US Market Wrap

12th December 2022: Stocks, oil, and yields bounce into CPI

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW**: NY Fed consumer inflation expectations fall; WSJ's Timiraos notes growing Fed rift; Lingering Keystone pipeline uncertainty; Strong 3yr auction; Awful 10yr auction; AMGN to acquire HZNP; Thoma Bravo to buy COUP; GS cutting further jobs.
- **COMING UP**: Data: UK Unemployment, German ZEW, US CPI, Japanese Tankan Supply: UK, Italy & US.
- **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 firmer to start the week after unwinding Friday's PPI losses, although indices saw particular strength going into the final hour of cash trade in NY in lack of an obvious catalyst. Treasuries bear-flattened after an attempted post-PPI recovery reversed with bouncing oil prices (and inflation breakevens), amid auctions (strong 3yr auction, awful 10yr), and ahead of Tuesday's CPI. The rally in oil grew in the NY morning with lingering uncertainty over the timeline for the Keystone pipeline repairs, with the potential for storage levels to fall meaningfully at Cushing, Oklahoma, the WTI delivery hub. The Dollar was little changed in choppy trade although the Yen was a notable underperformer as yields bounced higher. Newsflow was on the light side, although WSJ's Timiraos penned a piece noting a growing rift among Fed members on how fast they expect inflation to come back down and how they should react. Meanwhile, the NY Fed's November Consumer Survey saw inflation expectation drops in the 1, 3, and 5yr ahead horizons. While in the equity space there was a slew of M&A activity, highlighted by Amgen (AMGN) acquiring Horizon Therapeutics (HZNP) for about USD 26bln, or 116.50/shr, and Coupa Software (COUP) being taken private by Thoma Bravo for USD 81/shr.

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US CPI PREVIEW: The consensus is looking for a mixed release, with the headline rate of consumer prices seen decelerating slightly to 0.3% M/M in November (prev. 0.4%), although the core rate is expected to pick up a touch to +0.4% M/M (prev. 0.3%). In October, core CPI fell sharply after hefty readings in both August and September, and along with other inflation metrics, has resulted in a reassessment of inflation expectations, with many now more forcefully making the argument that inflation pressures have turned a corner; Morgan Stanley itself looks for inflation to remain at these more moderate levels going forward, as the disinflationary forces continue, and the bank expects the November report to confirm the slowdown. While the data is unlikely to shift the dial too much for the December FOMC (the Fed announce is due the day after the CPI data), where a 50bps rate rise is assumed to be a done deal given the recent commentary from Fed officials, it could be influential in shaping expectations of where the terminal rate will eventually be (currently, markets expect rates to peak at 4.75-5.00% in March 2023, where it is expected to remain until the November 2023 meeting, after which the market expects rate cuts).

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 8+ TICKS LOWER AT 113-26+

Treasuries bear-flattened Monday after an attempted post-PPI recovery reversed with bouncing oil prices and auctions (strong 3yr auction, awful 10yr) ahead of CPI and FOMC. 2s +7.5bps at 4.405%, 3s +6.8bps at 4.152%, 5s +4.3bps at 3.800%, 7s +4.6bps at 3.734%, 10s +4.6bps at 3.613%, 20s +1.7bps at 3.823%, 30s +2.3bps at 3.573%.

Inflation breakevens: 5yr BEI +2.5bps at 2.395%, 10yr BEI +2.1bps at 2.298%, 30yr BEI +0.2bps at 2.334%.

THE DAY: T-Notes made interim lows of 113-29 in early APAC trade Monday in sustained pressure from the hot US PPI report on Friday, before better buying developed. The modest strength continued alongside the EGB and Gilt bid seen in the European morning with catalysts on the light side, seeing T-Notes peak at 112-12+ ahead of the NY handover, not managing to reclaim the pre-PPI levels of c. 114-20. As the US session got going, oil prices leapt higher with lingering concerns over the timeline of the Keystone pipeline repairs, pressuring USTs as inflation breakevens widened. Falls across the NY Fed's consumer inflation expectation gauges had little sway on price action, although the strong 3yr auction managed to temporarily cap the downside, only for fresh lows to be made at 113-22+ in wake of another awful 10yr auction. Attention now looms to Tuesday's 30yr and CPI data, FOMC Wednesday, with BoE and ECB on Thursday in what is expected to be the last big trading event of the year.

3YR AUCTION: The USD 40bln auction went well considering the looming CPI and FOMC, in addition to the 55bps richening since November's offering. The 4.093% high yield marked a 0.3bps stop-through the WI, not as strong as last month's 1.2bps stop-through but better than the average 0.1bp. The 2.55x bid/cover was again not as good as November's 2.57x, but above average 2.50x. The takedown was solid with Dealers (forced surplus buyers) taking beneath both the prior and average.

