US Market Wrap

12th October 2023: Stocks, bonds, and commodities hit while Dollar rips on hot headline CPI and dismal 30yr auction

- **SNAPSHOT**: Equities down, Treasuries down, Crude flat, Dollar up.
- **REAR VIEW**: Hot CPI headline; Dismal US 30yr auction; Collins refuses to take additional hike off the table; UAW expanded its strike to F's biggest plant; WBA Q1 EPS guidance better-than-expected; Initial jobless claims continues to hover around 220k; Huge EIA crude stock build.
- **COMING UP**: **Data**: Chinese CPI, PPI, Trade Balance, French & Spanish CPI (Final), EZ Industrial Production, US Trade Balance & University of Michigan Inflation Prelim **Speakers**: Fed's Harker & ECB's Lagarde **Earnings**: UnitedHealth, JPMorgan, BlackRock, Wells Fargo, Citi, PNC Financial Services, Progressive Corp.

MARKET WRAP

Stocks, bonds, and commodities were hit Thursday as the Dollar ripped after the above forecast headline CPI data was accentuated by a dismal US 30yr bond auction. The auction saw massive bear-steepening flows, where Primary Dealers were left with 18% of the auction, the most since December 2021. The poor showing for the 30yr adds to the weak the 3yr and 10yr auctions earlier in the week, highlighting the concerns around Treasury supply/demand imbalances, a factor that has been a key citation for the back-up higher in yields in recent weeks. The tumble to fresh recent lows in the NY Fed's RRP facility on Thursday also highlights the deteriorating liquidity backdrop as the Fed's QT programme treads on. Note that stocks accelerated to the downside in wake of the 30yr auction results, while the Dollar continued to rip higher. However, heading into the NY close, stocks, bonds, and commodities pared off lows, although the Dollar remained near highs. Elsewhere, the EIA reported US crude stocks built by a massive 10.2mln bbls in the latest week, although that was partially offset by a net draw of 3mln bbls in the products. Walgreens (WBA) surged over 6% on strong Q1 EPS guidance despite the light guidance for the whole year. Finally, union relations took a turn for the worse after UAW expanded its strike to Ford Motors' (F) biggest plant, the Kentucky truck facility.

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FED: **Collins (2025 voter)** said the Fed is at or near the peak of the rate hike cycle, saying the bond yield rise likely reduces the need for a near-term Fed hike. But, she warned it is too soon to take the prospect of additional rate hikes off the table, albeit the current policy phase calls for patience. She noted the latest CPI data underscores uneven progress towards the 2% target, that it will take time, and that it's too soon to say inflation is on a sustainable path to 2%. The Boston Fed President, who doesn't vote until 2025, says she sees only limited progress on lower core service ex-housing inflation. On the other hand, she sees evidence the labour market is rebalancing, whilst remaining optimistic the economy can escape recession.

CPI: Headline CPI was hotter than expected with the M/M rising 0.4% (exp. 0.3%) but easing from the 0.6% pace in August. The Y/Y maintained a 3.7% pace, above the 3.6% consensus. The core metrics, however, were in line with expectations seeing the M/M rise at a 0.3% pace, matching the prior month and the Y/Y pace eased to 4.1% from 4.3%. Overall, it was a hawkish reaction on the hot headline which also shows prices as more sticky and supports the argument that the return to 2% still has some way to go, but on the plus side it does not appear to be broadly accelerating. Note, that the report stated the index for shelter was the largest contributor to the monthly all-items increase, accounting for over half of the increase. The main data left before the November FOMC will be the September PCE report, but it is widely expected the Fed will stand pat in November as they "proceed carefully" and perhaps reassess in December when more data is available. Money markets currently assign a ~40% probability of a December hike, but as it stands a lot of Fed commentary has suggested further rate hikes may not be needed given tighter financial conditions. However, if the recent backup in yields has been driven by strong economic growth prospects, the Fed may have to act. Nonetheless, the question of the FOMC is now turning to how long should the Fed keep rates restrictive, and this data supports their higher for longer message. Money markets are now pricing in the first Fed rate cut in July with 70bps of cuts priced for all of 2024, but that is still more dovish than the Fed's September Dot Plot median of 5.1%.

JOBLESS CLAIMS: The Weekly Jobless Claims for the week ending 7th October were at 209k, in line with expectations and unchanged from the prior week, seeing the fourth consecutive week around the 200k level. The first claims data of October suggest the tightness of the labour market is continuing into October with any signs of a slowing jobs market is not being met with widespread layoffs (as evidenced in the September layoffs and NFP data). Looking at the unadjusted data, that totalled 197k and the seasonal factors had expected an increase of 22.8k from the prior week. Continued claims, for the week ending 30th September, rose however to 1.7mln from 1.67mln, above the 1.68mln expectation, taking it to the highest since August 20th. The rise in continued claims could show that those unemployed already are struggling to find new work.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 22+ TICKS LOWER AT 107-07+

Treasuries were sold through the session amid a hot-leaning CPI report and a dismal 30yr bond auction that steepened the curve. 2s +6.4bps at 5.069%, 3s +7.4bps at 4.846%, 5s +8.9bps at 4.694%, 7s +9.9bps at 4.726%, 10s +10.2bps at 4.699%, 20s +11.3bps at 5.056%, 30s +11.8bps at 4.855%.

