



US Market Wrap

29th November 2022: Stocks unwind China optimism after yields rise

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** Speculation on easing China COVID controls; AMZN USD 8.25bln debt deal; OPEC+ tipped to maintain output; soft German and Spanish inflation; mild paring in US Consumer Confidence; strong Y/Y growth in Cyber Monday sales; HSBC sells Canada business to RBC.
- **COMING UP: Data:** Chinese NBS PMIs, Swiss KOF, German Unemployment, EZ CPI (Flash), US GDP (2nd), PCE Prices Prelim., JOLTS **Speakers:** Fed's Powell, Bowman, Cook; BoE's Pill **Supply:** Germany

MARKET WRAP

Stocks were lower Tuesday with tech leading the losses (SPX > NDX) as yields rose through the US session. The APAC session had seen broad risk-on conditions amid optimism around China loosening COVID controls but that reversed as Treasuries dipped amid debt supply indigestion. Govvies had also been advancing before the US corporate supply due to the softer-than-expected German and Spanish CPI readings. Amazon (AMZN) led the ten separate issuers issuing Dollar-denominated debt in the primary market, with the tech behemoth selling over USD 8bln itself. Oil prices were firmer, but sit off best levels with both Reuters and WSJ reporting that OPEC+ is set to maintain its production levels at its Sunday meeting, despite speculation over another cut. Metals and miners were well supported given the China optimism. In FX, the Dollar nudged firmer, although Yuan and antipodes outperformed, while EMFX was generally well supported.

US

CONSUMER CONFIDENCE: Consumer confidence pared back in November to 100.2 from 102.5 (exp. 100.00); the Present Situation Index decreased to 137.4 from 138.7 last month, while the Expectations Index declined to 75.4 from 77.9. The report noted that the declines were most likely driven by the recent rise in gas prices. The forward-looking measures signal that the economy lost further momentum; the report also noted that with the Expectations Index below 80, the likelihood of a recession remains elevated. Meanwhile, the inflation gauges rose to the highest level since July, driven by higher gas and food prices. The Conference Board also said that intentions to purchase homes, automobiles, and big-ticket appliances all cooled. "The combination of inflation and interest rate hikes will continue to pose challenges to confidence and economic growth into early 2023."

FIXED INCOME

T-NOTE (H2) FUTURES SETTLED 8+ TICKS LOWER AT 112-31+

Treasuries were sold after a busy corporate debt pipeline offset the EGB-led bid on softer European inflation data. 2s +0.8bps at 4.479%, 3s +2.0bps at 4.250%, 5s +3.7bps at 3.929%, 7s +4.6bps at 3.857%, 10s +5.1bps at 3.753%, 20s +4.6bps at 4.021%, 30s +5.7bps at 3.806%.

Inflation breakevens: 5yr BEI +1.7bps at 2.358%, 10yr BEI -0.3bps at 2.274%, 30yr BEI -0.9bps at 2.327%.

THE DAY: T-Notes hit session lows of 113-03+ ahead of the Tokyo/London handover, before finding a sympathy bounce with EGBs after softer-than-expected German regional and Spanish inflation data. The contracts hit resistance at 113-20+ not long after the inflation data, failing to make a run on Monday's 113-27 high. As the NY session got going, so did the corporate debt announcements, particularly Amazon's (AMZN) USD 7bln target five-part deal, with rate-lock hedging flows (Treasury selling/swap paying) pressuring T-Notes to session lows of 112-28+ amid the double figure number of issuers in the primary market. Prices saw a mild bounce into the London close, aided by oil prices falling on Reuters reports suggesting potentially no OPEC+ production cuts on Sunday, but T-Notes failed to breach back above 113-07. Participants now look to Wednesday's Powell speech and the October JOLTS job openings as a key gauge of labour market tightness, although Eurozone inflation data is due before then.

