US Market Wrap

9th December 2022: Stocks fall in wake of hotter-than-expected PPI ahead of key risk week

- **SNAPSHOT**: Equities down, Treasuries down, Crude mixed, Dollar flat.
- **REAR VIEW**: PPI hotter than expected; TSLA suspends Model Y production at Shanghai plant; Strong UoM; AVGO acquisition of VMW faces full-scale EU antitrust probe; TC Energy reportedly planning partial keystone restart beginning Dec. 10;
- **CENTRAL BANK WEEKLY**: Previewing FOMC, ECB, BoE, SNB, Norges Bank, Banxico; reviewing BoC, BCB. To download the report, please click here.
- **WEEK IN FOCUS**: Highlights include Fed, US CPI; ECB, BoE, SNB, Norges Bank. To download the report, please click here.

MARKET WRAP

Stocks were lower in a choppy session in wake of a hotter-than-expected November PPI print ahead of CPI and Fed next week. Money market pricing saw a slight hawkish reaction to the terminal rate, albeit little change was seen for the magnitude of Wednesday's decision with a 50bp move being the base case. The hawkish data saw the Treasury curve bear steepen. Next week there is Fed and 3s, 10s and 30yr supply while the dollar was only marginally bid in a choppy session but DXY finished the session sub 105.00. Crude prices were also choppy, with highs seen in wake of more nuke chatter from Putin and a potential Russian oil output cut while the lows were seen pre-settlement on reports TC Energy is looking for a partial restart of the Keystone Pipeline this weekend. In stocks, sectors were predominantly lower albeit Communication Services closed flat and the outperformer with solid gains in Netflix (NFLX) supporting the group after being named a Best Idea at Cowen and being upgraded at Wells Fargo. Equities closed out at lows amid a reported chunky sell side imbalance ahead of key risk events next week, including US CPI, FOMC, BoE, ECB, SNB and Norges Bank rate decisions.

US

PPI: Headline PPI rose 7.4% in November Y/Y, above the expected 7.2% albeit down from the upwardly revised 8.1%. The M/M print saw a 0.3% rise, matching last month's upwardly revised 0.3%. The core (ex-food and energy) Y/Y was also above expectations at 6.2% (exp. 5.9%), but cooler than the prior upwardly revised 6.8%. The core M/M rose 0.4%, above the expected 0.2% and above the prior upwardly revised 0.1%. The super-core (ex-food, energy and trade services) rose by 4.9%, cooler than the prior 5.4% while the M/M accelerated to 0.3% from 0.2%. The PPI data showed a cooling of pricing pressures on a Y/Y basis, albeit not as much as was hoped by analysts while the upward revisions were also disappointing and the M/M prints saw an acceleration - not what the Fed would have hoped to see. Attention now turns to the US CPI data on Tuesday to see if a similar inflation story is seen for December ahead of the FOMC rate decision on Wednesday. With 50bps largely expected, analysts at Oxford Economics still expect that to be the case and suggest it will be a 50bp hike on Wednesday no matter what the CPI data shows. However, the impact of the CPI data will likely have more of an impact on the terminal rate at the Fed, rather than the individual increments with the Fed also set to release their latest dot plots on Wednesday. Analysts at Oxford Economics highlight the PPI data today reflected a sharper rise in final demand services prices and outpaced the slight increase to final demand goods prices. The consultancy highlights the "services advance was partially attributed to a sharp rise in financial services, which jumped 11.3%. In the final demand goods prices details, an advance to final demand foods was offset by a decline to final demand energy."

