US Market Wrap

13th December 2022: Cool CPI sees stocks and bonds climb ahead of FOMC while dollar takes a dive

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: CPI cooler-than-expected across the board; Disappointing 30yr auction; OPEC MOMR leaves world oil demand forecasts unchanged; UAL to buy 100 BA Dreamliners & 56 MAX aircrafts.
- **COMING UP**: **Data**: UK CPI, EZ IP, US Export/Import Prices **Event**: FOMC Policy Announcement & Press Conference **Speakers**: ECB's Elderson.

MARKET WRAP

Stocks initially surged in wake of the cooler than expected CPI report with outperformance led by the Nasdaq although the majority of gains had reversed throughout the afternoon on likely profit taking ahead of the FOMC. Stocks still managed to close with decent gains but some theories for the reversal from highs are that money market pricing for the terminal rate still imply an FFR of 4.75-5.00%, while the huge rally into Fed made the risk-reward for further upside less favourable ahead of such a key risk event, resulting in some profit-taking. Given the move was so huge (SPX peaked around 4150), it also sparked some talk of overvaluation given the current economic environment. Meanwhile, there is also the risk that Powell could take a more hawkish approach on Wednesday given the cool CPI data saw a strong easing of financial conditions, something the Fed would like to pre-emptively avoid until inflation shows more evidence it is returning to its 2% target, and not at the current 7.1%. The Treasury curve bull steepened after the cool inflation data, with steepening accentuated by a weak 30yr auction following a chunky 3.1bps tail. The Dollar sold off with DXY now hovering around 104.00 from highs pre-data of 105.00, which in turn supported crude prices ahead of inventory data tonight, while the lower yields (and weaker buck) supported precious metals.

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FOMC PREVIEW: The FOMC is widely expected to hike rates by 50bps, as predicted by all 84 analysts surveyed by Reuters. Money market pricing is also leaning heavily towards a 50bp move with just a c. 3% implied probability of another 75bp increase in wake of the cool November CPI report, while recent Fed commentary (and minutes) has seen many officials express a desire to slow down the pace of rate hikes now we are approaching a "sufficiently restrictive level". With the upcoming meeting being accompanied by a fresh Summary of Economic Projections (SEPs) or "Dot Plots", it will be used to gauge what level sufficiently restrictive is, i.e. what is the expected terminal rate among the FOMC. Powell & Co have suggested it is likely to be somewhat higher than what was pencilled in at the September SEPs (4.6% in 2023) and money markets are pricing in a rate of 4.86%, implying an FFR of 4.75-5.00%. For a full Newsquawk preview, please click here.

CPI: The November CPI report was cooler-than-expected across the board, highlighted by the headline cooling to 7.1% from 7.7% (exp. 7.3%), with a M/M gain of 0.1%, slowing from the prior 0.4% and beneath the expected 0.3%. Core metrics saw Y/Y print 6.0% vs 6.3% prior and beneath the 6.1% expectation, while the M/M saw a 0.2% gain, lower than the prior and expected 0.3%. Delving into the release, Oxford Economics adds, “it will take time for price trends to normalize, but 2023 is expected to bring healthier inflation readings, and as such look for goods inflation to retreat as goods demand eases and supply-chain conditions normalize.” On services, OxEco adds, “services inflation will be more stubborn, but it too will diminish – especially as rental inflation cools. More encouraging inflation dynamics will allow the Fed to end its rate hikes early next year.” In the immediacy, Fed pricing is essentially dead-cert on a 50bps hike on Wednesday, with it 97% baked-in, while Oxford looks for a 25bps hike in February 2023 after this week's 50bps increase, with calls for a second 50bp hike in February diminishing after this latest release, but the question turns to how long will the Fed keep rates at terminal.

FIXED INCOME

T-NOTE FUTURES (H3) SETTLED 30+ TICKS HIGHER AT 114-25

The Treasury curve bull steepened on Tuesday after cooler than expected CPI ahead of the Fed on Wednesday. 2s -17.2bps at 4.231%, 3s -16.0bps at 3.958%, 5s -14.4bps at 3.658%, 7s -13.2bps at 3.599%, 10s -10.2bps at 3.509%, 20s -8.4bps at 3.740%, 30s -4.4bps at 3.532%.

Inflation Breakevens: 5yr BEI -2.8bps at 2.357%, 10yr BEI -2.2bps at 2.262%, 30yr BEI -3.7bps at 2.286%.

