13% at 11,001.

STOCK SPECIFICS: **Disney (DIS)** CEO announced companywide cost-cutting measures with layoffs likely, according to WSJ. **Walmart (WMT)** told suppliers it is not going to pay higher prices anymore, adopting a similar posture to rivals from Target to Amazon. **Dentsply Sirona (XRAY)** missed on profit and revenue as it said its results were impacted by continued macroeconomic headwinds; cuts FY22 guidance. **Tyson Foods (TSN)** missed on profit but beat on revenue and raised FY23 sales view; anticipates improved results from foreign operations in FY23. **Silvergate Capital (SI)** provided a statement on FTX exposure; noted Silvergate's total deposits from all digital asset customers totalled USD 11.9bln, of which FTX represented less than 10%. **Roche's (RHHBY)** experimental Alzheimer's treatment did not meet its primary goal in studies. **MorphoSys (MOR)** is partnering with Roche on the GRADUATE I and II studies. As such, **Eli Lilly (LLY)** and **Biogen (BIIB)** saw gains. **Hasbro (HAS)** double downgraded at Bank of America; said Hasbro has been overprinting cards and destroying the long-term value of the business. **Advanced Micro Devices (AMD)** upgraded at both Baird and UBS; cited positive industry cyclical trends as well as strong demand by data centre equipment manufacturers for AMD's Genoa chip. **Apple (AAPL)** CEO Cook said they have slowed down some hiring. **Amazon (AMZN)** intends to lay off about 10k workers, according to NYT. Note, last week it was announced that a cost-cutting review was being held. **Alphabet's Google (GOOGL)** is to pay around USD 400mln to settle a lawsuit brought by state AG's alleging it illegally tracked users' locations, according to Reuters sources. **Sea (SE)** laid off more than 7,000 employees, or around 10% of its workforce, over the past six months, according to The Information citing sources.

FX WRAP

USD was choppy to start the week but sits flat at pixel time, where the index hit a high of 107.270 in contrast to a low of 106.470. The Buck attempted to pare some of its losses after Thursday's CPI, but was ultimately unsuccessful as it could not maintain its European morning strength through the NY session. In terms of newsflow, US President Biden and Chinese President Xi had a meeting, and in the aftermath, Biden offered little new but noted US "One China" policy has not changed. Elsewhere, Beijing authorities said they will further strengthen COVID prevention and control measures after reporting the highest number of local COVID cases in a year. Regarding Fed Speak, over the weekend Waller (Voter) said the recent CPI report is "just one data point and markets are "way out in front", while he added that they will need to see a run of CPI reports to take the foot off the brake. Waller added 7.7% CPI inflation is "enormous" and the Fed still has a long way to go, rates will stay longer for a while. Later in the session, Vice-Chair Brainard noted most it will probably be appropriate "soon" to move to a slower pace of increases and exactly what the rate path looks like is difficult to see right now. Regarding the calendar, US PPI and another slew of Fed Speak are the highlights on Tuesday.

AUD was the relative G10 outperformer, albeit only seeing marginal gains against the Buck, as AUD/USD traded within a tight range between 0.6723-6664. Meanwhile, **NZD** was flat and also within narrow parameters highlighted by a high of 0.6128 and a low of 0.6062. Newsflow was thin on Monday, especially anything currency specific, and as such desks noted positioning ahead of Tuesday's US PPI report as well as RBA minutes.

CAD and **GBP** were weaker vs the Greenback, but once again not to a large degree as the aforementioned currencies managed to hold on to most of their post-CPI strength. Cable hit a low of 1.1711, in contrast to Friday's high of 1.1854, but market participants await a busy week of data, starting off with jobs on Tuesday ahead of Thursday's Autumn statement which will see Chancellor Hunt attempt to convince markets of his plans to fill the UK's circa GBP 50bln black hole ([Newsquawk preview available here](#)). The Loonie was also weighed on by the lower crude complex, while BoC Governor Macklem spoke, but garnered little market reaction and did not say anything new.

JPY was the G10 laggard after USD/JPY sold off heavily last week with the pair falling from a 146 handle to an overnight low of 138.48. In terms of Monday's upside, a pause from the sell-off was likely at some stage and it is possible that the



latest dovish interjection from BoJ Kuroda who noted that now is the time to continue with monetary easing, served as a reminder of the gulf in policies being adopted by the Fed and BoJ regardless of a pullback in US CPI.

CHF was flat against the Buck and the Euro, but the Swissy pared its losses after SNB Chairman Jordan noted nominal appreciation of the Franc helps guard against inflation and there is great probability that the SNB will need to further tighten monetary policy. Nonetheless, Jordan followed up saying the SNB stands ready to buy or sell to keep the Franc FX rate appropriate to steer inflation to target level. Interestingly, on Friday he said the bank is prepared to sell FX, whilst prefacing the remarks with comments about needing to be more restrictive and prepared to take "all measures" necessary.

EMFX was mixed. BRL, MXN, and CNY/CNH firmed but the TRY, RUB, and ZAR were softer. The Yuan was in focus on Monday after a plethora of updates over the weekend, where on a negative footing the COVID picture seems to be worsening as Beijing reported the highest number of local COVID cases in a year. Following this, authorities said they will further strengthen COVID prevention and control measures. Separately, USD/CNH saw downside after the PBoC opted for its strongest FX fix since late September. Elsewhere, the Real saw strength after Bloomberg reported President-elect Lula's team is to mull a more conservative spending plan for Brazil. On EMs, BofA says "USD strength is expected to persist into the end of this year as EM macro continues to struggle with inflation pressure, negative terms of trade shocks and looming inflation risks." On pairs, BofA "remain bearish CNY and forecast 7.60 year-end as China needs to ease its financial conditions. Portfolio outflows are an additional negative for EM."

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