US Market Wrap

22nd November 2022: Stocks, Bonds, and Commodities bounce and Dollar dips in global risk on

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Strong BBY & ADI earnings; China continues ramp-up of tighter COVID restrictions; EU Commission proposing gas price cap at EUR 275/MWh; Awful 7r US auction; OPEC+ denials of any supply production increases; Deliberations surrounding Russian energy price caps; Mixed US data.
- **COMING UP**: **Data**: EZ, UK & US Flash PMIs, US Durable Goods, IJC, New Home Sales **Speakers**: ECB's de Guindos, BoE's Pill **Event**: FOMC Minutes (Nov) Supply: UK & Germany.

MARKET WRAP

Stocks and commodities rose through the session on Tuesday, and the Dollar lower, reversing Monday's price action in lack of an obvious catalyst. The sector composition was reflective of risk on; Energy, Materials and Tech outperformed. The continued ramp-up of Chinese COVID restrictions didn't dent the global risk appetite, with oil, metals, and antipodes all holding firmer. US earnings saw strong reports from Best Buy (BBY) and Analog Devices (ADI), supporting broader stock sentiment although Best Buy's sales guidance raise was based on discounts to its electronics products. One could argue that's a good thing on the inflation-fighting front. Elsewhere, Treasuries bull-flattened as the front-end failed to keep up with duration grab/short-covering ahead of FOMC minutes and the Thanksgiving holiday, factors that likely contributed to the awful 7yr auction. Oil was bid on the broader risk appetite and continued OPEC+ denials of any production increases, all in the backdrop of deliberations around Russian energy price caps as talks come to crunch time ahead of the planned December 5th implementation.

US

RICHMOND FED: Headline composite index for November improved slightly to -9 from -10, albeit still remaining firmly negative, while of its three component indexes, shipments and employment deteriorated slightly to -8 (prev. -3) and -1 (prev. 0), respectively. However, the third component index, volume of new orders, rose to -14 from -22. Elsewhere, the wage index notably fell but remained elevated overall at 25 (prev. 35), while local business conditions rose to -6 from -16, with considerably fewer firms pessimistic about conditions over the next six months. In commentary, the report notes, “despite dramatic improvements throughout this year, supply chain issues appeared to persist for some firms, as the indexes for vendor lead time and backlog of orders increased slightly”. Looking ahead, expectations for prices paid over the next 12 months decreased slightly, while expectations for prices received increased slightly. Although, both remained at levels much lower than current price trends.

PHILADEPHIA FED NON-MANUFACTURING: Philly Fed non-manufacturing survey for October slightly improved to -13.6 (prev. -14.9), but firm-level business activity dropped into negative territory at -2.6 (prev. 11.2) alongside full-time employment falling to 10.0 (prev. 13.3). On top of this, new orders dipped further to -6.3 (prev. -5.5), but the prices paid, and prices received indexes both declined, albeit remaining elevated. As such, the report suggests weakened nonmanufacturing activity in the region. The indicator for firm-level general activity turned negative, while the index for new orders remained negative, and the index for sales/revenues declined but remained positive. The firms reported overall increases in full-time employment. Overall, the report notes respondents continued to expect growth at their own firms over the next six months, but the future firm-level activity index remained low.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 9+ TICKS HIGHER AT 112-19+

Treasuries bull-flattened as front-end fails to keep up with duration grab ahead of FOMC minutes and Thanksgiving, despite weak 7yr auction. 2s -0.7bps at 4.519%, 3s -3.1bps at 4.277%, 5s -3.3bps at 3.945%, 7s -4.8 bps at 3.882%, 10s -6.4bps at 3.763%, 20s -7.7bps at 4.062%, 30s -7.5bps at 3.832%.

Inflation breakevens: 5yr BEI +0.2bps at 2.413%, 10yr BEI -0.5bps at 2.332%, 30yr BEI -2.3bps at 2.385%.

THE DAY: Weakness led by the front-end was seen at the NY handover with hawkish ECB's Nagel comments and stock appetite after stronger-than-expected Analog Devices (ADI) and Best Buy (BBY) reports. A 6k 5yr futures block sale added to the pressure at the time, and then further added on by improvements in both the Richmond Fed composite index and flash EU consumer confidence. However, troughs were found as the grab for duration grew in size, seeping into shorter tenors. Positioning ahead of the FOMC minutes and short-covering into the Thanksgiving holiday was cited by traders. The awful demand reception at the 7yr auction, likely impacted by liquidity thinning out ahead of Thanksgiving, saw a fleeting bout of selling pressure before yields headed back towards lows.

