US Market Wrap

1st November 2023: Stocks and bonds ramp on dovish data, quarterly refunding and Powell

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW**: Fed leave rates unchanged, as expected, but Powell leans dovish; ADP & ISM manufacturing miss estimates; Quarterly refunding sees smaller pace of increases; AMD earnings beat with Q4 guidance slightly short but investors concentrate on upbeat AI GPU revenue guide; Dismal PAYC report
- **COMING UP**: **Data**: Australian Trade Balance, US IJC, Factory Orders **Events**: BoE & Norges Bank Policy Announcements **Speakers**: BoE's Pill; ECB's Lane & Schnabel **Supply**: Japan, Spain & France **Earnings**: Fresenius', Hugo Boss, ING, Lufthansa; BT, Sainsbury's, Shell; Apple, Kraft Heinz

MARKET WRAP

Stocks and bonds rose into the Fed with ADP and Manufacturing ISM missing expectations while the Treasury announced a smaller pace of increases at the quarterly refunding announcement than the prior, with the dovish data and lower yield reaction to refunding buoying stocks ahead of the Fed. The rate decision was largely as expected, leaving rates unchanged and only making minor tweaks to the statement. Powell's press conference saw the Fed Chair pour some cold water on the September dot plot and acknowledge the Fed is close to the end of the cycle, noting they are proceeding carefully which helped stocks and bonds advance even further. However, there was a brief knock after he stressed the Fed is not confident that monetary policy is sufficiently restrictive, something he mentioned several times. Elsewhere, crude prices saw two-way price action with the upside seen in Europe paring throughout the US session to settle in the red. FX was choppy but the dollar was ultimately flat in the wake of the aforementioned data, Fed decision and press conference while the Antipodeans and the Yen were the G10 outperformers. Attention turns to the BoE (preview below) and Apple (AAPL) earnings on Thursday, US NFP and the resumption of Fed speak on Friday. Note, despite the dovish reaction in stocks, bonds, and the Dollar money markets are now pricing in the first Fed rate cut by September, vs July pre-Fed with a 38% probability of another Fed hike seen by March.

CENTRAL BANKS

FOMC STATEMENT ANALYSIS: The Fed left rates unchanged at 5.25-5.50%, in line with expectations and market pricing while there were only slight changes to the FOMC statement. It maintained its line "In determining the extent of additional policy firming that may be appropriate..."; there were some dovish tail risks that the line could be removed. It slightly upgraded its description of growth, noting economic activity has been expanding at a "strong" pace in Q3 vs the "solid" pace description in the September FOMC. It also noted that job gains have "moderated since earlier in the year" (prev. "slowed in recent months"), but maintained job growth remains strong and the unemployment rate was low. It also added a line to acknowledge the recent run-up in Treasury yields, saying that tighter financial and credit conditions are likely to weigh on economic activity, hiring and inflation. Whereas the September statement only acknowledged the tighter credit conditions.

POWELL PRESSER: Fed Chair Powell's prepared remarks were largely a copy/paste of comments from his September FOMC presser alongside some comments from his Economic Club of New York appearance, noting policy is restrictive and that the Fed is committed to achieving a sufficiently restrictive stance; repeated that full effects of tightening are yet to be felt. His description of economic conditions had ramped up slightly, similar to the statement, saying growth had expanded at a strong pace, well above expectations, echoing his Eco Club of NY comments that the Fed is attentive to recent data showing the resilience of economic data and demand for labour, which could put further pressure on inflation and could warrant further interest rate hikes. He reiterated that inflation remains well above goal, saying that a few months of good inflation data is only the beginning of what it will take to get inflation back to 2%. He repeated that labour markets remain tight and nominal wage growth has shown some signs of easing. He repeated also that financial conditions have tightened significantly, saying the Fed will monitor them closely given their impact.

