US Market Wrap

14th November 2023: Market rips after soft CPI sends yields and Dollar tumbling

- **SNAPSHOT**: Equities up, Treasuries up, Crude flat, Dollar up.
- **REAR VIEW**: Headline and Core CPI beneath expectations despite annual adjustments; Fed now priced for 100bps of cuts in 2024; Fed's Goolsbee and Barkin not talking about cuts; Hot UK employment data; Rebound in German ZEW survey; HD surges post-earnings.
- **COMING UP**: **Data**: Australian Wage Price, Chinese Retail Sales, Industrial Production, French Unemployment, UK CPI & RPI, French & Italian CPI (Final), EZ Total Trade Balance & Industrial Production, US Retail Sales, Japanese Trade **Speakers**: Fed's Barr & Barkin **Supply**: Australia & Germany **Earnings**: SSE, Siemens Energy, JD.Com, Target, TJX, Cisco.

MARKET WRAP

Stocks and Treasuries rocketed higher and the Dollar nosedived lower Tuesday after US CPI came in softer than expected across the board. Gains of 2%+ in the SPX and NDX were dwarfed by the 5%+ seen in the small-cap Russell 2k index, with resurrection for unloved sectors on falling yields and the major dovish shift in Fed rate path expectations - stocks closed near highs. The front and belly were strongest on the Treasury curve with yields seeing their largest one-day fall since the March banking crisis (5yr -24bps). Money markets have removed the December hike risk previously implied, and are now pricing in 100bps of cuts for 2024 vs 75bps beforehand, with rate cut pricing jumping forward to see a 35% implied cut as early as the March FOMC. We heard from Fed's Goolsbee and Barkin after the CPI report, but as has been the status quo, neither were eager to start talking about cuts. The DXY has fallen from earlier highs of 105.73 to current lows of 104, with the major strength seen in all G10 pairs; USD/JPY is now probing 150 to the downside, to the MoF/BoJ's delight; Euro buoyed by a rebound in German ZEW survey; Pound had tailwinds of hot UK labour market data. Commodities rallied initially, but many, including oil, pared significantly later in the session.

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CPI: US CPI was cooler than expected in October, offsetting some fears of a hotter print due to the annual adjustments. Headline M/M prices were flat in October, beneath the expected +0.1% rise and cooling from September's +0.4%, while the Y/Y eased to 3.2% from 3.7%, beneath the 3.3% forecast. The core metrics were also soft despite risks of upward pressure due to medical care annual adjustments: Core M/M rose 0.2%, softer than the prior and expected 0.3%, while Core Y/Y rose 4.0%, beneath the prior and expected 4.1%. Looking into the report, the index for shelter continued to rise in October but was offset by the declines in gasoline prices, seeing the headline M/M unchanged. Food prices accelerated to 0.3% from 0.2%. Other indexes which increased in October include rent, owners' equivalent rent, motor vehicle insurance, medical care, recreation, and personal care. Offset that, the indices for lodging away from home, used cars and trucks, communication, and airline fares were among those that decreased over the month. On core services ex-shelter, Oxford Economics highlighted that it rose by the smallest amount since July, however, "momentum is still running hot, helped by a surge in auto insurance costs and a rebound in medical care inflation. Inflation in this category largely reflects a continued rapid wage growth and will be the slowest to normalize." The report will likely see a reduction in Fed officials commenting on the potential for another rate hike, and we may get some more calls that policy is now "sufficiently restrictive", given it would likely require a sizeable upturn in November CPI and an ebullient November NFP report to bring the December meeting into play. On the other hand, it's worth noting the Fed has made it clear recently that it wants to see inflation well on its way to 2% before it talks about cutting rates, in part because it wants to prevent any further loosening of financial conditions.

FED SPEAK: **Vice Chair Jefferson** (voter) in his pre-CPI remarks said some measures of economic uncertainty, particularly for inflation, are elevated, noting uncertainty around inflation persistence may warrant stronger policy response than otherwise. Jefferson said policy decisions taken under uncertainty may look different from those taken under optimal certainty. **Barkin (2024 voter)**, speaking after the CPI release, said he's not convinced that inflation is on a clear path to the 2% target despite "real progress" in recent months. The Richmond Fed President said the inflation numbers have come down, but much of the drop has been a partial reversal of COVID-era price spikes, he noted shelter and shelter inflation remain higher than historic levels, so does services inflation. **Goolsbee** (2023 voter, dove) said at an event that the October CPI report "looked pretty good". The Chicago Fed President heralded that this year could be the fastest non-war-related one-year fall in US CPI inflation in a century, with an unemployment rate that never gets above 4%. He said the key to further progress on inflation is housing, noting there will be some bumps.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 1 POINT & 15 TICKS HIGHER AT 108-29

Treasuries saw a massive rip higher led by the front and belly after softer-than-expected CPI data ramped up rate cut expectations. At settlement, 2s -22.4bps at 4.817%, 3s -24.3bps at 4.572%, 5s -24.1bps at 4.421%, 7s -23.1 bps at 4.458%, 10s -19.1bps at 4.441%, 20s -14.7bps at 4.812%, 30s -12.6bps at 4.619%.

