

Market Recap 20/11/2022

US

On Monday, equities finished a little lower after the rally caused by the weaker-than-expected inflation reading last week. Interest rates moved lower with the 10-year U.S. Treasury yield down from 4.15% to below 3.9%. Markets overall moved sideways in expectation of more consumer data coming out during the week.

On Tuesday, the Producer Price Index (PPI) report reassured markets that inflation was moderating, with a better-than-expected Core PPI (excluding food and energy) reading of 0.2% MoM increase, well below the consensus expectations of 0.4%. Walmart beat its earnings expectations and saw its shares close 6.6% higher, showing solid demand for grocery items. Some softness in the demand for electronics was noted by the company, citing that household spending was decelerating, but still far from depleted.

	Friday's Close	Week's % Change	Year to date % Change
Dow Jones Industrial Average	33745.69	-0.01%	-7.12%
S&P 500	3965.34	-0.69%	-16.80%
Nasdaq Composite	11146.06	-1.57%	-28.76%
Russell 2000	1849.73	-1.75%	-17.62%
Russell 3000 Value	1999.02	-0.72%	-8.37%
Russell 3000 Growth	1804.80	-1.22%	-26.03%

On Wednesday, Amazon announced that it plans to lay off 10 000 workers, joining Meta which let go 13% of its workforce last week, due to its huge losses from the Metaverse investment and declining revenue. After his recent acquisition of Twitter, Elon Musk has also been quick to fire 50% of the company's employees, in hopes of resetting the cost structure, due to fears of bankruptcy, as more and more advertisers are leaving the platform. These examples can be seen as signs of an easing in the tight labor market, and even if it does not have an immediate effect on markets, this trend indicates some possible mitigation of inflationary pressures in the near future.

Treasury Bonds	Friday's Yield	Weekly Ch. In Yield (bps)
2Y	4.51%	18
5Y	4.01%	7
10Y	3.83%	2
30Y	3.93%	-13

On Thursday, Republicans secured a narrow House majority after gaining the minimum 218 seats needed to control the chamber. Markets were choppy because of St. Louis Fed's President James Bullard comments about the possibility of larger interest rate hikes. He stated that "inflation remains unacceptably high" and several consecutive months of lower inflation readings were needed to establish a stable trend, suggesting that the short-term interest rate may have to reach 7% to combat inflation more adequately. Markets are not expecting rates to go that high soon, as they are pricing in a 50-basis-point interest rate hike with certainty of around 90%. However, there is a consensus that any major rally in financial markets will be detrimental to the Fed's effort to bring down inflation, and it could even trigger a more hawkish response.

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On Friday, more consumer data from major U.S. retailers' earnings came out. Despite diverging information, the general message was that consumer demand remains resilient. There is softening in the spending for discretionary items, as consumers return to their pre-pandemic spending habits. Elizabeth Holmes, the founder of Theranos has been sentenced to 135 months in jail for fraud, with a 3-year supervised release after prison. Also, Grindr the LGBTQ dating app, saw its shares explode, registering a 213.84% increase on the first day after de-SPAC.

EU

On Monday, data on Euro Area industrial production showed an increase in activity of 0.9% MoM, beating expectations of 0.3%. Output for non-durable consumer goods increased for a third month in a row (3.6% vs 1.4% in August), indicating a stronger agricultural production as food prices soar, while production of energy (-1.1% vs -0.1%) and durable consumer goods (-0.9% vs -1.0%) recorded another MoM decline.

	Friday's Close	Week's % Change	Year to date % Change
STOXX Europe 600	433.33	0.25%	-11.33%
DAX (Germany)	14431.86	1.46%	-9.15%
CAC 40 (France)	6644.46	0.76%	-7.11%
FTSE MIB (Italy)	24675.00	0.90%	-9.77%
FTSE 100 (UK)	7385.50	0.92%	0.01%

On Tuesday the EU Gross Domestic Product (GDP) report showed an expansion of 0.2% in the three months to September 2022, which was in line with expectations. This was the sixth consecutive quarter of expansion, but also the weakest one of the bunch. Among the biggest economies, German GDP grew the most (0.3% in Q3 vs 0.1% in Q2), while France (0.2% Q3 vs 0.5% Q2), Italy (0.5% Q3 vs 1.1% Q2) and Spain (0.2% Q3 vs 1.5% Q2) slowed. Expectations point to a possible recession in the final quarter of 2022 and the first 3 months of 2023. The Euro Area recorded its largest trade gap on record, with a deficit of €34.4bn in September, being the 11th consecutive deficit, due to soaring energy prices. Imports surged by 44.5% (€294bn), while exports expanded by 23.6% (259.6 billion EUR). Also, employment rates rose by 0.2% QoQ.

