US Market Wrap

30th November 2022: Stocks surge on dovish Powell into month-end

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down
- **REAR VIEW**: Powell leans towards 50bp in Dec; Hot GDP, Jolts above expectations, Woeful Chicago PMI, Slowing ADP, Pending Home sales not as bad as feared; Huge EIA crude draw; More China COVID optimism; Cooler than expected EZ inflation but core inflation was hotter
- **COMING UP**: **Data**: Chinese Caixin Manufacturing PMI, German Retail Sales, EZ, UK & US Final Manufacturing PMI, US ISM Manufacturing PMI, IJC, PCE Price Index. **Event**: EU Council President Michel to China. **Speakers**: Fed's Barr, Bowman, Logan; ECB's Lane, Elderson. **Supply**: Spain, UK & France

MARKET WRAP

Stocks rallied in wake of a dovish Fed chair Powell, who suggested that the December 14th FOMC meeting may be time to downshift to a moderate pace of rate hikes (understood by markets to be 50bps rather than 75bps). Many sell-side desks were talking about how markets could be hawkishly positioning into Powell, and accordingly, the stock upside may be a function of a short squeeze – traders will be watching to see if gains in equities, where the S&P 500 managed to vault its 200dma, can be held. Treasuries also rallied, with money markets now implying a 50bps rate hike with around 90% certainty (vs around 80% before Powell's remarks). Markets will now have to contend with PCE and ISM data on Thursday (on the former, Powell said that the October PCE headline is forecast to fall to 6.0% from 6.2% prior, while the core rate is forecast to ease to 5.0% from 5.1%; on the latter, today's Chicago PMI Data does not augur well for the ISM report); there is also the US jobs data due Friday, where the wages metrics will be in focus; for reference, the ADP data alludes to a slower pace of jobs growth, as it undershot expectations). The Dollar fell in wake of Powell, back into a 105-handle (having been trading with a 107-handle earlier), helping the EUR to rise back above 1.04. Elsewhere, a second look at US GDP data for Q3 was revised up, Pending Home Sales were a little better than feared, while the JOLTs data was a touch above the expected.

FED

POWELL: Fed Chair Powell's speech was interpreted as dovish, essentially cementing a 50bps rate hike in December, noting that it makes sense to moderate the pace of hikes which may come as soon as December. Also, there was a slight change in his language, as he stated that the Fed has made substantial progress towards a sufficiently restrictive level, but there was more ground to cover; after the November 2nd FOMC meeting, he said there was "a ways to go" with rates before rates got to the level that is seen as sufficiently restrictive. With substantial progress towards a sufficiently restrictive level, it appears Powell could be signalling they are closer to their terminal rate than previously thought with just "more ground to cover" now as opposed to "a ways to go". Market pricing also saw a dovish shift, with the terminal rate now seen at 4.95% (the 4.75-5.00 bracket) vs north of 5.00% (the 5.00-5.25% bracket) ahead of his remarks, while the implied probability for a 50bp hike in December increased to around 90% from around 80%, with just a 10% probability of a 75bp hike. Powell repeated that the Fed will likely need to hold policy at a restrictive level for some time, and history cautions against prematurely loosening policy. He stressed the Fed will stay on course until the job is done and that the October inflation data was welcome, but it will take substantially more evidence to give comfort that inflation is actually declining and the path ahead is highly uncertain. He deemed it far too early to declare goods inflation has vanished, but if the trend continues, it should start to exert downward pressure on overall inflation in the coming months. On PCE (Oct. PCE data due tomorrow), Powell said the Fed estimates the PCE Price index rose 6% in the 12mths through October, while Core PCE rose 5%. On QT, Powell said the Fed will at some point "call it" but will want to stop at a place that is safe. Powell also said he does not want to overtighten, but cutting rates is not something to do soon. It is also worth noting there was no mention of a pause during the speech; he had previously suggested it is premature to think about pausing.

COOK: Governor Cook's remarks were in line with the latest FOMC minutes, noting it would be prudent for the Fed to hike in smaller steps as it moves forward while repeating the terminal rate will depend on how the economy evolves. She noted there are some "early signs" of improvement in the inflation data, stressing the main focus is on lowering price pressures and it is too soon to say the inflation trend is turning more friendly - suggesting she wants to see more encouraging reports after the cooler-than-expected October CPI. Note, the October PCE is released on Thursday. She is mindful of prior rate hikes still making their way through the economy while noting the manufacturing sector is healthy but productivity has been lacklustre and she hopes it will improve. On wages, she said wage growth is above levels consistent with the Fed's 2% target.

