US Market Wrap

10th November 2023: Stocks rip into weekend despite hawkish Fed

- **SNAPSHOT**: Equities up, Treasuries mixed, Crude up, Dollar flat.
- **REAR VIEW**: Consumer inflation expectations rise; Tech leads equity rally; Fed's Bostic resists talk of another hike; Fed's Daly not ready to rule out more hikes.
- **WEEK AHEAD**: Highlights include Biden-Xi meeting; US CPI, retail sales; China activity data. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Reviewing RBA, BoC Minutes, Banxico. To download the report, please click here.

MARKET WRAP

Stocks saw a strong rally Friday with post-Powell shorts covering into the weekend despite Thursday's hawkish Fed pricing shift extending. The stock strength was driven by the mega-cap names where the Nasdaq 100 outperformed, with the likes of Microsoft (MSFT) hitting all-time highs, although breadth was still strong with many names enjoying upside. Fed Speak today was inconsequential for markets, with Daly and Bostic giving familiar rhetoric. Treasuries "twisted" with rising consumer inflation expectations in the Uni of Michigan survey continuing to unwind rate cut pricing post-Powell while the long-end found some dip buying after Thursday's auction bloodbath. The Dollar index was little changed, holding on to Thursday's rally with moves muted across G10 crosses. Oil prices rallied gradually through the session with shorts covering after a third consecutive W/W loss. Precious metals were sold with the hawkish shift in Fed policy expectations weighing; Palladium continues to tumble after falling beneath USD 1k/oz this week to 5yr lows with the secular shift to EVs adding additional pressure. Ags and related stocks were pressured further on the back of Thursday's USDA report that indicated a record crop harvest.

US

MICHIGAN SURVEY: The University of Michigan's prelim data for November saw the headline sentiment index pare back to 60.4 from 63.8, against expectations of a little changed 63.7; the expectations component eased from 59.3 to 56.9 (analysts were expected 59.5); the current conditions index eased from 70.6 to 65.7 (exp. 70.6). Within the release, the index of buying conditions for durable goods slumped by the most since November last year, with a record 36% of consumers blaming high borrowing costs or tight credit conditions for poor motor-vehicle purchase conditions. The consumer inflation expectation gauges both ticked up, despite some expectations for a fall with gas prices, with the one-year ahead expectation rising 0.2ppts to 4.4%, while the longer-term 5-10yr gauge rose to 3.2% (from 3.0%), to the joint second highest level of the cycle (peak has been 3.3%). Fed Chair Powell was asked about the October University of Michigan data at the post-FOMC press conference last week, and reporters noted that he sounded unconcerned about the high inflation readings, stating that the Fed looks at many data points, not just the UoM data, and generally, it was clear that inflation expectations were still in a good place. Nevertheless, Capital Economics notes that the rise in inflation expectations showed that October’s jump was not a one-off and will be a concern to the Fed. Still, CapEco says that the headwind from persistently weak confidence is likely to weigh more heavily on consumer spending in Q4, which should help to ease demand pressures. "It was a surprise that the fall in gasoline prices since early October did not do more to ease inflation concerns," adding that "it is not uncommon for these measures to be revised down in the full survey published later in the month." It adds that some of the recent rise may also reflect concern over the implications of the ongoing Middle East conflict, which the survey noted had a material impact on broader consumer sentiment.

FED'S BOSTIC (2024 voter, dove) spoke again on Friday at a Chamber of Commerce event, reaffirming his view that "we will get to our 2% target without us having to do anything more," whilst saying inflation is too high, and seemingly less willing to give credence to a further policy hike, unlike some of his other colleagues. Bostic believes there is "still more to come" in terms of policy transmission into the economy. The Atlanta Fed President said "we are well positioned to let things happen... The words I used are patient, cautious and resolute." He sees 2024 GDP growth "a little bit below potential" at 1.2-1.5% (vs September FOMC median dot of 1.5%), forecasting a slowdown from here, citing easing pressure on labour markets and wages, forecasting growth at a slower level until inflation returns to target.

