US Market Wrap

25th October 2023: GOOGL weighs on stocks amid Gaza invasion momentum and a dismal UST auction

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Israel prepares for ground invasion; Awful US 5yr auction; Hot US new home sales data; Strong MSFT report; GOOGL Cloud metrics light; Bearish inventory data; BoC hold, as expected, but prepared to hike if required; Hot Australian inflation metrics; Above forecast Ifo survey findings
- **COMING UP**: **Data**: US GDP, PCE Prices Advance, IJC **Events**: ECB & CBRT Policy Announcements **Speakers**: ECB's Lagarde & BoE's Cunliffe **Supply**: US **Earnings**: BNP Paribas, Danone, Evolution, Hellofresh, Mercedes Benz, STMicroelectronics, Saint Gobain, TotalEnergies, Volkswagen; Standard Chartered, Unilever, WPP; Valero, Comcast, UPS, Southwest, Mastercard, Merck & more.

MARKET WRAP

The major stocks indices were lower on Wednesday, led by the NDX, with 3% gains in MSFT post-earnings offset by the c. 10% losses in GOOG after the tech giant disappointed in its cloud segment. The losses were exacerbated by large bear-steepening in USTs (10yr yield +10bps at 4.94%), amid an awful demand reception at the 5yr auction, BoC guidance (kept rates unchanged but warned of resurging inflation pressures), and a surge in US new home sales data, all coming ahead of an expected surge in Thursday's first official look at the US Q3 GDP data. There was notable haven demand too, capping even larger UST losses, after Israeli PM Netanyahu said in a press conference that Israel was preparing for a ground invasion, following a WSJ article that the delay had been due to waiting for the US to provide military support to outposts in the region which could arrive as early as later this week. Gold and oil prices rallied. The Dollar was bid, aided by the yield environment, with USD/JPY probing above the pivotal 150 level with no sign of intervention (yet?).

GLOBAL

BoC: The BoC left rates unchanged at 5.00% as expected while it maintained guidance that it is prepared to hike rates further if needed and acknowledging that inflationary risks have increased. Meanwhile, the MPR saw inflation forecasts lifted while growth prospects for 2023 and 2024 were revised lower but 2025 saw a marginal revision higher. It also now expects inflation to return to target by the end of 2025, vs its assessment in July of mid-2025. It noted that near term inflation expectations are still high and there is a risk they could become a driver of wage-and price-setting behaviour. With guidance maintained, money markets are now assigning a c. 40% probability of a hike by March. Within the press conference both Macklem and Rogers pushed back on the idea of rate cuts anytime soon, while they were quizzed on the move higher in bond yields and its impact Rogers just noted it is something they consider, among many other factors. Meanwhile, BoC Governor Macklem himself suggested Canada will likely see two or three quarters of small negative growth, but he is not predicting a deep recession with steep contraction and major job cuts. Looking ahead, RBC does not expect there to be any additional hikes from the BoC, with data showing signs of a softening economy. The desk expects the overnight rate to be held at 5% through H1 2024 with modest cuts from Q3 '24.

NEW HOME SALES: New home sales surged 12.3% in September to 759k (prev. 676k), way above the expected 680k and outside the upper boundary of the forecast range, with the headline boosted by prices falling 3.3% M/M, and 12.3% Y/Y, the largest annual decline since 2009. In summary, the headline surprised to the upside as a lack of existing homes for sale and builder incentives continue to prop up the market for new homes. Looking ahead, while new home sales may continue to be more resilient than existing home sales, Oxford Economics expect they will weaken in the fourth quarter in the face of mortgage rates at a 23-year high and a slowing economy and labor market.

ISRAEL: Israeli PM Netanyahu, in a public speech Wednesday, said Israel is preparing for a ground invasion in Gaza, where the timing of such would be "reached by consensus" without giving further details; said Israel was doing everything possible to bring hostages home. That followed a WSJ report that Israel had agreed to delay the ground invasion so that the US could move missiles to the region. The report said the Pentagon is looking to deploy nearly a dozen air-defense systems to the region including for US troops serving in Iraq, Syria, Kuwait, Jordan, Saudi Arabia, and the UAE to protect them from missiles and rockets. Where US officials had so far persuaded the Israelis to hold off until that support was made available "as early as later this week."

