US Market Wrap

17th November 2023: Stocks meander while bonds flatten after hot housing data

- **SNAPSHOT**: Equities flat/up, Treasuries flatten, Crude up, Dollar down.
- **REAR VIEW**: Hot US housing starts and permits; OPEC+ to mull deeper oil cuts; Daly and Collins refuse to rule out more hikes; Goolsbee wants to focus more on inflation than jobs; Open AI board gives founder Sam Altman the boot; Citigroup to announce mass lay offs.
- **WEEK AHEAD**: Highlights include PBoC LPR, FOMC Minutes, ECB Minutes, RBA Minutes, UK Autumn Statement, Japanese CPI and more. To download the report, please [click here](Highlights include PBoC LPR, FOMC Minutes, ECB Minutes, RBA Minutes, UK Autumn Statement, Japanese CPI and more).
- **CENTRAL BANK WEEKLY**: Previewing PBoC LPR, FOMC Minutes, RBA Minutes, ECB Minutes, Riksbank Announcement and CBRT Announcement. To download the report, please click here.

MARKET WRAP

Stocks were little changed, again, on Friday with the indices continuing to lack direction after the rip higher on Tuesday's CPI. There was a degree of profit-taking into the cash open but that pared. Treasuries were mixed with bear-flattening seen in the wake of the above-forecast US housing starts and permits data, with some hawkish central bank rhetoric (and not much more) enough to ignite profit-taking and steepener unwinds, fading initial Gilt-led strength after the soft UK retail sales figures. Little scheduled catalysts are due now ahead of the 20yr bond auction on Monday. The Dollar Index was sold with strong gains in the Yen and Euro in a session influenced by book squaring for the week, although the Yen found particular strength (USD/JPY < 150) after the soft UK retail sales figures. Yuan firmed amid the PBoC and regulators holding meetings in efforts to stabilise the property market, coming ahead of the 1yr and 5yr Prime Rate decisions on Monday (exp. unchanged). Oil prices saw a significant recovery from their Thursday depths, with growing expectations and source reports around a larger OPEC+ supply cut ahead of the Nov 26th meeting.

US DATA

HOUSING STARTS/PERMITS: US Housing Starts rose 1.9% in October to 1.372mln from 1.358mln in September, against the expected decline to 1.35mln. Single-family starts rose 0.2% to 970k, while multi-family homes rose 4.9% to 382k. Building permits also beat, rising 1.1% to 1.487mln from 1.471mln, beating the 1.45mln forecast. Single-family authorisations rose 0.5% to 963k, while multi-family homes rose by 2.2% to 469k. Overall, a strong report for the housing sector despite high interest rates. Looking ahead, analysts at Oxford Economics forecast "housing starts to weaken over the balance of the year and into Q1 of 2024 before beginning to recover around mid-year. However, the permits data and the latest decline in mortgage rates may lend upside risk to that outlook."

FED

Fed's Goolsbee (2023 voter, dove) said the US has seen a strong rebound of labour supply and the Fed will do whatever it takes to beat inflation. Goolsbee stated there is a "big gap" between the data and how consumers and businesses feel about the economy. Inflation is on the front of his mind, and said that the jobs and growth rate should not be the main focus now, which should remain as prices. Goolsbee also stressed that housing inflation is the thing to keep an eye on but added higher rates will weigh on economic activity as supply shocks wear off.

Fed's Daly (2024 voter, dovish) said Fed needs the boldness to wait given uncertain times, noting that high risks and murky economic conditions mean the Fed should practice gradualism. Daly also clarified that the Fed is not certain if inflation is on track to 2% and is also uncertain if current economic dynamics are "remnants" of pandemic recovery or a new normal. She repeated the Fed needs patience and "measured adjustments", noting Fed policy debates are now centred on what constitutes as sufficiently restrictive and for how long the Fed maintain that stance.

Vice Chair of Supervision Barr (voter) said the Fed is likely at or near the peak of where rates need to be.

