US Market Wrap

16th November 2022: Risk off after Target alarm and weak IP data offsets strong retail sales

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW**: Woeful TGT report/guidance; Strong US retail sales; Weak IP & NAHB data; Familiar Fed and ECB rhetoric; MU cuts guidance again; GS raises Fed terminal rate forecast; Stellar new issue US 20yr bond auction; Chinese Government set to cut 2023 GDP target; Poland missile event doesn't escalate further; ECB touted for 50bps in Dec.
- **COMING UP**: **Data**: Australian Employment, EZ CPI (Final), US IJC, Philadelphia Fed, Japanese CPI **Speakers**: Fed's Bostic, Bullard, Bowman, Mester, Kashkari; BoE's Pill; SNB's Maechler & Moser **Event**: UK Autumn Statement **Supply**: Spain & France.

MARKET WRAP

Stocks were lower Wednesday with the selling most acute in the US morning on bleak Target (TGT) consumer guidance and mixed US data. It wasn't all downbeat, with October US retail sales data surprisingly strong, although weak industrial production and NAHB housing prints offset that, while Target said weakness had continued in November so far. Simultaneous Reuters reports citing a Chinese adviser noting a likely downgrade in the 2023 GDP growth target only added to the downbeat risk sentiment. Treasuries rallied through the session given the aforementioned reasons but were also supported by a near-record strength 20yr auction, in addition to Bloomberg ECB sources that showed a lack of appetite for 75bps at the December meeting. There was a slew of both Fed and ECB Speak but nothing that incremental was said. Elsewhere, the crude complex was lower amid Russian oil shipments via the Druzhba pipeline to Hungary restarted and rising COVID cases in China weighing. In FX, the Dollar failed to recoup recent losses as the Loonie lagged while the Pound and Euro outperformed, the former after hot inflation data/BoE repricing on the eve of the budget, with the latter recovering from the Poland missile incident, which was seemingly not much more than an accident, reducing further escalation risks.

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FED: Wednesday saw familiar commentary from officials, with **George (voter; departing 2023)** saying via the WSJ that the Fed should continue raising rates but slow the pace of hikes. **NY Fed President Williams (voter)** gave little pertinent comments on policy. **Daly (non-voter, dovish)** spoke to CNBC about the consumer "hanging in there" and the need for a slowdown in the economy. On policy, the San Fran. Fed President said pausing is off the table right now and not even part of the discussion, whilst also reaffirming her prior view of a 5% terminal rate as reasonable. Daly said the discussion is one of how high the Fed has to go and how long it needs to hold rates there, "it's a raise-to-hold strategy... When we raise it and hold, over time as we're holding, monetary policy is becoming tighter as inflation comes down, so that's another factor we'll have to consider". **Vice-Chair for Supervision Barr (voter)** spoke again in the Senate noting that the Fed is paying attention to loan losses that are ticking higher, saying he closely follows delinquencies and considers them part of the view of financial conditions. **Governor Waller (voter, hawk)** gave familiar comments at a conference on the economic outlook, reiterating that he is open to a 50bps hike in December, whilst simultaneously highlighting the distance to be travelled, saying Fed policy is "barely restrictive".

RETAIL SALES: US retail sales were stronger than expected, rising 1.3%, above the expected 1.0%, while ex-autos rose 1.3% (exp. 0.4%) and ex-gas/autos rose 0.9% (exp. 0.2%). Meanwhile, the retail control marginally climbed to 0.7% (prev. 0.6%, exp. 0.3%). Pantheon Macroeconomics note, the headline was boosted by a 1.5% jump in auto sales and a 4.1% rise in gas stations' sales. The latter is largely due to rising prices in October, but gas prices have since trended sideways, so sales are unlikely to boost headline retail sales again in November. On auto sales, Pantheon adds, "the rise was smaller than expected, but much bigger increases are still to come; annualized unit light vehicle sales were 14.9 mln in October, compared to an average of nearly 17mln in 2019." Further, the critical constraint on sales over the past couple of years has been a lack of supply, but production is now within touching distance of its pre-COVID level. Looking ahead, real consumption is on course for a decent Q4, and the consultancy adds "as long as people remain willing to run down excess savings in the face of higher borrowing costs and uncertainty over the economic outlook, consumption will stay reasonably strong into next year, partly offsetting weakness elsewhere and keeping the economy as a whole out of recession."