ECB PREVIEW: Markets are signalling a unanimous expectation that the European Central Bank (ECB) will keep all three of its key rates unchanged, following the September policy statement which noted that current rate levels are seen as sufficient for inflation to return to target. Economic indicators since the last meeting show a slight cooling in Y/Y CPI and another contraction in the Composite Eurozone PMI, further cementing this expectation. Rising bond yields and geopolitical risks that further warrant caution, however, the ECB is expected to maintain optionality for future rate hikes. Discussions about ending the Pandemic Emergency Purchase Programme (PEPP) reinvestments early could also be on the table, but unlikely to receive backing at this stage. To download the full Newsquawk preview, please click here.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 22 TICKS LOWER AT 105-21+

Treasuries bear-steepened Wednesday amid an awful 5yr auction, with hawkish BoC tones and hot US new home sales data adding pressure ahead of an expected surge in Thursday's Q3 GDP data. 2s +5.2bps at 5.123%, 3s +6.6bps at 4.979%, 5s +9.3bps at 4.917%, 7s +10.6bps at 4.975%, 10s +11.1bps at 4.951%, 20s +11.1bps at 5.290%, 30s +12.2bps at 5.085%.

INFLATION BREAKEVENS: 5yr BEI +4.6bps at 2.416%, 10yr BEI +4.2bps at 2.438%, 30yr BEI +4.9bps at 2.535%.

THE DAY: T-Notes hit highs of 106-18 in the APAC session on Wednesday, and that was after the Australian CPI data came in hot. Although better selling eventually kicked in, with a brief bid in the London morning also reversing, with T-Notes going on to find support at 106-05 heading into the NY handover, with pressure out of EGBs after an above forecast German Ifo survey.

New lows were made for T-Notes in the NY morning, with participants making room for the 5yr auction. A surge in US New Home Sales alongside the BoC maintaining its hawkish leaning guidance (after it kept rates unchanged), noting inflationary risks had increased, saw UST selling accelerate further. Then the awful demand reception for the 5yr auction saw T-Notes dip even further to session lows of 105-20. Some haven demand capped further losses as Israel announced it was gearing up for a ground invasion of Gaza. Attention now gravitates to our first look at the official Q3 GDP data on Thursday, not to mention the 7yr auction.

5YR AUCTION: An awful USD 52bln 5yr auction from the Treasury despite the concession seen Wednesday into the auction and it offering the highest yield for a 5yr auction since 2007. The 4.899% auction stop marked a chunky 1.9bp tail of the WI yield, the largest tail since last September, much worse than last month's 1.2bp stop-through and the six-auction average 0.4bp stop-through. The internals were no better with the bid/cover ratio falling to 2.36x from last month's 2.52x (avg. 2.99x). Dealers (forced surplus) buyers were left with a massive 19.4% (prev. 11.2% and avg. 12.3%) with Indirects participation tumbling to 61.5% from 71.1%, whilst Directs saw an increase in takedown to 19.1% from 17.6%.

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 flat at 94.56, H4 -1bps at 94.625, M4 -3bps at 94.815, U4 -4.5bps at 95.06, Z4 -6bps at 95.30, H5 -7bps at 95.505, M5 -8bps at 95.63, U5 -9.5bps at 95.685, Z5 -10bps at 95.695, Z6 -11.5bps at 95.63, Z7 -13.0bps at 95.49.
- SOFR flat at 5.30% as of Oct 24th, volumes rise to USD 1.387tln from 1.330tln.
- NY Fed RRP op demand at USD 1.101tln (prev. 1.098tln) across 97 counterparties (prev. 97).
- EFFR flat at 5.33% as of Oct 24th, volumes fall to USD 83bln from 88bln.
- US sold USD 26bln of 2yr FRNs at high discount margin of 0.170%, covered 3.23x (six-auction avg. 3.02x), Dealers take 28.2% (avg. 35.6%).

