

J.P. Morgan Early Look at the Market – Thurs 10.11.18

Trading Desk Commentary; For Institutional Investors Only

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Morning Levels

- **Flash morning update:** misery and red everywhere BUT this is actually the ideal open (for those hoping for a bottom); no major macro headlines to note; CPI crucial today; banks, China trade, and Mnuchin on CNBC all coming up Friday morning.
- **US S&P futures** are down 20-23 points.
- **Asia:** Japan Nikkei -3.89%, Japan TOPIX -3.52%, China -5.22%, Hong Kong -3.54%, KOSPI -4.44%, Taiwan -6.31%, Australia -2.74%
- **Europe:** EuroStoxx 50 -1.43%, FTSE -1.81%, DAX -1.39%, CAC -1.50%, Italy -1.47%, Spain -1.48%
- **FX:** USD (DXY) down 0.25%, EUR up 0.30%, GBP up 0.03%, JPY up 0.04%, CNY Onshore down 0.05%, CNH Offshore down 0.14%, AUD up 0.52%
- **VIX** up 4.79% to 24.06
- **Gold** up 0.69% to \$1,203.04
- **Silver** up 0.87% to \$14.45
- **Copper** down 2.21% to \$271.90
- **WTI Crude** down 1.71% to \$71.92
- **Brent Crude** down 1.84% to \$81.56
- **Natural Gas** down 0.97% to \$3.25
- **Corn** down 0.48% to \$3.61/bu
- **Wheat** down 0.34% to \$5.09/bu
- **Bitcoin** down 4.86% to \$6,216.51
- **Treasuries 2yr yields** are down ~0.2bps at 2.840%, 10yr yields are down ~0.7bps at 3.155% and 30yr yields are down ~0.8bps at 3.340%
- **Japan 10yr yields** 0.136%, down ~0.6bps on the day
- **France 10yr yields** 0.863%, down ~3.3bps on the day
- **Italy 10yr yields** 3.579%, up ~7.9bps on the day
- **Spain 10yr yields** 1.617%, up ~0.9bps on the day
- **Germany 10yr yields** 0.504%, down ~4.6bps on the day

Quick Market Recap

- **What's happening this morning?** There really wasn't any major macro news out overnight but markets are obviously in a particularly foul mood. **US S&P futures are trading down ~20-23 points** this morning but **this is actually a favorable setup to the extent the market is going to bottom and possibly bounce (it wouldn't have been good to see the futures spike this morning after the Wed plunge)**. The risk/reward turns much more pos. on the SPX below 2800 vs. the ~2950 level it was at just a couple of weeks ago. Importantly, sentiment is miserable and panic levels are climbing (which is a nice change of pace from late Sept when 3K was thought to be inevitable and the whole market was positioning for a year-end rally). It seems that everyone has a different fundamental "reason" for the slump (Fed hikes, Italy, Nov mid-terms, etc.) and myriad different CTA analyses are floating around the Street (i.e. systematics have to puke tens of billions of stock at various levels on the SPX) but **the key issue was a piercing of the tech veil after many, many months of casual and complacent inflows**; tech needed a period of consolidation and

adjustment but unfortunately this enormous group can't really come for sale w/o dragging the entire market lower with it (**incidentally, if the SPX is going to sustainably bounce it will need to come on the back of cap goods, transports, materials, and banks, not tech; tech will probably stay in the penalty box for the time being**). The **ingredients for stock stabilization** involve a **CPI this morning that isn't hot**, conciliatory remarks from **Mnuchin on CNBC** (he is scheduled to give an interview Fri morning), and **decent bank earnings** (specifically, bank mgmt. teams can't be alarmed by deposit betas or slowing loan growth). **As far as Thurs news specifically, there weren't any particularly monumental headlines to point to** (although global finance chiefs don't seem too worried and it probably isn't helpful to hear Trump call the Fed "crazy" and accusing it of having gone "loco"). **Asian stocks were a sea of red** overnight – **TPX** -3.5%, **NKY** -3.89%, **Hang Seng** -3.54%, **HSCEI** -3.35%, **SHCOMP** -5.22%, **Shenzhen** -6.45%, **Taiwan** -6.3%, **Korea KOSPI** -4.4%, **Australia** -2.74%, and **India** down ~2%. **Europe is actually doing (relatively) OK as the major indices are trading off "only" 1.4-1.7%**; autos, banks, insurers, chemicals, tech, and energy are all leading on the downside (no major subgroups are dramatically outperforming). **Ingenico** is rallying on the Natixis takeout confirmation, **Bayer** is up on the Roundup legal news, and **Dialog Semi** has a strong bid off the Apple news. **Treasuries still aren't catching a big bid** (if anything, this is making stocks more nervous); the **CPI today will be critical** – if it's hot (i.e. >0.36%) that would create a whole new round of problems while an inline (or hopefully slightly cold) number could provide solace for risk sentiment. **German 10yr Bund yields** are down ~5bp but **Italian 10yr BTP yields** are still rising (they are out ~8bp this morning).

