newsquawk

# US Market Wrap

## 17th October 2023: Treasury yields spike on hot retail sales with tech hit on fresh US export curbs

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude mixed, Dollar flat.
- **REAR VIEW**: Above forecast US retail sales & IP data; US' latest China export controls & restricts sale of NVIDIA made-for-China chips; White House discusses possibility of using military force if Hezbollah joins in conflict; Hundreds of casualties after Gaza hospital attack; BBG sources note BoJ mulling raising inflation forecasts; Soft leaning Canadian inflation data; JNJ earnings beat & raised guidance; BAC profit tops boosted by higher NII.
- **COMING UP**: **Data**: Chinese GDP, Retail Sales, Industrial Output, UK CPI, EZ HICP (Final), US Building Permits /Housing Starts **Speakers**: ECB's Lagarde, Elderson; Fed's Williams, Waller, Bowman, Harker, Cook **Supply**: Japan, Germany & US **Earnings**: ASML, Segro, Barratt Developments, Whitbread, Deutsche Boerse; Netflix, Tesla, Morgan Stanley, Abbott.

## MARKET WRAP

Stocks were mixed on Tuesday amid weakness in the NDX due to big tech/semiconductor losses after the US' latest China export controls, while the equal-weighted S&P and small-cap Russell 2k index saw notable gains. Nvidia (NVDA) saw particular weakness amid the US' targeting of its high-end AI chips, with other semiconductor and tech names also pressured. Meanwhile, broader pockets of the market found strength, aided by the above forecast US retail sales and industrial production data. That came despite Bank of America's (BAC) warning in its earnings report (which was received well) of a continued slowing in consumer spending. Those looking for a policy guide from Fed's Williams at the Economic Club of NY were let down, with the official not speaking on policy/outlook, although Fed's Barkin (2024 voter) did softly warn against relying on long-term yields in policy setting. Treasuries saw more heavy selling, particularly after the retail sales data, but this time led by the front and belly with the cash 2yr yield breaking out of multi-month ranges to fresh cycle peaks of 5.24%. Oil prices pared their losses into the close on the back of Axios reports that the White House has been discussing the possibility of using military force if Hezbollah joins the war in Gaza, something that appears increasingly likely after the 500 deaths reported in the wake of a Gaza hospital collapsing amid a rocket attack. In FX, the Dollar was flat, although note a tumble in USD/JPY earlier on after Bloomberg reported the BoJ is mulling raising its inflation forecasts. USD/CAD was only marginally firmer after the spike higher on soft-leaning Canadian CPI unwound through the session.

## GLOBAL

**US RETAIL SALES**: The September US Retail Sales data was hot, rising 0.7% M/M above the 0.3% forecast while the prior was revised up to 0.8% from 0.6%. Ex-autos lifted 0.6% (exp. 0.2%), with the prior also upwardly revised to 0.9% from 0.6%. The super-core (ex-gas and autos) rose by 0.6%, accelerating from the upwardly revised 0.3%. The control group, which feeds into GDP, rose 0.6%, above the 0.00% expectation and accelerating from the prior 0.2%. The data is the latest hot string of reports from the US after a hot NFP and CPI headline accompanied by hot PPI while jobless claims have remained around 200k over the last month. Despite the aforementioned data, the move higher in yields has seen many Fed members suggest the recent move higher in yields means the Fed may not have to do as much on policy. Nonetheless, the data is having more of an impact out the curve with rate cuts not fully priced until September now. The strong retail sales suggests to ING that Q3 GDP should be looking for growth in the region of 4%. The desk adds that "Headwinds are set to intensify, but for now the US consumer continues to defy the odds".

**US NAHB HOUSING MARKET INDEX**: NAHB fell to 40.0 in October, beneath the prior and expected (44.0), and sitting on the lower bound of the forecast range. Overall, it is the third consecutive drop in the NAHB index, leaving it 16 points below the recent high. Pantheon Macroeconomics notes, “Homebuilders are still benefitting from a lack of existing home supply, which was pushing buyers towards new homes even as aggregate mortgage demand remained subdued.” Nonetheless, the renewed collapse in mortgage applications since June is keeping any enthusiasm in check, reflected in the flattening in construction activity in recent months.

