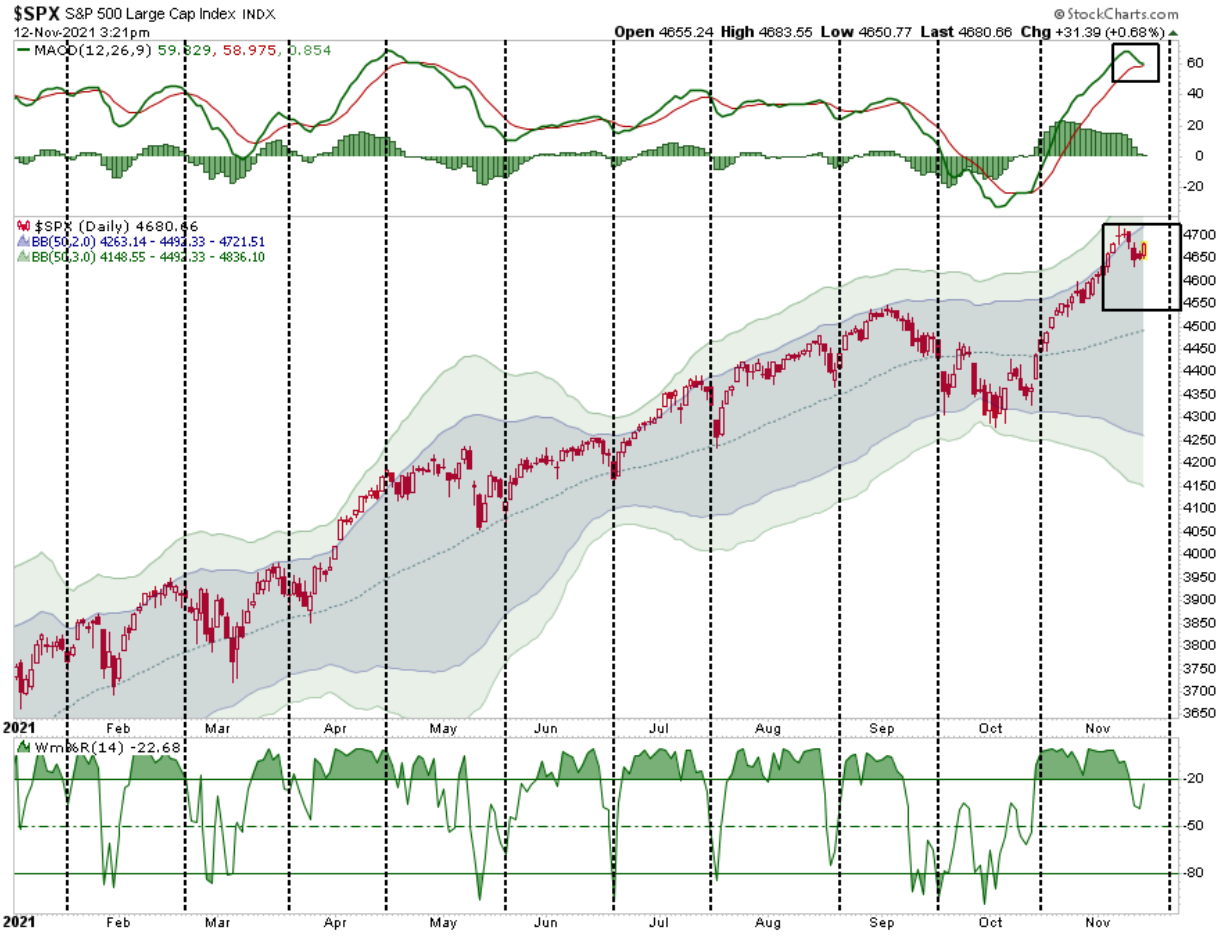
Stock Options Expiration Looms

Stock options expiration has been a source of volatility over the last year. Despite a record number of stock options expiring this Thursday, stocks drifted with little concern. ***As noted yesterday*****,** over the past year, monthly stock options expirations have tended to usher in brief market declines.



Will it happen this week? **We do not know, but we do know that the volume of November options is at record levels and that general liquidity is low.** The recipe for volatility is in place, so trade with caution and keep an eye on your key risk levels.