Collins (2025 voter) said there has been promising inflation news, the economy is rebalancing, and there are also positive signs that labour markets are coming into balance, via a CNBC interview. Collins added that the data is very noisy right now but the Fed is positioned to be patient and she said she would not take additional firming off the table. She understands the tendency to enjoy good news, but the Fed needs to stay the course to lower inflation and it is too soon to declare victory over high inflation, but said she is seeing some good news, namely on shelter inflation. Collins said she is being patient and looking holistically at the data. On financial conditions, she said overall that financial conditions have some restrictions, but she sees evidence that they are still working in the Fed's favour. In an earlier interview Friday, Collins said improvements in labour supply in a tight market may allow employment to grow without price pressure

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLE 3 TICKS HIGHER AT 115-13

Treasuries twisted Friday with steepeners taking profits into the weekend on the back of hot housing data and hawkish CB rhetoric. 2s +6.9bps at 4.911%, 3s +5.1bps at 4.642%, 5s +3bps at 4.457%, 7s +1.5bps at 4.480%, 10s -0.2bps at 4.443%, 20s -1.0bps at 4.807%, 30s -2.4bps at 4.598%.

INFLATION BREAKEVENS: 5yr BEI +2bps at 2.242%, 10yr BEI -0.3bps at 2.296%, 30yr BEI -1.1bps at 2.381%.

THE DAY: Treasuries were choppy during APAC trade before leaking lower at the European handover, where T-Notes hit initial troughs of 108-22. Soft UK retail sales figures, with concerns over cost of living, supported UK Gilts and peers, seeing T-Notes rally to highs of 109-08+, comfortably breaking through the prior CPI highs of 108-31, but began paring into the NY handover.

Some hawkish-leaning ECB commentary hit alongside the above forecast October US housing starts and building permits data which was enough to ignite a wave of profit-taking, seeing the front-end lead a sell-off with steepeners unwinding in the NY morning. We soon heard from Fed's Collins and Daly, who are the latest officials to refrain from endorsing market pricing of no more Fed hikes. The pullback lower was also aided by the rip (back) higher in oil prices. T-Notes hit session lows of 108-19 before shorts covered into the NY afternoon, mainly in the long-end, with no concession seen ahead of Monday's USD 16bln 20yr auction, not to mention any corporate issuance we may get for the holiday-shortened week. There is no major US data on Monday, although German PPI could set the tone in the European morning.

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 94.62, H4 -2bps at 94.755, M4 -4.5bps at 95.00, U4 -7bps at 95.285, Z4 -8bps at 95.59, H5 -8.5bps at 95.86, M5 -7.5bps at 96.06, U5 -6bps at 96.175, Z5 -4.5bps at 96.225, Z6 -1bps at 96.22, Z7 +1.5bps at 96.125.
- SOFR flat at 5.32% as of Nov 16th, volumes rise to USD 1.640tln from 1.605tln.
- NY Fed RRP op demand at USD 0.936tln (prev. 0.912tln) across 94 counterparties (prev. 93)
- EFFR flat at 5.33% as of Nov 16th, volumes rise to USD 99bln (prev. 96bln).

CRUDE

WTI (F4) SETTLES USD 2.95 HIGHER AT 76.04/BBL; BRENT (Z4) SETTLES USD 3.19 HIGHER AT 80.61/BBL

Oil prices almost completely pared their massive sell-off from Thursday, with shorts covering for the week and expectations of an OPEC+ reaction. The upside momentum got going in the London morning for the benchmarks and never really stopped, with desks pointing at first to a sell-side call from JPM who said OPEC+ could carry out an additional 1mln BPD cut to get ahead of demand weakness. The upside found additional momentum in the US session amid headlines from Russia's Kremlin that Finland was making a "big mistake" and had chosen confrontation with Russia. The softening Dollar also helped. There were source reports both in Reuters and the FT later in the session that OPEC+ was considering deeper cuts, with the latter confirming the JPM call that up to an additional 1mln BPD could be on the table at the OPEC+ meeting on Nov 26th, underscoring the bid. WTI and Brent Jan '24 contracts peaked at USD 76.19/bbl and 80.81/bbl, respectively ahead of settlement.