US DATA

JOLTS: US job openings in October fell to 10.334mln from September's 10.687mln, which was downwardly revised from the initial 10.717mln, albeit not as big a drop as hoped with Reuters consensus targeting 10.300mln, and 10.250mln in Bloomberg's consensus. Nonetheless, if you like your glass half full, barring the August 10.28mln, openings are at their lowest in over a year. The Quits Rate fell again to 2.6% from 2.7%, while the job openings to unemployed workers ratio fell to 1.7% from 1.9%. In all, a step in the right direction for an easing in labour market tightness and the associated pass-through to inflation, but the Fed will be after more progress with openings still at historically elevated levels.

CHICAGO PMI: The November Chicago PMI survey printed a large downside surprise in November, coming in at 37.2 against an expected 47.0, falling from a prior 45.2. Analysts cautioned that monthly regional surveys can be noisy with small samples. But Pantheon Macro said the data cannot be ignored entirely, and now expects a decline in the national ISM manufacturing survey (released Thursday) to 49 from 50.2. The consultancy says that "the bigger picture is that the headline index of the ISM manufacturing survey has already fallen by nearly 8-points since the start of the year, and that decline began with the surge in energy prices in the wake of the war in Ukraine, accelerating as the Fed raised rates rapidly." PM says that "the effects of tighter monetary policy have yet to be fully absorbed, so it seems likely that the manufacturing surveys will weaken even further in the months ahead."

US PENDING HOME SALES: Pending home sales slumped 4.6% M/M in October, a little better than the -5.0% analysts were expecting. Pantheon Macroeconomics says that the decline was in line with the mortgage application data, and takes the cumulative decline from the October 2021 peak to 37%. "Pending sales lead existing home sales by about one month, so we expect further decline in existing home sales in November," it wrote, but added that "the conventional 30-year mortgage rate has fallen by nearly 70bps in the past few weeks, and mortgage demand looks—tentatively—to be flattening." The consultancy acknowledges that demand is still extremely depressed, "but is unlikely to fall much further unless mortgage rates suddenly spike higher again," adding that "sales have largely already adjusted to the slump in demand, and are likely to find a floor sometime early next year, but prices have much further to fall."

US GDP: The second estimate of US GDP in Q3 saw the headline upwardly revised by 0.2ppts to 2.9%; the sales prelim measure was revised up to 4.0% from an initial 3.3%; consumer spending was revised up to 1.7% from 1.4%; the deflator was revised up to 4.3% from 4.1%. PCE prices were nudged up by one-tenth to 4.3%, while core PCE was revised up to 4.6% from 4.5%. Wells Fargo said that modest growth in the core areas of the economy and weakness in real gross domestic income more clearly demonstrates the slowdown in Q3 economic growth. "Real gross domestic income suggests the economy expanded at just a 0.3% annualised pace in the Q3 after downward revisions to Q2," adding that "though the two measures (GDP and GDI) narrowed on a year-ago basis, they remain far apart in terms of quarterly rates and the weaker outturn in GDI depicts a slowing economy."

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 16+ HIGHER AT 113-16

Treasuries bull steepened after dovish Powell reversed earlier bear-flattening in wake of data. 2s -9.5bps at 4.378%, 3s -10.8bps at 4.136%, 5s -9.7bps at 3.825%, 7s -8.4bps at 3.765%, 10s -6.1bps at 3.687%, 20s -1.8bps at 3.997%, 30s -0.3bps at 3.799%

Inflation breakevens: 5yr BEI +10.8bps at 2.465%, 10yr BEI +8.5bps at 2.357%, 30yr BEI +7.0bps at 2.396%.

THE DAY: T-Notes (H3) rose gradually through APAC Wednesday from their Tuesday lows (112-28) with soft Australian CPI helping. European trade was more choppy with a session high of 113-07+ made between bouts of kneejerk selling to less impressive French and Eurozone inflation data than the German and Spanish readings on Tuesday. After a brief spike on the soft ADP employment report, notable govvie downside was seen in wake of the US Q3 GDP second estimate coming in at 2.9%, above the expected 2.7%, seeing T-Notes smash through the Tuesday/WTD floor of 112-28 despite the October advance goods trade balance deficit widening, pointing to softer Q4 GDP. A feeble attempt to recover was reversed in Treasuries after the October JOLTS job openings declined smaller than hoped, taking T-Notes to fresh lows of 112-17+, hovering a few ticks firmer into Powell's Brookings speech which ultimately saw T-Notes extend to highs of 113-18+ after he suggested a 50bp hike in December and signalled the Fed is closer to the terminal rate seeing markets now imply a peak rate of 4.75-5.00% vs 5.00-5.25% prior.

