



US Market Wrap

6th December 2022: Stocks slump on tech-rout after Meta woes

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar up.
- **REAR VIEW:** META's targeted ad-model faces restrictions in Europe; Russia mulling price floor for oil sales; US EIA STEO cuts 2023 world oil demand growth but leaves 2022 unchanged; TSM to triple its investment in Arizona, US; Dovish ECB Lane commentary; Banking execs cautious on economic outlook; RBA hike 25bps, as expected
- **COMING UP: Data:** Chinese Trade Balance, German Industrial Output **Event:** BoC & RBI Policy Announcements **Speakers:** ECB's Lane & Panetta **Supply:** UK.

MARKET WRAP

Stocks sold off in a tech-led rout on concerns in the advertising space after WSJ reported Meta's targeted advertising model faces restrictions in Europe while Reuters reported the co. could face hefty fines. Meta saw losses of over 6% weighing on the communication sector, with strong downside seen in Tech and Consumer Discretionary too. Nonetheless, Energy was the greatest laggard on the falling crude prices which are hovering around 2022 lows. The "outperforming" sectors were the defensive ones, Utilities, Staples and Health Care. The Treasury curve bull flattened as stocks dove on big tech woes while dovish ECB commentary from ECB's Lane about inflation peaking and short-covering after Monday's steep sell-off supported the bid. The downbeat risk sentiment supported the Dollar index albeit gains were limited by the downside in Treasury yields. There were several updates from US banking executives on the economy, who were generally impressed by the resilience of the US economy so far, but were cautious on the outlook and a slowdown in consumer spending. In energy, the focus remains on the Russian oil price cap and Russia may respond by implementing a price floor for its oil sales in response to the cap, while there are reportedly 18mln bbls of oil held up off Turkey due to their insurance checking requirements since the implementation of the cap. Attention turns to China trade data overnight while the BoC rate decision on Wednesday will also be key, with analysts torn between a 50 or 75bp hike, as well as the terminal rate (preview below).

GLOBAL

BOC PREVIEW: The BoC rate decision will be a statement-only affair, although Deputy Governor Sharon Kozicki is speaking the following day. Analysts are split on the size of the expected rate hike, with 16/30 surveyed by Reuters expecting the Bank to hike by 50bps again taking its target for the overnight rate to 4.25%. However, the remaining 14 analysts see a smaller 25bp hike to 4.00%. Market pricing is leaning towards a 25bp move with circa 70% probability at the time of writing and just a 30% chance of a 50bp hike. Any language on the terminal rate or guidance will also be key with markets implying a peak rate of 4.30% by the middle of next year. If the BoC opts for a 50bp hike at this meeting, they could use it as an opportunity to bring the tightening cycle to a pause as they assess the impact on the economy ahead of the expected slowdown. Meanwhile, a 25bp hike would then likely suggest another 25bp hike is to be expected in the months thereafter, although expectations are quite varied, ranging from a final 25bp hike, a final 50bp hike, two 25bp hikes, and a 50bp hike followed by a final 25bp move, so any clarity from the BoC on the outlook for rates will be of utmost importance. To download the full Newsquawk preview, please [click here](#).

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 16 TICKS HIGHER AT 114-11+

The Treasury curve bull flattened as stocks dove on big tech woes while dovish ECB commentary and short-covering supported the bid. 2s -4.4bps at 4.350%, 3s -4.3bps at 4.086%, 5s -6.2bps at 3.731%, 7s -7.5bps at 3.645%, 10s -8.6bps at 3.513%, 20s -7.5bps at 3.759%, 30s -9.2bps at 3.524%.

Inflation breakevens: 5yr BEI -9.6bps at 2.427%, 10yr BEI -8.9bps at 2.321%, 30yr BEI -8.3bps at 2.368%.

THE DAY: T-Notes grinded higher throughout the session perhaps following on from the rally in Bunds in the EU morning after ECB's Lane spoke of either having passed the peak of inflation, or at least being near the peak. The upside on Tuesday reversed a decent chunk of the strong selling pressure Monday after the strong ISM Services data,



while selling pressure was maintained overnight after the RBA signalled more rate hikes are to come after hiking 25bp, as expected. The upside in Treasury's during the session Tuesday was also supported by the big stock selling pressure on reports Meta's (META) targeted advertising model faces restrictions in Europe, with fears of a tech crackdown and reports of potentially hefty fines set for Meta. Nonetheless, some short-covering may have also been supportive of the move after the steep decline on Monday.

