US Market Wrap

6th November 2023: Bonds pare most of NFP upside while stocks chop

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: SLOOS sees lending conditions tightening and demand weakening; Cook notes expectations of near-term policy rates do not appear to be driving the climb in long-term rates; Saudi and Russia confirming extended production cuts; Venezuela looks to boost output; TSLA to build EUR 25k car in Germany; LCID cuts prices of electric sedans; Heavy corporate supply.
- **COMING UP**: **Data**: Chinese Trade Balance, EZ, German, French & Italian Construction PMI, US International Trade, IBD/TIPP, Manheim Index **Events**: RBA Policy Announcement, NY Fed Q3 Household Debt & Credit Report; King's Speech **Speakers**: ECB's de Guindos; Fed's Schmid, Williams, Logan, Barr & Waller **Supply**: Japan & UK **Earnings**: Capgemini, CNH Industrial, Daimler Truck, Persimmon, Watches of Switzerland, UBS, eBay, Occidental Petroleum Corp, Datadog.
- **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 were choppy on Monday with the Nasdaq outperforming while the Russell tumbled. Treasuries sold off throughout the session to see the majority of Friday's upside reversed on a slew of corporate issuers ahead of supply this week. The Dollar eventually saw mild gains as it benefitted from the yield upside which saw USD/JPY rise above 150, albeit marginally, ahead of the Asia arrival with attention to wage data overnight. Oil prices settled in the green after Saudi and Russia confirmed extended production cuts but settled off the highs as the buck moved from lows. in addition, there were also reports in Reuters that Venezuela's PDVSA is in discussions with local/foreign oilfield firms to take steps to revive depressed output following the easing of US sanctions. From the Fed, the latest SLOOS revealed that lending conditions tightened and demand had softened, as was suggested by Bostic on Friday, while Fed's Cook noted that expectations of near-term policy rates do not appear to be driving the climb in long term rates, adding she hopes current settings are restrictive enough for inflation to return to target.

FED

COOK (voter) said expectations of near-term policy rates do not appear to be driving the climb in long-term rates, while ahead of the SLOOS the Governor said banking sectors remain "sound and resilient overall" and acute stresses have abated. Cook added the vulnerabilities among non-banks could amplify the stress of tightened financial conditions and slowing economy, and she is "closely watching" non-banks with large liquidity mismatches, including certain money market funds, as well as leveraged basis trades among hedge funds. Cook further noted the Fed cannot anticipate all risks, but can build resilience to shocks, and is particularly important to enhance the resilience of large banks. In later comments, she noted the Fed is determined to reach the 2% inflation target and hopes that current policy settings are restrictive enough to return inflation to target. Americans may be pessimistic because they are not just looking for slower inflation but for prices to return to where they were before the pandemic, and as such the Fed is trying to balance two-sided risks in hopes of a soft landing.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 24+ TICKS LOWER AT 107-19

Treasuries were sold on Monday as the heavy supply calendar begins to pare last week's rally. At settlement, 2s +10.3bps at 4.935%, 3s +10.4bps at 4.731%, 5s +11.2bps at 4.600%, 7s +10.7bps at 4.654%, 10s +9.8bps at 4.656%, 20s +7.7bps at 5.005%, 30s +7.1bps at 4.823%.

INFLATION BREAKEVENS: 5yr BEI +2.3bps at 2.371%, 10yr BEI +2.1bps at 2.418%, 30yr BEI +2.3bps at 2.525%.

THE DAY: Treasuries entered the NY session already consolidating after Friday's post-NFP rally in a lack of fresh catalysts, with the front-end trading heaviest at first, flattening the curve. Citi's rates desk noted good buying in P-strips during the London morning, helping to flatten the curve, as well as seeing "some real$ flattening interest in 2s5s curve." T-Notes had traded in a very tight 108-02/108-07+ range before stateside trade got underway, a ways off the Friday peak of 108-25.

Better duration selling developed into the NY morning with a slew of corporate IG debt issuers entering the Dollar market after their earnings issuance blackout, weighing on Treasuries via rate lock hedging. Amplifying the moves were considerations of this week's (slightly less) ramped Treasury auctions with question marks remaining over the marginal buyer. T-Notes troughed at 107-18, closing the NFP gap, and hovering near lows into the afternoon with a feeble recovery attempt. The lows were seen in wake of the quarterly Fed SLOOS, despite overall it being as expected with lending conditions tightening and demand weakening. There was some chunky SOFR block sales too, helping pushback Fed rate cut pricing with the first rate cut still fully priced by June, but with 28bps of cuts priced in vs 36bps before the SLOOS.

