US Market Wrap

27th October 2023: Oil and Gold surge after Israel announces ground invasion plan; NDX holds gains on strong AMZN & INTC numbers

- **SNAPSHOT**: Equities mixed, Treasuries steepen, Crude up, Dollar flat, Gold up
- **REAR VIEW**: Israel expanding ground force operation; Strong AMZN & INTC earnings; US PCE largely in line; UoM headline revised higher.
- **WEEK AHEAD**: Highlights include FOMC, BoJ, BoE, US NFP, PMIs, and EZ CPI & GDP. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing; FOMC, BoJ, BoE, Norges Bank and BCB. Reviewing; ECB, BoC and CBRT. To download the report, please click here.

MARKET WRAP

Indices sold off throughout the session with the strong Amazon (AMZN) and Intel (INTC) earnings Thursday night failing to keep the S&P bid, but it did help limit the downside as the Nasdaq was the only index in the green given its exposure to cloud names after AMZN's optimistic cloud unit forecasts in the conference call. The majority of sectors were lower, aside from Consumer Discretionary and Tech on the aforementioned earnings. Crude and gold prices surged on geopolitical tensions where despite initial reports on agreement of a cease fire, it was swiftly denied, and Israel then upscaled their bombardment of Gaza with Gaza also returning fire. Israel later announced it was preparing for new incursions into the Gaza strip which sent Crude and gold prices flying, with the latter rising above USD 2,000/oz for the first time since May. Elsewhere, the US PCE data had little impact with Core PCE M/M and Y/Y in line with expectations while personal income missed and consumption beat. Meanwhile, the final September UoM survey saw headline sentiment revised higher led by a jump in current conditions, but forward looking expectations slipped. The volatile 1yr inflation forecast saw a notable increase to 4.2% from 3.8%, however the 5yr forecast, the one the Fed pays closer attention to, was unrevised at 3.0%. In wake of the data and geopolitical developments, the Treasury curve was ultimately steeper on Friday with attention turning to key events next week. Highlights include the FOMC, BoJ, BoE, US NFP and a plethora of earnings, including from tech behemoth Apple (AAPL). Meanwhile, uncertainty on geopolitics is still high, so any potential developments over the weekend will also be key.

GLOBAL

MIDDLE EAST: There were further escalations, and some signs of initial hope on Friday. Overnight, there were reports of a rocket falling in Egypt, wounding five people, which Israel later stated it was the Houthis in Lebanon trying to fire at Israel. Meanwhile, there were also reports that the US military carried out airstrikes on Iranian proxy forces in Syria in response to attacks on US bases since October 17th, which were reportedly not coordinated with Israel. The brief glimmer of hope came in the afternoon, where reports suggested talks were moving rapidly to complete a ceasefire agreement, albeit the talks had fallen through with neither Israel or Hamas coming to an agreement. It was then followed by the most intense shelling yet by Israel in Gaza, which saw response from Hamas. Meanwhile, the Israeli Defense Spokesperson stated ground forces are expanding their new incursions into the Gaza strip tonight, paving the way for a ground invasion. However, the US is still urging Israel against such a decision.

US PCE: US PCE was overall in line with expectations. The Core rose 3.7% Y/Y and the M/M rose 0.3%, in line with expectations, while the Headline Y/Y matched the consensus at 3.4% but the M/M was a touch above the forecast 0.3% at 0.4%. Personal Income rose by 0.3% in September, slightly beneath the 0.4% expectation but consumption beat, rising 0.7% (exp. 0.5%). ING summarises the data as "US inflation remains somewhat sticky, but intensifying concerns are now coming to the fore over the path for real household disposable income – the key driver of consumer spending." The desk notes that unless this turns around quickly, a recession will start to look more likely which would see inflation fall faster than the Fed expects. The first rate cut is currently fully priced in by July, with a high probability of it occurring in June, with markets largely leaning towards the Fed being done with rate hikes. Nonetheless, the FOMC is next week and although no hike is expected, Powell may opt to maintain optionality and stress rate cuts are not expected any time soon.

