US Market Wrap

3rd November 2023: Yields and Dollar tumble to soft US jobs report, sending Stocks higher

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Soft US jobs report; ISM Services slowed more than forecast; Hezbollah leader doesn't plan on conducting a large-scale attack now; Subdued AAPL top-line growth forecast; Weak FTNT guidance.
- **WEEK AHEAD**: Highlights include China trade and inflation, RBA, BoC minutes, Banxico, Norway CPI, UK GDP. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Reviewing FOMC, BoJ, BoE, Norges Bank, BCB; Previewing RBA, BoC minutes, Banxico. To download the report, please click here.

MARKET WRAP

Stocks rallied on Friday after the below-forecast US jobs report pointed to a slowing US economy, reducing Fed tightening expectations. There was particular outperformance in the Russell 2k small-cap index (in excess of 3% at the highs) vs the SPX and NDX, which had the additional weight of poor reception to Apple (AAPL) earnings, on top of the lower pricing of Fed rates providing relief to the many small-cap companies looking for cheaper financing. Treasuries saw big bull-steepening, with unwinding in "higher for longer" pricing, where the first fully priced rate cut has now shifted forward to nearly May from July beforehand, with Dec hike pricing implied probability falling to 5% from near 20%. The Dollar saw massive selling, with the DXY down over a per cent, with USD/JPY printing lows of c. 149.20 from pre-data highs of 150.52. Despite the Dollar weakness, oil futures were sold into the weekend on the soft US jobs data and after Hezbollah's leader said the group doesn't plan on conducting a large-scale attack now, despite warnings for the future.

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JOBS REPORT: The US jobs report was soft, highlighted by the headline rising 150k (prev. 297k) shy of the expected 180k, while the unemployment rate ticked higher to 3.9% (prev. & exp. 3.8%), with wages 0.2% M/M (prev. & exp. 0.3%) and 4.1% Y/Y (prev. 4.3%, exp. 4.0%). In addition, labour force participation and average workweek hours both ticked lower to 62.7% (prev. 62.8%) and 34.3hrs (prev. 34.4hrs), respectively. Regarding the jobs breakdown, manufacturing employment fell 35k, which was impacted by the auto strike action and associated knock-on effects with suppliers, and all the strength was again concentrated in government (+51k) and education and health (+89k). ING notes the labour market numbers are always the last thing to turn in an economic cycle so the softening in employment and wage growth accompanied by the rise in the unemployment rate makes it all the more likely that the Fed will not hike interest rates again. As a result, it should give the Fed a bit more confidence that inflation can continue its softening trend, especially in the wake of the big falls seen in gasoline prices.

FED: **Barkin (2024 voter)**, speaking on CNBC, said the labour market is in a better balance and he welcomed the lessening pressure in the jobs data. He noted he will not prejudge the Fed's next move and has more data to see before next rate decision; expects markets to reflect incoming economic data and likes to think markets are responding to data. The Richmond Fed President said he is not sure if 25bps is the answer to all of the world's problem, and speaking on rates noted cuts are still a ways off in his mind and does not know if the Fed has reached the peak of the hike cycle. **Kashkari (2023 voter)**, at an Eco Club of Minnesota event, said there is a lot of uncertainty around what is driving the yield curve, saying "let's not bet" on any one explanation, as may get it wrong (comes amid some of his colleagues pinning higher yields on higher term premia). The Minneapolis President noted the labour market is slowing and that is helpful, but does not want to overreact to one report, and also highlighted his data-dependency noting the Fed has to keep watching the data. **Bostic (2024 voter)**, speaing on Bloomberg TV, on the jobs report, when asked, said it didn't vindicate his view that the Fed does not have to hike rates again, but he is pleased with the jobs number, which he says is consistent with the outlook. Like his colleagues, the Atlanta Fed President highlighted his data-dependent approach and the need to be patient, but said it is likely Fed policy is in the right place given the economic outlook. Bostic said that prior rate hikes are still working their way through the economy, and down the road, the Fed can consider rate cuts (in October he said he sees a rate cut in late 2024).

