



US Market Wrap

8th December 2022: Stocks and yields recover in quiet, pre-risk event trade

- **SNAPSHOT:** Equities up, Treasuries down, Crude down, Dollar down.
- **REAR VIEW:** Keystone pipeline leak; Foxconn's Zhengzhou lifts COVID controls; Initial jobless claims tick higher; FTC to block MSFT/ATVI deal; Storm delays Russian oil loadings; Turkey tanker block continues.
- **COMING UP: Data:** Chinese CPI, US PPI Final Demand, Uni. of Michigan Prelim. **Speakers:** ECB's Herodotou **Event:** ECB TLTRO.III Repayment Publication.

MARKET WRAP

Stocks were firmer Thursday in a catalyst-lite session with traders tiptoeing ahead of next week's CPI and FOMC. Risk appetite was built in the US pre-market, aided by Apple (AAPL) supplier Foxconn announcing its Zhengzhou facility has lifted its closed-loop management COVID curbs. After a choppy cash open, the futures went on to print highs not long after, with the indices hovering near best levels through into the close. No tier 1 US data, although initial jobless claims did print in line with the consensus at 230k, slightly above the prior 226k; the Atlanta Fed wage growth tracker for November failed to decline from October's 6.4% Y/Y pace although the pace of job switchers rose back up to 8.1% from 7.6%. Oil prices were subdued after an initial rally on reports the Canada-US Keystone pipeline had shut down (due to a leak) unwound despite uncertainty over the resumption timeline remaining. Treasuries were sold with the belly lagging the greatest as participants position into next week's 3s, 10s, and 30s auctions ahead of CPI and FOMC, before Thursday's ECB and BoE in what will likely mark the end of the year for many. Although Friday's preliminary November Uni of Michigan survey, which has been partial to altering the Fed path lately, could cause a stir into the weekend.

US

JOBLESS CLAIMS: Initial jobless claims rose by 230k in the week ending 3rd December (not the NFP reference period), in line with expectations and up from the prior 226k. Continued Claims rose 1.671mln, above the expected 1.6 mln and prior 1.609mln. The uptick in jobless claims took the average up to 230k from the prior 229k and now at the highest since September. Analysts at Pantheon Macroeconomics look for numbers closer to 215k over the next couple of weeks but caveats claims data is noisy from Thanksgiving until post-Christmas, so once the holidays have passed the consultancy expects claims to pick up once the holiday noise fades. Pantheon also highlights the jump in Challenger layoffs also point to a steep increase in claims, but notes the layoffs data is much more volatile and cannot be used to forecast claims in the short-term. PM concludes "Short-term volatility aside, the upturn in the trend in initial claims is evidence that the labor market is softening, and it's just a matter of time before payroll growth weakens."

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 22+ TICKS LOWER AT 114-14+

Treasuries were sold with the belly lagging the greatest as participants position into next week's 3s, 10s, and 30s auctions, CPI, and FOMC. At settlement, 2s +6.0bps at 4.316%, 3s +8.2bps at 4.060%, 5s +10.5bps at 3.719%, 7s +10.6bps at 3.640%, 10s +9.0bps at 3.498%, 20s +6.9bps at 3.716%, 30s +4.1bps at 3.455%.

Inflation breakevens: 5yr BEI +2.4bps at 2.404%, 10yr BEI +2.8bps at 2.302%, 30yr BEI +2.7bps at 2.345%.

THE DAY: T-Notes pared from their 115-06+ peaks on Wednesday into the APAC Thursday session, trading in a tight 114-22+/114-28+ range through into the NY morning. Reports of the Keystone pipeline shutting down saw a rally in oil prices, seeing USTs break out to the downside. The selling was interrupted briefly by the slight rise in weekly initial jobless claims, although the oil bounce continued and a 7k FVH3 block sale helped the yield ascension continue. T-Notes made session lows at 114-12, an area of both support and resistance seen earlier this week, before recovering as the oil rally unwound into the NY afternoon. Nonetheless, the contracts retested lows in later trade, coinciding with some blocked 2yr future sales, as participants cast their attention to next week's refunding, CPI, and FOMC.



REFUNDING: US to sell USD 40bln of 3yr notes and USD 32bln of 10yr notes on Dec. 12th, and USD 18bln of 30yr bonds on Dec. 13th; all to settle on Dec. 15th. While in bills, to sell USD 54bln of 3-month bills and USD 45bln of 6-month bills on Dec. 12th, also both to settle on Dec. 15th. As expected, all coupon and bill sizes were unchanged.