UOM: Preliminary UoM for December was a strong report across the board, as the headline rose to 59.1 from 56.8, and above the expected 56.9, albeit still remaining at a historically weak level. The headline was supported by current conditions and the forward-looking expectations both lifting to 60.2 (prev. 58.8, exp. 58.0) and 58.4 (prev. 55.6, exp. 56.0), respectively. On the inflation metrics, 1yr encouragingly fell to 4.6% from 4.9%, the lowest since September 2021, while the 5yr was unchanged at 3.0%. The fall in the 1yr reflects the drop in gasoline prices, and CapEco believes “here is a good chance the final reading will be even lower, and for the longer-term there is still no evidence of inflation expectations becoming unanchored". Capital Economics suggests that the slump in gasoline prices and recovery in the stock market is supporting consumer sentiment as well as solid labour market conditions. CapEco continues, “on past form, the survey is broadly consistent with negative growth in real consumption, although that relationship has broken down in recent years." Although, "the confidence surveys continue to stand in stark contrast to the hard data, which shows consumption continuing to rise solidly in Q4. But they do suggest a clear risk of a renewed slowdown soon, as higher interest rates and a weaker labour market start to take a toll."

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 11+ TICKS LOWER AT 114-03

The Treasury curve bear steepened after PPI came in hotter than expected ahead of key risk events next week. 2s +2.0bps at 4.332%, 3s +3.3bps at 4.087%, 5s +4.5bps at 3.757%, 7s +5.8bps at 3.690%, 10s +7.8bps at 3.571%, 20s +9.8bps at 3.812%, 30s +10.1bps at 3.556%

Inflation breakevens: 5yr BEI -4.8bps at 2.364%, 10yr BEI -3.2bps at 2.276%, 30yr BEI -2.5bps at 2.326%.

THE DAY: Treasuries sold off across the curve in wake of a hotter-than-expected PPI. The Y/Y prints had cooled from the prior, however, the M/M prints saw an acceleration and revisions higher. The data sparked concerns inflation won't be falling as fast as hoped and thus could result in a higher for longer policy from the Fed. Money markets saw a slight hawkish shift in the wake of the data, with the terminal rate now seen at 4.96% vs 4.92% prior to the release while the implied probability for a 50bp hike was little changed - 93% for 50 vs 7% for 75. Attention turns to next week's key events, with front-loaded supply (3s, 10s, 30s), perhaps supporting the sell-off on Friday as well as the data, while US CPI on Tuesday will also be key in helping shape Fed expectations for the terminal rate as we also receive the updated dot plots from the Fed on Wednesday which is expected to be shifted higher.

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.

STIRS:

- EDZ2 +2.3bps at 95.250, H3 +0.0bps at 94.875, M3 -0.5bps at 94.840, U3 -2.5bps at 94.970, Z3 -2.5bps at 95.305, H4 -3.0bps at 95.750, M4 -3.0bps at 96.170, U4 -4.0bps at 96.470, Z4 -5.0bps at 96.635, Z5 -8.0bps at 96.820, Z6 -9.0bps at 96.760.
- NY Fed RRP op demand at USD 2.147tln (prev. 2.176tln) across 96 bidders (prev. 96 bidders)

CRUDE

WTI (F3) SETTLED USD 0.44 LOWER AT 71.02/BBL; BRENT (G3) SETTLED 0.05 LOWER AT 76.10/BBL

The crude complex was choppy on geopolitics and supply updates as attention turns to key risk events- including: US CPI, Fed. a slew of other central bank meetings, and any updates on the Keystone pipeline. Oil prices hit highs in the US morning in wake of more nuke talk from Russian President Putin. On the price cap, Putin suggested that Russia could cut its output as part of its response to the oil price cap which also supported the crude complex to highs - WTI hit a high of USD 72.92/bbl and Brent USD 77.48/bbl. Note, the comment from Putin was at odds with a Reuters report in the morning that cited a Russian official saying Russia is to decide on whether to increase oil production after Q1 following the introduction of the price cap. The upside in crude failed to hold with an afternoon sell off being amplified on a Bloomberg report that TC Energy (TRP) is planning a partial keystone restart beginning December 10th. WTI and Brent hit lows of USD 70.08/bbl and 75.11/bbl, respectively, before paring somewhat into the close to see Brent settle flat but WTI settled lower. Elsewhere, Chinese President said China is to boost oil and gas import from GCC countries. Additionally, Russia's offline primary oil refining capacity was revised up by 8.5% for December to 1.766mln tonnes, according to Reuters sources and calculations. Lastly, Baker Hughes Rig Count cut oil and gas rigs for the first time in six weeks; oil rigs down 2 at 625, NatGas down 2 at 153, seeing the total down 4 at 780.