- **Calendar of events for Thurs 10/11** - the focus will be on the **US CPI** for Sept (8:30amET), analyst meetings (**SAFM**), and earnings (**CBSH, DAL, and WBA** before the open).
 - **CPI/Treasuries** - given the narrative around US nominal growth and the string of healthy domestic data, it would probably take a very hot CPI (probably >0.3%) to hit TSYs further in the near-term. However, in order for TSYs to sustainably rally growth data is going to have meaningfully weaken (or the Italian crisis will have to metastasize further and drive Bunds much higher).
- **Calendar of events for Fri 10/12** – the focus will be on **China's import/export data** for Sept (Thurs night/Fri morning), **Eurozone industrial production** for Aug (5amET), **Mnuchin's interview on CNBC** (7amET), **US import prices** for Sept (8:30amET), **US Michigan Sentiment** for Oct (10amET), and earnings (**C, FRC, JPM, PNC, and WFC** before the open).
- **Calendar of events for Sunday 10/14** – the focus will be on the **German state election in Bavaria**.

Macro update

- **What happens going forward? The SPX has now pulled back ~4.5% from the recent peak at ~2940 and the risk/reward is turning more attractive than it was at the end of Sept.** Assuming a 2019 EPS number around ~\$178, the PE is back under 16x and undemanding (17x would put the index up around ~3K, or 7% higher from present levels). Meanwhile, for the first time in a while investor anxiety is palpable as panic levels rise (the initial part of the SPX slump in the first several days of Oct were quite calm and orderly but that changed Wed). The recent spate of profit warnings (the highest profile one was PPG but a number of other firms, including TSE and VAT Group, also cut their guides in the last 48 hours) isn't encouraging while the steep declines following reports that were far from horrible (FAST and LVMH) signals fragility on the eve of the CQ3 season but expectations have been knocked down over the last few days (and the sample size of reports/warnings is far too small to extrapolate to all of Corporate America). The "Big 3" macro overhangs are still outstanding (US-China trade, Italy, and TSY yields) although (like earnings) the narrative around each of these topics has turned quite bearish of late. At this point US inflation will have to spike meaningfully to drive yields much higher (the CPI Thurs morning will be a

crucial data point) while US-China trade headlines are more likely to positively surprise at this point (although for now the tenor of news is still unhelpful, as evidenced by the late-day NYT headline <https://nyti.ms/2OjVQ82>). **Bottom Line:** sub ~2800 provides solid valuation support (assuming the \$178 '19 consensus isn't slashed). **Keep in mind certain sub-groups, like cap goods autos, have been trading horribly for several days (it was only when tech really cracked that the SPX sank) and it will be these sectors that will likely lead on the upside during any rally (along w/possibly the banks). Tech is probably going to be in the penalty box for the time being;** the tech narrative is starting to quietly shift at the margin – whereas before any dip was considered a chance to buy, now rallies will be looked at as opportunities to book profits.

- **What happened Wed?** Stocks suffered an enormous decline due to rising earnings doubts coupled with unresolved macro headwinds. Markets have grappled with a number of macro overhangs for weeks (Italy, US-China trade, TSY yields, etc.) but the CQ3 earnings season was always expected to be a strong one. However, cracks in the earnings façade have formed of late following some profit warnings and underwhelming reports (including DLPH, LVMH, PPG, TSE, VAT Group, and more). **Thus the Wed SPX slump was a function of a toxic mix of micro and macro problems.**

Top Headlines for Thursday

- **Global finance chiefs (including Mnuchin) downplay the stock slump, calling it a long-awaited correction** – Bloomberg <https://bloom.bg/2OPtemK>
- **Trump says the stock slump is simply a healthy correction and accuses the Fed of being “crazy” and having gone “loco”** – Reuters <https://reut.rs/2QDFALU>, CNBC <https://cnb.cx/2IMOQdX>.
- **Trump staffing** - Trump talked with Jeff Sessions's own chief of staff about replacing him as attorney general – Washington Post <https://wapo.st/2RIHqN8>
 - **Trump likes Dina Powell to replace Haley at the UN, but she could face some resistance within the White House** – Washington Post <https://wapo.st/2O0v4UY>
- **US/China (this hit Wed afternoon)** - DOJ officials have arrested a Chinese intelligence official in Belgium and brought him to the US to face espionage charges; **the move represents a "dramatic escalation" in the White House's efforts to clamp down on Chinese spying** (this is the first time that a Chinese intelligence official was brought to the United States to be prosecuted) - NYT <https://nyti.ms/2OjVQ82>
- **Chinese growth** – a state-backed newspaper called on the Chinese gov't to take more forceful steps to stimulate economic growth – Reuters <https://reut.rs/2PnNs3P>
 - **China autos** – Chinese auto dealers are urging the gov't to cut in half the tax charged on new car purchases – Reuters <https://cnb.cx/2Ok2Emj>
- **US/Saudi Arabian relations under strain over dissident** – lawmakers from both parties are calling on Trump to impose sanctions on any person responsible for the disappearance of the Saudi dissident in Turkey – Washington Post <https://wapo.st/2CFBzUc>
- **Italy** – a Eurozone official said there was no risk of Italy losing market access or being downgraded below IG – Reuters <https://reut.rs/2OnaWtO>
- **Banks – what needs to happen for the group to rally coming out of CQ3 earnings?** The present market landscape should ostensibly be a favorable one for banks but investor nervousness around 1) deposit betas and 2) loan growth have prevented the BKX from hitting fresh highs despite a large Treasury tailwind. **In order for the BKX to trade better,** mgmt. teams (for the money centers and larger regionals) will need to **express optimism around NIMs** (i.e. deposit betas aren't spiking any more than planned and NIMs have further upside potential or at least aren't about to materially contract) and **CQ4 loan growth** (CQ3 is already forecast to be soft on loans following downbeat commentary from mgmt. teams at the Barclays conf.).

