US Market Wrap

24th October 2023: Stocks and bonds chop on PMIs and Dollar unwinds Monday's losses

- **SNAPSHOT**: Equities up, Treasuries flattened, Crude down, Dollar up.
- **REAR VIEW**: Hot US PMI; Soft EZ PMIs; Hawkish RBA speak; BBG sources note BoJ sees little charge to forward guidance; GM withdraws '23 guidance amid UAW uncertainty; Lacklustre 2yr auction; KO, RTX, VZ, GE earnings impressed, while HCA and GLW disappointed.
- **COMING UP**: **Data**: Australian CPI, German Ifo, US New Home Sales **Event**: BoC Policy Announcement **Speakers**: ECB's Lagarde, BoC's Macklem & Rogers **Supply**: UK, Italy, Germany & US **Earnings**: ADP, Heineken, Santander, Ubisoft, Reckitt Benckiser; Meta, Thermo Fisher, T-Mobile, IBM, ADP, Boeing.

MARKET WRAP

Stocks grinded higher throughout the morning despite disappointing EZ PMIs with highs seen shortly after the US open supported by stronger than expected the US PMI surveys. However, the corresponding move higher in yields eventually saw stocks pare from highs in the afternoon, accompanied with notable downside in oil prices with the dollar wiping out Monday's losses. Nonetheless, ahead of a slew of mega cap tech earnings tonight, indices pared from lows, as did T-Notes but crude remained around worst levels. In FX, the Dollar jumped but the Aussie outperformed on hawkish RBA Governor Bullock commentary ahead of inflation data. USD/JPY edged towards 150 once again as the Dollar advanced after the US PMI data but the EUR was the laggard on the aforementioned disappointing EZ PMI reports. The oil downside was attributed to soft PMIs in Europe, the Dollar bounce, and optimism around the Middle East. Meanwhile, Treasuries were ultimately little changed in choppy trade.

NORTH AMERICA

US FLASH PMIs: Manufacturing PMI rose back into expansionary territory, albeit only just, to 50.0 (prev. 49.8) against the expected 49.5. Services also remained in expansionary territory at 50.9 (prev. 50.1), despite consensus for a decline to 49.9. Henceforth, Composite lifted to 51.0 from 50.2. Within the report, Chief Economist Williamson at S&P said “Hopes of a soft landing for the US economy will be encouraged by the improved situation seen in October", before later adding “Sentiment has improved in part due to hopes of interest rates having peaked, and firms’ input cost inflation fell sharply to the lowest since October 2020, and average selling prices for goods and services posted the smallest monthly rise since June 2020." Concluding, he noted “The survey’s selling price gauge is now close to its pre-pandemic long-run average and consistent with headline inflation dropping close to the Fed’s 2% target in the coming months, something which looks likely to be achieved without output falling into contraction.”

BOC PREVIEW: The BoC is widely expected to leave rates unchanged at 5.00% as according to the majority of economists surveyed by Reuters, which is in fitting with market pricing which looks for an 85% implied probability of a another pause and a 15% probability of a hike. There had initially been a hawkish shift in expectations with the prior statement acknowledging the BoC is prepared to do more if needed, which was exacerbated by some hawkish commentary from Governor Macklem. The BoC Governor stated that higher long-term bond yields are not a substitute for doing what needs to be done to get inflation back to target, noting they will decide at this meeting whether to stick with the current 5% rate, or take more action to restore price stability. However, the latest Canadian CPI report was cooler than expected which saw those hawkish expectations pare, with both JPMorgan and Goldman Sachs removing their call for a hike in October. With rates expected to be left unchanged, we will be looking to the statement for guidance, with the prior one noting that the Bank "is prepared to increase the policy interest rate further if needed". The BoC will also be releasing the latest Monetary Policy report with eyes on inflation forecasts after mixed recent inflation figures since the July MPR, while growth forecasts are likely to see a revision lower. To download the full Newsquawk preview, please click here.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 4 TICKS LOWER AT 106-11+

Treasuries were little changed in choppy trade Tuesday amid hot US survey data offsetting weak European figures; slightly soft 2yr auction demand. At settlement, 2s +4.3bps at 5.105%, 3s +3.7bps at 4.910%, 5s +2.9bps at 4.822%, 7s +1.6bps at 4.866%, 10s -0.2bps at 4.836%, 20s -1.8bps at 5.173%, 30s -3.1bps at 4.958%.

INFLATION BREAKEVENS: 5yr BEI -2.2bps at 2.375%, 10yr BEI -0.9bps at 2.400%, 30yr BEI -0.6bps at 2.490%.

THE DAY: After Monday's Ackman rip, T-Notes pared to support at 106-08+ at the Tokyo handover, pressured by some block sellers, before some support out of JGBs was seen amid the BoJ's unscheduled bond buying op. It was sideways trade until Europe arrived and took contracts to session highs of 106-22, aided by some block buys in the T-Note, although the front end lagged. However, there was little follow-through demand in Treasuries after weak EZ PMIs and contracts began paring lower into the NY handover with the front end leading the move higher in yields.

