



## US Market Wrap

### 13th October 2023: Oil and havens jump but stocks dump on geopolitical risks into the weekend

- **SNAPSHOT:** Equities down, Treasuries up, Crude up, Dollar up.
- **REAR VIEW:** JPM, WFC, PGR earnings impress, while BLK & C disappoint; Strong UNH numbers; Growing Israel tensions; Harker notes Fed likely done with rates; Hawkish BoC Macklem speak; Poor UoM survey, with inflation expectations surging.
- **WEEK AHEAD:** Highlights include US retail sales, China activity data, PBoC, inflation from NZ, Japan, UK and Canada. To download the report, please click [here](#).
- **CENTRAL BANK WEEKLY:** Previewing PBoC, RBA Minutes and BoK; Reviewing FOMC Minutes and ECB Minutes. To download the report, please click [here](#).
- **WEEKLY US EARNINGS ESTIMATES:** [MON] SCHW; [TUES] JNJ, BAC, GS, LMT, PLD; [WED] ASML, ELV, PG, MS, ABT, NFLX, TSLA; [THURS] TSM, BX, T, PM, UNP; [FRI] AXP. To download the report, please click [here](#).

## MARKET WRAP

Stocks were sold while havens, including bonds, Yen, Swissy, gold and the Dollar, were bid with crude prices surging due to the fear of escalation in the Israel conflict over the weekend with the Israeli ground military building up on the Gaza strip border. Given the risks and uncertainties, participants are clearly reluctant to hold risk assets into the weekend. Note, there were reports that officials from Iran and Hezbollah had helped plan the attack but so far there has been no evidence directly linking Tehran, according to the NYT, while the deal to normalise relations between Israel and Saudi Arabia have been put on ice, according to Reuters. Israeli PM Netanyahu also noted their counter-offensive in Gaza is only the beginning. Aside from geopolitics, in the US the start of earnings season kicked off with financials generally posting solid reports but price action was mixed with decent gains seen in PGR, JPM and WFC while C pared its gains and PNC and BLK underperformed. Outside of financials, Dow heavyweight United Health (UNH) figures were also impressive. On data, the US Preliminary UoM survey for October was largely disappointing with sentiment, expectations and conditions all falling beneath expectations while the inflation expectations shifted higher. Fed speak saw Fed's Harker admit he believes that rate hikes are likely done noting tighter credit conditions are akin to rate hikes in impact. Attention remains on geopolitical updates over the weekend but next week will see a flurry of US earnings, including GS, BAC, JNJ, NFLX, TSLA, TSM and AXP. On economic releases, US retail sales are in focus, alongside China activity data, PBoC, and inflation reports from Canada, UK, New Zealand and Japan.

## US

**FED: Harker (2023 voter)** said the Fed is likely to be done with rate hikes and he supports a higher for longer interest rate stance, but can't say for how long. Harker expects to see steady disinflation, with inflation falling below 3% in 2024 and levelling out at 2% target thereafter. The Philadelphia President added growth is seen moderating next year but he does not expect to see a recession. Tighter credit conditions are akin to rate hikes in impact, while noting it will take time for the Fed rate hikes to be fully felt. Labour markets are coming into better balance; and he does not expect to see mass layoffs. Auto strikes and renewed student loans will weigh on the economy while he expects the unemployment rate to rise to about 4% by year-end, 4.5% by 2024-end, and back down to 4% by 2025-end. Harker also noted that the labour market turmoil could weigh on the economy. Within the Q&A of Harker's speech, he noted CRE risks are a concern but stressed an economic soft landing is quite possible. He noted he is seeing some increases in consumer credit trouble but it is not a major concern yet but the spillover impact of Fed hikes on the economy favour holding steady. Harker stated wage pressures are elevated, but moderating, and he wants those pressures to cool, but not fall off a cliff. Meanwhile, Harker noted he prefers to look at core measures of inflation. On housing, he said banks are telling the Fed there is almost no activity for first time home buyers given where rates are. He also noted that rising rate costs are pressuring the federal budget and the size of the budget needs to be addressed.

