



US Market Wrap

3rd January 2023: New Year starts with a stock slide and dollar drive

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar up.
- **REAR VIEW:** TSLA Q4 production and delivery numbers short of expected; AAPL asks supplier to lower production for almost all product lines; Solid US construction spending; Disappointing China PMI data; Cooler-than-expected German inflation prints.
- **COMING UP:** **Data:** US ISM Manufacturing PMI, JOLTS **Event:** FOMC Minutes (Dec) **Supply:** Germany.

MARKET WRAP

Stocks ultimately sold off to start the new year albeit closed off the lows after SPX briefly fell sub 3800 before reclaiming the level later in the session. The downside was led by the Nasdaq and the usual heavyweights with AAPL shedding nearly 4% and TSLA closing down over 12%. The former ordered a supplier to lower orders, signalling demand woes, and the latter posted disappointing delivery and production numbers. The Dollar was supported by the risk-off conditions but attention turns to key macroeconomic events later in the week, including FOMC Minutes on Wednesday (full preview available below), ISM Manufacturing on Wednesday, NFP and ISM Services on Friday. T-Notes were bid throughout the European morning on disappointing China PMI data and cooling regional German inflation prints (which preceded the cooler-than-expected nationwide inflation data later on) before unwinding the earlier strength in the afternoon on a plethora of corporate issuance. The crude complex drifted lower throughout the NY session on account of the broad risk-off sentiment and dollar strength, as well as the weak demand data from China and an ever-present gloomy economic outlook. US data was light but Construction Spending came in better than expected, and the latest Atlanta Fed GDP Now tracker was revised higher to 3.9% from 3.7% for Q4 22.

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FOMC MINUTES PREVIEW: The December meeting minutes will be released on Wednesday 4th January 2023 at 19:00GMT/14:00EST. The minutes will be eyed for commentary on the terminal rate with the latest dot plot projections pencilling in a peak at 5.1% (FFR of 5.00-5.25%) from the current 4.25-4.50% - implying rate hikes are to continue through either three 25bp rises or another 50bp and a final 25bp hike. The minutes will also be gauged to see if there is an appetite to slow the pace of hikes once again, to 25bp in February, which will help determine the tightening pace to the peak rate. Any language within the minutes that suggests how long rates are held at the peak will also be key, although it will likely reiterate a data-dependent approach, but Fed's Daly had suggested 11 months is a reasonable time frame and that everyone on the Fed sees rates at terminal throughout 2023. To download the full Newsquawk preview, please [click here](#).

CONSTRUCTION SPENDING: Construction spending for November was stronger than expected and posted a surprise rise of 0.2%, above the expected -0.4% and the prior -0.2%. Within the report, private non-residential spending also delivered an upside surprise and was also driving the upward revisions to spending in September and October. Elsewhere, Oxford Economics note, "residential spending declined for a sixth straight month and was revised lower in the prior two months." As such, "on balance, the November report points to a slight downward revision to our forecast for Q4 GDP as the negative readings for the residential sector will offset the stronger expected data on residential spending."

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 11 TICKS HIGHER AT 112-20+

Treasuries saw two-way trade after an EGB-led bid post-German inflation data unwound in NY trade as IG issuance surged. 2s +0.4bps at 4.407%, 3s +0.0bps at 4.193%, 5s -2.1bps at 3.943%, 7s -3.6bps at 3.888%, 10s -3.9bps at 3.792%, 20s -4.6bps at 4.059%, 30s -5.2bps at 3.886%.

Inflation breakevens: 5yr BEI -6.2bps at 2.319%, 10yr BEI -3.8bps at 2.264%, 30yr BEI -2.9bps at 2.319%.



THE DAY: T-Notes gapped higher to 112-17 on the futures reopen for the new year with some soft Chinese PMI data to digest keeping fixed income supported on growth concerns. Additional strength was found in the European morning, finding resistance at 113-02, amid the regional German CPI figures coming through on the soft side, preceding the later released, nationwide 0.8% decline in M/M CPI, much deeper than the expected 0.3% decline and bringing the Y/Y down to 8.6% from 10% in Nov; attention now moves to the French figures on Wednesday. T-Notes later eked out session highs of 113-03+ amid the choppy open for US stocks at the cash open and as the US S&P Global Manufacturing PMI Final in December remained suppressed at 46.2. However, the deluge of 20 issuers tapping the IG Dollar market on the day proved too much to handle, and Treasuries unwound their strength into the NY afternoon to make room for the supply, accentuated by an 11.3k T-Note block sale.

