US Market Wrap

18th November 2022: Hawkish central bank speak pressures bonds while stocks chop

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude down, Dollar up
- **REAR VIEW**: Fed's Collins says 75bps still on the table; Continued China COVID woes; ECB TLTRO lower than expected; Freeport LNG delays initial restart by one month; Strong FL earnings.
- **CENTRAL BANK WEEKLY**: Previewing Fed and ECB minutes, PBOC LPR, RBNZ, Riksbank, BoK, CBRT rate decisions. To download the report, please click here.
- **WEEK AHEAD PREVIEW**: Highlights include: Fed & ECB mins, PBOC, RBNZ, Flash PMI's. To download the report, please click here.
- **Newsquawk Thanksgiving Schedule**: Please click here

MARKET WRAP

Stocks closed mixed in a quiet newsflow session with underperformance seen in the Nasdaq although a late session bid did see all indices in the black. Traders note the ramp into the close was accompanied by a hefty buyside Market-on-Close order imbalance, likely influenced by option expiries. Gains elsewhere were most prominent in defensive sectors like Utilities, Health Care, Real Estate and Consumer Staples. Weak communication names were the reason behind the NDX lagging, while Consumer Discretionary and Tech were flat. Energy was the underperforming sector however as it tracked crude prices lower on demand concerns after rising COVID cases in China, sparking fears of a longer zero-COVID policy despite glimmers of hope in recent weeks an exit was approaching. NatGas prices were also lower after Freeport LNG announced initial operations are set to resume from their export facility in mid-December, one month later than prior guidance. The Treasury curve bear flattened after hawkish commentary from Fed's Collins and ahead of supply next week with the 2s and 5s issuance on Monday on account for Thanksgiving next Thursday. EGBs were also sold as Europe arrived, aided by hawkish commentary from ECB's Lagarde and Knot, albeit losses were limited after a smaller TLTRO uptake than expected, particularly supporting periphery debt. Data saw US existing home sales continue to decline, but not as much as was expected and in a similar outcome to the Housing Starts and Building Permits data on Thursday.

US

US EXISTING HOME SALES: US existing home sales declined 5.9% in October (prev. -1.5%) to 4.43mln (prev. 4.71 mln) but above the expected 4.38mln, similar to what was seen with the housing starts and building permits data on Thursday. Inventory of homes for sale printed 1.22mln units or 3.3 months' worth, in contrast to the prior 3.2 months. Elsewhere, home prices fell 1.1% M/M, while Y/Y home price growth slowed from 8.0% to 6.6%. On this, Oxford Economics notes, home price growth is likely to continue to decelerate, but the limited supply of homes for sale is expected to prevent too steep a decline. Numerically, OxEco looks for annual home price growth to turn negative in 2023, bottoming out at -5.0% Y/Y in Q2. Furthermore, the consultancy expects “home sales to remain under pressure through most of 2023, weighed down by eroded affordability, a recession, and still-tight supplies.” Although, it does add, “the recent moderation in home price growth and the latest decline in mortgage rates – if it is sustained – could provide some slight relief to homebuyers, but mortgage payments on median-priced homes are still up 58% since the start of the year.”

CENTRAL BANKS

FED: **Collins** (2022 voter) sees a pathway to lowering inflation without needing to increase unemployment more than modestly, but interestingly, declared that 75bps is still on the table, whilst saying recent data has increased the top range of where rates need to get to. Those comments were a notch more hawkish than her earlier remarks in November. She added that she does not see clear significant evidence that inflation is coming down. On the economy, she is concerned there could be a self-fulfilling dynamic that could make a more severe downturn more likely. However, Collins is reasonably optimistic a recession can be avoided.