**UNIVERSITY OF MICHIGAN SURVEY:** Headline prelim UoM for October fell to 63.0 from 68.1, and way beneath the expected 67.2 and on the lower bound of the forecast range. The dive lower was driven by a fall in both conditions and expectations to 66.7 (prev. 71.4, exp. 70.4) and 60.7 (prev. 66.0, exp. 65.5), respectively. On the inflation footing, 1yr ahead soared to 3.8% (prev. 3.2%) with the longer term 5-10yr lifting to 3.0% from 2.8%. Overall, consumers became



more downbeat about the state of the economy, as higher gas prices and political uncertainty weighed on their assessment of both current and future economic conditions. Furthermore, higher gas prices also pushed up consumers' inflation expectations. Concluding, Oxford Economics expect mounting headwinds to consumers' finances, depleted excess savings and higher borrowing costs to cause consumer spending to slow sharply over the next few quarters, though probably not by as much as the very weak levels of consumer sentiment suggest.

## FIXED INCOME

### T-NOTE (Z3) FUTURES SETTLED 15+ TICKS HIGHER AT 107-23

**Treasuries bull-flattened as weekend Israel/Middle East risk looms despite overhang from awful Treasury auctions.** At settlement, 2s -1.7bps at 5.054%, 3s -3.2bps at 4.817%, 5s -5.7bps at 4.644%, 7s -7.6bps at 4.659%, 10s -8.4bps at 4.627%, 20s -8.8bps at 4.982%, 30s -9.5bps at 4.776%

**INFLATION BREAKEVENS:** 5yr BEI +2.0bps at 2.374%, 10yr BEI +0.1bps at 2.346%, 30yr BEI -0.8bps at 2.405%.

**THE DAY:** Treasuries rallied through the Friday session, with T-Notes recovering from their Thursday lows of 107-04 (on the back of the 30yr auction bloodbath) through the APAC session, aided by soft Chinese inflation data with mixed trade data. The bid extended through the European morning with geopolitical hedges into the weekend being touted, amplified by the build-up of Israel's ground military on the Gaza Strip border.

The bull-flattening saw T-Notes peak at 108-00 in the NY morning, right on the back of Fed's Harker (2023 voter) saying the Fed is likely done with rate hikes. But the strength pared somewhat heading into the NY afternoon, in part as the oil strength became too hard to ignore, but also with bond traders balancing the weekend risk of war against the string of terrible Treasury auctions seen this week. Similarly, the Uni of Michigan consumer sentiment survey for October tumbled, but the inflation expectation gauges spiked higher, capping any further bullish momentum. T-Notes found interim support at 107-18.

**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 +1.5bps at 94.560, H4 +2.0bps at 94.670, U4 +2.0bps at 94.870, Z4 +1.0bps at 95.115, H5 +0.0bps at 95.390, M5 +1.0bps at 95.655, U5 +2.5bps at 95.835, Z5 +3.5bps at 95.925, Z6 +7.5bps at 95.995, Z7 +9.5bps at 95.915.
- SOFR flat at 5.31% as of Oct 12th, volumes rise to USD 1.467tln from 1.465tln.
- NY Fed RRP op demand at USD 1.152tln (prev. 1.157tln) across 98 counterparties (prev. 97).
- EFFR flat at 5.33% as of Oct 12th, volumes rise to USD 103bln from 94bln.

## CRUDE

### WTI (X3) SETTLED USD 4.78 HIGHER AT 87.69/BBL; BRENT (Z3) SETTLED USD 4.89 HIGHER AT 90.89/BBL

**Oil prices rallied Friday amid growing Israel tensions heading into the weekend.** WTI and Brent futures rallied most notably through the European session, with geopolitical risk growing amid the growing Israeli forces on the Gaza border, peaking at USD 87.83/bbl and 90.99/bbl, respectively, in the NY morning. Contracts hovered near highs through the rest of the US session. Adding to the Middle East concerns is the potential for a broader conflict, with Iran's Foreign Minister warning Friday that the continuation of war crimes will receive a response from the rest of the axes; there was a separate NYT article suggesting that officials from Iran and Hezbollah helped plan the Israel attacks last weekend. In essence, energy traders will not want to be short into the weekend given the amount of uncertainty, and price action shows as much Friday.

## EQUITIES

**CLOSES:** SPX -0.50% at 4,327, NDX -1.24% at 14,995, DJIA +0.12% at 33,670, RUT -0.84% at 1,719.

**SECTORS:** Energy +2.26%, Utilities +1.09%, Consumer Staples +0.84%, Health +0.61%, Financials +0.19%, Real Estate -0.04%, Materials -0.37%, Industrials -0.85%, Communication Services -1.32%, Consumer Discretionary -1.46%, Technology -1.52%.



