US Market Wrap

15th November 2022: Softer PPI party tempered by Polish deaths on Ukraine border

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Russian missiles explode in Poland, killing two; US PPI cooler-than-expected; Familiar hawkish Fed rhetoric; Druzhba pipeline halts Russian oil deliveries; Stellar WMT report; Strong headline NY Fed, but internals not as strong.
- **COMING UP**: **Data**: Australian Wage Price Index, UK CPI, US Export/Import Prices, Retail Sales, IP, Canadian CPI **Event**: ECB Financial Stability Review (Nov) **Speakers**: Fed's Williams, Barr, Waller; ECB's Lagarde, de Cos, Panetta; BoE Treasury Select Committee **Supply**: Germany & US.

MARKET WRAP

Stocks were firmer, albeit choppy, as earlier soft PPI optimism was juxtaposed with Polish casualties near the Ukraine border. Walmart (WMT) was a big outperformer after solid earnings, guidance raised, and fresh USD 20bln share buybacks; Home Depot (HD) also had a strong report, but reaffirmed its guidance. Treasuries bull-flattened after PPI came in lighter than expected and with momentum from the geopolitical angst, albeit corporate supply and Fed Speak saw two-way flows. Dollar was choppy, but ultimately lower, with the index hitting a low of 105.30, the lowest since mid-September. Oil prices surged on Tuesday and notably picked up gains in the NY afternoon amid the Druzhba pipeline halting Russian oil deliveries after heavy rocket fire, worsened by the reports of missiles landing in Poland. Note that ags prices were also well supported amid the supply uncertainty in the region, despite progress being made on resuming the UN grain deal.

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FED: **Vice-Chair for Supervision Barr (voter)** said in his Senate hearing that inflation is far too high, saying it's the case that there is going to be significant softening in the economy. Barr said the Fed will be data-dependent. **Harker (2023 voter)** said inflation will take time to come down and doesn't like to base policy on a couple of headline numbers. However, he said as long as the Fed is moving consistently to bring inflation down, it can "pause". Harker also said he doesn't want to move interest rates way up and then way down, which is somewhat at odds with Powell, who at the Nov. FOMC implied a preference to overtighten then risk entrenching inflation. **Bostic (non-voter)** made familiar comments, saying more hikes are needed, whilst also saying there were "glimmers of hope" in goods inflation, but services needs to come down. **Cook (voter)** said inflation is much too high and the focus is on addressing it, whilst cautioning that the Fed has to be careful with how monetary policy is wielded.

PPI: US PPI report offered another set of encouraging inflation metrics as it was softer than expected across the board. On headline, M/M rose 0.2% (prev. 0.2%), below the expected 0.4% while Y/Y rose 8.0% (prev. 8.4%, exp. 8.3%). On core, M/M was unchanged, beneath the prior 0.2% and expected 0.3%, while Y/Y came in at 6.7% (prev. 7.1%, exp. 7.2%). Looking into the release, Oxford Economics notes, the October increase reflected a 0.6% rise in final demand goods prices, the largest advance since June, partly offset by a 0.1% decline to final demand services, the first monthly drop since November 2020. Additionally, the consultancy adds, the goods advance was attributed to the volatile final demand energy category, which increased 2.7% on the month. Core final demand goods, meanwhile, decreased 0.1%. The services decline was broad-based but driven mainly a drop in final demand trade services prices. Overall, OxEco notes headline PPI has fallen 3.2ppts from June's 11.2%, but this remains well above the pre-pandemic average of 1.7%, highlighting the still elevated levels. In wake of the report, market pricing for the next Fed meeting in December was more-or-less unchanged, with still 89% chance priced in for a 50bps hike. Note, before the next FOMC there is still another CPI and jobs report. Lastly, Oxford echoes this and added the Fed is still on pace to raise rates another 50bps in December, with a smaller increase possible in February, as it seeks to bring down inflation markedly.