THE DAY: The cooler than expected CPI saw a strong bid into Treasuries in a steeper fashion on the prospects of the inflation peak now being behind us and the FOMC not having to hold rates at terminal for as long as initially hoped. The 10yr note hit a high of 115-12 before paring to 1114-25 at settlement while the initial post CPI stock rally completely reversed its gains. Attention now turns to the FOMC on Wednesday (preview here), where there is a lot of attention on the peak Fed dot plot, and as well any commentary from Powell on how long the Fed will keep rates at terminal, albeit he will likely reiterate they will take a data dependent approach and want to see inflation well on its way back to 2% before they consider cutting. Money market pricing still has a peak FFR of 4.75-5.00%, albeit towards the lower end of that range after the data was released, and is pricing in an FFR of 4.50-4.75% in September 2023. The curve steepening was amplified in wake of the 30yr auction which saw a hefty tail (similar to the 10yr auction on Monday), taking the 30yr yield back above 3.52% from lows of 3.45% post CPI.

30yr AUCTION: The 30yr auction disappointed with a chunky 3.1bps tail, especially when compared to the impressive 3.3bps stop through at the last auction and the six auction average of a 1bp stop through. The Bid-to-Cover fell to 2.25x from 2.42x at the last auction, and was beneath the 2.49x average. The breakdown saw dealers, forced buyers, take 15.3%, above the 11.4% average and 9.7% prior, while indirect demand tumbled to 61.6% from 69.9%, beneath the 70.7% average, although the direct demand improved at 23.1%, above the 20.4% prior and 18% average - albeit overall, was a very poor auction, perhaps hit by move in wake of cool CPI and ahead of the FOMC on Wednesday.

STIRS:

- EDZ2 +3.0bps at 95.255, H3 +12.0bps at 94.960, M3 +14.5bps at 94.940, U3 +17.5bps at 95.105, Z3 +19.5bps at 95.445, H4 +20.5bps at 95.890 M4 +19.0bps at 96.285, U4 +17.0bps at 96.560, Z4 +14.0bps at 96.700, Z5 +9.0bps at 96.865.
- NY Fed RRP op demand at USD 2.181tln (prev. 2.159tln) across 98 bidders (prev. 95 bidders).

CRUDE

WTI (F3) SETTLED USD 2.22 HIGHER AT 75.39/BBL; BRENT (G3) SETTLED USD 2.69 HIGHER AT 80.68/BBL

The crude complex was in the black and saw large tailwinds on the cooler-than-expected US CPI report, which resulted in notable Dollar weakness and equity strength, although a lot of the latter's move was pared. As such, WTI and Brent hit highs of USD 76.37/bbl and 81.28/bbl, respectively and continued to gain throughout the NY session on account of the broader risk sentiment. Elsewhere, the EU gas price cap proposal puts the price level at EUR 160-220 but states are considering delaying the decision on the gas price cap level until Monday, with apparently 90-95% of the deal agreed on. Lastly, Goldman Sachs cut its Q1 2023 Brent oil forecast to USD 90/bbl. Looking ahead, in the immediacy is private inventory data after-hours (expectations below), but all market participants will be awaiting the FOMC rate decision, SEPs and the following presser on Wednesday.

OPEC MOMR: Saw world oil demand forecasts for 2022 & 2023 remain unchanged at 2.5mln BPD and 2.2mln BPD, respectively. On oil demand, it was adjusted higher in the Q3 22, amid better-than-anticipated transportation fuel consumption in OECD, offset by a downwardly-revised estimate for Q4 22 due to a slowdown in the non-OECD amid reduced mobility and sluggish industrial activity in China. Although, OPEC MOMR differs with the EIA STEO which cut its forecasts for 2023 world oil demand growth by 160k BPD, looking for a 1mln BPD YY increase while the 2022 view was maintained at 2.26mln BPD YY. For more detailed Newsquawk analysis, please click here.

US Energy Inventory Data Expectations (bbls): Crude -3.6mln, Gasoline +2.7mln, Distillate +2.5mln.

EQUITIES

CLOSES: SPX +0.73% at 4,019, NDX +1.09% at 11,834, DJIA +0.31% at 34,110, RUT +0.76% at 1,832.

SECTORS: Real Estate +2.04%, Energy +1.77%, Communication Services +1.7%, Materials +1.34%, Technology +1.14%, Industrials +0.36%, Utilities +0.32%, Financials +0.29%, Health +0.27%, Consumer Discretionary +0.2%, Consumer Staples -0.17%.

EUROPEAN CLOSES: EURO STOXX 50 +1.66% at 3,986, FTSE 100 +0.76% at 7,502, DAX 40 +1.34% at 14,497, CAC 40 +1.42% at 6,744, FTSE MIB +1.37% at 24,636, IBEX 35 +0.83% at 8,327, SMI +0.99% at 11,143.

