US Market Wrap

17th November 2022: Stocks and Bonds fall as Dollar prospers amid flurry of Fed speak

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Bullard sees 5.00% as restrictive; Jobless Claims in line; Housing data not as bad as feared; Philly fed signals mfg contraction; UK Autumn Budget sees dire growth forecasts, DMO to issue fewer Gilts than expected; Strong BABA and CSCO earnings; Weak NVDA guidance; GM raises guidance.
- **COMING UP**: **Data**: UK Retail Sales **Events**: Fitch on Italy, Turkey, South Africa; Moody's on South Africa **Speakers**: ECB's Lagarde & BoE's Haskel.

MARKET WRAP

Stocks were ultimately lower on Thursday alongside Treasuries which both supported the dollar, albeit DXY failed to hold on to 107. There was a slew of Fed speakers, mainly Bullard (voter) who maintained his hawkish views talking about restrictive territory at 5.00-5.25% and that even the "dovish" assumptions about the state of monetary policy warrant further rate increases noting they are not in restrictive territory yet which saw the yield curve bear flatten. US data was mixed, jobless claims were in line with the 4wk average and expectation and beneath the 305k level that Oxford Economics sees as the point consistent with zero monthly job growth. Philly Fed was suggestive of a deeper manufacturing contraction in the region while housing data was not as bad as feared and Pantheon Macroeconomics suggests the bulk of the drop is over, but a recovery is a long way off. The UK Autumn Budget painted a dire growth outlook for the UK with the economy expected to be in a recession for a year, but OBR expects inflation to start falling in 2023 while taxes are also being raised. The budget saw the UK DMO issuance for 2022/23 come in beneath expectations at GBP 169.5bln which did support gilts. Crude prices were hit on the risk-off sentiment, strong dollar and resumption of loading in Nigeria's Forcados terminal, as well as some geopolitical risk unwinding regarding Poland /Russia/Ukraine. Earnings were mixed, Alibaba (BABA) was bid on a stronger profit and a buyback announcement while Cisco (CSCO) was also supported post earnings but Nvidia (NVDA) took a hit on weak guidance.

GLOBAL

FED: **Bullard (voter)** did not indicate his views for December, other than he is leaving the decision up to Fed Chair Powell on the size of rate hikes, noting the size of steps does not matter at a macro level and he sees a minimum level for restrictive policy between 5.00-5.25%. Bullard added even under generous assumptions, the current policy rate is not yet in a zone that may be considered sufficiently restrictive. However, the St. Louis President did suggest the range of restrictive policy estimates could be lower if inflation falls, noting markets expect "disinflation" in 2023. When looking at how long policy should remain restrictive, he suggested a data-dependent approach. He said the October inflation data is encouraging but it could easily go the other way next time, saying inflation is still bad. On disinflation, he said any signs so far are tentative at best, but he hopes it will happen in 2023. Bullard added the Fed will want to err on the side of keeping rates higher for longer to avoid the mistakes of the 1970s. **Jefferson (voter)** said high inflation hurts low-income households the most. Low inflation is key to achieving long-sustained expansion. **Mester (voter)** spoke on financial stability risks, and said it is a challenging time to address them, adding the treasury market has known structural vulnerabilities and the low liquidity reflects the uncertain economic outlook. **Kashkari (non-voter)** said the Fed cannot be over-persuaded by one month's data, adding they need to keep at it until they are sure inflation has stopped climbing. He did note that CPI and PPI give some evidence that inflation is plateauing and once they are certain inflation has stopped climbing, they can stop rate hikes, but they are not there yet. If projections are right, he would imagine the Fed stop raising rates in 2023 (note Kashkari votes in 2023), but did stress until they see demand is moderating, he is hesitant to predict an end to rate hikes, adding the rate path will be determined by inflation data.

