# US Market Wrap

## 7th December 2022: Risk subdued and havens bid on Putin threats and soft labour costs

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: US Q3 Labor Costs revised lower, Productivity revised higher; Putin touts nuclear weapons; BoC hikes 50bps and pauses hiking cycle; AAPL and TSLA face weaker demand outlook; US fuel inventories surge.
- **COMING UP**: **Data**: US IJC **Speakers**: ECB's Lagarde.

## MARKET WRAP

Stocks were subdued Wednesday in choppy ranges as deflationary data coincided with Russian President Putin saying Russia considers nuclear weapons a response to an attack. Treasury yields fell by 10bps across the whole curve. An easing inflation backdrop was the theme (US inflation breakevens down 7bps across the curve) after Q3 US Labor Costs saw a big revision lower to +2.4% from 3.4%, accentuated by Toll Brothers (TOL) saying building costs were beginning to come down and the Manheim used car index falling 0.3% M/M in Nov. and 14.2% Y/Y to a first sub-200 level since August 2021. China reopening-related headlines continue to cross but the market is seemingly becoming desensitized to them, with traders looking for more concrete signs of activity in the region. Fresh reports of weakening demand outlooks for Apple (AAPL) and Tesla (TSLA) only add to investor concerns about global growth trends, despite China's "reopening". Oil prices saw notable downside with chunky builds in US fuel stocks more than offsetting the draw in crude stocks, indicative of weakening product demand. Meanwhile, the latest Bank of Canada rate decision saw the BoC hike by 50bps vs split analyst expectations between a 25 and 50bp move, while it also signalled a pause in the tightening cycle by altering its guidance to show the BoC will "consider" the need for further rate hikes.

## GLOBAL

**US LABOR COSTS & PRODUCTIVITY**: Q3 Unit Labor Costs were revised lower to 2.4% (prev. 3.5%, exp. 3.1%), which pushed back on some of the wage-price spiral fears, although the figure does still remain elevated. Meanwhile, Productivity was encouragingly revised slightly higher to 0.8% from 0.3% and above the expected 0.6%, which ended two consecutive quarterly decreases. Although the dataset is not the most timeliest measure, a JPM analyst adds the "recent strength in unit labor costs is consistent with the idea that the tight labor market is keeping upward pressure on employment costs".

**BOC**: The Bank of Canada hiked rates by 50bps, vs split expectations among analysts for a 25 or 50bp hike and against market pricing which was leaning towards a 25bp move. Importantly, it altered its forward guidance on rate hikes. It now says the BoC will consider if future rate hikes are necessary to bring supply and demand back into balance and return inflation to target. The change in guidance signals the BoC is to pause for now while they assess the impact of tightening on the economy and inflation, but leaving the door open to more hikes if inflation deems it necessary. On inflation, the BoC said three-month rates of change in core inflation have come down, which is an early indicator that price pressures may be losing momentum. However, the central bank said inflation is still too high and short-term inflation expectations remain elevated and the longer that consumers and businesses expect inflation to be above the target, the greater the risk that elevated inflation becomes entrenched. Money markets are pricing in another hike in January however, albeit a smaller 25bp move. The guidance alteration, according to RBC, "clearly opens the door to a pause as soon as the next meeting in January, and in our view frames that decision as between 0 and 25 bps." Looking ahead, the BoC will clearly be data-dependent when assessing the need for ongoing rate hikes. RBC also highlights the Bank will likely be watching changes in financial conditions, saying "A further decline in yields could prompt push-back from the BoC, either through another hike in January or emphasis that rates will have to remain high for an extended period". The desk sees a challenging consumer backdrop in Canada and an ongoing pullback in housing which will see the Canadian economy slip into a recession in H1 23, however with elevated inflation the central bank is not likely to react as quickly to the recession as it has in recent cycles.

## FIXED INCOME

#### T-NOTE (H3) FUTURES SETTLED 25+ TICKS HIGHER AT 115-05

**Treasuries rallied across the whole curve after Q3 Labor Costs saw big downward revisions and Putin's nuclear response comments**. 2s -10.4bps at 4.256%, 3s -10.8bps at 3.984%, 5s -11.5bps at 3.619%, 7s -10.6bps at 3.541%, 10s -9.6bps at 3.417%, 20s -10.3bps at 3.655%, 30s -10.2bps at 3.422%.

