US Market Wrap

21st December 2022: Stocks lift on strong earnings & consumer confidence in holiday-thinning trade

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar up.
- **REAR VIEW**: Stellar NKE earnings; Strong US consumer confidence; Disappointing existing home sales; Larger EIA crude draw than expected; Strong 20yr auction.
- **COMING UP**: **Data**: UK GDP, US GDP (Final), IJC **Event**: CBRT Policy Announcement.

MARKET WRAP

Stocks were firmer Wednesday with the bulk of the gains coming at the time of the NY cash open. SPX posted its best session in over a week, bouncing off the MTD lows made on Tuesday. Risk appetite was buoyed by a solid consumer confidence report for December, which simultaneously bodes well for the earnings outlook whilst affirming the need for the Fed to keep in restrictive territory. The optimism was also accentuated after the solid Nike (NKE) earnings report from Tuesday after hours. However, it wasn't all jolly, after existing home sales saw a deeper tumble than expected amid higher mortgage rates biting through the sector. Cross-asset, Treasuries steepened through the US session as the long-end pared its morning rally, although another solid 20yr auction stopped the rot. In FX, the Dollar firmed amid the Yen unwinding some of its post-BoJ strength, while the Pound saw standout weakness in lack of an obvious catalyst, although some desks draw attention to the ongoing UK strikes and record British public debt data. Oil prices rallied as part of the broader risk appetite, aided by bullish inventory data with a massive 9.5mln bbl crude stock draw net of SPR release.

US

CONSUMER CONFIDENCE: US consumer confidence was a strong report, as it bounced back in December, reversing consecutive declines in October and November to reach its highest level since April 2022. The headline rose to 108.3 (prev. 101.4), well above the expected 101.0. The Present Situation and Expectation indices increased to 147.2 (prev. 138.3) and 82.4 (prev. 76.7), respectively. Although the report adds, the latter still hovers around 80, which is a level associated with a recession. The labour market results were also more favourable, as jobs “hard to get” dropped to 12 from 13, while jobs “plentiful” lifted to 47.8 from 45.8. On business conditions, 19% of consumers said they were “good” (prev. 17.8%) while 20.1% said they were “bad” (prev. 23.6%). Lastly, 1yr consumer inflation expectations also markedly dropped to 6.7% (prev. 7.1%), its lowest since September 2021, primarily due to the fall in gas prices. The report adds “Present Situation and Expectations Indexes improved due to consumers’ more favorable view regarding the economy and jobs.” It adds, “vacation intentions improved but plans to purchase homes and big-ticket appliances cooled further. This shift in consumers’ preference from big-ticket items to services will continue in 2023, as will headwinds from inflation and interest rate hikes.”

EXISTING HOME SALES: Existing Home Sales in November declined to 4.09mln from the prior 4.43mln and fell more than the expected 4.2mln, with housing continuing to slow as the market responds to tighter policy from the Federal Reserve. The inventory of homes for sale remained at 3.3mths worth in November while the median home price rose 3.5% Y/Y to USD 370,700. Analysts at Oxford Economics note the recent declines in mortgage rates and home prices will provide some relief to buyers at the margin, although the consultancy expects home sales to remain under pressure through the majority of 2023 with a recession adding to the housing woes. OxEco expects existing home sales to average roughly 4.2mln in 2023.

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 1 TICK HIGHER AT 113-18

Treasuries steepened after strong consumer confidence data ahead of the 20yr auction saw duration unwind earlier strength. 2s -4.9bps at 4.217%, 3s -2.5bps at 3.997%, 5s -0.4bps at 3.780%, 7s +0.3bps at 3.772%, 10s +0.0bps at 3.684%, 20s -0.3bps at 3.933%, 30s +0.9bps at 3.745%.

Inflation breakevens: 5yr BEI +4.1bps at 2.365%, 10yr BEI +3.8bps at 2.292%, 30yr BEI +2.1bps at 2.316%.

THE DAY: Treasuries saw mild strength out of the European morning on Wednesday in a dearth of catalysts and seemingly just some recovery after the BoJ's hawkish surprise on Tuesday. The NY morning saw a more meaningful bid with the belly leading the strength, with the long-end casting an eye to the 20yr bond auction. T-Notes made session peaks at 114-01+ ahead of the strong cash equity open for stocks. A solid December consumer confidence report sustained the selling in govvies, despite the larger fall than expected in November existing home sales, with the long-end leading the pullback, steepening the curve. Downside was capped after the solid 20yr auction from the Treasury.

