US Market Wrap

16th November 2023: Stocks chop and bonds jump on more dovish US data

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW**: Mester wants more evidence inflation is on way to target; Cook is cognizant of two sided policy risk; IP misses amid UAW strike; Import/Export prices fall; Philly Fed Prices Paid eases; NAHB housing index falls; WMT disinflation warning; Hawkish BoE Greene; CSCO, WMT, BABA, PANW earnings disappoint; M positively surprises; AAPL in-house chip faces delays; AMZN to launch online vehicle sales in US.
- **COMING UP**: **Data**: UK Retail Sales, EZ CPI (Final), US Housing Starts **Speakers**: ECB's Lagarde; Fed's Collins, Barr, Goolsbee, Daly; BoE's Ramsden

MARKET WRAP

The SPX and NDX continued to chop sideways on Thursday although the small-cap Russell 2k did see more significant losses. There were various factors at play, with Walmart (WMT) and Siemens (SIE GY) both cautious on the macro outlook, although the former helped yields tumble after warning of deflation in the months ahead, noting a decline in discretionary spending. However, USTs were mainly supported from the US data, where a rise in jobless claims, falling import & export prices, declining IP figures, and a tumble in the NAHB housing index all helped drive yields back towards their CPI lows, not to mention the decline in the Philly Fed's Prices Paid index, albeit the headline business index rose above expectations. Oil prices plunged to their lowest levels since July after the US data, with bearish momentum accelerating after the prior Nov lows were broken. The Dollar Index was little changed, although USD/JPY tumbled amid the narrowing US/JP yield environment, but the cross is holding above 150 for now. Fed Speak was inconsequential for markets, with Mester and Cook both refusing to take a victory lap on inflation yet, at least in public. Money markets are back to pricing near 100bps of cuts through 2024 after the data. In stocks, Alibaba (BABA) was hit hard after cancelling its Cloud spinoff, citing US-China restrictions. On which, late Reuters reports noted Applied Materials (AMAT), ahead of its earnings, is under US criminal investigation for potentially evading export curbs on China's SMIC. Cisco (CSCO) and Palo Alto Networks (PANW) were notable underperformers after their earnings reports.

US DATA

INDUSTRIAL PRODUCTION: US Industrial Production fell 0.6% in October, deeper than the expected 0.3% decline, with the prior month's 0.3% rise downwardly revised to +0.1%. Manufacturing output fell 0.7%, also deeper than the expected 0.3% decline, with the prior downwardly revised to +0.2% from +0.4%. A big factor for the declines was the tumble in auto output (-10%) amid the UAW union strikes, with manufacturing output ex-autos rising 0.1%. Pantheon Macroeconomics believe output will likely mean-revert in November given the strikes ended on October 30th. However, the consultancy warns, "the underlying trend is still more or less flat, and is unlikely to improve substantially in the near-term. Capital spending intentions are no longer falling sharply but remain depressed, and the external boost to activity implied by China's manufacturing PMIs looks limited." Elsewhere, note that the 0.4% increase in Mining Output was driven by the crude oil output running strong, but Pantheon believes this has been a temporary boost from shale producers drawing down existing wells rather than boosting new investment, "so it will not last".

JOBLESS CLAIMS: Initial Jobless Claims for the week ending 4th November rose to 231k from 218k, a sizable increase compared to recent averages and above the 220k forecast, supportive of a rebalancing labour market. The jump in claims brought the 4wk average to 220.25k from 212.5k, the highest since 14th September. Meanwhile, the continued claims data continues to rise, up to 1.865mln from 1.833mln, above the 1.847mln forecast, showing that those who are claiming unemployment benefits may be struggling to return to the labour market. The seasonal factors had expected a decrease of 10,261, while the unadjusted number of initial claims was at 215.9k. Nonetheless, when taken with the cooler-than-expected CPI and PPI reports, the rising jobless claims this week support the view that rate hikes are behind us, particularly if the upward trend continues.

NAHB: The latest NAHB Housing Market Index for November eased to 34 from the prior and expected 40, seeing the fourth consecutive monthly drop taking it to the lowest level in 12 months. The NAHB Chair said, "The rise in interest rates since the end of August has dampened builder views of market conditions, as a large number of prospective buyers were priced out of the market". Looking ahead, the NAHB Chief Economist said that although sentiment was down in November, recent macroeconomic data point to improving conditions for home construction in the coming months, but the report does highlight this data was predominantly conducted before the latest CPI report. The Chief Economist also notes that the 10yr yield moving back to the 4.5% range for the first time since late September will help bring mortgage rates close to or below 7.5%. The index of current single-family home sales eased to 40 from 46, while the index of home sales over the next six months eased to 39 from 44 and the index of prospective buyers eased to 221 from 26. However, looking ahead, "NAHB is forecasting approximately a 5% increase for single-family starts in 2024 as financial conditions ease with improving inflation data in the months ahead."