INFLATION BREAKEVENS: 5yr BEI +4.7bps at 2.345%, 10yr BEI +2.7bps at 2.341%, 30yr BEI +1.6bps at 2.406%.

THE DAY: Treasuries were choppy and rangebound in lighter activity through Asia and the European morning on Thursday in the calm before the CPI storm. Before US trade got underway, T-Notes had troughed at 108-00+ in the London morning after peaking at 108-09 at the Tokyo/London handover. On the curve, the mild bid had been led by the belly and long end.

T-Notes ran up to session highs of 108-16 in the minutes preceding the CPI release, which proved costly for those chasing given the immediate kneejerk move lower to 107-24+ amid the headline figures coming in on the hot side, while the core figures were in line. The selling was initially led by the front end, although duration caught up later in the NY morning with eyes to the 30yr auction. However, the concession wasn't enough and the awful auction results saw a pile-on of massive bear-steepening, with Ultra Bonds tumbling, and T-Notes extended to session lows of 107-04 ahead of settlement.

30YR AUCTION: An awful USD 20bln 30yr bond auction from the Treasury that will only add to the concerns around a supply/demand mismatch in the Treasury market, which were already brewing this week after poor 3yr and 10yr showings. The auction stopped at 4.837%, which tailed the When Issued yield by a massive 3.7bps, almost incomparably bad vs the prior 1bp tail and six-auction average of on the screws. The bid/cover ratio of 2.35x firmly undershot the prior 2.46x and average 2.65x. Dealers (forced surplus buyers) were left with a chunky 18.2%, the highest since Dec 2021, well above the prior 15.8% and average 10.9%.

NEXT WEEK'S AUCTIONS: US to sell USD 13bln of 20yr bond on Oct 18th and USD 22bln of 5yr TIPS on Oct 19th; to settle on Oct 31st.

STIRS:

- SR3Z3 -2.5bps at 94.545, H4 -4.5bps at 94.65, M4 -6bps at 94.85, U4 -7.5bps at 95.10, Z4 -9bps at 95.385, H5 -9 bps at 95.645, M5 -9.5bps at 95.81, U5 -9.5bps at 95.895, Z5 -10bps at 95.925, Z6 -9.5bps at 95.92, Z7 -10bps at 95.79.
- SOFR flat at 5.31% as of Oct 11th, volumes fall to USD 1.465tln from 1.522tln.
- NY Fed RRP op demand tumbles USD 82bln to 1.157tln, despite a net cash injection of USD 9bln from T-Bill settlements; 97 counterparties vs 100 on Wednesday.
- EFFR flat at 5.33% as of Oct 11th; volumes fall to USD 94bln from 95bln.
- US sold USD 96bln of 4-week bills at 5.325%, covered 2.79x; sold USD 86bln of 8-week bills at 5.345%, covered 2.88x.
- US announced raises to the 6-, 13-, and 26-week bill auction sizes by USD 5bln, 2bln, and 2bln, respectively, to USD 75bln, 75bln, and 68bln; 13- and 26-week bills sold on Oct 16th, 6-week on Oct 17th; all to settle on Oct 19th.

CRUDE

WTI (X3) SETTLED USD 0.58 LOWER AT 82.91/BBL; BRENT (Z3) SETTLED USD 0.18 HIGHER AT 86.00/BBL

Oil prices unwound all their initial gains on Thursday as the Dollar ripped higher through the US session and EIA inventories confirmed a massive build. WTI and Brent futures hit peaks of USD 85.20/bbl and 87.64/bbl, respectively, in the NY morning on the back of some fresh Saudi and Russia jawboning, but the continued climb of the Dollar from there saw futures unwind their gains into the afternoon, accentuated by the bearish EIA inventory data.

Crude stocks built by a massive 10.2mln bbls in the latest week, although Cushing, OK, stocks drew by 0.3mln bbls; the products both saw draws for a net draw of more than 3mln bbls. Earlier on, the Saudi Energy Minister said that the oil market should not be left alone and we should be proactive given the numerous challenges. Russian Deputy PM Novak was also on wires jawboning, talking up the need for further OPEC coordination.

EQUITIES

CLOSES: SPX -0.62% at 4,349, NDX -0.37% at 15,184, DJIA -0.51% at 33,631, RUT -2.20% at 1,734.

SECTORS: Materials -1.52%, Utilities -1.49%, Real Estate -1.3%, Consumer Staples -1.15%, Communication Services -1.11%, Consumer Discretionary -0.95%, Health -0.93%, Industrials -0.93%, Financials -0.63%, Technology +0.1%, Energy +0.09%.

EUROPEAN CLOSES: DAX -0.23% at 15,425, FTSE 100 +0.32% at 7,644, CAC 40 -0.37% at 7,104, Euro Stoxx 50 -0.07% at 4,197, IBEX 35 -0.26% at 9,336, FTSE MIB +0.26% at 28,493, SMI -0.52% at 10,981.