UK AUTUMN BUDGET: There were several updates to taxation in the Autumn Budget, Chancellor Hunt said tax as a % of GDP will rise by just 1% over the next five years while the dividend tax allowance will be cut from GBP 2000 to GBP 1000 in 2023 and then to GBP 500 from April 2024. The threshold on the top rate of income tax will be lowered to GBP 125,140 from GBP 150,000. Meanwhile, Chancellor Hunt stated the windfall tax should be temporary and not deter investment, but from Jan 2023 to March 2028 it will increase the windfall tax on oil/gas firms to 35% (prev. 25%). Banks, from April 2023, will be charged an additional 3% (on top of the current 8%) rate on profits above GBP 100mln. Overall spending on public spending will increase in real terms over the next five years and will raise resource spending by 1%

per year in real terms but grow public spending by less than GDP. The chancellor confirmed plans to spend GBP 55bln on energy subsidies this winter and to lift the energy price cap to GBP 3k/year (currently 2.5k) and he will raise the minimum wage by 9.7%, seeing the hourly rate increase to GBP 10.42. Pensions will increase in line with the triple lock. The OBR estimates a recession to last just over a year from Q3 22 with GDP recovering to pre-COVID levels in Q4 23. They see unemployment rising from 3.5% to a peak of 4.9% in Q3 24. It sees GDP at 4.2% IN 2022, falling to -1.4% in 2023 and then +1.3% in 2023, +2.6% in 2025 and +2.7% in 2026. The OBR highlighted that higher borrowing pushes underlying debt (ex-BoE) up sharply, from 84.3% of GDP in 2021 to 97.6% in 2025-26. However, tax rises, spending cuts and a pick-up in GDP growth are then sufficient for underlying debt to fall modestly in 2026/27 and 2027/28. The OBR also sees inflation dropping sharply throughout 2023, being dragged below zero in the middle of the decade. The new government fiscal targets are expected to be achieved, however, it estimates two legislated targets to balance the current budget and get underlying debt falling in 2025/26 are on course to be missed by GBP 8.7bln and 11.4bln, respectively. In response to the budget, the DMO announced Gilt issuance for 2022/23 will be reduced to GBP 169.5bln from September's GBP 193.9bln, which was beneath the analyst forecast of GBP 185bln with the net financing requirement for 2022/23 at GBP 202.7bln.

US DATA

BUILDING PERMITS/HOUSING STARTS: The housing data was slightly better than feared, permits fell to 1.526mln from 1.564mln, but was above the consensus 1.512mln; representing a 2.4% decline M/M. Housing starts fell 4.2% to 1.425mln from a revised higher 1.488mln, but also above expectations of 1.410mln. Analysts at Pantheon Macroeconomics suggest the bulk of the drop in housing is now over, but a recovery is still a long way off. The recent fall has been driven by higher borrowing costs resulting in a lack of demand leaving homebuilders with substantial excess inventory. Pantheon note that mortgage rates have now peaked, "so demand is unlikely to fall much further, though it will remain at an extremely depressed level for some time yet."

JOBLESS CLAIMS: Jobless claims, for the week that usually coincides with the BLS survey week, were more or less in line with recent averages at 222k, with the prior revised slightly higher to 226k but marginally beneath the 225k expectation. The 4-week average rose to 221k this week. Continued jobless claims were in line at 1.507mln and rose from the prior 1.493mln. The initial claims data is well below Oxford Economics' estimate of the 305k that would be consistent with no monthly job growth and suggests "job growth remained strong in November, which will give the Fed cover to continue to hike interest rates."

PHILLY FED: The headline Philly Fed manufacturing index tumbled from -8.7 to -19.4, worse than the expected -6.2 print. The employment component still increased M/M but the pace of that slowed to 7.10 from 28.50. Prices Paid were relatively stable at 35.30 (prev. 36.30), signalling continued price increases, while the New Orders contraction extended to -16.20 from -15.9 while the shipments index remained positive but low. Capex rose to 6.40 from 4.40 and the 6m outlook rose to -7.10 from -14.90 but remained in contractionary territory. Overall, the report notes it signals continued overall declines in the region's manufacturing sector this month.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 18+ TICKS LOWER AT 112-20

Treasuries bear-flattened after hawkish Fed's Bullard comments, with awful Philly Fed data capping losses. At settlement, 2s +9.1bps at 4.454%, 3s +8.6bps at 4.219%, 5s +8.7bps at 3.937%, 7s +8.7bps at 3.870%, 10s +7.9bps at 3.773%, 20s +5.5bps at 4.111%, 30s +2.9bps at 3.889%.