20YR AUCTION: Another strong 20yr auction from the Treasury with USD 12bln sold at 3.935%, marking a stop-through of 1.3bps, not quite as strong as the November 2.9bps stop-through but better than the avg. 0.3bps, and more impressive given the relative richening in the tenor since last month. The 2.68x bid/cover ratio exceeded both the average and the prior. The takedown metrics were also strong with Dealers (forced surplus buyers) left with 8.7%, beneath both the prior 9.3% and avg. 11.5% thanks to a step-up in Directs participation to 19% from 15.4%, where Indirects saw took down less this month but still above average.

STIRS:

- EDZ2 +4.5bps at 94.98, H3 +4.5bps at 94.97, M3 +4.5bps at 95.135, U3 +5bps at 95.455, Z3 +4.5bps at 95.86, H4 +2.5bps at 96.22, M4 +1bps at 96.47, U4 -0.5bps at 96.60, Z4 -1bps at 96.67, Z5 -4bps at 96.69, Z6 -4bps at 96.57.
- NY Fed RRP op demand at 2.207tln (prev. 2.159tln) across 105 bidders (prev. 98).
- IFR note, "The increase in [RRP] flow replicates a trend that was seen last year where demand at the RRP facility peaked going into the Christmas holiday and eased into New Years."

CRUDE

WTI (G3) SETTLED USD 2.06 HIGHER AT 78.29/BBL; BRENT (G3) SETTLED USD 2.21 HIGHER AT 82.20/BBL

Oil prices rallied on Wednesday as part of the broader risk appetite seen across stocks and commodities, aided by bullish inventory data. The benchmarks saw initial upside in European trade, aided by commentary from the Russian Defence Ministry via Al Jazeera that oil tanks were destroyed in Kharkiv, Ukraine, although it was unclear if this was in reference to additional oil tanks being destroyed or the attack already reported on December 20th. Regardless, the strength continued through the European session, and WTI and Brent front-month futures found resistance after the chunky oil draws reported by the EIA. However, prices then went on to squeeze new highs into settlement.

INVENTORIES: EIA reported weekly US crude stocks drew 5.9mln bbls, but when including the 3.6mln bbl SPR release, that netted out at 9.5mln, well in excess of the private data reported 3.1mln bbls and street expectations for a 1.7mln bbl draw. The products saw gasoline build 2.5mln bbls and distillates draw 0.2mln, while refinery utilisation fell 1.3% after last week's 3.3% decline.

RUSSIA: Reuters reported that Poland's Gdansk port is set to receive a record 2.6mln T of non-Russian crude shipments in December in efforts to move away from Urals supply via the Druzhba pipeline. Refineries in both Poland and Germany are set to be supplied with non-Russian crude from the port in 2023. Meanwhile, Russian President Putin announced, as cited by Al Jazeera, the launch of the process of pumping gas from the Kovikta field through the "Power of Siberia" pipeline to China.

EQUITIES

CLOSES: SPX +1.49% at 3,878, NDX +1.48% at 11,235, DJIA +1.60% at 33,376, RUT +1.65% at 1,776.

SECTORS: Energy +1.87%, Industrials +1.86%, Financials +1.7%, Technology +1.68%, Consumer Discretionary +1.58%, Utilities +1.36%, Health +1.3%, Communication Services +1.19%, Real Estate +0.92%, Materials +0.84%, Consumer Staples +0.82%.

EUROPEAN CLOSES: EURO STOXX 50 +1.83% at 3,872, FTSE 100 +1.72% at 7,497, DAX 40 +1.54% at 14,097, CAC 40 +2.01% at 6,580, FTSE MIB +1.66% at 24,111, IBEX 35 +1.43% at 8,302, SMI +1.77% at 10,848.