POWELL Q&A: The Q&A section initially got off on a hawkish tone with Powell warning that the Fed is not confident that policy is sufficiently restrictive, nor that financial conditions are restrictive enough. Powell also said the idea that it would be difficult to raise rates again after pausing is not right. On the other hand, on higher Treasury yields, he echoed his Eco Club of NY remarks that they do not appear to be reflective of higher Fed policy rate expectations, which if they were, would have to be material. Powell unsurprisingly was unwilling to give much away for December, saying the Fed has not made any decisions on future meetings. And what was perceived as particularly dovish was his comments that the Dot Plot (which forecasts one more hike in 2023) is a "picture in time", saying the efficacy of the Dot Plot decays during the inter-meeting period. Powell said the Fed had come very far with this rate-hike cycle and it is close to the end of the cycle, reaffirming that the Fed is proceeding carefully. He touted the uncertainty around lags, saying that slowing down is giving the Fed a better sense of how much more it needs to do and if it even needs to do more. On the balance sheet, said the Fed is not considering changing the pace of the run off, whilst also noting QT may be playing a relatively small role in the rise in longer-term rates; said reserves are not even close to scarce at this point. On cuts, said the Fed is not thinking about rate cuts right now at all, with the bank focused on if the Fed is sufficiently restrictive. Said the Fed is asking currently whether they need to hike more and the next question will be on how long to keep policy restrictive.

BOE PREVIEW: The MPC is expected to keep rates on hold via a 6-3 vote split as Cunliffe is replaced by Breeden while the accompanying MPR forecasts will be analysed to judge the extent to which policy will need to remain restrictive. 61 /73 economists surveyed by Reuters expect the MPC to stand pat on rates, with markets assigning a circa 96% chance to such an outcome. Expectations for no change follow suit from the MPC's decision in September to pause its rate hiking campaign via a 5-4 vote (dissent came from Cunliffe, Greene, Haskel and Mann). Since the last meeting, economic developments have not swung hawkishly enough to warrant consensus on the MPC moving back in favour of a rate hike. Accompanying MPR projections will be used to see how long policy will likely need to remain restrictive. To download the full Newsquawk preview, please click here.

US

ISM MANUFACTURING: ISM manufacturing fell to 46.7 (prev. 49), well beneath the expected 49. Looking at the internals, new orders and production fell to 45.5 (prev. 49.2) and 50.4 (prev. 52.5), respectively, while employment declined back into contractionary territory at 46.8 from 51.2. Prices rose to 45.1 from 43.8, and inventories and backlog of new orders dropped to 43.3 (prev. 45.8) and 42.2 (prev. 42.4), respectively. As a qualitative summary, Oxford Economics noted that only the production component was in expansion territory, albeit it did slow from the prior month, while demand weakened at a faster rate on top of new orders falling at the fastest rate since May as the backlog of orders continued to diminish. Following the return to expansionary territory for employment in September, the move was not sustainable with the employment index contracting in October. Finally, the consultancy highlights that the prices index ticked up modestly but still signalled decreased raw materials prices and augurs for further goods disinflation. Looking ahead, Oxford Economics notes that as the economy slows in coming quarters, it expects the manufacturing sector to remain in contractionary territory. OxEco makes the point that "While the tentative conclusion of the UAW strike removes a short-term risk to output, we believe the sector faces structural issues that will continue to limit the upside potential."

ADP NATIONAL EMPLOYMENT: ADP national employment in October rose 113k from 89k, but was short of the consensus (150k). Meanwhile, the median change in annual pay saw job-stayers and job-changers rise 5.7% (prev. 5.9%) and 8.4% (prev. 9.0%), respectively. Indicating slower wage growth for October. However, and as always, this comes ahead of the monthly jobs report on Friday, but it is not unfair to say it does not give the most accurate representation of the official BLS report.