STIRS:



- EDZ2 +2.3bps at 95.088, H3 +2bps at 94.81, M3 flat at 94.755, U3 -1.5bps at 94.88, Z3 -1bps at 95.175, H4 -1bps at 95.58, M4 -1bps at 95.96, U4 -1bps at 96.235, Z4 -1.5bps at 96.405, Z5 -2.5bps at 96.64, Z6 -4.5bps at 96.61.
- NY Fed RRP op demand at USD 2.064tn across 91 bidders (prev. USD 2.055tn across 90 bidders)
- US sold USD 38bln of 1yr bills at 4.555%, covered 2.83x.
- US to sell USD 45bln of 1-month bills (cut by 10bln) and USD 45bln of 2-month bills (cut by 5bln) on December 1st, and USD 33bln of 17-week bills (unchanged) on November 30th.

CRUDE

WTI (F3) SETTLED USD 0.96 HIGHER AT 78.20/BBL; BRENT (G3) SETTLED USD 0.36 HIGHER AT 84.25/BBL

Crude futures gained on Tuesday, supported by both demand and supply-side factors. On the former, there are increasing expectations that Chinese officials will move away from COVID zero policies soon, a hope given credence by health officials renewing efforts to vaccinate the elderly, reported in overnight trade. "While a move toward increased vaccinations is welcome, we note it will have little impact in the near term and expect the current outbreak will continue to be met with mass testing, contact tracing and quarantines under the current COVID-Zero protocol," Citi said. On the supply side, expectations are mixed about whether the OPEC+ group could cut output again at its December 4th meeting, with reports suggesting that the group was mulling making the meeting virtual, rather than an in-person event; Energy Intelligence said that this could signal that the group wants to downplay expectations towards any major policy changes at this meeting, although also notes that traders should not underestimate the nature of a virtual meeting, given the largest cut in history was agreed on at a virtual event in 2020. There was some knee-jerk downside on **Reuters reports that OPEC+ is likely to stick to the existing production quota**, something which WSJ gave weight to later on. Benchmarks also drew some earlier support from news that Norway's oil licensing round will not proceed during the current 2025-ending parliamentary session. After the close today, the private US inventory data is due for the latest week; analysts look for headline crude stocks to draw down by 2.5mln bbls, while distillate and gasoline inventories are seen building by 1.4mln and 1.6mln respectively.

OPEC COMMENTARY: Nigeria's Oil Minister said oil production has improved to around 1.3mln BPD from less than 1mln BPD; hopes to meet OPEC quota by May of 2023. Nigeria expects to deliver 60k BPD by December-end from refurbished Port-Harcourt refinery, whilst expecting to end imports of petroleum products from around Q3 2023. Meanwhile, an Iraq SOMO official said the country plans to raise oil exports in H2 of 2023 by 250k BPD to reach 3.6mln BPD.

EQUITIES

CLOSES: SPX -0.17% at 3,957, NDX -0.73% at 11,503, DJIA flat at 33,850, RUT +0.05% at 1,831.

SECTORS: REAL ESTATE +1.7%, ENERGY +1.27%, FINANCIALS +0.66%, INDUSTRIALS +0.61%, MATERIALS +0.3%, HEALTH -0.24%, COMMUNICATION SVS -0.34%, CONS STPL -0.38%, CONS DISC -0.45%, UTILITIES -0.73%, TECHNOLOGY -0.98%.

EUROPEAN CLOSES: EURO STOXX 50 -0.03% at 3,934, FTSE 100 +0.53% at 7,514, DAX 40 -0.19% at 14,355, CAC 40 +0.06% at 6,669, FTSE MIB +0.1% at 24,466, IBEX 35 -0.01% at 8,322, SMI -0.78% at 11,076

CHINA STOCKS: China ADRs and ETFs (BABA, TCEHY, JD, PDD, BIDU, KWEB, PGJ) firmed after optimistic commentary from China officials on reopening, a health official said they must keep avoiding excessive COVID curbs while a CDC official said they will promptly and effectively solve difficult problems reported by the masses. Casino names in Macau (LVS, WYNN, MLCO) also performed well on the news and the continuation of Monday's gains on renewed concession licenses.

