Macro Monday

TD Ameritrade Institutional Trading Services

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December 12 – 16
2022

Key Market Levels:

	Fri 4pm ET	YTD	S&P500 Sector	3 Month
S&P 500	3,934	-17.45%	Communications	-5.18%
NASDAQ COMPOSITE	11,005	-29.66%	Discretionary	-11.72%
DJIA	33,476	-7.88%	Energy	+5.41%
Russell 2000	1,893	-19.98%	Financials	+4.45%
Int'l Developed	1,797	-15.40%	Health Care	+8.26%
VIX	22.85	16.3Lo/38.9Hi	Industrials	+11.05%
Oil	71.53	-5.20%	Materials	+11.08%
Gold	1,808	-1.20%	Real Estate	-5.08%
Bitcoin	17,101	-63.18%	Staples	+6.39%
US 10 yr	3.57%	+206 bps	Technology	+1.71%
US 30 yr	3.55%	+174 bps	Utilities	-4.89%

Recapping Last Week

U.S. equities retreated from **technical resistance** (see tweet here) as inflation and recession headlines continued to weigh on investor sentiment. The Russell 2000 Index sank 5%, while the Nasdaq Composite and S&P500 fell 3-4%. Ten of 11 S&P sectors were lower as **energy** plunged 8.5%, while communications and consumer discretionary slid 4.5%+. Despite **OPEC** sticking to existing production cuts and a **shutdown** of the Keystone Pipeline, **crude oil** tumbled 11% to $71.50 per barrel, pressured by weak global economic prospects and waning demand. U.S. Treasury yields rose after Friday's **PPI report**, as wholesale prices came in higher than expected at +0.3% MoM. A spike in food prices offset lower energy costs. **Consumer sentiment** edged higher in early December, and 1-year **inflation expectations** fell to 4.6% from 4.9% ahead of the next week's critical CPI release. In other U.S. economic news, **factory orders** rose for a third straight month in October, and the services sector **PMI** ticked up to 56.5 as seasonal employment offered momentum. The U.S. trade balance widened sharply in October as **exports** dropped, which could be a negative factor for Q4 GDP. Consumer credit climbed more than forecast as **credit card balances** jumped 15% YoY, the largest increase in more than 20 years. The U.S. personal savings rate has plummeted to 2.3%, the second lowest level on record as inflation squeezes consumers. Internationally, China's government eased more **Covid-19 restrictions**, but investor optimism was tempered on concerns of soaring infections. A bumpy road to reopening likely lies ahead. Inflation contracted again in November and **exports nosedived**, suggesting the People's Bank of China may shift to more **accommodative** monetary policy. Australia's central bank continued its slower rate hikes, adjusting by 25bps as Q3 GDP reflected slowing growth. The **Bank of Canada** might be near the end of its aggressive hiking campaign after last week's 50bps lift. Finally, European **retail sales** weakened in October, while Germany's falling **industrial production** was balanced by an uptick in capital goods orders.

The Week Ahead

A massive week awaits ahead of the holiday season, focusing on **inflation** and **central banks**. It all kicks off with **U.S. CPI** on Tuesday, with November's reading expected to edge down to 7.3% YoY from 7.7% in October. It's the final key piece of data before Wednesday's **FOMC meeting**, and Fed Funds futures are currently pricing in a 77% probability of a 50bps hike, which is far from a certainty. A **disinflationary** print could reinforce the idea that inflation has peaked and set the path towards a **smaller rate increase** in January. Elsewhere, the **Bank of England** is grappling with 6% wage growth and still rising inflation as it meets Thursday, where a 50bps hike is likely. The **European Central Bank** gathers on the same day, and contrary to President Lagarde's recent comments there are signs of price increases slowing, which may prompt a **downshift** to only a 50bps raise. If all that wasn't enough, on Friday **global flash PMIs** will be released. Other U.S. events of note include **retail sales**, Treasury auctions, and the Philly Fed Manufacturing Index. Overseas, take note of **UK GDP** on Monday, EU economic sentiment on Tuesday, and **China's retail sales** and industrial production figures late Wednesday.

Chart of the Week: Equal Weights Leading

The S&P500 **Equal Weight** Index (SPXEW) has been performing better than its market cap-weighted counterpart (SPX) all year. At the 2022 low, **SPXEW** was 24% off its high tick, versus 27% for SPX. Since then SPXEW is up 16% and currently only down 11% YTD, while SPX is off 17%. SPXEW managed to briefly break through its down sloping **resistance**, unlike SPX. The U.S. dollar's strength this year might explain it, as a **rising currency** can be a headwind to the index's largest stocks. Whatever the reason, **participation** by more index components may be viewed as a potential **bullish indicator** in a market trying to reverse a **downtrend**. Click here to view chart.

Source: thinkorswim

Monday
UK GDP m/m
0.4% exp, -0.6% prior

U.S. 10-y Note Auction
4.14% WI, 2.2 b/c prior

Australia Westpac Consumer Sent.
-6.9% prior

Tuesday:
EU German ZEW Econ Sentiment
-26.8 exp, -36.7 prior

UK Claimant Count Change
3.5K exp, 3.3K prior

U.S. CPI m/m
0.3% exp, 0.4% prior

U.S. 30-y Bond Auction
4.08% WI, 2.4 b/c prior

Wednesday:
UK CPI y/y
10.9% exp, 11.1% prior

U.S. FOMC Statement

China Industrial Production y/y
3.8% exp, 5.0% prior

China Retail Sales y/y
-3.9% exp, -0.5% prior

Thursday:
UK BOE Monetary Policy Summary

EU ECB Monetary Policy Statement

U.S. Retail Sales m/m
-0.1% exp, 1.3% prior

U.S. Philly Fed Manufacturing Index
-10.0 exp, -19.4 prior

U.S. Industrial Production m/m
0.1% exp, -0.1% prior

Friday:
EU German Flash PMIs
46.6/46.4 exp, 46.2/46.1 prior

UK Retail Sales m/m
0.3% exp, 0.6% prior

U.S. Flash PMIs
47.7/46.5 exp, 47.7/46.2 prior

Source: forexfactory.com

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