# US Market Wrap

## 31st October 2023: Stocks, yields, and Dollar firm into month-end and FOMC

- **SNAPSHOT**: Equities up, Treasuries flattened, Crude down, Dollar up.
- **REAR VIEW**: Dovishly received BoJ; Mixed EZ inflation data; Hot-leaning US ECI & Consumer Confidence; Disappointing Chinese PMIs; PBoC likely to add liquidity; VFC withdraws FY guidance; SRPT's Embark study did not meet primary endpoint; Impressive PINS earnings; USD 5bln of NVDA China orders reportedly in limbo.
- **COMING UP**: **Data**: Australian Building Approvals, Chinese Caixin Manufacturing PMI, US ADP, ISM Manufacturing, Construction Spending, JOLTS **Event**: BCB Policy Announcement; FOMC Policy Announcement & Chair Powell; US Treasury Quarterly Refunding Announcement **Speaker**: SNB's Jordan **Supply**: UK & Germany **Earnings**: GSK, Next; Norwegian Cruise Line, Kraft Heinz, PayPal, Qualcomm.

## MARKET WRAP

Stocks were firmer Tuesday with a "real economy" bias amid the Russell 2k and equal-weighted S&P 500 outperforming the SPX and NDX, with all indices rising through the session into month-end after a choppy cash open. Part of that real economy outperformance is data related with a much smaller fall than expected in the October consumer confidence print, but also duration-sensitive names faced headwinds from yields climbing on the back of the rise in the Q3 Employment Cost Index. Nvidia (NVDA) also weighed hard on tech initially (before paring) on the back of WSJ reports could lose USD 5bln worth of orders from China amid the latest US restrictions. Note that yields had entered the US session moving lower across the curve after the dovishly received BoJ meeting and some promising Eurozone inflation data, before moving higher on the hot US data, and then some chunky selling was seen into the close amid month-end flows. Oil prices were lower, as initial gains faded amid the Dollar's advance and as OPEC continues to notch up its output. The Dollar's strength was largely on account of the sell-off in the Yen after the BoJ maintained NIRP, despite widening the band of its YCC, not to mention some continued haven bid unwinds with the basket of Yen, Swissy, Gold, and Oil all lower.

## US

**FOMC PREVIEW**: The FOMC is all but certain to leave rates unchanged at 5.25-5.50% on Wednesday, so focus instead will fall on the statement and Powell guidance for the December meeting; there are no new SEPs. The statement is expected to look largely similar to September's, and likely maintaining its hawkish-leaning phrase, "*In determining the extent of additional policy firming that may be appropriate...*" While at the press conference, Chair Powell will likely continue to point to tighter financial conditions (higher Treasury yields) as justifying the rate pause despite the pick up in economic growth, and also warning that a further growth pick-up - from already lofty levels - could warrant further tightening. To download the full Newsquawk preview, please click here.

**ECI**: Q3 US Employment Costs Index rose by 1.1%, accelerating from the 1.0% prior and above the 1.0% expectation. Y/Y, it rose by 4.3% vs the Q2 Y/Y of 4.5%. Wages and salaries rose by 1.2% M/M from 1.0%, with the Y/Y at 4.6% once again. Benefits rose by 0.9%, matching the prior 0.9% increase, with the Y/Y easing to 4.1% from 4.2% Q/Q. The Employment Cost Index is something that the Fed examine carefully, given the implications of wages to inflation, although some on the Fed, particularly the doves, stress that wages are backwards-looking and lag inflation, not the other way round. Nonetheless, while this does not alter expectations for near-term rate moves, it does not support declaring a peak in rates either, with the Fed widely expected to keep rates unchanged on Wednesday, but they will likely aim to keep optionality in further rate hikes.

