



US Market Wrap

8th November 2023: Stocks chop, yield curve flattens and oil tumbles

- **SNAPSHOT:** Equities mixed, Treasuries flatten, Crude down, Dollar flat.
- **REAR VIEW:** Powell does not comment on monetary policy; Talks on hostage release and humanitarian ceasefire between Israel and Hamas are ongoing; Ok US 10yr auction; Light EBAY guidance; AKAM earnings impress & lift outlook; NBP surprisingly hold; LLY's diabetes drug approved for weight loss.
- **COMING UP: Data:** Chinese CPI & PPI, US IJC, NZ Manufacturing PMI **Events:** Banxico Policy Announcement **Speakers:** Fed's Powell, Barkin, Bostic; ECB's Lagarde, BoJ's Ueda; ECB's Lane **Supply:** Japan & US **Earnings** : Deutsche Telekom, Hannover Re, AstraZeneca, Taylor Wimpey, National Grid.

MARKET WRAP

Stocks sold off to start the session with the Russell leading the losses with the SPX, NDX and DJIA initially following suit. However, once Europe had finished for the day equity futures ground higher again to see a broadly unchanged close, aside from the small caps - RUT closed lower by over 1% with regional banks also underperforming while the lower oil prices also weighed on the energy names. Crude prices tumbled throughout the session on global demand woes while lows extended on reports of talks resuming between Iraq and Kurdish officials regarding the resumption of flows from the export pipeline from Iraq to Turkey. Reports via Reuters suggested that talks are ongoing to secure the release of 10-15 hostages held by Hamas in exchange for a 1-2 day humanitarian pause also added to the pressure in the oil space. Elsewhere, Treasuries bull-flattened as oil prices continued to tumble and after a relatively ok US 10yr auction as eyes turn to the 30yr auction and Fed Chair Powell on Thursday. The DXY was flat while the antipodeans and Yen lagged with USD/JPY briefly rising above 151.00.

US

COOK (voter) said persistent inflationary pressures and unexpected policy rate increases abroad are among risks to the global financial system. Further slowdown in China could worsen financial stresses with possible international spillovers. Must remain vigilant to potential shocks that could exacerbate global financial system vulnerabilities. Escalation of global geopolitical tensions could also lead to negative international spillovers.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 6+ TICKS HIGHER 108-10+

Treasuries bull-flattened Wednesday as oil prices continue to tumble and after a relatively ok US 10yr auction. 2s +1.6bps at 4.934%, 3s +0.5bps at 4.681%, 5s -2.4bps at 4.514%, 7s -4.5bps at 4.537%, 10s -6.0bps at 4.511%, 20s -8.1bps at 4.834%, 30s -9.3bps at 4.642%.

INFLATION BREAKEVENS: 5yr BEI -3.3bps at 2.306%, 10yr BEI -2.7bps at 2.365%, 30yr BEI -2.9bps at 2.474%.

THE DAY: Treasuries entered the NY morning in a flattener with the curve twisting (long end bid, short end offered) after a duration bid developed during European trade. There was selling across the curve seen as APAC trade got underway, and with more momentum into the London handover, with block sales seen in the Ultra 10s and Ultra Bonds (perhaps some preparation for supply). T-Notes hit session lows of 107-26+ before the duration bid gained traction with oil prices continuing to tumble in European trade.

T-Notes were trading just beneath their globex open peaks of 108-06+ as US trade began. Contracts eventually broke higher later in the NY morning, roughly tracking the continued descent in oil prices which were pinned on a reshuffling of focus on global demand headwinds rather than Israel risk. T-Notes hit intra-day peaks of 108-12+ ahead of the 10yr auction. The average showing at the auction was enough to alleviate some Treasury supply concerns, taking T-Notes to session highs of 108-14+ ahead of settlement.

10YR AUCTION: An average 10yr auction from the Treasury, but given some of the recent offerings, the fact there was no real deterioration in demand present will be taken as a sigh of relief amid concerns over a Treasury supply/demand



imbalance, especially given the auction size has been increased too. The USD 40bln offering stopped at 4.519%, about 10bps richer than last month, marking a 0.8bp tail, a lot better than October's 1.8bp tail and in line with the six-auction average 0.9bp tail. The bid/cover ratio was 2.45x, beneath the prior 2.50x and avg. 2.49x. Dealers (forced surplus buyers) were left with 15.1% (prev. 18.7%; avg. 14.2%) where a big fall in Directs was offset by an even larger increase in Indirects participation (69.7% vs prior 60.3%). Thursday's 30yr auction, which saw a particularly awful showing last month, will now be in focus, with relatively promising signs so far from this week's 3yr and 10yr auctions.