10Y Gov. Bonds	Friday's Yield	Weekly Ch. In Yield (bps)
Germany	2.02%	-13
France	2.49%	-18
Italy	3.89%	-31
Spain	2.99%	44
UK	3.24%	11

The headliner on Wednesday was the higher-than-expected UK CPI reading of 11.1%, which is the country's highest recorded rate since October 1981. The largest drivers to the change in the annual inflation rates were the prices in gas and electricity, which rose by 36.9%, and 16.9 MoM, respectively, despite the introduction of the government's Energy Price Guarantee (EPG). According to the estimates of the Office for National Statistics (ONS), without the EPG, the prices of fuels and electricity would have risen by 75% and overall CPI inflation would have been 13.8%. Food and non-alcoholic beverage prices rose by 16.4% in the 12 months to October 2022, up from 14.6% in September 2022.

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On Thursday, the EU Core Harmonized Index of Consumer Prices report came out, with a slightly better-than-expected reading of 10.6% YoY increase in October. This number is still the highest on record, well above the European Central Bank's (ECB) target of 2%. This kept pressure on the ECB to keep raising rates despite the inescapable decline in economic growth.

During her speech in Frankfurt on Friday, ECB President Christine Lagarde stated that “the ECB will ensure that a phase of high inflation does not feed into inflation expectations”. According to her, the risk of an economic downturn has only increased and even a recession is unlikely to bring down inflation significantly. She outlined the ECB's strategy to keep raising rates until the 2% inflation target is met, stating that interest rates will remain the main tool to combat inflation. The UK Retail Sales report showed an increase of 0.6% MoM exceeding expectations of 0.3%. Increases were predominant in almost all sectors except for food stores, which registered a decrease of 1% in sales. Many supermarkets are experiencing a decline in the volume sold, due to high food prices and increased cost of living.

Rest of the World

Japan's GDP report showed a decline of 0.3% QoQ, way below the market consensus of 0.3% increase. This was Japan's first GDP contraction since Q3 2021, amid the slump in the yen, and global inflation. Net trade was one of the bigger drags for the GDP, as exports and imports rose respectively by 1.9%, and 5.2% QoQ, the most in seven quarters.

	Friday's Close	Week's % Change	Year to date % Change
Nikkei 225	27,899.77	-1.29%	-3.10%
CSI 300	3,801.57	0.35%	23.05%
Shanghai Composite	3,097.24	0.32%	-14.91%
Hang Seng	17,992.54	3.85%	-23.10%

A lot of crucial Chinese data came out on Tuesday. China's surveyed urban unemployment rate remained flat from last month at 5.5%. The China Retail Sales YoY report showed an unexpected decline of 0.5% YoY in retail trade, where the major movers were clothing (-7.5% vs -0.5% in September), office supplies (-2.1% vs 8.7%), and communications equipment (-8.9% vs 5.8%). China's industrial production also did not meet expectations, registering a 5.0% YoY increase, with market estimates of a 5.2% increase. The report indicated a slowdown in the recovery in the Chinese economy amid rising COVID cases. As the Covid outbreak is growing, there is a possibility that China will continue to strictly adhere to its zero-COVID policy. Because of that, future demand forecasts moved lower, and the price of energy dropped.