**CONSUMER CONFIDENCE**: US Consumer Confidence came in above expectations at 102.6 (exp. 100.0, prev. 104.3), but declined for the third consecutive month. The present situation and expectations indices dipped to 143.1 (prev. 146.2) and 75.6 (prev. 76.4), respectively. Looking at jobs, hard-to get dropped to 13.1% (prev. 14.2%), while plentiful inched lower to 39.4% (prev. 39.7%). On inflation expectations, 12-month ahead for October lifted to 5.9% from 5.7%. Within the report it adds, “Write-in responses showed that consumers continued to be preoccupied with rising prices in general, and for grocery and gasoline prices in particular.” In addition, consumers also expressed concerns about the political situation and higher interest rates, while worries around war/conflicts also rose, amid the recent turmoil in the Middle East. Overall, “the decline in consumer confidence was evident across householders aged 35 and up, and not limited to any one income group.”

# FIXED INCOME

**T-NOTE (Z3) FUTURES SETTLED 1+ TICKS LOWER AT 106-05+**

**Treasuries flattened Tuesday amid a dovish BoJ reaction and mixed EZ inflation data were followed by hot-leaning US ECI and consumer confidence ahead of FOMC**. At settlement, 2s +2.8bps at 5.067%, 3s +2.6bps at 4.900%, 5s +1.6bps at 4.820%, 7s +1.4bps at 4.894%, 10s +0.7bps at 4.884%, 20s +0.2bps at 5.230%, 30s -0.1bps at 5.034%

**INFLATION BREAKEVENS**: 5yr BEI -1.8bps at 2.400%, 10yr BEI -1.8bps at 2.419%, 30yr BEI -1.2bps at 2.521%.

**THE DAY**: Treasuries entered the NY session in a bull-flattener on the back of the reduced US financing estimates, the latest BoJ meeting, and mixed European inflation data. The BoJ maintained NIRP at -0.10% and the 10yr JGB yield target at 0% but widened the reference range to 100bps up or down from the target from 50bps and made YCC more flexible, but the market clearly had positioned for a bit more with govvies bouncing and Yen weakening in reaction. T-Notes continued climbing into the European morning, where soft Italian and Eurozone inflation data was somewhat offset by less promising French figures.

T-Notes peaked at 106-21 in the NY morning before the whole curve was sold on the release of the Q3 ECI, which saw the headline index tick higher to 1.1%, with the wages component up to 1.2% from 1.0%. T-Notes found support later on at 106-04+, but any meaningful recovery attempt into the afternoon was scuppered by the much smaller fall than expected in the October US consumer confidence survey, which included an increase in the 1yr-ahead consumer inflation expectations (5.9% from 5.7%). Participants are now preparing for Wednesday's FOMC and QRA.

**STIRS**:

- SR3Z3 -1bp at 94.56, H4 -3bps at 94.625, M4 -4.5bps at 94.83, U4 -5bps at 95.09, Z4 -5bps at 95.355, H5 -4.5 bps at 95.595, M5 -3.5bps at 95.76, U5 -3bps at 95.84, Z5 -2bps at 95.86, Z6 -0.5bps at 95.785, Z7 +0.5bps at 95.63.
- SOFR flat at 5.31% as of Oct 30th, volumes fall to USD 1.470tln from 1.496tln.
- NY Fed RRP op demand at USD 1.138tln (prev. 1.138tln) across 100 counterparties (prev. 101).
- EFFR flat at 5.33% as of Oct 30th, volumes rise to USD 97bln from 94bln.
- US sold USD 75bln of 42-day CMBs at 5.295%, covered 2.81x; sold USD 49bln of 1yr bills at 5.135%, covered 2.89x.
- US leaves 4-, 8-, and 17-week bill auction sizes unchanged at USD 95bln, 85bln, and 56bln, respectively; 4- and 8-week to be sold on Nov 2nd and 17-week bills on Nov 1st; all to settle on Nov 7th.

