



## US Market Wrap

### 10th October 2023: Dovish Fed Speak supports stocks and bonds as geopol concerns fade

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW:** Fed's Bostic reaffirms no more hike view; Fed's Kashkari says Fed could still need to hike; US & Venezuela near deal on sanctions relief; Further escalations between Israel & Hamas; Mixed NY Fed Survey of Consumer Expectations; China stimulus reports; Disappointing LVMH earnings; Weak US 3yr auction; Stellar PEP report; BoJ touted to hike its inflation forecasts.
- **COMING UP: Data:** German CPI (Final), US MBA & PPI **Events:** ECB Consumer Expectations Survey, FOMC Minutes **Speakers:** Fed's Bowman, Waller, Collins & Bostic **Supply:** Japan, UK, Germany & US.

## MARKET WRAP

Stocks were firmer Tuesday with desks pointing to the recent dovish Fed comms in the backdrop of favourable technicals. The indices hit their peaks early in the NY afternoon before a sizable pullback was seen, coinciding with some headlines that Lebanon's Hezbollah announced it had targeted an Israeli tank with missiles, although the reaction in other major assets was muted at the time. Meanwhile, Fed's Bostic (2024 voter, dove) reaffirmed his view that the Fed should be done hiking, which adds to the slew of other officials who have said the recent rise in bond yields has reduced the need to hike the policy rate again; Kashkari (2023 voter, hawkish) said that it's "possible" higher bond yields could leave less for the Fed to do, although it depends on why the yields are moving higher. The highlight in stocks was the Pepsi (PEP) report, with strong earnings/revenue alongside decent guidance for both 2023 and 2024, and crucially, stressed that it had not seen any impact from the weight loss drugs. Treasury futures held on to Monday's gains, even stretching out new highs earlier on, amid dovish Fed comms while cash bonds played catch up, although a particularly weak 3yr auction saw strength unwind into the close. The FX market was fairly muted with the DXY slightly softer and no standout movers in the G10 space; the Yen was weaker despite the lower US yields and hawkish reports that the BoJ is set to hike its inflation forecasts. Oil prices were subdued in choppy trade, taking some pause after Monday's sharp move higher, whilst fresh China stimulus reports provided a floor.

## US

**FED: Kashkari (2023 voter)** echoed the line of some of his colleagues, saying it is 'possible' that higher bond yields could leave less for the Fed to do, although he made the distinction that if higher long-term yields are higher because of expectations about Fed actions, they may need to follow through and deliver. The Minneapolis Fed President, who leaves the voting board next year, said the reason for the rise in 10yr yields is a bit perplexing, where one story is higher-growth expectations, where he said the Fed may have to hike further if the economy is more resilient. **Bostic (2024 voter)** struck his usual dovish tone, reiterating that the Fed does not need to raise rates, albeit if things come in differently from his outlook, the Fed might have to increase rates but that is not his current view. On inflation, he noted it has improved considerably but is still a long way to get to target. **Waller (voter)** spoke briefly, saying the Fed will stay on the job to achieve the 2% inflation objective. Lastly, Fed whisperer Timiraos, in a WSJ piece, said higher bond yields are likely to extend the Fed rate pause and officials are signalling that a run-up in long-term interest rates might substitute for a further central bank rate hike. Note, this comes after the recent dovish leaning commentary from officials who are taking note of the recent rise in yields along the long-end of the Treasury curve, arguing that this helps the Fed's tightening efforts, and these moves will be taken into account when deliberating on future policy moves.

## FIXED INCOME

### T-NOTE (Z3) FUTURES SETTLED 4 TICKS LOWER AT 107-23

**Treasury futures hold Monday's gains amid dovish Fed comms while cash bonds played catch up; weak 3yr auction.** Since Friday, 2s -10.1bps at 4.978%, 3s -11.6bps at 4.765%, 5s -13.1bps at 4.618%, 7s -13.2bps at 4.663%, 10s -12.3bps at 4.659%, 20s -10.3bps at 5.036%, 30s -10.5bps at 4.837%.



**INFLATION BREAKEVENS:** Since Friday, 5yr BEI +2.5bps at 2.307%, 10yr BEI +0.4bps at 2.322%, 30yr BEI -0.4bps at 2.413%.

**THE DAY:** T-Notes retested the 107-30+ peak in the Tokyo Tuesday morning but rejected a move beyond. Downside was at first limited with some block buys in the APAC session. However, selling gained momentum in the London morning as the dust settled from the risk-off seen heading into the week. T-Notes troughed at 107-10+ at the NY handover with the long end leading the pullback.

There was little appetite to add to the selling pressure as US trade got underway, with contracts hovering just off lows. Later in the NY morning Fed's Bostic (2024 voter) gave some typically dovish remarks, noting the need for no more hikes, which coincided with a strong bout of buying activity in USTs. The buying activity extended into the NY afternoon, with the mixed consumer inflation expectation gauges in the NY Fed's consumer survey doing little to move the dial. T-Notes peaked at 107-31+ before the weak 3yr auction capped the range extension for the day, and contracts trundled back down to flat on the session into settlement.

