newsquawk

US Market Wrap

9th November 2023: Hawkish Powell deepens risk aversion after another woeful 30yr auction

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Powell leans hawkish; Awful 30yr auction; Dovish Banxico tweak to guidance; Ueda says BoJ will move carefully on raising interest rates; US jobless claims see little change; NVDA planning to unveil three new chips for China; BLK confident SEC will approve BTC ETF by January.
- **COMING UP**: **Data**: UK GDP Estimate, Services, Trade Balance, US UoM, Chinese M2 Money Supply **Events**: RBA SOMP, BoC SLOOS **Speakers**: Fed's Logan, Bostic; ECB's Lagarde **Supply**: Italy **Earnings**: Allianz, Richemont, GN Store Nord.

MARKET WRAP

Stocks and Bonds tumbled Thursday after a historically horrendous US 30yr auction was followed by Powell's hawkish reaffirmations. There was little major data aside from initial jobless claims, which were close to consensus and caused little reaction, although continued claims did come in more significantly above expectations, perhaps a factor in the small-cap Russell 2k underperformance. The auction was what kick-started the session into life after a record 5.3bp tail at the US 30yr auction reignited concerns over the marginal buyer of long-end US Treasuries, with the Dollar reversing earlier weakness and stock indices sold across the board. Note there were reports of a major China bank facing a ransomware attack and its US Treasury settlements were impacted as a result, which potentially impacted the auction. However, the selling pressure accelerated after Powell's speech was released at the IMF event, where he largely repeated his comments from the FOMC, although one could argue they were more selective in a hawkish direction, saying "we are not confident we've achieved sufficiently restrictive", which was not what the market wanted to hear at that moment in time; money markets have now pushed back the first full 25bp rate cut pricing to July from June. The Dollar was broadly bid, while in EMFX, the Peso weakened particularly after Banxico left rates unchanged but gave a hint towards potential rate cuts. Oil prices found some support after hitting multi-month lows on Wednesday, although note that the WTI prompt spread flipped into contango for the first time since July, a sign of loosening supply. Bitcoin jumped in late trade on FBN reports that Blackrock is increasingly confident the SEC will approve its BTC ETF by January.

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FED CHAIR POWELL: Fed Chair Powell leant hawkish following the dovish repricing seen last week in wake of the FOMC and NFP jobs report. Powell did not comment on the October NFP report specifically, but maintained his view that the labour market remains tight but is coming into better balance. The Fed Chair repeated the line from the FOMC Q&A that the Fed is not confident they have achieved a sufficiently restrictive stance, and that if it becomes appropriate to tighten policy further, they will not hesitate. Powell is attentive to risks that stronger growth could undermine its inflation progress, which he said could warrant a monetary response. He added he is gratified by the inflation progress, but there is still a long way to go. He does expect GDP growth to moderate in the coming quarters, but that is yet to be seen. He also stated in the post-speech discussion that the Fed is still trying to judge if it needs to do more, then they will consider how long the Fed needs to keep rates high, adding the bigger mistake is not getting rates high enough. On the move in yields, Powell said it is hard to draw a direct line from things like higher bond yields to a monetary policy response, but noted the Fed is not going to ignore a significant bond tightening, but it does not have to make a decision now. Powell added the Fed will be looking carefully at reasons behind the recent yield surge.

FED'S PAESE (2025-VOTER): The St Louis Fed Interim President said it is too soon to rule out further rate hikes and the Fed has time to decide on the next step on monetary policy. The Fed is still working to achieve price stability and it is too soon to declare victory on inflation, the path back to 2% will be bumpy. Is watching the 10yr yield for signals on financial conditions, it is unclear yet whether tighter financial conditions will provide the needed restraint. A soft landing remains possible, and labour contacts are reporting better balance in the job market. Fed policy is restrictive and impacting the modest downward pressure on inflation.

FED'S BARKIN (2024-VOTER): The Richmond Fed President said there are a wide range of possible outcomes for the economy and he believes a slowdown is needed, adding they are still not seeing the full effects of rate hikes. Whether the Fed is required to do more remains to be seen, and they have time to forecast what path inflation takes with rates now restrictive and financial conditions tightening. Barkin added they are making real progress on inflation but the job is not done, adding he is not yet convinced inflation is on a smooth glide path to 2%. Looking ahead, Barkin said to drop rates, the Fed would want inflation to get on a path to 2% but currently he has a hard time declaring if policy is sufficiently restrictive. Barkin added that the core issue on whether another rate hike is needed is inflation. Said long-term rates have loosened, but doesn't think of them as a policy variable, or equate them to rate hikes.