	Friday's Close	Week's % Change	Year to date % Change
BIST-100 (Turkey)	4526.70	1.60%	143.00%
IPC Index (Mexico)	51569.72	-0.75%	-3.20%
Bovespa (Brazil)	108880.00	-2.63%	3.87%
Kospi (South Korea)	2444.48	-1.56%	-17.91%
S&P/ASX 200 (Australia)	7151.80	-0.09%	-3.93%

On Thursday the Japan's Balance of Trade report came out, revealing a trade deficit of 2,162.3 billion JPY, being the 15th straight month of deficit, the longest stretch since 2015. Imports rose by 53.5% YoY (JPY 11,164.8bn JPY), while exports rose by 25.3% (JPY 9,001.5bn). This just adds to the concerns over the country's economic recovery.

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More Japanese data came out on Friday, with the Japanese Inflation Rate report. The annual inflation rate was in line with expectations, reaching a peak of 3.7%, the largest reading since 1991. The main drivers were food (6.2% vs 4.2% in September), and housing (1.1% vs 0.6%), while the price of electricity receded (10.9% vs 21.5%).

FX and Commodities

Oil prices were the main driver of the commodities markets this week as early reports on the rocket that had hit a small Polish town and killed two people, indicated that the missile was fired from Russia. This sent the price of oil higher as markets feared an escalation of the Russia-Ukraine conflict. As more information came out, pointing to the possibility that the explosion was most probably caused by a stray air-defense missile shot by Ukraine, volatility in the market eased and prices of Brent, as well as WTI crude oil futures fell almost 10% WoW.

US natural gas rose by 8% WoW as heating demand is set to rise due to colder weather. EU as well as UK natural gas futures also rose by 18%, and 13% WoW respectively. As of this Wednesday, gas reserves in the EU were 95% full. EU member states continue to discuss ways to limit spikes in gas prices ahead of a meeting of energy ministers next week. Still, gas prices in Europe have remained way above the average of the last five years.

In the FX market, the Japanese Yen rebounded from a 32-year low against the dollar, on speculation that the US central bank will slow rate increases. The Euro also remained above \$1.03, close to its highest level since July 4th, as the European Central Bank is looking to further raise rates to tame inflation. The Chinese Yuan weakened, trading below 7.10 per dollar, falling from six-week highs as Covid outbreaks in China sparked concerns about potential new lockdowns and further economic instability.

The crypto market is still in shambles after one of the largest centralized crypto exchanges FTX filed for bankruptcy last week. The market has been very choppy with no significant price movement as BTC is trading slightly above \$16500 and ETH is trading at \$1200.

Next Week's Main Events

Next week's main events will be the release of the Chinese Loan Prime Rate, EU Consumer Confidence Flash, US Durable Goods Orders MoM, ECB Monetary Policy Meeting Accounts, Germany's GDP Growth Rate QoQ Final Q3, and UK BoE Pill Speech. The expectations for the EU Consumer Confidence are a reading of -26. The US Durable Goods Orders are expected to have risen by 0.4% MoM, and Germany's GDP Growth Rate is expected to increase by 0.3% QoQ.

Events	
Monday	Chinese Loan Prime Rate 1Y
Tuesday	EU Consumer Confidence Flash (Nov)
Wednesday	US Durable Goods Orders (MoM)(Oct), US Home Sales, BoE Pill Speech, EA Manufacturing PMI (Nov), FOMC Minutes
Thursday	Germany Ifo Business Climate Index, ECB Monetary Policy Meeting Accounts
Friday	Germany GDP Growth Rate (QoQ) Final Q3

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Brain Teaser #31

What is the greatest number of pawns that can be placed on cells of a chessboard so that on every row, column or diagonal there is an even number of pawns? Now solve the problem for a $2n \times 2n$ chessboard.

Source: All-Russian Olympiad 1993

Solution: First, we notice that there are $2n$ diagonals on the chessboard with an odd number of squares and no common squares. Therefore, the number of pawns cannot be more than $4n^2 - 2n = 4n(n - \frac{1}{2})$. An arrangement of $4n(n - \frac{1}{2})$ pawns that satisfies the condition of the problem will be obtained if you put a pawn on each cell of the board, except for the cells of the two main diagonals. A similar logic can be applied to the $2n \times 2n$ chessboard, obtaining $4 \cdot n^2 - 4 \cdot n$ as an answer.

Brain Teaser #32

Four dice are thrown. What is the probability that the product of the four numbers equals 36?

Source: Dutch Mathematical Olympiad 1985

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