NY FED MANUFACTURING: The NY Fed manufacturing headline number was surprisingly strong and rose to +4.5 (prev.-9.1), its first positive reading since July, above the expected -5.0. However, the internals were not as strong as new orders dropped into negative territory at -3.3 (prev. +3.7) and six-month business conditions declined to -6.1 (prev. -1.8), alongside prices paid rising to +50.5 (prev. +48.6). Although, employment jumped to +12.2 from +7.7. Elsewhere, shipments expanded modestly, delivery times were little changed, and inventories grew significantly. Overall, the survey notes, labour market indicators pointed to a solid increase in employment and a longer average workweek, while input prices increased at about the same pace as last month, while selling price increases picked up. Looking ahead, firms expect business conditions to worsen over the next six months.

GEOPOLITICS

Reports circulated that at least two people died after Russian missiles landed in NATO state Poland on the Ukrainian border, and in wake of this Polish PM called an emergency meeting following the explosion. In wake of the reports, several NATO states offered their support to Poland saying NATO is more united than ever. Nonetheless, there were conflicting reports on the details of the event, as the Pentagon said it cannot corroborate reports of two Russian missiles crossing into Poland at this time, and local Polish media reports citing sources say what hit Przewowo is most likely the remains of a rocket shot down by the Armed Forces of Ukraine. Following this, Russian Defence Ministry noted statements by Polish media and officials about the Russian missiles hitting Polish territory are a deliberate provocation with the aim of escalating the situation, according to Interfax. A Poland spokesperson said they are verifying whether they need to activate NATO Article 4 and consultation. Note, in Article 4 of NATO’s founding treaty, members can bring any issue of concern, especially related to the security of a member country, to the table for discussion within the Council. The situation remains fluid.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 14 TICKS HIGHER AT 112-18

Treasuries bull-flattened amid soft PPI data and geopolitical angst, albeit corporate supply and Fed Speak saw two-way flows. 2s -3.8bps at 4.370%, 3s -6.5bps at 4.175%, 5s -7.1bps at 3.927%, 7s -6.5bps at 3.878%, 10s -6.8bps at 3.799%, 20s -7.5bps at 4.209%, 30s -8.3bps at 3.976%.

Inflation breakevens: 5yr BEI -1.8bps at 2.412%, 10yr BEI -0.6bps at 2.372%, 30yr BEI -0.1bps at 2.468%.

THE DAY: After a directionless APAC Tuesday session, T-Notes crescendoed through the European morning, finding resistance at 112-21+ and exceeding the post-CPI high of 112-19. Strength in Bunds supported USTs amid a well-received 7yr German offering. T-Notes later spiked to session highs of 112-31+ after the October US PPI data came in beneath estimates, adding further 'disinflation' weight after the Oct. CPI figures - from here, technicians eye the October 4th peak at 113-30 when the big fall in August JOLTS job openings were reported. However, Treasuries pared from highs through the NY morning with a busy corporate Dollar supply pipeline – including a USD 6bln 5-part Phillip Morris (PM) deal – adding to the approaching 20yr auction on Wednesday due to rate-lock related Treasury selling and swap paying. Familiar hawkish commentary from Fed's Cook, Harker, Bostic, and Barr aided the pullback too, seeing the curve flatten. There was a late session spike across the curve amid haven demand on local reports of Russian missiles killing two in Polish territory, although the bid faded somewhat into the futures settlement with uncertainty raised around the sequence of events that led to the strike/deaths.

STIRS:

- EDZ2 +0.5bps at 94.99, H3 +2.5bps at 94.815, M3 +2bps at 94.805, U3 +3bps at 95.07, Z3 +7.5bps at 95.41, H4 +11.5bps at 95.78, M4 +14.5bps at 96.08, U4 +15.5bps at 96.27, Z4 +14.5bps at 96.395, Z5 +8.5bps at 96.58, Z6 +7bps at 96.485.
- NY Fed RRP op. demand USD 2.097tln (prev. 2.165tln), across 99 bidders (prev. 103); big fall associated with large refunding auction settlements.
- US to sell USD 55bln of 2-month bills and USD 65bln of 1-month on Nov. 17th, to sell USD 33bln of 17-week bills on Nov. 16th; all to settle on Nov. 22nd; all sizes unchanged.

