US Market Wrap

15th November 2023: Yields and Dollar pare some CPI downside after better-than-feared retail sales

- **SNAPSHOT**: Equities flat/up, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Surprise PPI decline; Better-than-feared retail sales; Biden-Xi meeting begins; Daly refused to rule out another hike; UK CPI cooler than expected; China activity data beats; MSFT develops own in-house chips; Huge TGT profit beat; Weak TJX Q4 guide.
- **COMING UP**: **Data**: Australian Employment, Chinese House Prices, US IJC, New Zealand PPI **Speakers**: ECB's Lagarde, de Guindos; Fed's Barr, Waller, Cook, Mester, Williams; BoE's Ramsden **Supply**: Spain, France & US **Earnings**: Aviva, Melrose, Halma, Alibaba, Walmart, Applied Materials

MARKET WRAP

Stocks were choppy on Wednesday, closing off their best levels seen earlier in the session, but indices still remain near their post-US CPI highs. There was a confluence of factors to digest, with another very soft inflation report seen via the US PPI figures offset by a better-than-feared retail sales report. The mixed retail sentiment seen in earnings with Target (TGT) shares surging after the Co. reported big profits, although that was more an idiosyncratic story with the retailer still noting a challenged macro backdrop; TJX (TJX), for instance, was hit after a disappointing Q4 guide; Walmart (WMT) is due to report on Thursday pre-market. Treasuries were sold, with some of the Fed rate cut pricing paring from the extremes, particularly after the retail sales beat and rise in the NY Fed's manufacturing survey, although it's worth noting the front end remains much closer to its post-CPI highs than the long end, which has nearly closed the CPI gap with corporate debt supply weighing out the curve ahead of next week's 20yr bond auction. The Dollar Index was firmer but still towards the lower end of the post-CPI reaction on Tuesday, meanwhile, USD/JPY saw a much more dramatic recovery in wake of the US data on Wednesday. Pound was sold broadly after soft UK CPI figures. Oil prices were sold to lows not seen in over a week amid mixed US inventory data, slowing Chinese oil demand in October, and the firmer US Dollar.

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PPI: October US headline PPI fell 0.5% M/M, a big surprise against the expected 0.1% rise, and down from the prior month's 0.5% rise; Y/Y rose 1.3%, also well beneath the expected +1.9% and down from the prior +2.2%. The headline figures were pressured lower by a plunge in energy prices, mostly in the gasoline segment but also electricity prices, with food prices little changed. For the core figures, M/M prices were flat, beneath the expected and prior +0.3%, with the core Y/Y rising 2.4%, beneath the prior and expected 2.7%. The core figures saw good prices rise a meagre 0.1% and services prices unchanged. Pantheon Macroeconomics writes, "Combining the PPI data with the CPI numbers released yesterday, we expect a 0.25% increase in the October core PCE deflator, so it could round either to 0.2% or 0.3%. In any event, what really matters is the core services print, which should rise by less than the 0.45% gain in September."

RETAIL SALES: US October Retail Sales were not as bad as feared, falling 0.1% (exp. -0.3%), with the prior revised up to +0.9% from +0.7%. The core beat at +0.1% M/M (exp. 0.0%) with the prior revised up to +0.8% from +0.6% and the Control Group, which feeds into the GDP report, was in line with expectations at 0.2% with the prior revised up to 0.7% from 0.6%. The greatest declines were seen in furniture and home furniture stores (-2%) and miscellaneous store retailers (-1.7%), with notable falls also in motor vehicle and parts dealers (-1.0%). On the flip side, the largest gains were seen in Health and personal care stores (+1.1%), electronic and appliance stores (+0.6%), and food and beverage stores (+0.6%), elsewhere prices were roughly flat with gasoline stores -0.3%, while food services and drinking places were +0.3%. Regarding the control group, analysts at ING suggest this indicates decent resilience and supports their view that Q4 GDP growth may not be as weak as the consensus 0.7% annualised growth; ING looks for 1.5% growth while the latest Atlanta Fed GDPNow tracker was raised to 2.2% from 2.1%.

EMPIRE STATE SURVEY: The NY Fed's manufacturing survey index for November rose to +9.1 from -4.6, above the expected -2.8 and the second-highest reading of the year behind April's 10.8. The headline index was driven by improvements in shipments, unfilled orders, and delivery times; inventories also increased for the first time in several months. However, the forward-looking internals were less impressive, with the New Orders index falling to -4.9 from -4.2.