UOM: University of Michigan headline was revised higher to 63.8 from 63.0 in October, with expectations and conditions revised to 59.3 (prev. 60.7) and 70.6 (prev. 66.7), respectively. On the inflation expectations, 1yr ahead lifted to 4.2%

(prev. 3.8%), while the longer-term 5-10yr was unchanged at 3.0%. Overall, Oxford Economics notes, "the sentiment index remains at recessionary levels, which would normally indicate a decline in consumer spending, but this relationship has weakened in recent years." Nonetheless, the consultancy still expects to see a decline in consumer spending in the coming months but points to more reliable indicators including depleted excess savings and higher borrowing costs. Slower job and wage growth will also take their toll on disposable income and contribute to a decline in spending.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 2+ TICKS HIGHER AT 106-13

Treasuries steepen on US data and geopolitical escalation ahead of a busy week. At settlement, 2s -3.3bps at 5.006%, 3s -4.0bps at 4.839%, 5s -3.6bps at 4.761%, 7s -2.3bps at 4.840%, 10s -0.8bps at 4.837%, 20s +1.9bps at 5.209%, 30s +3.3bps at 5.021%.

INFLATION BREAKEVENS: 5yr BEI +0.9bps at 2.402%, 10yr BEI +0.3bps at 2.428%, 30yr BEI +0.6bps at 2.522%.

THE DAY: Treasuries pared lower modestly into the Friday session through APAC trade, pulling from the peaks made after Thursday's short-covering and strong 7yr auction. Above-forecast Tokyo CPI data out of Japan aided the moves lower. T-Notes drifted to session lows of 106-03 in the London morning (vs Thursday's 106-13 peak), bouncing a few ticks into the NY handover.

The in line September Core PCE price index, soft personal income, and hot consumption data saw a muted reaction in aggregate, with T-Notes seeing two-way flows within ranges after the release. There was some selling pressure after some Al Jazeera reports hit that "negotiations are moving rapidly" for a Israel/Hamas ceasefire agreement, but earlier lows were respected in T-Notes and before long new highs were being printed. T-Notes hit peaks of 106-13+ later in the NY morning, with the upwardly revised Uni of Michigan consumer sentiment and 1yr consumer inflation expectations capping strength. T-notes advanced higher back to the unchanged level after Israel announced it will be going ahead with its ground operation tonight.

STIRS:

- SR3Z3 +1.0bps at 94.585, M4 +3.0bps at 94.910, U4 +3.0bps at 95.175, Z4 +3.5bps at 95.440, H5 +5.0bps at 95.670, M5 +6.0bps at 95.820, U5 +6.5bps at 95.890, Z5 +6.0bps at 95.900, H6 +5.5bps at 95.880, Z6 +3.5bps at 95.805, Z7 +3.0bps at 95.645.
- SOFR rises to 5.31% as of Oct 26th, volumes rise to USD 1.506tln from 1.439tln.
- NY Fed RRP op demand at USD 1.092tln (prev. 1.090tln) across 100 counterparties (prev. 98).
- EFFR flat at 5.33% as of Oct 26th, volumes rise to USD 100bln from 93bln.

CRUDE

WTI (Z3) SETTLED USD 2.33 HIGHER AT 85.54/BBL; BRENT (F4) SETTLED 2.15 HIGHER AT 89.20/BBL

The crude complex was initially choppy to end the week, but eventually finished on a tear higher amid rising geopolitical tensions. WTI and Brent settled around highs after an escalation of geopolitical tensions between Israel and Gaza in wake of an Israeli military spokesman noting ground forces are expanding their operations tonight. As such, moving into the weekend all focus will be on any updates, movements of Israel and any potential response, or outside involvement. Do note, prior to this, WTI and Brent saw initial strength overnight, printing intra-day highs, after the US military struck Iranian targets in Syria, but prices in the US morning briefly turned negative as markets digested reports negotiations are moving rapidly to complete a ceasefire agreement and an exchange deal between Hamas and Israel, mediated by Qatar. However, the cease fire did not come to fruition with Israel and Hamas failing to come to an agreement. Elsewhere, in the latest Baker Hughes rig count, oil rose 2 to 504, Natgas fell 1 to 117, leaving the total up 1 to 625.

EARNINGS: Energy heavyweights Chevron (CVX) and Exxon (XOM) earnings disappointed investors, CVX EPS was light and revenue beat but it fell Y/Y. CVX noted the decline in earnings was due to lower upstream realisations & lower margins on refined product sales. Meanwhile, XOM missed on profit amid weaker chemical margins and some below-the-line/mark-to-market impacts.

