



## US Market Wrap

### 22nd December 2022: Stocks tumble after strong US data keeps pressure on the Fed

- **SNAPSHOT:** Equities down, Treasuries down/flat, Crude down, Dollar up.
- **REAR VIEW:** Q3 GDP revised up; Jobless claims remain low; David Tepper shorts the market; MU and KMX earnings misery; China cuts quarantine requirements.
- **COMING UP: Data:** US PCE Price Index, Durable Goods, New Home Sales.
- **CHRISTMAS:** For the Newsquawk Christmas Period Opening Hours, please [click here](#).

### MARKET WRAP

Stocks were sold hard on Thursday with strong upward revisions to Q3 GDP and low initial claims data igniting a hawkish reaction. Dismal Micron (MU) and CarMax (KMX) earnings also weighed on sentiment. And adding insult to injury were remarks from David Tepper to CNBC who said he is leaning short on the market, in addition to shorting bonds as he believes the Fed will make good on its hiking path. Treasuries flattened with 2s up 6bps and 10s flat at pixel time, with hawkish Fed pricing ramped in wake of the strong data. Inflation breakevens fell in reaction to the tightening in market-based financial conditions. In FX, the Dollar found support from the higher rates in addition to haven demand as risk assets tumbled through the session. Oil prices unwound their European strength, which was pinned on Bloomberg reports of China easing COVID restrictions for tourists, as part of the broader Dollar bid/risk off in the US session.

### US

**GDP:** US Q3 GDP saw another revision firmer for the final reading to 3.2% from 2.9%. That included consumer spending being hiked up to 2.3% from 1.7%, with the bulk of that being services spending. The report only adds to the pressure on the Fed to keep tightening with no signs of an imminent consumer slowdown, even when looking at some of the more forward-looking measures.

**JOBLESS CLAIMS:** Initial jobless claims rose marginally to 216k from 214k, but beneath the expected 222k while continued claims dipped to 1.672mln (prev. 1.678mln, exp. 1.683mln). Pantheon Macroeconomics notes it is the second consecutive soft-looking print but warns not to be deceived as seasonal adjustment quirks explain the dip. As such, the consultancy says it will reverse next week and expects to see claims nearer to 240K. Pantheon concludes, "sooner or later the uptick in claims, alongside the downshift in gross hiring, will be reflected in the payroll numbers. Job growth has been slowing for a year but remains quite strong still by historical standards; this won't last much longer."

**LEADING INDICATOR:** The Conference Board's Leading Index change declined by 1% M/M, accelerating from the prior revised 0.9% fall, deeper than the expected -0.4% and the report point towards an economic recession in the US, Oxford Economics wrote. The CB report noted that "Only stock prices contributed positively to the US LEI in November. Labor market, manufacturing, and housing indicators all weakened—reflecting serious headwinds to economic growth. Interest rate spread and manufacturing new orders components were essentially unchanged in November, confirming a lack of economic growth momentum in the near term."

### FIXED INCOME

#### T-NOTE (H3) FUTURES SETTLED HALF A TICK LOWER AT 113-17+

**Treasuries flattened Thursday after strong US data keeps the hawkish pressure on the Fed.** 2s +4.6bps at 4.261%, 3s +3.1bps at 4.022%, 5s +1.2bps at 3.789%, 7s +0.3bps at 3.771%, 10s -1.1bps at 3.673%, 20s -1.2bps at 3.917%, 30s -1.4bps at 3.730%.

**Inflation breakevens:** 5yr BEI -6.9bps at 2.301%, 10yr BEI -8.6bps at 2.207%, 30yr BEI -6.6bps at 2.248%.

**THE DAY:** T-Notes saw gradual gain through the APAC session, going on to print session highs of 113-29 in the European morning. Contracts then pared slightly into the NY morning before knee-jerking lower in response to the chunky, consumer-driven upward revision to US Q3 GDP, alongside the low initial claims data. The front-end led the



selling as data keeps pressure on the Fed to keep up its tightening. T-Notes troughed at 133-13+ not too long after, with curve flatteners and haven demand keeping the long-end propped as broader risk assets continued to tumble. Newsflow was sparse otherwise, and the contracts hovered not too far off low through into the settlement, with little spillover from the 1bp tail 5yr TIPS auction from the Treasury.

**REFUNDING:** US to sell USD 42bln of 2yr notes on Dec. 27th, USD 43bln of 5yr notes on Dec. 28th, USD 35bln of 7yr notes on Dec. 29th; all to settle on Jan. 3rd. To sell USD 22bln in 2yr FRN notes reopening on Dec. 28th, settling on Dec. 30th. While in bills, to sell USD 54bln of 3-month bills, USD 45bln of 6-month bills, and USD 34bln of 1yr bills on Dec. 27th, all settling on Dec. 29th.

#### STIRS:

- EDZ2 -2.5bps at 94.955, H3 -4.5bps at 94.925, M3 -5bps at 95.09, U3 -4.5bps at 95.41, Z3 -5.5bps at 95.81, H4 -6.5bps at 96.165, M4 -6.5bps at 96.415, U4 -5.5bps at 96.555, Z4 -4bps at 96.635, Z5 -1bps at 96.685, Z6 +1bps at 96.575.
- Over 50k SR3H3 put spreads blocked in the afternoon targeting >5% SOFR vs current 4.85% priced.
- NY Fed RRP op demand at 2.223tln (prev. 2.207tln) across 96 bidders (prev. 98).
- US sold USD 46bln of 1-month bills at 3.610%, covered 2.88x; sold USD 46bln of 2-month bills at 3.985%, covered 2.68x.

