



US Market Wrap

23rd October 2023: Oil falls on lack of Israel escalation while bonds rip as Ackman covers his short

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude down, Dollar down.
- **REAR VIEW:** Ackman covers bond short; Hamas release two more hostages; US believes Iran-backed Militia groups are planning to increase attacks on US forces; CVX to acquire HES; Woeful prelim FMC earnings.
- **COMING UP: Data:** German GfK, UK Unemployment, EU/UK/US Flash PMIs **Event:** NBH Policy Announcement **Supply:** Netherlands, UK, Germany & US **Earnings:** ASM International, Orange, Puma; Logitech, Novartis; Barclays; Microsoft, Alphabet, Visa, Coca-Cola, Texas Instruments, Verizon, General Electric.
- **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 mixed in choppy trade Monday with Ackman-induced gains pared into the close. Treasuries saw large bull-flattening, reversing initial bear-steepening that initially saw the cash 10yr yield rise above 5% for the first time this cycle, after Bill Ackman announced he was closing his US bond short. That tweet (X) from Ackman is what ignited the big rip in both stocks and bonds in the NY morning, pressuring the Dollar lower. Aside from that, Israel was a key market driver, with the release of more hostages by Hamas, and reports of negotiations (albeit far from complete) for the release of 50 hostages, has accentuated the rotation out of haven assets from the lack of escalation/invasion over the weekend, with reports noting US advised Israel to hold off on a ground invasion. Oil prices saw heavy losses, although Gold saw more muted losses, with the move lower in US yields capping losses in the precious metal. Euro and Sterling were the outperformers in G10 FX, no doubt aided by narrowing yield differentials, while Yen saw more marginal outperformance (Vs Dollar) on a relative basis, albeit USD/JPY now sits closer to 149.50 than 150 after spending several days brushing up against the potentially MoF-defended level while the latest reports suggest a potential YCC tweak at the next BoJ meeting.

GEOPOLITICS

MIDDLE EAST: After Hamas released the first two hostages last week, the US is still urging a delay in the Israel ground invasion into Gaza. Hamas released two more hostages, but that was far short of the original 50 being touted with talks between Hamas and Israel hitting a snag over fuel demands from Hamas. Meanwhile, the US confirmed it sent a Marine three-star general and several other US military officers to Israel to help advise the Israeli military's leadership in its operation in Gaza. Bloomberg also reported that the US will send more forces to the Middle East. On Iran, US reportedly has intelligence that Iranian-backed militia groups are planning to ramp up attacks against US forces in the middle east, according to CNN. Bloomberg later reported a US official said Iran is seeking to escalate conflict in the region, and noted that Iranian fingerprints are all over the uptick in attacks.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 15+ TICKS HIGHER AT 106-15+

Treasuries saw large bull-flattening Monday, reversing initial bear-steepening, after Bill Ackman announced he was closing his US bond short. 2s -0.9bps at 5.075%, 3s -3.7bps at 4.887%, 5s -5.4bps at 4.808%, 7s -6.2bps at 4.866%, 10s -7.2bps at 4.852%, 20s -8.3bps at 5.208%, 30s -8.2bps at 5.005%.

INFLATION BREAKEVENS: 5yr BEI -6.2bps at 2.397%, 10yr BEI -5.9bps at 2.407%, 30yr BEI -5.4bps at 2.495%.

THE DAY: Treasuries gapped lower on the futures reopen with a lack of escalation in Israel over the weekend alongside reports in Nikkei that the BoJ is tweaking its YCC in the upcoming meeting, with JGB yields rising on Monday. T-Notes gapped lower to 105-25 from Friday's 106-00 close, extending lower as Tokyo trade got underway, and then again in the



London morning to see media uproar as the cash 10yr yield crossed above 5%. T-Notes marked session lows of 105-12+ before recovering somewhat into the NY handover with the cash curve initially in a bear-steepener before a certain someone tweeted.

The recovery really gained momentum after Bill Ackman announced in the NY morning that Pershing Square had closed its US bond short, saying there is too much risk to remain short bonds at current long-term rates, with the economy slowing faster than recent data suggests. It was enough for restless participants to feast on in what was an otherwise dearth of a US calendar Monday, with Treasuries rallying into the afternoon and the curve ultimately in a marked bull-flattener. The tumble in oil prices also helped the the bond bid, with the Ackman short-covering momentum more than offsetting any haven demand unwinds as Israel angst pared. Looking ahead, a busy week of earnings and Treasury supply, with the US data highlights being GDP on Thursday and PCE on Friday; no Fed Speak amid FOMC blackout period.

