US Market Wrap

2nd November 2023: Post-Fed Stock rally continues, aided by dovish US data and BoE on hold

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Jobless Claims rise; Q3 Unit Labor Costs fall, Productivity rises; Layoffs decline; BoE leave rates unchanged in 6-3 vote; Norges bank unchanged, tweaks guidance; Netanyahu considering approving US request for temporary truce, but only for a few hours; Wagner Group may provide air defense system to Hezbollah; QCOM & PYPL jump post-earnings; TGT CEO says shoppers are pulling back this year.
- **COMING UP**: **Data**: Chinese Caixin Services PMI, German Trade Balance, EZ Unemployment, US NFP & ISM Services, Canadian Employment. **Speakers**: Fed's Barr & Kashkari. **Earnings**: BMW, Intesa Sanpaolo, Maersk; QSR.

MARKET WRAP

Stocks saw strong gains on Thursday with participants calling Powell's hawkish bluff, instead assuming the Fed is now done with hikes, seeing lower Treasury yields that provided tailwinds for stocks, while earnings reports since Wednesday's close have been received bullishly on the whole. The SPX and NDX saw relative underperformance vs the small-cap Russell 2k and equal-weight S&P (RSP) indices; VIX has now declined for fifth consecutive session. Treasuries saw strong flattening as the post-FOMC duration bid held through the session, aided by rising jobless claims and softening Q3 Unit Labor Costs, while the front end was later hit with steepeners taking profit. Note that 30yr mortgage rates saw their first decline in two months. While the curve flattening into the NY afternoon came despite Bill Gross saying today that a 2s10s steepener is the best trade to be in, and was perhaps aided by BoE Governor Bailey, after keeping rates unchanged, talking up the need for higher rates for longer after a strong rally in the front end going into the BoE meeting. The Dollar was broadly sold, particularly against high-beta currencies (namely the Dollar bloc), while havens Yen and Swissy only saw a mild bid; Sterling was middle of the pack amid the BoE shenanigans; USD/JPY holding above 150. In commodities, oil prices rallied with mixed US economic data offset by a weaker Dollar and a flare-up of conflict on Israel's northern border with Hezbollah. Gold prices were just marginally firmer despite the weaker Dollar and lower yield environment, whilst Silver saw losses.

US

NFP PREVIEW: Headline NFP is expected to rise by 180k, easing from the prior 336k, with analyst forecasts ranging between 125-285k. The unemployment rate is seen maintaining a 3.8% pace, while M/M wages are expected to accelerate to 0.3% from 0.2%, with the Y/Y rate seen easing to 4.0% from 4.2%. With the market largely pricing in that the Fed is done with rate hikes, attention will shift further out the curve to help determine how long it needs to keep rates at a restrictive level for, while the Fed will be using it to help determine if rates are sufficiently restrictive or not. Although the market is largely pricing rates are already at peaks, Powell on Wednesday did keep the door open to more hikes if needed. Nonetheless, with the next SEPs due at the December meeting, this data will also help shape expectations for those. However, as always, this data release will only tell part of the story in terms of helping to gauging future Fed expectations, with plenty of other data due before now and the December FOMC. To download the full Newsquawk preview, please click here.

PRODUCTIVITY/UNIT LABOR COSTS: Q3 prelim productivity surged 4.7% from 3.6%, above the expected 4.1% and on the upper bound of the forecast range. Unit labor costs surprisingly declined -0.8% (exp. +0.7%) from the prior, revised higher, 3.2% (initially 2.2%). Pantheon Macroeconomics note that while the rise in the former is welcome, it is unlikely to be sustainable, as the number is based on nonfarm output, which soared at a 5.9% rate, while hours worked lifted at a modest 1.1% rate. Q3 nonfarm business sector labor lifted 2.2% Y/Y, with Pantheon Macroeconomics noting it was above even their relatively optimistic view that the medium-term trend is 1.5-to-2%. Labor Compensation rose at a 3.9% rate, which Pantheon quips is in line with the wage numbers from the Q3 ECI, “so unit labor costs fell outright Q/Q, pushing the Y/Y rate down to just 1.9%”. Overall, the consultancy notes Y/Y exceeded expectations, but it is still a large improvement on the 5.7% leap in the year to Q3 last year. Overall, the Q/Q pace in Q3 is not sustainable, but Pantheon adds “if productivity growth can remain at its estimate of the trend pace then the downshift in wage growth now underway will keep unit labor costs growth at a pace consistent with the 2% inflation target”.