FED'S BOSTIC (2024 VOTER): Said Fed policy stance is likely sufficiently restrictive, but will remain restrictive until the Fed is sure it will hit its 2% target.

JOBLESS CLAIMS: Initial jobless claims were little changed at 217k from 220k, and more-or-less in line with the expected 218k, while continued claims rose above expectations to 1.834mln (exp. 1.82mln, prev. 1.812mln). The 218k initial claim print in the latest week took the 4wk average up to 212.25k from 210.75k. Note, the seasonal factors had expected an increase of 16,024. Overall, Oxford Economics notes, “the data is consistent with a job market that is cooling enough to keep rate hikes off the table for now, but still too strong to make rate cuts a consideration any time.”

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLE 25+ TICKS LOWER AT 107-17

Treasuries sold off both ahead of and after the historically bad 30yr auction before a hawkishly received Powell speech added more pressure. 2s +8.8bps at 5.024%, 3s +10.5bps at 4.789%, 5s +11.8bps at 4.640%, 7s +12.5bps at 4.673%, 10s +11.8bps at 4.626%, 20s +12.0bps at 4.970%, 30s +11.4bps at 4.770%

INFLATION BREAKEVENS: 5yr BEI +0.3bps at 2.304%, 10yr BEI +0.6bps at 2.366%, 30yr BEI +0.9bps at 2.480%.

THE DAY: Treasuries continued their bid from Wednesday into the Tokyo handover on Thursday where T-Notes peaked at 108-17, with the cash 10yr yield probing beneath 4.50%, but a more sustained move failed to hold and better selling developed into the European session with block flatteners seen amid the looming US 30yr auction. T-Notes found support around the 108 area in the NY morning with the front end initially holding up much better.

The jobless claims figures were too close to consensus to cause a reaction, and with no other major US data releases, USTs hovered near lows going into the auction. The historically awful 30yr auction (details below) saw massive kneejerk bear-steepening with T-Notes falling from 107-30 to 107-15 in the immediate aftermath. Contracts managed to pare to 107-26+ as the dust settled, but the release of Powell's hawkish in-tone speech (despite the comments being made already at the FOMC) saw renewed selling pressure, this time led by the front end, seeing T-Notes stretch to fresh lows of 107-14 ahead of settlement. Note that cash USTs will be closed on Friday for Veteran's Day so there may be some early book squaring for the weekend present on Thursday.

30YR AUCTION: A historically bad new issue 30yr auction from the Treasury, even worse than the poor showing for October's offering. The auction stopped at 4.769%, marking a massive 5.3bp tail of the WI, exceeding the prior month's 3.7bp tail, and incomparable to the six-auction average 0.9bp tail. The bid/cover ratio at 2.24x was beneath the prior 2.35 x and average 2.44x. Dealers (forced surplus buyers) were left with a massive 24.7%, well above both the prior 18.2% and avg. 12.7%, with a decline in both Directs and Indirects participation. For all intents and purposes, the auction has amplified concerns over the marginal buyer of long-dated US Treasuries, offsetting the respectable showing for the 10yr on Wednesday. It's worth highlighting reports emerging after the auction, via the FT, that China's largest bank, ICBC, was attacked by ransomware in its US unit, disrupting the US Treasury market by stopping it from settling trades, which may have potentially impacted the auction, although it's worth noting that the bank is not a registered Primary Dealer.

STIRS:

- SR3Z3 -1.5bps at 94.595, H4 -5.5bps at 94.66, M4 -7.5bps at 94.885, U4 -9bps at 95.165, Z4 -10bps at 95.46, H5 -10.5bps at 95.725, M5 -11bps at 95.905, U5 -11bps at 96.00, Z5 -10.5bps at 96.035, Z6 -12bps at 96.02, Z7 -13.5bps at 95.90.
- SOFR flat at 5.32% as of Nov 8th, volumes fall to USD 1.470tln from 1.546tln.
- NY Fed RRP op demand falls beneath USD 1tln for first time in two years to USD 993bln (prev. 1.024tln) across 94 counterparties (prev. 98).
- EFFR flat at 5.33% as of Nov 8th, volumes fall to USD 101bln from 104bln.
- US sold USD 96bln of 1-month bills at 5.290%, covered 2.57x; sold USD 86bln of 2-month bills at 5.285%, covered 2.70x.
- US leaves 13-, 26-, and 6-week auction sizes unchanged at USD 75bln, 68bln, and 75bln, respectively; 13- and 26-week sold on Nov 13th and 6-week sold on Nov 14th; all to settle on Nov 16th.