# CRUDE

**WTI (Z3) SETTLED USD 1.29 LOWER AT 81.02/BBL; BRENT (F4) SETTLED USD 1.33 LOWER AT 85.02/BBL**

**Oil prices were lower on Tuesday, as initial gains faded amid the Dollar's advance and as OPEC output notches up**. Ranges were relatively small for most of the session, with the benchmarks taking some pause after Monday's heavy sell-off after geopolitical risk was unwound, but selling picked up into the futures settlement absent an obvious catalyst. In newsflow, Reuters' monthly survey sees OPEC output rising 180k BPD M/M to 27.90mln BPD in October, the third straight M/M increase, led by Nigeria, Angola, Iran, and Iraq. In China, a PetroChina executive said China's refined fuel demand is expected to grow at more than 10% Y/Y in Q4, albeit from a low, lockdown-affected base level. While for India, PPAC data showed the world's third largest oil importer saw imports down for a fourth consecutive month in September to their lowest level in a year. Traders now look to the weekly US energy inventory data, with the private release due later Tuesday ahead of the official EIA figures on Wednesday. Current expectations (bbls): Crude +1.3mln, Gasoline -0.8mln, Distillates -1.5mln.

# EQUITIES

**CLOSES**: SPX +0.65% at 4,193, NDX +0.52% at 14,409, DJIA +0.38% at 33,052, RUT +0.91% at 1,662.

**SECTORS**: Real Estate +2.03%, Financials +1.09%, Utilities +0.86%, Industrials +0.77%, Consumer Discretionary +0.71%, Health +0.63%, Technology +0.56%, Materials +0.45%, Consumer Staples +0.37%, Energy +0.22%, Communication Services +0.18%.

**EUROPEAN CLOSES**: DAX +0.64% at 14,810.34, FTSE 100 -0.08% at 7,321.72, CAC 40 +0.87% at 6,884.51, Euro Stoxx 50 +0.82% at 4,061.35, IBEX 35 +0.04% at 9,017.30, FTSE MIB +1.47% at 27,741.91, SMI +0.12% at 10,394.90.

**EARNINGS**: **VF Corp (VFC)** marginally missed and beat on profit and revenue, respectively, but it cut quarterly dividend 70% and withdrew its previous FY24 guidance as it has introduced Reinvent to help improve performance. **Pinterest (PINS)** beat on the top and bottom line, while MAUs and adj. EBITDA also impressing. **GE HealthCare (GEHC)** Q3 earnings surpassed expectations and lifted the lower end of FY adj. EPS view. **Arista Networks (ANET)** EPS and revenue topped with next quarter revenue guide surpassing expectations. **JetBlue Airways (JBLU)** posted a deeper loss per share than expected and missed on revenue. For Q4, adj. EPS sees a deeper loss per share than expected and revenue growth seen declining between 10.5% and 6.5%. **Caterpillar (CAT)** earnings for the quarter were strong, but backlog fell 2.6bln Q/Q and 1.9bln Y/Y and investors disappointed by next quarter guidance which would only be "slightly" higher Y/Y. In commentary, said China demand to remain well below typical sales and anticipates continued weakness in China demand. **Lattice Semiconductor (LSCC)** missed on profit while Q4 revenue guidance was light. Follows a dismal report from **ON Semiconductor (ON)** on Monday. **Eaton Corporation (ETN)** profit beat Wall St. estimates in addition to raising next quarter and FY outlook. **Leidos Holdings (LDOS)** and **Xylem (XYL)** both topped Wall St. estimates on the top and bottom line alongside lifting FY guidance.

**STOCK SPECIFICS**: **Nvidia's (NVDA)** USD 5bln of China orders are reportedly in limbo following the latest US curbs, according to WSJ. **Sarepta Therapeutics (SRPT)** said the primary endpoint was not met in the Embark study. US SEC charges **SolarWinds (SWI)** and its Chief Information Security Officer with fraud and internal control failures. **Western Digital (WDC)** announced proposed USD 1.3bln convertible notes offering. **Tesla (TSLA)** saw a US jury find no manufacturing defect in the Tesla autopilot system involved in a 2019 crash. Of note for **Zillow (Z)** and **Redfin (RDFN)**, a Missouri jury has found the National Association of Realtors (NAR) guilty of conspiracy to inflate commissions - NAR and defendants have been ordered to pay USD 1.78bln in damages.