**US INDUSTRIAL PRODUCTION**: Industrial production rose 0.3%, above the expected and prior, revised lower, 0.0%. Manufacturing output surprisingly lifted 0.4% (exp. 0.1%, prev. -0.1%), despite the UAW strike, while higher oil prices have driven consecutive gains in mining output (+0.4% M/M), while a normalisation in temperatures held back utilities production (-0.3% M/M). Elsewhere, motor vehicle and parts production was +0.3%; Oxford Economics notes it had fallen more dramatically at the beginning of past major UAW strikes. OxEco concludes, while the timing and magnitude of the current strike likely limited the fallout on output in September, the longer it persists, the more its impact will show up in the October report.

**ISRAEL**: Axios reports, citing US and Israeli officials, that the White House has been discussing the possibility of using its growing military force in the region if Hezbollah joins the war in Gaza and attacks Israel with its huge arsenal of rockets. That comes amid the increased likelihood of a broader Hezbollah intervention, particularly after the reported Israeli strike of a hospital in Gaza, with estimates of casualties ranging from 200 to 500, which some commentators suggest could provoke action from Hezbollah on Israel's northern border. Following this, Israeli military said intelligence shows Palestinian Islamic Jihad Group is responsible for the hospital attack, and a Gaza rocket barrage towards Israel passed near the Gaza hospital when it was hit.

## FIXED INCOME

**T-NOTE (Z3) FUTURES SETTLED 31+ TICKS LOWER AT 106-07**

**Treasury yields broke to new cycle peaks at the front and belly after hot US retail sales and industrial production data**. 2s +11.4bps at 5.212%, 3s +14.0bps at 5.012%, 5s +14.8bps at 4.865%, 7s +14.5bps at 4.884%, 10s +12.6bps at 4.836%, 20s +8.4bps at 5.164%, 30s +7.0bps at 4.936%.

**INFLATION BREAKEVENS**: 5yr BEI +1.6bps at 2.435%, 10yr BEI +2.6bps at 2.415%, 30yr BEI +2.4bps at 2.467%.

**THE DAY**: Treasuries continued to leak lower through the APAC Tuesday session. There was a period of support in the London morning out of UK Gilts amid soft leaning UK employment and wage data, although that was soon obfuscated from the better-than-expected German ZEW survey. T-Notes continued to print new lows heading into the NY handover.

The above-forecast US retail sales figures saw Treasuries kneejerk lower, with the downside continuing in the wake of better-than-expected industrial production data. T-Notes found interim support at 106-10 later in the NY morning alongside broader duration, although the front end kept on dipping, seeing cash 2yr yields break out of multi-month ranges and up to fresh cycle peaks (5.241%), flattening the curve. The long end played some catch-up later in the session to see T-Notes print session lows of 106-03+ with the cash 10yr yield peaking at 4.862%, just off the cycle peaks of 4.887% on Oct 6th.

**THIS 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 -3.5bps at 94.515, H4 -7bps at 94.575, M4 -8.5bps at 94.755, U4 -10bps at 94.98, Z4 -13.5bps at 95.215, H5 -16.5bps at 95.435, M5 -18.5bps at 95.585, U5 -18.5bps at 95.67, Z5 -18.5bps at 95.705, Z6 -17bps at 95.735, Z7 -15.5bps at 95.635.
- SOFR flat at 5.31% as of Oct 16th, volumes rise to USD 1.450tln from 1.383tln.
- NY Fed RRP op demand at USD 1.082tln (prev. 1.109tln) across 94 counterparties (prev. 95).
- EFFR flat at 5.33% as of Oct 16th, volumes fall to USD 96bln from 99bln.
- US sold USD 75bln of 42-day CMBs at 5.325%, covered 3.12x.
- US leaves 4-, 8-, and 17-week bill auction sizes unchanged at USD 95bln, 85bln, and 56bln, respectively; 4- and 8-week both sold on Oct 19th and 17-week on Oct 18th; all settle on Oct 24th.

