US Market Wrap

23rd November 2022: Stocks and bonds bid while dollar dives after dovish FOMC minutes and cautious activity data

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Dovishly perceived FOMC minutes; Rising jobless claims; Weak US PMIs; UoM Sentiment revised higher, with 1yr inflation expectations lower; New home sales surprisingly beat; EU and G7 looking at Russian oil price cap; RBNZ hikes 75bps; Stellar ADSK report; HPQ to cut ~12% of global workforce; Mixed ECB speech.
- **COMING UP**: **Data**: German Ifo Events: ECB Minutes, Riksbank, CBRT & SARB Policy Announcements **Speakers**: BoE's Pill, Ramsden, Mann; ECB's Schnabel & de Guindos **Supply**: Italy **Thanksgiving**: Normal service until 18:00GMT/13:00EST, upon which the desk will close and then re-open later at 22:00GMT/17:00EST for the beginning of the AsiaPacific session.

MARKET WRAP

Stocks closed in the green after a raft of US data and dovish FOMC minutes ahead of the Thanksgiving holiday. Jobless claims were higher than expected, Flash PMIs in the US for November were weaker than consensus across the board, while new home sales saw a surprise beat, durable goods were mixed and UoM was better than expected with the 1yr inflation expectations edging lower. The data was mixed overall but the notable rise in jobless claims and downbeat PMIs helped with the stock and bond bid in the US session while the dollar sold off. The moves extended after the latest FOMC Minutes which gave a nod to slower rate hike increments ahead and was overall deemed as dovish, although "various participants" expect the terminal rate to be higher than previously expected. Crude prices were lower on talks of a Russian oil price cap with the EU and G7 considering a cap between USD 65-70/bbl, although some said the proposed level was too high and talks have reportedly hit a snag. Treasuries bull flattened on the growth concerns after the US data while T-Notes tested session highs in wake of the FOMC minutes with money markets now implying an 80% chance of a 50bp hike in December, vs 75% pre-FOMC minutes.

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FOMC MINUTES REVIEW: The Fed minutes were taken as dovish with markets now pricing in a c. 80% chance of a 50bp hike in December and just a 20% chance of a 75bp move (down from about a 25% probability heading into the minutes). The minutes noted that a substantial majority of participants judged a slowing in the pace of interest rate hikes would likely soon be appropriate and it would allow the Fed to assess progress towards its goals given the uncertain lags around policy. However, other participants noted that, before slowing the pace of policy rate increases, it could be advantageous to wait until the stance of policy was more clearly in restrictive territory and there were more concrete signs that inflation pressures were receding significantly. However, as has been widely flagged, the minutes emphasised with policy approaching "sufficiently restrictive level", the final destination of the Fed Funds Rate had become more important than the pace. Meanwhile, many participants had noted significant uncertainty about the ultimate level of the Fed Funds Rate and various participants suggested it was higher than previously expected. The minutes saw participants agree there were very few signs of inflation pressures abating (minutes were pre-October CPI) and they generally noted inflation outlook risks remain tilted to the upside. There were also some concerns about the strength of the labour market, where a few participants said ongoing tightness in the labour market could lead to an emergence of a wage-price spiral, even though one had not yet developed. Overall, the minutes suggested a slow down is near as they approach restrictive territory but it is uncertain what the terminal Fed Funds Rate will be, other than it would be data dependent and likely higher than what was previously expected - the September SEP's suggested 4.50-4.75% but recent commentary has been suggesting between 4.75-5.25%. The timing of how long rates are to stay in restrictive territory remains unclear, and will likely be directed by economic data.

JOBLESS CLAIMS: Initial Jobless claims rose more than expected to 240k from 223k and above expectations of 225k, the highest print since August. The rise in claims indicates a slowing of the labour market, albeit it is just data for one week and does not yet suggest a clear trend. However, analysts at Pantheon Macroeconomics are "increasingly inclined to think that the trend in claims is now rising gently, as firms come under increasing pressure from the Fed's aggressive tightening". The Fed will welcome a slowing labour market as it should help on the demand side of the inflation equation. Continued claims rose to the highest since March at 1.551mln from the prior 1.503mln and above expectations of 1.517 mln. The data for the continued claims coincides with the usual survey period for the December NFP, although the initial claims do not. Pantheon Macroeconomics expects claims to reach 275k by the middle of Q1 23 which is "enough to signal a clear softening in payroll growth".