INFLATION BREAKEVENS: 5yr BEI -5.0bps at 2.243%, 10yr BEI -3.4bps at 2.303%, 30yr BEI -3.9bps at 2.399%.

THE DAY: It had been an expectedly very quiet and action-less session ahead of the US CPI figures on Tuesday. T-Notes hit a session low of 107-09+ in the APAC morning before ticking up to pre-data peaks of 107-18+ in the European morning. A strong German ZEW survey and UK employment data had at first capped any further upside, while the US NFIB index was little changed.

As the CPI data was released, with both headline and core figures coming in on the soft side of expectations, the front and belly led the curve higher with T-Notes ripping from 107-18+ to 108-19+ in an immediate reaction, before going on to print highs of 108-28+ as the dust settled, then stretching to 108-29+ later on in pre-settlement trade. The cash 10yr yield fell through 4.50% to lows of 4.43%. For curve spreads, the biggest steepening came in the 5s30s part of the curve (>10bps) with the 5yr outperforming, marking its biggest one-day fall (>20bps) since the March banking crisis.

FED PRICING: Money markets have now fully unwound the 15% hike risk that was priced for the December FOMC before CPI and have gone on to price 100bps of easing across 2024 vs the 75bps priced before. As for the timing of cuts, the first cut is now fully priced for the June meeting, although meetings as soon as March are now pricing in non-trivial risks of a cut.

STIRS:

- SR3Z3 +5.5bps at 94.635, H4 +14.5bps at 94.795, M4 +20.5bps at 95.08, U4 +24.5bps at 95.395, Z4 +26.5bps at 95.70, H5 +27.5bps at 95.96, M5 +28bps at 96.14, U5 +27.5bps at 96.23, Z5 +27bps at 96.255, Z6 +23bps at 96.21, Z7 +20bps at 96.085.
- SOFR flat at 5.32% as of Nov 13th, volumes rise to USD 1.494tln from 1.469tln.
- NY Fed RRP op demand at USD 988bln (prev. 1.020tln) across 97 counterparties (prev. 95)
- EFFR flat at 5.33% as of Nov 13th, volumes fall to USD 102bln from 106bln.
- US sold USD 75bln of 6-week bills at 5.290%, covered 2.64x.
- US leaves 4-, 8-, and 17-week bill auction sizes unchanged at USD 95bln, 85bln, and 56bln, respectively; 4- and 8-week both sold on Nov 16th and 17-week on Nov 15th; all settle on Nov 21st.

CRUDE

WTI (Z3) SETTLED FLAT AT 78.26/BBL; BRENT (F4) SETTLED USD 0.05 LOWER AT 82.47/BBL

Oil prices were choppy on Tuesday with a confluence of energy-specific and macro catalysts driving price action. Oil prices had begun to pare their Monday rip in the European morning Tuesday, with Iraq's oil minister on wires noting his optimism on reaching a deal with KRG in the coming days to resume oil exports, although fresh Bloomberg reports of China housing market stimulus and the IEA raising its global oil demand growth forecasts in its monthly report capped more meaningful losses. WTI and Brent hit troughs of USD 77.79/bbl and 82.06/bbl, respectively, in the NY morning before reversing with higher with risk assets, and on the Dollar's tumble, after the softer across-the-board US CPI report, peaking at USD 79.77/bbl and 83.97/bbl later in the morning. However, prices pared significantly into the afternoon and settlement. Traders are now looking ahead to this week's US energy inventory data with the private release due later on Tuesday ahead of the EIA figures on Wednesday. Current expectations (bbls): Crude +1.8mln, Gasoline +0.6mln, Distillates -1.2mln.