Additionally, "firms became much less sanguine about the outlook". The index for future business conditions plunged twenty-four points to -0.9, its lowest in nearly a year. Elsewhere, and constructive on the inflationary footing, Prices Paid fell to 22.2 from 25.5 and Prices Received fell to 11.1 from 11.7. The Employment index fell to -4.5 from +3.1.

FED: **Fed's Daly (2024 voter)**, in an FT interview, noted that data is showing further deceleration in inflation and it is "very, very encouraging" and indicative of effective Fed policies. However, the San Fran Fed President refuses to rule out another interest rate hike and stresses that rate cuts are "not happening for a while". When asked about rate cuts in 2024, she said the debate would be less about easing policy and more about "normalising" rates after an extended period of "very restrictive" settings. As she weighs monetary policy, she will be using 1yr-ahead inflation expectations and the performance of the real economy as a gauge. Daly said she is worried about a "stop-start" policy approach that would occur without sufficient information to confirm whether inflation is truly on a path back to 2%. Given the move lower in UST yields recently, Daly indicated little concern about the recent sharp fall which has loosened financial conditions. Meanwhile, she also expects housing and services-related inflation to fall further.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLE 22 TICKS LOWER AT 108-07

Treasuries were sold Wednesday despite soft PPI with beats on retail sales and NY Fed survey accelerating profit taking. 2s +10.3bps at 4.920%, 3s +11.3bps at 4.684%, 5s +10.3bps at 4.524%, 7s +10.0bps at 4.558%, 10s +8.8bps at 4.529%, 20s +6.8bps at 4.882%, 30s +5.9bps at 4.680%.

INFLATION BREAKEVENS: 5yr BEI +1.9bps at 2.257%, 10yr BEI +2.7bps at 2.324%, 30yr BEI +2.1bps at 2.418%.

THE DAY: Treasuries entered the NY session slightly softer on Wednesday but remained near their highs seen in wake of the US CPI figures. T-Notes hit highs of 108-30+ in the APAC session despite strong Chinese IP and retail sales data, just off the 108-31 peaks on Tuesday. Two-way flows were seen in the European morning with soft UK CPI offset by profit-taking, there was also some fleeting support from EGBs after the German constitutional court ruled that the transfer of unused pandemic debt into climate fund is illegal, which in short, means a reduction of EUR 60bln in debt issuance over the next five years. Regardless, better selling developed to see T-Notes go and print lows of 108-18+ at the NY handover.

The release of the 08:30ET data slate saw softer than expected PPI data add to the disinflationary tone of the CPI release, with T-Notes spiking higher at first to match earlier peaks of 108-30+ before swiftly reversing to new session lows as the better-than-expected retail sales figures and NY Fed Mfg survey were digested, and enough reason to take profits with little else major on the calendar Thursday. Contracts ultimately hit troughs of 108-02+ later in the NY morning, aided by a healthy slate of corporate IG issuance, then hovering near lows into settlement, but still significantly above their pre-CPI 107-18+ levels, with the long-end closest to closing the CPI gap, while the short end remains much more supported vs its pre-CPI levels.

FED PRICING: Money markets have pared rate cut pricing for 2024 to 90bps of total cuts vs 100bps entering Wednesday, still above the 75bps priced before US CPI. The first cut is still fully priced for June, while meetings as soon as March are still pricing in non-trivial risks of a cut, but a bit less than what was seen entering the session.

STIRS:

- SR3Z3 -1.5bps at 94.62, H4 -5.5bps at 94.74, M4 -10bps at 94.985, U4 -12.5bps at 95.275, Z4 -13.5bps at 95.57, H5 -13.5bps at 95.835, M5 -13bps at 96.02, U5 -12.5bps at 96.115, Z5 -11.5bps at 96.15, Z6 -9.5bps at 96.125, Z7 -8bps at 96.015.
- SOFR flat at 5.32% as of Nov 14th, volumes rise to USD 1.533tln from 1.494tln.
- NY Fed RRP op demand at USD 944bln (prev. 988bln) across 92 counterparties (prev. 97).
- EFFR flat at 5.33% as of Nov 14th, volumes flat at USD 102bln.
- US sold USD 56bln of 17-week bills at 5.255% covered 3.17x.