## US FX WRAP

**The Dollar** was firmer on Tuesday, printing a high of 106.860 against an earlier low of 105.890, and saw an initial boost in the US morning on ECI topping expectations and continued to sustain that bid approaching month-end and the Fed on Wednesday. In wake of ECI, Chicago PMI disappointed expectations, but was later overshadowed by a better-than-forecast Consumer Confidence report, albeit declining from the prior month. Nonetheless, Tuesday seemingly appeared like the calm before the storm ahead of the FOMC rate decision and the following Chair Powell press conference where the attention will be on the guidance given the central bank is all but certain to leave rates unchanged at 5.25-5.50%. However, watch for any rate differential FX pressure before then on Wednesday amid the latest Quarterly Refunding Announcement from the US Treasury. Otherwise, attention then moves to Friday's NFP and Fed Speak with Barr and Kashkari scheduled.

**JPY** was the clear G10 laggard in wake of the BoJ meeting, after the hawkish Nikkei sources set the Yen up for steep fall as the BoJ stuck to dovish guidance. As such, the Yen depreciation continued and gathered momentum amidst more long liquidation in reaction to the BoJ maintaining ultra-accommodation and guidance for additional easing if required, while only tweaking its YCT to formally set the 10yr JGB ceiling at 1%. USD/JPY eventually topped out at 151.71 having been on the cusp of 149.00 pre-BoJ, as attention turns to any Japanese jawboning Wednesday. In terms of levels, desks note attention resides on the Oct' 2022 highs of 151.95 ahead of the key round level with barriers then all the way up to 153.00.

**CAD, NZD, and AUD** all saw similar losses with the Aussie marginally underperforming its peers amid headwinds from the Yuan due to disappointing Chinese PMI data. The Kiwi couldn't sustain its momentum from strong ANZ data and fell victim to the broad risk-off sentiment and the Dollar bid. As such, AUD/USD and NZD/USD hit lows of 0.6315 and 0.5804, respectively, reversing from initial peaks of 0.6377 and 0.5857. Looking ahead, traders await a slew of job data from the Antipodes Wednesday.

**CAD** was weighed on by poor GDP data, a decline in oil prices, as well as the aforementioned Dollar strength. On the former, Canadian GDP was unchanged for August, beneath the expected 0.1%, suggesting economic activity in Q3 was stagnant for the second consecutive quarter, but Oxford Economics see downside risk to this estimate and believes the economy likely shrank modestly in Q3. Due to this, the consultancy anticipates an even deeper drop in Q4 GDP as the full impact of higher interest rates causes consumers to pull back and the prolonged housing downturn to deepen. USD/CAD printed a YTD peak of 1.3892, and spookily the highest level seen for exactly 365 days.

**GBP, EUR, and CHF** saw losses to varying degrees against the Greenback, with the Pound 'outperforming' and the Swissy seeing more pronounced weakness and failing to glean any lasting traction from the better-than-expected retail sales. Swissy weakness may in part be due to haven/Israel hedge weakness with Gold, Yen, and Oil all lower. The single-currency was initially boosted by a breach of 160.00 in EUR/JPY as EUR/USD reclaimed 1.0600+ status, but amid the broad Buck bid it could not sustain this momentum to print lows of 1.0557. On the data docket, EZ inflation and GDP fell short of expectations while there was a slew of Fed speak from the likes if Visco, Muller, Stournaras, Kazaks, Nagel, and de Guindos. Cable traded between 1.2120-2200 in light currency-specific newsflow as traders await the upcoming BoE decision on Thursday.

**EMFX** was mixed. BRL, MXN, CLP, and ZAR all saw gains while the TRY, RUB, and Yuan were weaker as the latter was weighed on by the aforementioned PMIs. In addition, China's interbank overnight repo rate jumped to as high as 50% on Tuesday, where Bloomberg reported later that the PBoC is likely to add liquidity, with reports suggesting the money market pressure should abate on Wednesday. ZAR firmed, receiving some good news from state power Co. Eskom, who said the recent improvement in generation plant performance gives them assurance that they are on the right track to meet the future energy availability target. Finally, in LatAm FX, the Colombia Central Bank held rates unchanged at 13.25%, as expected, with the decision backed by a majority of board members.