US Market Wrap

30th October 2023: Stocks jump and oil flumps on lack of Middle East escalation

- **SNAPSHOT**: Equities up, Treasuries down, Crude down, Dollar down.
- **REAR VIEW**: Geopolitical concerns ease somewhat amid no major escalation; Mixed ECB speak; MCD earnings impress; Hawkish BoJ sources; ON guidance disappoints; Detroit 3 automakers reach tentative agreements with UAW; META to offer subscriptions for no ads in Europe.
- **COMING UP**: **Data**: Chinese NBS PMIs, German GDP Flash, French Flash CPI, EZ Flash CPI & Flash-Prelim. GDP, US Employment Costs & Consumer Confidence **Event**: BoJ Policy Announcement, RBNZ FSR **Speakers**: ECB's de Guindos **Supply**: Italy **Earnings**: AB InBev, BASF, Stellantis; BP; Marathon, Caterpillar, Pfizer, SYSCO, AMD, Yum China.
- **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

There was an unwind of geopolitical risk premium on Monday with the Israeli ground invasion only being described as a gradual invasion, seeing the sharp upside in oil on Friday completely unwind, and more. Stocks had also surged with major US indices outperforming albeit the Russell was the relative laggard, but still firmer on the session with upside in large-cap stocks buoying the indices paring some of the weakness seen last week with eyes turning to AAPL earnings on Thursday. Meanwhile, General Motors (GM), Stellantis (STLA) and Ford (F) have all reached a tentative agreement with the UAW while Meta (META) announced it is to offer subscriptions with no ads in Europe, and McDonald's (MCD) earnings were strong. T-Notes were lower across the curve with lows being seen in the wake of hawkish BoJ source reports ahead of the rate decision after-hours (preview below), albeit futures did settle off lows amid the quarterly financing estimates release ahead of the refunding announcement on Wednesday. Looking ahead, the calendar is a busy one with the BoJ overnight, the FOMC on Wednesday, BoE on Thursday, and NFP on Friday, to name a few.

CENTRAL BANKS

BoJ PREVIEW: The Bank of Japan will conclude its two-day policy meeting on Tuesday where the BoJ is expected to maintain its negative rate policy and forward guidance although there is growing speculation regarding the prospects for a tweak to YCC. This follows recent suggestions by Bloomberg sources that the BoJ is considering whether to tweak its YCC due to US yield concerns and the impact on Japanese yields rather than an increased risk of upward price fluctuations, while sources also noted that officials see little need to remove the reference from its guidance that it will not hesitate to take additional monetary easing measures if necessary. More recent sources via Nikkei (on Oct 30th) suggested the BoJ is reportedly set to consider a further adjustment to its YCC framework at the meeting, potentially allowing 10yr JGB yields to rise above 1% and likely to more flexibly conduct its JGB purchase operations - "This, along with a more flexible cap on 10-year yields, is aimed at deterring speculators from targeting the upper limit and sparing the BoJ the need to buy droves of JGBs to keep rates under 1%", according to the sources. Furthermore, the central bank will release the latest Outlook Report containing board members' median forecasts for Real GDP and Core CPI. For the full Newsquawk preview, please click here.

FIXED INCOME

T-NOTE FUTURES (Z3) SETTLED 6+ TICKS LOWER AT 106-07

T-Notes sold off across the curve on a haven unwind and several corporate issuance announcements ahead of key events. At settlement, 2s +2.3bps at 5.035%, 3s +2.6bps at 4.871%, 5s +3.2bps at 4.802%, 7s +2.8bps at 4.878%, 10s +2.8bps at 4.873%, 20s +1.1bps at 5.227%, 30s +0.7bps at 5.030%.

INFLATION BREAKEVENS: 5yr BEI +1.0bps at 2.417%, 10yr BEI +0.8bps at 2.433%, 30yr BEI +0.9bps at 2.529%.

THE DAY: T-Notes sold off throughout the day despite initial upside in EZ counterparts on cooler-than-expected Spanish and German inflation reports ahead of EZ CPI on Tuesday with the US curve being weighed on by a plethora of corporate issuance ahead of key events. There was also a haven unwind on Monday with the Friday fears of Israel's ground invasion not bearing fruit with the invasion being framed as a "gradual" invasion. The risk tone was positive with gold and the dollar lower while stocks rallied and the 10yr T-Note pared all of the Friday upside. The 10yr yield pushed towards 5% once again, printing a high of 4.92% with the T-Note lows being seen in wake of hawkish BoJ sources ahead of the decision overnight. Nikkei sources suggested the BoJ is considering allowing the 10yr GFB yields to rise above 1%, and it will be more flexible in its JGB purchase operations (Newsquawk preview available here). Meanwhile, there was little US data released on Monday, other than the Dallas Fed Manufacturing Business Index which slipped further into contractionary territory ahead of the Treasury refinancing estimates (more below). Attention turns to the BoJ rate decision and forecasts overnight, the FOMC rate decision on Wednesday alongside the ISM Manufacturing report, the BoE and Apple (AAPL) earnings on Thursday, and the US NFP and ISM Services report on Friday.