CRUDE

WTI (Z3) SETTLES USD 1.60 LOWER AT 76.66/BBL; BRENT (F4) SETTLES USD 1.29 LOWER AT 81.18/BBL

Oil prices were sold on Tuesday to lows not seen in over a week amid mixed US inventory data, slowing Chinese oil demand, and a firmer US Dollar. WTI and Brent futures were sold through the session with contracts hitting session lows of USD 76.45/bbl and 81.00/bbl just before settlement. Earlier on, China data released saw the country's oil refinery throughput in October ease from the prior month's highs amid weakening industrial fuel demand and narrowing refining margins, with only slight increases in M/M oil imports. In the US, the weekly EIA inventory data for week ending 10th November saw US crude stocks build 3.6mln bbls (exp. +1.8mln), although the products saw a net draw of a similar magnitude with refinery utilisation running strong, indicative of strong demand. Elsewhere, Reuters reported that Urals and CPC blend oil loadings from Russia's Black Sea terminal have been suspended from November 14th due to a storm. FT reported that Denmark will be given the task of inspecting and potentially blocking tankers of Russian oil sailing through its waters (60% of Russia's total seaborne oil exports) amid the EU's efforts to enforce the price cap.

EQUITIES

CLOSES: SPX +0.16% at 4,503, NDX +0.03% at 15,817, DJI +0.47% at 34,991, RUT +0.16% at 1,801.

SECTORS: Consumer Staples +0.7%, Communication Services +0.6%, Financials +0.57%, Materials +0.47%, Industrials +0.2%, Real Estate +0.16%, Health +0.07%, Consumer Discretionary -0.04%, Technology -0.08%, Utilities -0.33%, Energy -0.34%.

EUROPEAN CLOSES: DAX +0.86% at 15,748.17, FTSE 100 +0.62% at 7,486.91, CAC 40 +0.37% at 7,211.99, Euro Stoxx 50 +0.60% at 4,317.45, IBEX 35 +0.18% at 9,640.70, FTSE MIB +0.42% at 29,466.93, SMI -0.07% at 10,708.19, PSI -0.62% at 6,30.

STOCK SPECIFICS: **Target Corp. (TGT)** EPS beat, revenue missed, and SSS were not as bad as feared. Margins also beat. Sees Q4 comps in a wide range around mid-single digits (exp. -2.5%) Sees Q4 EPS between 1.90-2.60 (exp. 2.22). Analysts are pointing to the company's good performance on its expenses and inventory which have boosted profit above estimates despite the challenging macro environment, with the profit guide still respectable. **TJX Companies Inc. (TJX)** EPS and revenue beat and lifted SSS and EPS view but its Q4 guidance disappointed. **Nike (NKE)** raises its quarterly dividend by 9% to USD 0.37/shr. **Microsoft (MSFT)** has developed its own in-house AI chips, aiming to boost performance of ChatGPT and reduce costs. **Eli-Lilly (LLY)** is to invest a "single-digit billion" amount in a new plant in Western Germany, according to Reuters sources. ValueAct has been building a stake in **Disney (DIS)**. **Chevron Corp. (CVX)** is reportedly evaluating options for 70k net acres of land in East Texas' Haynesville shale formation after pausing development earlier this year, Reuters sources note a full sale is an option. **UnitedHealth Group Inc. (UNH)** faces a lawsuit that claims it uses AI to systematically deny elderly patients' claims for extended care such as nursing facility stays. EU regulators plan to file anti-competitive charges against the USD 20bln **Adobe (ADBE)**/Figma deal as early as this week, according to FT. ADBE is open to remedy discussions, according to Reuters. **Alphabet Inc (GOOG)** reportedly agreed to pay **Samsung (005930 KS)** USD 8bln from 2020-2030 to make Google Search, the Play Store, and Assistant the default on Samsung's mobile devices, according to a testimony presented by Epic Games cited by Bloomberg. **General Motors (GM)** Cruise unit said it paused all supervised and manual car trips in the US and expanded the scope of investigations at the robotaxi operator in the aftermath of an accident that initially led to the suspension of driverless vehicle operations. **Goodyear Tires (GT)** announced a cost savings plan which will total USD 1.3bln by the end of 2025. **Advance Auto Parts (AAP)** EPS and revenue beat but it slashed EPS guidance citing continued pressure in Q4 that's not offset by price, and has also initiated sale process for Worldpac and Canadian business. It is also launching a new USD 150mln cost reduction programme. **Berkshire Hathaway (BRK.B)** said it is not disclosing one or more of its stock holdings and requested the SEC permission to keep the details confidential in the latest 13-F. However, Berkshire did take a new stake in **Sirius XM (SIRI)**.