STIRS:

- SR3Z3 -1.0bps at 94.610, H4 -2.5bps at 94.715, M4 -3.0bps at 94.965, U4 -3.5bps at 95.260, Z4 -2.0bps at 95.570, H5 -0.5bps at 95.840, M5 +0.5bps at 96.025, U5 +1.0bps at 96.120, Z5 +1.5bps at 96.155, Z6 +4.0bps at 96.150.
- SOFR flat at 5.32% as of Nov 7th (prev. 5.32%), volumes fall to USD 1.546tln from 1.559tln).
- NY Fed RRP op demand at USD 1.024tln (prev. 1.009tln) across 98 counterparties (prev. 97).
- EFFR flat at 5.33% as of Nov 7th, volumes rise to USD 104bln from 101bln.
- US sold USD 56bln of 17-week bills at 5.285%, covered 3.06x.

CRUDE

WTI (Z3) SETTLED USD 2.04 LOWER AT 75.33/BBL; BRENT (F4) SETTLED USD 2.07 LOWER AT 79.54/BBL

Oil prices continued to fall on Tuesday as global demand woes take centre stage with some bearish US energy inventory data. The losses were gradual again, similar to Monday, and appear driven by a shifting of focus away from the conflict in Israel/Gaza, leaving the market instead to ponder on the signs of decelerating global growth. At the same time, the private US energy inventory data indicated a massive 11.9mln bbl crude stock build, with relatively minimal builds in the products, and given there is no official EIA release this week due to system maintenance, the private figures are holding more weight than usual. There was also some supply-related pressure from the Middle East on Reuters reports the Iraqi government had met with Kurdistan reps to discuss the resumption of flows from the export pipeline from Iraq to Turkey, which accounts for 0.5% of global supply. In Russia, Reuters reported oil exports via its western ports have been revised lower to 2mln BPD in November as refineries look to increase runs amid the end of maintenance seasons and as the country eases its ban on fuel exports. On which, the country is considering the removal of the export ban on several grades of gasoline, according to Russian press.

EQUITIES

CLOSES: SPX +0.10% at 4,382, NDX +0.11% at 15,313, DJIA -0.12% at 34,112, RUT -1.10% at 1,714.

SECTORS: Technology +0.64%, Real Estate +0.58%, Materials +0.26%, Industrials +0.27%, Communication Services +0.12%, Financials +0.06%, Health -0.14%, Consumer Discretionary -0.25%, Consumer Staples -0.42%, Utilities -0.73%, Energy -1.22%.

EUROPEAN CLOSES: DAX +0.51% at 15,229.60, FTSE 100 -0.11% at 7,401.72, CAC 40 +0.72% at 7,036.76, Euro Stoxx 50 +0.60% at 4,178.45, IBEX 35 +0.52% at 9,283.80, FTSE MIB +0.13% at 28,433.33, SMI +0.22% at 10,593.90.

STOCK SPECIFICS: **eBay (EBAY)** next quarter and FY guidance was light, as an exec noted macroeconomic uncertainty and Q4 consumer trends had softened, and saw particular challenges in Europe, warning that it could see a more muted seasonal uptick over the holidays. Note, EPS beat with revenue in line. **Akamai Technologies (AKAM)** Q3 earnings beat, while next quarter and FY outlook surpassed expectations. **Upstart (UPST)** posted a much deeper loss per share than expected and fell short on revenue; next quarter's top line view also disappointed. **Rivian Automotive (RIVN)** reported a shallower loss per share than expected and marginally beat on revenue. FY vehicles production view 54k units (prev. 52k, exp. 53.6k). **Take-Two Interactive Software (TTWO)** confirmed on X they will release the GTA 6 trailer in early December. **Warner Bros Discovery (WBD)** deeper loss per share than expected while adj. EBITDA missed and total subscribers marginally light. Said 'real risk' that some negative financial impact of the strike will extend into 2024. Management warned of headwinds persisting into 2024 and imperiling its leverage objective for next year. **Biogen (BIIB)** Q3 earnings beat, but lowered FY adj. EPS view. **Lucid Group (LCID)** fell short on revenue and cuts FY production guidance. **DaVita (DVA)** earnings topped expectations in addition to lifting FY profit and FCF guidance. **Teva Pharmaceutical (TEVA)** top line beat and raised FY revenue guidance. **NXP Semiconductors (NXPI)** was downgraded at Citi. **Eli Lilly's (LLY)** diabetes weight loss drug, Tirzepatide, approved by the US FDA and UK's MHRA for treatment of weight loss.