EQUITIES

CLOSES: SPX +1.91% at 4,496, NDX +2.13% at 15,812, DJI +1.43% at 34,828, RUT +5.39% at 1,798

SECTORS: Real Estate +5.32%, Utilities +3.94%, Cons Disc +3.32%, Materials +2.91%, Industrials +2.04%, Financials +1.94%, Technology +1.92%, Communication Svs +1.42%, Cons Stpl +0.9%, Health +0.7%, Energy +0.54%

EUROPEAN CLOSES: DAX +1.77% at 15,616.15, FTSE 100 +0.19% at 7,439.92, CAC 40 +1.39% at 7,185.68, Euro Stoxx 50 +1.43% at 4,292.85, IBEX 35 +1.71% at 9,623.30, FTSE MIB +1.46% at 29,348.94, SMI +1.16% at 10,713.00, PSI +0.62% at 6,340

STOCK SPECIFICS: **Tesla (TSLA)** raised prices for Model 3 RWD vehicles in China by CNY 1,500 and the price of Model Y RWD vehicles in China by CNY 2,500 beginning from November 14th. Elsewhere, the Indian Trade Minister Tweeted on X that TSLA is planning to double the number of components it imports from India. **Apple Inc. (AAPL)** supplier Imagination Technologies plans to lay off 20% of its workforce due to a challenging business environment, Reuters reported. **Home Depot (HD)** earnings beat expectations on EPS and revenue with guidance was narrowed. **Amazon.com Inc. (AMZN)** struck a deal with **Snap (SNAP)** allowing direct Amazon purchases from Snapchat ads, similar to its partnership with Meta, The Information reported. **Boston Properties (BXP)** agreed to sell a 45% interest in two Massachusetts-based life sciences development properties to Norges Bank Investment Management at a gross valuation of about USD 1.66bln. **Johnson Controls International (JCI)** had a cybersecurity incident affecting IT infrastructure, but most systems are restored. An investigation is ongoing; unauthorised activity has been contained. There was no evidence of product/service impact but it is delaying its Q4 earnings report because of the system disruption caused by the attack; results are likely by December 14th. **Fisker Inc (FSR)** posted a deeper loss per share than expected and revenue missed expectations. It is also in talks with **Foxconn (2317 TT)** about manufacturing Alaska pickup trucks. **Teck Resources (TECK)** is said to be nearing a deal to sell its coal business to **Glencore (GLEN LN)**, Japan’s **Nippon Steel (5401 JT)**, and South Korea’s **Posco (005490 KS)** in a deal that would value the coal assets close to USD 9bln, Bloomberg reported. **Boeing (BA)** recorded 34 deliveries in October including 19 737s and 15 widebodies. Reuters highlight that Boeing must deliver 70 narrowbody 737s and 14 widebody 787 Dreamliners in November and December to meet its 2023 target. **Airbnb (ABNB)** acquired startup Gameplanner.AI for under USD 200mln, according to CNBC. Meanwhile, for social media names, a US judge rejected efforts by **Alphabet (GOOGL)**, **Meta (META)**, **Snap (SNAP)** and **Bytedance** to dismiss litigation over alleged harms that children suffer from using social media.

AUTOS: UAW President vowed to intensify unionising efforts at non-union US auto plants following successful contracts with Detroit Three automakers, aiming to overcome historical obstacles and pledge a vigorous organising approach, according to Senate testimony. Meanwhile, UAW hourly workers at General Motors (GM) Spring Hill plant vote to reject the tentative deal; 68% of votes cast were against the deal, according to the UAW vote tracker. However, UAW President Fain later said Detroit Three contract voting is trending in favour of approval, with early results "very favourable".

US FX WRAP

The Dollar was slammed on Tuesday after the US inflation report was cooler than expected on both headline and core measurements which saw a marked dovish repricing of Fed expectations. The probability of a further hike has been completely ruled out while c. 100bps of cuts are now priced in for 2024 vs 75bp pre data and vs just the 25bp as forecast in the September FOMC Dot Plot, which is set to be updated in December. Fed's Gooslbee spoke after the report, noting it "looked pretty good" but there is still a way to go before the Fed's 2% inflation goal is reached. The DXY saw highs of 105.73 pre-data before then printing lows later in the session of 104.09, tumbling throughout the session on the dovish market reaction, with strong upside in stocks and Treasuries, seeing the reserve currency sold broadly against major pairs.

The Euro was supported by the tumbling buck, seeing EUR/USD reclaim 1.07, 1.08 and 1.0850 in just one session. In Europe alone, the latest Reuters poll for the ECB found all 72 surveyed expect the central bank to keep the Deposit rate at 4.0% through year-end, and 40/72 expect the ECB to wait until at least Q3 before cutting rates. Meanwhile, on data, the EU GDP flash estimate was in line with expectations, -0.1% Q/Q and +0.1% Y/Y for Q3. The flash employment data saw Q/Q at 0.3% (prev. 0.2% with Y/Y at 1.4% (prev. 1.3%), while the overall EU ZEW Survey saw a notable jump to 13.8 from 2.3. The German ZEW Economic Sentiment data was stronger than expected, rising to +9.8 from -1.1 (exp. 5.5) with expectations showing a strong recovery, albeit current conditions had not improved as much as hoped.