- **Dialog Semi, AAPL** – Apple has struck a deal to license Dialog Semi’s power mgmt. technology and acquire certain assets; the deal is worth \$600MM for Dialog (including an initial \$300MM); Dialog also won a number of new contracts from Apple – Bloomberg <https://bloom.bg/2pMIgLP>
- **Bayer shares surge in Europe after a judge slashed the amount it will be forced to pay in a Roundup trial** – Bloomberg <https://yhoo.it/2RF05cp>
- **BMW will increase its stake in its Chinese JV** from 50% to 75% in a EU3.6B deal expected to close in '22 – WSJ <https://on.wsj.com/2C8DUUpC>
- **TSLA** – Elon Musk has refuted the FT article out Wed which said James Murdoch was the frontrunner to become TSLA’s chairman – Reuters <https://reut.rs/2Em96EW>
- **Ingenico** – Natixis Payments confirmed Thurs that it is exploring a potential deal to buy Ingenico – Bloomberg/Reuters <https://reut.rs/2ykR3tl>
- **SHLD – Edward Lampert won’t provide additional funding to SHLD** – Lampert doesn’t plan to lend SHLD the \$134MM it needs to make a debt payment on Monday. A bankruptcy filing is expected in the coming days – WSJ <https://on.wsj.com/2RGnpgj>
- **Postal rates to head higher under US Postal Service proposal** – the price of a first-class stamp would rise 10% to 55c while large shippers like AMZN could face cost increases of more than 12% - WSJ <https://on.wsj.com/2PrBPZV>
- **Tech regulation update – in the wake of the most recent tech privacy/hacking scandal (the Google+ news), senior lawmakers from both parties are now calling for more stringent industry regulations** - <https://on.wsj.com/2OjGbFM>
- **Hospitals/insurers** – Sen. Grassley has called on the FTC to investigate contracts between hospital systems and insurers to see whether the relationships are thwarting competition and driving costs higher – WSJ <https://on.wsj.com/2QHZ4iq>
- **Company-specific news out Wed night 10/10** – there weren’t any scheduled earnings reports Wed night but investors are watching closely for any preannouncements. **FLR** came out and preannounced Q3 revs that fell short of expectations (this isn’t a bellwether company by any means but neither was PPG and it does fall under the “industrials” umbrella). **SQ’s** CFO Sarah Friar will leave the company to become CEO of **Nextdoor** (she will stay until Dec to ensure an orderly transition). **COST** reported Sept sales that look higher than expectations. **Gartner reported Q3 PC data and it looks like the figures were about inline**; worldwide PC shipments totaled 67.2 million units in the third quarter of 2018, a 0.1 percent increase from the third quarter of 2017 (the PC market has now shown modest stability for two consecutive quarters). Gartner warned that CPU constraints could create PC challenges going forward.

[Calendar of events for the week of Mon Oct 15](#)

- **Calendar for the week of Mon 10/15** – the big focus will be on **CQ3 earnings** but a few macro catalysts will be watched too, including **details on the Italian budget** (Rome needs to submit the budget to the EU by 10/15), the **Treasury’s FX report** (investors will be watching very closely to see if China is labeled a “manipulator”), **FOMC minutes** (on Wed 10/17 from the 9/26 meeting), the **EU’s Leader’s Summit** (10/18-19 – a Brexit agreement could be reached at this event), and **Chinese eco data** (Q3 GDP along w/Sept retail sales, IP, and FAI Fri morning 10/19).
- **Calendar of events for Mon 10/15** – the focus will be on **US retail sales** for Sept (8:30amET), the **US Empire Manufacturing index** for Oct (8:30amET), analyst meetings (**ADBE**), and earnings (**BAC** and **SCHW** pre-open and **Rio Tinto** after the close).
- **Calendar of events for Tues 10/16** - the focus will be on **China’s CPI/PPI** for Sept (Mon night/Tues morning), the **Eurozone trade balance** for Aug (5amET), **US industrial production** for Sept (9:15amET), **US NAHB housing index** for Oct (10amET), **US JOLTs** for Aug (10amET), analyst meetings (**MRVL** and **WMT**), and earnings (**BLK**, **CMA**, **DPZ**, **FHN**, **GS**, **GWW**, **INFY**,

JNJ, MS, PLD, and UNH pre-open and ADTN, AMX, BHP, CREE, CSX, IBKR, IBM, LRCX, NFLX, SONC, and UAL after the close).