JOBLESS CLAIMS: Initial jobless claims rose to a 7wk-high of 217k from 212k, and above the expected 210k, while continued claims rose above expectations to 1.818mln (exp. 1.8mln, prev. 1.783mln), the highest level in 6 months. The 217k initial claim print in the latest week took the 4wk average up to 210k from 208k. Note, that the seasonal factors had expected a 1.484k decline. On continued claims, Oxford Economics note, “the upturn suggests that, while the labor market may be characterized by few job losses, unemployed individuals are finding it more difficult to find new jobs, which would be consistent with a slower pace of hiring”.

CHALLENGER LAYOFFS: The Challenger reported layoffs eased further in October, at just 37k, down from the 48k seen in September, and showing further evidence that any labour market slowdown is not being met with widespread layoffs, similar to what is being seen in the jobless claims data. Andy Challenger says, “Job cut plans have slowed significantly since the first half of the year, and consumers have continued to spend, even in the face of high inflation. Pandemic savings and higher wages have gotten many workers through economic uncertainty". The job cuts in October were led by Tech, Financials and Insurance, while on holiday hires, companies have announced plans to hire 760k workers, which is down 46% from the 1.4mln hired over the same period last year. The report notes that while it will continue to add seasonal hiring announcements from companies, as of now, it is the lowest year for seasonal hiring announcements since 2013, when employers announced 518k seasonal hiring plans. By this point in 2022, Challenger had tracked 590k seasonal hiring plans, and in 2021, the firm tracked 939k.

CENTRAL BANKS

BOE REVIEW: As expected, the MPC opted to stand pat on rates once again after doing so at the last meeting. The decision was subject to dissent from Mann, Greene and Haskel, whilst newly-appointed Breeden replaced Cunliffe's hawkish dissent with an unchanged vote. The decision to stand pat on rates was based on the judgement that since the last meeting, GDP had weakened, the labour market continued to loosen and CPI is expected to decline "significantly" in the coming months. Furthermore, the accompanying MPR noted that "more than half of the impact of higher interest rates on the level of GDP is still to come through". The statement reiterated that "policy will need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target", whilst keeping open the option of further tightening if needed. When it comes to policy easing, Governor Bailey judges that it is "much too early to think about rate cuts". The forecasts embedded within the MPR saw 2023 inflation lowered to 4.75% from 5.0% and 2024 upgraded to 3.25% from 2.5%, with inflation not expected to fall below the 2% target until Q4 2025 (vs. prev. view of Q2 2025). From a growth perspective, GDP is now expected to be completely flat next year. At the follow-up press conference, Bailey didn't add too much to the debate surrounding the BoE with the Governor suggesting that now is not the time for complacency when it comes to inflation. However, he did also make the point that policy should not be kept excessively tight for too long. Overall, the MPC is very much in wait-and-see mode to gauge if current tightening efforts are actually sufficient. Although the MPC has kept the door open for further tightening, the market continues to judge that the next move from the Bank will be to lower rates, with the first 25bps reduction in the Bank rate seen in September next year.

NORGES BANK REVIEW: As expected, kept the Key Policy rate at 4.25% and reiterated guidance towards a hike “likely” occurring in December. However, this guidance was subject to a significant but prudent addition given the recent cooler-than-expected inflation reading and the multiple prints due between now and that December meeting which will feature updated projections. The tweak has seen the committee add that if they “become more assured that underlying inflation is on the decline, the policy rate may be kept on hold”. An addition which clearly gives rate setters ample policy space going into the December meeting and makes the inflation readings due before that gathering on November 10th and December 11th crucial. Elsewhere, the statement acknowledged that economic activity has been a little lower than projected though it is worth caveating we have only received a handful of data points since that last meeting. While on the NOK, the committee notes that its depreciation could contribute to sustaining inflation. Finally, the statement makes clear that irrespective of the December decision “there will likely be a need to maintain a tight monetary policy stance for some time ahead.”