## CRUDE

**WTI (G3) SETTLED USD 0.80 LOWER AT USD 77.49/BBL; BRENT (G3) SETTLED USD 1.22 LOWER AT 80.98/BBL**

**Oil prices were subdued on Thursday with the strong Dollar/hawkish reaction to the strong US data unwinding earlier strength in the energy space.** The benchmarks had been rallying through the European morning, coinciding with Bloomberg reports that China is to cut quarantine requirements for overseas travellers as of January. WTI and Brent front-month futures made peaks of USD 79.90/bbl and 83.85/bbl before paring as the NY session got going. The sustained selling pressure in major stock indices and the Dollar strength accelerated the unwind in oil prices in lack of energy catalysts. Highlights in the space today included Reuters reports that Russian Urals crude exports are to decline by as much as 20% M/M in December from Baltic Sea Ports due to the EU embargo and price cap. Meanwhile, Russian President Putin said he is to sign a decree on the Russian response to the Western price cap on Monday or Tuesday next week, saying Russia reserves the right to consider whether it is obliged to fulfil gas contracts if other party violates them.

## EQUITIES

**CLOSES:** SPX -1.40% at 3,824, NDX -2.49% at 10,956, DJIA -1.05% at 33,027, RUT -0.90% at 1,758.

**SECTORS:** HEALTH -0.16%, CONS STPL -0.29%, REAL ESTATE -0.4%, UTILITIES -0.63%, MATERIALS -0.94%, FINANCIALS -0.97%, COMMUNICATION SVS -1.15%, INDUSTRIALS -1.25%, ENERGY -2.31%, TECHNOLOGY -2.54%, CONS DISC -2.59%.

**EUROPEAN CLOSES:** EURO STOXX 50 -1.26% at 3,824, FTSE 100 -0.38% at 7,469, DAX 40 -0.57% at 13,912, CAC 40 -0.95% at 6,518, FTSE MIB -1.21% at 23,820, IBEX 35 -0.39% at 8,270, SMI -0.69% at 10,771.

**STOCK SPECIFICS:** **Micron Technology (MU)** reported a deeper loss per share than expected and missed on revenue; to cut headcount by roughly 10% through FY23 and suspends share buybacks. Next quarter profit guide light of the expected. **Tesla (TSLA)** authorised staff to increase the discount to USD 7,500 for Model 3 and Model Y vehicles being delivered in the US by the end of the month, according to Electrek sources. **CarMax (KMX)** posted a woeful report: missed on the top and bottom line as well as pausing share buybacks. Ongoing pressure across the used car industry has led it to prioritise initiatives that reduce costs. Headwinds remain due to widespread inflationary pressures, climbing interest rates, and low consumer confidence. Hundreds of employees from two of **Tyson Foods' (TSN)** largest business units plan to leave, according to WSJ citing sources. FDA has granted a new biosimilar user fee amendment for **Alvotect's (ALVO)** original biologics license application for AVT02 as a biosimilar to Humira. **Cleveland Cliffs (CLF)** announced price increases on fixed-price contracts. **TuSimple (TSP)** revealed a restructuring plan designed to set the co. on the course to long-term success; involves a 25% reduction of its total workforce. **Under Armour (UA)** named Stephanie Linnartz as President and CEO effective February 27th; Linnartz is currently president of **Marriott's (MAR)** international operations. **AMC (AMC)** announced USD 110mln equity capital raise, a USD 100mln debt for equity exchange, and a proposed vote to convert AMC preferred equity ("APE") units into AMC common shares and implement a reverse stock split.



## FX WRAP

**The Dollar** caught a bid in wake of the hot economic data with Q3 GDP being revised higher to 3.2% from 2.9% while the latest initial jobless claims, for the period that usually coincides with the NFP report, came in beneath expectations, showing signs of a hot job market, albeit the weeks around the holiday period are usually quite hard to get a full understanding. The data also sparked huge downside in stocks which only supported the Dollar even more through haven demand with DXY printing a high of 104.50. The gains in the buck were not too large in relation to the move in equities but the index took out the Thursday high of 104.38.

**The Euro** fell victim to the Dollar strength. EUR/USD fell sub 1.06 in otherwise quiet trade in the Eurozone with the primary moves coming in wake of the US data. There was commentary from ECB's de Guindos earlier on, adding little new, noting there is still a need to do more on rate hikes.

**The Yen** was flat vs the Dollar but hit lows in wake of the US data before paring somewhat. The Yen is still finding overhanging support from the BoJ actions earlier in the week. **Gold** fell beneath USD 1,800/oz. Meanwhile, **the Franc** was weaker vs the buck and the Euro.

**Cyclical currencies** were hit on the Dollar strength and pronounced risk off with Cable losing 1.2100 and 1.2000 briefly with initial weakness seen after disappointing UK GDP data. Sterling wasn't the underperformer, however, as the antipodes succumbed to the heavy equity pressure with both AUD and NZD being the cyclical underperformers while AUDNZD saw mild gains and predominantly traded between 1.0650 and 1.0700. USD/CAD rose above 1.3600 and 1.3650, with lower oil prices weighing too. Scandis were weaker vs both the Euro and the Dollar while NOK/SEK traded either side of 1.06.

**EMFX** was generally firmer vs the Dollar, other than Yuan with the Rouble outperforming after its recent weakness while Reuters reported Russia is likely to carry out foreign FX purchases in CNY next year, according to sources, and would be subject to oil and gas revenues meeting expectations. The Lira saw gains while the CBRT maintained guidance and ended its rate-cutting run. The Real was supported by a USD spot auction while President Lula announced his team. In CEE, the Zloty firmed vs the Dollar, while it was revealed NBP's Tyrowicz opted for a 100bp hike back at the November meeting, which ultimately saw rates left unchanged at 6.75%. The Peso saw half-month inflation in line with expectations while Banxico's Heath warned about the local effects of a slowdown or recession in the US.

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