US Market Wrap

20th October 2023: Stocks sold while weekend haven demand softened by Hamas hostage release

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW**: Mester still sees one more hike; Harker repeats rate hikes are not needed; Bostic says neutral rate could be higher; Hamas releases two US hostages; GM and UAW inch closer to deal, STLA is to match F and GM wage offer; Weak UK retail sales; AXP earnings disappoint.
- **WEEK AHEAD**: Highlights include EZ/UK flash PMIs, ECB, BoC, US PCE, Australian CPI. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing; BoC, ECB, CBRT. Reviewing; PBoC, RBA, BoK. To download the report, please click here.

MARKET WRAP

Stocks were sold on Friday with the Nasdaq leading the losses among the major US indices with mixed earnings and geopolitical angst into the weekend the touted catalysts. The S&P 500 index lost its 200d MA amid the pressure. The indices did find a bounce, alongside broader haven asset unwinds, in the NY afternoon amid Hamas releasing two US hostages, although selling picked up again and new lows were made going into the close. The stock losses came despite Treasuries rallying into the weekend, particularly in the belly and front end, as the dust settled from Powell's Thursday appearance; there was a firm rejection of bond downside after bond yields briefly stretched to new cycle peaks in the NY morning. Fed Speak saw Fed dove Bostic toy with the idea of a higher neutral rate, while Harker repeated his no more hikes view, and Mester sounded a bit more hawkish in tone than her colleagues. Oil and Gold pared from their earlier highs on the back of the hostage release updates. FX vol was much more muted with the DXY little changed. USD/JPY saw a sharp kneejerk lower as the cross moved above the 150 level, although the cross is back just beneath the round figure. Sterling faded all of its earlier losses seen on the back of the soft UK retail sales data.

GLOBAL

FED'S LOGAN (2023 voter, hawk) said she has seen welcome progress on inflation but it is still too high and she is not yet convinced they are moving to 2% inflation, noting the economy continues to outperform and labour markets are still tight. Logan said it is important to have restrictive financial conditions broadly speaking, and the Fed has time to watch the economy and markets before deciding on monetary policy (code for no hike in November). Logan added that some part of bond yield rise is tied to term premiums and some part of the rise is also tied to the strength of economic data, suggesting the rise in bond yields has been pretty orderly and bond markets are functioning, but she is still watching for trouble. Logan stressed she is not thinking about when the Fed might cut rates but reiterated that a persistent rise in bond yields could mitigate the need for Fed rate hikes.

FED'S BOSTIC (2024 voter, dove) said he does not know if the neutral rate has changed, but suggested that it could be higher. He also repeated his view that late 2024 is possibly a time when the Fed would cut rates. Bostic noted that business contacts say a slowdown is coming, and they are bracing for the slowdown, although he notes we are not going to see a recession and inflation will go to 2%. Bostic added that as many businesses still have cash, it will blunt the rise in market yields. Meanwhile, on the economy, he said it has been resilient, inflation has come down a lot and it should continue.

FED'S HARKER (2023 voter, dove) reiterated that now is the time to hold rates steady, noting the Fed cannot allow inflation to reaccelerate. The Philadelphia Fed President added that the US jobs market remains "surprisingly strong" and the economy is quite remarkable and resilient. Harker is hearing that inflation is easing faster than thought and contacts are asking for time to adjust to policy.

FED'S MESTER (2024 voter, hawk) said the Fed is at or near the peak of the rate cycle, whilst reiterating her view that her outlook aligns with the Fed forecast in eyeing one more rate hike. Mester did note that if the move higher in bond yields is sustained, it will help moderate economic activity. Mester said the Fed needs to be nimble with policy right now, and they must not be complacent on getting inflation back to 2%. The Cleveland Fed President said that decisions will be driven by incoming economic data, noting labour markets are showing moderation and resilience, and there are signs of moderating wage gains. However, it is possible recent developments could slow the move down in inflation and the Fed has under-estimated inflation levels until only recently. She also said she looks at money supply when assessing policy decisions. Mester concluded that a balance sheet drawdown should happen regardless of interest rate moves, and the Fed still has perhaps a couple more years of balance sheet cuts.