ECB: ECB President Lagarde said the ECB will ensure that a phase of high inflation does not feed into inflation expectations, allowing too-high inflation to become entrenched. She said the ECB has acted decisively, raising rates by 200 basis points, and expects to raise rates further to the levels needed to ensure that inflation returns to the 2% medium-term target in a timely manner. She expects to raise rates further, noting withdrawing accommodation "may not be enough" and inflation in the euro area is far too high. Said historical experience suggests that a recession is unlikely to bring down inflation significantly, at least in the short run. Interest rates are, and will remain, the main tool for adjusting ECB policy stance. But said also need to normalise other policy tools and reinforce the impulse from rate policy. It is appropriate that the balance sheet is normalised in a measured and predictable way, she said. **Knot** said as policy tightens further, the pace of hikes will likely slow. Expects rates to reach broadly neutral next month but policy needs to enter restrictive territory to soften demand. The sooner QT begins, the lower the peak inflation and terminal rate will be. Knot suggested QT should be a backburner tool and like watching paint dry. The hawk added that it is a long way to go until rates peak, whilst saying it won't be until the second half of next year when we will see the first effects of the ECB's actions.

ECB TLTRO: The TLTRO III Nov 23rd window repayment figure came in lower than expected at EUR 296bln (exp. 600bln), and was toward the bottom end of the analyst forecast ranges of 200-1.5bln, and beneath the EUR 500bln that Pictet's Ducrozet said would be seen as a disappointment to the hawks and resulted in upside to EGBs. The upside is explained by the view that banks were utilising the TLTRO liquidity to undertake carry trades into the fixed income space, with the likes of SEB positing this was probably most prominent in the periphery, as such any repayment means that the equivalent carry in fixed income would have to be liquidated. Therefore, the smaller-than-expected repayment implies a lower EGB liquidation than the consensus would have implied. Bund/BTP spreads narrowed further Friday to 186.20, the tightest since April.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLE 10+ TICKS LOWER AT 112-09+

Treasuries bear-flattened after hawkish Fed's Collins and ahead of a busy auction schedule early next week. 2s +6.2bps at 4.516%, 3s +6.6bps at 4.288%, 5s +6.3bps at 4.000%, 7s +5.0bps at 3.922%, 10s +4.5bps at 3.818%, 20s +3.1bps at 4.145%, 30s +3.6bps at 3.925%.

Inflation breakevens: 5yr BEI -3.6bps at 2.300%, 10yr BEI -3.5bps at 2.260%, 30yr BEI -1.4bps at 2.355%.

THE DAY: T-Notes peaked at 112-25+ at Tokyo/London handover before diving to session lows of 112-06+ not long after with Europe hitting the bid. Curve bear-flattening was seen entering the NY session with Gilt selling leading, while 40yr high Japanese CPI (+3.6% Y/Y) and hawkish ECB's Lagarde adding further pressure, although lower than expected repayment in ECB TLTRO repayments capped EGB downside. T-Notes recovered, with short-covering touted, to 112-22 before comments from Boston Fed's Collins, who said 75bps was still on the table and leaned on the "work to be done" narrative, saw renewed, front-end-led selling. A combination of hawkish Collins and anticipation of Monday's 2s and 5s auction saw the front-end close at lows, although T-Notes failed to breach their London morning troughs, despite coming close.

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

STIRS:

- EDZ2 +0.5bps at 95.015, H3 -5bps at 94.745, M3 -8bps at 94.70, U3 -9.5bps at 94.88, Z3 -9.5bps at 95.175, H4 -10bps at 95.54, M4 -10.5bps at 95.86, U4 -11bps at 96.085, Z4 -11bps at 96.25, Z5 -8.5bps at 96.54, Z6 -7.5bps at 96.48.
- Option activity saw several blocked upside structures, including 45.5k SR3U3 97/98 call spreads for 4 to 4.5.
- NY Fed RRP op. demand USD 2.113tln (prev. 2.114tln), across 95 bidders (prev. 103).
- NY Fed staff paper alludes to potential reserve scarcity, available here.

CRUDE

WTI (F3) SETTLED USD 1.29 LOWER AT 80.11/BBL; BRENT (F3) SETTLED USD 2.16 LOWER AT 87.62/BBL

Crude futures were lower on amid China's COVID and momentum selling, finding a bottom USD 77.24/bbl for WTI and 85.80/bbl for Brent. Ongoing China COVID woes continue to be cited for the weakness after an official in

Beijing said cases are consistently rising which could result in the zero COVID policy being extended, despite hopes in recent weeks an end may be approaching. The Dollar was only marginally bid on Friday but nonetheless could help keep pressure on the benchmarks. Traders also flag technical-related selling as key support levels were broken through: WTI and Brent both dropped through USD 80/bbl and 90/bbl, respectively. Elsewhere, on the supply side, headlines saw oil exports at the Black Sea Port of Novorossiissk suspended due to a storm, while Nigeria's Qua Iboe crude oil stream is to load six cargoes in January, up from the five scheduled for December.

