US Market Wrap

2nd December 2022: Markets whipsaw after hot jobs and wages report

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW**: NFP jobs and wages hotter than expected; Poland agrees on USD 60/bbl price cap; Barkin and Evans add little new; UAL and BA near Dreamliner deal
- **CENTRAL BANK WEEKLY**:Previewing RBA, RBI, BoC; reviewing Fed's Powell. To download the report, please click here.
- **WEEK IN FOCUS**: Highlights include OPEC+, RBA, BoC, China Trade and CPI data, Uni. of Mich. Sentiment. To download the report, please click here.

MARKET WRAP

Stocks and bonds whipsawed on the hot NFP report with above-expected jobs added and hot wage metrics, igniting a typical, knee-jerk hawkish reaction with stocks and bonds slammed lower while the Dollar ripped. The move failed to hold though with a gradual reversal seen throughout the rest of the US session to see the S&P 500 close above its 200dma at 4048 and also back in the black. Money markets are still pricing in a 50bp hike in December albeit pricing for the terminal rate rose to as high as 4.96% before paring back to 4.90% by the close. There was little fresh Fed speak of note with both Barkin and Evans (non-voters) repeating familiar themes, while the silence of other FOMC members could suggest they are happy with current market expectations ahead of the blackout period, which begins from Saturday, after the dovish remarks from Fed Chair Powell earlier in the week. Fed whisperer Timiraos also noted today's report cements the 50bp hike in December but noted the risk is if the FOMC have to hike above 5%. Crude prices sold off into settlement after being relatively contained in wake of the NFP data as traders position for the OPEC meeting over the weekend which could see some volatility on the reopen on Sunday. Next week there is limited tier 1 US data but attention will be on the preliminary UoM consumer survey for December while China trade and CPI data will also be of note. The OPEC+ meeting will be key over the weekend, as well as central bank decisions from the RBA and BoC next week.

US

JOBS: The jobs report was hot with the monthly job gains rising to 263k from the prior 261k despite expectations for a slowdown to 200k. The unemployment rate was maintained at 3.7% while the wages were very hot: M/M rose 0.6% (exp. 0.3%) and Y/Y rose 5.1% (exp. 4.6%). There were notable job gains in leisure and hospitality, health care, and government. Employment declined in retail trade and in transportation and warehousing. Overall, it is not an ideal report for the Fed with firmer job openings than expected, with upward revisions, accentuated by much firmer average earnings growth than expected, reigniting concerns around any wage-price spiral, particularly as the labour force participation rate declined (62.1% from 62.2%), sustaining tight labour market concerns, with unemployment unchanged at 3.7%. However, one silver lining for the Fed may be the market reaction which saw financial conditions retighten after the pronounced loosening from Powell's speech on Wednesday, albeit the vast majority of the initial move had pared by the end of the session. WSJ's Fed Whisperer Timiraos said the report keeps the Fed on track to raise interest rates by 50bps at its meeting in two weeks and underscores the risk that officials will raise rates above 5% in the first half of next year. Analysts at ING note "the Fed has more work to do and we look for further 50bp rate hikes in December and in February, with the potential for tightening needing to go on for longer."

FED: **Barkin (non-voter)** said, in prepared remarks made before the jobs report, that the labour supply looks like it will remain constrained. Fed's efforts to bring demand back into balance will not be easy, particularly due to household excess savings and fiscal stimulus. Barkin said fewer workers would constrain US growth. **Evans (departing)** said the Fed is probably going to have a slightly higher peak to Fed policy rate even as we slow the pace of rate hikes.

FIXED INCOME

T-NOTE (H3) FUTURES SETTLE 1+ TICKS HIGHER AT 114-21

Treasuries saw pronounced flattening after the hot jobs report, with worsening slack and wage metrics an unwelcome development for policymakers. At settlement, 2s +2.4bps at 4.278%, 3s -0.2bps at 3.988%, 5s -1.6bps at 3.662%, 7s -1.1bps at 3.602%, 10s -2.4bps at 3.503%, 20s -5.4bps at 3.782%, 30s -7.5bps at 3.558%.

Inflation breakevens rallied after NFP: 5yr BEI +4bps at 2.545%, 10yr BEI +4.4bps at 2.427%, 30yr BEI +4.2bps at 2.452%.