The Yen, and Japanese officials, found great solace in the US inflation report with USD/JPY paring from 151.71 at the morning peaks to lows of 150.39 at time of writing as US yields tumbled while pricing of Fed rate cuts would bring the Fed and BoJ more aligned with policy than it has been over the Fed's hiking cycle. Elsewhere, during Tokyo's session Tuesday, there was commentary from the BoJ Director-General of the Monetary Department Masaki, who said that he doesn't see long-term interest rates greatly exceeding 1% even with rising pressure. Also, BoJ Deputy Governor Uchida declined to comment on FX levels and stated the BoJ aims for price rises accompanied by wage hikes - comes after the suspected mini-intervention on Monday. Note, although the Yen performed well vs the buck, it was softer vs the Euro and Swissy and was generally softer vs other G10 currencies ex-CAD.

The Franc also saw huge upside vs the buck but was marginally softer vs the Euro. Out of Switzerland, the October Producer/Import price data declined 0.9%, not as steep as the 1.0% decline the month prior on an annualised basis while M/M rose 0.2%, accelerating from the prior 0.1%. Meanwhile, SNB's Jordan said the central bank will not hesitate to tighten monetary policy further if necessary, saying he's not sure if the terminal has been reached. Jordan added that at the next meeting they will review whether measures taken to date are sufficient to keep inflation within price stability range on a sustainable basis, stressing they will monitor the development of inflation closely in the coming weeks.

The Yuan gained vs the buck, primarily on the US CPI data but some strength was also observed during the European morning on Bloomberg reports that China is said to be considering CNY 1tln of new market funding to boost the housing market, with the first steps potentially taken as soon as this month. Officials are considering options including pledged supplementary lending and special loans but noted the final amount is subject to change.

The antipodes surged on the dovish US CPI release with the upside in US equities only strengthening the cyclical currencies with both NZD and AUD outperforming the G10 FX peers on Tuesday; AUD rose above 0.6500 at the peaks with NZD/USD testing 0.6000 to the downside. NZD was the marginal outperformer with AUD/NZD slightly lower on the session. Aside from the US CPI, the aforementioned China support is also supportive for the two currencies. Elsewhere, the latest Australian NAB Business conditions rose but business confidence fell in October, while RBNZ's Silk spoke but mainly on FX reserves, stating building FX reserves level is to take many years and that they retain the capability to operate under negative equity.

Sterling was also among the antipodes as the G10 outperformers after a strong labour market report in the London morning before US CPI, which only ascended Cable to fresh highs and to levels not seen since September, but some resistance was found at 1.25. Meanwhile, BoE's Pill noted that there is still some work to do to curb inflation, saying the BoE does not necessarily need to raise rates further, but they are prepared to do so if needed. Pill warned that 5% inflation is still too high, but there has been significant progress. He also thinks the risk is that there is too much momentum in inflation to see it return to 2%.

The Loonie was a relative laggard (ex-Dollar) but the move in the buck saw USD/CAD fall to c. 1.37 with initial upside in oil also supporting, but a lot of the oil move did pare throughout the session ahead of US inventory data.

Scandis both saw gains vs the Euro but SEK was the clear outperformer on the buoyed risk sentiment post-US CPI while NOK was already lower in the EU morning after weak consumer confidence data and the initially lower oil prices. However, SEK also saw some weakness on dovish Riksbank pricing earlier on after the Swedish CPI data came in cooler than expected on both headline and core metrics.

EMFX generally gained vs the softer DXY after the US inflation data. In LatAm, BRL, MXN and COP all saw notable gains but the CLP saw huge outperformance with the CPI data initially supporting the red metal, Chile's main export. Meanwhile, the latest Chile Central Bank minutes revealed that the BCCh considered cutting by 50bps or 75bps in October, but decided on 50bp as more clarity was needed on the prolonged monetary tightening by the Fed. It also warned that they expect an immediate inflationary impact due to rising commodity prices and a higher exchange rate. The BRL had firmed vs the buck, but not to the same extent as its LatAm peers, with the latest service sector growth for September showing a surprise slowdown. Elsewhere, ZAR saw large gains as gold spiked on the dovish Fed prospects post-CPI while the TRY was actually lower vs the Dollar with the initial upside in oil prices weighing on the energy importer. Turkey is also in focus this week as it its lawmakers look to approve Sweden's NATO bid.