



US Market Wrap

9th October 2023: Stocks and dollar reverse initial geopolitical reaction on dovish Fed speak

- **SNAPSHOT:** Equities up, Treasuries futures up, Crude up, Dollar down.
- **REAR VIEW:** Israel/Palestine conflict escalates; Fed's Logan & Jefferson lean dovish; ECB policymakers see no urgent case for ending PEPP reinvestments; Peltz builds USD 2.5bln stake in DIS; Defense names gain while Travel & Leisure stocks tumble in response to the conflict.
- **COMING UP: Data:** UK BRC Retail Sales, Australian NAB Business Conditions, Italian Industrial Output, US NFIB Business Optimism, Redbook, Wholesale Inventory, Wholesale Sales, NY Fed Survey of Consumer Expectations, Chinese M2 Money Supply **Speakers:** Fed's Bostic, Waller, Kashkari & Daly; ECB's Lagarde **Supply:** UK, Germany & US.
- **WEEK AHEAD:** Highlights include FOMC minutes, ECB minutes, US & China CPI and UK GDP. To download the report, please click [here](#).
- **CENTRAL BANK WEEKLY:** Previewing FOMC minutes, ECB minutes; Reviewing RBA, RBNZ, BoJ SoO, RBI, Riksbank minutes. To download the report, please click [here](#).

MARKET WRAP

Initially markets saw a typical reaction to heightened geopolitical risks after attacks in Israel over the weekend with Treasury futures bid, the Dollar seeing gains, crude prices surging and stocks taking a hit. However, stocks had managed to pare the initial losses to close in the black while Treasury futures kept their bid and the Dollar reversed to see DXY test 106 on dovish Fed commentary. Logan, who usually leans hawkish, and Vice-Chair Jefferson, who has not spoken since June, both acknowledged the impact of higher Treasury yields on financial conditions, suggesting the Fed may not have to do as much on policy as initially thought. Note, cash bonds were closed on account of Columbus Day. Money markets saw a dovish reaction to the speeches, with the first cut now being priced in fully by June 2024 (prev. July at start of the day), while the odds of a November rate hike diminished further to c. 12% from 22% initially. Crude prices settled just off highs with heightened geopolitical risks well in focus given the conflict in Israel while the Dollar heads into APAC trade at lows on the dovish Fed developments; attention this week will lie on geopolitical developments and US inflation data with PPI on Wednesday and CPI due on Thursday. In stocks, defense names surged while travel and leisure stocks tumbled in response to the conflict but more domestically General Motors (GM) announced another offer to the UAW after talks last week but the UAW are yet to respond, while attention turns to the start of earnings season with financials set to report on Friday. Lastly, Nelson Peltz's Trian Fund Management has accumulated a stake in Disney (DIS) worth more than USD 2.5bln.

GLOBAL

LOGAN (voter), who usually leans hawkish, acknowledged that if higher long-term rates are due to higher term premiums, there may be less need for the Fed to raise rates. However, she warned that to the extent a stronger economy is behind a rise in long-term rates, the Fed may need to do more. Logan added that when it comes to setting the policy rate, the Fed must take account of financial conditions, which have tightened substantially in recent months, adding that higher term premiums have a clear role in higher long-term rates, but it is uncertain how big that role is. Logan is attentive to risks on both sides of the Fed's mandate, but high inflation is the most important risk and although progress on inflation is encouraging, it is too early to be confident it is headed towards the 2% goal in a sustainable and timely way. She said the labour market is still very strong and wages are still solid, while outlooks for the consumer are mixed, but output and spending have been surprisingly strong.

VICE CHAIR JEFFERSON spoke for the first time since June on policy, where he towed Fed Chair Powell's line that the Fed must "proceed carefully" to balance the risks of tightening too much or too little. Jefferson is also mindful of the move higher in bond yields, noting he will keep in mind the tightening impact of higher yields in mind when assessing the future rate path. Jefferson is also cognizant of the lagged effects of policy rates when considering future policy but he did suggest it may be too soon to say confidently the Fed has tightened enough. Jefferson added the rise in long-term yields in the past may have meant investors see stronger economic momentum and a need for a higher for longer Fed rate path. On the economy, the Vice-Chair noted recent inflation data is encouraging but inflation is still too high but he expects Core PCE prices will moderate further as the labour market comes into better balance. The labour market



remains tight but labour demand is cooling and supply is improving. There is a path to restoring price stability without large gains in unemployment and he expects further gradual easing of labour market conditions.

