



US Market Wrap

19th December 2022: Stocks and bonds sold into last full trading week of 2022

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar down/flat.
- **REAR VIEW:** EU agrees on gas price cap of EUR 180/MWh; China continues to ease restrictions, despite deaths; Strong German IFO data; Weak US NAHB housing data.
- **COMING UP: Data:** German Producer Prices, US Building Permits/Housing Starts, Canadian Retail Sales **Events** : PBoC LPR, BoJ Policy Announcement, RBA Minutes, ECB Research Bulletin **Speakers:** ECB's Kazimir **Supply:** UK.
- **CENTRAL BANK WEEKLY:** Previewing PBoC, BoJ, CBRT; reviewing FOMC, ECB, BoE, SNB, Norges, Banxico, CBR. To download the report, please [click here](#).

MARKET WRAP

Stocks sold off on Monday with many key risks in the rear view mirror and as liquidity dies as we enter the final full trading week of the year. Nonetheless, attention turns to US PCE data on Friday after the final US Q3 GDP revisions on Thursday, as well as key earnings reports from Nike (NKE), FedEx (FDX) and Micron (MU) throughout the week. The stock sell off was accompanied by a move higher in yields in a catalyst shy session although former Fed's Dudley penned an op-ed which warned investors against fighting the Fed with market pricing at a large disparity to the Fed's Dot Plots. The Dollar saw mild selling pressures with slight upside in the Euro on an encouraging German IFO Business Climate with a beat in both current conditions and expectations while US data continues to soften. The December NAHB housing market index disappointed expectations. Crude prices saw a nice bid despite the risk off trade in stocks, likely on enhanced crude demand prospects in wake of COVID reopening optimism. Despite fresh COVID deaths in China since the "reopening", many Chinese cities or regions announced further reopening measures on Monday, while an official suggested China will purchase imported COVID medicine to relieve pressure on domestic shortages. Elsewhere, EU nations agreed on a gas price cap of EUR 180/MWh, and despite having support from Germany, the country does remain sceptical on the agreement. There were some chunky moves in EMFX, the Rand saw a strong bid after South African President Ramaphosa was reappointed as the ANC party leader, helping quell some political instability fears. Meanwhile, the Rouble saw its worst one day performance since July on fears of further aggression in Ukraine following a meeting with Belarusian President Lukashenko in Minsk.

US DATA

NAHB: US NAHB housing market index for December surprisingly fell to 31 from 33, and beneath the expected 34. Regarding the sub-indices, prospective buyers index was unchanged at 20, while current single-family home sales index dropped to 36 (prev. 39), but home sales over next six months rose to 35 (prev. 31). On the report, December marked the 12th consecutive M/M fall in the NAHB, falling a massive 52 points since December 2021. Oxford Economics note the index sits just one point above the lowest level from the start of the pandemic. "The relatively smaller m/m decline of two points suggests the index may be nearing a bottom, but gloomy conditions will persist in 2023." The consultancy added builders are offering incentives, including price cuts and mortgage rate buy-downs, to sell homes as buyer traffic slows amid higher rates, which could keep a floor under new homes sales. Concluding, "however, the reading far below 50 for the HMI points to ongoing weakness in single-family housing starts."

FIXED INCOME

T-NOTE (H3) FUTURES SETTLE 21+ TICKS LOWER AT 114-04+

Treasuries saw a large magnitude of selling in thin trade Monday in a catalyst-shy session. 2s +7.4bps at 4.254%, 3s +8.4bps at 3.986%, 5s +8.7bps at 3.704%, 7s +9.5bps at 3.674%, 10s +9.9bps at 3.581%, 20s +8.9bps at 3.819%, 30s +9.2bps at 3.625%.

Inflation breakevens: 5yr BEI +3.8bps at 2.232%, 10yr BEI +2.6bps at 2.161%, 30yr BEI +2.8bps at 2.203%.



THE DAY: THE DAY: T-Notes traded in a tight range during APAC and the European morning, finding support at 114-16 and resistance at 114-23, that was despite the more pronounced selling seen in EGBs and Gilts. However, as the US session got going, T-Notes broke out to the downside in lack of an obvious catalyst. There had been some attention on an op-ed from former Fed's Dudley that warned investors about fighting the Fed given the disparities between the Dot Plots and current market pricing. The selling was measured, trundling lower through into midday NY to find troughs at 114-00+ not long after a 10k TY block sale, hovering near lows into the settlement, roughly tracking price action in stocks amid index futures finding their lows in a similar fashion.