STIRS:

- EDZ2 +0.3bps at 95.178, H3 +1.5bps at 94.855, M3 +3.5bps at 94.820, U3 +5.5bps at 94.965, Z3 +6.0bps at 95.290, H4 +5.0bps at 95.735, M4 +4.0bps at 96.160, U4 +3.5bps at 96.475, Z4 +4.0bps at 96.670, Z5 +6.5bps at 96.910, Z6 +8.5bps at 96.870, Z7 +9.5bps at 96.740.
- NY Fed RRP op demand at USD 2.111tn (prev. 2.094trln) across 97 bidders (prev. 97 bidders)

CRUDE

WTI (F3) SETTLED USD 2.68 LOWER AT 74.25/BBL; BRENT (G3) SETTLED USD 3.33 LOWER AT 79.35/BBL

The crude complex was lower and continued to trundle lower throughout the NY session, as the risk-off sentiment weighed in light of a lack of other headline drivers. Aside from the monthly EIA STEO report and a Russia update, fundamental newsflow was sparse on Tuesday as market participants await the major risk events. Regarding the Russian oil price cap, Russia is said to be mulling a price floor for oil sales in response to the G7 cap, according to Bloomberg, while the Deputy Foreign Minister said Russia will not limit itself responding its response to the oil-price cap, according to Interfax. Meanwhile, further oil tankers are facing delays in the Turkish Bosphorus after the EU shipping services ban, which is said to be holding up 18mln bbls of oil. The latest EIA STEO cut its forecast for 2023 world oil demand growth by 160k BPD and now sees 1mln BPD Y/Y increase, but maintained its 2022 outlook at a 2.26 mln BPD Y/Y increase. On crude output, it sees a rise of 620k BPD to 11.87mln BPD in 2022 (prev. rise of 580k BPD forecast last month) and for 2023 to rise 470k BPD to 12.34mln BPD (prev. rise of 480k BPD). Looking ahead, US Energy Inventory Data Expectations (bbls): Crude (exp. -3.3mln), Gasoline (exp. +2.7mln), Distillate (exp. +2.2mln).

BANK COMMENTARY: Barclays noted the China reopening could significantly tighten physical oil markets, unlocking 1.5-2mln BPD of incremental demand in relatively short order, worth circa USD 20/bbl on Brent.

EQUITIES

CLOSES: SPX -1.44% at 3,941, NDX -2.01% at 11,549, DJIA -1.03% at 33,596, RUT -1.50% at 1,812.

SECTORS: Energy -2.65%, Communication Services -2.58%, Technology -2.14%, Consumer Discretionary -1.62%, Industrials -1.15%, Materials -0.88%, Financials -0.86%, Real Estate -0.79%, Health -0.74%, Consumer Staples -0.68%, Utilities +0.66%.

EUROPEAN CLOSES: EURO STOXX 50 -0.44% at 3,939, FTSE 100 -0.61% at 7,521, DAX 40 -0.72% at 14,343, CAC 40 -0.14% at 6,687, FTSE MIB -1.15% at 24,265, IBEX 35 -0.46% at 8,331, SMI -0.83% at 11,101.

STOCK SPECIFICS: **Microsoft (MSFT)** eyes a 'super app' to break **Apple (AAPL)** and **Google's (GOOGL)** hold on mobile search, according to The Information. **Meta's (META)** targeted ad-model faces restrictions in Europe, according to WSJ citing sources. **TSMC (TSM)** is to more than triple its investment in Arizona, US to USD 40bln. Later on Tuesday, TSM is expected to announce plans for a second fab to manufacture 3NM/N3 chips from 2026. **AMD (AMD)** CEO expects it to be a big customer for both TSMC factories in Arizona. **NRG Energy (NRG)** is to acquire **Vivint (VVNT)** for USD 12/shr, in an all-cash transaction with a value of roughly USD 5.2bln. Note, VVNT closed Monday at USD 8.99/shr. **Textron's (TXT)** Bell unit was chosen as US Army long-range assault aircraft; Jefferies estimates that it could add USD 11 to TXT's net present value, with the deal adding USD 66bln of revenue through 2050. **Herbalife Nutrition (HLF)** announced a USD 250mln convertible note offering. Intends to use the proceeds to repurchase existing debt and for general corporate purposes. **Royal Caribbean (RCL)** was double-downgraded at JPMorgan; particularly vulnerable to a less favourable market for raising capital given the timing of its future financial commitments. **Buzzfeed (BZFD)** announced plans to reduce expenses by a 12% reduction in the current workforce. **Paramount (PARA)** CEO projects Q4 advertising revenue will be lower than Q3. **Apple (AAPL)** is reportedly scaling back its self-driving car and has delayed the launch until 2026, according to Bloomberg. **GSK (GSK LN), Pfizer (PFE), Sanofi (SNY)** and Boehringer Ingelheim defeated thousands of US lawsuits over Zantac cancer claims, according to a court order being cited by Reuters.



EARNINGS: **GitLab (GTLB)** posted a shallower loss per share than expected and beat on revenue. Next quarter guidance was better than expected as was the FY23 outlook. **Signet Jewelers (SIG)** beat on EPS and revenue; raised FY23 guidance. **AutoZone (AZO)** beat on top and bottom line alongside a larger-than-expected rise in comparable-store sales.