## CRUDE

**WTI (X3) SETTLED FLAT AT 86.66/BBL; BRENT (Z3) SETTLED USD 0.25 HIGHER AT 89.90/BBL**

**Oil prices traded in thin ranges Tuesday, closing little changed amid prolonged uncertainty around Israel in the backdrop of strong US data**. Late reports in Axios that the White House has discussed US military response if Hezbollah attacks Israel saw prices pare their mild losses. The energy market has hit a short-term intersection as the bearish impulse from easing Venezuela sanctions reported Monday is being offset by the potential for broader escalation of the conflict in Israel. Meanwhile, providing some support on Tuesday has been the marginal improvement in the global demand outlook with US retail sales and industrial production data coming in on the hot side of expectations. Elsewhere, Saudi Aramco CEO spoke earlier, saying the oil market is balanced and reasonable and that the oil giant has the capability to ramp out output within weeks if need be; said there is 3mln BPD of spare capacity in the oil market currently. Traders now look to the weekly US energy inventory data, with the private release due later Tuesday ahead of the EIA figures on Wednesday. Current expectations (bbls): Crude -0.3mln, Gasoline -1.1mln, Distillates -1.4mln.

## EQUITIES

**CLOSES**: SPX -0.01% at 4,373, NDX -0.33% at 15,122, DJIA +0.04% at 33,987, RUT +1.09% at 1,766.

**SECTORS**: Materials +1.01%, Energy +0.98%, Financials +0.55%, Consumer Staples +0.51%, Communication Services +0.43%, Industrials +0.31%, Consumer Discretionary +0.06%, Health -0.13%, Utilities -0.24%, Real Estate -0.54%, Technology -0.77%.

**EUROPEAN CLOSES**: DAX +0.09% at 15,251.69, FTSE 100 +0.58% at 7,675.21, CAC 40 +0.11% at 7,029.70, Euro Stoxx 50 +0.52% at 4,151.25, IBEX 35 +0.12% at 9,298.50, FTSE MIB -0.09% at 28,367.36, SMI -0.69% at 10,814.02.

**EARNINGS**: **Johnson & Johnson (JNJ)** earnings beat and raised FY guidance, helped by resilient demand for its top-selling drug Stelara and recorded a USD 21bln gain from the spin-off of its consumer health unit. **Bank of America (BAC)** EPS and revenue surpassed expectations, with the former boosted by higher net interest income, and raised FY23 NII view. In commentary, said US consumer spending is still ahead of last year but continuing to slow, and CFO highlighted that the bank had recorded the highest sales and trading revenue in more than a decade in Q3. **Goldman Sachs (GS)** earnings beat, with its main businesses also performing well. CEO said there are reasons to remain vigilant, citing higher bond yields. Adds, the US economy has proven to be more resilient than they expected. **Bank of New York Mellon (BK)** surpassed expectations on the top and bottom line, with total deposits and net interest revenue more-or-less in line. **Lockheed Martin (LMT)** beat expectations on the top and bottom and raised share buyback by USD 6bln to USD 13bln. However, while it had a 2% gain in quarterly sales it reported a decline in profit as margins fell in three of its four business units.

**STOCK SPECIFICS**: US restricts sale of **Nvidia (NVDA)** made-for-China AI chips in new rules. Other chip names such as **Intel (INTC)** and **AMD (AMD)** were pressured. NHTSA said **Tesla (TSLA)** had recalled 54,676 vehicles. Choice Hotels proposed to buy **Wyndham Hotels (WH)** for USD 90/shr or USD 10bln. Note, WH closed Monday at USD 69.10. WH later rejected the takeover offer. **Olink (OLK)** is to be acquired by **Thermo Fisher Scientific (TMO**) for USD 26/shr or USD 3.1bln. Note, OLK closed Monday at USD 14.98/shr. **Dollar Tree (DLTR)** was upgraded at Goldman Sachs. **Chesapeake Energy (CHK)** has approached **Southwestern Energy (SWN)** to express interest in an acquisition, according to Reuters sources.