**3YR AUCTION:** A poor demand reception at the Treasury's USD 46bln 3yr auction, stopping at 4.740%, marking a chunky 1.7bp tail, worse than the prior 1bp tail and six-auction average 0.6bp stop-through. The 2.56x bid/cover ratio sits beneath the prior 2.75x and average 2.79x. Dealers (forced surplus buyers) were left with 22.1%, above the prior 20.2% and average 14.8%, with modest declines M/M across both Directs and Indirects.

**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 -1bps at 94.575, H4 -1bps at 94.715, M4 -3bps at 94.935, U4 -4bps at 95.215, Z4 -4.5bps at 95.52, H5 -5bps at 95.77, M5 -5bps at 95.925, U5 -4.5bps at 96.00, Z5 -4.5bps at 96.02, Z6 -3.5bps at 95.98, Z7 -1.5bps at 95.83.
- SOFR falls to 5.31% as of Oct 6th from 5.32%, volumes fall to USD 1.404tln from 1.520tln.
- NY Fed RRP op demand at USD 1.222tln (prev. 1.283tln) across 98 counterparties (prev. 95).
- EFFR flat at 5.33% as of Oct 6th, volumes fall to USD 100bln from 102bln.
- US sold USD 70bln in 43-day CMB's at 5.360%; covered 2.74x; sold USD 78bln of 3-month bills at 5.340%, covered 2.79x; sold USD 70bln of 6-month bills at 5.320%, covered 2.79x.
- US increases 4-, 8-, 17-week bill auction sizes by USD 5bln, 5bln, and 2bln, respectively, to USD 95bln, 85bln, and 56bln, respectively; 4- and 8-week both sold on Oct 12th and 17-week on Oct 11th; all settle on Oct 17th.

## CRUDE

**WTI (X3) SETTLED USD 0.41 LOWER AT 85.97/BBL; BRENT (Z3) SETTLED USD 0.50 LOWER AT 87.65/BBL**

**Oil prices were subdued in choppy trade on Tuesday, taking some pause after Monday's sharp move higher, whilst China stimulus reports provided a floor.** WTI and Brent futures were bid earlier in the session on the back of reports that China is mulling fresh stimulus, printing peaks of USD 86.74/bbl and 88.49/bbl, respectively, which marked a double-top from Monday, but the moves failed to sustain, with contracts choppy for the rest of the session. Global energy supply risk was in focus again, but this time in Northern Europe after reports that a gas pipeline leak in Finland had been the result of sabotage, saw Dutch TTF prices surge. Meanwhile, in Venezuela, Bloomberg reports that the country is nearing a sanctions relief deal with the US, adding to similar Reuters reports on Monday, which could pave the way for higher oil production and exports. Looking ahead, note that both the private and EIA US energy inventory data releases have been delayed a day on account of the Columbus Day holiday on Monday.

## EQUITIES

**CLOSES:** SPX +0.52% at 4,358, NDX +0.56% at 15,131, DJIA +0.40 at 33,739, RUT +1.14% at 1,775.

**SECTORS:** Utilities +1.36%, Consumer Discretionary +1.09%, Materials +1.08%, Consumer Staples +1.08%, Financials +0.77%, Industrials +0.57%, Health +0.49%, Real Estate +0.3%, Communication Services +0.22%, Technology +0.15%, Energy -0.02%.

**EUROPEAN CLOSES:** DAX +1.95% at 15,423, FTSE 100 +1.82% at 7,628, CAC 40 +2.01% at 7,162, Euro Stoxx 50 +2.26% at 4,205, IBEX 35 +2.19% at 9,352, FTSE MIB +2.30% at 28,318, SMI +1.70% at 11,006.



**STOCK SPECIFICS:** **PepsiCo (PEP)** posted a strong report; earnings beat, lifted FY23 core EPS view, and when speaking on the impact to consumption from weight-loss drugs, said they are not seeing any impact that we can detect in our numbers right now. **Honeywell (HON)** is to realign its portfolio to three powerful megatrends: automation, future of aviation, and energy transition, which will take place as of Q1 '24. Co. reaffirmed its Q3 and FY23 guidance. **Unity (U)** CEO, Chairman, and board member John Riccitiello is retiring, effective immediately, and named interim replacements while a permanent search is ongoing; affirmed Q3 guidance. **Truist Financial (TFC)** is discussing selling its insurance brokerage unit to PE firm Stone Point for approximately USD 10bln, according to Semafor. **Rivian (RIVN)** was upgraded at UBS; said Rivian's fundamentals are improving and that the stock has upside after a recent USD 1.5bln capital raise sparked a sell-off. **Akero Therapeutics (AKRO)** reported initial trial data related to a Phase 2B study of efruxifermin, which missed its NASH study goal. **PGT Innovations (PGTI)** rejected a USD 1.9bln acquisition offer from Miter, as PGT's board found the USD 33/shr offer to be insufficient. Note, PGTI closed Monday at USD 26.20/shr. **AMD's (AMD)** AI chip shipments are expected to grow rapidly in 2024 and 2025, according to TF International analyst Ming-Chi Kuo. **Netflix's (NFLX)** ad sales are about half internal projections as of June, according to The Information. Canada's Unifor union announced it reached a tentative agreement with **General Motors (GM)** and work will resume at all three facilities this afternoon.