PHILLY FED: The Philly Fed's manufacturing survey business index rose to -5.9 in November from -9 in October, against expectations for no change and now at the second highest level of the year behind August's +12 anomaly. The decline in Prices Paid to 14.8 from 23.1 added to the string of disinflationary data points this week. The report noted, "On balance, the firms indicated mostly steady employment, and the current price indexes continue to suggest increases in prices." But similar to the Empire survey earlier this week, the forward-looking components were not great with the new orders index falling to +1.3 from +4.4, while the six-month ahead business index fell to -2.1 from +9.2, the first negative reading since May.

FED

COOK: **Governor Cook (voter)** believes that a soft landing is possible, noting that risks are two-sided and the Fed must balance the risk of not tightening policy enough against risk of doing too much. She said there is a risk that continued demand momentum could slow the pace of disinflation, but she was also attentive that concurrent global central bank tightening may mean each central bank needs to do a bit less, noting that Fed policies have spillovers abroad. Meanwhile, domestically, she said small business conditions, housing sector, and lower-income households may be signalling broader stress ahead. Cook is cognizant of risks related to renewed global economic shocks, including geopolitical and muted growth in China and Europe. She acknowledged that the Fed's rate hikes and balance sheet runoff have tightened US financial conditions and helped reduce inflation, as have supply chain improvements and drops in commodity prices. Looking ahead, she notes that increased multifamily housing supply will contribute to the expected further reduction in inflation, adding that labour supply and demand are coming into better balance.

MESTER: Cleveland Fed President **Mester (2024 voter, hawkish)**, in a CNBC interview, said policy is in a good and balanced place, saying she hasn't decided whether a further rate hike is needed. When asked if she would pencil in another hike in the December 'Dot Plot', said she doesn't know yet. The typically hawkish official said that this week's inflation data isn't enough to convince her that the Fed is done, that the Fed won't react to a single data point, and she wants to see more evidence, although does note the Fed has made good progress; she warned she would be concerned if inflation levelled off at 3%. Money markets have already said the Fed is done, and when asked about market pricing, Mester said she is not going to say whether the market is right or wrong. On the rate path through 2024 Mester says, "My feeling is that it's really not about cutting rates. It's really about how long do we stay in a restrictive stance and perhaps have to go higher given what happens in the economy." On rising Treasury yields, Mester said both term premia and strong data has played a role.

BALANCE SHEET: Fed Governors Jefferson, Cook, and Kugler all see a case for considerable balance sheet decline, according to a reply letter sent to US senator Rick Scott cited by Reuters, who had sent a series of questions on the matter to the Fed. The letter notes that the balance sheet wind-down depends on the economy and markets, stressing they are not targeting a Dollar value for the balance sheet. The letter also stated there may be considerable decline in RRP and reserves.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLE 20+ TICKS HIGHER AT 108-27+

Treasuries bounced back to CPI highs on Thursday after more soft US data, tumbling oil, and Walmart's deflation warning. 2s -7.4bps at 4.842%, 3s -9.0bps at 4.591%, 5s -9.3bps at 4.433%, 7s -9.0bps at 4.472%, 10s -8.4 bps at 4.453%, 20s -6.3bps at 4.830%, 30s -5.8bps at 4.634%.

INFLATION BREAKEVENS: 5yr BEI -3.6bps at 2.217%, 10yr BEI -2.3bps at 2.298%, 30yr BEI -2.4bps at 2.392%.

THE DAY: After troughing at 108-02+ on Wednesday, T-Notes recovered into the Thursday APAC session with 108-14 serving as firm resistance until the London handover amid the hot Australian jobs report. New highs were stretched out as London trade got underway, with Siemens (SIE GY) warning on the waning global growth outlook, although there was some fleeting pressure out of Gilts amid hawkish remarks from BoE's Greene.

T-Notes continued to tread higher cautiously as stateside trade began but gained more momentum after Walmart (WMT) warned of falling discretionary spending and deflation in the months ahead. Treasuries jumped further, led by front end, after the 08:30ET data slate: jobless claims both printed above expectations, decline in import and export prices, and a fall in the Philly Fed survey's Prices Paid index. T-Notes went on to peak at 108-30 (just off the CPI peak of 108-31) later in the NY morning after soft IP data and the tumble in the NAHB housing index, with duration playing catch up to the initial bull-steepening. Contracts hovered near highs into the close, aided by the massive tumble in oil prices to July lows.

FED PRICING: Money markets on Thursday have repriced in the CPI rate cut pricing that faded on Wednesday, with 2024 back to nearly 100bps of cuts priced (vs 90bps at Weds close). The first cut is still fully priced for June, with May 80% priced, and March 30% priced.

