US Market Wrap

1st December 2022: Stocks hold post-Powell gains and bonds rip into NFP on soft data

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude mixed, Dollar down.
- **REAR VIEW**: Cool PCE, firmer income and spending; Lower initial claims, soaring challenger layoffs; Weak ISM Manufacturing PMI, both employment and prices paid fall; Fed's Barr says more work to do and Williams says "a ways to go"; More China COVID optimism.
- **COMING UP**: **Data**: US & Canadian Labour Market Reports, EZ Producer Prices. **Speakers**: ECB's Lagarde. de Guindos; Fed's Barkin, Evans

MARKET WRAP

The major US indices were little changed on Thursday after holding onto the strong rally post-Powell on Wednesday. The S&P Dec'22 future did go on to print a fresh multi-month high of 4110 earlier on before paring after the cash open, albeit the index held above the 200dma (4060). The easing of financial conditions was evident in VIX crossing beneath 20 for the first time since August while the Dollar index also hit 104.66, also its lowest since August; Treasury yields continued their fall also to multi-month lows. Data was mixed with Core PCE coming in on the soft side, as Powell hinted at, initial claims fell while continued claims rose, although a fall in ISM Manufacturing, particularly the employment sub-index and the spike in the Challenger layoffs skewed expectations for Friday's jobs report to the soft side. The latest Atlanta Fed GDP tracker has Q4 at 2.8%, down from 4.3% on November 23rd. WTI firmed as the Dollar fell all in the backdrop of EU members whittling down the Russian price cap proposal to USD 60/bbl, although we are still awaiting confirmation from hawkish Poland. In FX, the Pound saw particular outperformance after EU's von der Leyen said talks with UK PM Sunak on the NI protocol have been encouraging and a workable solution is in reach. The South African Rand was hit hard after reports emerged of President Ramaphosa stuffing cash in a sofa, with his job on the line, albeit he has not resigned just as of yet.

FED

WILLIAMS (voter) added little new to his speech from Monday, although he did maintain language the Fed has "a ways to go" on rate hikes whereas Powell changed it slightly to the Fed has "more ground to cover".

BARR (voter) noted inflation is far too high and the Fed is focused on bringing inflation down to 2%. Said Fed has moved quickly this year to restrictive territory and is at a point it can pay more attention to the terminal rate, less on the pace. Barr said the Fed may shift to a slower pace of rate hikes at the next meeting, noting it is smart to modulate on the pace of rate hikes, adding that it makes sense to hike by "50bps" in Dec. On 'restrictive', Barr said the current policy rate is in restrictive territory and it is broadly the view of his colleagues that that is the case, but the question is how much more restrictive does the Fed need to be to bring inflation down. However, he said there is still some work to do on rates later this year and next year for sufficiently restrictive policy. Barr stressed the Fed is not thinking about loosening and it is critical the Fed stay at a sufficiently restrictive level long enough to bring down inflation to target. He noted they are not thinking about revising the 2% target but it makes sense to review the framework once we are through this inflationary period, albeit we are not close to being at that point. Note the Vice-Chair for Supervision also said that the Fed is exploring if adjustments to bank leverage ratio might be appropriate as part of the capital review.

US DATA

JOBLESS CLAIMS: Initial claims fell to 225k from 241k last week, a larger decline than the expected 235k. Continued claims were above expectations at 1.608mln which coincides with last week's jump in the initial claims due to the one-week lag on cont. claims figures. Nonetheless, the 4wk initial claims average moved up to 229k from 227k. Oxford Economics reminds us the data can be choppy this time of year and it makes it difficult to separate the signal from the noise, thus they put more focus on the 4wk average. It is worth pointing out neither the initial nor continued claims refer to the usual BLS survey period for the November report, due to this, OxEco stated the data had no impact on their call for a 185k job gain for November. With the four-week average at 229k, OxEco suggests it is well below the 305k level that would be, in their view, consistent with no job growth.