TREASURY REFINANCING ESTIMATES: The US Treasury announced it expects to borrow USD 776bln in net marketable debt for the October-December period, down USD 76bln from the July 2023 estimate. The Q4 borrowing estimate assumes an end-December cash balance of USD 750bln. For Q1 (Jan-March), it expects to borrow USD 816bln, assuming an end-March cash balance of USD 750bln. Meanwhile, it noted for Q3 (July-Sept.) it borrowed USD 1.01tln and ended the quarter with a cash balance of USD 657bln. The refunding announcement will be released on Wednesday 1st November, where the Treasury is expected to increase its coupon auction sizes again as it guided last time, although many analysts expect a slightly lesser pace of increase amid the recent rise in term premia.

STIRS:

- SR3Z3 -1.5bps at 94.570, H4 -1.5bps at 94.660, M4 -2.0bps at 94.880, U4 -3.0bps at 95.140, Z4 -3.0bps at 95.405, H5 -2.5bps at 95.640, M5 -2.0bps at 95.795, U5 -1.5bps at 95.870, Z5 -2.0bps at 95.880, Z6 -0.5bps at 95.795, Z7 -0.5bps at 95.630.
- SOFR unchanged at 5.31% as of Oct 27th, volumes fell to USD 1.496tln from 1.506tln.
- NY Fed RRP op demand at USD 1.138tln (prev. 1.092tln) across 101 counterparties (prev. 100)
- EFFR flat at 5.33% as of Oct 27th, volumes fell to USD 94bln from 100bln.
- US sold USD 83bln in 3-month bills at 5.235%, covered 2.78x; sold USD 75bln in 6-month bills at 5.320%, covered 2.90x

CRUDE

WTI (Z3) SETTLED USD 3.23 LOWER AT 82.31/BBL; BRENT (F4) SETTLED USD 2.85 LOWER AT 86.35/BBL

The crude complex was lower on Monday, paring all of Friday’s gains and more after an unwind of some of the geopolitical risk that had been baked in. Expanding on this, concerns in the Middle East eased somewhat over the weekend amid a lack of any major regional escalation in the wake of Israel’s slower-than-expected incursion into Gaza. As such, WTI and Brent sold off for the duration of the session hitting lows of USD 81.82/bbl and 85.81/bbl, respectively, albeit coming off troughs towards settlement. However, the last development came from Israeli PM Netanyahu who noted the Israeli army has expanded its ground entry into the Gaza Strip, while later adding it will not agree to a cessation of fighting with Hamas after the October 7th attack and it will not give up fighting until Israel has won, suggesting this war will continue for some time. In separate news, Saudi Arabia may refrain from raising its flagship oil price for Asian customers for the first time in six months as refinery margins weaken across the region which undercuts demand for physical cargoes, according to Bloomberg. Elsewhere, newsflow on Monday was light with little oil-specific headlines as market participants await the week’s key risk events in the form of BoJ, FOMC, BoE, and US data via NFP and PMIs.

EQUITIES

CLOSES: SPX +1.20% at 4,166, NDX +1.09% at 14,335, DJIA +1.58% at 32,928, RUT +0.63% at 1,647.

SECTORS: Communication Services +2.06%, Financials +1.71%, Consumer Staples +1.55%, Consumer Discretionary +1.26%, Industrials +1.23%, Technology +1.19%, Materials +0.98%, Utilities +0.68%, Health +0.55%, Real Estate +0.31%, Energy +0.31%.

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.

UAW: **Stellantis (STLA)** announced a tentative labour deal was reached with the UAW, and has reportedly reached a tentative agreement with Canada's Unifor. Note, Unifor had earlier said strike action would commence at all Stellantis facilities in Canada. It was separately reported that UAW's tentative agreement with **Ford (F)** includes a USD 5,000 ratification bonus, a USD 1,500 voucher towards a vehicle purchase and all new temporary employees will be converted to in-progress employees after 9 months. Conversely, UAW initially broadened its strike against **GM (GM)** with a walkout at the Spring Hill, Tennessee plant, but later reports noted that GM reached a tentative agreement with UAW to end strikes.