INDUSTRIAL PRODUCTION: US industrial production fell 0.1% in October, less than the expected +0.2%, with the September figure revised down to +0.1% from +0.4%. Manufacturing output rose 0.1%, less than the expected +0.2%, with the July, August, and September readings all revised lower too where a rise in durables was tempered by a fall in non-durables. The report noted falls in both mining and utilities output. Capacity utilization fell to 79.9%, disappointing the expected rise to 80.4% from the prior, downwardly-revised 80.1%, nonetheless, the report highlights the rate is 0.3% above its long-run (1972–2021) average. The disappointing report chimes with expectations and other data leaning towards a manufacturing/goods activity downturn as the post-COVID boost in goods demand fades in a backdrop of higher rates, supply chain problems, and shifting spending patterns (to services).

NAHB HOUSING MARKET: NAHB housing market index posted its 11th consecutive monthly decline to fall to 33 in November from 38, and beneath the expected 36. As such, this is the lowest confidence reading since June 2012, with the exception of the onset of the pandemic in the spring of 2020. The internals also disappointed with current conditions falling to 39 from 45, sales expectations in the next six months falling to 31 from 35, and traffic of prospective buyers falling to 20 from 25. The dataset is falling foul to elevated interest rates, stubbornly high building material costs, and declining affordability conditions that are pushing more buyers to the sidelines and continue to drag down builder sentiment. NAHB Chairman notes, “higher interest rates have significantly weakened demand for new homes as buyer traffic is becoming increasingly scarce.” Furthermore, the Chair adds, “Even as home prices moderate, building costs, labor and materials -- particularly for concrete -- have yet to follow”.

IMPORT/EXPORT PRICES: US import prices declined 0.2% in October, smaller than the expected 0.4% fall and the prior 1.1% fall, but still notching the fourth consecutive fall, while export prices fell 0.3%, less than the expected and prior falls of 0.4% and 1.5%, respectively, as slowing demand takes the sting out of price pressures. Delving into the details, core nonfuel import prices declined 0.1%, but that was still the sixth consecutive monthly decline. In annual terms, as Oxford Economics points out, import price inflation decelerated 1.8ppts to 4.2%, while core import price inflation slowed 0.6ppts to 2.9%, both the slowest pace since February 2021. Moreover, OxEco notes, fuel imports decreased 1.3%, driven lower by natural gas (-4.3%) and petroleum (-1.3%), bringing the annual rate of inflation to 16.9%, the slowest pace since February 2021. Import fuel prices have now fallen 22% since the beginning of H2 2022. Overall, Oxford stresses, “the import price report is another confirmation that inflation pressures within the economy are softening, as slowing global demand and higher rates help to push prices lower.” Looking ahead, the consultancy says import price declines will moderate in the months ahead, but will bring the annual inflation rate into better balance.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 20+ TICKS HIGHER AT 113-06+

Treasuries rallied through the session after mixed US data, troubling retailer reports, and a near-record strength 20yr auction. 2s -1.5bps at 4.347%, 3s -5.3bps at 4.119%, 5s -8.5bps at 3.835%, 7s -10.8bps at 3.768%, 10s -12.2bps at 3.677%, 20s -14.6bps at 4.065%, 30s -13.4bps at 3.847%.

Inflation breakevens: 5yr BEI -2.3bps at 2.369%, 10yr BEI -3.5bps at 2.318%, 30yr BEI -6.1bps at 2.394%.