[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: **Retail sales advance,** month-over-month, Oct. (1.5% expected, 0.7% in Sept.)
- 8:30 a.m. ET: **Retail sales excluding auto and gas,** month-over-month, Oct. (0.7% expected, 0.7% in Sept.)
- 8:30 a.m. ET: **Import price index,** month-over-month, Oct. (1.0% expected, 0.4% in Sept.)
- 8:30 a.m. ET: **Export price index,** month-over-month, Oct. (1.0% expected, 0.1% in Sept.)

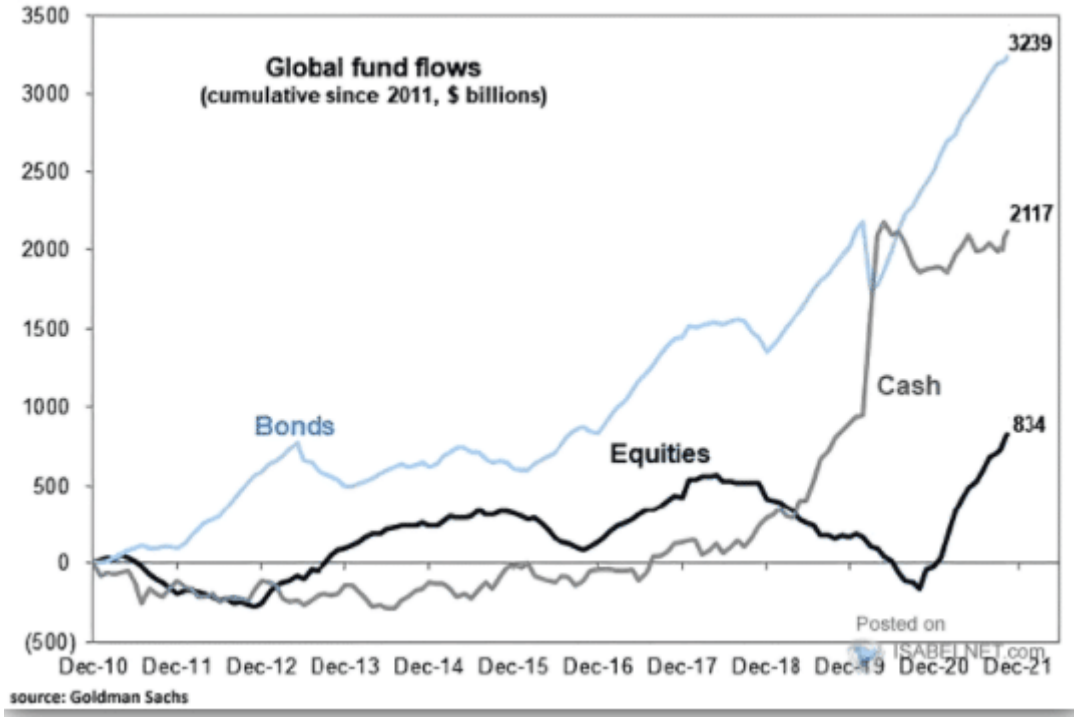
- 9:15 a.m. ET: **Industrial Production,** month-over-month, Oct. (0.9% expected, -1.3% in Sept.)
- 9:15 a.m. ET: **Capacity Utilization,** Oct. (75.9% expected, 75.2% in Sept.)
- 10:00 a.m. ET: **NAHB Housing Market Index,** Nov. (80 expected, 80 in Oct.)

Earnings

- 6:00 a.m. ET:&#2013266080;**Home Depot (HD)**&#2013266080;to report adjusted earnings of $3.39 on revenue of $34.91 billion
- 7:00 a.m. ET:&#2013266080;**Walmart (WMT)&#2013266080;**to report adjusted earnings of $1.40 on revenue of $135.69 billion