STIRS:

- EDZ2 +0.3bps at 95.260, H3 -2.0bps at 94.935, M3 -3.5bps at 94.915, U3 -6.0bps at 95.085, Z3 -6.5bps at 95.425, H4 -8.0bps at 95.860, M4 -8.5bps at 96.255, U4 -9.5bps at 96.520, Z4 -9.5bps at 96.665, Z5 -9.0bps at 96.825, Z6 -9.5bps at 96.765, Z7 -9.5bps at 96.610.
- US sold USD 56bln of 3-month bills at 4.290%, covered 2.57x; sold USD 47bln of 6-month bills at 4.550%, covered 2.86x.

CRUDE

WTI (G3) SETTLED USD 0.92 HIGHER AT 75.38/BBL; BRENT (G3) SETTLED USD 0.76 HIGHER AT 79.80/BBL

Oil was firmer to start the week with some citing the demand benefits as China looks to loosen its strict COVID policy. As such, WTI and Brent hit highs of USD 76.74/bbl and 80.87/bbl, respectively. Nonetheless, newsflow was sparse and liquidity was light in holiday-thinned trade and market participants await the Christmas holidays in wake of the key macro events last week. Regarding the day, the key story came out of Europe, regarding a gas price cap but little else was new, although encouraging German data helped ease some recession fears.

EU GAS PRICE CAP: EU nations agreed on a gas price cap at EUR 180/MWh which can be triggered from February 15th onwards and will not initially apply to over-the-counter trades. Germany had voted in favour of the EU gas price cap, despite previously holding the view the gas cap could cause disruption within the market. However, later the German Economy Minister Habeck said he and Germany are still sceptical on the gas price mechanism. In addition, the vote from the Netherlands will draw focus - particularly after ICE renewed concerns today, saying the price cap risks financial stability and it will assess whether it can continue to operate fair and orderly markets for the TTG Gas hub in the Netherlands. The Kremlin also expressed their concerns, and said the EU gas price cap is an attack on market pricing and is unacceptable.

BANK COMMENTARY: Citi revised down its price outlook for crude oil as it sees weak demand and more ample supply from Russia & OPEC+ than markets expected, keeping oil prices pressured. As such, OPEC+ cuts and US/China SPR purchasing could provide a soft floor at USD 70/bbl.

EQUITIES

CLOSES: SPX -0.9% at 3,818, NDX -1.42% at 11,085, DJIA -0.49% at 32,758, RUT -1.41% at 1,739

SECTORS: Communication Services -2.18%, Consumer Discretionary -1.66%, Technology -1.42%, Materials -1.34%, Real Estate -1.12%, Industrials -0.52%, Utilities -0.41%, Health Care -0.36%, Financials -0.23%, Consumer Staples -0.04%, Energy +0.13%.

EUROPEAN CLOSES: EURO STOXX 50 +0.19% at 3,811, FTSE 100 +0.4% at 7,361, DAX 40 +0.36% at 13,942, CAC 40 +0.32% at 6,473, FTSE MIB -0.02% at 23,683, IBEX 35 +0.30% at 8,136, SMI -0.07% at 10,762.

STOCK SPECIFICS: **L3Harris Technologies (LHX)** is near a deal to buy rocket engine maker **Aerojet Rocketdyne (AJRD)** for about USD 4.7bln or USD 58/shr in cash. Note, AJRD closed Friday at 54.89/shr. **Mesa Air (MESA)** announced plans for a significant restructuring in its operations with **American Airlines (AAL)** and **United Airlines (UAL)**. MESA is to expand its relationship with UAL and wind down its contract with AAL. **Tesla (TSLA)** CEO Musk polled users on Twitter over whether he should step down as head of Twitter. Musk claimed he would abide by the results of the poll, and users voted for Musk to step down. Some major Tesla shareholders have expressed concern over Musk trying to run both companies, saying Twitter is a major distraction. EU Commission informed **Meta (META)** of its preliminary view that it breached antitrust rules regarding online classified ads by abusing its dominant position. EU added META could be subject to a fine of up to 10% of annual revenue if it determines that those laws were violated. **Madrigal Pharmaceuticals (MDGL)** announced positive topline results from the pivotal Phase 3 MAESTRO-NASH biopsy clinical trial of resmetirom. **Sinclair Broadcast's (SBGI)** Diamond Sports is headed toward a bankruptcy filing,



according to NY Post. **TuSimple (TSP)** reportedly plans to cut up to at least half of its workforce next week, according to WSJ sources; sources added a staff reduction of that size would likely affect at least 700 employees. Moderna (MRNA) was upgraded at Jefferies; cited a robust pipeline beyond COVID treatments. **DraftKings (DKNG)** revealed in excess of 67k customers had their personal information exposed following a credential attack in November, according to Bleeping Computer. **Apple (AAPL)** was fined EUR 1mln by the French commercial court in Paris over abusive App Store practices. **Mondelez (MDLZ)** is to sell its developed market gum business to Perfetti Van Melle for USD 1.35bln; will retain its emerging market gum business across Latin America, Asia, Middle East and Africa. US Congress will add to the government spending bill an extension of a looming deadline that imposes a new safety standard for modern cockpit alerts for two new versions of the **Boeing (BA)** 737 MAX Jet, according to Reuters citing sources.