Nat Gas futures were choppy after an update from Freeport LNG regarding their Houston, Texas export facility. Freeport expects 2BCF per day of production will be achieved in January 2023 before full production in March. Currently, about 90% of the reconstruction work that is necessary to start initial operations is completed and is targeting initial production in mid-December, pending regulatory approval, which would be a 1-month delay from its prior guidance of mid-November - seeing NatGas lower on the session.

EQUITIES

CLOSES: SPX +0.48% at 3,965, NDX unch. at 11,677, DJIA +0.59% at 33,746, RUT +0.58% at 1,850.

SECTORS: Utilities +2%, Real Estate +1.29%, Health Care +1.2%, Consumer Staples +1.04%, Financials +0.77%, Industrials +0.71%, Materials +0.65%, Technology +0.13%, Consumer Discretionary +0.04%, Communication Services -0.35%, Energy -0.9%

EUROPEAN CLOSES: EURO STOXX 50 +1.20% at 3,924, FTSE 100 +0.53% at 7,385, DAX 40 +1.16% at 14,431, CAC 40 +1.04% at 6,644, FTSE MIB +1.38% at 24,675, IBEX 35 +1.08% at 8,127, SMI +1.23% at 11,052

STOCK SPECIFICS: **Amazon (AMZN)** CEO Jassy said there would be further headcount reductions in early 2023, according to The Verge, though it was unclear exactly how many roles will be impacted. **Applied Materials (AMAT)** beat on EPS and revenue while the next quarter's profit outlook also surpassed expectations. Looking ahead, executives said it was slowing the rate of spending growth in the near term amid geopolitical and macroeconomic challenges. **Apple (AAPL)** supplier **Foxconn (FXCOF)** has suspended hiring for three days in China's Zhengzhou amid limited quarantine capacity, according to local recruitment agents cited by SCMP. **Tesla (TSLA)** hit a near 2-year low after Co recalled about 30,000 model X cars over airbag issues. **Palo Alto Networks (PANW)** beat on EPS and revenue while FY23 outlook topped consensus. **Ross Stores (ROST)** surpassed Wall St. expectations on the top and bottom line while guidance was also very strong. **Live Nation (LYV)** is being investigated by the US DoJ over whether it abused its power in the live music industry after failed Taylor Swift ticket sales, according to NYT. **Foot Locker (FL)** surpassed street consensus on profit and revenue alongside raising FY EPS and comp sales guidance. Further highlighting the strong report, it saw an unexpected rise in comparable store sales. **JD.com (JD)** missed on profit but beat on revenue as the co. said COVID-related lockdowns in China prompted more consumers to shop online. **Gap (GPS)** fell short on EPS but beat on revenue, and comp sales surprisingly rose. **Williams-Sonoma (WSM)** is not reiterating or updating its guidance through FY24 amid noting given the macro uncertainty. Although do note, WSM beat on EPS, revenue and SSS. **Honeywell (HON)** is to pay USD 1.325bln in settlement with asbestos trust but reaffirmed FY22 and Q4 '22 guidance.