Inflation breakevens: 5yr BEI -4.2bps at 2.336%, 10yr BEI -2.7bps at 2.300%, 30yr BEI -2.7bps at 2.374%

THE DAY: T-Notes were sold in the Tokyo morning to interim lows of 112-29 from their late Wednesday peaks at 113-11. Contracts then rallied to session highs of 113-09+ in the London morning, coming alongside a fleeting Bund bid with Europe catching up to the late-Wednesday Bloomberg ECB sources (preference for 50bps in December over 75bps). T-Notes made new lows of 112-27 ahead of the UK autumn budget, to then find a fleeting rally after the softer Gilt issuance guide from the UK. But selling resumed into the NY session, with the front-end leading the selling. Not least due to Fed's Bullard, who it's worth noting doesn't vote next year, saying that the restrictive rate zone floor is at 5%, whilst touting that if one were to follow a strict Taylor rule, restrictive could be as high as 7%. Session lows in T-Notes were made at 112-13, with the particularly weak Philly Fed mfg. data capping the downside, although initial jobless claims were lower than expected and housing starts/building permits came in above estimates. Later on, the USD 15bln 10yr TIPS reopening was on the weaker side but didn't have much of a broader effect on Treasuries. Friday's calendar is relatively quiet with existing home sales and leading indicators the data highlights, Fed's Collins is due to speak, again, but otherwise, preparation for next week's front-loaded Treasury supply.

REFUNDING: US to sell USD 42bln of 2yr notes on Nov. 21st, USD 43bln of 5yr notes on Nov. 21st, and USD 35bln of 7yr notes on Nov. 22nd, USD 22bln in 2yr FRNs reopening on Nov. 21st; all to settle on Nov. 30th.

STIRS:

- EDZ2 +0.8bps at 95.013, H3 -3.0bps at 94.790, M3 -4.5bps at 94.765, U3 -10.0bps at 94.970, Z3 -14.0bps at 95.265, H4 -15.5bps at 95.635, M4 -15.0bps at 95.965, U4 -14.0bps at 96.190, Z4 -12.0bps at 96.360, Z5 -7.5bps at 96.625.
- US sold USD 67bln of 1-month bills at 3.795%, covered 2.54x; sold USD 57bln of 2-month bills at 4.020%, covered 2.46x; sold USD 40bln of 16-day CMBs at 3.880%, covered 2.38x (tailed 5bps).
- US to sell USD 45bln of 6-month bills on Nov. 21st and USD 54bln of 3-month bills, a 3bln cut, on Nov. 21st; both to settle on Nov. 25th.
- NY Fed RRP op. demand USD 2.114tln (prev. 2.099tln), across 103 bidders (prev. 103).

CRUDE

WTI (F3) SETTLED USD 3.60 LOWER AT 81.40/BBL; BRENT (F3) SETTLED USD 3.08 LOWER AT 89.78/BBL

The crude complex was lower on Thursday on account of several factors, such as the risk-off sentiment, which resulted in a strong Dollar, and Nigeria's Forcados crude oil terminal resuming loading. On the latter, further oil selling was seen at the time of that news where the crude oil terminal resumed loading after a stoppage on November 10th due to oil sheen on the water, but further to this, the terminal was shut from mid-July until late October for repairs after a leak was found at a mooring point. Elsewhere, desks cited the usual factors behind the crude weakness, such as the rising China COVID cases overnight and the unwind of the Russia/Poland missile uncertainty. Separately, it is worth noting that Urals oil loadings from Russia's Baltic ports are set to decline to 6mln tonnes in November (prev. 6.4mln T in October), according to Reuters sources.

US/RUSSIA: Heading into the settlement, according to Reuters citing a State Department official, the US government reportedly plans to issue guidance in the coming days on a Russian oil price cap taking effect on Dec. 5 and is ready for some "hiccups" in its implementation.