- **Calendar of events for Wed 10/17** – the focus will be on **Eurozone auto registrations** for Sept (2amET), **Eurozone construction output** for Aug (5amET), **US housing starts/building permits** for Sept (8:30amET), the **FOMC meeting minutes** (Wed 10/17), and earnings (**ABT, Akzo Nobel, ASML, BMI, Danone, MTB, MTG, NTRS, Pearson, Roche, UAL, UNF, USB, WGO,** and **WPP** before the open and **AA, CCI, CCK, KALU, SLG, STLD, TCBI, UMPQ,** and **URI** after the close).
- **Calendar of events for Thurs 10/18** – the focus will be on **US Philadelphia Fed index** for Oct (8:30amET), the **US Leading Index** for Sept (10amET), and earnings (**ADS, BBT, BK, DHR, DOV, Ericsson, GPC, KEY, LNN, Nestle, Novartis, NUE, Pernod Ricard, PM, PPG, Publicis, SAP, SNA, SON, Thales, TRV, TSMC, TXT, Unilever, WBC,** and **WBS** before the open and **ASB, AXP, BXS, CE, CP, EBAY, ETFC, ISRG, PBCT, PYPL, LLNW, OZK,** and **WERN**).
- **Calendar of events for Fri 10/19** – the focus will be on **China Q3 GDP and Sept retail sales/IP/FAI** (Thurs night/Fri morning), **US existing home sales** for Sept (10amET), analyst meetings (**SCHW**), and earnings (**Assa Abloy, CFG, CLF, EEFT, GNTX, HON, InterContinental Hotels, IPG, KSU, LSE, MAN, PG, RCI, Remy Cointreau, SLB, STI, STT, SYF, VFC,** and **Volvo** before the open).

Critical dates to watch for the rest of the year (from the perspective of the SPX)

- **US inflation** – Sept CPI on Thurs 10/11 at 8:30amET – *right now the TSY sell-off has been mostly driven by very strong growth and thus investors will be watching inflation numbers closely.*
- **CQ3 earnings/banks** – the CQ3 season begins Fri 10/12 w/earnings from C, JPM, WFC, and others – *if bank stocks don't start performing better to offset the tech puke it will create larger problems for the SPX.*
- **CQ3 earnings** – the CQ3 season will kick off in earnest during the week of Mon 10/15 (the peak periods will be the weeks of 10/22 and 10/29). *While the absolute numbers are likely to be good (and the \$178 consensus for '19 shouldn't change too much), some of the qualitative messaging around tariff/trade-related disruptions (along w/input and wage cost pressures) could unnerve sentiment.*
- **Italy** – the Italian gov't needs to formally submit its budget to the EU by **10/15** after which officials in Brussels will issue their formal conclusions (S&P will weigh in on **10/26** and Moody's is due by the **end of Oct**).
- **China Q3 GDP and Sept retail sales, IP, and FAI** – Fri morning 10/19 – *this will be the next big day of Chinese data. Investors assume China eco performance starts to improve slightly given gov't stimulus and if that doesn't happen sentiment will worsen.*
- **US Q3 GDP** – Fri 10/26 – *this will be the first look at US GDP for CQ3.*
- **US jobs report for Oct** – Fri 11/2.
- **US sanctions on Iran go into effect** – 11/4 – *Tehran holds the keys to the oil market. If the EU manages to keep Iran attached to the int'l financial system and large Iranian oil buyers like India continue to make purchases, this could weigh on crude prices (and the opposite is true – if Iran is really locked out of the world, oil will rally further).*
- **US mid-term elections** – Tues Nov 6, 2018 – *the market assumes that Dems take the House by a handful of seats while Republicans retain the Senate (and the GOP may even pick up ~1-2 seats).*
- **G20 Leader's Summit** – Nov 30-Dec 1. Buenos Aires – *Trump and Xi will both be in attendance and it's likely the two hold talks (although a resolution of the trade standoff between Washington and Beijing is unlikely).*

- **OPEC** – the next ministerial meeting takes place Dec 6 – *if Iran's crude is knocked off line completely and OPEC/Russia fail to increase output, crude prices could head towards \$100 or beyond.*
- **US jobs** – the Nov jobs report will be published Fri 12/7.
- **ECB decision** – Thurs 12/13 – *this will be the final ECB meeting of the year and investors will be listening closely for any updated guidance on the timing of the first rate hike (the ECB has said it will retain rates at present levels through the summer of '19).*
- **FOMC decision** – Wed 12/19 (including press conf.) – *the big question for this meeting isn't whether they hike (that seems a given) but instead if the '19 dot goes from three to four hikes.*

US political update – 11/6 mid-term preview

- **Most assume Democrats capture the House while Republicans should retain control of the Senate.** Dems need a net capture of 23 House seats and at the moment the rough forecasts are calling for a ~30-35 seat gain. Democrats only need to gain two net seats for a Senate majority but 5 incumbent Senate Dems are in highly competitive races in states Trump won in '16 (the rough consensus assumes the Senate balance stays about the same w/risks tilted towards Republicans gaining ~1-2 seats). Markets have been much less sensitive to political developments in Washington of late and that is largely a function of the tax bill already being passed into law (at the end of 2017) while a lot of the deregulatory actions are coming directly out of the White House (w/o requiring Congressional consent). However, while the tax bill is safe until at least '20 a Democratic sweep in Nov would raise speculation about that party controlling Congress and the White House come '20 and that could weigh on market sentiment.