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PERSONAL INCOME & SPENDING/PCE: October PCE data was cooler than expected M/M but in line with the Y/Y metrics, in fitting with Powell's forecasts on Wednesday. Core PCE M/M rose 0.2%, beneath the expected 0.3%, and cooling from September's 0.5%, while the Y/Y rose 5.0%, in line with expectations, but still down from the upwardly revised 5.2%. The headline metrics maintained a M/M pace of 0.3% and cooled to 6.0% from an upwardly revised 6.3% previously. There was little impact on Fed market pricing in the wake of the report as the overall coolness was implied from the cool October CPI report, as well as the remarks from Fed Chair Powell on Wednesday. Analysts at Capital Economics expect a lot more good news on inflation over the coming months. Meanwhile, personal income rose 0.7%, above the 0.4% expected and prior. Consumer spending rose 0.5% M/M and CapEco noted this shows consumers are not buckling under the weight of higher interest rates, "at least not yet", noting consumers are somewhat benefitting from the drop in gas prices. Capital Economics conclude "the upshot is that we now think fourth-quarter real consumption growth will be as strong as 4.0% annualised but, as net external demand is now likely to act as a drag, overall GDP growth is on track for a more modest 1.5% gain."

ISM MANUFACTURING: US ISM Manufacturing PMI for November fell to 49.0 from 50.2, the lowest level since the COVID recovery and beneath the expected 49.8, confirming expectations around a slowing manufacturing sector. The sub-indices saw prices paid fall to 43.0 from 46.6, which will be a welcome sign on the inflation-fighting front, while the new orders index fell to 47.2 from 49.2. In a nod to a softer jobs report on Friday, the employment index declined to 48.4 from 50.0. Furthermore, the report notes, "Panelists' companies confirm that they are continuing to manage head counts through a combination of hiring freezes, employee attrition, and now layoffs." Meanwhile, In a sign of faltering growth, only two of the six largest manufacturing industries, Petroleum & Coal Products and Transportation Equipment, registered growth, and that was only "weak-to-moderate".

CHALLENGER LAYOFFS: November's layoffs soared 127% M/M primarily led by the tech drain, seeing layoffs rise to 76,835 from 33,843 in October, the highest monthly total since January 2021. The report highlights that tech announced over 52 job cuts for a total of 81k this year, "the highest monthly total for the sector since the firm began keeping detailed industry data in 2000. It is the highest YTD total for the sector since 2002, when 128,563 Tech-sector cuts were recorded through November and 131,294 for the year". Looking ahead, the report also noted that "employers announced plans to hire 30,203 workers, bringing the year-to-date total to 1,430,671, down 14% from the 1,662,433 hiring plans employers announced in the same period last year."

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 1 POINT & 3+ TICKS FIRMER AT 114-19+

Treasuries bull-flattened with post-Powell momentum accentuated by weak pre-NFP employment data. 2s -13.0 bps at 4.242%, 3s -15.3bps at 3.981%, 5s -15.5bps at 3.673%, 7s -16.3bps at 3.610%, 10s -17.6bps at 3.525%, 20s -17.8bps at 3.832%, 30s -19.6bps at 3.627%.

Inflation breakevens: 5yr BEI +1.8bps at 2.502%, 10yr BEI +0.6bps at 2.384%, 30yr BEI -1.4bps at 2.407%.

THE DAY: T-Notes found resistance late on Wednesday at 114-06 in wake of dovish Powell before paring to lows of 113-27 in the European morning amid mixed PMI data. The contracts edged out new peaks briefly after the softening in US core PCE, although that was largely expected. The curve bull-flattened into the US afternoon in lack of an obvious catalyst with traders instead drawing attention to positioning for the Friday jobs report, with the fall in ISM mfg. employment sub-index and the spike in Challenger layoffs skewing expectations to the downside for the BLS report. It's also worth noting that any late month-end buying could have played a part in the sustained bidding, seeing T-Notes settle at highs. The cash 10yr yield has printed a low of 3.525%, where it hasn't been since September.

STIRS:

- EDZ2 +3.8bps at 95.14, H3 +8bps at 94.92, M3 +9bps at 94.92, U3 +9.5bps at 95.095, Z3 +10.5bps at 95.425, H4 +12bps at 95.86, M4 +14bps at 96.265, U4 +15.5bps at 96.555, Z4 +16bps at 96.73, Z5 +16.5bps at 96.91, Z6 +15.5bps at 96.845.
- NY Fed RRP op demand at USD 2.050tln across 93 bidders (prev. USD 2.116tln across 102 bidders).
- US sold USD 46bln of 1-month bills at 3.590%, covered 3.43x; sold USD 46bln of 2-month bills at 4.080%, covered 2.76x.
- US to sell USD 54bln of 3-month bills (unchanged) and USD 45bln of 6-month bills (unchanged) on December 5th.
- Amid the approaching debt limit, there had been some speculation that the Treasury might announce a CMB to replace the Dec. 8th expiring 16-day bill, but that hasn't occurred just as of yet.