CRUDE

WTI (Z3) SETTLED USD 1.65 HIGHER AT 85.39/BBL; BRENT (Z3) SETTLED USD 2.06 HIGHER AT 90.13/BBL

Oil prices were firmer on Wednesday, despite bearish inventory data, as momentum around a Gaza ground invasion picks up steam. Prices had been choppy out of the Asia and European session with the benchmarks edging higher into the NY handover. But as the Dollar picked up, better selling developed, aided by the weekly US energy inventory data: Crude +1.4mln bbls (a surprise vs the private data reported -2.7mln), Gasoline +0.2mln bbls, Distillates

-1.7mln bbls. Prices hit their lows as headlines hit from the WSJ that Israel had delayed its ground invasion, seeing WTI and Brent futures kneejerk lower to troughs of USD 82.08/bbl and 86.68/bbl, respectively. However, as the details were released - that it was only being delayed to wait for more US military support and potentially as soon as the end of this week - prices swiftly reversed higher. The upside continued from there into the settlement, aided by Israeli PM later saying in a speech that the country is preparing for a ground invasion. WTI and Brent futures hit session highs of USD 85.53/bbl and 90.18/bbl, respectively.

EQUITIES

CLOSES: SPX -1.43% at 4,186, NDX -2.47% at 14,381, DJIA -0.32% at 33,036, RUT -1.67% at 1,651.

SECTORS: Communication Services -5.89%, Consumer Discretionary -2.4%, Real Estate -2.07%, Industrials -1.27%, Technology -1.19%, Materials -1.14%, Health -0.9%, Financials -0.3%, Energy -0.16%, Consumer Staples +0.33%, Utilities +0.49%.

EUROPEAN CLOSES: DAX +0.08% at 14,892.18, FTSE 100 +0.33% at 7,414.34, CAC 40 +0.31% at 6,914.94, Euro Stoxx 50 +0.15% at 4,071.55, IBEX 35 +0.10% at 8,984.80, FTSE MIB -0.52% at 27,428.60, SMI +0.16% at 10,393.60.

EARNINGS: **Alphabet (GOOG)** beat on EPS and revenue, but investors have seemingly focused on the Cloud miss. On this, GOOGL said customers are "starting to optimize spend" on cloud computing and feel "good about where we're sitting" with cloud computing growth. **Microsoft (MSFT)** earnings beat with Cloud metrics also impressing. Guidance was solid as productivity and business, Intelligent Cloud, and More Personal Computing all topped. **Visa (V)** earnings beat, authorised a new USD 25bln share buyback programme and raised quarterly dividend. **Boeing (BA)** posted a deeper loss per share than expected but beat on revenue and raised its 787 production target to 5/mnth (prev. 4/mnth), although it did slash its 737 production and delivery guidance amid its faulty fuselage issues. **Texas Instruments (TXN)** fell short on revenue with next quarter guidance light; said demand suffered across its key markets including industrial as vendors pulled back on orders. **T-Mobile US (TMUS)** profit beat but revenue missed, with the internals mixed. **CoStar Group (CSGP)** revenue missed with guidance for both the next quarter and FY light. **Thermo Fisher Scientific (TMO)** earnings beat, but cut FY outlook. **General Dynamics (GD)** top and bottom line surpassed Wall St. expectations. **Hilton Worldwide Holdings (HLT)** had a mixed report; profit was in line while revenue beat, and Q4 guidance was ever-so-slightly short. HLT believe they have hit an inflection point and expect a meaningful uptick in openings in Q4. **Snap (SNAP)** posted an unexpected profit per share, beat on revenue alongside a USD 500mln share buyback programme. DAUs marginally topped with adj. EBITDA surprisingly positive. Q4 guidance was mixed and expects muted spending from many brand-oriented ad campaigns following the onset of the war in the Middle East.

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STOCK SPECIFICS: **Apple (AAPL)** raised the price of TV+ service from USD 6.99/mnth to USD 9.99/mnth; Also lifted prices of Apple One services bundles and price rises for existing users will begin in 30 days. In other news, according to Bloomberg, **AAPL** plans a total overhaul of AirPods lineup starting in 2024; updating AirPods Max in 2024 to add USB-C and new colours. Of note for card names (V, MA, JPM, DFS etc), Federal Reserve confirmed the lower cap in response to data showing costs for debit card transactions have significantly changed over time. Proposed lowering cap on debt card interchange fees from USD 0.21 per transaction to USD 0.144. **Ford (F)** sees UAW union nearing towards a deal, according to AP sources. Union made a counteroffer to Ford that proposes a 25% general wage increase over the life of a new four-year contract. Still possible that the negotiations, despite the meaningful progress being made, could unravel. If deal reached, it would be used as a model to seek similar contract settlements with GM and Stellantis.