THIS 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 94.615, H4 -4.0bps at 94.735, M4 -8.5bps at 94.980, U4 -11.5bps at 95.275, Z4 -13.0bps at 95.555, H5 -14.0bps at 95.795, M5 -14.0bps at 95.960, U5 -13.5bps at 96.045, Z5 -12.5bps at 96.070, Z6 -11.5 bps at 96.025, Z7 -10.0bps at 95.875.
- SOFR falls to 5.32% as of Nov 3rd from 5.33%, volumes fall to USD 1.579tln from 1.579tln.
- NY Fed RRP op demand at USD 1.063tln (prev. 1.071tln) across 101 counterparties (prev. 99).
- EFFR flat at 5.33% as of Nov 3rd, volumes rise to USD 102bln from 99bln.
- US sold USD 81bln of 3-month bills at 5.285%, covered 2.91x; sold USD 74bln of 6-month bills at 5.260%, covered 2.92x.

CRUDE

WTI (Z3) SETTLED USD 0.31 HIGHER AT USD 80.82/BBL; BRENT (F4) SETTLED USD 0.29 HIGHER AT 85.18/BBL

Oil prices rallied on Monday with Saudi and Russia confirming extended production cuts. WTI and Brent futures rallied to peaks of USD 82.24/bbl and 86.46/bbl, respectively. Saudi Arabia and Russia both confirmed on Sunday that their additional voluntary output cuts would continue until the end of the year, as had been largely expected. At the same time, note Reuters reported Monday that China's oil refinery utilisation rates, which are rough proxies for Chinese oil demand, are easing from their record levels amid thinning margins and a lack of export quotas being issued, discouraging plants from raising output for the rest of the year. However, heading into settlement WTI and Brent saw weakness to settle around lows, as the Dollar rose to highs in wake of the SLOOS report and slight risk-off trade. Elsewhere, Saudi Arabia maintained its December OSPs for its key Arab Light grade to Asia and the US but made a large cut to NW Europe. In Venezuela, Reuters reports state oil Co. PDVSA is in discussions with local/foreign oilfield firms to take steps to revive depressed output following the easing of US sanctions. And in Libya, the NOC announced Monday that crude oil production reached 1.218mln BPD, vs 1.2mln BPD reported a few weeks ago, amid its intentions to ramp up to 1.3mln BPD by year-end.

EQUITIES

CLOSES: SPX +0.18% at 4,365, NDX +0.37% at 15,154, DJIA +0.10% at 34,095, RUT -1.29% at 1,737.

SECTORS: Technology +0.78%, Health +0.66%, Consumer Discretionary +0.18%, Consumer Staples +0.17%, Communication Services +0.16%, Industrials -0.26%, Utilities -0.28%, Financials -0.39%, Materials -0.51%, Energy -1.19%, Real Estate -1.41%.

EUROPEAN CLOSES: DAX -0.35% at 15,135.97, FTSE 100 0.00% at 7,417.76, CAC 40 -0.46% at 7,015.20, Euro Stoxx 50 -0.36% at 4,159.45, IBEX 35 -0.56% at 9,241.50, FTSE MIB -0.29% at 28,592.60, SMI -0.09% at 10,569.90.

STOCK SPECIFICS: **Tesla (TSLA)** will construct a EUR 25k EV in Germany. **Lucid Group (LCID)** has reduced the prices of its luxury electric sedans temporarily to boost sales in the face of stiff competition and slowing demand for EVs. **Constellation Energy (CEG)** profit beat expectations and it lifted FY guidance. **Bumble (BMBL)** CEO Whitney Wolfe