## US FX WRAP

**The Dollar** index was within contained ranges (106.01-106.52) on Tuesday, but was boosted in the wake of hot retail sales data, highlighted by the headline rising 0.7% M/M (exp. 0.3%, prev. 0.8%). Ex-autos rose 0.6% (exp. 0.2%, prev. 0.9%), with the super core (ex gas and autos) lifting 0.6%, accelerating from the upwardly revised 0.3%. The control group, which feeds into GDP, rose 0.6%, above the 0.00% expectation and accelerating from the prior 0.2%. Elsewhere, Industrial Production impressed and Fed's Barkin (2024 voter) spoke heavily and when asked if Fed will keep rates unchanged at Nov. 1st meeting, said policymakers will have a good debate and the recent inflation report was only one data set, coming after several good ones. Barkin added, the challenge with depending on yields is that they can move; warning that he doesn't know where they will be three weeks from now given what's happening globally. Looking ahead, attention will be on the continued plethora of Fed Speak, ahead of Chair Powell on Thursday, and any further geopolitical updates.

**CAD** and **GBP** were both lower vs. the Buck to a similar degree. USD/CAD printed a peak of 1.3702 after the Loonie was initially weighed on by soft Canadian inflation data coupled with firm US retail sales. On the former, headline M/M surprisingly fell 0.1% (exp. +0.1%, prev. +0.4%), with the Y/Y printing 3.8% (prev. and exp. 4%), while there was a slowdown in the BoC's core CPI average measure to just under 4% from 4.27%. As such, saw a downward shift to pricing for next week's policy meeting from around 40% for a 25bps hike to 20% or even lower at one point. The Pound fell as UK labour data kept economic concerns front-and-centre ahead of key inflation data due out on Wednesday, as average weekly earnings slowed more than expected and probably carried additional weight given that various BoE members have highlighted that this gauge of UK wages is more inflated than others. Cable breached 1.2150 to the downside from 1.2200+ at one stage, and had to contend with comments from BoE Dinghra on the way down.

**Antipodeans** were divergent on Tuesday, with the Aussie the G10 outperformer and the Kiwi the laggard. AUD/NZD traded between 1.0698-1.0799 parameters on hawkish RBA minutes in contrast to not as hot as anticipated NZ CPI metrics. While against the Buck, the Aussie advanced to 0.6379 ahead of remarks from RBA Governor Bullard, while the Kiwi struggled to regain 0.5900+ status. Ahead, attention will be Australian jobs report (Thurs) and New Zealand trade data (Fri).

**EUR** saw mild gains, while the **CHF** was flat. EUR/USD scaled from lows of 1.0534 to highs of 1.0594, just running out of momentum ahead of the round number. On the data docket, there was a relatively encouraging ZEW survey showing a considerable improvement in economic sentiment, mildly positive expectations and less bleak than feared current conditions. Meanwhile, ECB's de Guindos and Holzmann spoke with the latter noting they are not out of the woods yet on inflation and further shocks may require additional ECB rate hikes. Participants will be awaiting final HICP and President Lagarde on Wednesday.

**JPY** was eventually lower against the Greenback despite seeing strength in the European morning after Bloomberg sources. On these, they noted the BoJ is reportedly mulling raising its FY23 price view closer to 3% and FY24 price view to 2% or above with inflation outlook said to be kept FY25 around 1.6%. The surge in the Yen swiftly faded with many pointing to similar reports in Kyodo earlier in October. Looking ahead, attention resides on Trade Data (Thurs) and CPI (Fri).

**EMFX** was mixed, with the BRL, COP, and HUF firmer, but MXN, CNH, ZAR, and TRY weaker. CNH was weighed on by ongoing concerns about default in the property market and beyond. ZAR gleaned initial traction via SARB forecasts indicating that the current level of rates is sufficient to bring inflation to the midpoint over the medium term, albeit upside risks to inflation strengthened in the past months and there is increasing uncertainty regarding the precise path for CPI. For the BRL, BCB's Galipolo stated that the inflation scenario has been more benign lately and market scepticism regarding the zero fiscal deficit target in 2024 is already priced into local assets. Lastly, PLN maintained post-Polish election momentum as results confirmed a swing to democracy and the task of forming the next Government falling to ex-PM Tusk.