STIRS:

- EDZ2 -1.0bps at 94.915, H3 -1.0bps at 94.825, M3 +1.0bps at 94.935, U3 +2.0bps at 95.230, Z3 +2.0bps at 95.620, H4 +2.0bps at 95.990, M4 +2.0bps at 96.260, U4 +2.5bps at 96.425, Z4 +3.5bps at 96.520, Z5 +4.0bps at 96.590.
- NY Fed RRP op demand at USD 2.188tln (prev. 2.554tln) across 99 bidders (prev. 113).
- US sold USD 51bln of 6-month bills at 4.635%, covered 2.78x; sold USD 61bln of 3-month bills at 4.410%, covered 2.50x.
- US announced it is to sell USD 45bln of 1-month bills and USD 45bln of 2-month bills on Jan 5th; to sell USD 33bln of 17-week bills on Jan 4th; all to settle on Jan 10th and all sizes unchanged.

CRUDE

WTI (G3) SETTLED USD 3.33 LOWER AT 76.93/BBL; BRENT (H3) SETTLED USD 3.81 LOWER AT 82.10/BBL

The crude complex drifted lower throughout the NY session on account of the broad risk-off sentiment, highlighted by Dollar strength and US equity weakness, as well as weak demand data from China and an ever-present gloomy economic outlook. On the latter, desks note plenty of reason to remain concerned heading into the New Year amid potential China COVID fears and the continued recessionary fears. As such, WTI and Brent hit lows of USD 76.60/bbl and 81.78/bbl, respectively, in the NY afternoon. Elsewhere, the latest Bloomberg OPEC Survey noted December crude output climbed to 29.14mln BPD, while Nigerian production rose to an 8-month high of 1.35mln BPD as it cracked down on theft. Looking ahead, private inventory data is due Wednesday after-market on account of Monday's bank holiday, and on the macro front, there is the US ISM manufacturing and FOMC Minutes on Wednesday followed by NFP and ISM services on Friday.

BANK COMMENTARY: Commerzbank noted Brent prices could climb to USD 100/bbl on signs of an economic recovery, which will probably happen from Q2 onwards. The bank added lower OPEC+ production is bound to contribute to higher prices, but will probably not be the key force driving it. Separately, Goldman Sachs continues to believe the oil curve will strengthen from current levels and sees USD 80-100/bbl Brent as a realistic range.

GAS: Germany's newly constructed LNG gas terminal received its first full cargo from the US, as it attempts to shore up its supply after the termination of its decades long energy relationship with Russia. Regarding the shipment, it arrived at the LNG import terminal in the port town of Wilhelmshaven on the North Sea, a facility that was built at a breakneck speed in less than a year to help Germany avert an energy shortage.

CHEVRON: Chevron (CVX) is to export a 500k bbl cargo of Venezuelan Hamaca crude from its Petropiar JV to the US this month, the first cargo of Venezuelan crude after receiving the US license to go to its Pascagoula refinery in Mississippi.

EQUITIES

CLOSES: SPX -0.41% at 3,823, NDX -0.70% at 10,862, DJIA -0.04% at 33,134, RUT -0.60% at 1,750.

SECTORS: Energy -3.65%, Technology -1.01%, Consumer Discretionary -0.59%, Health -0.3%, Consumer Staples -0.24%, Materials -0.11%, Utilities unch., Industrials +0.2%, Real Estate +0.31%, Financials +0.37%, Communication Services +1.39%.

EUROPEAN CLOSES: EURO STOXX 50 +0.68% at 3,882, FTSE 100 +1.37% at 7,554, DAX 40 +0.80% at 14,181, CAC 40 +0.44% at 6,623, FTSE MIB +1.15% at 24,436, IBEX 35 +0.33% at 8,397, SMI +2.32% at 10,978.



STOCK SPECIFICS: **Tesla (TSLA)** slumped after it announced record Q4 production and delivery numbers, but it fell short of Wall St. estimates due to logistics problems, slowing demand, rising interest rates and fears of recession. Chinese EV names, such as **Li Auto (LI)**, **xPeng (XPEV)**, and **Nio (NIO)** recorded strong Q4 numbers. An **Apple (AAPL)** supplier manager told Nikkei that Apple alerted them to lower orders for almost all product lines, partly because the demand is not that strong. **ACM Research (ACMR)** reaffirmed FY22 revenue view but lifted its FY23 outlook. **Brenntag (BNTGY)** ended takeover talks of **Univar Solutions (UNVR)**, weeks after activist investor PrimeStone called on Brenntag to consider a break-up. However, according to Street Insider citing sources, strategic bidders continue to vie for Univar despite the Brenntag exit. **Disney (DIS)** has reportedly made USD 1.38bln on Avatar 2 since its release, on the cusp of passing its approximately USD 1.4bln break-even point, according to Variety. **PayPal (PYPL)** was upgraded at Truist, who said investors have been "too negative" on the stock given the cos. "durable" long-term organic revenue growth. **Coty (COTY)** was upgraded at Piper Sandler, who cited increasing exposure to China and travel retail, which should allow for recovery tailwinds. **Wynn Resorts (WYNN)** was upgraded at Wells Fargo on Macau reopening optimism. In sympathy, other casino names such as **Las Vegas Sands (LVS)**, **MGM Resorts (MGM)**, and **Melco (MLCO)** saw upside. **Nvidia (NVDA)** unveiled its GeForce RTX 4070 Ti graphics card, with starting price of USD 799; faster than RTX 3090 Ti with DLSS3 & RTX enabled, according to Wccftech.

