US Market Wrap

7th November 2023: Stocks mixed with Dollar and Bonds bid amid weak global data

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar up.
- **REAR VIEW**: Hawkish Fed Speak; Weak Chinese activity data; Soft German IP metrics; RBA hike 25bps, as expected, with dovish guidance tweak; Well received US 3yr auction; UBER report underwhelms; DDOG earnings beat & raise guidance.
- **COMING UP**: **Data**: New Zealand Inflation Forecasts, German CPI (Final), French Trade Balance, Italian Retail Sales **Events**: NBP Policy Announcement; Norges Bank FSR, ECB Consumer Expectations Survey, BoC Minutes, BoJ SOO **Speakers**: Fed's Cook, Powell, Williams, Barr & Jefferson; BoE's Bailey; ECB's Lane & Makhlouf **Supply**: UK, Germany & US **Earnings**: Adidas, Airbus, Bayer, Telecom Italia, Ralph Lauren, Disney, Warner Bros Discovery.

MARKET WRAP

Stocks were mixed on Tuesday with the tech-heavy NDX leading the gains, aided by the lower yield environment, while the real economy-levered Russell 2k index felt the brunt of weakening global economic data. The Dollar was firmer with activity currencies pressured on weak China trade data, with the nation's surplus coming in beneath expectations, soft German IP figures, and weakening EU Construction PMIs, and a greater US trade deficit than expected. There was a slew of Fed Speak, and fairly hawkish comments in aggregate, although Fed pricing is little changed with still under 10% hike risk priced for December. Treasuries bull-flattened on the session amid the weaker global economic data and particularly after the decent 3yr auction ahead of the 10yr and 30yr offerings later this week. Oil prices tumbled through the session, now at levels beneath where they were pre-Hamas attacks in early October.

FED

Bowman (voter, hawk) said she continues to expect the Fed will need to increase the FFR further and the Fed rate currently appears restrictive, while financial conditions have tightened since September. The hawk added monetary policy is not on a preset course and remains willing to support raising policy rate at a future meeting.

Logan (2023 voter, hawk) said inflation remains too high and the core question is if financial conditions today are sufficiently restrictive, noting all of the Fed has been surprised with the resiliency of the US economy. Logan added if long rates are climbing on the back of strong economic growth, the FOMC would have to deliver on those expectations, and if the climb in long rates is driven by term premia, that could do some of Fed's work.

Kashkari (2023 voter, hawk) spoke several times since the last closing bell, in a WSJ interview he said he would err on the side of overtightening policy than not doing enough in order to bring inflation down, noting he is not convinced rate hikes are over. He added that some prices and wages data indicate that inflation could be settling somewhere north of 2%. In a Fox Interview, Kashkari said the economy has proved to be very resilient and inflation has come down, but the Fed has more work to do to get inflation under control. On Bloomberg, Kashkari said they have to let inflation data and the economy guide the Fed, noting if inflation starts to tick back up, that would tell him the Fed's job is not yet done and they would need to do more, adding economic activity running this hot makes him question if the Fed has done enough. On rate cuts, Kashkari noted there is no discussion among him or his colleagues when they will cut rates. Kashkari also noted that the Dollar has been quite strong, while the labour market continues to be quite robust and they are not seeing a lot of evidence the economy is weakening. The Minneapolis Fed President also referred to the term premium as "the economists' version of dark matter".

Goolsbee (2023 voter, dove) when asked about yield movements said you have to look through two-week movements of long-term yield rates, but reiterated that if long rates are sustained at high levels, that is most likely tightening. Goolsbee said the Fed is paying attention to what is driving long-term yields, noting if it is coming from term premia, the Fed has to take that into account (others have argued if the rise in yields is due to term premia, the Fed may not have to do any more on rates). Goolsbee also noted that you cannot answer what number on long-term yield equals enough tightening. The Chicago Fed President also added that as long as the Fed is making progress on inflation, the topic is then only on how long they keep rates at this level. He does not like pre-committing what rates will be at the next meeting, as there is still a lot of data to pass before then. His conditions for the Fed being done with rates are that the Fed is clearly back on a path to get inflation back to 2%, adding so far it is on a good path on inflation but they are not done yet, stressing the priority for changing the rate stance is the inflation rate. Goolsbee still sees the possibility of a golden path, which is what has been so far, that allows the Fed to get inflation down without a recession. On the economy, he said it is weakening, the job market is getting into better balance, and so far the slowdown is what you would want to see towards a more balanced growth and sustainable level.