ISRAEL: After the escalations seen on Thursday (reports a ground invasion was imminent) there were some more encouraging updates on Friday. The US has been pressing Israel to delay the Gaza invasion to win hostage release, and after initially resisting, Israel agreed to hold off, according to Bloomberg. The first two hostages were also released, where a spokesperson for Hamas said they released two US hostages for humanitarian efforts in response to Qatari efforts, which was later confirmed by officials. On the other hand, it was reported earlier that Israel had announced evacuation plans for the city of Kirya Shmona near the Lebanese border, while Hezbollah was targeting Israeli sites with guided missiles.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 18+ TICKS HIGHER AT 106-00

Treasuries rallied into the weekend, particularly in the belly and front end, as the dust settled from Powell and as traders rejected new yield highs. 2s -8.7bps at 5.084%, 3s -10.5bps at 4.924%, 5s -10.5bps at 4.856%, 7s -9.5bps at 4.923%, 10s -6.8bps at 4.920%, 20s -4.8bps at 5.286%, 30s -2.2bps at 5.080%.

INFLATION BREAKEVENS: 5yr BEI -4.3bps at 2.463%, 10yr BEI -2.5bps at 2.465%, 30yr BEI -0.9bps at 2.548%.

THE DAY: Treasuries entered the NY session on the front foot Friday. The strength was gradual during the APAC trade, with several block buys seen, before a more aggressive bid in the London morning to take T-Notes to resistance at 105-28, ahead of the post-Powell 105-20 peak. Ongoing geopolitical angst and the associated weekend hedges were touted factors, while the rip higher in the European session was in part attributed to weak UK retail sales data - Gilts gapped higher on their reopen.

T-Notes pared a few ticks into the NY handover, while the downside became a bit more pronounced, and long end led, as US trade got underway, coinciding with Fed dove Bostic (2024 voter) on CNBC saying the neutral rate may have risen, albeit he did reaffirm his view that he sees a potential rate cut late in 2024. The cash 30yr yield stretched to a new cycle high of 5.146%, and the 10yr yield brushed up near its post-Powell 5% peak, with T-Notes printing a low of 105-15+, before strong buying stepped in, with no obvious catalyst beyond a technical rejection. The recovery saw T-Notes go on to print session highs of 106-06 late in the NY morning. Contracts pared somewhat into the settlement, with Hamas' release of two US hostages well-received by market participants with cross-asset haven demand unwinding somewhat. Fed's Mester (2024 voter, hawkish) also gave some slightly less dovish than consensus comments.

NEXT WEEK'S AUCTIONS: US to sell USD 51bln of 2yr notes on Oct 24th, USD 52bln of 5yr notes on Oct 25th, and USD 38bln of 7yr notes on Oct 26th; all to settle on Oct 31st. US to sell USD 26bln of 2yr FRNs on Oct 25th, to settle on Oct 31st.

STIRS:

- SR3Z3 +2.5bps at 94.575, H4 +4bps at 94.665, M4 +6bps at 94.875, U4 +9bps at 95.12, Z4 +12bps at 95.365, H5 +14bps at 95.58, M5 +15bps at 95.705, U5 +15bps at 95.755, Z5 +15bps at 95.755, Z6 +11bps at 95.66, Z7 +9bps at 95.53.
- SOFR flat at 5.30% as of Oct 19th, volumes rise to USD 1.398tln from 1.396tln.
- NY Fed RRP op demand at USD 1.139tln (prev. 1.114tln) across 102 counterparties (prev. 97).
- EFFR flat at 5.33% as of Oct 19th, volumes rise to USD 90bln from 89bln.

CRUDE

WTI (Z3) SETTLED USD 0.29 LOWER AT 88.08/BBL; BRENT (Z3) SETTLED USD 0.22 LOWER AT 92.16/BBL

Oil prices were lower Friday after hostage releases by Hamas pared some of the Israel angst heading into the weekend. Prices had entered the NY session on the front foot, with WTI and Brent futures peaking at USD 90.78/bbl and 93.79/bbl, respectively, with participants positioning for another weekend of geopolitical risk amid reports that the IDF is on the cusp of entering Gaza on the ground. Prices were holding on to gains until the NY afternoon when it emerged Hamas had released two US hostages, which Israel confirmed. The action was significant for markets and crude futures reversed their gains into settlement, closing at lows, albeit benchmarks are still firmer on the week.