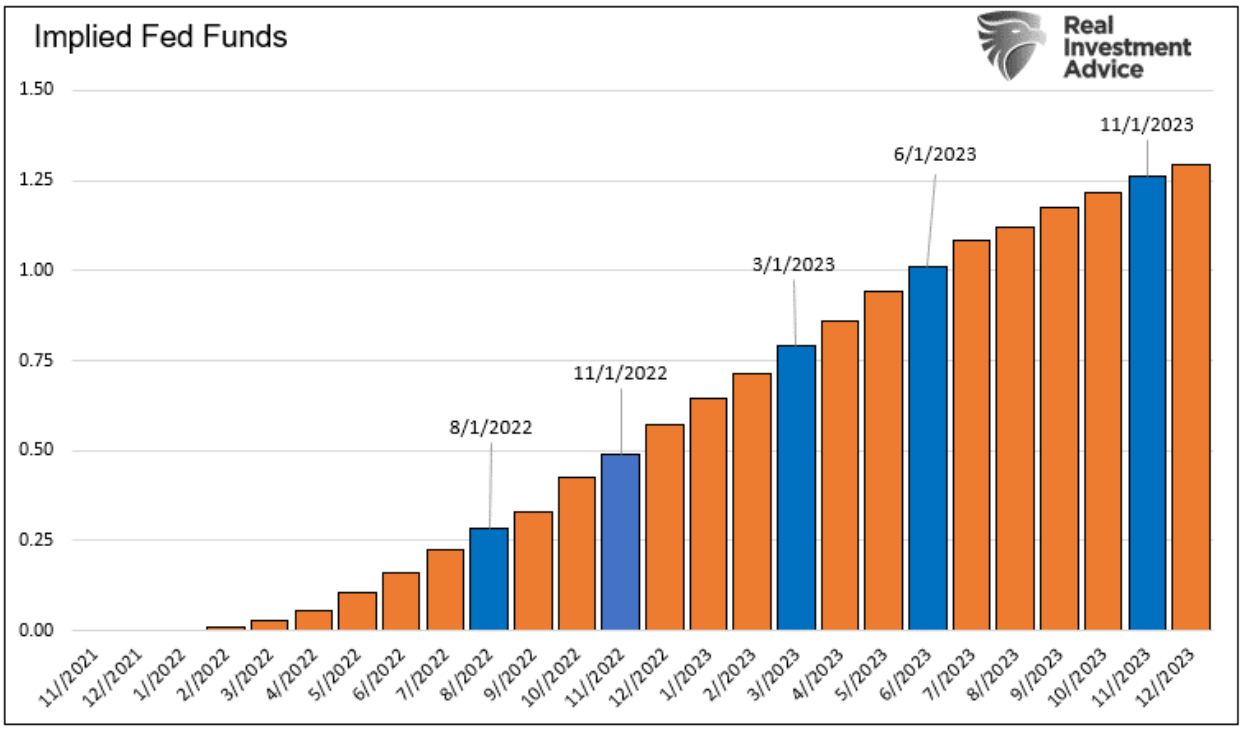
A Sea Of Liquidity

One of the main supports for the *"bull market"* over the last couple of years has been the surge in global liquidity. As shown by this chart courtesy of @isabelnet, while equity inflows are strong, bond inflows dwarf everything.



Lofty Expectations for Interest Rate Hikes

The graph below shows the implied Fed Funds rate based on Fed Funds futures pricing. The blue bars represent the expected dates at which a 100% chance of a rate increase will occur. For example, the market assigns a 100% chance of a rate increase by August 2022 and a 100% chance of a second increase by November 2022. As we show, the market expects the Fed to increase rates five times to 1.25% by the end of 2023.