T-Notes saw two-way flows as US trade got underway, although did keep managing to stretch out new lows with each wave of selling. A soft Philly Fed Service survey managed to cap losses for a fleeting period ahead of the S&P national PMIs. There was also some large put buying seen ahead of the PMIs, with interest building in the 105.50 (105-16) Friday expiry puts, but that flow was absorbed. The surprise rises in the S&P data, both in the manufacturing and services components, was followed by a move to session lows of 106-03+ in T-Notes, which then recovered somewhat ahead of the 2yr auction. The auction went okay, with contracts rangebound into the settlement.

2YR AUCTION: A bit of a lacklustre USD 51bln 2yr note auction from the Treasury, with the 5.055% stop being on the screws for the second consecutive month, not as strong as the six-auction avg. 0.6bp stop-through. The 2.64x bid/cover ratio was beneath the prior 2.73x and average 3.31x. Dealers (forced surplus buyers) were left with 17.6%, above the prior 14% and average 15.2%, with Directs and Indirects both seeing a fall in participation M/M.

THIS WEEK'S AUCTIONS: US to sell 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 94.560, H4 -2.5bps at 94.640, M4 -1.0bps at 94.865, U4 +2.0bps at 95.140, Z4 +4.5bps at 95.405, H5 +6.5bps at 95.640, M5 +7.5bps at 95.780, U5 +8.0bps at 95.835, Z5 +8.5bps at 95.840, Z6 +9.0bps at 95.755, Z7 +8.5bps at 95.615.
- SOFR flat at 5.30% as of Oct 23rd, volumes fall to USD 1.330tln from 1.396tln.
- NY Fed RRP op demand at USD 1.098tln (prev. 1.158tln) across 97 counterparties (prev. 101).
- EFFR flat at 5.33% as of Oct 23rd, volumes rise to USD 88bln from 87bln.
- US sold USD 75bln of 42-day CMBs at 5.300%, covered 3.01x.

CRUDE

WTI (Z3) SETTLED USD 1.75 LOWER AT 83.74/BBL; BRENT (Z3) SETTLED USD 1.76 LOWER AT 88.07/BBL

Oil prices took another tumble on Tuesday with desks pointing to the soft PMIs in Europe, the Dollar bounce, and optimism around the Middle East. While the European PMI data disappointed, the downside in oil didn't really get going until US trade was underway, with the benchmarks ultimately taking notice of the Dollar's march higher. The surprise rise in the US PMIs failed to lead to any strength in oil prices, and new lows were made heading into the NY afternoon with WTI and Brent contracts ultimately troughing at USD 82.94/bbl and 87.35/bbl, respectively, bring the MTD lows from Oct 6th in focus at USD 81.50/bbl and 83.44/bbl. Another factor bringing the losses is that traders continue to take some solace from the lack of movement of Israel's IDF into Gaza, with diplomatic discussion ongoing in the meantime, with hostage releases being negotiated. Note we had some Saudi commentary with Aramco CEO noting the Co. is seeing significant demand growth, while the Energy Minister noted that the Saudis would not boost oil capacity up to 13mln BPD without demand. In other news, Iraq PM Sudani said foreign oil companies operating in the Kurdish region informed us that if an agreement is reached on oil production costs and contracts, they will resume oil production within a month. 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 +0.2mln, Gasoline -0.9mln, Distillates -1.2mln.

EQUITIES

CLOSES: SPX +0.73% at 4,247, NDX +0.97% at 14,745, DJIA +0.62% at 33,141, RUT +0.82% at 1,679.

SECTORS: Utilities +2.57%, Communication Services +1.38%, Real Estate +1.19%, Materials +1.13%, Consumer Discretionary +1.04%, Consumer Staples +0.96%, Industrials +0.72%, Technology +0.71%, Financials +0.67%, Health +0.29%, Energy -1.42%.

EUROPEAN CLOSES: DAX +0.54% at 14,879.94, FTSE 100 +0.20% at 7,389.70, CAC 40 +0.63% at 6,893.65, Euro Stoxx 50 +0.55% at 4,064.05, IBEX 35 -0.22% at 8,975.80, FTSE MIB +0.05% at 27,572.74, SMI +0.45% at 10,378.70.