STIRS:

- EDZ2 +2.5bps at 95.23, H3 -1bps at 94.88, M3 -4bps at 94.84, U3 -6.5bps at 94.99, Z3 -8bps at 95.33, H4 -8.5bps at 95.785, M4 -9.5bps at 96.20, U4 -9bps at 96.515, Z4 -10bps at 96.685, Z5 -12bps at 96.90, Z6 -12.5bps at 96.855.
- SOFR back to RRP floor of 3.80%, coming as bill supply lessens ahead of debt limit.
- Collateral shortage seen via NY Fed RRP op demand rising: USD 2.176tn Thursday from 2.151tn Wednesday.
- Strong bill demand: US sold USD 46bln of 1-month bills at 3.650%, stopping through 11bps, covered 3.19x; sold USD 46bln of 2-month bills at 3.940%, stopping through 6bps, covered 2.94x.

CRUDE

WTI (F3) SETTLED USD 0.55 LOWER AT 71.46/BBL; BRENT (G3) SETTLED USD 1.02 LOWER AT 76.15/BBL

Oil prices were subdued on Thursday after an initial Keystone pipeline-induced rally unwound into the later session. WTI and Brent rallied to peaks of USD 75.44/bbl and 79.17/bbl in the NY morning after reports that TC Energy's 620k BPD Keystone pipeline from Canada through the US had shut due to a spill in Kansas creek. The rally lost momentum, however, and prices unwound back to lows of USD 71.12/bbl and 75.74/bbl for WTI and Brent, respectively, before midday in NY. The pullback didn't have an obvious catalyst, although there were some Bloomberg reports at the time that Democratic US Senators have proposed an anti-big oil bill to close loopholes, and called on oil companies to pay more tax and increase output, for what it's worth. Downside was capped on Reuters reports Russia's Novorossiisk December oil loadings have been delayed by two-to-three days due to storms, with potential for longer.

KEYSTONE: The shutdown of TC Energy's 620k BPD pipeline occurred at 20:00CT Wednesday due to a spill in a Kansas creek, with crews working to "contain and recover the oil". Canadian crude, WCS, deepened its discount to WTI as a result. Reuters reported TC Energy has declared force majeure, relinquishing it from fulfilling its contractual obligations, whilst Keystone shippers were cited saying the Co. has not given a timeline for the resumption. RBC has said past shutdowns have generally lasted about two weeks but this could last longer as it involves a water body.

TANKER DELAYS: Turkish Maritime Authority said Thursday it will continue to block the passage of tankers without appropriate insurance letters. That was followed by the shipping agency, Tribeca, noting 19 oil tankers are awaiting passage through Turkey's Bosphorus strait as of Thursday evening (local time), up three from earlier in the session. In a reflection of the delays, Reuters reported Azerbaijan's Socar had temporarily stopped supplying Russian crude to its STAR refinery (200k BPD) in Turkey.

RUSSIAN OIL: Reuters reported Russia's Baltic port of Ust-Luga has set up for ship-to-ship operations for the loadings of light oil products and LPG. The port will increase exports of LPG and oil products to Asia and Latin America, coming as Russia seeks broader export hubs as the EU embargo comes into place.

EQUITIES

CLOSES: SPX +0.75% at 3,963, NDX +1.22% at 11,637, DJIA +0.54% at 33,780, RUT +0.63% at 1,818.

SECTORS: Technology +1.59%, Consumer Discretionary +1.05%, Health +0.9%, Materials +0.68%, Real Estate +0.6%, Industrials +0.57%, Utilities +0.56%, Consumer Staples +0.44%, Financials +0.14%, Energy -0.5%, Communication Services -0.51%.

EUROPEAN CLOSES: EURO STOXX 50 +0.01% at 3,921, FTSE 100 -0.23% at 7,472, DAX 40 +0.02% at 14,264, CAC 40 -0.20% at 6,647, FTSE MIB -0.14% at 24,207, IBEX 35 -0.79% at 8,225, SMI -0.10% at 10,999.

STOCK SPECIFICS: FTC confirmed it seeks to block **Microsoft's (MSFT)** acquisition of **Activision Blizzard (ATVI)**. Following this, ATVI CEO Kotick said he wants to reinforce his confidence that the MSFT deal will close; believes it will win the FTC challenge. **Apple (AAPL)** supplier **Foxconn (FXCOF)** Zhengzhou facility lifted its closed-loop management COVID curbs. **Tesla (TSLA)** shortens Shanghai factory shifts and delays new staff hires, according to Bloomberg. **ExxonMobil (XOM)** expects to double earnings and cash flow by 2027; expanding its share repurchase programme up to USD 50bn through 2024, incl. 15bln in 2022. Investments in 2023 are expected to be in the USD 23-25bln range, to