STIRS:

- EDZ2 +1.8bps at 95.103, H3 +3.0bps at 94.835, M3 +6.5bps at 94.820, U3 +9.5bps at 94.980, Z3 +12.0bps at 95.300, H4 +14.0bps at 95.725, M4 +15.0bps at 96.115, U4 +14.5bps at 96.385, Z4 +14.0bps at 96.555, Z5 +9.0bps at 96.745, Z6 +7.0bps at 96.695, Z7 +5.0bps at 96.555.
- US sold USD 33bln of 17-week bills at 4.430%, covered 3.10x.
- GC opened 5bp firmer at 3.90% and 7bp above Tuesday's closing level amid month-end pressure, marking the highest spread over RRP since December 2020.
- NY Fed RRP op demand at USD 2.116tln across 102 bidders (prev. USD 2.064tln across 91 bidders)
- BofA's Cabana expects further RRP declines in the coming months/quarters, but sharply after debt limit is increased, with cheapening of front-end paper vs RRP and more money market confidence in Fed pricing key drivers behind the decline; 2023-end RRP seen at USD 1.1tln.

CRUDE

WTI CRUDE FUTURES (F3) SETTLED 2.35 HIGHER AT 80.55/BBL; BRENT (G3) SETTLED USD 2.72 HIGHER AT 86.97/BBL

Crude futures rallied on Wednesday as weekly inventory data reported larger than expected drawdown in crude stocks (Crude -12.580M vs. exp. -2.758M; crude production unchanged at 12.1M; Cushing -0.415M; Gasoline +2.769M vs. exp. 1.625M; Distillate +3.547M vs. exp. 1.457M). Some also attributed the upside to a possibility that OPEC+ could make deeper cuts to production in January, although many analysts said the outcome was uncertain, and further source reports today suggested that the group could hold policy steady on December 4th. Others also said that technically, Brent holding USD 80/bbl has been a positive. There were further updates on price caps, and Fox reported a source with knowledge of the discussion said the target price for a barrel of Russian Oil under the cap will be between USD 60 and USD 63/bbl, according to Fox's Lawrence, who added the announcement will be next week and there are a few things to be finalized among the Allies. Elsewhere, the White House is considering calling on Congress to double a cap on heating oil storage to build up reserves over the winter, US officials also weighing future SPR drawdowns in the new year if prices spike post-embargo/price cap, according to CNBC sources.

EQUITIES

CLOSES: SPX +3.06% at 4,080, NDX +4.58% at 12,030, DJIA +2.17% at 34,587, RUT +2.72% at 1,886

SECTORS: Technology +5.03%, Communication Svs. +4.91%, Consumer Discretionary +3.48%, Utilities +2/56%, Health Care +2.43%, Materials +2.41%, Real Estate +2.33%, Consumer Staples +1.82%, Financials +1.62%, Industrials +1.59%, Energy +0.53%.

EUROPEAN CLOSES: EURO STOXX 50 +0.77% at 3,964, FTSE 100 +0.81% at 7,537, DAX 40 +0.29% at 14,397, CAC 40 +1.04% at 6,739, FTSE MIB +0.59% at 24,610, IBEX 35 +0.49% at 8,363, SMI +0.45% at 11,128