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLE 20 TICKS HIGHER AT 107-15+

Treasuries see strong flattening as post-FOMC duration bid holds while steepeners take profit. 2s +1.8bps at 4.989%, 3s -0.5bps at 4.788%, 5s -5.5bps at 4.648%, 7s -9.1bps at 4.690%, 10s -12.2bps at 4.669%, 20s -15.0bps at 5.005%, 30s -15.7bps at 4.817%.

INFLATION BREAKEVENS: 5yr BEI -1.8bps at 2.357%, 10yr BEI -1.6bps at 2.402%, 30yr BEI -2.3bps at 2.507%.

THE DAY: After rallying post-FOMC into the Thursday session, Treasuries hovered near their highs into APAC trade. The long end was strongest with the front end more anchored. T-Notes did drifted slightly lower to hit a trough of 107-02+ at the London handover before recovering back to earlier 107-13+ highs at the NY handover.

New highs were made after the BoE left rates unchanged, and T-Notes went on to print session peaks of 107-28 later in the NY morning, accentuated by the slight rise in US jobless claims, with particular focus on the lofty continuous claims, while Q3 Unit Labor Costs also showed a surprise fall.

But the front end soon led a pullback lower into the afternoon, gaining momentum after hot US factory orders (and the implied increase in GDP estimates) but also as BoE Governor Bailey affirmed the need for rates to stay higher for longer. Traders note likely steepener unwinds too, ironically occurring at the same time as Bill Gross posted on X that the best strategy is a 2s10s steepener, saying the spread should go positive over the next six months. Traders are now positioning for Friday's jobs report and next week's Treasury supply with a resumption of Fed waffle: Kashkari is scheduled for Friday.

NEXT WEEK'S AUCTION: US to sell USD 48bln of 3yr notes on Nov 7th, USD 40bln of 10yr notes on Nov 8th, and USD 24bln of 30yr bonds on Nov 9th.

STIRS:

- SR3Z3 +0.5bps at 94.585, H4 flat at 94.68, M4 +1bps at 94.93, U4 flat at 95.21, Z4 -1.5bps at 95.48, H5 -3bps at 95.715, M5 -3bps at 95.88, U5 -1bps at 95.97, Z5 +0.5bps at 95.995, Z6 +8.5bps at 95.975, Z7 +11.5bps at 95.84.
- SOFR falls to 5.32% on Nov 1st from 5.35%, volumes rise to USD 1.621tln from 1.582tln.
- NY Fed RRP op demand at USD 1.055tln (prev. 1.079tln) across 98 counterparties (prev. 97).
- EFFR flat at 5.33% as of Nov 1st, volumes rise to USD 92bln from 86bln.
- US leaves 6-, 13-, and 26-week bill auction sizes unchanged at USD 75bln, 75bln, and 68bln, respectively; 13- and 26-week sold on Nov 6th and 6-week sold on Nov 7th; all to settle on Nov 9th.
- US sold USD 96bln of 4-week bills at 5.290%, covered 2.91x; sold USD 86bln of 8-week bills at 5.300%, covered 2.70x.

CRUDE

WTI (Z3) SETTLES USD 2.02 HIGHER AT 82.46/BBL; BRENT (F4) SETTLES USD 2.22 HIGHER AT 86.65/BBL

Oil prices rallied on Thursday with mixed US economic data offset by a weaker Dollar and a flare-up of conflict in Israel. Oil futures were initially bid entering the NY handover, although some profit-taking in the US morning saw WTI and Brent hit troughs of USD 80.22/bbl and 84.64/bbl, respectively, with rising jobless claims the only item of note to explain the downside from a fundamentals perspective at the time, and perplexing when noting the Dollar was hitting its weakest levels of the session then too. But, better buying surfaced later in the NY morning, with the upside becoming more pronounced after the WSJ reported the US has intelligence that Russia's Wagner Group may provide an air defence system to Hezbollah. That was followed by reports of Hezbollah conducting a slew of simultaneous attacks in Israel, which IDF responded to with raids. WTI and Brent hit peaks of USD 82.83/bbl and 87.05/bbl, respectively, in pre-settlement trade.

EQUITIES

CLOSES: SPX +1.89% at 4,318, NDX +1.74% at 14,920, DJI +1.7% at 33,839, RUT +2.67% at 1,714.