WEEKLY FX WRAP

USD consolidates after struggling to recoup lost ground

USD, JPY - After being decimated by a softer-than-expected inflation release last week, focus for the FX space was on whether the USD could recoup any lost ground after falling from a 110 handle on CPI-day last Thursday to a 106 handle by the end of the week. The DXY held steady at the start of the week with Fed’s Waller suggesting that last week’s CPI report is "just one data point and markets are "way out in front". However, a softer-than-expected PPI release from the US dented the DXY and sent it to a weekly trough of 105.30; its lowest level since 12th August. Other data releases for the US included a firmer-than-expected retail sales print for October, whilst weekly jobs data declined to 222k. The tenor of Fed speak continued to lean hawkishly with perhaps the most standout remarks of the week coming from 2022 voter Bullard who noted that “monetary rule would set the lower bound on restrictive policy of around 5%, versus current FFR of 3.75% to 4%”. DXY sees the week out on a mid-106 handle with the greenback seemingly in a period of consolidation. Analysts at ING suggest “this consolidation phase in the dollar may extend for a little longer, before a re-appreciation of the greenback into the end of the year.” USD/JPY tracked fluctuations in the Greenback with the pair forming a base at 137.56 on Tuesday before recovering to just below 140 by the close of play Friday. From a technical perspective, the 100DMA at 140.96 is viewed as a potential marker for the pair’s recovery with prices thus far unable to surmount the level.

GBP - A busy week of fundamentals for the pound saw an unexpected uptick in the unemployment rate, Y/Y CPI advance to 11.7% from 10.1% and a solid retail sales release for October. In terms of price action, the pair started the week off on the front-foot and extended on the prior week's gains by making a high of 1.2029 on Tuesday ahead of the UK's Autumn statement. On which, Chancellor Hunt announced a GBP 55bln fiscal consolidation whilst stating that the consolidation will mean inflation and rates will end up significantly lower. That said, the UK economic outlook 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 underscored the troubles that lie ahead for the UK economy and as such cable made a trough of 1.1760 on Thursday. That said, the downside proved to be fleeting with the pair seeing the week out on a 1.19 handle as the recovery from the 1.0382 multi-year low printed in wake of the 'mini-Budget' disaster in September continued.

EUR - Similarly to the USD, this week resembled a period of consolidation for EUR with the EUR/USD chopping and changing above and below the 1.04 mark with the pair unable to sustain a move above its 200DMA at 1.0412. Commentary from ECB officials continued to point markets towards a 50bps hike at the December meeting with the policy hawks seemingly okay with the Bank stepping down from its recent 75bps increments. That said, ING suggests that "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 balance sheet became an increasing focus towards the end of the week with President Lagarde suggesting that the GC needs to normalise its other policy tools in order to reinforce the impulse from rate hikes. Subsequently, known-hawks Knot and Nagel banged the drum for a start to QT in early 2023. In terms of the next steps for the pair, Credit Agricole said that the "ECB may end up not meeting the rather hawkish expectations of EUR money markets" and as such, "for the time being, the EUR rebound could struggle to have longer legs".

CNY - The Yuan kicked the week off on a firm footing following weekend updates which saw the PBoC and Chinese regulators back support measures for the property sector. USD/CNY was able to shrug off tighter COVID restrictions in Beijing and disappointing activity data to make a trough of 7.0237 on Tuesday. At that point, some desks suggested that a test of 7.00 to the downside (not breached since September) could come into play, however, the sell-off eventually ran out of steam and returned to levels close to 7.11, which is still some way shy of the early November high of 7.3270.

AUD, NZD, SEK - Early momentum for AUD petered out throughout the week with the pair unable to hold a footing above the 67 mark and closed the week out in close proximity to its 100DMA at 0.6694. The data highlight for AUD was Thursday's stronger-than-expected jobs data, however, the release is unlikely to dissuade the RBA from pulling the trigger on a 25bps hike at its next meeting. Its Antipodean counterpart, NZD was the clear standout outperformer on Friday as markets eye next week's RBNZ meeting with 15 out of 23 analysts polled by Reuters forecasting a 75bps move. Analysts at ANZ suggested "The RBNZ has already proven that it's not in the least afraid to go its own way, and the global tilt towards slower hikes is unlikely to play a significant part in the decision". Next week's central bank slate also sees the Riksbank come to market with its latest interest rate decision after this week's inflation metrics, which saw CPIF Y/Y at 9.3% vs. Exp. 9.6% whilst the core Y/Y print was firmer than expected at 7.9% vs. Exp. 7.5%. In response to the release, SEB stuck with its call for a 75bps move, though, given the firmer-than-expected core metrics, suggests that the risk of a 100bps hike has now increased.

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