FLASH PMIs: S&P flash PMIs for November disappointed, as manufacturing printed 47.6 (exp. 50.0, prev. 50.4) and services fell to 46.1 (exp. 47.9, exp. 47.8), while the composite dropped to 46.3 (prev. 48.2). Overall, business conditions worsened with the report noting output and demand is falling at increased rates with cos. reporting increasing headwinds from the rising cost of living, tightening financial conditions, notably higher borrowing costs, and weakened demand across both home and export markets. Although, the report adds, “better news on supply chains, with supplier performance improving for the first time for over three years and the alleviation of supply delays removes a key driver of inflationary pressures and has helped moderate the overall rate of input cost inflation to a near two-year low.” Moreover, the report notes “hiring has also slowed to a crawl so far in Q4 as firms focus on reducing costs. Concludes, “in this environment, inflationary pressures should continue to cool in the months ahead, potentially markedly, but the economy meanwhile continues to head deeper into a likely recession.”

DURABLE GOODS: Durable Goods were strong with the headline rising 1.0% above the 0.4% expectation and 0.3% prior. However, the internals were more mixed with ex-defense rising 0.8%, slowing from the prior 1.4% while ex-transport rose 0.5% after last month's 0.9% decline. Nondefense capital goods excluding air rose 0.7% after a 0.8% decline last month, above expectations of an unchanged read. Analysts at ING note they prefer not to look at the headline as it is influenced heavily by Boeing aircraft orders, which were decent in October. The desk also highlights the Fed tends to look at the nondefense capital goods ex-air as a cleaner measure and that is "trending towards slower growth, but it is not suggesting companies are looking to retrench imminently".

NEW HOME SALES: New Home Sales rose by 7.5% in October to 0.632mln after the 10.9% decline in September to 0.603mln, which was revised lower to 0.588mln. The upside was a surprise after the recent downward trend in housing and it came despite a rise in new home prices and mortgage rates. Analysts at Oxford Economics however point out the gains were led by the South, where a jump in sales partly reversed a steep decline in September. Meanwhile, supply declined to 8.9mths worth from September's 9.4mths while OxEco suggests "an elevated share of the supply is of homes where construction has not started, and those projects may not materialize given the current weak conditions in the housing market".

UOM: The Final UoM Survey for November was revised higher across the board, but still notably fell from October’s reading, although the headline was revised to 56.8 (prev. 54.7, exp. 55.0). Current conditions and forward-looking expectations were lifted to 58.8 (prev. 57.8) and 55.6 (prev. 52.7), respectively. On the inflation metrics, 1yr ahead came in at 4.9% from 5.1%, while the 5yr ahead was unchanged at 3.0%. Oxford Economics notes, “consumer sentiment continues to come under pressure amid rising interest rates, volatility in equity prices, high inflation, and growing uncertainty over the economic outlook.” Final consumer sentiment added evidence as the index dropped 3.1 points from October, while conditions declined 6.8 points and expectations 0.6 points. Oxford adds, “household finances are in good shape, with debt service burdens remaining low, real personal income is declining as inflation has remained high.” Finally, the consultancy concludes, consumer sentiment is low, suggesting consumers remain pessimistic. However, the near-term implications for consumer spending are minor. The relationship between changes in sentiment and spending is very loose, particularly in the near term.

FIXED INCOME

T-NOTE (Z2) FUTURES SETTLED 11 TICKS HIGHER AT 112-30+

Treasuries were bid amid growth concerns after rising jobless claims and falling PMIs and ultimately a dovish FOMC minutes ahead of Thanksgiving. At settlement, 2s -2.9bps at 4.488%, 3s -3.4bps at 4.240%, 5s -3.8bps at 3.901%, 7s -4.6bps at 3.826%, 10s -4.5bps at 3.713%, 20s -7.5bps at 3.982%, 30s -7.9bps at 3.749%.

Inflation breakevens: 5yr BEI -0.5bps at 2.395%, 10yr BEI +0.2bps at 2.322%, 30yr BEI -0.3bps at 2.374%.

THE DAY: T-Notes found support at 112-12 in wake of German PMIs before recovering to their APAC peak of 112-21+ not long after. The curve entered the NY handover with the long-end outperforming, extending from Tuesday's short-covering. Selling then picked up into the NY morning to take T-Notes to session lows of 112-07+, only to rally after initial jobless claims rose to their highest since mid-August. The bid gained further momentum after the big falls in the US Flash PMI indices for November. T-Notes hit session highs of 113-00+, but the revision higher in the Uni of Michigan consumer survey and the surprise rise in new home sales capped further strength. FOMC minutes saw T-Notes rise and test session highs, while money markets moved to imply an 80% chance of 50bps in December, vs 75% pre-minutes.