SECTORS: Energy +3.11%, Real Estate +3.09%, Financials +2.4%, Consumer Discretionary +2.4%, Industrials +2.05%, Materials +1.93%, Utilities +1.89%, Technology +1.71%, Health +1.57%, Consumer Staples +1.26%, Communication Services +0.91%.

EUROPEAN CLOSES: DAX +1.48% at 15,143.60, FTSE 100 +1.42% at 7,446.53, CAC 40 +1.85% at 7,060.56, Euro Stoxx 50 +1.92% at 4,170.35, IBEX 35 +2.04% at 9,260.40, FTSE MIB +1.77% at 28,479.39, SMI +0.86% at 10,594.40.

EARNINGS: **Qualcomm (QCOM)** EPS and revenue beat, alongside next quarter guidance surpassing expectations. **Starbucks (SBUX)** Q3 earnings beat with comp. store sales and North American performance impressing. **SolarEdge Technologies (SEDG)** Q3 earnings fell way short of expectations alongside slashing Q4 revenue guidance and noting that results reflected a slow market environment, which has resulted in a high inventory of products. **DoorDash (DASH)**

reported a shallower loss per share and beat on revenue. Q4 gross order value view surpassed expected. **Moderna (MRNA)** reported a much deeper-than-expected earnings loss as it said it includes a USD 3.1bln charge for resizing and tax allowances. **Eli Lilly and Co (LLY)** had a surprise profit per share while revenue also topped. It also cut its FY adj. EPS view but noted the lowered profit forecast is driven by the acquired IPR&D charges incurred in Q3. **Marriott International (MAR)** next quarter profit view was short of consensus. Note, EPS was in line while revenue marginally beat. **PayPal (PYPL)** EPS, revenue, and total payment volume all beat. Next quarter EPS view was slightly light, but the FY was better-than-expected. **Albemarle (ALB)** EPS, revenue, and adj. EBITDA all fell short of expectations, alongside cutting the FY guidance. **DENTSPLY SIRONA (XRAY)** revenue and gross margins missed with organic net sales surprisingly declining. XRAY also cut its FY adj. EPS and revenue guide. **Roku's (ROKU)** top line beat and forecasted a surprise positive EBITDA for Q4 which is helping US media names such as **Warner Bros Discovery (WBD)**, **Paramount (PARA)**, and **Disney (DIS)**. **Shopify (SHOP)** smashed profit expectations while revenue also topped expectations. Quarterly GMV was +22% Y/Y. Sees FY23 revenue up at mid-20s % rate on a Y/Y basis. **Airbnb (ABNB)** top and bottom line surpassed Wall St. consensus, but Q4 revenue guide was slightly soft. **Palantir (PLTR)** Q3 earnings marginally beat while revenue guidance was also strong.

STOCK SPECIFICS: **Uber (UBER)** confirms it has settled with New York's AG and the settlement 'helps put to rest the classification issue' in the state; will pay USD 290mln in payout. **Lyft (LYFT)** denied wrongdoing in connection with its settlement re. drivers with New York's AG; believes it has always properly classified drivers as independent contractors. Lyft will pay USD 38mln in payout. **Target (TGT)** CEO said shoppers are pulling back this year; Over the last few quarters, even in food and beverage categories, the units they are buying have been declining. Taken a much more conservative approach in planning inventory this year. **JPMorgan (JPM)** CFO said the bank is overearning on NII and probably a little bit on credit; 17% ROTCE target is there for a reason. **Amazon (AMZN)** is to unveil a buy now, pay later option from **Affirm (AFRM)** for owners of small businesses, via CNBC. Mid-sized regional banks saw notable upside after Bill Gross said the regional banking falling knife has hit the bottom, and is buying **Truist (TFC)**, **Citizens (CFG)**, **KeyCorp (KEY)** and **First Horizon (FHN)**. **Ford (F), Stellantis (STLA), and General Motors (GM)** agreed to pay striking workers for their time out striking; expected to pay about USD 100/day for workers on walkouts, according to WSJ. Culinary Union's Pappageorge said that last week the union had another round of negotiations with **MGM (MGM), Caesars (CZR), and Wynn (WYNN)**, where some progress was made and some agreements in place, but are still millions of Dollars apart. **Constellation Brands (STZ)** announced its capital allocation priorities are unchanged alongside announcing a USD 2bln share repurchase programme. It also noted that its Wine & Spirits business now expects medium-term 1-3% net sales growth and 25-26% operating margins. Beer business unit expects to see over the medium-term about 7-9% net sales growth and about 39-40% operating margins.