Waller (permanent voter, hawk) said everything was booming in Q3 GDP and he is watching that closely. Waller noted the labour market is cooling and is getting closer to the pre-COVID average; as is labour supply. In Central Banking terms, Waller said the move higher in 10yr yields has been an "earthquake". Policymakers are considering what drove the longer-term yields higher. On the consumer, Waller said that what people have in mind now is for prices to return to earlier levels, stressing that is not going to happen.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 17 TICKS HIGHER AT 108-04

Treasuries bull-flattened Wednesday amid softening global economic data and well-received supply. 2s -2.6bps at 4.915%, 3s -4.9bps at 4.693%, 5s -6.7bps at 4.542%, 7s -7.5bps at 4.587%, 10s -8.5bps at 4.577%, 20s -9.2bps at 4.921%, 30s -8.7bps at 4.744%.

INFLATION BREAKEVENS: 5yr BEI -3.6bps at 2.335%, 10yr BEI -2.5bps at 2.391%, 30yr BEI -2.1bps at 2.503%.

THE DAY: T-Notes recovered into the APAC Tuesday session to hit resistance initially at 107-26+. The mixed RBA (hiked 25bps with dovish guidance tweak) saw rangebound trade before paring to support at 107-19+ at the London handover; weak China trade data saw little reaction at the time in USTs. But better buying soon surfaced as European trade got underway, tracking Gilts and EGBs higher, with softening EU Construction PMIs and German IP data adding weight to the catch-up trade to BoE's Pill's "middle of next year" comment late on Monday. The tumble in oil prices also gave support to govvies.

T-Notes hit resistance at 108-03+ ahead of the NY handover with the curve already in a mild bull-flattener. The diminished corporate supply pipeline (vs Monday) saw a lack of rate-lock hedging flows (Tsy selling/swap paying), with USTs holding onto their bid through the NY morning. T-Notes didn't manage to break to new highs until the 3yr auction passed (with decent demand seen), peaking at 108-09+. It was noteworthy that the relatively hawkish in-tone Fed Speak from various officials saw little reaction in rates, with Dec hike pricing still implied at under 10%. It appears markets are going to require a bit more from the Fed before they are willing to bake in more hike pricing.

3YR AUCTION: A decent showing for the USD 48bln 3yr auction, with the short-end offering still showing decent demand despite the USD 2bln auction size increase, likely finding some tailwinds in wake of last week's FOMC and the softening US jobs numbers. The auction stopped at 4.701%, which is just off last month's 4.74%, but saw a 0.1bp stop-through the WI, much more in line with the six-auction avg. 0.3bp stop-through compared to last month's massive 1.7bp tail. The auction was covered 2.67x, above the prior 2.56x but beneath the average 2.79x. Dealers (forced surplus buyers) were left 16.3%, well beneath the prior 22.1% but still above the average 15.5%, where the step-up M/M was driven by the Indirects cohort. The auction will help quell fears over rising US supply for the time being, although harder tests lie ahead in the 10yr and 30yr offerings on Wednesday and Thursday.

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

STIRS:

- SR3Z3 flat at 94.615, H4 +0.5bps at 94.74, M4 +1.5bps at 94.99, U4 +3bps at 95.29, Z4 +4.5bps at 95.585, H5 +5.5bps at 95.84, M5 +6.5bps at 96.015, U5 +6.5bps at 96.105, Z5 +7bps at 96.135, Z6 +8.5bps at 96.105, Z7 +10.5bps at 95.97.
- SOFR at 5.32% (prev. 5.32%), volumes at USD 1.559tln (prev. 1.579tln).
- NY Fed RRP op demand at USD 1.009tln (prev. 1.063tln) across 97 counterparties (prev. 101).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 101bln (prev. 102bln)
- US sold USD 75bln 42-day CMBs at 5.290%, covered 2.84x.
- 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 9th and 17-week bills on Nov 8th; all to settle on Nov 14th.