GEOPOLITICAL: The escalation in the Israel and Palestine conflict over the weekend was the main news source to start the week. This came following a surprise multi-front attack by Hamas on Israel, which has led to severe retaliation from Israel with PM Netanyahu noting Israel is now at war with Hamas and that their enemy will pay a price it has never known before. Meanwhile, Israel and Lebanon's armed group Hezbollah also exchanged rocket fire over the weekend and continued on Monday. Heightening the global geopolitical risk, Iranian security officials reportedly helped plan Hamas's surprise attack on Israel and gave the green light for the assault at a meeting in Beirut last Monday, according to senior Hamas and Hezbollah members cited by WSJ. However, CNN reported the US is still seeking to determine Iran's connection to the attack. Later on Monday, Hamas officials said there are open to discussions over a truce with Israel, according to Reuters; and added Israeli captives include tens with dual citizenships, including Russians and Chinese. Full Newsquawk piece available [here](#).

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 1 POINT HIGHER AT 107-27

Treasury futures were bid post-Israel attack, accentuated by dovish Fed Speak; cash bonds closed.

THE DAY: Treasury futures gapped higher on the globex reopen as part of the broader global risk-off on the back of the weekend's events in Israel. T-Notes opened at 107-04 vs Friday's 106-24 close, swiftly rising to interim highs of 107-20+. 107-04 held as support from then, with contracts trading just above the level as US participants returned, or at least those present amid Columbus Day with cash bonds closed.

A renewed bout of buying activity resumed in the NY morning, where there was spillover from EGBs on Reuters source reports that ECB policymakers see no urgent case for ending PEPP reinvestments. That was in backdrop of the ongoing geopolitical tensions and then shortly followed by Fed's Logan (2023 voter, hawk), who chimed with her dovish colleague, Daly, in her view that the rise in Treasury yields reduces the need to do more on policy/Fed hikes, which coming from one of the hawks, is all the more striking. Later on, Vice-Governor Jefferson towed a similar line noting he will keep higher bond yields in mind in assessing future rate path. Fed pricing for a hike at the November FOMC has fallen to a 12% implied probability from 22% entering Monday. T-Notes rallied to interim highs of 107-22+ in the wake of her comments, which at first couldn't hold but were eventually extended to 107-23+ heading into the NY afternoon in the backdrop of Israel ramping up its counteroffensive, and settled at even higher on the remarks from Jefferson.

THIS WEEK'S AUCTIONS: US to sell USD 46bln of 3yr notes on Oct 10th, USD 35bln of 10yr notes on Oct 11th, and USD 20bln of 30yr bonds on Oct 12th; all to settle Oct 16th.

STIRS:

- SR3Z3 +5.5bps at 94.585, H4 +10.5bps at 94.730, M4 +14.0bps at 94.965, U4 +17.0bps at 95.260, Z4 +18.5bps at 95.570, H5 +19.0bps at 95.825, M5 +19.0bps at 95.985, U5 +18.0bps at 96.050, Z5 +18.0bps at 96.070, Z6 +17.5bps at 96.020, Z7 +16.0bps at 95.850.

CRUDE

WTI (X3) SETTLED USD 3.59 HIGHER AT 86.38/BBL; BRENT (Z3) SETTLED USD 3.57 HIGHER AT 88.15/BBL

Oil prices jumped higher on Monday as traders baked in a geopolitical risk premium after the conflict in Israel. While Israel is not a key energy producer, the concern lies in the issue engulfing the broader Middle East and its key producers. For instance, WSJ reported on Friday that Saudi Arabia had told the White House it is willing to raise oil output early next year as part of a rapprochement deal with Israel, but the weekend's events now put that deal at risk. Iran's production and export capacity also could be at risk if the US decides to ramp up its sanctions enforcement if it determines its involvement in the recent attacks is substantial. These are all potential future risks the market is weighing up, but for now, there is no immediate effect from the conflict. In addition, JPMorgan, on the impact of Middle East conflict, expects short-term spikes in oil prices to continue and over the medium term becoming more sustained. Elsewhere, OPEC released its annual world oil outlook report, which, as Reuters sources last week suggested, ramped its 5yr-ahead oil demand forecast by 10.6mln BPD to 110.2mln BPD. Lastly, according to Reuters citing sources, US and Venezuela reportedly progress in talks that could lead to additional oil sanctions relief.

EQUITIES



CLOSES: SPX +0.63% at 4,335, NDX +0.49% at 15,047, DJIA +0.59 at 33,604, RUT +0.60% at 1,755.

SECTORS: Energy +3.54%, Industrials +1.61%, Real Estate +1.3%, Utilities +1.01%, Communication Services +0.95%, Technology +0.43%, Health +0.36%, Consumer Discretionary +0.18%, Materials +0.15%, Consumer Staples +0.07%, Financials +0.04%.

EUROPEAN CLOSES: DAX -0.67% at 15,128, FTSE 100 -0.03% at 7,492, CAC 40 -0.55% at 7,021, Euro Stoxx 50 -0.75% at 4,113, IBEX 35 -0.91% at 9,151, FTSE MIB -0.46% at 27,682, SMI -0.11% at 10,825.