NEXT WEEK'S AUCTIONS: US to sell USD 16bln of 20yr bonds on Nov 20th and USD 15bln of 10yr TIPS on Nov 21st; both to settle on Nov 30th. To sell USD 26bln of 2yr FRNs (reopening) on Nov 21st, to settle on Nov 24th.

STIRS:

- SR3Z3 +0.75bps at 94.63, H4 +3bps at 94.775, M4 +5bps at 95.04, U4 +7bps at 95.35, Z4 +9bps at 95.67, H5 +11bps at 95.95, M5 +11.5bps at 96.135, U5 +12.5bps at 96.24, Z5 +12.5bps at 96.27, Z6 +11.5bps at 96.23, Z7 +10bps at 96.105.
- SOFR flat at 5.32% as of Nov 15th, volumes rise to USD 1.605tln from 1.533tln.
- NY Fed RRP op demand at USD 0.912tln (prev. 0.944tln) across 93 counterparties (prev. 92).
- EFFR flat at 5.33% as of Nov 15th, volumes fall to USD 96bln from 102bln.
- US sold USD 96bln of 4-week bills at 5.290%, covered 2.75x; sold USD 86bln of 8-week bills at 5.280%, covered 2.63x.
- Leaves 6-, 13-, and 26-week bill sizes unchanged at USD 75bln, 75bln, and 68bln, respectively; 13- and 26-week sold on Nov 20th and 6-week sold on Nov 21st; all to settle on Nov 24th.

CRUDE

WTI (F4) SETTLES USD 3.70 LOWER AT 73.09/BBL; BRENT (Z4) SETTLES USD 3.76 LOWER AT 77.42/BBL

Oil prices plunged on Thursday to their lowest levels since July on the back of weak US economic data, adding to the bearish energy inventory data on Wednesday. Prices began selling with velocity after the larger declines than expected in the US industrial production data for October, coming on the heels of the rising jobless claims figures. The bearish momentum became more pronounced after WTI and Brent front-month future broke beneath their Nov (8th) lows of USD 74.91/bbl and 79.20/bbl, respectively, with the downside extending through the rest of the session to see troughs printed at USD 72.16/bbl and 76.60/bbl ahead of settlement. More broadly, WTI and Brent front-month contracts have now re-entered their May and June trading ranges of USD 66.80-75.06/bbl and 71.28-78.73/bbl which were seen before the surge from July to the September peaks. The downside comes ahead of the OPEC+ meeting on Nov 26th, ramping pressure on the cartel to extend or even deepen existing cuts given there are already expectations that Saudi extends into 2024. Note there were no fresh catalysts on the supply side to explain the losses Thursday, although many desks continue to point to Wednesday's US crude stocks build.

EQUITIES

CLOSES: SPX +0.12% at 4,508, NDX +0.10% at 15,833, DJI -0.13% at 34,945, RUT -1.52% at 1,774.

SECTORS: Communication Services +0.94%, Technology +0.68%, Utilities +0.45%, Health +0.38%, Financials +0.32%, Materials +0.25%, Real Estate +0.03%, Industrials -0.06%, Consumer Discretionary -0.91%, Consumer Staples -1.2%, Energy -2.11%.

EUROPEAN CLOSES: DAX +0.24% at 15,786.61, FTSE 100 -1.01% at 7,410.97, CAC 40 -0.57% at 7,168.40, Euro Stoxx 50 -0.28% at 4,303.25, IBEX 35 +0.28% at 9,667.40, FTSE MIB -0.71% at 29,258.10, SMI -0.61% at 10,643.07, PSI -0.81% at 6,247.63

EARNINGS: **Cisco (CSCO)** earnings beat on the quarter but it cut its FY guidance due to slowing orders and high customer inventories, which weighed heavily on the stock. **Palo Alto Networks (PANW)** beat on EPS and revenue but billings missed, while its FY billings guide was also weak. **Walmart (WMT)** saw a strong quarter but the stock tanked, potentially as the raised profit guide is still just beneath Wall St estimates and also maybe some "sell the fact" after the stock enjoyed some strength leading into the report, particularly after the gains in Target (TGT) on Wednesday. Walmart also noted softness in its profitable general merchandise category as discretionary spending falters. **Macy's (M)** saw a surprise profit and a revenue beat, but SSS disappointed; noted it is entering the holiday period in a healthy inventory position. It also lifted FY guidance while Q4 guidance beat expectations. **Alibaba (BABA)** beat on EPS and revenue but announced it is no longer going to spin off its Cloud Intelligence group amid US-China restrictions and has put IPO plans for Freshippo on hold.