THE DAY: T-Notes hit resistance at 112-27 in the Tokyo morning on Wednesday amid haven demand after the Poland missile incident, before paring gain into the London handover, with additional pressure from UK Gilts after hot UK CPI data took the contracts to session lows of 112-08. Treasuries grinded back higher through the rest of the session, making new peaks and settling at highs. Driving the recovery was the dimmed risk tone in US stocks after the miserable Target (TGT) report/guidance in the NY morning, with added global growth concerns on Reuters citing a Chinese government adviser targeting a lower GDP target next year, who said "we are not optimistic about the economic situation". There was a brief spell of selling in bonds seen on the back of the hot US retail sales data, although better buying soon returned as stocks trundled lower. Weak US industrial production data and another slide in the NAHB housing index also added to concerns around growth. And keeping USTs bid into the afternoon was both the ECB sources via Bloomberg noting a preference for 50bps in December, rather than 75bps, as well as the super-strong 20yr auction. Traders now look to Thursday's housing starts, jobless claims, 10yr TIPS auction, and Fed Speak, not to mention any gyrations in Gilts as the UK autumn budget is announced at 11:30GMT/06:30EST.

20YR AUCTION: A super-strong USD 15bln new issue from the Treasury in the 20yr sector, adding to the stellar long bond auction in wake of last week's softer CPI. The 4.072% high yield marked a near-record 2.9bps stop-through, night and day after October's record 2.5bps tail at a much higher 4.395% yield, although the sector still remains very cheap from a relative value perspective. The 2.64x bid/cover ratio sits comfortably above priors and averages. While the takedown saw Dealers (forced surplus buyers) left with a minuscule 9.3%, as opposed to the prior 16.4%, thanks to

Indirects taking a massive 75.4% of the auction, indicative of big end-user demand. Given the Fed's likely deceleration in tightening pace and recent fall in rates volatility (particularly post-CPI), as well as the Dollar coming off highs, that is clearly giving some renewed appetite for the much-shunned 20yr sector, likely both at home and abroad.

STIRS:

- EDZ2 +1.8bps at 95.01, H3 flat at 94.825, M3 flat at 94.815, U3 -0.5bps at 95.08, Z3 flat at 95.415, H4 +1.5bps at 95.80, M4 +4.5bps at 96.125, U4 +7.5bps at 96.345, Z4 +9bps at 96.49, Z5 +12.5bps at 96.71, Z6 +14.5bps at 96.635.
- Goldman Sachs raised its Fed terminal rate forecast to 5-5.25% in May from 4.75-5.0% in March due to financial conditions easing over the past month; 50bps in December, followed by three 25bp hikes.
- US sold USD 33bln of 17-week bills at 4.320%, covered 3.15x.
- NY Fed RRP op. demand USD 2.099tln (prev. 2.097tln), across 103 bidders (prev. 99).

CRUDE

WTI (Z2) SETTLED USD 1.33 LOWER AT 85.59/BBL; BRENT (F3) SETTLED USD 1.00 LOWER AT 92.86/BBL

The crude complex was lower on Wednesday as Russian oil shipments via the Druzhba pipeline to Hungary restarted and rising COVID cases in China continue to weigh on sentiment. WTI and Brent pared off lows in the NY afternoon, coinciding with attention on some bullish export forecasts from PetroLogistics (more below) was well as remarks from the White House saying the US is confident Iran likely conducted the attack on an oil tanker off Oman using a drone amid heightened tensions between the two countries. Elsewhere, Iraq's SOMO seeks to raise its oil exports' baseline, according to State News Agency, and is looking to increase oil production rates and raise exports according to global demand and OPEC decisions. Lastly, in the weekly EIA US inventory data there was a larger crude draw than expected, in-fitting with the private data on Tuesday evening, while gasoline and distillates both echoed the private data, seeing a greater build than consensus and a surprise build, respectively.

OPEC: OPEC Secretary General said the organisation is aware, cautious and monitoring economic developments worldwide, according to Al Arabiya TV; remains ready to intervene for the benefit of oil markets. Separately, albeit still on OPEC, Petro-Logistics expects OPEC crude exports to drop by as much as 1mln BPD in November with the lower OPEC crude exports in November suggesting the OPEC+ output cut is being implemented as planned.