CRUDE

WTI (Z3) SETTLES USD 0.41 HIGHER AT 75.74/BBL; BRENT (F4) SETTLES USD 0.47 HIGHER AT 80.01/BBL

Oil prices found some selling reprieve on Thursday after hitting multi-month lows on Wednesday. WTI and Brent futures hit peaks of USD 77.16/bbl and USD 81.48/bbl, respectively, late in the NY morning before paring into the afternoon, with a spurt of bearish momentum after the WTI prompt calendar spread flipped into contango for the first time since July; the recovery of the Dollar also added to the pullback lower. There was little major economic data to drive price action on Thursday. Energy newsflow was sparse too. Reuters reported Saudi Aramco has notified at least four North Asian buyers that it will supply full contractual volumes of crude oil in December, although that amount is slightly lower M/M as Chinese refiners reduce their runs amid thinning margins and less issued export quotas from the government.

EQUITIES

CLOSES: SPX -0.81% at 4,347, NDX -0.82% at 15,188, DJI -0.65% at 33,892, RUT -1.57% at 1,687

SECTORS: Health -2.1%, Consumer Discretionary -1.82%, Real Estate -1.51%, Utilities -1.38%, Materials -0.85%, Financials -0.41%, Consumer Staples -0.4%, Technology -0.4%, Communication Services -0.3%, Energy -0.27%, Industrials -0.24%.

EUROPEAN CLOSES: EUROPEAN CLOSES: DAX +0.81% at 15,352.54, FTSE 100 +0.73% at 7,455.67, CAC 40 +1.11% at 7,112.46, Euro Stoxx 50 +1.24% at 4,230.25, IBEX 35 +1.31% at 9,405.20, FTSE MIB +0.74% at 28,644.09, SMI +0.52% at 10,650.00.

STOCK SPECIFICS: **Nvidia (NVDA)** is reportedly planning to unveil three new chips for China. The release would come amid reports that some China-based companies, such as **Baidu (BIDU)** are pivoting away from NVDA's chips out of fears of US actions. **Walt Disney (DIS)** EPS, operating income and total Disney+ subscribers all beat. Although, revenue fell short. In comms, said it was on track to achieve USD 7.5bln in cost savings (prev. 5.5bln) and said more than 50% of new US Disney+ sign-ups in Q4 were ad-based. **MGM Resorts (MGM)** EPS and revenue beat; announced a new USD 2bln share buyback programme. Exec said it has recovered from the recent cyberattack, and China business performing exceptionally well. **Becton Dickinson and Co (BDX)** cut FY24 EPS and revenue guidance. Note, the bottom line was marginally short while the top line beat. **TransDigm Group (TDG)** top and bottom line beat expectations alongside strong FY guidance. **Arm Holdings (ARM)** said the semiconductor industry remains vulnerable to changes in external macroeconomic context with next quarter adj. EPS view light. Q2 chips shipped 7.1bln, -6% Y/Y. Note, EPS and revenue beat. **AppLovin (APP)** surpassed Wall St. expectations on the top and bottom line with strong next quarter revenue outlook. **HubSpot (HUBS)** EPS and revenue beat, with next quarter outlook slightly better than expected. FY23 guidance was also strong. **Affirm Holdings (AFRM)** posted a shallower loss per share than expected and beat on revenue. **AMC (AMC)** filed to sell USD 350mln in stock, according to filing. EU court advisor has backed the EU's USD 14bln tax order to **Apple (AAPL)**. **Bill Holdings (BILL)** is close to acquiring digital payment provider Melio Payments in a cash-and-stock deal worth USD 1.95bln. However, BILL said it is not pursuing any M&A at this time. **Netflix (NFLX)** and **Warner's Max (WBD)** team up with **Verizon (VZ)** to offer discounted streaming bundle, according to WSJ. VZ to offer ad-supported versions of NFLX and MAX for about USD 10/mth, instead of USD 17.