THIS 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 -1.5bps at 94.56, H4 -2.5bps at 94.64, M4 -1bps at 94.865, U4 +2bps at 95.14, Z4 +4.5bps at 95.405, H5 +6.5bps at 95.64, M5 +7.5bps at 95.78, U5 +8bps at 95.835, Z5 +8.5bps at 95.84, Z6 +9bps at 95.755, Z7 +8.5bps at 95.615.
- SOFR flat at 5.30% as of Oct 20th, volumes fall to USD 1.396tln from 1.398tln.
- NY Fed RRP op demand at USD 1.158tln (prev. 1.139tln), across 101 counterparties (prev. 102).
- EFFR flat at 5.33% as of Oct 20th, volumes fall to USD 87bln from 87bln.
- US sold USD 80bln of 3-month bills at 5.310%, covered 2.85x; sold USD 72bln of 6-month bills at 5.325%, covered 2.70x.

CRUDE

WTI (Z3) SETTLED USD 2.59 LOWER AT 85.49/BBL; BRENT (Z3) SETTLED USD 2.33 LOWER AT 89.83

Oil prices tumbled on Monday with the lack of escalation/invasion in Israel/Gaza unwinding the geopolitical risk premium. There were two bouts of selling, one into the APAC morning from the futures reopen with weekend hedges unwinding, and another through the US session, with WTI and Brent ultimately hitting lows of USD 85.35/bbl and 89.62 /bbl in late US trade amid reports of further hostage releases being in the works. Meanwhile, US President Biden confirmed the easing of sanctions on Venezuela, although that is not expected to see much supply increase to the global market, with analysts suggesting a couple of hundred thousand barrels expected, but even that is not immediate. US O&G consolidation was also in focus, with Chevron (CVX) announcing the USD 53bln acquisition of Hess (HES).

EQUITIES

CLOSES: SPX -0.17% at 4,217, NDX +0.30% at 14,605, DJI -0.58% at 32,936, RUT -0.89% at 1,666.

SECTORS: Communication Services +0.72%, Technology +0.42%, Consumer Discretionary +0.21%, Consumer Staples -0.27%, Industrials -0.47%, Health -0.63%, Financials -0.71%, Utilities -0.82%, Real Estate -0.84%, Materials -1.07%, Energy -1.62%.

EUROPEAN CLOSES: DAX +0.02% at 14,800.72, FTSE 100 -0.37% at 7,374.83, CAC 40 +0.50% at 6,850.47, Euro Stoxx 50 +0.41% at 4,041.15, IBEX 35 -0.37% at 8,995.50, FTSE MIB +0.74% at 27,558.78, SMI -0.15% at 10,333.20.

STOCK SPECIFICS: **Chevron (CVX)** agreed to acquire **Hess (HES)** in a deal valued at USD 53bln or USD 171/shr; HES closed Friday at USD 163/shr. CVX CEO said it has 10-to-12 new wells planned for Guyana in 2024 and FCF is to more than double by 2027. Added growth rate is higher than current guidance and buybacks to increase to USD 20bln/yr after Hess acquisition. Expect to recommend an 8% increase to the Q1 dividend to USD 1.63/shr and anticipates no antitrust issues with the deal. **FMC Corp (FMC)** pre-announced woeful Q3 results and cut both next quarter and FY guidance amid lower volumes in LatAm as destocking was more severe than anticipated. The update is weighing on peers such as **Nutrien (NTR)**, **CF Industries (CF)**, **Corteva (CTVA)** and **Mosaic (MOS)**. **Roche (RHHBY)** said it would buy Telavant Holdings from **Roivant Sciences (ROIV)** and **Pfizer (PFE)** in a deal worth USD 7.1bln. **Textainer Group (TGH)** is to be acquired by Stonepeak for USD 7.4bln cash or USD 50/shr; TGH closed Friday at USD 34.15/shr. Japan's FTC is to inspect **Google (GOOGL)** for possible breach of anti-monopoly law, according to Nikkei.



EngageSmart (ESMT) is to be acquired by Vista Equity Partners for USD 4bln or USD 23/shr; ESMT closed Friday at USD 20.20/shr. Of note for **Apple (AAPL)**, supplier Foxconn had the Global Times report that Chinese mainland tax and natural resource authorities have conducted inspections on key enterprises of Foxconn in some cities. **Walgreens Boots Alliance (WBA)** was upgraded at JPMorgan; said it expects a "cleaner year ahead" and an improving cash flow profile. **Salesforce (CRM)** was downgraded at Piper Sandler citing heightened execution and M&A risks. **Okta (OKTA)** continued on its 11.5% downside seen from on Friday, after the co. disclosed yet another data breach. **Microsoft (MSFT)** said it is to invest USD 3.2bln to boost AI and tech in Australia and will be over the next two years. **NVIDIA (NVDA)** reportedly plans to enter PC chip market with **Arm (ARM)** based CPU chip as early as 2025, according to Reuters citing sources, who add that **AMD (AMD)** also plans to enter the Arm-based CPU chip market; both in a major new challenge to **Intel (INTC)**. The sources noted that **Microsoft (MSFT)** has encouraged chip firms to focus on powering new AI features in Windows.