FED'S DALY (2024 voter, dovish) spoke for the first time post-FOMC in a CNBC interview, and said that policy is in a very good place, but she was not ready to say what the Fed's next move will be. She believes policy is "significantly restrictive" but is unsure if it is restrictive enough at current settings, a fairly standard view voiced in the latest week amongst Fed officials as they look to conclude their rate hike cycle without inducing a material easing of financial conditions. Daly said the risks of overtightening and undertightening policy were balanced. She said the outlook for the economy is positive, but it's unclear if inflation will ebb as needed. She warned that if inflation doesn't ebb further the Fed would likely have to hike again. In response to the recent turbulence in bonds, she said she was not surprised by volatility in the bond market amid the uncertain outlook, adding that financial conditions were tighter than they were, and are remaining tight, helping to bring balance back to the economy. Daly warned that if financial conditions eased more, then the Fed would need to take note. Finally, she said it's hard to know why yields are rising, and there are likely multiple reasons, which is quite the change from a month ago, when she said the Fed likely doesn't need to hike again as the bond market sell-off did its job.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 3+ TICKS LOWER AT 107-13+

Treasuries "twisted" Friday with rising consumer inflation expectations continuing to unwind rate cut pricing post-Powell while the long-end found some dip buying after Thursday's auction bloodbath. 2s +3.6bps at 5.058%, 3s +4.0bps at 4.826%, 5s +2.6bps at 4.666%, 7s +1.8bps at 4.691%, 10s +0.2bps at 4.632%, 20s -2.4bps at 4.954%, 30s -2.6bps at 4.741%.

INFLATION BREAKEVENS: 5yr BEI -0.8bps at 2.293%, 10yr BEI -1.7bps at 2.348%, 30yr BEI -2.2bps at 2.456%.

THE DAY: T-Notes stretched a fresh low of 107-10+ at the globex reopen on Friday, in wake of Thursday's awful 30yr auction and hawkish Powell, before some support was found, mainly at the long end, into the APAC session. T-Notes hit resistance at 107-23 at the London handover despite with some block Ultra 10yr buying, before a pullback lower to 107-12+ later in the European morning, respecting the globex lows, and potentially some spillover from Gilts which had the added weight of strong UK GDP data.

Better buying/short covering developed again as stateside trade got underway, again mainly in the long end with the front end remaining heavy post-Powell. Ultra Bonds closed the gap post-30yr auction first, while T-Notes eventually hit peaks of 107-29+, just clipping the pre-auction levels, but ultimately failed to sustain a bid above. The rise in consumer inflation expectations in the University of Michigan survey saw bear-flattening into the afternoon, where 2yr yields made new post-Powell peaks of 5.07% amid the unwinding of rate cut pricing in STIRs unwinds (first fully priced 25bp rate cut has now nearly shifted back to September vs June earlier in the week). T-Notes again found support at 107-12+ ahead of settlement, while the long-end continued to hold up much better. Traders are now looking ahead to next week's inflation data with no coupon supply or major central bank decisions due.

STIRS:

- SR3Z3 -0.5bps at 94.59, H4 -1bps at 94.655, M4 -2.5bps at 94.86, U4 -4bps at 95.125, Z4 -6bps at 95.40, H5 -6.5 bps at 95.655, M5 -6.5bps at 95.835, U5 -6bps at 95.94, Z5 -5bps at 95.98, Z6 -3bps at 95.99, Z7 flat at 95.90.
- SOFR flat at 5.32% as of Nov 9th, volumes rise to USD 1.526tln from 1.470tln.
- NY Fed RRP op demand at USD 1.033tln (prev. 993bln) across 95 counterparties (prev. 94).
- EFFR flat at 5.33% as of Nov 9th, volumes rise to USD 105bln from 101bln.