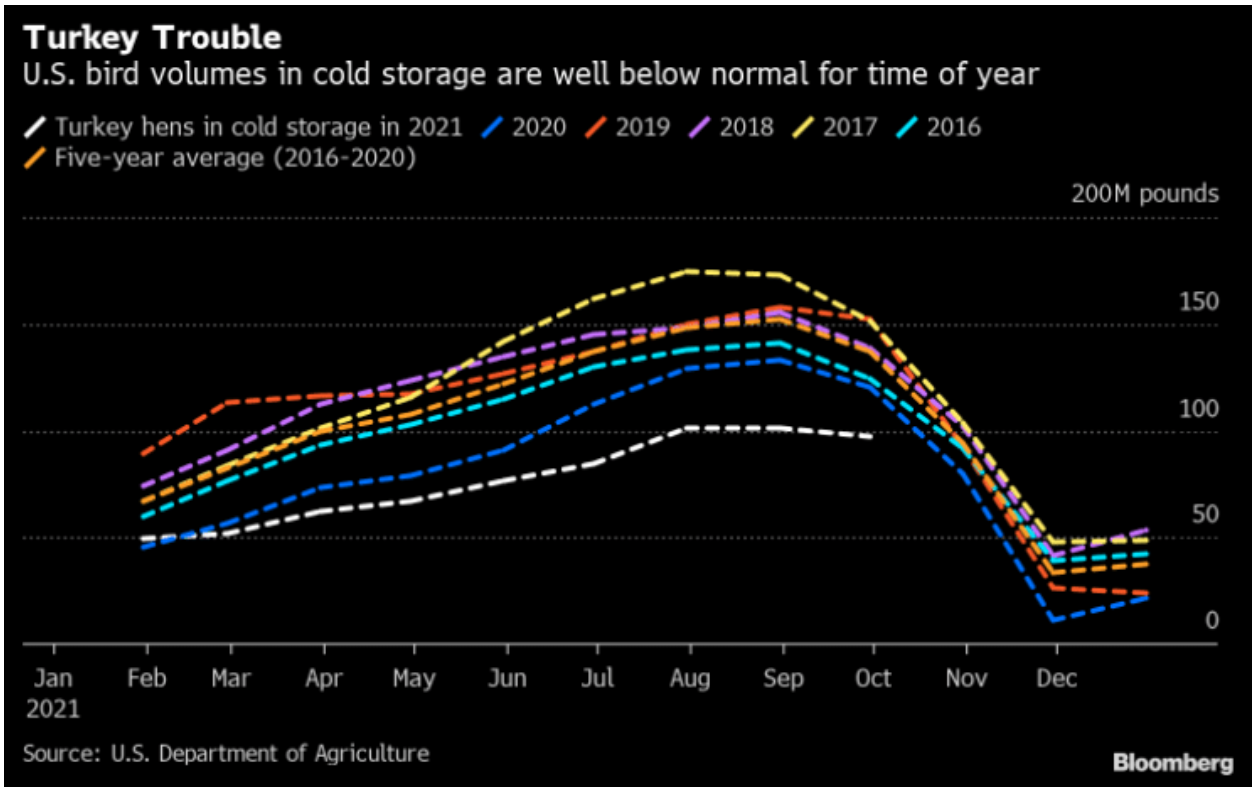


Options Expire



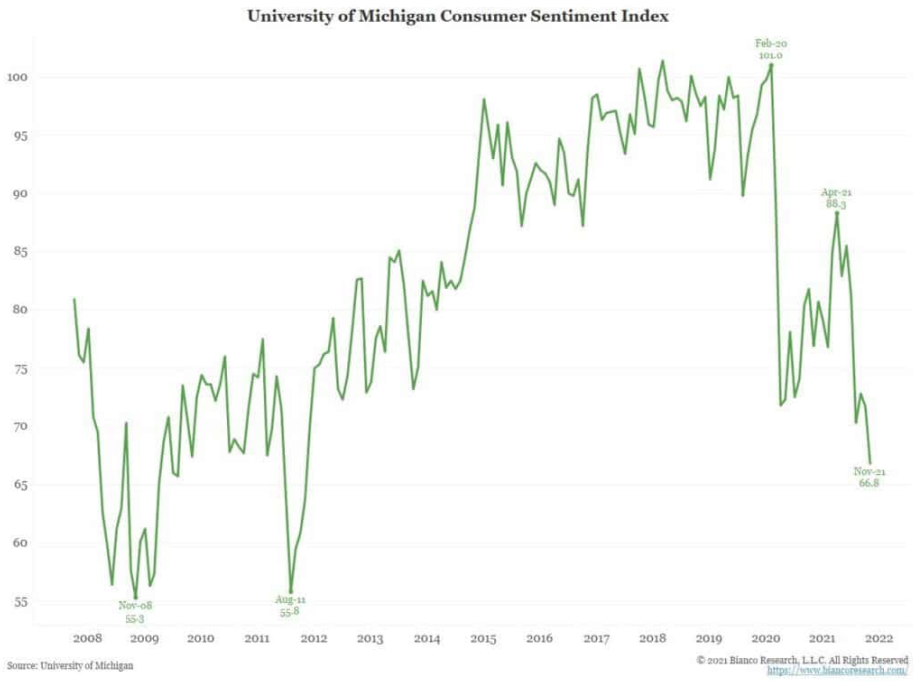
A Shortage of Turkeys - RIA Pro PSA

There is definitely not a shortage of turkeys on Wall Street, but if you plan to serve turkey for Thanksgiving, you may want to buy one soon. As the graph shows, the volume of birds in storage is running at half the average rate.