THE DAY: Curve entered the NY Friday session in a bull-steepener ahead of NFP after T-Notes initially marked an interim low of 114-25+ in APAC trade before rising to session highs of 114-26 before NFP, with the cash 10yr yield briefly touching beneath 3.50%. The solid jobs growth and alarming bounce in wage growth saw bids evaporate, taking T-Notes to session lows of 113-21+, with a yield high at 3.64%. Note the weakness was being led by the front end as seen in 2s10s flattening nearly 10bps. As Europe closed up shop, yields pared from their highs as shorts covered into the weekend, although it was the long end in particular leading the recovery into the weekend, taking T-Notes back into pre-FOMC ranges by settlement, in what appeared flow-driven duration grab rather than anything incremental on the newsfront/commentary related. Next week's US calendar is sparse with the Fed entering its blackout period ahead of the December 14th FOMC, no Treasury coupon supply to accommodate for either.

STIRS:

- EDZ2 +3bps at 95.165, H3 -2bps at 94.90, M3 -4bps at 94.88, U3 -5.5bps at 95.04, Z3 -4bps at 95.38, H4 -1.5 bps at 95.845, M4 +1.5bps at 96.28, U4 +2bps at 96.575, Z4 +3bps at 96.76, Z5 +5.5bps at 96.965, Z6 +3bps at 96.88.
- Dec FOMC 75bps pricing edged to 15% from 10% in wake of NFP before paring the move, although the terminal rate rose 10bps to 4.94% for May 2023 as implied by Fed Funds futures.
- WSJ's Timiraos, "November jobs report keeps the [Fed] on track to raise interest rates by [50bps] at its meeting in two weeks and underscores the risk that officials will raise rates above 5% in the first half of next year."
- NY Fed RRP op demand at USD 2.049tln across 94 bidders (prev. USD 2.050tln across 93 bidders).
- SOFR remained at 3.82% as of Nov. 1st, while volumes rose to USD 1.174tln from 1.113tln the prior day, the highest since April 29th, 2020, amid market rates trading above the Fed's 3.80% RRP rate.

CRUDE

WTI (F3) SETTLED USD 1.24 LOWER AT 79.98/BBL; BRENT (F3) SETTLED USD 1.31 LOWER AT 85.57

Oil prices were subdued on Friday with the Dollar rally unwinding as the dust settled from the strong jobs report while traders prepare for OPEC+ on Sunday. While the strong Dollar is a headwind for the commodity space, the strong jobs report marked a positive for the oil demand outlook, with oil much more contained in wake of the data than other financial assets. Meanwhile, some incremental upside in oil was seen after a Polish diplomat announced the EU can now move forward with a written procedure of approval by all EU governments on the USD 60/bbl Russian oil price cap that includes a review mechanism, saying the deal is to be formally announced on Sunday. More crucially for the energy market is the OPEC+ production decision on Sunday, with the consensus centred on no change, albeit there remain risks of a cut. As far as scheduling is concerned, the core OPEC meeting will take place from 11:00GMT/06:00EST on Saturday, followed by the OPEC+ JMMC on Sunday at the same time, with the full ministerial summit to follow after that, with oil futures potentially in for a rocky reopen on Sunday evening. For more details, click here.

ROTTERDAM: BP's (BP/ LN) Rotterdam refinery (400k BPD capacity) and union workers have struck an agreement on the wage deal with the proposal set to be put to workers, according to a union spokesperson. Workers at the refinery will gradually commence operations ahead of a vote on Wednesday.

FREEPORT: Freeport LNG says it now anticipates restart of its Texas export plant to be achieved by around year-end. Note that marks a slight delay vs its guidance in November for an initial restart in mid-December, with full capacity forecasted for March 2023.

US RIG COUNT: Baker Hughes reported, for the week ending Dec 2nd, that US oil, NatGas, and Total rigs were all flat at 627, 155, and 784, respectively.

EQUITIES

CLOSES: SPX -0.12% at 4,072, NDX -0.40% at 11,994, DJIA +0.10% at 34,429, RUT +0.59% at 1,893.

SECTORS: Materials +1.11%, Industrials +0.62%, Consumer Staples +0.44%, Health Care +0.22%, Communication Svs. +0.05%, Consumer Discretionary -0.19%, Real Estate -0.41%, Financials -0.43%, Utilities -0.47%, Technology -0.55%, Energy -0.61%.