STOCK SPECIFICS: UAW expanded its strike to **Ford Motors (F)** biggest plant, Kentucky, in terms of both revenue and workforce. Following this, a Ford executive said it does not make sense to do a labour deal that does not allow business to survive; Kentucky truck strike will hit profit sharing for UAW union. Exec later added it has reached its limit on economic proposals. **Delta Air Lines (DAL)** earnings beat and the FY revenue guide was strong as it noted robust demand for travel is continuing into the December quarter. However, it cut its FY EPS view and next quarter guidance was slightly underwhelming. **Walgreens Boots Alliance (WBA)** beat on revenue and Q1 EPS guidance. Expects benefits from cost savings and US healthcare to have a muted impact in Q1 and expected to scale over the balance of the year. Note, profit missed and FY24 guidance was light. **Domino's Pizza (DPZ)** surpassed expectations on profit but missed on revenue. **Victoria's Secret (VSCO)** lifted Q3 adj. EPS and revenue outlook, but still sees a loss per share and revenue declining Y/Y. Added sales growth internationally has been ahead of plan, and sales trends in North America continues to improve. **Fastenal (FAST)** beat on profit while revenue was in line. **InMode (INMD)** sees Q3 earnings beneath expectations alongside cutting FY23 revenue outlook. **Target (TGT)** was upgraded at Bank of America; said TGT's stock looks attractive after a recent slide and cos. margins could improve in the year ahead. **Warby Parker (WRBY)** and **First Solar (FSLR)** were upgraded at BTIG and Barclays, respectively. **Comcast (CMCSA)** and **Disney (DIS)** hired investment banks to value Hulu as its sale process makes progress, according to CNBC; On Nov. 1st, CMCSA and DIS can both trigger an option that will kick off a sale process where DIS will acquire CMCSA's minority stake.

US FX WRAP

The Dollar was notably firmer on Thursday, and while it saw a boost post-CPI to just shy of 106.00, it saw much of its strength going into the NY afternoon, with the index hitting its highs of 106.60 (matching Monday's WTD peak) after the dismal US 30yr auction, with long end yields surging higher and stocks tumbling. Back to CPI, the headline was hotter than expected with the M/M rising 0.4% (exp. 0.3%) but easing from the 0.6% pace in August, with Y/Y maintaining a 3.7% pace, above the 3.6% consensus. The core metrics, however, were in line with expectations seeing the M/M rise at a 0.3% pace, matching the prior month and the Y/Y pace eased to 4.1% from 4.3%. Overall, it was a hawkish reaction on the hot headline which also shows prices as more sticky and supports the argument that the return to 2% still has some way to go, but on the plus side it does not appear to be broadly accelerating. Looking ahead, attention Friday will turn to prelim UoM survey for October and big banks (JPM, C, WFC, BLK) reporting.

Antipodeans and the Pound were the underperformers, largely on the broad Dollar bid and souring risk sentiment, as opposed to anything too currency specific. However, in the European morning Cable was unstable above 1.23000 amid mixed UK macro releases and BoE members highlighting the extent of hikes in the pipeline. Despite saying this, as the Dollar continued its purge higher through the duration of the NY afternoon, Cable fell to a session low of 1.2173 with attention on Monday’s low of 1.2161. In addition, AUD/USD and NZD/USD tumbled to troughs of 0.6308 and 0.5926, respectively, from earlier peaks of 0.6430 and 0.6025.

CAD, EUR, CHF, and JPY all saw losses, just not the extent of the aforementioned activity currencies. Without sounding like a broken record, all moves accentuated after the dismal 30yr US auction, which even saw USD/JPY hit a high of 149.86 and eke ever closer to the sand-in-the-line 150 level. Further for the Yen, there was disappointing Japanese data as machinery orders unexpectedly fell in August M/M. EUR/USD traded between 1.0527-0639 and currently resides at the low end of the range. On the day, ECB minutes offered little by way of new information as they noted policymakers were broadly supportive of the move to pull the trigger (most likely) one last time. For the record, a plethora of ECB speakers were on the wires, namely Stournaras, Makhlouf, Wunsch, Centeno, Villeroy, Holzmann, Knot, and Vasle, but they garnered little market reaction. For the Loonie watchers, the CAD was at its strongest as oil was at highs, but as the oil slumped to session lows, USD/CAD also lifted to highs of 1.3700.

EMFX was largely weaker on account of the broad Dollar bid, with the BRL flat and the outperformer. MXN, ZAR, and CLP underperformed, with the latter two seeing added headwinds from gold and copper losses. Moreover, South African Manufacturing Production for August missed on both M/M and Y/Y metrics. CZK was rattled by remarks from CNB hawk Holub regardless of the fact that they came from an interview given around a week ago. In short, he said the prospect of easier policy in 2023 cannot be ruled out. In wake of this, EUR/CZK hit a peak not seen since July last year. MXN weakened even though Mexican IP beat consensus and Banxico minutes reiterated that in order to achieve an orderly and sustained convergence of headline inflation to the 3% target, it considers that will be necessary to maintain the reference rate at its current level for an extended period.