

October 10, 2022

Monday Briefing – 10th October 2022



HIGHLIGHTS

- Financial markets reversed mood and kicked off the new quarter on an upbeat note with the S&P500 logging its biggest two-day rise since April 2020 before surrendering most of those gains later in the week on the back of a strong jobs report.
- The week started positively on speculation that central banks could soon ease up on their campaign of rate hikes, with narrative build on lower US ISM Manufacturing, a decline in US job openings and the RBA that only hiked by 0.25% rather than the 0.50% expected.
- The energy sector was the standout performer after OPEC+ announced a cut of oil production by 2 million barrels a day from November until the end of 2023. This is the biggest supply reduction seen from OPEC+ since the peak of Covid.
- The US economy added 263,000 jobs last month, about in line with expectations, while the unemployment rate dropped to 3.5%, matching a five-decade low. The strength in the labour-market dashed hopes for a scale back in rate increases by central banks, in

some sort of déjà-vu of the fizzled mid-summer rally. More concerning may have been the surprise drop in the participation rate, to 62.3%, indicating that competition for available workers would remain intense.

- The UK government reversed course on their proposal to abolish the top 45% rate of income tax (equivalent to around £2bn of the £45bn of tax cuts announced), perceived as the most difficult political points of contention
- Tesla disappointed with Q3 deliveries coming in below estimates while Elon Musk revived the Twitter deal on the terms he originally agreed to.
- Credit Suisse' credit default swaps hit a record high in trading, moving above levels seen during the GFC, on speculation about its future. On October 7, CS responded with a debt buyback to reassure the markets while it plans a major overhaul.
- This week, market participants will start to collect third quarter earnings data for insights into the health of corporate profits. In the UK, the BoE's short-term program to backstop bond markets is set to end on Friday. US inflation data will be front and centre with the producer price index, the consumer price index and expectations from the University of Michigan's survey due. These will be assessed in conjunction with the FOMC meeting minutes released on Wednesday. In China, stocks reopening after the Golden Week holiday will be monitored.

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