## US FX WRAP

**The Dollar** was slightly lower on Tuesday as general risk sentiment was seemingly set on the dovish Fed speak, as opposed to the ongoing geopolitical fracas between Israel and Hamas. On the former, WSJ's Timiraos, summing up recent Fed Speak, says higher bond yields are likely to extend the Fed rate pause and officials are signalling that a run-up in long-term interest rates might substitute for a further central bank rate hike. Meanwhile, on the inflation footing, NY Fed Survey of Consumer Expectations saw the year-ahead and three-year ahead lifted to 3.7% (prev. 3.6% in Aug) and 3% (prev. 2.8%), respectively, with the five-year ahead dipping to 2.8% (prev. 3.0%). Looking ahead, participants await further Fed Speak, PPI (Wed), CPI (Thurs), and UoM (Fri).

**GBP, NZD, and AUD** all saw slight gains against the Dollar, with the Pound taking advantage of the slight Dollar pullback to see Cable print highs of 1.2291 after earlier lows of 1.2212. Meanwhile, AUD/USD and NZD/USD traded between 0.6391-64433 and 0.6000-43, respectively. For the Aussie, NAB Business conditions fell to 11 (prev. 13), while business confidence fell to 1.0 from 2.0. However, on the consumer, the October Consumer Sentiment rose to +2.9% (prev. -1.5%), with the Westpac Consumer Confidence index rising to 82.0 from 79.7. In the week ahead, there is a slew of UK data on Thursday, followed by NZ Manufacturing PMI and card data.

**EUR and CHF** were also firmer vs. the Greenback, with the former outperforming as EUR/USD tested key resistance around 1.0620 as Treasury yields fell vs. Bunds following Fed comments signalling less urgency for tightening. Meanwhile, ECB's Villeroy said that interest rates are now at a good level, and at this stage further rate hikes are not the right thing to do, adding the Israel situation is no reason to tweak inflation prospects for now, and still sees inflation at around 2% by 2025. In addition, Holzmann noted that higher bond yields send a similar message to hikes. Elsewhere, ECB is stepping up scrutiny of banks' CRE loans, according to Bloomberg citing sources, amid concerns that banks have been too slow in marking down the value of CRE loans on their books.

**JPY** was one of the G10 underperformers despite the fall in US yields, coming amid a marked recovery in risk appetite and fix-related demand for USD/JPY on the return of Japanese participants from Sports Day. This all came despite hawkish BoJ source reports in the European morning suggesting the BoJ is to raise its core CPI forecast to 3% from 2.5% for FY23/24.

**Scandis** were mixed as the SEK firmed but the NOK saw losses. Norwegian CPI came in cooler than expected with the headline falling 0.1% in September (exp. +0.5%), adding to the -0.8% gain in the prior month. The core metric rose 0.4% M/M (exp. 0.7%, prev. -0.6%) with the Y/Y metrics also both beneath expectations and easing from the prior month. Meanwhile, Swedish GDP data for July fell 0.2% (prev. +0.8%) while the more timely New Manufacturing Orders data for September fell 0.4%, but not as quick as the prior month's 9.4% decline, which was revised down from -8.4%. In addition, participants look to Friday where the Riksbank will begin reporting on US Dollar and Euro sales, where ING notes, "weekly sales above USD 650bln would signal a very aggressive approach, but the size of the operations looks too small to be a sustainable SEK support measure. Hopes of a medium-term SEK recovery should not lie on the Riksbank's hedging but mostly on external drivers."

**EMFX** was mixed. RUB, TRY, CLP, and TRY saw losses, while BRL, MXN, ZAR, COP, and HUF saw strong gains against the floundering Greenback. The Chilean Peso was weighed on by the dip in copper prices as participants returned from its market holiday, while Chile's Central Bank Governor sees the Peso's tumble as only having a short-term impact on prices. ILS saw only marginal losses on Tuesday, USD/ISL traded between 3.9148-9957, but Wells Fargo expects the cross to trend towards 4.15 by early 2024, noting the more likely Shekel path is 'further depreciation'.



Elsewhere, Hungarian CPI and Czech CPI were cooler than expected, with the former down from the prior. In wake of the data, CNB noted that unless something unpredictable happens, inflation will decline sharply close to the upper bound of the tolerance band around the CNB's 2% target at the start of next year. Lastly, Barclays has gone short USD /MXN at 18.21 with a 17.30 target, and stop at 18.70. Barclays noted that a relief in US rates will be welcome in Mexico, while local fundamentals remain strong. Concluding, the Yuan got an extra boost from reports in the morning that China is mulling more stimulus and loosening the fiscal reins before

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