



US Market Wrap

13th November 2023: Stocks and bonds pare early losses ahead of US CPI

- **SNAPSHOT:** Equities mixed, Treasuries steepen, Crude up, Dollar flat/down.
- **REAR VIEW:** Moody's downgrades US outlook; Dovish NY Fed SCE; UK Cabinet Reshuffle; Influx of Boeing orders at Dubai Air Show; Sharp move lower in USD/JPY after making fresh peaks; OPEC raises oil demand forecasts.
- **DAY AHEAD:** **Data:** Australian NAB Business Conditions, UK Jobs Data, Spain CPI (Final), Employment, GDP, German ZEW, US CPI, Cleveland Fed CPI, Japanese GDP **Speakers:** Fed's Jefferson, Mester, Goolsbee, Williams, Barr; ECB's Lane, Centeno & Elderson **Supply:** Japan & Germany **Earnings:** Vodafone, Imperial Brands, RWE, Delivery Hero & Home Depot.
- **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 were little changed in choppy pre-CPI trade on Monday with initial losses faded into the US afternoon. Ahead of Tuesday's main event, there was little tier 1 US data to dig into although the softer NY Fed consumer inflation expectations provided some relief from the rise seen in the Michigan survey's own gauges last Friday. Moody's late Friday downgrade of the US credit outlook to negative from stable also quickly entered the rear view mirror. With little else to contemplate, a UBS call for 275bps worth of rate cuts in 2024 (vs the current 75bps priced by money markets) caught a lot of media attention. Boeing (BA) was a standout outperformer with the industrials titan booking in a heavy slew of new orders at the Dubai air show. The Dollar index was slightly softer on the session: Aussie outperformed amid hawkish leaning RBA commentary; Pound held up well amid PM Sunak's latest Cabinet reshuffle; Yen flat after suspected intervention saw USD/JPY kneejerk lower as it neared 152. In commodities, oil prices tracked the recovery in stocks with OPEC upping its global oil demand growth forecasts. Metals also generally performed well, although lithium producers were pressured after Exxon (XOM) announced its large-scale US lithium production plans for EV production by 2027. Copper was well bid, with added supply risk from First Quantum (FM CA) cutting ore processing at its Panama mine (1% of global production) amid protests.

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NY FED'S SCE: The October survey of consumer inflation expectations saw the 1yr-ahead gauge fall to 3.6% from 3.7%, the 3yr remain unchanged at 3.0%, and the 5yr fall to 2.7% from 2.8%, paring some of the inflationary concerns from the University of Michigan's survey that saw rises across its inflation expectation measures despite the fall in energy prices. The NY Fed's survey saw year-ahead gas price expectations climb to 5% vs the prior month's 4.8%, with year-ahead home price expectations unchanged at 3%. The consumer survey also saw the expected path for labour markets and household finances as largely stable. On stocks, the mean perceived probability that US stock prices will be higher 12 months from now fell by 2.5pts to 34.2%, its lowest level since October 2022.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLE HALF-A-TICK HIGHER AT 107-14

Treasuries were choppy Monday amid corporate supply and dovish consumer survey data in the backdrop of pre-CPI positioning. 2s -2.1bps at 5.041%, 3s -1.2bps at 4.817%, 5s -0.3bps at 4.663%, 7s +0.1bps at 4.690%, 10s +0.6bps at 4.634%, 20s +1.6bps at 4.962%, 30s +1.5bps at 4.748%.

INFLATION BREAKEVENS: 5yr BEI +0.6bps at 2.295%, 10yr BEI -0.4bps at 2.342%, 30yr BEI -1.3bps at 2.443%.

THE DAY: T-Notes extended their late Friday sell-off into the globex reopen for this week, in continued fallout from the late news of Moody's downgrading its US credit outlook to negative from stable, with contracts hitting initial lows of 107-



07+ in the APAC Monday session. There was some brief support to highs of 107-15 in the European morning but an extension higher failed at first ahead of stateside trade getting underway, highlighted by a block 4k 5yr sale into the NY handover.

At first, the bond bearishness grew further in the NY morning, accentuated by a fairly busy corporate IG supply pipeline in otherwise thin trade. T-Notes hit session lows of 107-00 before the recovery was back on. A lack of increases in the NY Fed's consumer inflation expectation gauges took off some of the sting from the rises in the UoM survey last Friday, while a punchy call from UBS for 275bps worth of Fed rate cuts in 2024 was doing the rounds in media. T-Notes brushed up against their earlier highs of 107-15 before settlement. Traders are now looking ahead to Tuesday's CPI with no US coupon supply to take into account this week.