EQUITIES

CLOSES: SPX +0.13% at 4,513, NDX +0.03% at 15,838, DJI +0.01% at 34,947, RUT +1.35% at 1,798.

SECTORS: Energy +2.12%, Consumer Discretionary +0.73%, Industrials +0.59%, Financials +0.55%, Utilities +0.19%, Materials +0.17%, Consumer Staples -0.17%, Real Estate -0.19%, Health -0.19%, Technology -0.28%, Communication Services -0.47%.

EUROPEAN CLOSES: DAX +0.84% at 15,919.16, FTSE 100 +1.26% at 7,504.25, CAC 40 +0.91% at 7,233.91, Euro Stoxx 50 +0.85% at 4,339.15, AEX +0.62% at 758.59, IBEX 35 +0.97% at 9,761.40, FTSE MIB +0.82% at 29,498.43, SMI +0.89% at 10,737.37, PSI +0.53% at 6,280.56.

STOCK SPECIFICS: **Gap Inc. (GPS)** earnings saw strong beats, EPS of USD 0.59 beat the expected 0.17, Revenue of 3.77bln also beat the forecast 3.59bln; Comp sales were much better than feared too, with Old Navy posting a surprise rise. **Amazon (AMZN)** is reportedly funding three advocacy groups working to thwart Microsoft's (MSFT) government cloud contracts, according to Bloomberg. Also for Microsoft, shares saw late selling pressure after OpenAI, which it is a major shareholder in, announced it was axing its CEO Sam Altman after losing faith in him. **Alphabet Inc (GOOG)** is reportedly delaying the release of its Gemini large language model, telling some cloud customers and business partners not to expect it until Q1 2024, according to The Information citing sources. **Applied Materials (AMAT)** earnings beat but Reuters reported just ahead of the close on Thursday that AMAT is under US criminal investigation for evading export curbs on China's SMIC. **Motorola Solutions (MSI)** increased its dividend by 11% to USD 0.98/shr and raised its buyback programme by USD 2bln. **Chargepoint (CHPT)** named a new CEO and the CFO also announced departure; Co. also cut guidance and announced it is to take an impairment charge. **FMC Corp (FMC)** gave more details on its growth plans, where it announced a strategic review of non-core assets. Prelim FY24 revenue view of 4.65-4.85bln (exp. 4.7bln). Adj. EBITDA view 1.025-1.125bln (exp. 1.1bln); it also sees significant FCF over the next 18-24 months. **Advanced Auto Parts (AAP)** delayed its 10-Q filing. **Amazon (AMZN)** is cutting jobs in Alexa. **Citigroup (C)** plans to announce the first major round of lay offs in a massive restructuring on Monday, which will eventually result in tens of thousands of positions being cut, according to the FT. **Meta's (META)** head of AR is to leave the co., according to Reuters. **Zoom (ZM), Expedia (EXPE), Analog Devices (ADI) and Roblox (RBLX)** were all upgraded. **Airbnb (ABNB), Cisco (CSCO), Air Products (APD) and Agilent (A)** were all downgraded.