CRUDE

WTI (Z3) SETTLED USD 1.43 HIGHER AT 77.17/BBL; BRENT (F4) SETTLED USD 1.77 HIGHER AT 81.43/BBL

Oil prices rallied gradually through the session on Friday with shorts covering after a third consecutive W/W loss. WTI and Brent peaked near settlement at USD 77.73/bbl and 82.06/bbl, respectively, both off their Wednesday lows of USD 74.91/bbl and 79.20/bbl, both their lowest levels since July. There were little fresh catalysts on Friday for the energy market, with short-covering touted and desks instead taking time to point to the recent shift in the market's zeitgeist: concerns over global growth taking the front seat as geopolitical risk in the Middle East subsides. Friday did see Iraq's oil minister speak, saying Baghdad is committed to the OPEC+ agreement on determining production levels (Iraq is the largest violator of the OPEC+ quota, producing 4.40mln BPD in October according to Platts vs its quota of 4.22mln BPD), noting that increased oil exports by some OPEC members is "natural" and does not affect agreed-upon production levels. Rising Brazil production remains in focus too, with Reuters reporting state oil Co. Petrobras (PBR) is set to announce a new USD 100bln capex 5yr plan this month. Elsewhere Friday, Ukraine's Energy Minister, in a Politico interview, floated potential retaliatory attacks on Russian energy infrastructure if Moscow ramps up its targeting of Ukraine’s electric system this winter. Finally, the weekly Baker Hughes US rig Count saw oil rigs down two at 494 and Nat Gas rigs flat at 118.

EQUITIES

CLOSES: SPX +1.53% at 4,414, NDX +2.25% at 15,529, DJI +1.15% at 34,283, RUT+0.98% at 1,704

SECTORS: Technology +2.59%, Communication Svs +1.67%, Cons Disc +1.66%, Industrials +1.34%, Materials +1.16%, Financials +1.14%, Real Estate +1.1%, Energy +1.07%, Cons Stpl +0.66%, Health +0.6%, Utilities +0.52%.

EUROPEAN CLOSES: DAX -0.77% at 15,234, FTSE 100 -1.28% at 7,361, CAC 40 -0.96% at 7,045, Euro Stoxx 50 -0.77% at 4,196, IBEX 35 -0.36% at 9,372, FTSE MIB -0.49% at 28,504, SMI -0.89% at 10,550.

STOCK SPECIFICS: **Illumina (ILMN)** slashed FY profit outlook and now expects revenue to decline 2-3% Y/Y (prev. +1%). Note, EPS beat with revenue more-or-less in line. **Trade Desk (TTD)** next quarter guidance was light with the Co. suffering from the broader pause in brand ad spending, plunging shares lower, although do note top and bottom line figures beat for the quarter. **Plug Power (PLUG)** tumbled on raising going concern doubts amid its deteriorating balance sheet compounded by the lack of hydrogen. Plug posted a deeper loss per share than expected and fell short on revenue. **Unity (U)** is not providing Q4 or 2023 guidance as the new CEO evaluates the present structure and prepares to make changes. In other news, U filed to sell USD 1bln in convertible senior notes due 2027. **Diageo (DEO)** cut forward guidance and issued a trading update due to a weaker performance outlook in LatAm and the Caribbean. **Capri (CPRI)** missed on profit and revenue with results weighed on by "macro-economic headwinds as well as E-commerce implementation related challenges". **Mettler-Toledo International (MTD)** revenue was light, Q4 guidance disappointed and cut FY profit. **Meta (META)** reportedly struck a preliminary deal to sell a new, lower-priced version of its VR headset in China; deal was struck with **Tencent (TCEHY)**, according to WSJ sources. **TKO Group Holdings (TKO)** announced a secondary offering of 8.4mln shares of Class A stock by a selling stockholder, WWE founder Vince McMahon, for about USD 700mln. **Apple (AAPL)** is to appeal the App Store's inclusion within EU dominance rules, according to Bloomberg.

WEEKLY FX WRAP

USD

Friday's fluctuations highlighted the influence of yields as the DXY and Dollar gyrated with US Treasuries on an outright basis and in consideration of their moves relative to global bond peers. However, the week began with all eyes on the crude complex that tanked on bearish demand/supply dynamics following dovish FOMC reverberations, the headline NFP miss and mostly downbeat ISM survey readings. This prompted pronounced bull-flattening in debt due to disinflationary implications and the index extended declines to 104.84 as a result before embarking on a steady recovery through a raft of Fed commentary that covered both sides of the policy divide. Indeed, the number and frequency of speakers ramped up to fill a void or relative dearth of data, with the scheduled list including Chair Powell twice, on Wednesday and Thursday. In the event, his first appearance was bereft of any comment on monetary policy or the economy, but the second more than made up as he underlined that the FOMC is not confident it has achieved a sufficiently restrictive stance and if it becomes appropriate to tighten policy further then the Fed won't' hesitate. Given the fact that Powell was perceived to be dovish when downplaying the relevance of SEP dot plots as time passes by, his latest remark was deemed comparatively hawkish and the DXY ended the day towards the top of a 105.97-37 range. Moreover, there was a sharp sting in the tail for USTs as this week's refunding culminated with an awful long bond auction and big curve retracement, albeit short-lived. Nevertheless, yields ended well off lows (10s circa 4.60% vs sub-4.50% at one point) and the index eventually topped 106.00 after hotter prelim UoM inflation projections outweighed below forecast sentiment, conditions and expectations.