EUROPEAN CLOSES: EUROPEAN CLOSES: EURO STOXX 50 -0.17% at 3,978, FTSE 100 -0.03% at 7,556, DAX 40 +0.27% at 14,529, CAC 40 -0.17% at 6,742, FTSE MIB -0.26% at 24,622, IBEX 35 -0.30% at 8,383, SMI -0.36% at 11,198

STOCK SPECIFICS: **United Airlines (UAL)** is close to a deal to order "dozens" of **Boeing (BA)** 787 Dreamliners worth "billions"; agreement could be completed as soon as December, according to WSJ sources. **Amazon (AMZN)** has started rescinding job offers it had extended to new hires in its retail organization, a sign that the ecommerce giant's cutbacks have moved beyond its devices division where recent layoffs were concentrated, according to The Information. **JPMorgan (JPM), BofA (BAC), Citi (C), and Goldman Sachs (GS)** cut banker bonuses as the talent war comes to an end, Bloomberg reported. **Visa Inc. (V)** executives will receive bonuses despite missing its growth target, FT reported; Visa said the Russia withdrawal was a factor in falling short of its target. **Marvell Technology Group Ltd. (MRVL)** missed on EPS and revenue while guidance was very weak. **Tesla, Inc. (TSLA)** gave a presentation at an event showing that a future Robotaxi was in development, though did not provide any details. Elsewhere, it delivered its first Semi truck to **Pepsi (PEP)**. **Ulta Beauty (ULTA)** beat on EPS and revenue and lifted guidance. **Sanofi (SNY)** said it would pay in cash for **Horizon Therapeutics (HZNP)** although reiterated a deal is not certain. **Ford (F)** US vehicle sales fell 7.8% in November to 146,364 units.

WEEKLY FX WRAP

DXY: The declines in DXY and bond yields picked up in pace throughout the week after some initial reluctance amid month-end rebalancing, whilst bond markets also tackled an Amazon five-parter. The action kicked off on Wednesday as Fed Chair Powell gave dovishly-received remarks, whereby he suggested the December FOMC meeting may be the time to downshift to a moderate pace of rate hikes - which was understood by markets to be 50bps rather than 75bps. However, some remained sceptical of the move in markets, with desks such as ING suggesting: “We are tempted to say that looks an overreaction in that while Chair Powell did acknowledge the slowing in the pace of hikes, his core message was one of stubbornly high core inflation, particularly in the core services ex-housing category”. Thursday’s softer-than-forecast core PCE M/M and an as-expected cooldown in the Y/Y further dragged the index. DXY printed its 104.36 weekly low in the run-up to the NFP data – which ultimately reignited concerns surrounding any wage-price spiral, particularly as the labour force participation rate declined, and maintaining tight labour market concerns – not ideal for the Fed. DXY was propelled from near its weekly low (104.36) to levels back above its 200 DMA (105.55). Fed terminal rate pricing rose from 4.84% (in May 2023) to 4.96% (vs the 5%+ levels pre-Powell), while the probability of an FOMC 75bps hike in December ticked slightly higher to 15% from 10%, with 50bps still heavily priced. All-in-all, the index looks to end the European week with modest losses in a 104.36-107.19 weekly range.

JPY, CNH: Both saw an interesting week, with the JPY propelled amid a narrowing in Fed-BoJ differentials after Fed Chair Powell’s remains was reinforced by some out-of-nature hawkish vibes from the new BoJ Board Member Tamura who said the BoJ should conduct a review of the monetary policy framework and whether a policy tweak is needed will depend on the outcome of the review. USD/JPY looks to end the session closer to the bottom of a 133.60-139.89 range, but above its 200 DMA (134.51). The CNH gained traction on hopes of a China reopening with the currency firm against the softer Dollar throughout most of the week, with USD/CNH slumping from a 7.2571 weekly high to a 7.0045 weekly trough. Chinese data this week was disappointing and overlooked - Chinese PMI slipped into a deeper contraction and printed sub-forecast.

AUD, NZD, EUR, GBP: All poised for a week of modest gains against the Dollar, but off best levels following the NFP-induced Dollar rebound. AUD/USD is poised to notch a 0.6638-6843 weekly range after moving above its 100 DMA (0.6686) throughout the week. NZD/USD is among the G10 outperformers despite a lack of clear fundamental domestic drivers, with the move likely also influenced by technicals as the pair climbed over its 100 DMA (0.6287) and 50 WMA (0.6372) as it printed a 0.6154-6412 parameter throughout the week. EUR saw a cooling in headline EZ CPI in November, although Core CPI came in hotter-than-expected and super-Core CPI in-line with forecasts. As it stands, markets assign a roughly 80% chance of a 50bps hike at the December meeting. EUR/USD was also unreactive to the modest downward revision in the final EZ manufacturing PMI, with the pair looking to end the European session within a 1.0288-0544 range, just shy of its 50 WMA (1.0553). GBP/USD was underpinned, particularly in the latter half of the week, amid some positive vibes from Europe with regards to Brexit discussions, with EU Commission President von der Leyen suggesting talks with UK PM Sunak on the NI Protocol have been encouraging, and a workable solution is within reach. GBP/USD looks to end the week around the top of a 1.1897-2309 weekly range, and north of its 100 DMA (1.2147).

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