STOCK SPECIFICS: **Coca-Cola (KO)** Q3 results topped estimates and it boosted its annual sales and profit forecasts on strong demand and higher prices. **General Motors (GM)** saw top and bottom line beats, but withdrew FY23 guidance amid strike uncertainty; said the impact based on current facilities struck is USD 200mln per week, but with further action announced on Tuesday, it raised this estimate to USD 400/mln per week. Said not has not seen weaker consumer demand. **3M (MMM)** EPS and revenue beat; raised FY23 guidance due to expected benefit from cost-cutting measures and price hikes. **General Electric (GE)** surpassed expectations on the top and bottom line; lifted FY23 outlook amid increased demand in its aerospace business. **RTX (RTX)** earnings topped with USD 10bln accelerated share buyback programme; narrowed FY23 adj. EPS view to above consensus and upped revenue guide. **Verizon (VZ)** EPS and revenue beat, with sub additions healthy in addition to boosting FY FCF guidance. **Centene (CNC)** earnings beating and lifted FY outlook. **Corning (GLW)** earnings fell short and downgraded next quarter outlook, noting its markets continue to reflect demand below trend lines. **HCA Healthcare (HCA)** EPS missed noting results were unfavourably impacted by Valesco physician staffing JV, which performed below expectations; reaffirmed FY outlook. **Sherwin-Williams (SHW)** earnings beat and raised FY profit view. US govt. told **Nvidia (NVDA)** that licensing requirements from implementation of additional export controls on some semiconductors are effective immediately; NVDA does not expect the decision to have a near term meaningful impact on financial results. **Fiserv (FI)** earnings beat accompanied by lifting FY profit and revenue guidance. **Spotify (SPOT)** beat on revenue and MAUs with a surprise profit per share as it cited cost-cutting measures, including lower market spend and layoffs, as well as increased subscription costs. **TransUnion (TRU)** missed on the top and bottom line; cut FY guidance with Q4 outlook also short. **W R Berkley (WRB)** earnings beat with other key metrics also strong; noted it remains well positioned for continued success and very optimistic about the remainder of 2023 and beyond. **NextEra Energy (NEE)** posted solid results and reaffirmed FY outlook. **Nucor's (NUE)** report impressed investors. **Halliburton (HAL)** missed on revenue with profit in line. **Danaher (DHR)** EPS and revenue were solid, but sees Q4 core revenue "down mid-single digits" Y/Y and cut FY24 revenue view.

US FX WRAP

The Dollar was bid on Tuesday, more or less paring all of the Monday weakness with DXY hitting a high of 106.32 vs the Monday high of 106.33, a level the Dollar Index resides around heading into APAC trade. Supporting the move higher was Euro weakness after disappointing EZ PMI data, while the US PMIs were encouraging, supporting the buck further.

As mentioned, the **Euro** sold off in wake of the weak PMI data where EUR/USD fell from highs of 1.0693 in the morning to lows of 1.0583 with the move also led by yield differentials between the US and EZ - German yields lower while US yields were firmer, albeit off highs as risk sentiment soured.

The Yen saw two way price action in the European morning on reports the BoJ is said to see little need to change forward guidance, and it is considering whether to tweak YCC given US yield concerns, according to Bloomberg. Note, beforehand, the BoJ announced unscheduled bond purchases. Nonetheless, USD/JPY later tested 150, once again, after the stronger than expected US PMI report but was swiftly rejected with USD/JPY peaking at 149.92, a level it hovered around throughout the session. At risk of sounding like a broken record, participants are reluctant to see USD /JPY rise above 150 on intervention fears. On that note, when questioned about the Yen's fall near 150 vs the USD, Japanese PM Kishida said today it is desirable for FX to move stably. Kishida added it is important for the government and BoJ to work together closely to achieve wage growth and stable prices, noting the government will strive to pull Japan out of deflation, and that he expects the BoJ to guide policy appropriately based on this understanding.

Cyclical currencies were mixed, AUD was the relative outperformer, even outperforming the Buck after commentary from RBA's Bullock this morning who said the board will not hesitate to raise the cash rate further if there is a material upward revision to the outlook for inflation, somewhat eerie commentary ahead of the inflation report due tonight. Nonetheless, Bullock did state it is possible the inflation goal can be achieved with the cash rate at its current level, but there are risks that could see inflation return to target more slowly than currently forecast.

NZD was flat vs the firmer buck, being supported somewhat by Aussie tailwinds but not to the same extent with AUD /NZD rising above 1.0850. With Antipodeans the outperforming currencies (alongside the buck), GBP was one of the underperformers with Sterling seeing weakness as the risk tone soured in the afternoon despite a better than feared employment report and the UK PMI only seeing a slight miss on the services PMI, but a beat on manufacturing.

CAD also saw weakness vs the Dollar but not to the same extent as GBP with lower oil prices weighing on CAD ahead of the BoC rate decision on Wednesday (Newsquawk preview available here) where rates are expected to be left unchanged, with eyes on the statement for guidance, and on the MPR for the BoC's inflation and growth forecasts.

Scandis were weaker vs the softer Euro with SEK largely the laggard despite softer Brent prices. There was commentary from Riksbank's Theeden that the bank needs to restore its capital, and the Riksbank needs to have its equity restored to at least the basic level stated in the Sveriges Riksbank Act of SEK 40bln. Theeden added that as per the end of September 2023, a restoration to the basic level would entail a capital injection of almost SEK 80bln.

EMFX was mixed. BRL saw gains while MXN and COP were flat but CLP saw gains. In Mexico, the first-half October inflation data was mixed with the headline figures slightly beneath expectations but Core M/M was slightly above with Y /Y in line. CLP was buoyed by gains in copper prices. Elsewhere, HUF saw notable weakness vs the Euro after a larger cut than expected from the NBH, the street was only looking for a 50bp cut but expectations ranged from unchanged to a 100bp cut.