**EUROPEAN CLOSES:** DAX -1.55% at 15,186, FTSE 100 -0.59% at 7,599, CAC 40 -1.42% at 7,003, Euro Stoxx 50 -1.50% at 4,135, IBEX 35 -1.10% at 9,232, FTSE MIB -0.90% at 28,237, SMI -0.76% at 10,896.

**EARNINGS:** **JPMorgan (JPM)** posted a strong report; EPS, revenue, NII, IB and FICC revenue all topped expectations with provision for credit losses lower than forecasted. Looking ahead, co. raised FY23 NII view. **Wells Fargo (WFC)** topped Wall St. consensus on EPS, revenue, and NII, alongside raising Q4 and FY23 guidance for net interest income. **UnitedHealth (UNH)** earnings beat and lifted the lower end of the FY profit guidance range. **BlackRock (BLK)** missed on revenue but did beat on profit. In the quarter, clients pulled USD 13bln from long-term funds, which marks the first outflow since the onset of the pandemic. **Citigroup (C)** surpassed expectations on the top and bottom line, with the breakdown also strong. Raised FY23 NII ex-markets view and affirmed FY23 revenue guide. **PNC (PNC)** profit and NII beat, but revenue, net interest margin, and deposits missed. Looking ahead, for Q4 sees NII down 1-2% Q/Q. **Progressive (PGR)** topped expectations on net premiums written, net premium earned, and EPS.

**FINANCIALS COMMENTARY:** **JPMorgan (JPM)** noted credit card growth may slow down going ahead and expects muted loan growth. Credit card charge-offs are normalising while the pace of buybacks will remain modest. Have a healthy pipeline in corporate and IB for Q4 and are a bit more optimistic compared to last quarter. There will continue to be upward pressure on deposits, and we'll have to reprice some deposits at some point. Concludes they could see some upward pressure on margins as expenses rise. **Citi (C)** expects continued normalisation of net credit losses in cards and also sees modest buybacks in Q4. Notes continued deceleration in spending indicates an increasingly cautious consumer. US consumers remain resilient, but there is some pressure on lower FICO score clients. **PNC (PNC)** CEO noted they will continue to be diligent in expense management going forward. Deposits continue to decline, the bank expected that, but that decline is slowing. **Wells Fargo (WFC)** CFO said increased guidance is still the "best guess" and the economy is still doing well so far, and deposit pricing has remained competitive. Commercial deposits have been stable.

**STOCK SPECIFICS:** **Dollar General (DG)** announced Todd Vasos would return as CEO immediately and adjusted its FY23 guidance; now sees net sales growth between 1.5-2.5% (exp. 2.4%, prev. 1.3-3.3%). **Boeing (BA)** and **Spirit AeroSystems (SPR)** have reportedly expanded the scope of their ongoing inspections of a production defect affecting 737 Max 8 aircraft. **JD.com (JD)** was downgraded at Morgan Stanley and cut its price target, citing weak consumer demand. UK CMA cleared the deal for **Microsoft (MSFT)** to acquire **Activision (ATVI)** without conditions; said **Ubisoft (UBSFY)** acquiring rights instead of Microsoft addresses its concerns. **Netflix (NFLX)** was downgraded at Wolfe Research citing concerns related to its growth forecast. Pharmacy staff from **Walgreens (WBA)** and other chains could stage nationwide walkout and rallies in the coming weeks, according to CNBC. Activist investor Starboard has built a stake in **News Corp (NWSA)**, according to Reuters sources. **Ford Motor (F)** is considering cutting a work shift at the plant where it builds its electric F-150 Lightning pickup as demand for the EV truck falters, according to a memo from a UAW official cited by WSJ.