**Inflation breakevens**: 5yr BEI -7.5bps at 2.368%, 10yr BEI -7.4bps at 2.266%, 30yr BEI -8.1bps at 2.306%.

**THE DAY**: T-Notes marked a thin 114-02/114-13+ range through APAC and the European morning on Wednesday in quiet trade. Citi noted, "Positioning continues to show signs of deleveraging, FVH3 contract OI -74k / TYH3 -33k in THE last 3 sessions on long & short positions getting washed out in the current range consolidation." However, bidding activity came to life after Q3 US Labor Costs were revised lower and productivity revised higher, with a chunky 19.1k FVH3/8.5k TNH3 curve block trade seen after the data, taking T-Notes above their prior WTD highs from Monday at 114-20. Comments not long after from Russian President Putin saying Russia could respond to an attack with a nuclear response saw an additional spike higher to peaks of 115-05+, before swiftly paring back around ten ticks. However, contracts managed to edge out fresh highs of 115-06+, with cash 10yr troughing at 3.40%, heading into settlement. Ahead of next week Wednesday's FOMC, participants have an eye to Monday's 3- and 10yr offerings, and then Tuesday's 30yr, in a likely holiday-thinned market which could impact tape action into the weekend given the lack of major scheduled events until then, excluding Friday's preliminary Uni of Michigan survey.

**STIRS**:

- EDZ2 +2.8bps at 95.205, H3 +4.5bps at 94.895, M3 +6.5bps at 94.885, U3 +9bps at 95.055, Z3 +12bps at 95.41, H4 +13.5bps at 95.87, M4 +13bps at 96.29, U4 +12bps at 96.60, Z4 +10.5bps at 96.775, Z5 +9.5bps at 97.01, Z6 +10bps at 96.97.
- NY Fed RRP op demand at USD 2.151tln (prev. 2.111trln) across 101 bidders (prev. 97 bidders).
- US sold USD 34bln of 17-week bills at 4.400%, covered 2.66x.

## CRUDE

**WTI (F3) SETTLED USD 2.24 LOWER AT 72.01/BBL; BRENT (G3) SETTLED USD 2.18 LOWER AT 77.17/BBL**

**Oil prices fell to YTD lows on Wednesday as China reopening headlines lose momentum and US fuel stocks balloon**. Prices were already descending through the APAC session before London came in and lifted the offer, managing to sustain the rally enough to bring the futures into the black in the NY morning. However, that didn't last long after the EIA US energy inventory data confirmed the private data: a 5.2mln bbl crude stock draw more than offset by 6.2 mln and 5.3mln bbl builds in distillates and gasoline stocks, respectively. The benchmarks reversed back lower, trundling to lows into the settlement.

**TANKER DELAY**: Russian officials have voiced concerns over the build-up of tankers in the Bosphorus Strait, RIA reported. That follows reports of at least 20 oil tankers queuing off Turkey waiting to comply with new Turkish insurance regulations introduced ahead of the EU and G7 price cap.

## EQUITIES

**CLOSES**: SPX -0.18% at 3,934, NDX -0.45% at 11,497, DJIA flat at 33,597, RUT -0.61% at 1,801.

**SECTORS**: HEALTH +0.84%, CONS STPL +0.37%, REAL ESTATE +0.25%, INDUSTRIALS -0.14%, MATERIALS -0.26%, ENERGY -0.28%, FINANCIALS -0.45%, UTILITIES -0.48%, CONS DISC -0.48%, TECHNOLOGY -0.52%, COMMUNICATION SVS -0.94%.

**EUROPEAN CLOSES**: EURO STOXX 50 -0.46% at 3,920, FTSE 100 -0.43% at 7,489, DAX 40 -0.57% at 14,261, CAC 40 -0.41% at 6,660, FTSE MIB -0.10% at 24,241, IBEX 35 -0.50% at 8,290, SMI -0.93% at 11,005.