ISM SERVICES: ISM Services fell to 51.8 from 53.6, and beneath the expected 53.0. Business activity and employment dropped to 54.1 from 58.8 and 50.2 from 53.4, respectively, while new orders jumped to 55.5 from 51.8 and prices paid moved marginally lower to 58.6 from 58.9. Supplier deliveries and inventories both fell into contractionary territory, but backlog rose back above 50. Qualitatively, the services sector continues to slow, with decreases in the Business Activity and Employment indices, while the Chair of the Institute for Supply Management Nieves said, “sentiment among Business Survey Committee respondents’ comments is mixed, with some optimistic about the current steady and stable business conditions and others concerned about such economic factors as inflation, interest rates and geopolitical events. Employment-related challenges are also prevalent, with comments about increasing labor costs, as well as shortages.” Looking ahead, Oxford Economics expects modest additional retrenchment as the impact of slower income growth is paired with weaker consumption growth, while tighter lending and credit standards and higher-for-longer interest rates weigh on spending, hiring, and investment.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 28 TICKS HIGHER AT 108-11+

Treasuries saw massive bull-steepening after the soft US jobs report eased inflationary concerns and unwinds "higher for longer" pricing. 2s -13.4bps at 4.841%, 3s -13.5bps at 4.638%, 5s -13.6bps at 4.500%, 7s -11.9bps at 4.561%, 10s -9.7bps at 4.572%, 20s -6.0bps at 4.946%, 30s -5.4bps at 4.767%.

INFLATION BREAKEVENS: 5yr BEI -0.3bps at 2.341%, 10yr BEI +0.2bps at 2.392%, 30yr BEI +0.3bps at 2.497%.

THE DAY: It was choppy and rangebound trade in light volumes for Treasuries ahead of the October payrolls report and a busy day of Fed Speak post-blackout, not to mention ISM Services. T-Notes hit lows of 107-12+ at the Tokyo handover and hit highs at the NY handover of 107-24 ahead of payrolls, with the belly strongest on the curve.

T-Notes spiked from 107-22+ to 108-04 as the softer-than-expected payrolls figures were released. The rally extended to session peaks of 108-25 later in the NY morning, before the long-end led a bit of a pullback into the NY afternoon despite the soft ISM Services figures with traders cognizant of next week's ramped coupon supply auctions and associated Dealer preparation. Note that the front end remained much more supported, steepening the curve.

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.

FED PRICING: The implied probability of a Fed hike in December has fallen to 5% from near 20% pre-NFP. The first fully priced rate cut has shifted forward to June from July, with May also nearly fully priced in now.

STIRS:

- SR3Z3 +4bps at 94.625, H4 +8.5bps at 94.77, M4 +12.5bps at 95.06, U4 +17bps at 95.39, Z4 +18.5bps at 95.68, H5 +19.5bps at 95.93, M5 +19bps at 96.09, U5 +18bps at 96.165, Z5 +16.5bps at 96.18, Z6 +14bps at 96.125, Z7 +12bps at 95.965.
- SOFR rises to 5.33% as of Nov 2nd from 5.32%, volumes rise to USD 1.640tln from 1.621tln; note volumes are approaching near records.
- NY Fed RRP op demand at USD 1.071tln (prev. 1.055tln) across 99 counterparties (prev. 98).
- EFFR flat at 5.33% as of Nov 2nd, volumes rise to USD 99bln from 92bln.

CRUDE

WTI (Z3) SETTLED USD 1.95 LOWER AT 80.51/BBL; BRENT (F4) SETTLED USD 1.96 LOWER AT 84.89/BBL

Oil futures were sold into the weekend on soft US jobs data and after Hezbollah's leader said the group doesn't plan on conducting a large-scale attack now, despite warnings for the future. WTI and Brent hit their session peaks of USD 83.60/bbl and 87.80/bbl, respectively, in a kneejerk reaction to the soft NFP as the Dollar tumbled, but prices soon reversed lower. The selling picked up after Hezbollah Secretary General Nasrallah, in a first public speech since the attacks, praised Hamas' attacks on Israel whilst also vowing to increase military pressure on Israel in the coming days but, crucially, does not plan on a larger scale attack currently. That was enough for any weekend hedges to unwind. The selling extended into the NY afternoon with WTI and Brent troughing at USD 80.10/bbl and 84.56/bbl, respectively, ahead of settlement with both futures having lost over USD 5/bbl on the week.