EQUITIES

CLOSES: SPX -0.73% at 3,934, NDX -0.64% at 11,563, DJIA -0.90% at 33,476, RUT -1.19% at 1,796.

SECTORS: Energy -2.33%, Health -1.28%, Materials -0.96%, Industrials -0.81%, Consumer Staples -0.76%, Technology -0.63%, Consumer Discretionary -0.52%, Utilities -0.48%, Financials -0.28%, Real Estate -0.2%, Communication Services +0.02%.

EUROPEAN CLOSES: EURO STOXX 50 +0.54% at 3,942, FTSE 100 +0.06% at 7,476, DAX 40 +0.74% at 14,370, CAC 40 +0.46% at 6,677, FTSE MIB +0.29% at 24,277, IBEX 35 +0.78% at 8,289, SMI +0.58% at 11,068.

STOCK SPECIFICS: **Walmart (WMT)** reportedly plans to offer 'Buy Now, Pay Later' loans as soon as next year via its fintech venture, The Information reports. Of note for BNPL firms such as **Affirm (AFRM)**. **Broadcom (AVGO)** beat on EPS and revenue with exec citing strong demand from hyperscale, service providers, and enterprise. It also raised its quarterly dividend +12% to USD 4.60/shr and lifted its Q1 revenue view. **DocuSign (DOCU)** beat on profit and revenue, as well as better-than-expected billings. AVGO also faces a full-scale EU antitrust probe to USD 61bln **VMWare (VMW)** acquisition, according to Reuters sources. **Lululemon (LULU)** beat on EPS and revenue, but desks cited the worse-than-expected gross margins metric and negative commentary around the Christmas period for it being in the red. **Tesla (TSLA)** will reportedly suspend its Model Y production at Shanghai Plant between 25 Dec and Jan 1st; suspension to reduce December monthly production by 30%, sources cited by Reuters said. **Walgreens Boots Alliance (WBA)** announced it has sold USD 1bln worth of **AmerisourceBergen (ABC)** shares. **Bath & Body Works (BBWI)** had Third Point report a 6% stake. Third Point said certain decisions by the Board raise questions about the adequacy of current governance practices, and the Board has made errors in structuring its executive compensation. **United Airlines (UAL)** plans to announce a major **Boeing (BA)** 787 Dreamliner order next week. United has invited reporters to a "historic announcement" to take place next Tuesday at Boeing's South Carolina factory that builds the 787. Air India is reportedly close to signing an order for 150 Boeing 737 Max jets, according to ET. **Costco (COST)** missed on the top and bottom line as inflation-hit consumers cut back on spending. COST also saw increased operating expenses. **Netflix (NFLX)** was upgraded at Wells Fargo who said content growth would lessen customer churn. Elsewhere, Cowen named NFLX a “best idea” for 2023, pointing to additional monetisation avenues including the new ad-supported tier. **Carvana (CVNA)** creditors reportedly criticised management and are preparing for a fight, via WSJ.

WEEKLY FX WRAP

Dollar’s winter woes continue regardless of perky US PPI

USD - Little sign of the Buck breaking with tradition and overturning bearish seasonal factors that usually intensify in December, as US data that should have been supportive on paper only revived its fortunes briefly and to a limited extent. The DXY popped back over 105.000, but remained depressed between 105.180-104.470 intraday parameters having set a midweek recovery peak (at 105.820) compared to Monday low (104.100) even though final demand and core PPI exceeded expectations, albeit both cooling down from prior levels on a y/y basis. Moreover, the Greenback failed to glean much lasting impetus from upside beats in preliminary Michigan sentiment, expectations and conditions given a dip in one year inflation projections and a flat five year reading, after enduring more pronounced downside pressure when relatively dated Q3 Unit Labour Costs came in below consensus at the start of the week. Meanwhile, the Dollar faced external pressure from the likes of the Yuan due to encouraging Covid developments in China, including less restrictive measures in several cities and reports that the country as a whole could downgrade its pandemic status to category B from A by January, pending the situation between now and then. However, the Buck may yet receive some festive cheer via the Fed and final FOMC meeting of 2022 that kicks off next Tuesday when CPI is scheduled for release and widely anticipated to culminate in a 50 bp hike the following day.