Slumping Confidence and Political Ramifications

Last week we reported the University of Michigan Consumer Sentiment Survey fell more than expected and now sits at 10-year lows.



After digging deeper into the report, we discovered something interesting that will likely gain importance as we near next year's mid-term elections. **For starters, the divide in sentiment between Democrats and Republicans is massive at 90.8 and 53.1, respectively. Further, confidence among those considering themselves independents fell sharply to 69.2.**

It is likely independents, along with moderate Democrats and Republicans, will decide the balance of power in the House and Senate. If independents' confidence continues to fall, the Democrats are

more likely to lose the House, Senate, or possibly both.

The Week Ahead

The economic calendar starts in earnest on Tuesday with Retail Sales and Industrial Production. Given the recent drop in consumer confidence, we would expect retail consumption to slump. However, retail sales do not account for inflation which will likely push the number higher. On Wednesday, we will see inflation which will likely print higher than estimates. After that, the rest of the week is relatively quiet.

Exhibit 5: Economic data calendar for the week of Nov 14-20
Next week's data release focus will be on US retail sales and Euro area GDP

Key events in the week ahead

NYT	Country	Data/Event	For	BofAe	Cons.	Previous
Monday, 15 Nov						
5:00	Euro area	Trade Balance (sa)	Sep	—	—	11.1bn
Tuesday, 16 Nov						
2:00	UK	Employment Change 3M/3M	Sep	200	—	235k
2:45	France	CPI EU Harmonized (F, mom)	Oct	0.50%	—	0.50%
5:00	Euro area	GDP (sa, qoq, P)	3Q	2.20%	—	2.20%
5:00	Euro area	Employment (qoq, P)	3Q	n.a.	—	0.70%
7:00	Brazil	Economic Activity MoM	Sep	0.1	—	-0.15%
8:30	US	Advance Retail Sales	Oct	1.3%	1.1%	0.7%
8:30	US	Retail Sales Less Autos	Oct	0.9%	1.0%	0.8%
19:30	Australia	Wage Price Index (qoq)		0.6%	—	0.4%
Wednesday, 17 Nov						
2:00	UK	CPI (mom)	Oct	0.80%	—	0.30%
5:00	Euro area	CPI (F, yoy)	Oct	3.40%	—	3.40%
5:00	Euro area	Construction Output (mom)	Sep	—	—	-1.30%
8:30	US	Housing Starts	Oct	1600k	1573k	1555k
8:30	US	Building Permits	Oct	1600k	1630k	1586k
8:30	Canada	CPI NSA MoM	Oct	0.30%	—	0.20%
Thursday, 18 Nov						
2:00	Philippines	BSP Policy Rate Decision	—	—	2.00%	2:00
2:20	Indonesia	BI Policy Rate Decision	—	—	—	3.50%
Friday, 19 Nov						
1:30	France	ILO Unemployment Rate	3Q	7.80%	—	8.00%
2:00	UK	Retail Sales Inc Auto Fuel (mom)	Oct	1.00%	—	-0.20%
4:00	Euro area	ECB Current Account (sa)	Sep	—	—	13.4bn
4:00	Italy	Industrial Sales (mom)	Sep	—	—	0.80%

Source: Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

We expect to see numerous Fed speakers this week. With the recent barrage of employment and inflation data, a few speakers may call on the Fed to increase the pace of tapering and move up the timeline for interest rate increases.

This week is also starting the winddown of earnings season as well, with only a few notable companies reporting.



Options expiration is on Thursday. As David Robertson points out below, options market volume has been extreme. Such high volumes, open interest, and generally low stock volume can lead to significant price swings.

> *Retail is extremely active, and they love punting options. Below are a few stunning facts via Goldman's Scott Rubner:*

- *1. single stock option notional (140%) now exceeds single stock shares notional*
- *2. over 70% of options traded have an expiry of two weeks or less (more in the 2,3,4 day range)*
- *3. $904bn (Thursday stock option notional). This is largest single stock option notional traded of all time.*

Please subscribe to the daily commentary **to receive these updates every morning before the opening bell.**