Elsewhere Friday, Baker Hughes' weekly US rig count saw oil rigs +1 at 502 and nat gas rigs up 1 at 118. On the Sell Side, JPMorgan strats see a largely balanced oil market in Q4, with Brent seen exiting the year at USD 86/bbl.

EQUITIES

CLOSES: SPX -1.26% at 4,224, NDX -1.50% at 14,561, DJI -0.86% at 33,127, RUT -1.29% at 1,681

SECTORS: Energy -1.74%, Technology -1.69%, Consumer Discretionary -1.66%, Financials -1.55%, Materials -1.29%, Communication Services -1.15%, Utilities -1.05%, Industrials -1.03%, Real Estate -0.54%, Health -0.4%, Consumer Staples -0.38%.

EUROPEAN CLOSES: DAX -1.64% at 14,798.47, FTSE 100 -1.30% at 7,402.14, CAC 40 -1.52% at 6,816.22, Euro Stoxx 50 -1.57% at 4,026.25, IBEX 35 -1.29% at 9,029.10, FTSE MIB -1.40% at 27,357.00, SMI -0.95% at 10,348.60, PSI -1.18% at 6,039.46.

STOCK SPECIFICS: **American Express (AXP)** posted an EPS of USD 3.30, beating the 2.94 expectation while revenue also beat at 15.38bln (exp. 15.36bln). It reaffirmed its revenue and EPS growth forecasts for the FY while it is also well positioned to achieve its long term growth goals. Nonetheless, the reaffirmed guidance has disappointed some with shares down. **Intuitive Surgical (ISRG)** EPS beat but revenue missed expectations while worldwide procedure growth and the Da VINCI surgical system installations also missed. **SLB (SLB)** beat on EPS but revenue missed. **SolarEdge (SEDG)** slashed its revenue, operating income and gross margin forecasts. **Merck (MRK)** will pay Daiichi Sankyo in Japan USD 5.5bln to jointly develop three of its candidate cancer drugs, in a deal that could be worth up to USD 22bln to the Japanese co., depending on the success of the cell-targeting therapies. **Tesla (TSLA)** raised prices for all-wheel drive Model X Plaid by 5.5%. Elsewhere, TSLA is expecting to win initial approval to expand its plant just outside of Berlin without major hurdles, according to DPA News Agency. **Eli Lilly's (LLY)** weight loss GLP-1 drug is not expected to be approved until 2026, according to a WSJ review. **Toyota (TM)** and **Tesla (TSLA)** agreed on the use of Tesla superchargers in North America. **Alphabet Inc (GOOGL)** reportedly plans to start assembling the Pixel 8 and Pixel 8 Pro in India and start India-made shipments in 2024, according to TechCrunch. UAW negotiator says getting closer to a tentative agreement with **General Motors (GM)**. GM and Ford (F) are offering 23% pay increases, and Stellantis (STLA) is said to match that offer, according to Bloomberg, although the UAW is asking for a 25% pay rise. Meanwhile, **Autoliv (ALV)** estimates the current strike actions by the UAW currently impacting its weekly sales by around USD 6mln; have continued to see improvement of supply chain stability throughout the year, with reduced customer call off volatility. Both Meta (META) and Google (GOOGL) pulled out from the web summit conference. **Spirit Airlines (SAVE)** says it's cancelled a portion of its scheduled flights to perform a necessary inspection of a small section of 25 of its aircraft; impact to network is expected to last several days and is taken out of an abundance of caution.