EQUITIES

CLOSES: SPX -0.31% at 3,947, NDX -0.19% at 11,677, DJIA -0.02%, RUT -0.76% at 1,839.

SECTORS: Utilities -1.79%, Consumer Discretionary -1.27%, Materials -0.95%, Real Estate -0.82%, Communication Svs. -0.66%, Financials -0.54%, Industrials -0.25%, Health Care -0.04%, Consumer Staples +0.02%, Energy +0.12%, Technology +0.21%.

EUROPEAN CLOSES: EURO STOXX 50 -0.11% at 3,878, FTSE 100 -0.06% at 7,346, DAX 40 +0.23% at 14,266, CAC 40 -0.47% at 6,576, FTSE MIB -0.78% at 24,339, IBEX 35 -0.75% at 8,040, SMI -0.15% at 10,920.

STOCK SPECIFICS: **Alibaba (BABA)** missed on revenue but beat on profit and raised share buybacks by another USD 15bln. **Cisco (CSCO)** firmed after a beat on the top and bottom line; Q2 and FY23 revenue growth outlook topped expectations and it also announced a restructuring plan, which will include “talent movement options”. Activision's Blizzard Entertainment (ATVI) announced it will be suspending most Blizzard game services in mainland China due to the expiration of the current licensing agreements with **NetEase (NTES)**. **Nvidia (NVDA)** fell short on profit but surpassed on revenue; issued a tepid sales forecast as demand for its video gaming chips wanes. **Bath & Body Works (BBWI)** surged; surpassed Wall St. consensus on EPS and revenue; lifted FY22 profit guide. **Kohl's (KSS)** withdrew guidance for Q4 and FY22 citing various uncertainties including macroeconomic conditions and the departure of the CEO; beat on the top and bottom line. **Macy's (M)** saw strong gains; beat on EPS and revenue while comp-sales were also not as bad as feared; guidance was mixed as it cut Q4 guidance but raised FY profit view. Macy’s was positive about the holiday period, as opposed to Target (TGT) on Wednesday. **Norwegian Cruise Line (NCLH)** sank after it was double downgraded at Credit Suisse who cited numerous factors including valuation. **Amazon (AMZN)** is raising the outbound fulfilment fee rates by USD 0.22, on average, to account for higher costs while removing separate fuel surcharges. Epic Games filed a proposed amended complaint in **Alphabet's (GOOGL)** antitrust case, alleging Google agreed to pay **Activision Blizzard (ATVI)** USD 360mln over 3 years to thwart app store competition, as well as paying Riot Games in 2020. **General Motors (GM)** raised its 2022 guidance and expects its North America EV portfolio to be profitable in 2025 as annual capacity tops 1mln. It sees FY22 adj. automotive FCF increasing to USD 10-11bln (prev. 7-9bln); 2022 adj. EBIT of 13.5-14.5bln (prev. 13-15bln).

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FX WRAP

The Dollar was bid on Thursday, with DXY briefly rising above 107 when stocks were at lows but the DXY fell back beneath the level as risk sentiment improved somewhat. There were several Fed speakers with Bullard refraining from giving an opinion on the size of December other than the decision will be left up to Powell but he did imply restrictive policy is between 5.00-5.25%. Data was mixed, jobless claims were in line with the 4wk average and expectation and beneath the 305k level that Oxford Economics sees as the point consistent with zero monthly job growth. Philly Fed was suggestive of a deeper manufacturing contraction in the region while housing data was not as bad as feared and Pantheon Macroeconomics suggests the bulk of the drop is over, but a recovery is a long way off.