help increase supply to meet global demand. **Kinder Morgan (KMI)** guided FY23 EPS view marginally above the expected; expects 2023 to be another "very good year with strong market fundamentals, continued robust growth in demand for existing and expanded natgas transportation, storage, and gathering and processing." Third Point reportedly sold its remaining 3.5% stake in **Cano Health (CANO)** last week amid mounting concerns around liquidity. **Ciena (CIEN)** notably exceeded expectations on profit and revenue; CEO said it benefited from some favourable supply chain developments in the second half of the quarter. **Dexcom (DXCM)** G7 received FDA clearance for the most accurate continuous glucose monitoring system cleared in the US. Casino names, such as **Wynn (WYNN)**, **MGM (MGM)**, **Las Vegas Sands (LVS)**, and **Melco (MLCO)** all saw upside after news Macau is to relax COVID test rules for Chinese visitors. **Amazon (AMZN)** is launching a TikTok-like feature in its app that will allow customers to buy products from a customised feed of photos and videos, according to WSJ. **General Motors (GM)** CEO added it has standardised on three families of chips for 2025-2026 vehicles. Cruise robotaxi revenue on track for USD 50bln by 2030 and expects 2023 US light vehicles 15mln cars and light trucks. Medicare is willing to re-evaluate its coverage of Alzheimer's drugs in light of new therapy, **Biogen's (BIIB)** and Eisai's lecanemab, according to STAT News. **Cameco (CCJ)** was supported on Bloomberg reports US Senators are urging regulators to allow US support for nuclear projects.

FX WRAP

Dollar was choppy on Thursday, but eventually lower in thin trade amid a lack of major newsflow as participants await for next week's pivotal events, namely US CPI (Tues) and FOMC (Weds), followed by a slew of other central bank meetings on Thursday which will mark an end to the year for many. The Buck hit a high of 105.430 today and a low of 104.710, while it is worth noting initial jobless claims printed in line with expectations at 230k, but didn't result in a market reaction. Looking ahead, in the immediacy scheduled events on Friday are only the final PPI for November and prelim UoM survey.

Activity currencies, AUD, CAD, NZD, and GBP, all saw gains against the Buck (in the order of strength) in account of the slight risk-on sentiment as opposed to anything currency specific, highlighted by the mild gains in US stocks and weakness in the Buck. For the Loonie watchers, BoC Deputy Governor Kozicki noted future BoC rate decisions will be more data-dependent and are moving from how much to raise rates by to whether to raise rates. Kozicki added if the bank is surprised to the upside, it is still prepared to be forceful, but she later clarified, via a statement, she was speaking hypothetically about what would happen if there was a large shock. USD/CAD traded between 1.3688-3562. AUD/USD and NZD/USD both traded within tight parameters of 0.6780-6699 and 0.6389-28, respectively. Aside from wider sentiment, the only thing of note was somewhat mixed Aussie trade data which saw a wider surplus than expected, albeit the surplus was not as great as the prior with both imports and exports declining by 1%.

Havens were mixed as CHF was firmer and saw a low of 0.9345 while the JPY was flat, and as such the G10 underperformer. The Yen ran into resistance as it looked to test 136.00 to the downside. Elsewhere, Japanese GDP contracted 0.8% in Q3, albeit slowing from the prior 1.2% contractions and not as deep as the 1.1% decline expected.

Euro gained on the prior reasons, as opposed to anything specific for the single-currency. ECB rhetoric came from Lagarde, but little new was said. For the record, the President noted a macroprudential policy must remain alert to the emergence of new challenges as and when they appear. Looking to Friday, ECB's Herodotou is speaking and there is ECB's TLTRO.III repayment publication.

EMFX was more-or-less flat across the board, with the RUB the significant underperformer while the MXN relatively outperformed. For the Rand, South African production for October heavily disappointed, falling 6.3% M/M, deeper than the 1.1% expectation, but the latest current account deficit narrowed to ZAR 18.1bln from 107bln. Hungary's inflation was hotter than expected at 22.5% Y/Y for the headline and 24% Y/Y for the core. Lastly, CNH/CNY was flat amid continued re-opening dynamics ahead of the Chinese CPI and PPI on Friday.

Peso: Inflation in Mexico came in beneath expectations at 7.8% Y/Y and 0.58% M/M, while the core metrics were also cooler than expected at 8.51% and 0.45%. Commentary last week from Banxico's Heath when speaking on Mexico's rate hiking cycle was looking to this data to see if it had peaked, and although all metrics were under analyst expectations, the 12m core inflation rose from 8.42% which could be indicative of broadening price pressures outside of food and energy. Nonetheless, the slowing headline inflation will be a welcome sign. Banxico will also be eyeing the Fed rate decision next week when assessing their own policy, several Banxico members hinted they could start to deviate from the Fed (Espinoza and Esquivel), although Heath specifically said he is waiting for the December rate decision.



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