US FX WRAP

The Dollar was the G10 laggard on Thursday with the DXY hitting lows of 105.80 in wake of US data which saw jobless claims rise to 217k from 212k previously, while unit labour costs saw a notable 0.8% decline, despite expectations for a 0.7% upside. Productivity data soared however, although analysts are framing it as unsustainable. Meanwhile, the Challenger Layoffs data was hot, with the number of layoffs easing ahead of the NFP on Friday. After the lows were hit, the Dollar rebounded to see DXY reclaim 106 heading into APAC trade as yields pared from lows.

The Euro saw gains vs the Dollar to highs of 1.0667 from lows of 1.0568 but heads into APAC trade c. 1.0620 as the Dollar moved off its lows, trading back beneath the 50dma at 1.0638. There were several ECB speakers on Thursday, Knot noted that restrictive policy will be needed for some time, adding that current policy is "good altitude cruising". ECB's Lane said a benign momentum dynamic has reversed in the last few months and we have a new energy shock. De Cos said it is too early to speak about cutting rates, and that high uncertainty means decisions must be data-dependent. Elsewhere, the German unemployment rate rose to 5.8% from 5.7%, in line with expectations, with the unemployment change increasing to 30k from 10k, above the 15k expectation.

HAVENS: The Yen firmed vs the Dollar but not to the same extent as its peers with both the Yen and Swissy being relative laggards aside from the buck given the continued upside in equities seen. Aside from the risk environment, for the Yen, sources via Reuters suggested the BoJ will probably wait until at least Spring 2024 before normalising policy, and that it makes sense to keep guidance dovish. The sources also noted BoJ Governor Ueda will stick to a pattern established, to move gradually towards an exit while maintaining the dovish rhetoric of his predecessor. The next focus will be on ending NIRP and pushing short-term rates to 0 from the current -0.1%, the sources said, repeating a timing for a move is likely around Spring when there will be clarity on annual wage negotiations. The sources, who are familiar with the BoJ's thinking, said the most likely scenario of an exit would be to end YCC and negative rates but give a loose pledge to intervene if bond yields rise abruptly, noting that the cost of a spike in market rates is seen as too high. In Switzerland, the Swiss CPI was in line with expectations at 0.1%, accelerating from the prior -0.1% with the Y/Y maintaining a 1.7% price increase, in line with expectations. However, consumer confidence fell further into negative territory for Q4. Note, XAU also saw gains vs the buck, but it was only marginal despite the softer Dollar and lower yields.

Cyclical currencies all performed well vs the Dollar. The Antipodes and CAD were the outperformers with NZD taking the top spot on the enjoyed risk appetite but outperforming the Aussie after the September trade balance saw a narrower surplus than forecast. CAD also saw solid gains on the risk appetite, weaker Dollar, and upside in oil prices. GBP saw gains vs the Dollar but was flat vs the Euro in wake of the BoE rate decision and press conference. The BoE opted to keep rates unchanged at 5.25% in a 6-3 vote, in line with expectations, offsetting some dovish tail risks of a more dovish vote split (Newsquawk BoE review available here.

Scandis were weaker vs the Euro but stronger vs the Dollar with SEK outperforming NOK. The NOK initially weakened on the decision but swiftly pared to pre-announcement levels where the Norges Bank maintained guidance towards a hike likely occurring in December, however, it added a line that if they become more assured that underlying inflation is on the decline, the policy rate may be kept on hold.

EMFX was mixed vs the Dollar but most LatAm currencies saw gains in a continued reaction to Wednesday's dovish response to the FOMC with MXN seeing notable gains once again on Thursday. COP also saw solid gains as it tracked the upside in oil prices, while CLP was benefited by upside in copper prices and economic growth being unchanged, well above the -0.8% forecast. BRL however was flat vs the weaker Dollar after the BCB cut rates by 50bps as expected to 12.25% and maintained guidance that the committee unanimously expect further reductions of the same magnitude at the same meeting. Elsewhere, CZK saw gains after the CNB left rates unchanged, in line with expectations but some had been forecasting a 25bp cut.