## WEEKLY FX WRAP

### Greenback on track to arrest early October/Q4 slide

**USD** - There was little time to reflect on the latest US labour market report given shocking events over the weekend that prompted a declaration of war from Israel in response to attacks by Palestine's Hamas group. This sparked a scramble into safe haven currencies and assets on Monday that subsequently waxed and waned, but remained close to the surface as hostilities escalated and spread to other parts of the Middle East. The Buck spiked before ceding ground to the likes of the Franc, Yen and Gold, while the Loonie managed to avoid or contain risk-off declines with the aid of resurgent oil prices. Indeed, the DXY ended the day only a fraction above lows between 106.020-600 parameters and resumed its downward trajectory on Tuesday following a reminder from Fed's Bostic that rates are sufficiently restrictive in his opinion. The index lost 106.000+ status and suffered deeper losses within a 106.010-105.550 range over the course of the midweek session after a fleeting pop on hot PPI metrics was burst by another Fed official citing tighter financial conditions due to higher yields as a substitute for further hikes. Moreover, this came from hawk Waller and added to bearish momentum as the DXY slipped closer to 105.500 and only gleaned traction with the aid of a Fib retracement level virtually at the half round number in time for a strong rebound on the back of above forecast headline CPI. The index reclaimed 106.000 on the way to matching its prior weekly peak and absorbed more dovish-leaning Fed rhetoric (Harker said FOMC likely to be done with rate rises, supports higher for longer stance, but can't say for how long) plus a mixed preliminary UoM survey (sentiment, conditions and expectations all considerably below consensus vs higher inflation projections, one year in particular) and extended its recovery to 106.790.

**CHF/JPY/XAU/CAD** - As noted above, heightened geopolitical angst and uncertainty boosted the appeal of the Franc, Yen and Gold, albeit to varying extent. Usd/Chf probed 0.9000 at one stage compared to a circa 0.9123 high, while the risk aversion was equally evident in Eur/Chf that reversed from just over 0.9600 to just under 0.9500. Elsewhere, Usd



/Jpy was somewhat caught between stalls as the BoJ stuck to its stance of ultra-accommodation, but softer Treasury yields and the conflict capped the headline pair into 150.00 without excessive jawboning from Japan or price action that resembled physical intervention. In fact, Usd/Jpy was relatively confined within 149.86-148.17 bounds, whereas Xau/Usd rallied from Usd 1832/oz to top Usd 1925/oz, irrespective of the Greenback's revival and USTs retreating from best levels (T-note down to 107-21+ from 108-16 and corresponding yield around 4.63% from 4.53%). Elsewhere, Usd/Cad troughed around 1.3570 and reached 1.3700, as WTI gradually retraced from Usd 87.24/brl to Usd 82.31/brl and back up towards Usd 87/brl again, but could have revisited the base in wake of commentary from BoC Governor Macklem in the absence of renewed risk aversion heading into the weekend. In short, he stated that higher long-term bond yields are not a substitute for doing what needs to be done to get inflation back to target, in contradiction to what seems to be revised guidance from the Fed.

**EUR/AUD/GBP/NZD** - The Euro huffed and puffed against the backdrop of multiple large and many mega Eur/Usd option expiries, while testing and respecting or rejecting key chart support and resistance points including Fibs and DMAs, though ultimately succumbed to its US peer. Hence, 1.0500 looks increasingly under threat from a 1.0639 high regardless of several ECB members keeping the door ajar for more tightening, especially if the Middle East crisis causes another price shock. Meanwhile, the Pound plunged in the region of 200 pips from a 1.2337 pinnacle with no prop from UK data that was either in line with expectations in the case of GDP or worse when looking at IP and the output breakdown, and BoE remarks hardly helped support Sterling as they largely reiterated that there is more hikes to filter through, bar MPC member Mann who retained her more hawkish views. Moving down under, the Aussie tumbled through 0.6300 having peaked only a fraction beneath 0.6450 mainly due to its high beta/activity status, but it held up a tad better than the Kiwi that had NZ election jitters to compound the geopolitical anxiety. Nzd/Usd lost altitude from 0.6055 and grasp of 0.5900, while the Aud/Nzd cross climbed towards 1.0700 from the low 1.0600 zone.

**SCANDI/EM** - A week of contrasts for the Sek and Nok kicked off with the latter deriving protection from a surprise contraction in Norwegian mainland GDP and the Israeli-Hamas war via Brent and culminated with the latter leaning on stronger than forecast Swedish CPI readings to compensate for a low key start to the Riksbank's reserve hedging program. Elsewhere, the Cny and Cnh relied on the PBoC to maintain its heavily weighted midpoint fixes rather than Chinese data or more stimulus, as did the Inr and Krw in context of the RBI and SK Finance Ministry respectively, while the IIs needed more assistance than most for obvious reasons and the Bol came to the rescue with a combination of FX and swap facilities to curb volatility and provide liquidity. The Zar was underpinned to a degree by Gold's exploits and the Mxn was cushioned by crude, but the Try even more depressed by the higher cost of oil, the Pln was cautious pre-Polish elections and the Czk somewhat rattled by CNB hawk Holub talking about the potential for easing this year.

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