STOCK SPECIFICS: **Disney (DIS)** said it anticipates organizational and operational changes in the company that could result in impairment charges, according to Reuters citing a filing. DIS also reportedly paid USD 900mln for MLB's remaining BAMTech stake, according to THR. **Amazon.com Inc. (AMZN)** AWS is to add more staff next year and keep expanding, according to Bloomberg. **Micron Technology (MU)** CFO at a summit said he is not going to give a full update on guidance, "but what I would say is that pricing has trended well below what we thought it would be when we had our earnings call." **State Street Corp. (STT)** is to terminate its deal to buy BBH's Investor Services business. **Ford (F)** affirmed plans to scale EV production to a rate of 600k annually by late 2023 and over 2mln by 2026. DoorDash (DASH) is to cut 1,250 jobs to reign in expenses. **Horizon Therapeutics (HZNP)** confirmed it is engaged in highly preliminary discussions with Amgen (AMGN), Janssen (JNJ) & Sanofi (SNY), which may or may not lead to an offer being made for the entire share capital of the co. A key US lawmaker is proposing an extension of a certification deadline for two new versions of **Boeing's (BA)** 737 MAX and requiring retrofitting existing planes, according to a document reviewed by Reuters. **Johnson & Johnson (JNJ)** sues **Amgen (AMGN)** for patent infringement re. proposed biosimilar version of ulcerative colitis drug Stelara. **Meta (META)** is scaling back its NYC Hudson Yards offices in a cost-cutting pivot, according to Bloomberg. **Meta's (META)** CEO Zuckerberg says Apple's (AAPL) app store is a conflict of interest, only Apple tries to limit apps that enter its store. **Biogen (BIIB)** was supported after posting Alzheimer's data.

EARNINGS: **Crowdstrike (CRWD)** beat on EPS and Revenue with raised FY EPS guidance although it affirmed FY23 revenue view and warned Q4 ARR is to be lower than Q3 by 10%. **Intuit Inc. (INTU)** beat on EPS and revenue. **Workday (WDAY)** beat on EPS and revenue was in line while it raised the low end of FY23 subscription guidance and announced a USD 500mln buyback. **NetApp (NTAP)** beat on EPS and revenue was a slight miss while guidance was weak and it cut FY23 EPS & revenue growth forecasts. **Hewlett Packard Enterprise (HPE)** beat on revenue and EPS was in line with expectations whilst Q1 guidance was above the consensus.

FX WRAP

The Dollar was lower in wake of Fed Chair Powell whose speech essentially cemented a 50bps rate hike in December, while a slight language change implied that the terminal rate may be closer than previously thought after he said the Fed has made "substantial progress" towards a sufficiently restrictive level, though there was still "ground to cover" (had previously said there is a "ways to go" until they reach a sufficiently restrictive level). In wake of Powell the DXY hit a low of 106.04 from the highs of 107.19 just a couple of hours ahead of Powell's speech. Ahead of Powell, there was a plethora of US data, GDP and PCE in Q2 was above expectations, ADP fell short, Chicago PMI was woeful and Pending home sales were not as bad as feared while the JOLTS were marginally above expectations, but still lower than the prior.

The Euro was supported by Powell's dovish speech taking EUR/USD back above 1.04, a level it hovered around going into the US close before finding a nice break higher. The Eurozone inflation metrics in the morning showed a greater-than-expected easing of headline inflation pressure to (the still very hot) 10.00%. Market pricing for the December ECB is little changed with around 60bp of tightening implied and thus the 50/75bps debate remains finely balanced from a market perspective.

The Yen firmed in wake of Powell with the dovish aspects of the speech supporting the Japanese currency, with lower Treasury yields doing a lot of the lifting given a slight narrowing in the still very wide policy differentials with the BoJ. The speech helped USD/JPY fall sub 1389.00 to test 138.00 before eventually breaking beneath the level.

Cyclical currencies saw solid gains thanks to the post-Powell equity rally and dollar weakness while the antipodes outperformed on ongoing China reopening optimism with reports China is considering issuing a fourth round of vaccines, while Beijing residents may be allowed to skip mass testing and more regions are opening up. The Aussie still outperformed its peers despite a surprise, cooler-than-expected inflation report overnight which saw October CPI at 6.9% (exp. 7.4%, prev. 7.3%). CAD was also buoyed by the weaker crude prices although attention lies on next week's BoC rate decision with markets currently pricing in a 25bp move but with risk of a 50bp hike.

EMFX was mixed despite the weaker buck with MXN weaker on the session amid several updates from Banxico; the central bank’s latest forecasts envisages GDP between 1.0-2.6% in 2022, 2.8-3.2% in 2023 while its Q4 22 inflation view is for 8.3%, with a Q423 view of 4.1%. Meanwhile, there were remarks from Banxico members, both Espinosa and Esquivel spoke of potentially deviating from the Fed, while Heath said they will have to wait and see December inflation data and the Fed's December decision. BRL saw strong gains with a strong improvement in unemployment. The unemployment rate fell to 8.3% in October from 8.7%, as expected, although recent survey data suggests a fading labour market. USD/THB hit lows of 35.11, lowest since mid-August, after the Thai central bank hiked by 25bps to 1.25%, guiding continued 25bps hikes ahead.