The Euro was weaker, seeing EUR/USD trade between 1.0306 and 1.0406 with the highs seen early on in EU trade before the dollar revival took EUR/USD to the lows, with the pair hovering around the middle of that range throughout the afternoon as the dollar eased off highs. With economic updates for the Eurozone relatively sparse focus for the EUR remains on how the ECB will approach the December meeting. On which, recent source reporting via Bloomberg suggests officials favour a 50bps rate hike in December rather than 75bps with initial discussions amongst policymakers not showing momentum for 75bps. Indeed, none of the hawks on the GC have publicly made the case for a 75bps move and as such, markets assign a 66% chance of a 50bps hike. ING posts “with a view to the December meeting we caution that the ECB’s hawks might ask for more progress on quantitative tightening in return for less aggressive action on rates. The tightening of monetary policy could thus just rely to a growing degree on the balance sheet.” In terms of the “next steps” for EUR/USD, with the pair unable to gain a footing above its 200dma at 1.0417 and the greenback attempting to recoup lost ground, a breach of 1.03 to the downside would open up a test of Tuesday and Monday’s lows of 1.0279 and 1.0271 respectively. Beyond these levels, sentiment for EUR/USD would really need to deteriorate for the pair to scale back the post-US CPI rally which saw the pair reclaim parity to the upside.

The Yen was weaker amid the Dollar strength with USD/JPY trading between 138.89 and 140.74 as the majority of the Yen weakness followed the Dollar strength while the higher yields in the US added to the Yen's downside with some Fed members suggesting a terminal rate of around 5.00-5.25%. Nonetheless, USD/JPY has seen quite the move since the US CPI data last week and analysts at IFR highlight it "went from speculatively overbought to oversold after softer U.S. CPI”.

CHF was weaker vs the buck and the Euro amid the higher yields in both EZ and US. SNB's Maechler reiterated Chair Jordan that the SNB is willing to intervene in the FX market by buying or selling as necessary, but they are not yet ready to reduce their balance sheet. Maechler was also cautious in noting that inflation has more risk of being more persistent and they will continue to raise rates if they see inflation projections above target. Meanwhile, trade data for October saw a revision higher to the trade surplus, leaving the October surplus smaller than the prior while watch exports slowed to +6.7% from the prior +19.1%.

Cyclical currencies were generally weaker with underperformance in the AUD. This came despite a stronger-than-expected employment report overnight as the COVID issues in China weigh on the China-exposed currency after COVID cases rose at the fastest pace since April which saw AUD/NZD fall sub 0.67 from highs of 0.6751, along with a hand from the stronger dollar. NZD/USD fared better and remained above 0.6100 after briefly dipping beneath the round level early on. Attention turns to next week's RBNZ meeting, analysts at ING expect the Central bank to follow through with another 50bp move and to signal a peak rate of around 5.0%, suggesting a dovish pivot is unlikely at this stage, however some desks, such as Capital Economics are looking for a 75bp hike due to broad strength in the labour market and inflation.

GBP was supported early morning and managed to climb as high as 1.1957 after taking out Wednesday’s peak of 1.1942 as the USD lost ground to its major peers. However, GBP then began to drift lower ahead of the UK’s Autumn statement. During which, Chancellor Hunt announced a GBP 55bln fiscal consolidation whilst loosening the fiscal rules that the government will need to adhere to. The Chancellor stated the consolidation will mean inflation and rates will end up significantly lower, however, the UK economy remains a grim one with the tax burden on UK taxpayers increasing and the OBR forecasting a 1.4% economic contraction in 2023. The cocktail of lower growth and tighter fiscal policy has underscored the troubles that lie ahead for the UK economy and as such GBP sees the US session of the lows at around 1.1850 with the psychological 1.1800 seen as a level of support, as well as the Tuesday and Thursday low at 1.1741 and Monday’s WTD low of 1.1710 potential support points for the pair.

EMFX was mixed with the Yuan weakening on COVID concerns while RUB strengthened as some of the geopolitical risk premium related to Poland is unwound. Note, the CBR said the share of friendly nations' currencies on the Russian Forex market reached 31% at the end of October, primarily due to CNY; while the USD to RUB share was down to 42%. ZAR was hit by lower gold prices while BRL was flat after weaker-than-expected inflation, printing -0.59% (exp. -0.55%)

but not as deep as the prior -1.04% read on the IGP-10 inflation index. Meanwhile, Brazil's congress could cut President-elect Lula's Transition Constitutional Amendment Proposal to BRL 160bln from BRL 197bln, according to Estadao sources.