**STOCK SPECIFICS**: **Citigroup (C)** CEO said trading revenue is to grow 10% in Q4 Y/Y, Q4 credit costs are likely to be in the range of USD 1.7-1.9bln. Investment banking fees are likely to fall 60% in Q4, inline with the industry. **BNY Mellon (BK)** CFO Portney, at the Goldman Sachs conference, said fee revenue will be flat Y/Y but sees opportunities to take market share. **Apple (AAPL)** key supplier and mobile industry bellwether Murata Manufacturing expects Apple to reduce iPhone 14 production plans further in the coming months because of weak demand, which would force the supplier to again cut its outlook for its handset-component business. **Tesla (TSLA)** is offering further incentives to Chinese customers who buy and take delivery of new cars this month. TSLA offers an additional CNY 6,000 discount to Chinese buyers on some models. Note, there were also unconfirmed reports from InsideEVs citing a blog that Musk is set to name the Tesla China CEO as the Global CEO of Tesla. **Campbell Soup (CPB)** beat on EPS and revenue; raised FY23 guidance on account of on strong Q1 results, sustained brand momentum and strengthened supply chain. **Lowe's (LOW)** affirms FY22 guidance; announced a new USD 15bln share buyback. **Mastercard (MA)** boosted its quarterly dividend 16% to 0.57/shr and authorised a new USD 9bln share buyback. **Carvana (CVNA)** creditors, including Apollo Global Management and Pimco, signed a cooperation agreement and will work together as the online used car seller goes through a debt restructuring process, seeing the stock plummet. **MongoDB (MDB)** posted a surprise profit per share and topped on revenue. Q4 adj. EPS and revenue view topped expectations as did the FY23 outlook. **Pinterest (PINS)** announced a partnership with Elliott Investment Management; will appoint Elliott Senior Portfolio Manager Marc Steinberg to the Board. **Airbnb (ABNB)** was downgraded at Morgan Stanley; citing slowing growth in listings and lower room night demand. **Walmart (WMT)** CEO stated food has driven gains with higher-income customers; sales after Christmas will be strong. **Southwest Airlines (LUV)** CEO noted it is pretty well staffed all across the board and plans to hire a net 8k employees in 2023. Barring any significant unforeseen events, LUV expects to finish this year very strong with another quarterly profit. **Ford's (F)** Global Chief Marketing Officer, Suzy Deering, is reportedly set to depart the co. **Deere & Co (DE)** raised its dividend by 6% to USD 1.20/shr. **PayPal (PYPL)** caught a bid after commentary from a conference saw its EPS was coming in above guidance. **Activision (ATVI)** saw downside after a Dealreporter article suggested **Sony (SONY)** is unlikely to accept **Microsoft's (MSFT)** 10yr Call of Duty concession.

## FX WRAP

**The Dollar** was lower on Wednesday with lows seen after the Q3 US Labour Costs data was revised a lot lower than expectations, lifting Treasuries and keeping the buck pressured. The lows in the dollar index printed 104.86, in line with the Tuesday's lows (104.89), before rebounding to hover around 105.00 throughout the rest of the session with technicians keeping an eye on the 200dma at 105.730 after the index slipped beneath it today from highs of 105.82.

**The Euro** was supported with EUR/USD reclaiming 1.0500 to the upside although failed to rise above 1.055 from lows of 1.0444. There was more EU data to digest today with the GDP being revised a touch higher for Q3 while there were hawkish remarks from ECB's Kazmir who noted one inflation figure is not sufficient to slow rate hikes and there are many reasons to keep tightening in December while any Eurozone recession will most likely be brief.

**The Yen** firmed with the currency supported by downside in US Treasury yields while commentary from BoJ's Nakamura reiterated Governor Kuroda, noting it is premature to tweak policy now as service prices remain low and he is not sure now is the right timing to conduct a review of the policy framework. However, Nakamura did suggest once there are brighter prospects on the outlook, the BoJ can discuss policy normalisation but it might take some time for Japan to achieve wage hikes.

**The Franc** was bid with USD/CHF trading either side of 0.9400 before hovering around the level in US trade. To some extent, cautious commentary from Russian President Putin had supported the haven currencies after he noted Russia considers nuclear weapons a response to an attack but primarily considers such weapons a deterrent, which did help take govvies to fresh highs before paring from the peak.

**Cyclicals** were mixed. CAD saw strength albeit was not an outperformer. The BoC rate decision saw a 50bp hike vs split analyst expectations while guidance was also altered to signal it will "consider" if further rate hikes are needed, vs the prior guidance of the BoC expect further rate hikes **-** which signals a pause for now while they assess the economy, but leaves the option to hike more if required. AUD and NZD were the outperformers, albeit Kiwi outperformed its Aussie counterpart after Australian Q3 GDP data came in beneath expectations. GBP saw gains vs the Dollar and the Euro with Cable reclaiming 1.22 while EUR/GBP tested 0.8600 to the downside.

**Scandis** were weaker vs the Euro but the NOK continued to underperform on the weakness in Brent crude prices helping NOKSEK extend sub 1.04 and 1.0350. In Norway, the Norwegian current account surplus for Q3 widened, perhaps limiting some of the blow to the currency amid the downside in oil although manufacturing output slowed. In Sweden, Swedish new orders disappointed, falling 7.1%, in October after a 4.7% gain in September.

**EMFX** was mixed. CLP rose in wake of the BCCh unanimously keeping rates on hold at 11.25%, as expected, saying it's in no rush to cut rates, which was amplified by the Nov. inflation report printing +1% M/M, twice the expected 0.5%. USD/INR was little changed after the RBI hiked 35bps to 6.25%, as expected; CapEco expects one more 25bps hike in February, with cuts likely to come onto the agenda much sooner than consensus expects. The Peruvian Sol weakened after President Castillo dissolved congress ahead of an impeachment vote, leading to the resignation of top officials. BRL firmed ahead of the BCB rate decision this evening which is expected to once again maintain rates at 13.75%. PLN was flat vs the Euro with little reaction to the latest NBP rate decision which left rates unchanged as expected at 6.75%.

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