FINANCIALS: **Wells Fargo (WFC)** CEO expects NII to be higher next year YY; seeks to grow corporate and investment banking business. **Bank of America (BAC)** CEO said trading will be up 10-15% in Q4; investment banking down 50-60%, in-line with the street. **Equifax (EFX)** CEO noted we have only seen delinquencies tick up in subprime when talking on card originations. **JPMorgan (JPM)** Consumer Division co-CEO Lake noted NII and expenses are coming a little better than prior expectations in Q4; trading revenue is up about 10% in Q4 Y/Y. **Morgan Stanley (MS)** reportedly cut about 2% of staff on Tuesday, according to CNBC sources. **American Express (AXP)** exec added Amex credit and spending trends continue to look strong with spending growth holding up in October and November. **Capital One Financial (COF)** stated the US consumer is in a strikingly good position and US consumer savings are gradually depleting. **Goldman Sachs (GS)** CEO said he is cautious on the economy and clients are even more so noting a rebound in capital markets activity has not happened yet.

FX WRAP

The Dollar bid continued on Tuesday with the risk-off tone in equities supporting the buck in a hefty tech sell off. There was little data to digest other than US international trade for October which saw a wider deficit than the prior but not as deep as expected at 78.16bln. Nonetheless, the latest Atlanta Fed GDPNow model is tracking GDP at 3.4% up from the 2.8% on December 1st after taking into account the NFP, ISM Services and International Trade data. There were several updates from US banking executives on the economy, who were generally impressed by the resilience of the US economy so far, but were cautious on the outlook and a slowdown in consumer spending. The DXY rose from lows of 104.89 to highs of 105.63, with highs being seen as equities were at worst levels.

The Euro fell sub 1.05 on the Dollar strength to lows of 1.0460. EZ data saw German industrial orders above expectations but the EU Construction PMI's declined in November. There were a few ECB speakers too, Lane said he would be confident in saying it is likely they are close to a peak in inflation, but more hikes are needed. Lane suggested the inflation peak may have been reached, or it will come in early 2023 and the bulk of the work has been done. ECB's Herodotou noted he does not see a hard-landing in the EZ economy and has seen no material de-anchoring of inflation expectations. He noted there would be another hike but it is too early to determine the size of the December hike.

The Yen was mildly weaker trading in parameters of 135.97 and 137.46 with morning Yen strength being offset throughout the afternoon seeing USD/JPY test 137.00 again. Overnight, there was commentary from an academic on Reuters suggesting the BoJ could ditch its yield cap as early as next year amid increasing prospects inflation and wages will overshoot expectations. However, BoJ Governor Kuroda said the central bank will consider exiting ultra-loose policy once the 2% inflation target is sustainably achieved, even if wages rise to 3%. The Governor also noted it is premature to reveal options on how to unwind the BoJ's ETF holdings. Kuroda said Japan is likely to see wages rise in next year's wage negotiations reflecting underlying rise in inflation, heightening medium- and long-term inflation expectations. Kuroda also noted it is premature to debate specifics on the BoJ's monetary policy framework, noting they will continue QQE to ensure companies can smoothly raise wages.

Cyclical currencies were relatively mixed with GBP and CAD selling off vs the Dollar while AUD and NZD were flat. For the CAD, the BoC rate decision is on Wednesday where analysts are split on whether they hike by 25 or 50bps, but market pricing is leaning towards a 25bp hike. Any language on the terminal rate will also be eyed, but analyst forecasts also vary. Some desks look for just one more 25bp hike in December to see a peak rate of 4.00% (RBC), others see a final 50bp hike to 4.25% (CIBC, Scotia), or two more 25bp hikes (TD), while others (BMO, ING) look for a 50bp move followed by a final 25bp hike in 2023. The pound was supported going into the London 4pm fix but the gains were brief and eventually unwound throughout the remainder of the US session. With AUD being flat, it garnered some support overnight after the RBA rate decision which hiked by 25bps as expected while signalling more rate hikes to come and saw at least one bank lift its peak rate forecast from the RBA; CBA is looking for a final 0.25% hike to 3.35%.

Scandi's were mixed with NOK underperforming once again on the downside in crude prices which are currently around their lowest levels of the year while SEK was flat. In Norway, the Norges Bank released the Q4 regional network report which saw output for 6mths ahead decline to -0.57 from -0.16, but it also found a far smaller share of enterprises now report capacity constraints and although the rise in prices is high, over half of the contacts expect the rise to slow ahead.

EMFX was mixed. CNY & CNH, RUB, and MXN all saw losses against the Buck, while the HUF, ZAR and BRL firmed, with the Rand the outperformer. TRY was flat. The HUF was helped when Hungary's Foreign Minister denied that the



country blocked aid to Ukraine and ZAR saw tailwinds from the significantly stronger-than-expected Q3 GDP. The Yuan benefitted from ongoing COVID hopes with Global Times's Hu-Xijin tweeting "Chinese govt may soon announce new steps of COVID responses, and there will be follow-up actions in various parts of China. The cage of the epidemic is being shattered, and the appearance of Chinese society will change every week".

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