US FX WRAP

The Dollar was firmer Wednesday but still towards the lower end of the post-CPI reaction on Tuesday. with DXY printing a low earlier on of 103.96 before paring back above 104. DXY hit a low of 103.96 in a kneejerk reaction to the 08:30ET US data with the much cooler than expected PPI report digested first before swiftly paring back above 104 to highs of 104.51 with retail sales data not as bad as feared with the cooler prices data largely baked in after the monster reaction to CPI on Tuesday. The NY Fed's manufacturing survey also saw a bigger rise than expected.

The Euro was lower as the buck reclaimed some ground with EUR/USD falling beneath 1.0850 to lows of 108.32. In the Eurozone, Industrial Production data fell by more than expected in September while a lot of the final CPI numbers from France were unchanged but Italy saw a 0.1% revision lower to the prior on both M/M and Y/Y. Elsewhere, ECB's Centeno spoke, stating the ECB must be patient with policy, noting inflation is falling faster and he still expected a good inflation print for November but convergence to 2% will be slower. Meanwhile, the European Commission also downgraded its 2023 and 2024 growth forecasts.

Yen was softer as the move in yields and the Dollar pared significantly from Tuesday's extremes with weaker Japanese Growth data also keeping the Yen pressured. Q3 growth fell 2.1% on an annualised basis vs the -0.6% forecast. USD /JPY saw a notable rise back above 151 to highs of 151.43 in US trade vs the lows of 150.06 seen in the initial kneejerk reaction to the US PPI data.

The Yuan was relatively flat vs the buck despite the PBoC conducting the largest net injection in seven years of CNY 1.45tln in the 1yr MLF with the rate unchanged at 2.5%. Meanwhile, China activity data was much hotter than expected with both retail sales and industrial output beating expectations. Meanwhile, the Chinese FX Regulator said commercial banks sold net USD 7.6bln in FX in Oct (vs USD 13.4bln net sales in Sep); sold net USD 44.3bln in the Jan-Oct period.

Antipodes were marginally firmer with outperformance in the NZD which extended further above 0.6000 to highs of 0.6054, matching resistance seen on 11th October and 29th September to mark a triple top in the cross. The Aussie was more or less flat vs the Dollar as eyes turn to labour data Thursday while the latest wages data was in line at 1.3%, accelerating from 0.9% Q/Q but the Y/Y metric was a touch above the forecast at 4.0% (exp. 3.9%, prev. 3.6%).

Sterling fell vs the buck and the Euro with Cable testing 1.24 to the downside, from the highs of 1.25 it entered the session at, after UK inflation data was cooler than expected. CPI was unchanged M/M in October, easing from the prior 0.5% pace and beneath the 0.1% forecast. The Y/Y eased to 4.6% from 6.7% (exp. 4.8%), while Core CPI eased to 0.3% from 0.5%, beneath the 0.4% forecast, with the Y/Y also easing more than expected. The report noted that the largest downward contribution to the monthly change in both CPIH and CPI annual rates came from housing and household services, where the annual rate for CPI was the lowest since records began in January 1950. The second-largest downward contribution to the monthly came from food and non-alcoholic beverages where the annual rate was the lowest since June 2022. Home prices saw their first annual decline since 2012.

CAD was flat vs the buck but with oil prices tumbling and the Dollar recovering, it performed relatively well trading between 1.3655 and 1.3710 before the Looney recovered back beneath 1.37 heading into APAC trade.

Scandis saw notable gains with SEK and NOK both leading the G10 FX currencies with SEK propped by rising inflation expectations ahead of the Riksbank meeting next week while EUR/SEK extended beneath the 200dma after closing beneath the level on Tuesday. NOK likely benefited from the SEK gains despite tumbling Brent prices while the latest Norwegian trade balance saw a wider surplus than the prior.

EMFX was mixed. COP underperformed, BRL and MXN were flat while CLP outperformed its peers. There was little of note for BRL and MXN on Wednesday but CLP gains tracked the upside in copper prices while COP tumbled on weak oil prices. Elsewhere, ZAR saw mild gains and TRY saw mild losses.