7YR AUCTION: An awful 7yr offering from the Treasury with the USD 35bln worth of notes tailing the WI by a massive 2.7bps, worse than last month's 1.1bps tail and the average 0.4bps stop-through. The 2.33x bid/cover ratio sits well beneath the average 2.57x. Dealers (forced surplus buyers) were left with a massive 21.4%, up from October's 14.1% and average 11.7%, with Direct bidders declining meaningfully M/M to 16.8% from 22.7%. The poor 7yr adds to the weak 5yr on Monday, with the pair of them running against the grain of otherwise strong November auctions.

STIRS:

- EDZ2 +1.8bps at 95.025, H3 -0.5bps at 94.725, M3 +0.5bps at 94.685, U3 -0.5bps at 94.845, Z3 +2.5bps at 95.17, H4 +7bps at 95.59, M4 +11bps at 95.97, U4 +13.5bps at 96.23, Z4 +13.5bps at 96.38, Z6 +7.5bps at 96.55.
- Options block activity was dominated by SOFR call structures.
- NY Fed RRP op. demand USD 2.104tln (prev. 2.125tln), across 92 bidders (prev. 93).
- US to sell USD 55bln of 1-month bills (cut by 10bln), USD 50bln of 2-month bills (cut by 5bln), and USD 33bln of 17-week bills (unchanged) on Nov. 23rd, all to settle on Nov. 29th.
- US sold USD 22bln in 2yr FRN, covered 2.45x.

CRUDE

WTI (F3) SETTLED USD 0.91 HIGHER AT 80.95/BBL; BRENT (F3) SETTLED USD 0.91 HIGHER AT 88.36/BBL

Oil was bid on risk appetite and OPEC+ denials of any production increases, in the backdrop of deliberations around Russian energy price caps. The crude complex saw upside at the time of WSJ reports that Western allies are set to agree on a Russian oil price cap at around USD 60/bbl but could be as high as USD 70/bbl. The reports noted EU members are set to meet Wednesday and the remaining G7 members are looking to approve the cap in sync with the EU. Separately, US Energy Envoy Hochstein stated oil prices are a bit higher than they should be, and they will be opportunistic on SPR; look to immediately repurchase when prices are in a USD 70/bbl range. In a day of busy headline newsflow for oil, as opposed to the wider market, Bloomberg reported China has paused some purchases of Russian oil ahead of the price cap implementation on December 5th.

BP: BP (BP/ LN) said the start-up of Rotterdam refinery (400k BPD) has been put on hold. On Monday, Union said BP workers would not assist in restarting operations unless their wage demands were met. Reminder, it has stopped production in wake of Bloomberg reports on Friday of a serious incident.

KAZAKHSTAN: Kazakhstan's Tengizchevroil intends to export 150k tonnes of crude oil via port of Batumi in Georgia in December, according to Reuters sources. TCO is testing alternative routes for export to bypass Russian sea ports and to avoid any risks that could arise from European sanctions on Moscow, as CPC pipeline, which ends in Russia, is its main export route.

GAS: EU Energy Chief Simson stated the Commission is proposing the gas price cap at EUR 275/MWh. Following this, "several" EU diplomats told the FT the EUR 275/MWh gas price cap proposal is far too high for their governments to accept; one noted setting it higher than EUR 250/MWh "is just another way of killing the cap".

OPEC: Kuwait Oil Minister, Iraq's SOMO and Algerian energy minister all pushed back against reports of any discussions over OPEC+ raising production at its next meeting.

EQUITIES

CLOSES: SPX +1.36% at 4,003, NDX +1.48% at 11,724, DJIA +1.18% at 34,098, RUT +1.16 at 1,860

SECTORS: Energy ++3.18%, Materials +2.23%, Technology +1.93%, Communication Services +1.33%, Consumer Discretionary +1.17%, Financials +1.03%, Health +0.88%, Utilities +0.84%, Industrials +0.75%, Consumer Staples +0.72%, Real Estate +0.46%.

EUROPEAN CLOSES: EURO STOXX 50 +0.53% at 3,929, FTSE 100 +1.03% at 7,452, DAX 40 +0.29% at 14,422, CAC 40 +0.35% at 6,657, FTSE MIB +0.96% at 24,590, IBEX 35 +1.67% at 8,325, SMI -0.10% at 11,074.