Catalysts – big events to watch over the coming months

- **US/autos/trade** – the Commerce Department decision on its 232 investigation into whether Trump can impose tariffs on auto imports under national security grounds could be completed any week.
- **US inflation** – Sept CPI on Thurs 10/11 at 8:30amET.
- **Turkey** – a court on 10/12 will decide the fate of a detained American pastor.
- **China imports/exports for Sept** – Fri morning 10/12.
- **CQ3 earnings** – the CQ3 season begins Fri 10/12 w/earnings from C, JPM, WFC, and others.
- **IMF meetings** - 2018 Annual Meetings of the International Monetary Fund and World Bank Group. 10/12-14. Bali Nusa Dua, Indonesia.
- **Germany/Bavaria** – the 2018 state election will be held on Oct 14.
- **Italian budget** – it needs to be formally submitted to the EU by 10/15.
- **Treasury FX report** – the next report is due out in mid-Oct.
- **FOMC meeting minutes** (from 9/26 meeting) – Wed 10/17 2pmET.
- **EU Leader's Summit** – 10/18-19 (the objective is to have a **Brexit agreement** in place by this event).
- **China Q3 GDP and Sept retail sales, IP, and FAI** – Fri morning 10/19.
- **Flash PMIs for Oct** – Wed 10/24.
- **ECB meeting** – Thurs 10/25.
- **US Q3 GDP** – Fri 10/26.
- **Italy** – S&P will issue a ratings update on Italy on 10/16 and Moody's is due by the end of Oct.
- **German state election in Hess** – 10/28.
- **Brazil election second round** – 10/28.
- **US jobs report for Oct** – Fri 11/2.

- **Iran sanctions** – US sanctions against Iran’s oil industry go into effect as of 11/4.
- **US mid-term elections** – Tues Nov 6, 2018.
- **FOMC decision** – Thurs 11/8.
- **Trump in France** – Trump will attend a WWI event in France on 11/11.
- **ASEAN conf.** from Nov 11-15 in Singapore.
- **APEC conf. in Papua New Guinea.** Nov 12-17.
- **EU leader’s could hold a special summit on Nov 13** to focus on Brexit.
- **G20 fin min meeting** – Nov 29 in Buenos Aires.
- **G20 Leader’s Summit** – Nov 30-Dec 1. Buenos Aires.
- **OPEC** – the next ministerial meeting takes place Dec 6.
- **US jobs** – the Nov jobs report will be published Fri 12/7.
- **ECB meeting** – Thurs 12/13.
- **FOMC decision** – Wed 12/19 (including press conf.)

Opinion/Interesting-but-not-immediately-impactful

- **Ben Bernanke’s End Game** – WSJ <https://on.wsj.com/2A3R069>
- **How to Think About the Market Sell-Off** – Bloomberg <https://bloom.bg/2OkVsWS>
- **Trump’s presidency is one giant act of trolling** – Washington Post <https://wapo.st/2Efkan3>
- **Trump, no longer ratings gold, loses his prime-time spot on Fox News** – Politico <https://politi.co/2QKKjvA>
- **At least Trump is honest about his lousy new gift to ethanol** – WSJ <https://on.wsj.com/2ygkr3A>
- **A Trio of Wealthy Russians Made an Enemy of Putin. Now They’re All Dead** – WSJ <https://on.wsj.com/2Og2rQV>
- **Want Americans to vote? Give them the day off** – Washington Post <https://wapo.st/2CAAdtKR>

M&A/Strategic Actions

- **BMW will increase its stake in its Chinese JV** from 50% to 75% in a EU3.6B deal expected to close in '22 – WSJ <https://on.wsj.com/2C8DUpC>
- **Dialog Semi, AAPL** – Apple has struck a deal to license Dialog Semi’s power mgmt. technology and acquire certain assets; the deal is worth \$600MM for Dialog (including an initial \$300MM); Dialog also won a number of new contracts from Apple – Bloomberg <https://bloom.bg/2pMIgLP>
- **Ingenico** – Natixis Payments confirmed Thurs that it is exploring a potential deal to buy Ingenico – Bloomberg/Reuters <https://reut.rs/2ykR3tl>
- **MITK** (this news was out mid-day Wed) – the company rejected a takeover approach from ASG Technologies – Reuters <https://reut.rs/2RH8kF5>
- **SHLD – Edward Lampert won’t provide additional funding to SHLD** – Lampert doesn’t plan to lend SHLD the \$134MM it needs to make a debt payment on Monday. A bankruptcy filing is expected in the coming days – WSJ <https://on.wsj.com/2RGnpqj>
- **Treasury announces a sig. expansion of the CFIUS umbrella** - the Treasury issued new guidelines for M&A involving sensitive technology and the result will be a large expansion of the CFIUS review umbrella. This was somewhat expected but represents just the latest example of Washington implementing more stringent guidelines around tech deals. WSJ <https://on.wsj.com/2A2CviV>