STOCK SPECIFICS: **Moderna (MRNA)** announced its cancer vaccine, in combination with **Merck's (MRK)** Keytruda, met the primary efficacy endpoint in Phase 2b Keynote-942 trial. **Eli-Lilly (LLY)** affirmed its FY22 EPS view, but lowered the FY23 adj. EPS view but maintained its revenue view, noting 2023 revenue growth is to be partially offset by lower revenue for Alimta due to its loss of patent exclusivity, and no anticipated COVID antibody revenue, and continued negative impact on FX rates. **Oracle (ORCL)** topped expectations on EPS and revenue, although it noted the strengthening Dollar had a 'significant' impact on its Q2 results and noted it continues to experience clear momentum, adding gross margins will continue to improve. ORCL also sees a Q3 negative currency impact of 4% on revenues. **Mirati Therapeutics (MRTX)** announced that the US FDA granted approval for its new lung cancer treatment. **Pinterest (PINS)** was upgraded at Piper Sandler, who believes the co. can expand its profit margins. **Gold Fields (GFI)** announced Chris Griffith will step down from the board of directors and CEO, effective December 31st. **Morgan Stanley's (MS)** E-TRADE ended commissions for all mutual funds on the platform. **Ford (F)** is to boost production of electric F-150 trucks, according to CNBC. A Bipartisan Group of Lawmakers is seeking to ban TikTok from the US. Of note for social media names, such as **Snap (SNAP)** and **Meta (META)**. **Microsoft (MSFT)** stated it has offered the US FTC a consent decree on Call of Duty re. release dates with Sony (SONY), according to Bloomberg. **Apple (AAPL)** reportedly is considering allowing third-party App Stores on its iPhones and iPads, according to Bloomberg, who note the project will be led by veteran software engineer Andreas Wendkner.

AIRLINES: **United Airlines (UAL)** is to buy 100 **Boeing (BA)** Dreamliners and 56 MAX aircrafts; UAL said it is delaying taking deliveries from the prior **Airbus (EADSY)** A350 order until at least 2030. **American Airlines (AAL)** appointed Devon May as CFO, from January 1st, May was previously the senior vice president of Finance and Investor Relations. **JetBlue (JBLU)** announced it continues to expect flown capacity for Q4 ‘22 to be +1-4% vs 2019 levels, but expects revenue per available seat miles to be at the low end of prior guidance of +15-19%. JBLU added demand trends continue to be strong with healthy load factors and yields above 2019 levels for both trough and peak travel periods. **Spirit Airlines (SAVE)** cut Q4 capacity guidance to +24.1% (prev. +24.5%), and announced it sees Q4 TRASM change vs Q419 +15.5%, and Q4 adj. OM estimated between 2.5-3.5% (prev. 1-3%).

FX WRAP

The Dollar sold off on Tuesday after the cooler-than-expected CPI report which saw the Dollar index fall from highs of 105.09 to lows of 103.57 at the extremes. However, a lot of the dovish reaction had pared in other assets and although Dollar remained heavily sold, it was off the lows and hovered around 104.00 with yields also moving from lows in what appears to be profit-taking ahead of the FOMC on Wednesday given the drastic initial move. For a full Newsquawk FOMC preview, please click here. It is worth highlighting the huge stock reversal too, with stocks eventually wiping out the initial post-CPI gains. Some theories for the reversal, alongside profit taking ahead of the Fed, the money market pricing for terminal still implied an FFR of 4.75-5.00% while the huge rally into Fed made the risk-reward for further upside less favourable ahead of such a key risk event.

The Euro was supported by the weaker greenback taking EUR/USD to highs of 1.0673 before paring to c. 1.0620 from lows pre data of 1.0529 with further direction to be eyed in wake of the FOMC on Wednesday ahead of the ECB on Thursday, full preview available here.

The Yen saw pronounced strengthening with the weaker buck and lower yields supporting JPY to take USD/JPY from highs of 137.97 to lows of 134.67, however as markets moved from extremes USD/JPY hovered around 135.50, back above the 200dma at 135.25.

Cyclical currencies were generally bid, particularly the antipodes, which managed to maintain the majority of their initial move with AUD holding above 0.6850 at pixel time, although NZD/USD didn't quite hold above 0.6500, but it did 0.6450. Cable briefly reclaimed 1.2400 to highs of 1.2443, the highest level since mid-June. Note, the BoE released its latest financial stability report which called for urgent and robust measures to fill gaps in LDI fund regulation after the recent Gilt crisis. CAD strengthened to see USD/CAD fall sub 1.3550, a level it hovers around at the time of writing.

Scandi's strengthened against the Euro, particularly the NOK on account of strength in Brent crude prices ahead of the Norgesbank rate decision on Thursday. NOK/SEK rose from c. 1.0330 to highs of 1.0455 and NOK held onto the majority of its gains vs its Scandi counterpart.

EM currencies were more mixed. CNH saw gains thanks to the weaker buck, albeit with China's reopening there have been some concerns amid the rise in COVID cases. Bloomberg reported China will delay its economic policy meeting amid a surge in COVID, and participants are now awaiting to see actual results from their reopening methods. BRL also saw gains, although gains were trimmed after Lula announced Mercadante as the new BNDES bank President and announced Brazil will end privatisation. ZAR was the outperformer as gold prices rallied following the move lower in US Treasury yields while MXN also saw notable gains ahead of the Banxico rate decision on Thursday.