STOCK SPECIFICS: **Medtronic (MDT)** missed on revenue; cut FY23 and next quarter profit view citing a stronger Dollar and a slower-than-anticipated recovery from supply chain disruptions; sees cost inflation to impact H2 more than H1. **Best Buy (BBY)** beat on EPS and revenue; smaller-than-expected decline in US comparable store sales. Raised FY forecast as it noted discounts helped keep customer traffic flowing to its stores. **Analog Devices (ADI)** surpassed street consensus on top and bottom line; next quarter guidance topped expectations. **Zoom (ZM)** topped on EPS and revenue; next quarter profit view was short on expectations, and cut FY23 revenue outlook as its overall growth seen during the pandemic has slowed considerably. **Abercrombie & Fitch (ANF)** reported a surprise profit and beat on revenue; next quarter revenue view surpassed expected. In other news, Chairperson Terry Burman is to step down with Nigel Travis to succeed. **Dell (DELL)** reported decent metrics from the past quarter, but looking ahead, Q4 revenue view was light and expects negative 10-11% growth rate for the next year with business to soften in Q4. **DICK'S Sporting Goods (DKS)** surpassed Wall St. expectations on top and bottom line; lifted FY22 adj. EPS and comp. store sales view. **Agilent Technologies (A)** beat on EPS and revenue; FY23 profit view above expectations. **Fidelity National Information Services (FIS)** to dismiss thousands in cost-cutting push, according to Bloomberg. Cristiano Ronaldo is to leave **Manchester United (MANU)** by mutual agreement, with immediate effect. Followed by Sky News reports MANU owners to explore sale as Glazers seek new investment, seeing shares spike.

FX WRAP

The Dollar was weaker on Tuesday, and hit a low of 107.110, albeit on a day of pretty thin newsflow in the holiday-shortened US week. Although, for the haven, the risk and rate backdrop turned less supportive, irrespective of China having to tighten COVID restrictions further in Beijing and Shanghai. Separately, US data was mixed as US Richmond Fed marginally improved, albeit still negative, alongside mixed internals. Philly Fed non-manufacturing survey slightly improved, but firm-level business activity dropped into negative territory alongside full-time employment falling. On top of this, new orders dipped further, but the prices paid, and prices received indexes both declined. Lastly, George and Mester spoke but little incremental was said. Looking ahead, Wednesday sees FOMC minutes and a plethora of US data, albeit nothing expected to alter the Fed’s dial, on account of the aforementioned holiday-shortened week due to Thanksgiving.

Activity currencies were all firmer against the Buck, to varying degrees, on account of the risk-on sentiment, highlighted by the Dollar weakness and US stock strength, as opposed to anything currency specific. Nonetheless, for the Aussie watchers, RBA's Lowe noted that the Bank is not on a pre-set path and could return to 50bps increase or keep rates unchanged for a time, and the Board expects to increase interest rates further over the period ahead. Meanwhile, the Kiwi overcame disappointing trade metrics for October, and the Loonie was also aptly supported by the gains in the crude complex. In terms of key levels, Cable hit a high of 1.1902, with technicians eying the November 17th high of 1.1958, followed by the round 1.2000. AUD/USD and NZD/USD hit peaks of 0.6651 and 0.6162, respectively, which comes ahead of Australian PMIs and the RBNZ rate decision (Newsquawk preview available here). RBNZ is expected to shift to a more aggressive pace and lift the OCR by 75bps to 4.25%, which would be the first time that the central bank raises by such a magnitude. Moreover, focus will also be on the Monetary Policy Statement for the central bank's view of what level the OCR could peak at and Governor Orr will be conducting a press conference and Q&A.

CHF, JPY, and EUR all gained, to a similar extent on account of the broader Dollar pullback. EUR/USD peaked at 1.0307, managing to breach the 10DMA of 1.0298. The single-currency gleaned some traction for the plethora of ECB speak, with Nagel particularly hawkish, alongside EU consumer confidence not as bad as feared, albeit still firmly in negative territory. USD/CHF traded within tight parameters, highlighted by a high of 0.9591 and a low of 0.9510. Meanwhile, the Yen managed to reclaim one whole significant figure to test 141.00 to the downside. Looking ahead, on Wednesday, EU flash PMIs for November are due ahead of Japanese CPI on Thursday.

NOK saw significant strength vs the Buck as it was seemingly buoyed on oil’s recovery, highlighted by WTI and Brent bouncing circa USD 2/bbl off the lows.

EMFX was mixed. CNY, ZAR, and MXN all firmed, TRY was flat, while RUB and BRL were weaker with the latter the underperformer. The Real saw weakness, as did Brazilian assets for that matter, after newswire sources noted Brazil President Bolsonaro filed a complaint with electoral court requesting extraordinary verification of 2022 election. Following this, CNN Brasil reported the electoral court head gives Bolsonaro's coalition 24 hours to present full audit of both rounds of election. Elsewhere, the Yuan managed to cope with the ever-worsening COVID picture in China, highlighted by Shanghai to tighten rules for people entering the city from November 24th and also Haizhu district in China's Guangzhou city extends anti-COVID measures in some areas until November 27th.

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