10YR AUCTION: An awful 10yr reopening from the Treasury where USD 32bln of notes were sold at 3.625%, marking a 3.7bps tail, the largest since 2015 and even worse than last month's 3.4bps. That stands in stark contrast to the strong 3yr auction beforehand. The 2.31x bid/cover ratio was actually better than the prior 2.23x, although still beneath average 2.40x. Dealers were left with 21.9%, down from November's 24.4%, marking a slight improvement in participation, albeit also still beneath average.

STIRS:

- EDZ2 -2.5bps at 95.223, H3 -3.5bps at 94.84, M3 -5bps at 94.79, U3 -4.5bps at 94.93, Z3 -6.5bps at 95.245, H4 -7.5bps at 95.68, M4 -8.5bps at 96.09, U4 -9bps at 96.385, Z4 -8.5bps at 96.555, Z5 -5.5bps at 96.77, Z6 -4.0bps at 96.725.
- US sold USD 59bln of 3-month bills at 4.270%, covered 2.51x; sold USD 49bln of 6-month bills at 4.630%, covered 2.66x.
- NY Fed RRP op demand at USD 2.159tln (prev. 2.147tln) across 95 bidders (prev. 96 bidders).

CRUDE

WTI (F3) SETTLED USD 2.15 HIGHER AT 73.17/BBL, BRENT (G3) SETTLED USD 1.89 HIGHER AT 77.99/BBL

Oil prices were firmer Monday with extended Keystone pipeline outages adding to broader risk appetite. WTI and Brent front-month futures initially dropped to lows of USD 70.25/bbl and 75.26/bbl, respectively, in the London morning, only to rip higher again in the NY morning, printing peaks of USD 73.99/bbl and 78.59/bbl, respectively, hovering near best levels into latter trade. Although Bloomberg reported on Friday that TC Energy (TRP) is planning a partial Keystone pipeline (620k BPD) restart beginning Dec. 10th, the Co. has said that it has still not discovered the cause of the leak and has not given any clarity around a restart of the terminal, raising uncertainty and nerves. Desks are flagging concerns that extended outages (beyond ten days) risk shrinking Cushing, Oklahoma stocks, the delivery point for WTI futures, down to their 20mln bbl operational minimum.

OPEC+: Reuters reported Urals and CPC oil exports from Russian Black Sea terminals have been suspended from December 10th due to storms. While the latest reported schedules show Urals loadings from Baltic ports declining to 5.5-5.7mln T in December from 6.0mln T in November, and Urals/Siberian Light from Novorossissk falling to 2.24mln T from 2.46mln T. Meanwhile, Nigerian oil production rose to 1.185mln BPD in November (prev. 1.014mln BPD in October), according to the petroleum regulator. However, reports via Arise News TV, citing officials Monday, said production has now hit 1.6mln BPD due to the return of Forcados crude oil terminal and partial restoration of the Trans Niger Pipeline.

EQUITIES

CLOSES: SPX +1.43% at 3,990, NDX +1.24% at 11,706, DJIA +1.58% at 34,004, RUT +1.22% at 1,818.

SECTORS: Energy +2.49%, Utilities +2.27%, Technology +2.17%, Industrials +1.71%, Financials +1.26%, Health +1.04%, Consumer Staples +1.04%, Real Estate +0.9%, Materials +0.89%, Communication Services +0.7%, Consumer Discretionary +0.39%.

EUROPEAN CLOSES: EURO STOXX 50 -0.53% at 3,921, FTSE 100 -0.41% at 7,445, DAX 40 -0.45% at 14,306, CAC 40 -0.41% at 6,650, FTSE MIB +0.11% at 24,303, IBEX 35 -0.37% at 8,258, SMI -0.31% at 11,033.