Financials

- **Banks – what needs to happen for the group to rally coming out of CQ3 earnings?** The present market landscape should ostensibly be a favorable one for banks but investor

nervousness around 1) deposit betas and 2) loan growth have prevented the BKX from hitting fresh highs despite a large Treasury tailwind. **In order for the BKX to trade better**, mgmt. teams (for the money centers and larger regionals) will need to **express optimism around NIMs** (i.e. deposit betas aren't spiking any more than planned and NIMs have further upside potential or at least aren't about to materially contract) and **CQ4 loan growth** (CQ3 is already forecast to be soft on loans following downbeat commentary from mgmt. teams at the Barclays conf.).

- **C earnings preview (reports Fri BMO)** – Street estimates for Q3: EPS 1.68, revs \$18.45B, NII \$11.67B, NIM 2.65%, non-interest income \$11.67B, provisions \$2.02B, NCOs \$1.85B, expenses \$10.43B, loans \$677B. Citi mgmt. back in mid-Sept guided FICC/equities trading flat-to-up small while IB fees should be down small. Citigroup shares were one of the few bright spots exiting the Barclays conf. as mgmt. made positive (and co-specific comments) on expense control.
- **PNC earnings preview (reports Fri BMO)** – Street estimates for Q3: EPS 2.72, revs \$4.34B, NII \$2.48B, NIM 2.98%, non-interest income \$1.86B, provisions \$117MM, NCOs \$120MM, expenses \$2.58B, loans \$225.6B.
- **WFC earnings preview (reports Fri BMO)** – Street estimates for Q3: EPS 1.18, revs \$21.8B, NII \$12.75B, NIM 2.94%, non-interest income \$9.19B (inc. mortgage banking ~\$900-910MM), provisions \$614MM, NCOs \$666MM, expenses \$13.38B, loans \$940B.

Financials events

- **CBSH earnings** – Thurs 10/11 BMO.
- **C, FRC, PNC, JPM, WFC earnings** – Fri 10/12 BMO.
- **BAC, SCHW earnings** – Mon 10/15 BMO.
- **CMA, GS, MS, PGR earnings** – Tues 10/16 BMO.
- **HWC earnings** – Tues 10/16 AMC.
- **USB earnings** – Wed 10/17 BMO.
- **BBT, BK, HOMB, KEY, TRV, WBS earnings** – Thurs 10/18 BMO.
- **ASB, AXP, ETFC, PBCT earnings** – Thurs 10/18 AMC.
- **SCHW analyst meetings** – Fri 10/19.
- **CFG, OFG, STI, SYF earnings** – Fri 10/19 BMO.
- **OPB earnings** – Mon 10/22 BMO.
- **ZION earnings** – Mon 10/22 AMC.
- **FITB, HBAN, RF, MBFI earnings** – Tues 10/23 BMO.
- **AMP, CB, COF, WRB earnings** – Tues 10/23 AMC.
- **NDAQ, NYCB earnings** – Wed 10/24 BMO.
- **AFL, RJF, UNM earnings** – Wed 10/24 AMC.
- **FAF, FBP, MMC earnings** – Thurs 10/25 BMO.
- **DFS, PFG, SIVB earnings** – Thurs 10/25 AMC.
- **RE earnings** – Mon 10/29 AMC.
- **WDR earnings** – Tues 10/30 BMO.
- **KEY analyst meeting** – Tues 10/30.
- **ICE earnings** – Wed 10/31 BMO.
- **LNC earnings** – Thurs 11/1 AMC.
- **FHN analyst meeting** – Tues 11/6.
- **PFG analyst meeting** – Thurs 11/15.
- **SIVB analyst meeting** – Tues 12/4.