STIRS:

- EDZ2 +0.5bps at 95.028, H3 +5.0bps at 94.770, M3 +5.0bps at 94.730, U3 +3.0bps at 94.875, Z3 +0.0bps at 95.175, H4 +0.0bps at 95.595, M4 +0.5bps at 95.985, U4 +2.0bps at 96.260, Z4 +3.5bps at 96.425, Z6 +7.0bps at 96.625.
- US sold USD 57bln 1-month bills at 3.970%, covered 2.55x; sold USD 52bln 2-month bills at 4.120%, covered 2.81x; sold USD 33bln of 17-week bills at 4.400%, covered 3.24x.
- US to sell USD 54bln of 3-month bills (unchanged) and USD 45bln of 6-month bills (unchanged) on November 28th, USD 34bln of 1yr bills (cut by USD 4bln) on November 29th; all to settle on December 1st.
- Bill sizes are on watch amid the Treasury approaching its debt limit.

CRUDE

WTI (F3) SETTLED USD 3.01 LOWER AT 77.94/BBL; BRENT (F3) SETTLED USD 2.95 LOWER AT 85.41/BBL

The crude complex was lower on Wednesday and dropped to session lows in wake of the weekly EIA data, where gasoline built more than expected, offsetting the larger crude draw. The primary reason behind the downside followed on reports in the morning that the G7 is looking at a price cap on Russian seaborne oil in the USD 65-70/bbl level, according to Reuters citing a European official. The EIA data saw a larger crude draw than expected, in-fitting with the private inventory data on Tuesday night, but the strong gasoline build weighed on energy prices overall. Elsewhere, the US is reportedly preparing an expanded Venezuela license for Chevron (CVX) if a meeting between the Venezuelan government and opposition occurs, according to Reuters citing sources. The sources add the government and opposition aim to start a new round of talks this weekend in Mexico. Looking ahead, headline drivers could be thin until next week, in thin volume on account of the holiday shortened week due to Thanksgiving.

RUSSIA PRICE CAP: EU is considering a price cap on Russian oil of USD 65-70/bbl, according to Bloomberg sources, although several EU diplomats reportedly said the proposed level was too high. Following this, EU talks on Russia oil price cap have reportedly stalled but informal discussions and bilateral meetings are ongoing. However, there were continued conflicting reports around the topic, as WSJ Poland said a USD 65-70/bbl is too high, but Malta can't accept any price cap below USD 70/bbl. On top of this, Hungary Foreign Ministry Szijjarto noted Hungary seeks exclusion from EU oil and gas price caps and sees a temporary halt in oil flow from Russia.

BAKER HUGHES: Oil +4 at 627, Nat Gas -2 at 155, Total +2 at 784.

EQUITIES

CLOSES: SPX +0.60% at 4,027, NDX +0.97% at 11,838, DJIA +0.28% at 34,195, RUT +0.17 at 1,863.

SECTORS: Consumer Discretionary +1.33%, Communication Services +1.22%, Utilities +1.04%, Technology +0.88%, Materials +0.43%, Industrials +0.4%, Financials +0.39%, Health +0.35%, Consumer Staples +0.34%, Real Estate +0.14%, Energy -1.18%.

EUROPEAN CLOSES: EURO STOXX 50 +0.42% at 3,946, FTSE 100 +0.17% at 7,465, DAX 40 +0.04% at 14,427, CAC 40 +0.32% at 6,679, FTSE MIB -0.04% at 24,581, IBEX 35 +0.07% at 8,331, SMI +0.15% at 11,091.