CRUDE

WTI (Z2) SETTLED USD 1.05 HIGHER AT 86.92/BBL; BRENT (F3) SETTLED USD 0.72 HIGHER AT 93.86/BBL

Oil prices were firmer on Tuesday and notably picked up gains in the NY afternoon amid Druzhba pipeline halting Russian oil deliveries and the reports of missiles landing in NATO state Poland which killed two people. On the latter, two stray rockets reportedly fell on Tuesday in Przewodów, and in wake of this Poland convened a national security committee meeting, with great uncertainty on how the strike occurred, with local reports suggesting the missiles were Russian. The risk of a Russian/NATO escalation saw commodities surge. The support in oil also came from the halting of Russian oil deliveries via the Druzhba pipeline (more details below) after Russian rocket strikes on key infrastructure. Note, Dec WTI options expire on Wednesday, so roll activity could have been a factor in the tape action.

Meanwhile, the Chinese COVID picture kept prices pressured lower in the European morning on account of rising cases. Looking ahead, private inventory data is after-hours where expectations are, Crude (exp. -0.4mln), Gasoline (exp. +0.3mln), and Distillate (exp. -0.5mln), although participants will have more of an eye on the updates regarding Druzhba and NATO/Russia tensions.

DRUZHBA: Hungary's Mol, via an emailed statement, said it has been notified by Ukraine that oil supply to Hungary, Slovakia, and Czech Republic via the Druzhba pipeline has been temporarily suspended. Says it received notification from Ukraine that a power station near the Druzhba pipeline in Ukraine, near the Belarussian border, was hit by a Russian rocket. Says it was notified that this power station provided electricity for a pump station for the pipeline. However, Mol did say that reserves are sufficient to ensure a continuous supply in Hungary until the situation is resolved.

IEA MOMR: IEA MOMR sees 2023 global oil output to grow 740k BPD to 100.7mln BPD, and demand growth will slow to 1.6mln BPD in 2023, down from 2.1mln BPD this year, as mounting economic headwinds impede gains. On the macro front, China's persistently weak economy, Europe's energy crisis, burgeoning product cracks and the strong US dollar are all weighing heavily on consumption.

EQUITIES

CLOSES: SPX +0.87% at 3,991, NDX +1.45% at 11,871, DJIA +0.17% at 33,592, RUT +1.50% at 1,889.

SECTORS: Communication Services +1.78%, Technology +1.24%, Real Estate +1.24%, Consumer Discretionary +1.24%, Energy +1.11%, Consumer Staples +1.09%, Utilities +1.07%, Industrials +0.77%, Financials +0.28%, Health -0.07%, Materials -0.11%.

EUROPEAN CLOSES: EURO STOXX 50 +0.71% at 3,915, FTSE 100 -0.21% at 7,369, DAX 40 +0.46% at 14,378, CAC 40 +0.49% at 6,641, FTSE MIB +0.42% at 24,699, IBEX 35 +0.27% at 8,188, SMI +0.41% at 11,044.

STOCK SPECIFICS: **Walmart (WMT)** posted a stellar report; beat on EPS, revenue, same store sales and raised FY23 adj. EPS growth guidance; announced a new USD 20bln share buyback programme. **Berkshire Hathaway (BRK.B)** latest 13-F showed it purchased USD 4.1bln worth of stock in the world's largest contract chipmaker **TSMC (TSM)**. **Home Depot (HD)** beat on EPS, revenue and comparable sales; reaffirmed FY22 guidance. **Tesla (TSLA)** cut delivery waiting time for all Model 3 and Model Y cars to minimum one week. **Energizer Holdings (ENR)** surpassed street expectations on profit and revenue despite noting a volatile operating environment with significant headwinds. **Getty Images (GETY)** posted a surprise loss per share and missed on revenue; next quarter revenue guidance was light. **Sea Ltd (SE)** reported a shallower loss per share than expected and beat on revenue; lowered FY22 bookings view. Scorpion Capital announced it is short on **Twist Bioscience Corporation (TWST)**. **Tencent Music (TME)** topped street consensus on EPS and revenue as it benefited from an increase in the number of paying subscribers. **Warner Bros. Discovery (WBD)** CEO said the advertising market was weaker than at any point during the 2020 COVID pandemic. TCI Fund Management takes USD 6bln stake in **Alphabet (GOOGL)**; said cost base, headcount and compensation are too high; calls for cuts. **Broadcom (AVGO)** and **VMWare (VMW)** deal notified to the EU for approval, according to Bloomberg. **Capital One Financial (COF)** announced October net charge offs and delinquencies rose M/M.