STIRS:

- SR3Z3 -1.5bps at 94.58, H4 -1bps at 94.65, M4 +1.5bps at 94.88, U4 +2.5bps at 95.155, Z4 +3.5bps at 95.44, H5 +3.5bps at 95.69, M5 +2.5bps at 95.865, U5 +1.5bps at 95.96, Z5 +1bps at 95.99, Z6 -0.5bps at 95.985, Z7 -0.5bps at 95.89.
- SOFR flat at 5.32% as of Nov 10th, volumes fall to USD 1.469tln from 1.526tln.
- NY Fed RRP op demand at USD 1.020tln (prev. 1.033tln) across 95 counterparties (prev. 95).
- EFFR flat at 5.33% as of Nov 10th, volumes rise to USD 106bln from 105bln.
- US sold USD 82bln of 3-month bills at 5.285%, covered 2.76x; sold USD 75bln of 6-month bills at 5.270%, covered 2.75x.

CRUDE

WTI (Z3) SETTLES USD 1.09 HIGHER AT 78.26/BBL; BRENT (F4) SETTLES USD 1.09 HIGHER AT 82.52/BBL

Oil prices were ultimately firmer Monday after initial losses unwound in lack of an obvious catalyst. WTI and Brent futures hit troughs of USD 76.21/bbl and 80.41/bbl, respectively, in the European morning before reversing higher through the rest of the session, peaking at USD 78.53/bbl and 82.80/bbl, aided by the turnaround in risk sentiment in the US session. Furthermore, after three consecutive W/W losses for oil benchmarks, some natural consolidation appears due. While not price-moving at the time, there may have been some support from OPEC's latest monthly report which saw the 2023 world oil demand growth forecast upgraded by 100k BPD to +2.5mln BPD, whilst maintaining its 2024 forecast at +2.2mln BPD. Elsewhere, Russia continues to find alternative buyers for its oil where Reuters reports that Turkey's imports of Urals are on track to hit a record high in November above 1.4mln BPD, where the cited traders also believe key buyers India and China are going to import the same amounts as October. On the sell side, Goldman Sachs sees Brent to rise to a 2024 average of USD 92/bbl, which is down from its prior forecast of USD 98/bbl, where it says robust demand, slowing US supply growth, and low OPEC supply together imply a modest 2024 deficit in the oil market and gently declining inventories.

EQUITIES

CLOSES: SPX -0.08% at 4,412, NDX -0.30% at 15,483, DJI +0.16% at 34,338, RUT +0.01% at 1,706.

SECTORS: Utilities -1.24%, Real Estate -0.82%, Technology -0.54%, Communication Services -0.2%, Financials -0.16%, Materials -0.14%, Industrials +0.09%, Consumer Discretionary +0.29%, Consumer Staples +0.37%, Health +0.57%, Energy +0.71%.

EUROPEAN CLOSES: DAX +0.73% at 15,345, FTSE 100 +0.89% at 7,426, CAC 40 +0.60% at 7,087, Euro Stoxx 50 +0.81% at 4,232, IBEX 35 +0.96% at 9,462, FTSE MIB +1.48% at 28,925, SMI +0.33% at 10,591, PSI +0.79% at 6,301.

STOCK SPECIFICS: **Boeing (BA)** received a flurry of orders from the Dubai Air Show; including a USD 52bln order from Emirates. It was also reported that **Southwest Airlines (LUV)** ordered 108 more MAX 7 jets for deliveries until 2031. Bloomberg also suggested that BA might secure a deal for its 737 MAX in China during Biden and Xi's meeting. For EVs, particularly **Tesla (TSLA)**, India is reportedly considering tariff cuts for imported electric vehicles, in response to Tesla's request as it eyes setting up a plant in the country, according to the FT. For TSLA specifically, UK's EG Group, owner of Asda, announced it would buy Tesla's ultra-fast EV chargers. **Tyson Foods' (TSN)** earnings beat expectations and it raised its dividend, it noted beef margins are to remain pressured until the US cattle herd rebounds but it does see a better outlook for input costs in 2024, noting that protein demand is relatively stable. During China's Singles' Day, **Alibaba (BABA)** and **JD.com (JD)** saw sales rise but they may have been overshadowed by newer social platforms like Douyin, Bloomberg reported. **Micron Technology (MU)** has been sued by Yangtze Memory Technologies for patent infringement, according to DigiTimes. On unions, the NLRB rejected a **Starbucks (SBUX)** worker's request to dissolve a



union at a Buffalo store, while a strike was later announced at hundreds of stores for November 16th. UAW workers at **Ford's (F)** Louisville and Kentucky sites voted against a proposed four-and-a-half year contract, while the skilled trades workers voted in favour of the deal, according to Reuters. **Exxon Mobil (XOM)** announced plans to produce lithium for electric vehicle batteries as soon as 2027 from its upcoming plant in Arkansas, adding it aims to supply enough lithium to support the manufacture of 1mln EVs annually by 2030, according to CNBC. **Monday (MNDY)** earnings were strong with a hefty EPS beat of USD 0.64/shr (exp. 0.20), while revenue also beat and guidance was also above expectations. **Juniper (JNPR)** was hit after Bleepingcomputer reported that the CISA warned federal agencies today to secure Juniper devices on their networks by Friday against four vulnerabilities now used in remote code execution (RCE) attacks as part of a pre-auth exploit chain.