STOCK SPECIFICS: **Amgen (AMGN)** is to acquire **Horizon Therapeutics (HZNP)** for about USD 26bln, or 116.50/shr, representing a 20% premium. Note, HZNP closed Friday at USD 97.29/shr. **Microsoft (MSFT)** will purchase around a 4% equity stake in **LSE (LSEG LN)**. Will form a 10-year strategic partnership for next-gen data, analytics and cloud infrastructure, and the deal is expected to increase LSE revenue meaningfully over time. Meanwhile, Microsoft is looking to address EU antitrust concerns regarding business practices following the complaint from **Slack (CRM)**, according to Reuters sources. **Morgan Stanley (MS)** plans to cut banker bonuses in Asia by up to 50% in 2022; overall compensation in Asia is expected to decline by an average of 30% due to the lower bonus payouts. **Coupa Software (COUP)** is to be acquired by Thoma Bravo for USD 81/shr. Note, COUP closed Friday at USD 62.09/shr. **Rivian (RIVN)** and **Mercedes-Benz (MBGYY)** paused partnership discussions on electric van production in Europe. **Weber (WEBR)** is to be taken private by BDT Capital for USD 8.05/shr. Note, closed Friday at USD 6.50/shr. **Under Armour (UAA)** upgraded at Stifel; praised UAA inventory management and it gives the co. better profit margin certainty. **Best Buy (BBY)** upgraded at Goldman Sachs; said among retail stocks it feels BBY has the ability to maintain prices as inflation moderates and to gain market share. NY AG said she secured over USD 10bln from **CVS (CVS)** and **Walgreens (WBA)** for failing to regulate opioid prescriptions and fuelling the opioid epidemic. **Citi (C)** to cut as many as 50 jobs in EMEA, according to Reuters sources. **Goldman Sachs (GS)** reportedly cutting hundreds more jobs and is moving beyond routine culls, according to Bloomberg. **Eli Lilly (LLY)** announced a 15% dividend increase to USD 1.13/shr (prev. 0.98 /shr).

FX WRAP

The Dollar was flat to start the week in thin trade as participants await US CPI and the FOMC on Tuesday and Wednesday, respectively, followed by a slew of other central bank decisions (SNB, BoE, ECB) on Thursday. As such, there were little catalysts Monday, but the Buck saw a slight lift after Fed whisperer Timiraos tweeted “cracks are beginning to emerge among [the Fed] over how stubborn inflation has become and what they should do about it.” He continued, some expect inflation to cool steadily next year and want to stop raising rates soon, while others worry inflation won’t ease enough next year, calling for raising rates higher or holding them at that level for longer, boosting the chance of a sharp downturn. Elsewhere, the NY Fed's November Consumer Survey saw inflation expectation drops in the 1, 3, and 5yr ahead horizons.

Activity currencies, GBP, CAD, NZD, and AUD, were lower to varying degrees against the Greenback, with Sterling more-or-less flat and as such the relative ‘outperformer’ while the Aussie, followed by the Kiwi, was the clear laggard amid a lack of currency specific newsflow. Cable saw a peak of 1.2299 and as it found resistance at the pivotal 1.2300 level it recoiled from its high to end the day just short of the unchanged mark. Looking to Tuesday, there is UK labour data ahead of BoE on Thursday. AUD/USD traded in a narrow range, highlighted by a low of 0.6730 and a high of 0.6798, ahead of NAB Business Confidence and Conditions, while NZD/USD was between parameters of 0.6366-0.6422. USD/CAD saw a peak and trough of 1.3683 and 1.3619, respectively, while BoC Governor Macklem was on the wires in the afternoon saying rate hikes have begun to work but they will take time to feed through the economy, with little reaction seen in the Loonie.

Safe-havens, CHF and JPY, were in the red with the Yen the G10 underperformer. The Swissy hovered between 0.9314 and 0.9380, as price action was largely labelled as pre-event risk consolidation positioning ahead of the aforementioned SNB later in the week, amidst other CBs. For the Yen watchers, USD/JPY rebounded but was capped at a high of 137.84, which was the same as the December 7th high as the Yen saw headwinds from the upside in US Treasury yields. In terms of newsflow, whilst it has been sparse, according to Nikkei, Japan is touted to be considering a minimum tax rate on incomes above JPY 3bln.

The Euro was flat to start the week, with EUR/USD towards the bottom end of the 1.0506-80 parameters and the single-currency was never really hampered by 1.6bln expiries spanning the base of that range (1.0500-10 to be precise). Market participants await the pivotal ECB meeting and Lagarde presser on Thursday, where the central bank is expected to pull the trigger on another rate hike despite the uncertain economic outlook. A step down from a 75bps to a 50bps increment is expected by 45/62 economists surveyed by Reuters, whilst market pricing assigns a circa 87% chance to such a move.

EMFX was mixed, as the TRY and RUB were the only currencies in the black amid MXN, CNY, BRL, and ZAR all seeing losses with the latter the underperformer. The Rand fell in tandem with spot gold, while the Yuan was weighed on by continued COVID concerns, although China's ambassador to the US believes China's COVID-19 measures will be further relaxed in the near future and international travel to China will become easier. The Real was hindered by news from Brazil where the elected government of President may revoke the “Law of State Companies” via a Provisional Measure, according to Eurasia. Lastly, Turkish President Erdogan noted inflation will fall to around 40% in a few months and everyone should make their calculations in line with 20% inflation in 2023.

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