CRUDE

WTI (Z3) SETTLED USD 3.45 LOWER AT 77.37/BBL; BRENT (F4) SETTLED USD 3.57 LOWER AT 81.61/BBL

Oil prices tumbled on Tuesday with weak Chinese activity data weighing on sentiment in the backdrop of a firmer US Dollar and hawkish Fed Speak. The benchmark futures fell gradually in the wake of the overall anaemic Chinese trade data despite the figures for oil imports showing strong growth, the global demand concerns were amplified after soft German IP data and weak EU construction PMI. WTI and Brent eventually settled at their lows, with a slew of slightly more hawkish in-tone Fed Speak seen in the US session, and as some key support levels were broken with Brent losing USD 82.20/bbl, the pre-Hamas Friday, October 6th low. Elsewhere Tuesday, and on death ears, Saudi Aramco's CFO said he sees global oil demand recovery on track, forecasting Q4 oil demand improving in China and India. Meanwhile, the EIA released its monthly STEO, with the 2023 world oil demand growth forecast cut by 300k BPD to a 1.46mln BPD Y/Y increase and the 2024 world oil demand growth forecast raised by 80k BPD to a 1.40mln BPD Y/Y increase. Traders now look to the private release due later Tuesday, but note the EIA figures will not be released on Wednesday. Current expectations (bbls): Crude -0.3mln, Gasoline -0.8mln, Distillates -1.5mln.

EQUITIES

CLOSES: SPX +0.28% at 4,378, NDX +0.93% at 15,296, DJIA +0.17% at 34,152, RUT -0.28% at 1,733.

SECTORS: Consumer Discretionary +1.19%, Technology +1.08%, Communication Services +0.55%, Consumer Staples +0.21%, Health +0.05%, Financials -0.12%, Industrials -0.26%, Utilities -0.73%, Real Estate -0.87%, Materials -1.87%, Energy -2.23%.

EUROPEAN CLOSES: DAX +0.11% at 15,152.64, FTSE 100 -0.10% at 7,410.04, CAC 40 -0.38% at 6,986.91, Euro Stoxx 50 -0.09% at 4,154.95, IBEX 35 -0.06% at 9,235.90, FTSE MIB -0.69% at 28,395.90, SMI 0.00% at 10,576.40.

STOCK SPECIFICS: **Uber Technologies (UBER)** missed on EPS, revenue, and monthly active platform consumers. Although, gross bookings beat with Q4 gross bookings and adj. EBITDA guidance surpassing expectations. **Datadog (DDOG)** Q3 earnings topped expectations, with next quarter and FY outlook also impressing. Note, the likes of **Snowflake (SNOW), Elastic (ESTC), and MongoDB (MDB)** saw tailwinds. **DR Horton (DHI)** beat on the top and bottom line in addition to raising its dividend to USD 0.30/shr (prev. 0.25). FY revenue view surpassed expectations. **TripAdvisor (TRIP)** topped Wall St. consensus on EPS, revenue, and adj. EBITDA. **CNH Industrial NV (CNHI)** expects net revenue from industrial activities to increase between 3-6% this year (prev. +8-11%) and said South American markets are softer than expected and cost reductions are to address softening markets. **Emerson Electric (EMR)** EPS and revenue fell short, with Q1 profit guide falling short of consensus. **NXP Semiconductors (NXPI)** EPS and revenue marginally beat, while next quarter guidance was more-or-less in line. **Air Products and Chemicals (APD)** fell short on EBITDA and revenue, with the latter declining 11% as 2% higher pricing and 1% favourable currency were more than offset by 14% lower energy cost pass-through. Activist investor Elliott takes a stake in **BioMarin Pharmaceuticals (BMRN)** and is in talks about its future, according to Reuters sources. **Tesla (TSLA)** is to raise the prices of its Model Y electric cars in China. CFPB proposes rules to regulate big tech's payments and digital wallets like banks; it will examine tech firms to ensure compliance with funds transfer, privacy, and other consumer protection laws. **Apple (AAPL)** delays work on iPhone and Mac software overhauls to fix bugs, according to Bloomberg. **Cleveland-Cliffs (CLF)** is increasing current spot market base prices for all carbon hot rolled, cold rolled and coated steel products, effective immediately with all new orders; minimum base price for hot rolled steel is now USD 1,000/T (prev. 900/T).