US FX WRAP

The Dollar was firmer on Wednesday and printed a high of 106.530 on the back of a culmination of an awful US 5yr auction, which pushed yields to highs, and heightened geopolitical tension. On the latter, Israeli PM said they are preparing for a ground invasion, pushing back of any reports they may not, while the timing of invasion will be reached by consensus. Prior to this, the Buck was already boosted by rebounding yields amidst renewed bear-steepening, while very strong new home sales data did little to move the dial for the Greenback at the time. In terms of levels, 106.600-670 is regarded as a resistance area ahead of the peak from October 13th, at 106.780. Looking ahead, attention remains on geopolitical updates, ahead of ECB, US Q3 Advanced GDP, and September Durable Goods (Thurs), before US PCE on Friday.

Antipodeans were the G10 underperformers, with AUD lagging its NZD counterpart, irrespective of initial currency-specific tailwinds. On this, AUD/USD hit highs of 0.6399 earlier in the session on hot inflation metrics, but later fell to lows (unwinding all its CPI gains) of 0.6306 amid the resurging Buck. The Kiwi suffered a similar fate to see NZD/USD hit troughs of 0.5803, and resolutely defending the round number. On the calendar, Australian trade data is overnight followed by PPI on Friday.

Yen only saw mild losses vs. the Buck. The Yen stoutly defended the key psychological 150 level for the majority of the session, but when the dismal auction and geopolitical jitters hit, USD/JPY crossed the 'line-in-the-sand' level to hit a high of 150.04, with the early October high of 105.16 seen as next resistance given that was where the Japanese government was suspected to have stepped in after the cross plunged lower 300 pips. As such, attention will be on any Japanese jawboning Thursday ahead of CPI data on Friday.

CAD saw losses, and probed 1.3800 to the upside in wake of the BoC rate decision, before later surpassing it on the aforementioned headline newsflow. On the former, BoC left rates unchanged at 5.00%, as expected, while it maintained guidance that it is prepared to hike rates further if needed and acknowledging that inflationary risks have increased. Meanwhile, the MPR saw inflation forecasts lifted while growth prospects for 2023 and 2024 were revised lower but 2025 saw a marginal revision higher. It also now expects inflation to return to target by the end of 2025, vs its assessment in July of mid-2025. It noted that near term inflation expectations are still high and there is a risk they could become a driver of wage-and price-setting behaviour. With guidance maintained, money markets are now assigning a c. 40% probability of a hike by March. For the record, there was not really new or added to guidance in the post-meeting press conference.

EUR, CHF, and GBP all saw similar losses against the Greenback. Starting with the single-currency, this came despite seeing an initial boost in the European morning on above forecast Ifo survey findings, which saw EUR/USD top out just above 1.0600, before reversing to lows of 1.0567, at pixel time. Nonetheless, market participants await the ECB rate decision on Thursday (Newsquawk preview available here), where markets are signalling a unanimous expectation that the ECB will keep all three of its key rates unchanged, with the expected decision to pause will be based on inflationary developments, geopol risks, and increase in bond yields. Sterling may have been saved from a worse fate by decent option expiry interest in Cable given 1.1bln rolling off from 1.2125-20 at the NY cut, but the pair slipped to 1.2115 at worst and so it could have been more psychological. Lastly, the Franc initially retreated through 0.8950 as Swiss investor confidence deteriorates markedly, but later fell to lows of 0.8921 on the known macro fundamentals.

EMFX was broadly lower vs. the firmer Buck. CZK was undermined by CNB's Holub saying there is a dilemma whether to start rate cuts now or wait for January repricing data and then possibly do larger steps, adding that the November 2nd and December 21st meetings are both live. Aside from that, currency-specific newsflow was light for the EMs and trade was contingent on wider sentiment and market moves. Nonetheless, Banxico Deputy Finance Minister said the Peso exchange rate is not hurting export competitiveness, and board member Heath added the drop in inflation is not a reason to sing victory yet. Turkish stocks took a nosedive on Wednesday, ahead of the CBRT on Thursday where the bank is expected to hike rates to 35% from 30%. Elsewhere, there is Mexican jobs data, Brazilian IPCA-15 mid month CPI, and the Chilean rate decision.