WEEKLY FX WRAP

USD/GBP: There was no let up in the number or frequency of Fed and other Central Bank speakers, while oil extended its slide to keep bonds elevated, but the market focus switched to macro releases given a number of top tier economic indicators on the agenda. For the Dollar and DXY, US CPI was key and proved to be a real game-changer of 'turnaround Tuesday' proportions even though the actual inflation metrics were barely below consensus. Nevertheless, the index tumbled from 105.73 at best to 103.98 and almost covered the entire weekly range in a single day having eased from its 105.95 w-t-d peak posted during the prior session, as bears pounced on the slowdown in headline CPI, to 3.2% Y/Y from 3.7% rather than the minor miss against 3.3% forecast. The Greenback remained grounded heading into the midweek docket comprising PPI, Retail Sales and the Empire State, and knee-jerked lower as the former cooled much more than expected. However, consumption held up better than anticipated and NY Fed manufacturing rebounded into positive territory to confound expectations for a less negative print, albeit countered by declines in sub-components. The DXY got a reprieve after matching its post-CPI low and it was a similar story on Thursday when jobless claims came in above consensus on a weekly and continued basis, industrial production and manufacturing output both fell more than forecast and the NAHB housing market index dropped instead of holding steady as anticipated. Roll on to the final trading day of the week, and the Buck looked set to profit at the Pound's expense in wake of considerably worse than feared UK retail sales, having already weathered softer than consensus CPI and other inflation readings, but Cable's retreat through 1.2400 was short-lived. In fact, Sterling reclaimed the bulk of its losses vs the Dollar between 1.2214-1.2505 extremes as the index slipped to a minor new trough at 103.97 and BoE rhetoric continued on the hawkish side via Ramsden. To recap, he would not rule out having to respond to evidence of more persistent inflationary pressure by increasing the Bank rate further, adding that recent wage growth is not consistent with the 2% target and perhaps in reference to hot headline average earnings that kicked off the week. Meanwhile, Mann stayed true to her tightening bias, Pill refrained from mentioning easing again as he stuck to the restrictive policy for a lengthy period message and Greene chimed in with a line that markets globally have not really clocked on to how long Central Banks will need to keep rates high.

JPY: The Yen had a couple of encouraging Japanese data points to make up for bleak contractionary preliminary Q3 GDP, like an export-driven narrower than forecast trade deficit and stronger than expected M/M machinery orders, but the bottom line was a marked fall in Treasury yields. For context, 10 year cash dipped beneath 4.40% at one stage compared to a high just shy of 4.70% and Usd/Jpy retreated from 151.92 to 149.21 irrespective of the familiar jawboning and a bounce back over the 55 DMA after strong US housing starts and building permits were compounded by Fed's Daly and Collins kept the door ajar for more hiking. In short, the former said the Fed is uncertain whether inflation is on track to 2% and the latter echoed sentiments that it's too soon to declare victory over high inflation.

AUD/EUR/CHF/CAD: Hawkish comments from the acting RBA Assistant Governor, upbeat/improving risk sentiment and elements of the latest Aussie labour report (employment change in particular), underpinned Aud/Usd and Aud/Nzd within 0.6541-0.6351 and 1.0879-1.0775 respective ranges, while the Euro scaled a swathe of big option expiries, major technical hurdles and absorbed hefty EGB gains on the way from 1.0666 to 1.0895. However, Eur/Usd may need to close above a Fib retracement level at 1.0862 to maintain upward thrust. Elsewhere, SNB's Jordan said the Bank will not hesitate to tighten monetary policy further if necessary and is set to review whether measures taken to date are sufficient to keep inflation within the price stability range on a sustainable basis at the next meeting, but the Franc was more in sync with its US peer as Usd/Chf reversed around 100 pips from 0.9052, and the Loonie kept tabs on crude in the face of somewhat mixed Canadian data (stronger than expected manufacturing sales and housing starts vs producer and raw material prices turning deflationary). Regardless, Usd/Cad conformed to trend and recoiled from 1.3843 to 1.3655.

NZD: The Kiwi was buffeted by Aud/Nzd headwinds, but also a significant slowdown in NZ inflation projections and ANZ withdrawing its lone call for a final 25 bp RBNZ hike in February 2024. Nzd/Usd drifted down from 0.6504 to 0.5861 before regrouping when its US rival came under renewed downside pressure.

SCANDI/EM: Soft Swedish inflation prints only undermined the Sek for a while as it resumed technical impetus and retained an even chance of a Riksbank hike next week, while the Nok drew some relief from Brent finding its feet and the Zar from Gold's revival awaiting S&P's SA ratings review. Nonetheless, the Cny and Cnh sharply outperformed on a bullish combo of better than forecast Chinese activity data, more pledges of economic support, liquidity and efforts to address funding strains, not to mention promising dialogue between China and the US including Presidents Xi and Biden plus other high-ranking officials. Conversely, the Try was subject to more investor angst and caution in advance of the upcoming CBRT policy meeting due to geopolitical, economic and fiscal issues, latter not helped by reports that Turkish crude imports are heading to scale an all time high this month.