Elsewhere Friday, Russia announced it expects its crude oil and petroleum exports to be down by more than 300k BPD in November vs the avg. May-June level as it continues to participate fully in voluntary OPEC+ cuts, although the inclusion of products makes the target easier to reach given the country's fuel exports bans. Kazakhstan Energy Minister announced 2024 oil output is seen at 90mln tons (vs current 2023 forecast of 89mln T from September), whilst also talking up the potential to materially ramp its supply to China if new infrastructure is built. And in the US, the Baker Hughes weekly rig count saw Oil -8 at 496 and Nat Gas +1 at 188, with with oil rigs now at their lowest since January 2022.

EQUITIES

CLOSES: SPX +0.94% at 4,358, NDX +1.21% at 15,099, DJI +0.66% at 34,061, RUT +2.71% at 1,760.

SECTORS: Real Estate +2.35%, Materials +1.55%, Communication Services +1.39%, Financials +1.32%, Consumer Discretionary +1.21%, Technology +1.12%, Industrials +0.82%, Utilities +0.6%, Health +0.51%, Consumer Staples +0.09%, Energy -1.01%.

EUROPEAN CLOSES: DAX +0.30% at 15,189.25, FTSE 100 -0.39% at 7,417.73, CAC 40 -0.16% at 7,049.67, Euro Stoxx 50 +0.16% at 4,176.45, IBEX 35 +0.36% at 9,293.90, FTSE MIB +0.69% at 28,674.83, SMI -0.08% at 10,583.60.

STOCK SPECIFICS: **Apple (AAPL)** EPS beat while revenue was in line, with China's Q4 performance pulled down by weak Mac and iPad sales. In commentary, it sees fiscal Q1 sales for both iPad and wearables segments to decelerate significantly from the September quarter with the top line growth forecast also light. **Fortinet (FTNT)** earnings were mixed, but guidance was woeful as it cut FY and next quarter revenue guidance. **Block (SQ)** Q3 earnings topped expectations, and it raised FY guidance. **Bill (BILL)** next quarter revenue guide was light and lowered FY24 adj. EPS outlook. Note, EPS and revenue beat. **Expedia Group (EXPE)** EPS and revenue surpassed expectations alongside announcing a USD 5bln buyback programme. **Live Nation Entertainment (LYV)** top and bottom line topped Wall. St consensus and an exec said it was on pace for a record 2023, driven by the acceleration of structural growth in the live entertainment industry. **Paramount Global (PARA)** EPS and revenue impressed with Paramount+ adding more subscribers than expected. **DraftKings (DKNG)** posted a shallower loss per share than expected and beat on revenue. Raised 2023 revenue and adj. EBITDA guidance mid-point. **Micron (MU)** President met with the Chinese Commerce Minister on November 1st; China said it will continue to optimise the investment environment for foreign companies. Welcomes Micron to deepen its footprint in the Chinese market. **Gartner (IT)** posted a strong earnings report, highlighted by a beat on EPS and revenue in addition to raising FY outlook. **Insulet (PODD)** Q3 earnings beat and lifted FY revenue growth view.

WEEKLY FX WRAP

ISM inflicts more pain on the Greenback post-payrolls and Powell

USD - Friday's US macro releases hit the Dollar and DXY hard, as NFP missed consensus and came with a negative net two month revision on top of an unexpected rise in the unemployment rate. The index retreated further below 106.00 from 106.22 at best before succumbing to another bout of downside pressure when the services ISM slowed more than forecast irrespective of a marked acceleration in new orders. On the flip-side, new business activity and employment lost momentum, with the latter on the brink of 50.0 to provide more evidence of a looser labour market following an even bigger retreat in the manufacturing ISM jobs component (from growth into contraction). The DXY slumped to 104.93 for a 200+ tick reversal from its 107.11 weekly peak set on Wednesday that was arguably the real watershed session for the Buck. To recap, the Greenback carried a month end bid with impetus from an uptick in the ECI and a degree of relief that consumer consumer confidence held up better than anticipated awaiting the FOMC, and overcame weaker than expected ADP national employment along with the aforementioned sub-par manufacturing ISM survey along the way. However, Fed Chair Powell prompted the Dollar's demise as bears pounced on one particular line in the post-meeting press conference that appeared to 'confirm' no further tightening. As a reminder, he said the dot plot is a picture in time of appropriate policy in light of policymakers personal views and its efficacy decays during the inter-meeting period. This was perceived as a pushback against the final 25 bp hike this year, and for the cycle, even though Powell was also at pains to say that the FOMC remains unsure whether policy is restrictive enough at present. He also noted the lag between raising rates and full impact plus the implications of higher long term yields in context of tighter financial conditions, though bonds have bull-flattened sharply with the 10 year Treasury yield around 40 bp lower and eyeing 4.50%. In sum, the market thinks the Fed is done and fundamentals are largely backing that view, bar a surprise increase in JOLTS job openings (for September and after the prior was downgraded it has to be said).