FX WRAP

The Dollar saw mild selling on Monday on quiet trade despite the downside in equities and upside in yields. There was little fresh to digest other than the Fed speak on Friday which saw Mester say she sees rates rising more than most policymakers have forecast, saying her view is a little higher than the median of 5.1% peak next year. Once rates reach the terminal level, Mester said the Fed will need to hold them there for "quite a while in order to get inflation on a sustainable downward path". Williams & Daly also noted it is possible rates will need to go higher than the dot plots project while Daly said holding rates for 11 months is reasonable. Nonetheless, market pricing is still not buying the Fed's hawkish message and pricing a peak rate of 4.85% amid cooling inflation reports and signs of a slowing consumer and economy. Former Fed Governor Bill Dudley wrote an opinion piece in the morning which encouraged investors to believe the Fed. Attention this week lies on the US PCE report on Friday, after the final Q3 US GDP revisions on Thursday while key earnings from Nike (NKE) and FedEx (FDX) earnings will help show us how the consumer is faring in the final quarter of the year.

The EUR was bid with EUR/USD rising above 1.0600 supported by hawkish commentary from ECB's Kazmir. Kazmir noted rates will not only need to go to restrictive territory but they will need to stay there much longer, noting inflation requires a strong policy response. Meanwhile, Germany's IFO Business climate data came in better than expected on the headline, led by a rise in both expectations and current conditions. IFO also noted the likelihood of a recession has reduced, and it sees a silver lining on the horizon for the domestic economy while improvement was across almost all sectors.

The Yen was flat vs the buck but saw some choppiness overnight. There were reports Japan's government is to consider revising the joint statement the BoJ signed in 2013 under the new BoJ governor, according to Reuters as well as other reports in Kyodo. Reuters note, however, there was no consensus on what changes could be made and discussions are likely to intensify next month. However, the Chief Cabinet later said there is no truth to these reports and it hopes to closely work with the BoJ which led to some brief JPY weakening overnight. A policy change could represent a hawkish shift, which would be more in line with global central banks, although as the government said they are to stick with the agreement it shows their dovish stance is likely to be kept for some time. Attention now turns to the BoJ rate decision overnight, full preview can be found here.

Cyclical currencies were generally supported as the buck sold off, despite the downbeat risk tone. AUD outperformed its kiwi counterpart and AUD/USD reclaimed 0.6700 ahead of the RBA minutes overnight. NZD was flat vs the buck ahead of trade data this evening as well as the ANZ business outlook survey. AUD/NZD rose above 1.05 from lows of 1.0480. CAD also saw decent gains vs the buck and was propped up by firmer oil prices. Meanwhile, Producer Prices in Canada declined 0.4% M/M in line with expectations and cooling from the prior rise of 2.4%, while raw materials prices declined 0.8%, not as deep as the 1.3% fall expected but still pared some of the 1.3% gain in the month beforehand. Macklem also spoke, noting a turnaround in inflation is near after acknowledging the BoC missed the mark on increasing inflation. GBP saw marginal gains vs the buck but was marginally weaker vs the Euro with little to digest in the UK on Monday other than deteriorating industrial trends data, albeit not as bad as feared.

The Yuan was flat vs the Dollar ahead of the PBoC LPR decision tonight, which is likely to keep its 1yr LPR unchanged at 3.65%, albeit there are differing views on the 5yr rate which currently sits at 4.30%. Elsewhere in China, there had been some concerns overnight after China saw its first COVID-related deaths since the strict COVID-zero policy started to be lifted, albeit so far there has been no commentary from officials suggesting a reversal with several cities/regions moving ahead with the relaxation.

EMFX was mixed. The Mexican Peso and Brazilian Real saw mild gains vs the Dollar, but ZAR was the clear outperformer after South African President Ramaphosa was reappointed as the ANC party leader, helping quell some political instability fears. Meanwhile, the Rouble saw its largest one day drop since July reaching a 7mth low in wake of a



meeting in Belarus between President Lukashenko and Russian President Putin, sparking fears of an escalation of the war in Ukraine. Putin, after the meeting, did note they agreed to continue military operations, while Russian press suggested reports Putin went to Minsk to make Belarus join the special operation in Ukraine are groundless.

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