FREEPORT: Freeport LNG has not submitted a plan to Federal Safety regulators to restart the Texas LNG export plant, according to a source. After the terminal shut on June 8th due to an explosion, Co. needs to file a plan to resume service, which needs to be approved by regulators. The lack of a restart plan has given rise to speculation that the plant will not return to service until December or later.

BANK COMMENTARY: Barclays forecasts Brent prices at USD 93/bbl in Q4 2022, and WTI at 86/bbl, while looking to Q1 ’23 sees Brent rising to 92/bbl, but sees WTI remaining at USD 86/bbl. Looking further ahead to Q4 ’23 it forecasts Brent and WTI at 103/bbl and 99/bbl, respectively.

EQUITIES

CLOSES: SPX -0.82% at 3,959, NDX -1.45% at 11,699, DJIA -0.11% at 33,555, RUT -1.91% at 1,853.

SECTORS: Energy -2.16%, Consumer Discretionary -1.46%, Technology -1.44%, Materials -0.96%, Real Estate -0.82%, Industrials -0.77%, Communication Services -0.56%, Financials -0.45%, Health -0.13%, Consumer Staples +0.46%, Utilities +0.88%.

EUROPEAN CLOSES: EURO STOXX 50 -0.83% at 3,882, FTSE 100 -0.25% at 7,351, DAX 40 -1.00% at 14,234, CAC 40 -0.52% at 6,607, FTSE MIB -0.68% at 24,531, IBEX 35 -1.06% at 8,101, SMI -0.86% at 10,931.

STOCK SPECIFICS: **Target (TGT)** missed on profit and revenue alongside cutting next quarter guidance; for the current holiday period, it is projecting a drop in comp. sales, which would be the first decline in five years. Said sales and shopping trends shopped softened meaningfully in final weeks of quarter, persisting into Nov., amid higher inflation and rates. **Lowe’s (LOW)** beat on EPS, revenue and comparable store sales; raised FY22 outlook, noted strong DIY trends. **Advance Auto Parts (AAP)** missed on profit and revenue, while SSS declined Y/Y as it said results were impacted by consumers shifting to its cheaper in-house brands rather than more expensive national brands. Lowered FY22 EPS outlook. **Micron (MU)** offered cautious commentary on the business environment; lowered DRAM and NAND wafer starts by around 20% Y/Y and the market outlook for 2023 has weakened recently. **Carnival (CCL)** commenced private offering of USD 1bln of convertible senior notes due 2027 to be used as part of the cos. 2024 refinancing plan, hitting the stock hard. **Apple (AAPL)** CEO said it made a decision to source chips from Arizona and additional chips from Europe; set to buy chips from plant that opens in 2024. **Nike (NKE)** lifted its quarterly dividend +11% to USD 0.34/shr. **Etsy (ETSY)** was put on Evercore's "Tactical Underperform" list; Evercore likes Etsy's long-term outlook but foresees a 3-month trend of slower purchase frequency and a shift in spending toward lower-priced items. **Paramount (PARA)** CEO sees room to possibly increase the price of Paramount Plus; said it is "accelerating" cost-cutting measures due to economic conditions. **IBM (IBM)** CEO said it has no intention of cutting down or reducing headcount on CNBC. **Peloton (PTON)** App to be relaunched in 2023 with pricing tiers, freemium, locked content and more, according to Pelobuddy article citing CEO. **TJX Companies (TJX)** beat on profit but missed on revenue; guidance was very mixed as it raised Q4 and FY23 SSS view but cut Q4 EPS and revenue view. **ZoomInfo Technologies (ZI)** saw pronounced losses which were attributed to poor guidance at an RBC conference.

FX WRAP

The Dollar was flat on Wednesday, although it did see some marginal upside in wake of the stronger-than-expected US retail sales which was subsequently followed by below-forecast import/export prices, industrial production and NAHB, which sustained peak US inflation and 2023 Fed policy pivot narratives. Further on the Fed front, speak was once again heavy, but all-in-all we saw familiar commentary from officials, with no market reactions seen. Separately, diminished anxieties over Tuesday's reports of missiles hitting Poland also reduced the Dollar's safe-haven attraction. On the calendar ahead, there is a slew of Fed speakers on Thursday alongside jobless claims and Philly Fed.