US FX WRAP

The Dollar was flat on Wednesday with DXY trading between 105.44 and 105.87 with the downside in stocks and yields keeping the buck balanced. There were several Fed speakers on Wednesday but Powell and Williams did not comment on policy, while Cook spoke on risks to the financial system. However, attention turns to Powell speaking at the IMF on Thursday where we look for comments on him around financial conditions, whether rates are sufficiently restrictive, and his views on the latest SLOOS and NFP report given they are the only real developments since Powell last spoke at the November FOMC press conference last week.

The Euro was also flat on Wednesday, trading either side of 1.0700 between 1.0660 and 1.0716 parameters. The EU saw the latest Retail Sales data for September which declined 0.3% M/M and 2.9% Y/Y, adding to fears of a recession within the Eurozone. However, consumer inflation expectations for 1yr ahead had accelerated in September to 4.0% from 3.5%, although the less volatile 3yr ahead expectations were unchanged at 2.5%. There were several ECB speakers too, Kazaks said they cannot exclude the possibility that more hikes may be needed, Lane said they are seeing some progress on underlying inflation, but not enough. Makhlouf said the economy and financial system is still adjusting to the change in interest rates by central banks, later adding they should keep all options on the table and not rule things out prematurely. Wunsch warned risks of inflation are tilted to the upside but EZ is set for a soft-landing in the short term. Nagel said the final mile before reaching the inflation target will be the hardest and discussion on when rates can be cut is not helpful, it is far, far too early. Nagel also added that PEPP could play a role in bringing liquidity down, and is open to discussions.

The Yen was softer vs the buck with USD/JPY rising above 151 to a high of 151.05, breaching the 2nd Nov. high of 150.96, with technicians eyeing the double top around 151.70/74 with the BoJ Summary of Opinions for their latest meeting scheduled for after hours. BoJ governor Ueda spoke several times overnight, noting when the BoJ talks about side-effects of YCC, it includes risk of triggering volatility in markets including FX. Ueda also said that the BoJ doesn't necessarily need to wait until real wages actually turn positive in existing YCC and negative rates, and that the fact the central bank stands ready to step in to buy ETFs in times of market turbulence could be underpinning recent stock prices.

Cyclical currencies were weaker with underperformance in the Antipodes, particularly the Aussie after the RBA's dovish hike on Tuesday with the afternoon weakness in equities keeping the Aussie weighed on. NZD/USD was lower in sympathy but managed to hold on to 0.5900 seeing a low of 0.5907 while NZ Q4 inflation expectations slowed, particularly the volatile 1yr forecasts. GBP was relatively flat vs the Dollar and a bit softer vs the Euro despite BoE Governor Bailey underlining guidance that policy will need to be restrictive for an extended period, given upside risks to inflation. CAD was also softer with oil prices tumbling on global demand woes and reports of a humanitarian pause in Gaza for hostage releases while Iraq and Kurdish officials are meeting to talk on the resumption of flows from the export pipeline to Turkey. [The BoC Minutes](#) (or Summary of Deliberations) did little to shift the dial, but it spoke a lot on BoC guidance. Some policymakers on the governing council felt the rate would more likely than not need to increase further while others felt the current 5% rate would likely be enough providing it was maintained at that level for long enough. However, there was a strong consensus that with clearer evidence of higher rates having the desired effect, the BoC should be patient and hold. They did agree to revisit the need for rate hikes at future decisions with the benefit of more data, and agreed to repeat they are prepared to hike rates further if needed.

EMFX was mixed. ZAR saw notable weakness as gold prices fell. BRL was softer despite hot retail sales data but the latest Primary budget posted a surprise deficit with the nominal budget balance at a deficit of BRL 99.8bln while BCB Chief Neto stated that changing the fiscal target now will create a lot of uncertainty. Note, President Lula expects the Senate to pass the tax reform on Wednesday or Thursday as a plan to boost growth which has already passed in the House earlier this year. MXN and COP saw weakness as oil prices tumbled on recessionary fears and supply woes. CLP tumbled following the lower copper prices while cooler than expected inflation added to the Chilean Peso woes. Elsewhere, the NBP kept its base rate unchanged at 5.75% vs expectations for a 25bp cut while noting that the current level of rates is appropriate for bringing CPI to target in the medium term.

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