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CRUDE

WTI (F3) SETTLED USD 0.67 HIGHER AT USD 81.22/BBL; BRENT (G3) SETTLED USD 0.09 LOWER AT 86.88/BBL

Oil prices were choppy on Thursday as the Dollar fell with risk appetite firming after dovish Powell on Wednesday, all in the backdrop of EU members whittling down the Russian price cap proposal. Further evidence of a China COVID policy twist was seen during APAC, while Powell's remarks Wednesday also gave a nod to a less hawkish Dollar funding policy outlook, factors that boost the demand profile of oil and other cyclical assets. Meanwhile, the EU tentatively agreed on a USD 60/bbl price cap on Russian seaborne oil, although diplomats said that Poland, who wants a low price cap, had until 15:00GMT to agree, albeit that deadline has passed and there has been no statement or further reporting on the matter, coinciding with oil prices receding from highs into the latter part of the session.

PRICE CAP: Note that the initial USD 60/bbl proposed price cap mechanism, as first reported by WSJ, includes a review clause which would take effect from January and require a review of the price cap system and price every two months. In what is seen as a major concession to Poland and its allies, after each review the price cap should be at least 5% below the average market price for Russian oil and petroleum products. WSJ's Norman adds, "It could potentially mean a major cut in the price cap after mid-January given estimates of Urals price around USD 50/bbl right now."

EQUITIES

CLOSES: SPX -0.09% at 4,078, NDX +0.10% at 12,042, DJIA -0.56% at 34,395, RUT -0.26% at 1,882

SECTORS: Communication Svs. +0.29%, Health Care +0.24%, Technology +0.07%, Industrials 0.00%, Materials -0.03%, Consumer Discretionary -0.11%, Utilities -0.19%, Real Estate -0.31%, Energy -0.42%, Consumer Staples -0.47%, Financials -0.71%

EUROPEAN CLOSES: EURO STOXX 50 +0.50% at 3,985, FTSE 100 -0.19% at 7,558, DAX 40 +0.65% at 14,490, CAC 40 +0.23% at 6,754, FTSE MIB +0.31% at 24,686, IBEX 35 +0.53% at 8,363, SMI +0.99% at 11,238

STOCK SPECIFICS: **TSMC (TSM)** will offer advanced 4-nanometer chips when its new USD 12bln Arizona plant opens in 2024, Bloomberg reported, an upgrade from its previous public statements; Apple (AAPL) is said to have pushed TSM to do so, sources said. Bloomberg said TSM was expected to announce the new plan when President Biden and Commerce Secretary Raimondo visit Phoenix next week. **Salesforce.com (CRM)** EPS beat and revenue was in line while guidance was mixed but it announced its co-CEO Bret Taylor will be resigning while Benioff will stay on, who noted they are seeing unprecedented FX headwinds they never anticipated. **Costco (COST)** Nov. comparable sales were +5.3% Y/Y, short of the exp. 8.6%. **Splunk Inc. (SPLK)** saw a strong beat on EPS and revenue while it raised FY23 revenue guidance and announced a 5yr extension of the collaboration agreement with AWS. **Synopsys Inc (SNPS)** beat on EPS while revenue was in line but guidance was above expectations. **Tesla (TSLA)** is to recall 142.3k units of its China-made Model 3, and 292.9k units of its China-made Model Y within China. Elsewhere, **Tesla (TSLA)** is preparing for 75k Model Y vehicles to come out of the Gigafactory in Texas during Q1 2023, according to Electrek. **Dollar General (DG)** missed on EPS but beat on revenue. EPS guidance was grim, missing on Q4 while it cut FY22 EPS growth forecasts. **General Electric (GE)** board approves separation of GE Healthcare with the distribution date set after the close on January 3rd with GE shareholders to receive one share of GE Healthcare for every three shares owned. **Blackstone (BX)** agreed to sell its 49.9% stake in two Las Vegas hotels, MGM Grand and Mandalay Bay, to Vici Properties (VICI) in a deal that values the properties at USD 5.5bln, according to WSJ citing sources. It was later reported by Bloomberg that its real estate fund for wealthy individuals said it will limit redemption requests after breaching limits this quarter. **Wells Fargo (WFC)** is to cut "hundreds" more mortgage employees amid slowdown, according to Bloomberg. **Kroger (KR)** CEO said in a CNBC interview that inflation is starting to stabilise in the fresh departments. **Apple (AAPL)** is to boost work on its AR/VR headset, and has renamed it for its software debut, according to Bloomberg, potentially a challenge for **Meta (META)**.