The Pound was the G10 outperformer on Wednesday, albeit only slightly firmer against the Buck. UK inflation data was hotter-than-expected as October CPI and PPI topped expectations, which saw Cable briefly spike higher but the cross ultimately pared this move very quickly. In terms of BoE pricing, prior to the release, a 50bps BoE hike in December was priced at 65% with 75bps seen at 35%, post-CPI, 50bps and 75bps moved closer to 50-50. Elsewhere, there was a slew of BoE as MPC's Bailey, Broadbent, Mann and Dhingra were all in attendance at the BoE Treasury Select Committee. Nonetheless, little new was said. Attention turns to Thursday's Autumn Statement.

The Loonie resides as the G10 underperformer, at pixel time, as it is weighed on by global recessionary fears and general risk-off sentiment as opposed to anything currency specific. On top of this, the downside seen in the crude complex also weighed on the Loonie, as USD/CAD saw a high of 1.3347 in contrast to a low of 1.3229. Meanwhile, headline Canadian inflation Y/Y held steady at 6.9%, in line with expectations, following three consecutive declines, and while food inflation eased slightly, modest relief for consumers at the grocery store was offset by a jump in gasoline prices and a further rise in mortgage interest costs. Furthermore, even though core inflation remained elevated at 5.8% Y/Y (prev. 6.0%), it showed some early signs of easing and accordingly M/M SA rose 'just' 0.2%, its slowest monthly advance since November 2021.

Antipodeans were marginally weaker, but both AUD/USD and NZD/USD traded within narrow parameters, highlighted by the former between 0.6721-92 and the latter within 0.6130-94. The antipodes moved in concession with the broader macro sentiment, as opposed to anything particularly currency specific, as the downside seen in stocks and commodities provided headwinds for the Aussie and Kiwi. Looking ahead, New Zealand PPI and the key Australian jobs data are both due in APAC's Thursday session.

The Euro was the other G10 currency that firmed against the Buck, with geopolitical fears regarding Poland/Russia subsiding. On the latter, the single currency was weighed on late Tuesday, but these fears were eased after Polish President said he has no proof that the missile was launched by Russia and it is highly probable that it was used by Ukrainian air defence. ECB Speak was frequent but little too new was said, but later Bloomberg sources noted ECB officials are currently favouring a 50bps hike in December rather than 75bps, although an inflation surge could still lead to 75bps. The sources further noted initial discussions are not showing momentum for 75bps, and as such in wake of the sources EUR/USD saw downside but later pared the whole move, although Bund futures held onto their bid.

Safe havens, CHF and JPY, were flat and desks pointed towards the Yen taking a pause as it continues to digest its post-CPI surge amid mixed US data and risk flows on Wednesday on account of a lack of headline newsflow. In terms of scheduled risk events, SNB's Maechler and Moser are to deliver a speech on Money Markets on Thursday while Japanese CPI is due.

EMFX was mixed, as the MXN and ZAR saw gains, but CNH/CNY, RUB, and BRL all saw significantly weakened and the TRY was flat. The Yuan continues to be weighed on by the continued tension surrounding China's rising COVID cases and possible further restrictions. Separately, according to Reuters, a Chinese government adviser stated they will recommend 2023 economic growth target of 4.5-5.5% to the work conference next month, which compares to the 2022 target of 5.5% set at the end of 2021. On top of this, the adviser noted they are not optimistic about the economic situation. Elsewhere, Fitch, on Turkish banks, noted liquidity could quickly come under pressure following adverse market developments, raising risk of government intervention. Lastly, according to three Reuters sources, Brazil President-elect Lula is seen favouring leftist Haddad for finance minister, but separate Reuters sources noted no final decision has yet been taken on Lula's choice.