STOCK SPECIFICS: **Apple's (AAPL)** push to replace **Qualcomm (QCOM)** chip sets is reportedly slipping further behind schedule, according to Bloomberg. Apple's bid to bring modem chip in-house faces technical challenges and is risking delay of the modem chip until the end of 2025 or early 2026, behind its initial goal of Spring 2025. **Applied Materials (AMAT)** is reportedly under US criminal investigation for potentially evading export curbs on China's SMIC, according to Reuters via sources. AMAT has been probed for shipping equipment to China's SMIC via South Korea without a license, the sources added. **Tesla (TSLA)** CEO Musk met with Chinese President Xi, and Xi told Musk that he supports Tesla's developments in China. **General Motors' (GM)** contract deal with the UAW union faces surprisingly stiff opposition, NYT writes, with many long standing GM workers voting against the tentative accord, which they feel insufficiently improves retirement benefits. However, the deal later clinched ratification, with members at Lockport voting in favour of the new agreement. Elsewhere, GM Cruise unit CEO said the Co. is suspending its employee share programme, noting the recent operations pause has pushed out their commercialization and revenue generation timelines. **Intel (INTC)** was upgraded to Buy at Mizuho Securities, raising the PT to USD 50 from USD 37/shr previously. Bearcave was negative on **Axos Financial (AX)**. OpenAI plans to create a team to incorporate AI into schools and education, according to COO cited by Reuters. The news weighed on **Chegg (CHGG)**. **Amazon (AMZN)** is to launch online vehicle sales in the US, starting with **Hyundai (005380 SK)** in 2024; hitting **CarGurus (CARG)** and **Carvana (CVNA)**. **Jacobs Solutions (J)** is reportedly set to merge its critical missions solutions business with **Amentum Services Inc**, according to Reuters sources.

US FX WRAP

The Dollar is flat heading into APAC Friday trade with DXY testing support at 1.04 before bouncing from the level. US data overall was net dovish with jobless claims, import/export prices, IP, and NAHB housing index all showing slowing some demand concerns, and while the Philly Fed survey beat on the headline, its Prices Paid component eased, with the forward-looking indicators less impressive. Fed's Mester (2024 voter, hawkish) wants to see more evidence inflation is on its way to 2% but said policy is in a very good place, while Cook said the Fed must balance the risk of doing too little vs doing too much.

The Euro was flat vs the buck with EUR/USD trading either side of 1.0850 with little ECB speak or EU data to digest aside from some financial system commentary from Lagarde. Siemens (SIE GY) reported strong profits but its macro commentary was far less sanguine.

The Yen was the G10 outperformer, where USD/JPY fell from highs of 151.47 to lows of 150.29, but hovers above 150.50 heading into APAC trade Friday with the Yen benefitting the most from falling UST yields and dovish US data.

The Yuan saw marginal gains vs the Dollar in wake of the Presidential meeting between Xi and Biden. Both sides agreed relations cannot be shut off and the world needs them to work together, although China denied later claims from President Biden that President Xi was a dictator. Note soft Chinese house prices, which fell at the fastest pace in eight years in September, initially weighed on the Yuan.

Antipodes were softer vs the buck, particularly the NZD with AUD/USD supported somewhat by stronger than expected jobs data. Meanwhile, for the Kiwi, there was notably large OpEx at the NY cut, with 1.8bln rolling off around 0.6025, with the cross seeing a peak of 0.6029 during APAC trade before pushing lower in a choppy risk environment ahead of NZ PPI imminently.

Pound was flat vs the Euro and the Buck with Cable briefly dipping sub 1.24 before returning above the level in the US session. Note some hawkish comments from BoE's Greene during the London morning supported the currency and weighed on Gilts.

Loonie was softer vs the buck with the weakness in oil prices hitting the currency despite above expected Canadian housing starts. Technicians are eyeing the 21 dma at 1.3767.

Scandis were weaker vs the Euro, particularly the NOK on the tumbling Brent crude prices to see it the G10 underperformer while NOK/SEK fell sub 0.9700. Meanwhile, the latest Norges Bank Expectations survey saw economist inflation projections fall vs the Q3 survey for the 1yr, 3yr, and 5yr ahead forecasts.

LatAm FX was mixed. BRL was slightly softer vs the buck amid commentary from Brazil's congressman Forte who announced the Government decided to maintain their fiscal target for 2024 at the moment, which follows warnings from BCB Chief Neto that any change to the target would raise concerns. MXN was flat despite tumbling oil, but COP was the LatAm laggard following on from Wednesday's underperformance after the GDP miss and worsened by President Petro's comments on the Banrep cuts, who also said the fiscal rule in the country should not continue; at the same time, the September trade deficit was smaller than expected. CLP was the outperformer despite lower copper prices.

In CEE, EUR/CZK was flat despite the latest Czech PPI data being softer than expected. EUR/HUF was also flat while NBH Deputy Governor Virag said they are to continue with 75bps cuts in December. EUR/PLN was lower with the latest Polish inflation data in line with expectations at 8%.