FX WRAP

The Dollar was lower Thursday, extending on the post-Powell losses after his dovish remarks on Wednesday, with several data points to digest also. The cooler-than-expected PCE report helped support a dovish Fed pricing, albeit it was largely expected after Powell's hints. The risk tone was more mixed with stocks holding onto Wednesday's gains despite some chop amid more positive COVID china updates and the slew of US data. Elsewhere in the data, personal income and spending were solid, jobless claims fell more than expected but continued claims were above expectations, Challenger layoffs saw a strong rise ahead of Friday's NFP, while the ISM Manufacturing PMI was beneath expectations in contractionary territory to the lowest level since the COVID recovery began. DXY hit a fresh low of 104.660, the lowest

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level since August. Fed's Williams spoke but added little new to his speech from Monday, albeit he maintained the "a ways to go" language that Fed Chair Powell omitted on Wednesday. Money markets are still pricing in a dovish Fed with terminal seen between 4.75-5.00% while it is heavily leaning towards a 50bp hike in December.

The Euro was bid and back above 1.05 thanks to the Dollar weakness. There was little impact from the downbeat German retail sales data which saw a large miss, falling 2.8% M/M (exp. -0.6%) while the final manufacturing PMI data was revised marginally lower. There were also remarks from ECB's Lane who did not add much, other than the SPF survey showing long-term expectations at 2.2% is significant for monetary policy.

The Yen kept its bid and fell from highs of 138.11 to lows of 135.32 perhaps aided by commentary from the new BoJ Board Member Tamura who called for a policy review at the right time, noting it could come soon or a little later but it depends on the data. Albeit not too ground breaking, it is interesting it is on their minds given the wide policy diversions with the BoJ and the US and EU. Note also that BoJ's Noguchi, a typically dovish member, was speaking during APAC hours, noting the pick-up in domestic inflation.

Cyclical currencies benefitted from the weaker buck although the Pound saw particular outperformance aided by Brexit after EU's von der Leyen said talks with UK PM Sunak on the NI protocol have been encouraging and a workable solution is in reach. Kiwi was also an outperformer, rising from lows of 0.6286 before rising above the 200dma at 0.6289 before extending to highs of 0.6399 but failing to breach 0.6400. Aussie was supported but not as much as its Kiwi counterpart which held above 0.6800 vs the buck but AUDNZD lost hold of 1.07. Loonie saw marginal weakness with a mixed crude complex ahead of the BoC next week where the latest Reuters poll is very mixed, with 16/30 looking for a 50bp hike and 14/30 looking for a 25bp hike, with the terminal rate seen at 4.25% in Q4 22 vs prior poll forecast of Q1 23. 10/13 economists in the poll said the larger risk is the BoC raises the policy rate to a higher terminal rate and later than expected.

The Yuan was flat vs the weaker buck despite positive COVID optimism. It was reported China will release supplementary COVID measures in the coming days and will allow positive cases to quarantine at home with conditions, which is seen as a major policy shift. It was also reported China will increase antigen testing to reduce the frequency of mass tests and regular PCR tests. On vaccination, it was reported on Wednesday China is mulling rolling out a fourth round of COVID vaccines and it appeared that was confirmed today via WSJ suggesting China will plan a campaign for the elderly in December and January.

EMFX was predominantly weaker albeit MXN, CLP and COP outperformed. ZAR saw pronounced weakness on fraud concerns with President Ramaphosa. In the near term uncertainty over the outlook in the country is seen as a negative for the ZAR. Goldman writes "In terms of positioning the CTA community are long ZAR, whilst RM also faded USDZAR >18.00, suggestive that positioning is a little vulnerable if the move continues. 1 month USDZAR ATM vol opened this morning around 16.5%, about 1 vol higher vs. yesterday close".

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