STOCK SPECIFICS: **Nike (NKE)** posted a stellar report; beat on profit and revenue alongside raising FY revenue forecast. Added discounting during the quarter helped Nike clear out excess inventory. **Applied Materials (AMAT)** announced intentions to make "multi-billion-dollar" investments in its innovation infrastructure in the US; to expand its global manufacturing capacity between now and 2030. **Tesla (TSLA)** reportedly implementing a hiring freeze and new round of layoffs next quarter, according to Electrek citing sources; not clear how extensive the hiring freeze will be. **FedEx (FDX)** missed on revenue and issued weak profit guidance; desks noted investors were encouraged by the profit beat and FDX vowing to continue aggressive cost cuts. Activist investor Land & Buildings Investment Management accumulated a 3% position in **Six Flags (SIX)**; is pushing Co. to sell or spin off its real estate to help reverse a decline in the shares, according to WSJ. **Rite Aid (RAD)** reported a shallower loss per share than expected and beat on revenue helped by accelerated sales growth at its retail operations; cut FY23 adj. EPS view amid numerous issues, such as seasonal markdowns. **Starbucks (SBUX)** downgraded at Jefferies; said it may be impacted by a pullback in consumer discretionary spending. TF International analyst Ming-Chi Kuo said his latest survey indicates **Apple (AAPL)** will likely cancel or postpone the mass production plan for the 2024 iPhone SE 4 due to the consistently lower-than-expected shipments of mid-to-low-end iPhones (e.g., SE 3, 13 mini, and 14 Plus). **General Motors (GM)** recalled 140k Chevrolet Bolt EVs amid fire risks. **Carnival (CCL)** posted a shallower loss per share than expected, but fell short on revenue, passengers carried, cruise days, occupancy as well as adj. EBITDA loss deeper than expected. At least seven built-out **Amazon (AMZN)** Fresh stores are sitting empty in the US with new store openings grounding to a halt since September, according to The Information.

FX WRAP

The Dollar was firmer on Wednesday and hit a peak of 104.380, largely on account of a rebound from BoJ-inspired implosion and Sterling's softness. Nonetheless, newsflow was very light with increasingly thin liquidity as the Christmas break beckons. Despite this, Nike and FedEx both reported strong earnings alongside a stellar December US Consumer Confidence report. On the latter, the headline topped expectations, as did the sub-indices, while the 1yr inflation expectations also markedly fell. Existing home sales were disappointed, printing beneath consensus, although a softening housing market is no surprise right now and deemed desirable in terms of the Fed. Looking ahead, whilst scheduled events are few and far between now, the most notable are PCE and UoM final on Friday, as well as initial jobless claims on Thursday.

Cyclical currencies were mixed. The Aussie was the clear G10 outperformer as it was supported by the bounce in commodity prices due to the risk-on sentiment which helped AUD/USD hit a high of 0.6728. NZD and GBP were the G10 underperformers, as Cable slipped to session lows of 1.2056 while NZD/USD bottomed out at 0.6278. Fundamental newsflow was light amid thin liquidity as participants enter the holiday period, and as such seemed to fall victim to the broader Dollar strength and choppy trade rather than anything currency specific. Although, some desks attributed some of the Pound weakness to the ongoing UK strikes and record British public debt. In terms of scheduled events, there is little scheduled aside from UK GDP on Thursday.

The Loonie was flat and unresponsive to the latest Canadian inflation data. On this, headline inflation dipped in November, but the core edged up remaining elevated. As such, OxEco expects BoC to hold rates steady through 2023 with the key thing to watch in coming months being how quickly core inflation decelerates. This will help determine the speed at which headline inflation returns to the BoC's 2% target and how long the Bank keeps rates in restrictive territory.

Euro and **Swissy** were flat against the Buck in the aforementioned light trade, highlighted by EUR/USD and USD/CHF trading between tight parameters of 1.0590-1.0645 and 0.9240-89, respectively. In terms of key levels, technicians are eyeing up a close for EUR/USD beneath its 10DMA of 1.0597. Little new of note for either currency barring ECB's Centeno calling for a peak in inflation in Q4 this year.

The Yen was weaker and pared some of its recent strength since the BoJ meeting, albeit still significantly stronger on the week; USD/JPY reached a high of 132.52 in contrast to a 131.51 low. Japanese CPI for November is due next on Thursday.

EMFX was mixed, as ZAR and MXN outperformed, while BRL and TRY were flat alongside CNH seeing weakness with the RUB the clear underperformer. There was little reaction in EUR/CZK in wake of the CNB rate decision where they held rates steady at 7%, as expected. Meanwhile, the Yuan was undermined amid fear from market participants that China's abrupt exit from zero-COVID policies will trigger a serious health crisis over the next few months. For the record, PBoC reiterated it will keep Yuan rate basically stable at a reasonable level and is to stick to prudent monetary policy.

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