EQUITIES

CLOSES: SPX -0.48% at 4,117, NDX +0.50% at 14,180, DJIA -1.12% at 32,417, RUT -1.21% at 1,636.

SECTORS: Energy -2.3%, Financials -1.86%, Utilities -1.81%, Health -1.71%, Real Estate -1.6%, Consumer Staples -1.36%, Industrials -0.87%, Materials -0.06%, Communication Services +0.1%, Technology +0.58%, Consumer Discretionary +1.7%.

EUROPEAN CLOSES: DAX -0.30% at 14,687.41, FTSE 100 -0.86% at 7,291.28, CAC 40 -1.28% at 6,800.47, Euro Stoxx 50 -0.86% at 4,014.65, IBEX 35 -0.50% at 8,918.30, FTSE MIB -0.80% at 27,287.45, SMI -0.45% at 10,321.00.

STOCK SPECIFICS: **Amazon.com (AMZN)** earnings beat while operating income smashed expectations. Looking ahead, Q4 net sales midpoint was slightly beneath expectations. In its earnings call, it said it is seeing the pace and volume of closed AWS deals pick up. **Intel (INTC)** posted a strong report; EPS and revenue beat with upside driven by strength in PCs and margins. Q4 guidance topped expectations. **Enphase Energy (ENPH)** earnings missed and slashed next quarter guidance. **Ford Motor (F)** fell short on profit while revenue beat. Withdrew FY guidance with the ratification of tentative US labor agreement and called out the pricing pressure in the EV industry as a particular headwind. **Chevron (CVX)** EPS was light, while revenue topped but fell Y/Y. Said decline in earnings was due to lower upstream realisations and lower margins on refined product sales. **Chipotle Mexican Grill (CMG)** EPS, revenue, and comp. sales all topped Wall St. expectations. **Sanofi (SNY)** missed on revenue, net income, and EPS and announced it is looking into the separate listing of its Consumer Healthcare business from Q4-2024. **Corteva (CTVA)** lowered FY net sales and earnings guidance in light of evolving market dynamics in Brazil, similar to **FMC (FMC)** earlier in the week. **JPMorgan (JPM)** CEO Dimon confirmed that he is to sell JPM stock for the very first time; from 2024 intend to sell 1mln shares. **Capital One Financial (COF)** had a stellar report, EPS, revenue, net interest income and net interest margin all beat with provision for credit losses less than expected. **Stanley Black & Decker (SWK)** earnings beat and lifted FY profit view. **General Motors (GM)** and UAW may be nearing a labor deal after a marathon negotiating session while both GM and **Stellantis (STLA)** are said to match **Ford's (F)** 25% pay offer.

WEEKLY FX WRAP

Buck (just) back to winning ways after veering from bullish path

USD - The Greenback lost some momentum on Friday after the DXY faded from best levels within a 106.80-32 range, but the index remained towards the top of 106.89-105.36 w-t-d parameters having resumed its upward trajectory in wake of preliminary global PMIs highlighting relative US economic outperformance or resilience. To recap, manufacturing recovered from minor contraction to 50.0 flat, services activity picked up pace against expectations for a dip below break-even and combined to push the composite index further into growth territory. New home sales subsequently came in comfortably above consensus and the advance reading of Q3 GDP beat by an even greater margin, but the latter was overshadowed by less strength under the hood, including sales and soft PCE price components, ex-food, energy and housing in particular. The more closely watched monthly PCE inflation data followed and was evidently too close to forecasts to prompt any reaction, leaving the Dollar and DXY prone to other factors as attention turned to month end and November's FOMC policy meeting.