US FX WRAP

Dollar jumps after weak auction and hawkish Powell sees yields ascend

The Dollar caught a bid in the US afternoon aided by the upside in yields after a woeful 30yr auction which saw the largest tail on record, sending yields flying. The upside advanced after Fed Chair Powell spoke at the IMF, where he emphasized his hawkish points made at the FOMC, repeating the Fed is not confident that they have achieved a sufficiently restrictive stance, and said if it becomes appropriate to tighten policy further, the Fed will not hesitate. The commentary saw money markets push back the probability of the first rate cut being fully priced back to July from June previously. Given the latest dovish repricing followed the dovish NFP report on Friday, it is quite notable Powell had barely mentioned the latest report.

The Euro was weaker as the Dollar advanced with little EZ data to digest with focus on the move in US yields and Fed Chair Powell. EUR/USD had initially been above 1.07 but fell beneath the round in response to the auction before hitting lows post-Powell at 1.0661. There was more ECB Speak with de Guindos calling for cautiousness due to inflation risks, saying they are "not there yet" when it comes to cutting rates, with Vujcic also saying Thursday it is too soon to consider rate cuts. While Centeno said the ECB is at a plateau in terms of interest rates.

JPY: It was the same story for the Yen, the jump in US yields and hawkish Powell took USD/JPY to highs of 151.38 but still beneath the double top around 151.70/74. In the morning however, USD/JPY saw a low of 150.78, seen after commentary from BoJ Governor Ueda albeit the governor primarily stressed it will move carefully on raising rates while there is still some distance to cover before they can scrap forward guidance adding it is too early to determine what specifically the BoJ will be doing when they seriously normalise their policy stance. Note, the Summary of Opinions was released, a summary can be found here.

CNH was softer vs the firmer buck but the China CPI data was cooler than expected at -0.2% (exp. -0.1%) and vs the prior unchanged print while PPI fell 2.6%, not as steep as the 2.7% forecast but steeper than the 2.5% previous. Note that Goldman Sachs raised its China 2024 GDP forecast to 4.8% from 4.5%.

Cyclical currencies sold off, once again after Powell and the auction, with the most weakness seen in AUD and GBP. AUD/USD fell beneath 0.6400 approaching 0.6350 while NZD/USD is hovering at 0.5900 with NZD outperforming ahead of Manufacturing PMI data; AUD/NZD fell sub 1.08. GBP fell from highs of 1.2308 to lows of 1.2214 heading into APAC trade on Friday while the Pound was also softer vs the Euro. There was commentary from BoE Pill again, who said to assume rates are to stay restrictive for an extensive period while adding they do not need to raise rates to bear down on inflation. CAD saw marginal weakness vs the Dollar with upside in oil supporting the petro currency. Meanwhile, BoC Senior Deputy Governor Rogers stressed the BoC is not yet talking about reducing rates, and that it is easy to forecast a world where rates are persistently higher than what people have grown used to in recent years.

Scandis were mixed with SEK seeing gains vs the Euro while NOK was softer; Norges Bank's Bache said the threshold for FX market intervention with the aim of influencing the NOK rate is very high, and they do not have a policy target for the NOK. Bache added that the NOK depreciation is contributing to keeping CPI high. Meanwhile, the Riksbank FSR started inflation has fallen but it is still too high.

EMFX was mixed. MXN was notably softer after the Banxico gave a dovish tweak to its guidance, suggesting rates are to be held at current levels for "some time" instead of "an extended period" (more below). BRL was also softer given the buck's strength, while commentary from BCB Director Guillen said their current view is that Brazil needs to be cautious, and the BCB is bothered by inflation expectations being stuck at 3.5%. CLP was softer vs the stronger buck while COP saw notable gains. Elsewhere, PLN was flat after it surprisingly left rates on hold on Wednesday, while NBP Governor Glapinski said the space for rate cuts is smaller and there is higher uncertainty about the rate of disinflation in coming quarters, therefore leaving rates unchanged was the only possible decision.

BANXICO SUMMARY: Overall, a dovish release with the majority of inflation forecasts left unchanged throughout the forecast horizon, aside from the Q4 23 forecast, which was revised lower. The main development was the tweak in its guidance, it now notes that "the reference rate must be maintained at its current level for some time" vs the prior language which suggested for an "extended time". Nonetheless, it maintained its view that the bias of risks to the inflation trajectory remains to the upside.