STOCK SPECIFICS: **Apple (AAPL)** supplier **Foxconn's (FXCOF)** Zhengzhou plant was hit by fresh worker unrest; although, Reuters sources later said the plant's current production has not been impacted. **Autodesk's (ADSK)** EPS and revenue printed in line and it announced a new USD 5bln share buyback programme. Q4 guidance was light and it sees a challenging economic environment as customers were more reluctant to sign longer-term contracts. **Deere (DE)** topped consensus on profit, revenue and all business segments, citing positive farm fundamentals and fleet dynamics alongside increased investment in infrastructure. **HP (HPQ)** marginally beat on the top and bottom line while it raised its quarterly dividend by 5%. Q1 and FY23 guidance was light but HPQ is planning cost-reduction steps including cutting global headcount by roughly 12% or 4-6k employees. **Guess (GES)** missed on profit and revenue; Q4 and FY23 guidance was short of the expected. GES cited a challenging retail environment and the impact of a stronger US dollar but did add it is well-positioned for the holiday season. Citi upgraded **Tesla (TSLA)** citing the valuation of the stock as it has lost about 50% of its value this year. **Cisco (CSCO)** faces resistance to software bundles from cost-conscious cos. and the resistance is contributing to slowing sales of Cisco's subscription software, according to The Information. **Amazon (AMZN)** intends to invest USD 1bln a year in movies for cinemas and is adjusting its film strategy after its MGM acquisition, according to Bloomberg. **Tesla (TSLA)** has been working with major record labels for months to bring **Dolby (DLB)** Atmos to Tesla cars, according to BGR citing sources. Vista Equity Partners are reportedly exploring a deal to acquire **Coupa Software (COUP)**, according to Bloomberg.

FX WRAP

The Dollar was weaker on Wednesday with lows of 106.01 in wake of the latest FOMC minutes, which were interpreted dovishly with many suggesting a slowdown in interest rate hikes would soon be appropriate. This saw Fed market pricing price in a 50bps hike in December with more certainty, as opposed to another 75bp move. The Dollar had already been sold going into the minutes on a raft of data points on account of the holiday shortened week due to Thanksgiving. The jobless claims were higher than expected, S&P PMIs for November were weaker than consensus across the board, while new home sales saw a surprise beat and UoM was better than expected with the 1yr inflation expectations edging lower.

The Euro was supported by the Dollar weakness to see EUR/USD attempt to hold its ground above 1.04, a level it currently hovers around. The EZ PMIs were better than expected too, for both manufacturing and services. There was a slew of ECB speakers too, Stournaras sees more rate hikes as reasonable, Vasle said rates need to go beyond neutral in 2023 and the current tempo of rate hikes is adequate. Centeno said 75bps cannot be the norm and he sees a lower hike in December, and he sees inflation as likely to peak in this quarter and it will be a key indicator to watch at the December ECB meeting noting the ECB are getting close to neutral.

The Yen saw decent gains amid the weaker buck and lower US Treasury Yields in what will be a welcome sign for Japanese policy officials with USD/JPY trading sub 140.00, again. On a technical basis too, USD/JPY breached the 100dma as it fell through 140.00 to a low of 139.18 and now hovers around 139.50.

Antipodes were bid thanks to the buck but NZD outperformed after the RBNZ delivered a 75bp hike overnight, as expected, but acknowledged they even considered a 100bp hike. The risk environment was also supportive but the RBNZ did a lot of the lifting to see it outperform the Aussie which also saw solid gains on Wednesday. Gains in the Aussie were "limited" in comparison to the Kiwi with ongoing COVID concerns in China acting as a drag, as well as the clear policy differentials between the RBA and RBNZ, where the latter also lifted its views of the terminal rate to 5.5% in December 2023 through to March 2024.

GBP saw decent gains too with Cable reclaiming 1.2000 to the upside with stronger-than-expected PMI data supporting the move. There was also commentary from BoE's Pill who reiterated further action is likely required. Note, the latest poll from Reuters sees 43/56 economics call for a 50bp hike, while 13 look for a 75bp hike with the peak rate unchanged at 4.25%. **CAD** was the G10 underperformer, and only saw marginal gains against the Buck, as it saw headwinds from the losses seen in the crude complex.

EMFX was mixed with CNH and CNY hit on the ongoing COVID concerns while BRL saw weakness amid concerns about the election after Bolsonaro, on Tuesday, filed a complaint with the electoral count requesting verification of the election, albeit today announced it would only be in the round prior to the runoff. There was also commentary from the BCB that falling domestic inflation is related to government measures while Neto stressed the importance of generating fiscal balance to officials, warning they are at a tipping point where doing more can have the opposite effect. MXN was bid thanks to the buck while commentary from Banxico's Heath stated they are not yet ready to decouple from the Fed while warning if they hike less than the Fed, it could negatively affect MXN or risk depreciation. ZAR saw a decent bid thanks to gains in gold prices which were supported after the dovishly interpreted FOMC minutes. Lastly, EUR/HUF saw notable upside after reports in FAZ that the EU Commission is to recommend freezing EUR 7.5bln of Hungarian funds.