JOLTS: US JOLTS job openings in September rose to 9.553mln from a downwardly revised 9.497mln (initially 9.610 mln), above expectations of 9.25mln but within the analyst forecast range of 8.97-9.76mln. The rise points to the stubborn tightness of the labour market. The quits rate was unchanged at 2.3% for the third consecutive month. Analysts at Oxford Economics note the quits rate is a good leading indicator of wage pressures, suggesting wage growth will continue to moderate, but most measures of wage growth show only a gradual cooling. Over the month, job openings increased in accommodation and food services (+141,000) and in arts, entertainment, and recreation (+39,000). Job openings decreased in other services (-124,000), federal government (-43,000), and information (-41,000). Friday's October NFP report will be used as a more timely gauge of the labour market's condition.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 22 TICKS HIGHER AT 106-27+

Treasuries bull-steepened after a dovish Powell presser added to the rally after soft-leaning ADP and ISM Mfg. alongside a slowing pace of Tsy auction size increases. 2s -12.7bps at 4.944%, 3s -13.5bps at 4.765%, 5s -14.9bps at 4.669%, 7s -13.9bps at 4.749%, 10s -11.4bps at 4.761%, 20s -9.0bps at 5.129%, 30s -7.5bps at 4.950%.

INFLATION BREAKEVENS: 5yr BEI -1.3bps at 2.376%, 10yr BEI -0.1bps at 2.414%, 30yr BEI -0.1bps at 2.522%.

THE DAY: After a late sell-off on Tuesday into month-end, Treasuries had been gently recovering through the Wednesday APAC and European morning sessions. T-Notes had marked a low of 105-27+ at the Tokyo handover before recovering in quiet trade to peaks of 106-04 at the NY handover. A beneath forecast US ADP report kicked off a push to new highs, shortly accentuated by the reduced pace of increase in the Treasury's quarterly refunding announcement, seeing strong bull-flattening flow. T-Notes peaked at 106-27+ later in the NY morning on the back of the fall in the US ISM Mfg. survey, despite the pick-up in JOLTS job openings, with contracts hovering near highs into the FOMC.

T-Notes spiked to highs of 106-29+ on the release of the FOMC statement and unchanged rates decision before swiftly paring to little changed. But, as Powell's Q&A got going, with the Fed Chair saying the September Dot Plot has lost relevance (which forecasted one more hike), contracts settled at highs, continuing to rise in post-settlement trade.

QRA: In its Quarterly Refunding Announcement, the US Treasury announced increased auction sizes for all tenors apart from the 20yr, while the total size of auction increases was slightly less than the increase seen at the last refunding announcement, where analysts were split on whether the Treasury would maintain the same pace or reduce the increases. For next week, the US Treasury is to sell USD 48bln of 3yr notes (USD 2bln increase vs prior and the same increase as Aug refunding) on Nov 7th, USD 40bln of 10yr notes (USD 2bln increase vs prior and smaller than the USD 3bln increase at Aug refunding) on Nov 8th, and USD 24bln of 30yr bonds (USD 1bln increase vs prior and smaller than the USD 2bln increase at Aug refunding) on Nov 9th. The Treasury said it anticipates that one additional quarter of increases to coupon auction sizes will likely be needed beyond the increases announced Wednesday.

STIRS:

- SR3Z3 +3.5bps at 94.595, H4 +7.5bps at 94.70, M4 +12.5bps at 94.95, U4 +15.5bps at 95.24, Z4 +17.5bps at 95.53, H5 +18bps at 95.775, M5 +18bps at 95.94, U5 +17bps at 96.01, Z5 +15.5bps at 96.015, Z6 +13.5bps at 95.92, Z7 +12.5bps at 95.755.
- SOFR spiked to 5.35% as of Oct 31st from 5.31% on USD 1.582tln of volumes (prev. 1.470tln) amid month-end flows.
- NY Fed RRP op demand at USD 1.079tln (prev. 1.138tln) across 97 counterparties (prev. 100).
- EFFR flat at 5.33% as of Oct 31st, volumes fall to USD 86bln from 97bln.
- US sold USD 56bln of 17-week bills at 5.340%, covered 2.89x.