FX WRAP

The Dollar started the new year with a bang with DXY rallying as players returned from the holidays seeing the index move from lows of 103.46 to highs of 104.86. The buck was supported by the risk-off tone in equities due to strong selling pressures in the heavyweight tech space, particularly AAPL and TSLA after the former ordered a supplier to lower orders and the latter with disappointing delivery and production numbers. US data was light, although construction beat expectations while the final S&P Global Manufacturing PMI data was unrevised at 46.2 ahead of the ISM Manufacturing survey on Wednesday. Attention also lies on the December FOMC Meeting minutes on Wednesday, where a full preview is [available here](#), which comes ahead of the Friday NFP and ISM Services data. It is also worth noting the plethora of corporate issuance on Tuesday after the Christmas break with over 20 issuers in the Dollar market.

The Euro fell victim to the dollar strength seeing EUR/USD fall from highs of 1.0683 to lows of 1.0520. There was also the cooler-than-expected German CPI data, albeit the one-off payment in December 2022 to cover the monthly instalment for gas and heat had a downward effect on prices. Attention turns to the French CPI on Wednesday and the overall EZ CPI on Friday.

The Yen was flat vs the rampant dollar but USD/JPY traded between 129.52 (lowest since the Fed's first 75bp hike) and 131.39 before hovering just north of 130.50 in the final part of the US session. The lower yields in the US helped support the Yen against the rising buck, while there were also reports in Nikkei quoting the Japanese PM that he will discuss with the next BoJ governor whether to review its decade-old commitment to achieving 2% inflation. The FOMC minutes and US data will be key drivers for the cross this week. **The Franc** saw notable losses vs the Greenback but was relatively flat vs the Euro after an above consensus Swiss manufacturing PMI and withdrawal in sight deposits at domestic banks.

The onshore Yuan was weaker vs the buck overnight but **offshore Yuan** saw a gain vs the Dollar in the US session. There was disappointing China data overnight, where PMI was softer than expected and was the first reading into the Chinese economy since it began re-opening from COVID controls. Credit Suisse expects a spike in COVID infections to occur around the Chinese New Year (January 21st-27th) given the expected mass migration, which will likely weigh on activity in Q1.

Cyclical currencies succumbed to the stronger buck and downbeat risk tone, particularly the Aussie and Kiwi which were also hampered by downbeat China activity data. Although, Kiwi too on lack of NZ participants due to the extended NY Holiday, while declines in GDT and WMP auction prices also added to the woes. CAD also saw pronounced weakness on the downbeat risk but also as crude prices tumbled while GBP was a cyclical outperformer, albeit softer vs the Dollar but firmed against the Euro with Cable losing hold of 1.20 while EUR/GBP dipped beneath 0.88 before returning to the round level. The Final December UK S&P Global/CIPS Manufacturing PMI survey was revised higher to 45.3 from 44.7, above expectations, albeit still noting "Output contracted at one of the quickest rates during the past 14 years, as new order inflows weakened and supply chain issues continued to bite."

Scandi's saw notable weakness with underperformance in the NOK on the slide in Brent prices while SEK also saw downside, but the NOK was the clear underperformer with NOK/SEK falling from highs of 1.0644 to lows of 1.0471, albeit both currencies were hit by the rising dollar and risk sentiment.

EMFX was generally weaker, although the ZAR and TRY were flat against the Dollar. In Turkey, CPI and PPI came in softer than expected while ZAR helped offset dollar gains thanks to gains in gold prices. BRL was notably weaker after



the Brazilian Finance Minister said there were no plans to set an exchange rate target and gave a one quarter deadline for the government to implement measures aimed at helping the economy, while Estadão reported the government is considering a fiscal adjustment of BRL 223bln in 2023. The Peso saw gains vs the Dollar, and it is worth noting that with Esquivel's term now at an end, the Banxico are a member short and Esquivel is usually a dovish dissenter. Banxico's Heath reassured us that the Central Bank of Mexico can still operate with four members while they await a replacement from AMLO.

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