AUD/CAD/GBP/NZD

The G10 laggards, with the Aussie hovering near new w-t-d lows vs the Greenback and Kiwi within 0.6522-0.6340 and 1.0896-1.0781 respective ranges in wake of, if not necessarily solely down to the RBA's dovish 25 bp hike. To recap, the nuance was in the accompanying statement via more data contingency over the prospect or need for further tightening in contrast to a presumption that the Cash Rate will likely have to be higher. Elsewhere, the aforementioned plunge in oil was the main drag on the Loonie as Usd/Cad rallied from 1.3630 to 1.3854 even though BoC minutes showed that some members of the GC felt rates would more likely than not need to increase further, and Canada's trade surplus came in twice as wide as anticipated. Meanwhile, the Pound had a lengthy wait for top tier UK data and could have gleaned more traction from GDP metrics exceeding consensus on paper, but Cable could not capitalise before probing 1.2200 and the 21 DMA vs a peak around 1.2438, with Sterling largely on a slippery slope ever since BoE's Pill mentioned that the middle of next year does not seem totally unreasonable for considering the rate stance. The Chief Economist subsequently rolled back by pushing the need to keep policy restrictive for an extended period and Governor Bailey said it is too early to talk about easing, but the writing was on the wall and evident in the Eur/Gbp cross climbing from 0.8651 to 0.8755 irrespective of the Euro's own depreciation against the Buck. Back down under, Nzd/Usd fell in sympathy with Aud/Usd to a degree, from 0.6001 to 0.5879, but was also dragged down by cooler NZ inflation forecasts for 1 year in particular.

EUR/CHF/JPY

A sharp and abrupt reversal in EGBs rather than hawkish ECB remarks from the usual GC suspects and mixed Eurozone data, services and construction PMIs, helped the Euro hold up better than most. Nonetheless, Eur/Usd still succumbed to the Greenback revival following the loss of several technical support levels and hefty option expiry interest along the way from 1.0756 to 1.0657. The Franc may have derived some impetus from a dip in Switzerland's nsa jobless rate and SNB's Schlegel reminding that a temporary increase in inflation via higher rental costs is possible, but Usd/Chf ultimately conformed to the general trend and hit 0.9045 from 0.8955 at the opposite end of the spectrum. Similar fate for the Yen, though the almost inevitable breach of 151.00 to print fresh November/2023 peaks beyond 151.50 was facilitated sticking rigidly to it ultra-accommodative stance notwithstanding Governor Ueda qualifying that the Bank doesn't necessarily need to wait until real wages actually turn positive to exit YCC and NIRP.

SCANDI/EM

After tumbling in tandem with Brent, the Nok was reprieved by Norwegian inflation coming in stronger than consensus and the core measure especially as the Norges Bank wants a clear sign of a slowdown in the latter to forgo a last hike in the cycle come December. On that note, the Riksbank is widely seen pulling the trigger again later this month and the Sek staged a more tech-related rebound in advance as the FX hedge program picked up pace modestly. Sticking with the Central Bank theme, the Pln was given a surprise boost by the NBP that opted to stick rather than cut by 25 bp, but the Mxn needed some stabilisation in WTI to counteract a dovish twist in guidance from Banxico following its unchanged rate decision. Conversely, the Zar was tarnished by Gold's meltdown and Fitch warning that SA's fiscal outlook is clouded by wage costs and risks of the Government failing to attain its targets are significant, while the Cnh and Cny needed more PBoC assurances (Governor reiterating pledge tol resolutely guard against overshooting exchange rate risk, deal with behaviour that disrupt market order and prevent the formation of one-sided and self-reinforced markets) to limit declines following mixed Chinese trade and deflationary CPI data. On the flip-side, BTC roared as the crypto cheered positive developments on the ETF front.

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