TMT

- **AAPL** - Apple plans to give away original content for free to device owners – CNBC <https://cnb.cx/2OhCmRz>
- **Asia semis update from JPMorgan's Gokul Hariharan - neg. comments; downgrade UMC and ASE (note out at ~1pmET Wed afternoon)** - we are now seeing more negative signals, including ongoing weakness in China smartphones, order cuts for 8” and mature 12” nodes at foundries, weakness in OSAT orders and the accumulation of inventories at China distributors. We expect weak end demand and a subsequent inventory correction to result in sluggish 4Q18 guidance and poor visibility for our semis coverage universe. <https://www.jpmm.com/research/content/GPS-2796206-0>
- **AT&T (T) to ramp its streaming initiatives** – following the decision by Disney to launch a streaming product, WarnerMedia is making plans for a streaming TV service that will be sold directly to consumers – CNN <https://cnn.it/2CCyJQ5>
- **Dialog Semi, AAPL** – Apple has struck a deal to license Dialog Semi’s power mgmt. technology and acquire certain assets; the deal is worth \$600MM for Dialog (including an initial \$300MM); Dialog also won a number of new contracts from Apple – Bloomberg <https://bloom.bg/2pMIgLP>
- **Ingenico** – Natixis Payments confirmed Thurs that it is exploring a potential deal to buy Ingenico – Bloomberg/Reuters <https://reut.rs/2ykR3tl>
- **MITK** (this news was out mid-day Wed) – the company rejected a takeover approach from ASG Technologies – Reuters <https://reut.rs/2RH8kF5>
- **PC update from Gartner - Gartner reported Q3 PC data and it looks like the figures were about inline;** worldwide PC shipments totaled 67.2 million units in the third quarter of 2018, a 0.1 percent increase from the third quarter of 2017 (the PC market has now shown modest stability for two consecutive quarters). Gartner warned that CPU constraints could create PC challenges going forward.
 - **INTC vs. AMD update from Gartner** - “although the third-quarter results did not show any material impact, the Intel CPU shortage could influence the PC market moving forward with price increases and changes to the vendor landscape. While this shortage will have some short-term impacts, Gartner does not see any lasting impact on overall PC demand. Current expectation is that the shortage will continue into 2019, but Intel will prioritize the high-end CPU as well as the CPUs for business PCs. In the meantime, AMD will pick up the part of the market where Intel cannot supply CPUs”.
- **Postal rates to head higher under US Postal Service proposal** – the price of a first-class stamp would rise 10% to 55c while large shippers like AMZN could face cost increases of more than 12% - WSJ <https://on.wsj.com/2PrBPZV>
- **SQ - CFO leaving (she will stay until Dec and ensure an orderly transition); she was very well respected but looks like leaving on good terms to become CEO of another company** - announced today that Sarah Friar has informed the company of her intention to step down as Chief Financial Officer of Square in order to accept an offer to become Chief Executive Officer of Nextdoor.
- **Tech regulation update – in the wake of the most recent tech privacy/hacking scandal (the Google+ news), senior lawmakers from both parties are now calling for more stringent industry regulations** - <https://on.wsj.com/2OjGbFM>
- **Treasury announces a sig. expansion of the CFIUS umbrella** - the Treasury issued new guidelines for M&A involving sensitive technology and the result will be a large expansion of the CFIUS review umbrella. This was somewhat expected but represents just the latest example of Washington implementing more stringent guidelines around tech deals. WSJ <https://on.wsj.com/2A2CviV>
- **TSLA** – Elon Musk has refuted the FT article out Wed which said James Murdoch was the frontrunner to become TSLA’s chairman – Reuters <https://reut.rs/2Em96EW>

- **TSLA** - SEC, Tesla support approval of settlement – Reuters <https://reut.rs/2RHV7Mc>

Tech Events

- **ADBE analyst meeting** – Mon 10/15.
- **MRVL analyst meeting** – Tues 10/16.
- **INFY earnings** – Tues 10/16 BMO.
- **ADTN, CREE, IBM, LRCX, NFLX earnings** – Tues 10/16 AMC.
- **BMI earnings** – Wed 10/17 BMO.
- **ADS, Ericsson, SAP, TSMC earnings** – Thurs 11/18 BMO.
- **PYPL, LLNW earnings** – Thurs 10/18 AMC.
- **ORCL** – Oracle OpenWorld Oct 22-25.

Full catalyst list

- **Thurs Oct 11** – US CPI for Sept. 8:30amET.
- **Thurs Oct 11** – analyst meetings: SAFM.
- **Thurs Oct 11** – earnings before the open: CBSH, WBA.

- **Fri Oct 12** – China imports/exports for Sept (Thurs night/Fri morning).
- **Fri Oct 12** – Eurozone industrial production for Aug. 5amET.
- **Fri Oct 12** – US import prices for Sept. 8:30amET.
- **Fri Oct 12** – US Michigan sentiment for Oct. 10amET.
- **Fri Oct 12** – Fed speakers: Evans, Bostic.
- **Fri Oct 12** – earnings before the open: C, FRC, JPM, PNC, WFC.

- **Mon Oct 15** – US retail sales for Sept. 8:30amET.
- **Mon Oct 15** – US Empire Manufacturing for Oct. 8:30amET.
- **Mon Oct 15** – analyst meetings: ADBE.
- **Mon Oct 15** – earnings before the open: BAC, SCHW.
- **Mon Oct 15** – earnings after the close: Rio Tinto.

- **Tues Oct 16** – China CPI/PPI for Sept (Mon night/Tues morning).
- **Tues Oct 16** – Eurozone trade balance for Aug. 5amET.
- **Tues Oct 16** – US industrial production for Sept. 9:15amET.
- **Tues Oct 16** – US NAHB housing index for Oct. 10amET.
- **Tues Oct 16** – US JOLTs for Aug. 10amET.
- **Tues Oct 16** – analyst meetings: MRVL, WMT.
- **Tues Oct 16** – earnings before the open: BLK, CMA, DPZ, FHN, GS, GWW, INFY, JNJ, MS, PLD, UNH.
- **Tues Oct 16** – earnings after the close: ADTN, AMX, BHP, CREE, CSX, IBKR, IBM, LRCX, NFLX, SONC, UAL.