US FX WRAP

The Dollar sold off on Monday with the move following the move lower in yields, notably after Bill Ackman said he has covered his bond short which saw yields tumble from highs with the 10yr yield now back below 5% after rising above the level for the first time earlier on Monday. There was little data released other than the National Activity Index, which returned to positive territory in September, albeit only just at 0.02. The DXY briefly hit a high of 106.33 in the European morning with the 10yr yield starting the session north of 5%. However, once Ackman declared he covered his bond short, T-Notes started to rise throughout the session, with the stocks following suit while the Dollar sold off to hit lows of 105.55 heading into APAC trade.

The Yen saw marginal gains vs the buck with BoJ YCC sources over the weekend keeping the Yen buoyed, albeit only marginally vs the Dollar, while it was notably softer vs EUR and GBP. Nonetheless, USD/JPY failed to rise above 150 once again, finding a top of 149.98. Participants were reluctant to see the cross move higher on potential Japanese intervention after twice this month a sharp reversal was seen when USD/JPY rose above the psychological level. It is yet to be confirmed if that was official intervention, but we should find out from the monthly data due at the end of the month. Over the weekend, Nikkei reported via sources that BoJ officials are mulling tweaking the settings of YCC "because domestic long-term interest rates are also rising as U.S. interest rates rise, and are approaching the de-facto upper limit of 1% set in the July revision." The article noted it will be discussed at the next two-day meeting that ends on October 31st, "but there are differences of opinion within the Bank of Japan. Many say they want to carefully monitor trends in wage increases". Later sources via Reuters suggested any change to its YCC will largely depend on how markets move leading up to the meeting, and there is currently no consensus on whether an immediate change to YCC is necessary, but among ideas that could be discussed, would be to raise the ceiling for the 10yr bond yield beyond 1.0%. Note that USD/JPY dipped into the NY afternoon as US yields tumbled, with the cross hitting a low of 149.56, the lowest since last Wednesday.

The Euro outperformed on Monday led by yield differentials between the US and Germany and ahead of the ECB rate decision on Thursday ([Newsquawk preview here](#)). Meanwhile, the October Consumer Confidence data came in above expectations at -17.9 (exp. -18.3), albeit it was slightly worse than the prior -17.8. EUR/USD rose to highs of 1.0677 from lows of 1.0572, primarily led by the yield differentials. Note that there could be some tailwinds for the single currency from the late Friday upgrade to Greece's credit rating to investment grade, while Italy escaped a downgrade, both at S&P.

The Franc was flat vs the Dollar but sold vs the Euro, with weekend haven demand unwinding. Goldman's FX strats flag the Swissy as "the clearest case for a safe-haven in the current circumstances" in the event of a further deterioration, noting the Dollar typically does better in times of financial market stress but recent US economic outperformance has muddied the Dollar-risk correlation, while Yen has the potential to strengthen if tensions worsen but has so far been inhibited by the US growth outperformance. Goldman warns that the Franc has already rallied a long way, but suggests participants should be less concerned about SNB currency intervention given prior episodes by the central bank have been about capping depreciation, however, "we think moves into the low 90s in EUR/CHF would encounter some smoothing efforts."

Cyclical currencies benefitted from the upside in stocks and a weaker Dollar. GBP was the cyclical outperformer with Cable rising back above 1.22 to highs of 1.2258 from lows of 1.2144. The antipodes performed well on the aforementioned factors with AUD rising back above 0.6300 to test 0.6350 while NZD/USD rose above 0.5850; AUD/NZD was relatively flat. Eyes are now turning to preliminary PMIs from Australia with RBA Governor Bullock scheduled to speak on Tuesday. The Canadian Dollar also saw gains vs the buck, but not to the same extent as GBP, AUD or NZD with the sharp weakness in oil prices limiting the Looney's gains with reports of hostage releases in the Middle East and an unwind of Friday's geopolitical hedges behind the move. Attention turns to the BoC rate decision and MPR on Wednesday.



EMFX was generally firmer vs the softer Dollar supported by the upside in equities. In LatAm, CLP was the outperformer supported by gains in copper prices but the latest Reuters analyst poll sees the Chilean Central Bank cutting rates by 75bps at its meeting later in the week. BRL saw marginal gains vs the Dollar with BCB Chief Neto once again speaking of the impacts of higher US rates on Brazil. Note, analysts at Rabobank write "geopolitical risks add depreciation bias to our view of the USDBRL at 5.05 by end-2023 as the BRL and other EM currencies had already been enjoying less carry trade gains". Elsewhere, MXN also saw gains after better than expected activity data. COP saw marginal gains despite the notable weakness in oil prices. In Colombia, 18/25 analysts project Colombia Central Bank to hold rates at 13.25% on Oct 31st; two analysts expect a 25bp rate cut to 13%, and five expect a 50bp rate cut to 12.75%. Analysts also see the year-end rate closing at 12.75% and 7.75% in 2024. Elsewhere, the Israel rate decision saw rates left unchanged as expected at 4.75% while it also cut its growth forecasts. The decision saw USD/ILS fall to lows of 4.0545 before paring while the Bol governor noted there is no specific level the bank is targeting. In Russia, the latest Reuters survey saw 19 /21 say they expect the CBR to hike rates to 14% on Friday from 13% currently; note Russian consumer inflation expectation data is due before then.

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