WEEKLY FX WRAP

Oil gushes and Gold rushes as geopolitical tensions rise

USD/XAU/CAD: There was some attention to data and a raft of Central Bank speeches, but the Middle East situation never strayed far from the spotlight as the conflict between Israel and Hamas continued. Indeed, the war raged on and threatened to escalate on several occasions with Hamas issuing a worrying warning about a day of unprecedented terror on Wednesday when US President Biden visited his Israeli counterpart to offer support in person, while the other potential flashpoint came via the tragic bombing of a Gaza hospital that prompted accusations from both sides. However, demand for safe-havens was selective rather than indiscriminate and evident in relative Dollar ‘underperformance’ along with another slide in US Treasuries that saw the 10 year yield rally from around 4.64% to within a whisker of 5% and the long bond breach the psychological 5% level clearly following recent rejections. Back to the Buck, and using the DXY for reference it peaked post-robust retail sales, especially the control group measure that feeds into GDP, and pre-balanced remarks from Fed Chair Powell who said policy is not too tight, but also chimed with others noting that higher bond yields at the margin could reduce the need for further tightening and the FOMC is proceeding carefully. The index reached 106.670 before reversing to 105.970 to set w-t-d boundaries all in one session on Thursday and remained depressed as the week drew to a close amidst greater strength in crude and Gold. WTI regained a hefty supply premium on the way up from Usd 85.60/brl lows (printed after reports that the US clinched a deal with Venezuela to lift oil sanctions) to Usd 90.78/brl and Xau/Usd topped Usd 1995/oz having been sub-Usd 1910/oz at one stage. No surprise that the Loonie appreciated crude’s resurgence as a counter to softer than forecast Canadian CPI metrics that raised the odds on a BoC hike for October 25 to over 5-1, with Usd/Cad paring back from 1.3734 to 1.3671 inside wider 1.3740-1.3607 weekly extremes.

EUR/GBP/CHF/JPY: The Euro was mired in option expiries (many large and some mega) covering the entire 1.0616-1.0509 range in Eur/Usd and beyond, but also observed tech support and resistance while tracking general Greenback moves and UST-EGB differentials. Nevertheless, the single currency gleaned independent impetus from a better than expected German ZEW survey and wider Eurozone current account surpluses in stark contrast to the Pound that only got a short-lived fillip from firmer than consensus headline and core UK inflation. Instead, Sterling was to reflect on cooler than forecast headline average earnings, considerably worse than feared retail sales, a marked deterioration in GfK consumer confidence and BoE Governor Bailey flagging a significant slowdown in CPI next time (October data due in November). Cable relinquished more round numbers on retreat from 1.2219 to 1.2091 before bouncing back above 1.2150 thanks to a broad Dollar downturn, but the Eur/Gbp cross remained elevated following its rebound from 0.8640 through 0.8700 and the 200 DMA to 0.8740 at best. Conversely, Eur/Chf veered lower alongside Usd/Chf on risk dynamics, to 0.9418 from 0.9534 and 0.8903 from 0.9042 respectively, as the Franc was chosen as another sanctuary with less cost of carry compared to the Yen. In fact, Usd/Jpy spent the bulk of the week building bullish momentum towards a test of the 150.00 threshold of apparent pain for Japan's MoF, with only temporary setbacks and one more pronounced reversal on the back of a report that the BoJ is mulling a rise to its FY23 price view closer to 3% and lifting the FY24 estimate to 2% or above, but keeping FY25 around 1.6%. The headline pair also knee-jerked lower when former BoJ member Sakurai suggested the Bank could end negative rates by year-end and before another YCC tweak, but this does not match sequencing signalled by the BoJ and Usd/Jpy subsequently resumed its climb to probe the aforementioned big figure from 148.74 on Tuesday (after the mini flash crash) before fading (barrier defences and export sell orders likely triggered).

NZD/AUD: Softer than anticipated NZ inflation data may have left a lasting impression on the Kiwi, while declines in underlying commodities in the face of risk aversion also weighed, while the Aussie had some redeeming factors to compensate for weakness in iron ore, copper and disappointing payrolls, like hawkish RBA minutes. As such, Nzd/Usd lost altitude from 0.5929 to 0.5816 and Aud/Usd from 0.6393 to 0.6291, but Aud/Nzd advanced to 1.0845 from 1.0659.

SCANDI/EM: Sek depreciation was somewhat understandable once it lost corrective impulses given the increasingly sour market mood and only talk about undervaluation from the Riksbank, not to mention an unexpected rise in Sweden's jobless rate, but the Nok unwound even more gains even though Brent returned to the boil and this exemplified the extent of risk-off positioning. Elsewhere, the Cny and Cnh were cushioned on a daily basis by the PBoC's heavy-handed midpoint fixed and received a record net liquidity boost on Friday, but were hampered by persistent default angst as Country Garden missed a deadline day coupon payment. Meanwhile, the RBI, CBRT via Turkish state banks and other Central Banks or financial authorities propped up individual currencies, the Zar gleaned some traction from hawkish SARB vibes to supplement the feats of bullion, and the Idr not a 25 bp hike from the BI against consensus for no move in keeping with the BoK that stuck to the script.