AUD/JPY - A roller-coaster ride for the Aussie reached midweek peaks when Q3 CPI metrics proved hotter than expected and revived RBA hike prospects via market pricing and revised calls from a few banks. However, Governor Bullock downplayed the data somewhat as she questioned whether it was hot enough to materially change the inflation outlook and warrant a return to tightening. Hence, Aud/Usd never quite returned to the brink of 0.6400, albeit held well above lows circa 0.6271 with added impetus from an acceleration in Q3 PPI. Meanwhile, the Yen absorbed mounting pressure on the psychological 150.00 level vs the Buck until it was simply too intense and stops were triggered in Usd /Jpy on the way up to 150.77 on Thursday, but the headline pair reversed course sharply in a manner that smacked of stealthy intervention before rebounding almost as rapidly and abruptly. Yen losses were inflicted by the usual UST/JGB-Fed/BoJ divergence dynamic and chimed with the ramp in Treasury yields (10 year cash topping 5% at one stage compared to a 4.80% trough), but Usd/Jpy retreated towards Tuesday's 149.33 weekly base well before mega 5.1 bn option expiries rolled off at the NY cut. Instead, month end positioning appeared to play a part along with hedging for the BoJ next week and a possible hawkish shift following firmer than forecast or previous Tokyo CPI readings.

EUR/GBP/NZD - The Euro did not get much purchase from the ECB or relief from a better than it could have been German Ifo survey, as flash Eurozone PMIs were downbeat, especially the French manufacturing and German services print. In fact, Eur/Usd struggled to regain 1.0600+ status having waned from just under 1.0700 to 1.0524 after the ECB paused its tightening cycle and maintained that PEPP reinvestments will continue through at least the end of 2024. An 'end' to hikes following ten successive rises was anticipated and virtually 100% factored in, but some were looking for the PEPP to be wound up more quickly and others for a chat about increasing the minimum reserve requirement rate. So, it came as a surprise when President Lagarde revealed that the PEPP and MRR were not even discussed and the single currency was hardly encouraged by a rather bleak assessment of the economic outlook due to the downside balance of risk. Similar story for Sterling, irrespective of some positive snippets from the delayed labour market stats, such as a dip in the UK jobless rate and a much smaller than feared fall in employment, plus prelim PMIs that were either broadly in line or a bit better than expected on the manufacturing front. Nevertheless, CBI surveys were dire and Cable dropped from 1.2288 to 1.2070 before finding its feet, while the Eur/Gbp cross climbed from 0.8684 to 0.8735 and hovered mostly above the pivotal 200 DMA from a technical perspective. Back down under, and the Kiwi was mainly flying in the face of Aud/Nzd tailwinds that grew stronger from 1.0825 to 1.0915 and kept Nzd/Usd compressed within 0.5872-0.5774 bounds, regardless of an improvement in Westpac consumer sentiment.

CHF/CAD/NOK - Conversely, Swiss investor morale deteriorated markedly, but that was earlier in the week, so the Franc's slide to deeper lows around 0.9034 and 0.9564 vs its US and Eurozone peers respectively seemed to be a mixture of caution pre-CPI next week and safe haven unwinding amidst reports of significant progress on negotiations to release hostages held by Hamas notwithstanding issues still remaining and various subsequent headlines from both sides to the contrary. Elsewhere, the Loonie lurched as crude prices recoiled and Usd/Cad extended its post-BoC rally to a marginal new 2023 apex. In short, the Bank stood pat on rates and retained guidance for further hikes as inflationary risks have risen, but countered by noting clearer signs that monetary policy is moderating spending and relieving price pressures. Moreover, in commentary the day after Governor Macklem says the Bank may not have to raise interest rates further, as the Canadian economy is no longer overheated, and assuming that inflation cools as projected. Turning to Scandinavia, the Norwegian Crown was a net loser against the backdrop of risk aversion and retracement in Brent, but also in advance of the Norges Bank that has signalled steady policy before a probable hike in December.

SEK/EM - Another bad week for the Sek as Swedish macro news was disappointing on balance, the Riksbank business survey warned of economic weakness over the next six months and FX reserve hedging ticked over slowly. Conversely, the Rub was boosted by a bigger than expected CBR rate hike (200 bp vs 100 bp consensus), the Php got a surprise 25 bp rise from the Philippine Central Bank via an off-schedule meeting and the Try received the upper end of range 500 bp from the CBRT to curb depreciation following a collapse to deeper all time lows. RBI intervention prevented the Inr from suffering the same fate and the Idr was also officially supported, but the Huf had to contend with the NBH cutting 75 bp instead of 50 bp in stark contrast to the Clp and the Czk with more dovish-leaning remarks from CNB hawk Holub. The Ils derived support from the Bank of Israel in unconventional terms after it maintained rates on the premise that easing may not stimulate demand in the current conflict impacted circumstances, while the Zar benefited from corrective price action and Gold's flight-to-quality bid.