US FX WRAP

The Dollar was firmer on Tuesday, with DXY printing a high of 105.770, on broad-based gains and benefitting off the frailty of its peers such as the AUD and GBP (more below). Although the Buck came off highs after a decent showing in the US 3yr auction which saw yields slip lower. There were numerous Fed speakers (Kashkari, Goolsbee Waller, Bowman, and Logan), ahead of Chair Powell on Wednesday and Thursday. It would be too dense to go over all relevant comments, but there was a notable hawkish tone: Kashkari reiterated data dependency and stressed the Fed hasn't even discussed rate cuts, while dove Goolsbee noted he doesn’t like pre-committing what rates will be at the next meeting and still a lot of data to pass before then. Bowman towed a usual hawkish line as she expects the Fed will need to raise FFR further, while Logan questioned whether financial conditions were sufficiently restrictive, noting the Fed's surprise in the strength of the US economy.

AUD was the clear laggard against the Buck, and was weighed on post-RBA decision, as the less hawkish RBA guidance outweighed the widely anticipated 25bps hike to 4.35%. Recapping the meeting, RBA tweaked its forward guidance to say "whether further tightening of monetary policy is required...will depend upon the data" (prev. "Some further tightening of monetary policy may be required"). In addition to this, the Aussie was weighed on by broad-based weakness in the commodity space amid weak Chinese trade data, which saw AUD/USD hit a low of 0.6405. Moreover, the AUD downfall weighed on its NZD counterpart, to see NZD/USD hit lows of 0.5912, albeit managing to prevent a run at the round 0.5900 to the downside. Note, the Kiwi was not helped by a -0.7% decline in GDT price index, where dairy trade holds a 7% weighting in the country's GDP. Looking ahead, attention resides on Q4 New Zealand Monetary Conditions on Wednesday, with little else on the Antipodean calendar this week.

CAD and **GBP** both saw similar weakness vs. the Greenback, with the former weighed on oil prices tumbling over 4% and the latter by desks touting Chief Economist Pill's remarks late on Monday where he spoke about the prospect of rate cuts from mid-2024, with money markets now pushing towards 75bps worth of cuts priced by the end of next year. In addition, the Buck strength also weighed on the aforementioned currencies to see USD/CAD hit a peak of 1.3782 and Cable bottom out at 1.2263 ahead of BoE Governor Bailey and BoC Minutes on Wednesday. Elsewhere, there is a slew of UK data on Friday, with attention for the Loonie on crude prices which cratered on Tuesday on weak Chinese activity data weighing on sentiment in the backdrop of a firmer US Dollar and hawkish Fed Speak.

CHF, EUR, and JPY were all lower, but not to the degree of the activity currencies as they all fell foul to the resurgent Greenback, albeit to varying extent, with the Yen keeping afloat of its MTD trough nearer 151.00 having lost touch with another decent clip of option expiries at 150.00. Euro leaned on even bigger expiry interest between 1.0650-60 into the NY cut and the Swissy contained losses beneath 0.9000 after Switzerland's non-seasonally adjusted unemployment rate remained unchanged at 2% against consensus for an uptick to 2.1%. Back to the single currency, German industrial output was weak, as was the EZ construction PMI, and once again there was a slew of ECB speakers. For the Yen, participants await the October BoJ SOO on Wednesday.

Scandis were lower with the NOK clearly underperforming as it was rocked by Brent almost unwinding its entire Middle East conflict safe haven premium as Norwegian manufacturing production recoiled as well. SEK gleaned traction via Riksbank's Floden reiterating the need to maintain restrictive policy, whilst warning about stagflationary risks.

EMFX was mixed. BRL, MXN, and RUB saw gains, while COP and ZAR saw losses as the latter was weighed on by falling gold prices. BRL was bolstered by BCB Chief Neto qualifying that guidance for more 50bps rate cuts covers the next two meetings before COPOM reassesses the situation. Yuan was little changed; Chinese export data fell much more than expected, while imports surprisingly rose. Elsewhere, for currencies such as the Chilean Peso, Codelco cut its year-ahead copper premium for its key China buyers, and offers USD 89/metric ton copper cathode premium for 2024 to Chinese buyers (down from USD 140/T this year), according to Reuters citing sources.