CRUDE

WTI (Z3) SETTLED USD 0.58 LOWER AT 80.44/BBL; BRENT (F4) SETTLED USD 0.39 LOWER AT 84.63/BBL

The crude complex saw two-way price action on Wednesday as it saw strong gains through the European morning before paring in the US session and settling at lows after the, as expected, FOMC rate decision. On the day, WTI and Brent were fairly contained in the European with fresh catalysts limited, although the complex did see some upside in wake of Iran's Supreme Leader Khamenei noting Muslim countries should stop exporting oil and food to Israel. Nonetheless, WTI and Brent gradually fell from highs of USD 83.42/bbl and 87.24/bbl, respectively, in the NY session on light crude-specific newsflow as there appears to no major escalation in the Israel/Hamas war, as of yet. In the weekly EIA data, Crude saw a slightly smaller build than expected, while gasoline saw a marginal surprise build, and distillates drew less than forecasted. Refining utilisation fell 0.2% against the expected +0.3%, with weekly crude production unchanged at 13.2mln. Looking ahead, attention turns to any Fed speakers out of blackout on Friday and the US jobs report.

EQUITIES

CLOSES: SPX +1.05% at 4,237, NDX +1.77% at 14,664, DJIA +0.67% at 33,274, RUT +0.45% at 1,669.

SECTORS: Technology +2.08%, Communication Services +1.84%, Consumer Discretionary +1.44%, Utilities +1.11%, Financials +0.63%, Real Estate +0.51%, Industrials +0.33%, Health +0.19%, Materials +0.1%, Consumer Staples -0.06%, Energy -0.33%.

EUROPEAN CLOSES: DAX +0.76% at 14,923.27, FTSE 100 +0.28% at 7,342.43, CAC 40 +0.65% at 6,930.43, Euro Stoxx 50 +0.73% at 4,090.85, IBEX 35 +0.64% at 9,075.00, FTSE MIB +0.88% at 27,985.44.

STOCK SPECIFICS: **AMD (AMD)** Q3 earnings beat, but next the quarter revenue guide was slightly disappointing. In Q4, expects additional softening of demand in embedded markets, but does expect to see strong growth in its data-centre with data-centre GPU revenue to be approx. 400mln in Q4 and exceed USD 2bln in 2024 as revenue ramps throughout the year. Following earnings, AMD's price target was lowered at a range of brokerages, including but not limited to, Citi, UBS, Barclays, and JPMorgan. **Paycom Software (PAYC)** EPS and revenue missed alongside slashing FY and next quarter outlook. **Match Group (MTCH)** Q3 earnings beat but Q4 revenue guide was light amid cautious commentary. **Estee Lauder (EL)** revenue marginally missed, but it slashed Q2 and FY24 outlook to reflect incremental external headwinds. **Caesars Entertainment (CZR)** surpassed expectations on the top and bottom line. **DuPont (DD)** bottom-line beat while top line fell short in addition to cutting FY revenue outlook. **Trane Technologies (TT)** Q3 earnings topped and raised FY profit view noting bookings are at an all-time high. **Garmin (GRMN)** EPS and revenue beat, while FY guidance was strong. **Silicon Labs (SLAB)** posted a modest earnings beat but the next quarter's guidance was woeful. **IDEXX Laboratories (IDXX)** top line missed and cut FY guide. **Yum China Holdings (YUMC)** missed on EPS and revenue, with comp sales and margins from KFC and Pizza Hut both short. **Norwegian Cruise Line Holdings (NCLH)** earnings were solid, but it cut guidance citing a temporary slowdown in close-in bookings for sailings in Hawaii following the wildfires. **Kraft Heinz (KHC)** posted a mixed report; EPS beat and raised FY view but revenue missed. **Generac Holdings (GNRC)** Q3 earnings impressed. **CVS Healthcare (CVS)** medical benefit costs came in 1% higher than estimates, despite beating both expected for EPS and revenue. **WeWork (WE)** plans to file for bankruptcy as early as next week, according to WSJ. **Comcast (CMCSA)** is reportedly exercising its put option on Hulu today and **Disney (DIS)** to pay ~USD 8.5bln next month, according to CNBC's Faber.