WEIGHT LOSS: Novo Nordisk (NVO) released data over the weekend noting its drug Wegovy reduced overall death risk by 18%, while also confirming that it reduced the risk of major adverse cardiovascular events. Results also suggest benefits for kidney disease. Note, the drug faces competition from Eli Lilly's (LLY) Zepbound and AstraZeneca's (AZN) pill. Note, BofA and JPM say the data is positive for **Eli-Lilly (LLY)**, but Deutsche Bank says the results may be dampened by Novo's Medicare comments, noting securing Medicare coverage via cardiovascular disease may not be on the cards and may pour some cold water on the GLP-1 space. There had also been some concerns that not all the data was statistically significant, the 18% reduction in deaths was not statistically significant, but reduction in major adverse cardiovascular events was. The medical device sector (PODD, DXCM, PEN) saw notable upside, with JPM noting the trial was underwhelming given the GLP-1s are relative to expectations for the med tech sector.

US FX WRAP

The Dollar index gave up its initial gains but held above 105.50 throughout the session trading between 105.58 and 105.95. The major development since Friday was the Moody's US outlook downgrade, while the latest NY Fed Survey of Consumer Expectations released Monday saw the median 1yr ahead inflation expectation fall to 3.6% from 3.7%, the 3yr unchanged at 3.0%, and 5yr expectations ease to 2.7% from 2.8%. The main focus lies on Tuesday with the release of the October US CPI. There was little Fed speak too, but one area of attention was a call from UBS, who see 275bp of Fed cuts in 2024, vs the 75bps currently priced in by money markets.

The Euro was marginally firmer and popped above 1.07, dancing on either side of the level heading into the close. The latest German Ifo Survey was positive, with 18.2% of firms reporting problems vs 24% in September, adding that material shortages in the manufacturing sector have eased significantly. On the ECB, de Guindos noted he expects a temporary rebound in inflation in the coming months as the base effects from the sharp increase in energy and food prices in Autumn 2022 drop out of the Y/Y calculation. He also added there are signs that the labour market is starting to weaken, and there are increasing signs of the impact of policy decisions on the real economy but he will not prejudge further rate movements. Kazaks repeated it is still premature to say the ECB is at terminal. Meanwhile, looking ahead, Morgan Stanley expects the ECB to deliver its first rate cut in June 2024, cutting by 25bps; and says that rates could go all the way down to 2.0% in September 2025.

The Yen was only marginally softer vs the Dollar by the end of the session, but USD/JPY did rise to fresh peaks of 151.92 before a sharp move lower in the cross was observed without any clear catalyst which of course generated suspicions of intervention, especially given the move happened around 10am EDT, where intervention has occurred before. USD/JPY fell from 151.92 to 151.19 in very quick succession before ultimately paring to just beneath 151.70, also beneath the prior peaks of 151.70/74. Hours earlier however the Japanese Finance Minister Suzuki cautioned that sudden FX moves were undesirable, adding officials would monitor markets and respond with a sense of urgency; albeit there was no market reaction to such remarks.

The antipodes were mixed with AUD seeing gains and NZD seeing losses vs the Dollar with the Aussie buoyed by hawkish leaning commentary from RBA Assistant Governor Kohler, who noted the decline in inflation is more gradual than previously thought. Both currencies moved from lows as the risk sentiment in the US turned around while attention for the Kiwi now turns to commentary from RBNZ Silk and NZ Food Prices data.

Sterling saw gains vs the buck and the Euro amidst the UK cabinet reshuffle which saw former PM David Cameron appointed as Foreign Secretary. Note also a conservative MP has written a vote of no confidence against PM Sunak. Elsewhere, there had been a speech from BoE hawk Mann, where she noted research points to increased inflation, increased inflation persistence, and increased inflation volatility associated with climate shocks, policies, and spillovers. Mann also added that carbon price shocks lead to more inflation persistence than oil price shocks.

CAD was flat vs the Dollar with USD/CAD trading either side of 1.3800 with early weakness pared by a jump in crude oil prices and positive risk sentiment.



EMFX was mixed. BRL was relatively flat vs the buck while MXN saw strength after commentary from Banxico Governor Rodriguez spoke, confirming language in the Banxico statement that Banxico could start discussing potential rate cuts at future meetings, but caveated that any rate cuts would be gradual and would not necessarily imply a cycle of continuous reduction while she also pushed back on expectations for rate cuts this year, noting the macroeconomic conditions permitting, rate cuts are not expected in 2023. COP saw little action given the public holiday while CLP saw notable weakness and was the LatAm laggard despite upside in copper prices amid short covering and supply woes as First Quantum cuts ore processing at the Panama copper mine (1% of global supply) amid protests/blockades.

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