GBP/CHF/NZD/AUD - Friday’s G10 outperformers, though in truth this does not tell the full story or reflect major currency moves over the entire week. Indeed, almost any number or grouping could have emerged from the ranks approaching the end of a roller-coaster ride driven by the Greenback generally, broad risk sentiment and/or global bond yields, awaiting a bumper penultimate week of the year that comprises a host of December Central Bank gatherings on top of the aforementioned Fed convene. Nevertheless, Sterling seems intent on revisiting 1.2300 within 1.2344-1.2107 w-t-d extremes, the Franc is nudging nearer 0.9300 from circa 0.9457 at one stage, the Kiwi is closer to 0.6450 than 0.6300 and the Aussie is eyeing 0.6800 again having reached 0.6850 and rebounded from a 0.6670 trough on Wednesday. In terms of other or independent impulses, Aud/Usd tracked Usd/Cny and Usd/Cnh inversely for obvious reasons on coronavirus grounds, as noted above, with the Yuan pairing more losses through 7.0000 on Chinese reopening vibes and the prospect of more property sector support measures. Additionally, the Aussie got a fillip via the RBA matching expectations for another 25 bp hike and retaining a tightening bias in contrast to the view held by some that it might signal a pause. On that note, the Pound and Franc will be looking for direction/guidance from the BoE and SNB that are both seen raising rates by half point.

JPY - The Yen has been very volatile between 134.14-137.85 and more in tune with the familiar UST-JGB and Fed-BoJ divergence dynamic rather than Japanese data or the overall market mood, but import and export activity in Usd/Jpy for hedge purposes played a key role along with technical support and resistance in the form of Fib retracements in particular.

EUR/CAD - 1.0600 proved to be impenetrable for the Euro, but a sharper reversal in EGBs relative to Treasuries ensured that Eur/Usd maintained momentum within 1.0444-1.0594 bounds. ECB commentary continued to underpin market pricing for at least a 50 bp rate increase on December 15, while Eurozone debt was rattled by an appreciably bigger than anticipated early TLTRO3 repayment figure that infers larger liquidations of bonds held by banks. Elsewhere, the Loonie was hit hard by a collapse in crude prices and hardly helped by the BoC beyond the 50 bp hike that exceeded market expectations and surprised a significant proportion of analysts, banks and pundits looking for 25 bp. In short, the devil was in the accompanying statement as firm guidance for further tightening was removed and replaced with a line stating that the Governing Council will ‘consider’ whether the policy interest rate needs to rise further to bring supply and demand back into balance and return inflation to target. Hence, Usd/Cad is currently hovering around 1.3600 from 1.3700 top and 1.3386 bottom.

SCANDI/EM - The Nok and Mxn also recoiled with oil, so looming Norges Bank and Banxico rate decisions plus guidance could be key for the remainder of 2022, but softer than forecast Norwegian headline and core CPI does not bode well for the Krona in context of a hawkish outturn. Conversely, the Inr will be relishing the lower cost of crude and also received a 35 bp hike from the RBI with an ongoing tightening bias, unlike the Pln and Brl, as rates were held by the NBP and BCB again to underscore the end of their respective hiking cycles. Last, but by no means least, the Zar rallied with Gold as the yellow metal breached Usd 1800/oz and got a fundamental boost via SA GDP and Current Account data surpassing consensus, not to mention some positive political news (ANC support for President Ramaphosa).