FX WRAP

The Dollar was choppy on Tuesday, but eventually settled lower, in what was a day of two halves for the Buck on headline catalysts. In the NY morning, the Dollar index saw significant downside in wake of the soft US PPI October report, adding weight to the softer CPI data. In wake of the report, it hit lows of 105.30, a level not seen since mid-September. However, risk sentiment deteriorated rapidly later in the session after reports at least two Polish citizens died after missiles landed in NATO state Poland near the Ukraine border. Details on the incident still remain light, with little certainty on the sequence of events that unfolded, with some suggesting it was an accident, highlighted by local Polish media reports saying what hit is most likely the remains of a rocket shot down by the Armed Forces of Ukraine. Elsewhere, Fed Speak was plentiful, where Governor Cook said inflation is much too high and the focus is on addressing this, while Barr noted paying close attention to liquidity and interest rate risk. Lastly, following the aforementioned PPI report, Fed pricing was largely unchanged with still a circa 90% chance priced in for a 50bps hike in December, but do remember there is another CPI and jobs report to come before then.

Activity currencies, NZD, AUD, GBP, and CAD, were all firmer against the Buck, with the former three notably stronger, as they benefitted from the earlier risk-on sentiment, and while that saw a dip on the aforementioned Poland reports, the currencies managed to easily hold onto their gains into the close. For the Aussie watchers, although it did not garner a market reaction, RBA minutes noted the central bank expects to increase interest rates further over the period ahead and interest rates are not on a pre-set path. In the UK, jobs disappointed as the unemployment rate unexpectedly rose, ahead of Wednesday's CPI and Thursday's Autumn Statement which is seen restoring fiscal policy confidence lost after the ill-fated mini-budget in September. In terms of levels, AUD/USD traded between 0.6797-6686, with noted strength into the London fix in lack of an obvious catalyst, with technicians drawing attention to bullish momentum as the cross makes two-month highs. NZD/USD hit a high of 0.6203 in contrast to a low 0.6086. Lastly, Cable saw a peak of 1.2025, a level not seen since August, vs a trough of 1.1742. Looking ahead, for the Antipodean watchers, New Zealand PPI on Wednesday looms, followed by Australian employment data on Thursday.

Safe havens, CHF and JPY, were mixed as the Swissy was flat and the Yen saw slight firmness against the Buck. The Yen fell to session lows of 137.69 in wake of the US PPI report, but the extent of these gains couldn't be maintained into the close as the Dollar pared some of its losses. As mentioned, there was a lack of headline newsflow for currency specifics on Tuesday, more just a function of the wider market sentiment and fundamentals. Aside from the known macro headlines, scheduled risk events lie in the form of Japanese CPI on Thursday.

Euro was firmer but well-off session highs of 1.0480. Whilst it was a beneficiary of the Dollar slide and risk-on sentiment in the NY morning, the EUR/USD risk soured on the rise in geopolitical uncertainty. On the session, the cross breached 1.04 for the first time since early July and the German ZEW data was not as bad as feared with the report attributing the reading to the hope that inflation rates will soon fall, albeit the outlook for the German economy is clearly still negative. Elsewhere, ECB speak was vast where Villeroy said ECB will probably continue to hike rates but may do so in a more flexible and less rapid manner, saying jumbo hikes will not become a new habit.

EMFX was predominantly flat across the board, with the CNY the clear outperformer as the Yuan continues to remain a key focus for markets as the pullback in USD/CNY continued and moved ever-closer to the 7.0 mark after closing at 7.0335; its strongest such close against the Greenback since September 20th. The pair was able to shrug off a contraction in retail sales and sub-forecast IP metrics with the broader move in the USD acting as a guiding force for prices. The COVID situation in China remains a major headwind for the economy, however, soundings from policymakers continue to try and lean in a more encouraging direction in the wake of actions taken on the property sector over the weekend. Elsewhere, the Rand might have seen slight tailwinds on account of the slight gains seen in spot gold but Eskom did note maintenance could worsen power cuts for up to a year.