AAPL: Apple Inc. (AAPL) failed to benefit from the encouraging China update with a broader US tech sell-off weighing, although downside in AAPL was also seen on an analyst call where TF International Securities suggested iPhone 14 Pro and Pro Max shipments in Q2 will be 15-20mln less than expected due to the protests, more than the 6mln production hit suggested by Bloomberg on Monday. Meanwhile, pre-market WSJ also reported AAPL has no easy road out of China, and the short supply of iPhone Pro models threatens near-term sales mix, but China unrest also highlights long-term risk. Elsewhere, Digitimes reported Apple (AAPL) may diversify its production of Macbook to Vietnam.

ENERGY: Energy names were bid in general on Tuesday although there was some volatility in crude prices on higher production remarks out of Nigeria and talks of the Dec 4th OPEC+ meeting maintaining their policy decision, although still with some suggestion of a cut. Meanwhile, **Chevron Corp. (CVX)** is reportedly aiming to start receiving cargoes of



Venezuelan oil as early as December after CVX received a license to do so last week. The Venezuela oil minister later said it will sign contracts to boost JV output soon. **ConocoPhillips (COP)** signed an LNG supply deal for Germany with QatarEnergy.

STOCK SPECIFICS: UnitedHealth Group Inc. (UNH) initial FY23 guidance was mixed, missing on EPS but revenue beat while it reaffirmed FY22 guidance. **Microchip Technology (MCHP)** affirmed its Q3 guidance with EPS of 1.54-1.56 (exp. 1.58), and revenue view was also affirmed at 2.14-2.18bln (exp. 2.19bln). **Micron Technology (MU)** will reportedly ramp up 1-beta DRAM shipments, eyeing a market rebound in 2024, according to Digitimes. **Toyota (TM)** is adjusting some operations in China due to the COVID lockdown. **Lordstown Motors (RIDE)** was bid after its endurance pickup truck achieved full homologation. **Rivian (RIVN)** announced the co. lost five days of production due to the chip shortage in Q4.

BLACK FRIDAY/CYBER MONDAY: Adobe Analytics reported consumers spent USD 11.3bln on Cyber Monday, up 5.8% Y/Y. Meanwhile, the NRF announced 196.7mln Americans shopped in stores and online during the five-day holiday shopping period.

FX WRAP

USD: As risk sentiment soured in late NY morning trading, the Dollar Index nudged its head into positive territory. According to numerous bank desk models, the USD is a moderate sell into month-end, although many are reportedly positioning for a hawkish Fed Chair Powell on Wednesday, where he is expected to reiterate that the central bank is focused on bringing inflation under control. ING's analysts said the Powell speech is more likely to push rate expectations higher rather than endorsing dovish speculation, and when adding the very inverted US yield curve, a dollar recovery may be on the cards this week, the bank said.

EUR: Spanish inflation undershot estimates in November, giving credence to hopes that the ECB would prefer a smaller 50bps rate hike in December rather than a larger 75bps move; however, the core rate inched up slightly, underscoring President Lagarde's remarks on Monday where she did not go as far as to say that inflation had peaked. Meanwhile, German inflation similarly undershot expectations, though the market reaction was more muted given the moves seen in wake of the Spanish data. The aggregated Eurozone inflation metrics are due Wednesday, and the street expects the headline to cool to 10.4% Y/Y from 10.6%. On a technical note, bulls have been looking for EURUSD to close above the 200dma (1.0377), which the currency failed to do on Monday, despite a curious ramp-up in the middle of the day that faded. Any bullishness may be tempered ahead of Fed Chair Powell on Wednesday.

CNY: China's Yuan rallied on hopes that officials could be on the cusp of easing COVID rules. MUFG's strategists said that the announcement is a step in the right direction, but does not prevent further economic disruption in the near term should COVID cases continue to rise sharply and restrictions need to be re-tightened heading into year-end.

ACTIVITY CURRENCIES: Cyclical FX was mixed: CAD weakened, tracking crude futures lower; the Aussie and Kiwi rallied on China optimism; GBP was only slightly better than flat.

EMFX: The complex was largely supported by an initially constructive risk tone, while China news flow was also supportive. Brazilian Real led gains vs LatAm peers despite market foe Haddad set to win the position of Finance Minister.

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