US FX WRAP

The Dollar was choppy on Wednesday heading into the FOMC and the following Chair Presser Powell, but eventually settled flat, but at lows, as a broad dovish reaction was seen after Powell. The Greenback saw little move in the wake of the rate decision, where the Bank left rates unchanged, as expected, at 5.25-5.50% and repeated it is prepared to adjust policy stance as appropriate if risks emerge to achieving its goals. However, in Powell's presser the Buck was initially choppy as while it initially saw strength it later pared amid a broad dovish market reaction. Prior to the Fed, the Buck saw weakness after a soft ISM Manufacturing report, but coincided with strong JOLTS metrics. Note, ADP came in short of expectations ahead of the BLS payrolls report on Friday, but as we know the relationship isn't exactly a close one… so far.

Antipodeans saw gains with the Aussie the clear G10 outperformer and benefitting from the pullback in the Buck, as opposed to anything too currency specific. While the Kiwi eventually saw gains, it was initially weighed by weaker-than-forecast NZ jobs and labour cost metrics. AUD/USD and NZD/USD traded between 0.6319-99 and 0.5790-5858, respectively, and currently sit on the peaks ahead of the APAC session.

CHF saw some marginal strength after commentary from SNB's Jordan, who said he does not rule out additional rate hikes, adding inflation in Switzerland is likely to pick up in the coming months due to rent and energy prices, stressing if inflationary pressures do increase, the SNB would not hesitate to tighten again. However, he did note the cumulative impact of tightening is not known. Swiss CPI is due on Thursday where the M/M is expected to rise 0.1% (prev. -0.1%) with the Y/Y unchanged at 1.7%.

GBP and **EUR** were both marginally lower vs. the Buck, but well-off worst levels in the wake of the aforementioned Dollar weakness seen through Powell's presser. Regarding the day, the Final UK Manufacturing PMI data for October missed expectations, falling to 44.8 from 45.2, despite expectations for an unchanged print but market participants will be awaiting the BoE on Thursday (preview here). In short, the MPC is expected to keep rates on hold via a 6-3 vote split and the accompanying MPR forecasts will be analysed to judge the extent to which policy will need to remain restrictive. For the single-currency, Reuters sources noted the ECB debated renumeration of government cash deposits at its latest meeting and put off making a decision amid fears a cut in maximum interest rate paid on deposits could backfire. Chief Economist Lane is speaking on monetary policy tightening in the EZ on Thursday, which will be the highlight for the Euro.

JPY saw gains on Wednesday, and once again benefitted from the Dollar weakness to hit lows of circa 150.65. Despite this, with USD/JPY recently hitting a high this week of 151.77, Japanese Finance Minister Suzuki gave no comment regarding the weaker Yen while top currency diplomat Kanda is concerned about one-sided and sharp FX moves, and noted speculative moves seem to be playing the biggest factor and he will not rule out any measures to respond to disorderly FX moves. Kanda added the situation is becoming more tense, but also gave no comment when asked about possible FX steps, including intervention.

EMFX was almost exclusively firmer, and without sounding like a broken record, on the frequently mentioned Dollar retracement, with TRY and CLP, flat, the relative laggards. Prior to the Fed, ZAR saw strength after the mid-term budget statement, which noted it is to propose tax measures to raise additional revenue of ZAR 15bln in 2024/25 and is to raise USD 2.4bln in 2023/24 via concessional funding from international financial institutions. GDP forecasts were lowered for 2023-2025; sees GDP at 0.8% in 2023, 1.0% in 2024 and 1.6% in 2025. BRL industrial output was mixed, Y/Y rose 0.6% (exp. 0.7%), while M/M beat at +0.1% (exp. -0.1%), which of course comes ahead of the BCB on Wednesday evening where all 46 Reuters analysts see the bank cutting the Selic interest rate 50bps, for the third consecutive meeting, to 12.25%. Lastly, for the Yuan, Final China Caixin Manufacturing PMI saw its first contraction in 3 months, falling to 49.5 from 50.6, despite expectations for a move higher to 50.8.