- **Wed Oct 17** – Eurozone auto registration for Sept. 2amET.
- **Wed Oct 17** – Eurozone construction output for Aug. 5amET.
- **Wed Oct 17** – US housing starts/building permits for Sept. 8:30amET.
- **Wed Oct 17** – FOMC meeting minutes (from 9/26 meeting) – Wed 10/17 2pmET.
- **Wed Oct 17** – earnings before the open: ABT, Akzo Nobel, ASML, BMI, Danone, MTB, MTG, NTRS, Pearson, Roche, UAL, UNF, USB, WGO, WPP.
- **Wed Oct 17** – earnings after the close: AA, CCI, CCK, KALU, SLG, STLD, TCBI, UMPQ, URI.

- **Thurs Oct 18** – US Philadelphia Fed Business for Oct. 8:30amET.

- **Thurs Oct 18** – US Leading Index for Sept. 10amET.
 - **Thurs Oct 18** – earnings before the open: ADS, BBT, BK, DHR, DOV, Ericsson, GPC, KEY, LNN, Nestle, Novartis, NUE, Pernod Ricard, PM, PPG, Publicis, SAP, SNA, SON, Thales, TRV, TSMC, TXT, Unilever, WBC, WBS.
 - **Thurs Oct 18** – earnings after the close: ASB, AXP, BXS, CE, CP, EBAY, ETFC, ISRG, PBCT, PYPL, LLNW, OZK, WERN.
- *****
- **Fri Oct 19** – China Q3 GDP and Sept retail sales, IP, and FAI (Thurs night/Fri morning).
 - **Fri Oct 19** – US existing home sales for Sept. 10amET.
 - **Fri Oct 19** – analyst meetings: SCHW.
 - **Fri Oct 19** – earnings before the open: Assa Abloy, CFG, CLF, EEFT, GNTX, HON, InterContinental Hotels, IPG, KSU, LSE, MAN, PG, RCI, Remy Cointreau, SLB, STI, STT, SYF, VFC, Volvo.
- *****
- **Wed Oct 24** – US FHFA home prices for Aug. 9amET.
 - **Wed Oct 24** – US flash PMIs for Oct. 9:45amET.
 - **Wed Oct 24** – US new home sales for Sept. 10amET.
 - **Wed Oct 24** – US Beige Book at 2pmET.
- *****
- **Thurs Oct 25** – US advance goods trade balance for Sept. 8:30amET.
 - **Thurs Oct 25** – US wholesale/retail inventories for Sept. 8:30amET.
 - **Thurs Oct 25** – US durable/capital goods for Sept. 8:30amET.
 - **Thurs Oct 25** – US pending home sales for Sept. 10amET.
- *****
- **Fri Oct 26** – US GDP release for Q3. 8:30amET.
 - **Fri Oct 26** – Michigan sentiment for Oct. 10amET.
- *****
- **Mon Oct 29** – US personal income/spending for Sept. 8:30amET.
 - **Mon Oct 29** – US PCE for Sept. 8:30amET.
 - **Mon Oct 29** – Dallas Fed Index for Oct. 10:30amET.
- *****
- **Tues Oct 30** – US Case-Shiller home prices for Aug. 9amET.
 - **Tues Oct 30** – US Conference Board sentiment readings for Oct. 10amET.
- *****
- **Wed Oct 31** – US ADP jobs report for Oct. 8:15amET.
 - **Wed Oct 31** – US Employment Cost Index (ECI) for Q3. 8:30amET.
 - **Wed Oct 31** – US Chicago PMI for Oct. 9:45amET.
- *****
- **Thurs Nov 1** – US nonfarm productivity and unit labor costs for Q3.
 - **Thurs Nov 1** – US Markit Manufacturing PMI for Oct. 9:45amET.
 - **Thurs Nov 1** – US construction spending for Sept. 10amET.
 - **Thurs Nov 1** – US manufacturing ISM for Oct. 10amET.
 - **Thurs Nov 1** – US auto sales for Oct.
- *****
- **Fri Nov 2** – US trade balance for Sept. 8:30amET.
 - **Fri Nov 2** – US jobs report for Oct. 8:30amET.
 - **Fri Nov 2** – US factory and durable goods orders for Sept. 10amET.
- *****
- **Mon Nov 5** – US Markit services PMI for Oct. 9:45amET.
 - **Mon Nov 5** – US non-manufacturing ISM for Oct.

- **Tues Nov 6** – US JOLTs report for Sept. 10amET.

- **Wed Nov 7** – US consumer credit for Sept. 3pmET.

- **Thurs Nov 8** – FOMC decision. 2pmET.

- **Fri Nov 9** – US PPI for Oct. 8:30amET.

- **Fri Nov 9** – US Michigan sentiment for Nov. 10amET.

- **Fri Nov 9** – US wholesale trade sales/inventory for Sept. 10amET.

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