STOCK SPECIFICS: **McDonald's (MCD)** Q3 earnings beat, alongside comp. sales and US comp. sales surpassing expectations. It also raised its quarterly dividend 10% to 1.67/shr. **Meta's (META)** Facebook and Instagram is to offer subscriptions for no ads in Europe; the new subscription model has been factored into the most recently announced business outlook and guidance. **ON Semiconductor (ON)** earnings surpassed expectations but the next quarter revenue guide was light. **Western Digital (WDC)** revenue beat expectations with the next quarter EPS outlook forecasting a shallower loss per share than anticipated. Also, plans to separate its HDD and Flash businesses, creating two independent public companies. **SoFi Technologies (SOFI)** Q3 earnings beat alongside raising FY23 guidance. **CommScope (COMM)** issued a negative pre-announcement for Q3; revenue and EBITDA were both short alongside cutting its FY EBITDA guidance. **Realty Income (O)** is to acquire **Spirit Realty Capital (SRC)** for roughly USD 9.3bln. **L3 Harris (LHX)** was upgraded at Raymond James citing improving fundamentals and a mean reversion in the stock.

US FX WRAP

The Dollar was lower to start the week printing a trough of 106.060, as some of the risk premium that was baked in on Friday unwound after some of the geopolitical concerns eased over the weekend amid a lack of any major regional escalation between Israel and Hamas. Aside from that, it was a slow start to the week in light newsflow as market participants await the week's key risk events, in the form of FOMC, NFP, BoJ, and earnings from the likes of Apple (AAPL).

Antipodeans were the G10 outperformers as the Kiwi rode on the back of the Aussie's gains post-data. AUD/USD and NZD/USD printed highs of 0.6383 and 0.5844, respectively, amid tailwinds from Australian retail sales for September which was revised higher to 0.9% from 0.3% which lifts the chances of a 25bps RBA next week given the stronger than expected inflation readings and an acceleration in producer prices for Q3. Looking ahead, New Zealand ANZ business outlook and own activity for October is overnight ahead of labour data from both Antipodes on Wednesday.

JPY saw gains vs. the Buck and even managed to breach 149.00 to the downside to lows of 148.81, before paring back above the round level. The Yen strength stemmed from Nikkei sources ahead of the BoJ meeting later this evening (Newsquawk preview available here). The sources noted the BoJ is reportedly set to consider a further adjustment to its YCC framework, potentially allowing 10yr JGB yields to rise above 1%, and is also likely to more flexibly conduct its JGB purchase operations.

EUR, GBP, and CAD all saw strength against the Buck to varying degrees and profited off of the weaker Buck and general risk-on sentiment, as opposed to anything currency-specific. EUR/USD traded between 1.0548-0624 following a raft of data and mixed ECB speak. On the latter, Simkus, when asked about December, reiterated that unless especially surprising data comes up, current levels of restriction is sufficient, and de Guindos noted risks to growth are tilted to the downside and policy is being transmitted forcefully. Meanwhile, on the data, both Spanish and German CPI came in cooler than expected. Cable is currently at highs of circa 1.2170, whilst USD/CAD is at lows around 1.3815, irrespective of the lower oil prices after an unwind of some of the geopolitical risk that had been baked in. For the week ahead attention will be on the EZ CPI & GDP (Tues) and BoE (Thurs), before Canadian jobs on Friday.

CHF was the relative G10 underperformer on Monday and 'only' seeing marginal gains against the Greenback. For the Swissy, the SNB stated that its intention to lower the threshold factor for the remuneration of sight deposit account holders subject to minimum reserve requirements from 28 to 25 as of December 1st has no impact on the current monetary policy stance, the preannouncement weighed on the Franc. USD/CHF only really reversed from 0.9048 to 0.9009 when the Dollar waned and EUR/CHF was bouncing from 0.9526 regardless of a better-than-forecast Swiss KOF and SNB's Schlegel saying the Bank might have raise rates again pending inflation developments in the run up to October's CPI release on Thursday.

EMFX was mixed. BRL and TRY saw losses, while the ZAR was only marginally softer flat and the COP, MXN, and RUB all firmed on the back of the flagging Dollar and buoyed sentiment. The Rand largely took conflicting SA private sector credit and M3 money supply in stride as Gold remained on either side of the psychological USD 2k/oz mark. Meanwhile, Brazilian Finance Minister Haddad, speaking on behalf of President Lula, said he was worried about a series of factors including lower tax revenue and one of the reasons is the level of interest rates. Haddad later added Lula saw, based on the numbers, that tax expenses are greatly exaggerated and revenue this year not growing as fast as expected. The Yuan was little changed vs the buck and was largely content with a meeting between Chinese Foreign Minister Wang Yi and US Secretary of State Blinken which was aimed at setting the stage for the President Xi and Biden meet-up.