STOCK SPECIFICS: **Microsoft (MSFT)** is reportedly set to reveal its first AI chip at an upcoming conference, according to The Information, and it could reduce its reliance on Nvidia's AI chips, which have been in high demand. MSFT's chip is being designed for data centres, like Nvidia's, to power large language models and AI features. **Bristol Myers Squibb (BMY)** will acquire **Mirati Therapeutics (MRTX)** for USD 58/shr in cash or USD 4.8bln. Note, MRTX closed Friday at USD 60.20/shr. CPCA said **Tesla (TSLA)** September sales of EV's made in China totalled 74,073, -10.9% Y/Y. Nelson Peltz's Trian Fund Management has accumulated a stake in **Disney (DIS)** worth more than USD 2.5bln and is expected to request multiple seats on the board, including one for Peltz, according to WSJ citing sources. CNBC's Faber later said Disney has not seen any names from Peltz for a potential Board slate. **Spotify (SPOT)** was downgraded at Redburn Atlantic; said factors included gross margin dilution from the cos. recent decision to include audiobooks in its premium subscription package. **Oracle (ORCL)** was upgraded at Evercore; said the stock is at an attractive entry point after its recent pullback. **Travel/Leisure stocks (CCL, RCL, NCLH, UAL, DAL, AAL)** were very weak given worries about fuel expense and limitations from the attack on Israel, as several international air carriers suspended or reined in flight services to or from Tel Aviv after a surprise attack by Hamas militants on Israel, while cruise liners adjusted its itineraries. Meanwhile, **Energy stocks (XOM, CVX, OXY)** and **Defense names (LMT, NOC)** firmed. **General Motors (GM)** said its latest offer to UAW includes a 20% wage increase for most employees; includes temporary team member wages being increased to USD 20/hr. In other news, GM is laying off almost 200 additional workers due to impacts of UAW strike

US FX WRAP

The Dollar saw two-way price action on Monday, with heightened geopolitical risks from attacks in Israel seeing the dollar start the week with gains taking DXY to a high of 106.60. However, the gains then pared on dovish Fed commentary with both Logan and Jefferson (voters) acknowledging the move in yields and its impact on tightening financial conditions, meaning the Fed may not have to do as much. The commentary saw dovish repricing in money markets with just a 12% probability of a hike being priced in for November with the first rate cut seen in June 2024. The dovish commentary saw DXY test 106 heading into APAC trade.

The Euro was also sold as a result of the geopolitical tensions but it did move off lows to reclaim 1.0550 on the aforementioned dovish Fed commentary. In addition, gains in the Yuan were also supportive of the Euro but it still was lower vs the buck and other major currencies. Note, there were ECB sources via Reuters that noted ECB policymakers consider the rise in Italian bond yields to be justified by deteriorating budget fundamentals and they see no urgent case for ending PEPP reinvestments and said discussion should be put on ice. The sources added there is no current discussion about activating transmission protection instruments.

The Yen saw gains on the geopolitical risk seeing USD/JPY fall sub 149.00. The move was also buoyed by UST futures moving higher, indicative of yields re-opening lower on Tuesday after being closed Monday for the Columbus Day holiday. Moreover, the dovish Fed commentary was also supportive of the Yen but eyes will remain on geopolitical risk, US inflation data and Fed commentary throughout the remainder of the week.

Cyclical currencies head into the APAC trade firmer vs the dollar, particularly the Antipodes with dovish Fed market pricing supporting stocks and weighing on the Dollar despite geopolitical tensions. NZD and CAD outperformed with the Loonie buoyed by the upside in crude prices while AUD was buoyed by gains in metals. GBP was flat vs the Dollar but marginally firmer vs the Euro.

The Israeli Shekel (ILS) saw notable weakness given the conflict in the region which saw USD/ILSD test 4.00 to the upside for the first time since March 2016. With the weakening Shekel, the Bank of Israel (BoI) announced a programme to sell up to USD 30bln in FX, which will provide liquidity to the market via a swap mechanism of up to USD 15bln as necessary. It also announced it will operate in the market in the coming period to moderate ILS volatility and provide needed liquidity. However, it did note it has no intention at this time to sell more than USD 30bln in FX.

EMFX was mixed amid two-way price action in the Dollar as mentioned above. MXN saw weakness but BRL firmed while COP and RUB saw gains on the upside in oil prices. Note, CLP and Chilean markets were closed on account of a



holiday. MXN weakness was seen in wake of Mexican inflation data which eased in line with expected for September. Meanwhile, BRL was not phased by BCB Director Galipolo comments that Brazil will maintain its interest rate cut pace of 50bps despite geopolitical tensions.

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