CAD - The Loonie lagged in wake of a disappointing Canadian LFS that should set the seal on no change in policy from the BoC next week, but Usd/Cad remained on track for a hefty fall from almost 1.3900 towards 1.3650. This highlights the extent of the Buck's collapse, although Canada's manufacturing PMI was less contractionary and BoC Governor Macklem underscored concerns about getting inflation back down to target given the amount of Federal and Provincial Government spending.

NZD/GBP/AUD - Notwithstanding or taking ongoing geopolitical risk for granted, the cyclical currencies and commodity bloc were boosted by a revival in broad risk sentiment as the debt rout bottomed out and reversed course. Moreover, the Kiwi benefited from a change in the Aud/Nzd tide as the Aussie felt some contagion from a clean sweep of worrying Chinese PMIs and a narrower than forecast Australian trade deficit due to a fall in exports. Nevertheless, a strong upward revision to final retail sales coupled with hot CPI metrics are still expected to see the RBA return to hiking next Tuesday after four meetings in pause mode and Aud/Usd still rallied in the region of two full points to top 0.6500, while Nzd/Usd touched 0.6000 from just under 0.5800 regardless of an unforeseen decline in HLFS employment and softer than consensus labour costs. Elsewhere, the Pound took more than its weight of flesh from its US peer as Cable gained some 300 pips from a fraction shy of 1.2100 at one stage with a bit of incentive from the BoE that held rates for the second time in a row via a split decision, albeit 6-3 rather than 5-4 on this occasion, but retained guidance that the MPC will ensure the Bank rate is sufficiently restrictive, for sufficiently long as risks to inflation projections are still skewed to the upside.

EUR/CHF/JPY - The Euro, Franc and Yen all racked up big gains vs the Dollar, with Eur/Usd up from the low 1.5000 zone to almost 1.0750, Usd/Chf down to 0.8966 from 0.9100+ and Usd/Jpy beneath 149.50 compared to a post-BoJ pinnacle near 151.75. The Euro managed to shrug aside mixed data, including mostly soft prelim inflation and PMIs, and some contrasting ECB rhetoric ranging from rates have probably peaked, through there may be more hikes needed to hints of easing at the very dovish end of the spectrum. Meanwhile, Swiss CPI was bang in line, but retail sales, consumer confidence, the manufacturing PMI and KOF index all contradictory, while SNB's Jordan does not rule out additional rate hikes and wef December 1st the Bank will lower the threshold factor for the remuneration of sight deposits of account holders subject to minimum reserve requirements from 28 to 25. However, the change has no impact on the current monetary policy stance according to the SNB. Back to Japan, and the main event was the BoJ policy meeting hyped up by sources suggesting a YCC tweak, but culminating in only the formalisation of the flexible 1% upper limit for the 10 year JGB yield as a hard ceiling.

SCANDI/EM - It seemed set to be another torrid week for the Sek as Swedish GDP stalled instead of growing marginally and the manufacturing PMI slipped deeper beneath 50.0, but it ended fairly well as the services sector was less contractionary and the Riksbank continued to hedge reserves. Conversely, the Nok suffered as oil prices tumbled and the Norges Bank attached a clear caveat to a likely hike in December by saying if the Committee becomes more assured that underlying inflation is on the decline, the policy rate may be kept on hold. In contrast, the Brl was braced for the latest 50 BCB Selic rate cut, the Czk somewhat relieved that the CNB stood pat as some were anticipating a 25 bp cut, the Myr priced for no move by the BNM and the Zar did not spend long dwelling on SA's MTBPS even though it presented a challenging outlook for the economy. To wrap things up, the RBI was cushioned by the RBI, the Cny and Cnh by progressive dialogue between China and the US in face of weak Chinese PMIs, but the Try was not very impressed with benign Turkish CPI and PPI data as CBRT survey forecasts rose again and President Erdogan pinned the nation's flag to Palestine's mast and denounced Israel as a war criminal.