Herd stepped down. Citi (C) is reportedly considering deep job cuts for CEO Fraser's corporate overhaul, according to CNBC; have discussed job cuts of at least 10% in several major businesses. **Dish (DISH)** posted a surprise loss per share and missed on revenue and retail wireless subscribers, with the latter falling 6.4% Y/Y. Pay-TV subscribers was in line but declined 12% Y/Y. In other news, Erik Carlson intends to resign as President and CEO effective Nov. 12th. **Starbucks (SBUX)** will raise the hourly pay for its US retail workers by at least 3% from January 1st 2024. **Hilton Grand Vacations (HGV)** is to buy **Bluegreen Vacations Holdings (BVH)** for USD 75/shr in an all-cash deal with a total enterprise value of roughly USD 1.5bln. In earnings, EPS beat while revenue was marginally short and lowered FY23 EBITDA view. **Albemarle (ALB)** was downgraded at UBS as it sees a future risk to lithium volume growth, which could affect Albemarle earnings. **Paramount Global (PARA)** was downgraded at Bank of America; warned that Paramount is less valuable if it isn't considering selling off some of its assets. Note, the downgrade comes after the stock rose 27% last Thursday and Friday, boosted by a strong Q3 report. **PepsiCo (PEP)** CFO Hugh Johnston is to leave the co. to become a new senior executive VP and CFO at **Disney (DIS)**. **Cigna (CI)** is exploring the sale of its Medicare Advantage business, according to Reuters sources. **Dell (DELL)** total server shipments are expected to return to significant growth of about 15% Y/Y in 2024 thanks to strong AI server demand, well above industry average of 3-5% Y/Y, according to TF Intl. Sec. analyst Ming Chi Kuo.

US FX WRAP

The Dollar saw slight gains on Monday, albeit in a choppy session, after the sharp downside seen on Friday. The DXY traded either side of 105 during the session with the downside limited by the rise in UST yields. There was little data released on Monday aside from the US employment trends for October, which fell marginally to 114.16 from 114.66. Meanwhile, the Buck saw highs after the latest SLOOS was released despite showing that overall lending conditions have tightened, as expected and as hinted at by Bostic and Cook beforehand.

The Euro was flat on Monday with EUR/USD trading between 1.0718 to 1.0756. The single currency saw little reaction to the Final EU PMI data for October being left unrevised for the Services and Composite although the German Services PMI saw a revision higher while the initial Spanish and Italian PMI's were mixed. Meanwhile, ECB's Holzmann said he definitely belongs to the camp that thinks the ECB should be very careful and should stand ready to hike again if needed, but given he is a known hawk on the ECB it is perhaps not too surprising.

The Yen weakened vs the Dollar as US yields moved up from the lows seen on Friday with eyes turning to Japanese wage data tonight, albeit looking ahead, Japan's largest industrial union, UA Zensen, announced it will be looking for a 6% increase to total wages for 2024 at the negotiations in the Spring. Note, USD/JPY still sits marginally beneath 150 heading into APAC trade.

Cyclical currencies were generally softer on Monday, paring some of the gains on Friday while the afternoon sell-off in equities saw the risk-sensitive currencies grind lower, but failed to benefit from the bounce into the closing bell with the Dollar at highs heading into the close. GBP saw a high of 1.2428, just shy of the 200dma at 1.2436 which saw Cable reverse lower throughout the session. Eyes turn to September and Q3 GDP data on Friday. The Aussie saw a high of 0.6522 in the European morning, matching the 1st Sept high. Note, China President Xi stated that stable ties between China and Australia served each other's interests and both should expand their cooperation, a welcome sign for relations between the two. Nonetheless, the Aussie pared from highs throughout the session to lows heading into APAC trade ahead of the RBA rate decision. A similar price action was seen in NZD. CAD also weakened vs the Buck with USD/CAD advancing higher throughout the US session supported by oil falling off highs, but it still settled firmer. Meanwhile, the latest BoC survey saw the median of Canadian market participants expect the BoC to begin cutting rates in April 2024, albeit the survey was conducted from September 20-28th.

The onshore Yuan saw gains overnight but the Offshore Yuan was flat vs the buck heading into Tuesday's trade with eyes turning to China trade data tonight.

In EMFX, BRL saw gains supported by iron ore prices while COP saw marginal gains vs the buck but local markets were closed for a public holiday. CLP saw notable weakness despite gains in copper prices while MXN saw some weakness, with both paring from the gains seen Friday post-NFP. Elsewhere, the ZAR was weaker alongside gold prices while Fitch Ratings noted the fiscal outlook in South Africa is clouded by wage costs and believes the risk that the government fails to meet fiscal targets is significant with wage cost control to be particularly challenging. Note, KRW saw notable gains vs the Dollar with the South Korean stock market surging after it announced a ban on short selling for all listed stocks through to June 2024.

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