US Market Wrap

21st November 2023: Stocks lose momentum as Dollar ekes higher amid pre-Thanksgiving positioning

- **SNAPSHOT**: Equities down, Treasuries up, Crude flat, Dollar up.
- **REAR VIEW**: US data mixed, as Philly Fed services jumps but Existing Home Sales prints 13yr low; Poor 10yr US TIPS auction; Mixed and stale FOMC Minutes; Encouraging NZ trade data; US retailer warnings as LOW, BBY, KSS all disappoint with cautious commentary; DKS impresses; Canadian headline CPI slightly cooler-than-expected; German government froze new spending in the ESF.
- **COMING UP**: **Data**: Australian Leading Index, Japanese Chain Store Sales, UK CBI Trends, US Durable Goods, IJC, EZ Consumer Confidence (Flash), UoM Inflation Expectations (Final), Australian PMI (Flash) **Events**: UK Autumn Statement, ECB FSR **Speakers**: RBA''s Bullock; ECB's Elderson; BoC's Macklem **Supply**: Australia, Germany & US **Earnings**: Thyssenkrupp, Severn Trent, Kingfisher, Deere & Co.

MARKET WRAP

Stocks were lower on Tuesday with month-end flows and pre-Thanksgiving positioning getting the nod ahead of the key Nvidia (NVDA) earnings. Best Buy (BBY) was the latest large retailer to warn of waning consumer spending. The FOMC minutes were stale and as usual mixed, with familiar rhetoric to recent Fed Speak, noting that the Fed is in a position to proceed carefully whilst stressing the need for restrictive policy for some time, noting inflation risks are skewed to the upside and growth risks to the downside - Fed pricing remained little changed in wake of will still nearly four 25bp rate cuts priced across 2024. Treasuries were choppy but ultimately steeper in holiday-thinning trade with mixed data (jump in Philly Fed services index against 13yr lows in existing home sales), a poor 10yr TIPS auction (inflation breakevens rose), with some spillover strength seen from EGBs after the German government froze new spending in the ESF. On which, the Euro was a laggard in the G10 FX space, while Sterling, Kiwi, and Loonie outperformed, despite the soft CAD CPI figures for the latter, albeit ranges were not large in FX Tuesday. Sterling is in focus ahead of the Chancellor's budget on Wednesday with reports already suggesting both business and personal tax breaks. In commodities, oil prices were little changed after their recent recovery ahead of Sunday's OPEC+. Precious metals saw strong gains with Gold breaking above USD 2,000/oz, albeit paring back beneath in the NY afternoon.

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EXISTING HOME SALES: US existing home sales fell 4.1% in October to 13yr lows of 3.79mln, beneath the prior 3.95 mln and expected 3.9mln. Oxford Economics says, "higher mortgage rates and little relief on home prices have priced many buyers out of the market", and it expects existing homes sales to remain under pressure in the months ahead, but the more recent decline in mortgage rates should put a floor under sales. Within the release, the inventory of homes for sale was 1.15mln, or 3.6 months' worth (prev. 3.4mlnin Sep), while the national median home price rose 3.4% Y/Y to 391.8k. Weaker demand will put some downward pressure on prices but Oxford Economics expects that tight supply will prevent too steep of a decline.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 3 TICKS HIGHER AT 108-30

Treasuries were choppy in holiday-thinning trade amid retailer warnings, mixed data, a poor 10yr TIPS auction (BEIs rose), and mixed FOMC minutes. 2s -3.0bps at 4.881%, 3s -3.1bps at 4.602%, 5s -2.5bps at 4.416%, 7s -1.9 bps at 4.441%, 10s -0.8bps at 4.414%, 20s -0.1bps at 4.756%, 30s +0.0bps at 4.575%.

Z3/H4 ROLL TRACKER: According to Quantitative Brokers, the roll from Dec'23 to Mar'24 futures is 18.8% complete for ZT, 18.5% for ZF, 16.4% for ZN, 18.1% for TN, 17.4% for ZB, and 14.6% for UB ahead of First Intention Day on Nov 29th. Roll progress is running quicker than usual likely due to the approaching Thanksgiving holiday.

INFLATION BREAKEVENS: 5yr BEI -6bps at 2.212%, 10yr BEI -5.5bps at 2.265%, 30yr BEI -4.5bps at 2.355%.

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THE DAY: The bull-flattening after the strong 20yr auction extended into the APAC Tuesday session, with two block flatteners seen in Tokyo trade: 16.4k ZF/5.4k ZB followed by 8.1k ZF/1.7k. T-Notes hit resistance at 109-01+ heading into the London handover before the long end saw some pullback as European trade got underway.

As stateside trade began, the short end played catch up to the duration strength, coming amid the concerning consumer commentary from Best Buy (BBY). There was some selling pressure after the rise in the Philly Fed's services survey, released alongside the CAD CPI data which came in slightly on the soft side (but not as large a miss as some of the US figures), and T-Notes printed session lows of 108-23+ before recovering later in the NY morning.

Session highs of 109-03+ were printed not long after the print of 13yr lows in the October existing home sales, with some spillover strength from EGBs on the reduced German spending outlook amid the German government blocking the Economic Stabilization Fund. However, a fresh bout of selling occurred in wake of the poor 10yr TIPS auction (tailed by 3.5bps) with the earlier lows tested (108-23+) after the mixed FOMC minutes, only to recover into the settlement as the details were scoured.

STIRS:

- SR3Z3 -0.25bps at 94.615, H4 +0.5bps at 94.755, M4 +1.5bps at 95.00, U4 +2.5bps at 95.295, Z4 +4bps at 95.62, H5 +4.5bps at 95.91, M5 +5bps at 96.12, U5 +4.5bps at 96.24, Z5 +4bps at 96.285, Z6 +1bps at 96.26, Z7 -0.5bps at 96.15.
- SOFR fell to 5.31% as of Nov 20th from 5.32%, volumes rose to USD 1.621tln from 1.587tln.
- NY Fed RRP op demand at USD 0.931tln (prev. 0.953tln) across 95 counterparties (prev. 95).
- EFFR flat at 5.33% as of Nov 20th, volumes rose to USD 101bln from 98bln.
- US sold USD 75bln of 41-day CMBs at 5.285%, covered 2.96x.
- US announced cuts to its 4- and 8-week bill auction sizes to USD 85bln and 80bln from 95bln and 85bln, respectively, whilst leaving its 17-week unchanged at USD 56bln; all to be sold on Nov 22nd and settle on Nov 28th.

CRUDE

WTI (F4) SETTLED USD 0.06 LOWER AT 77.77/BBL; BRENT (F4) SETTLED USD 0.13 HIGHER AT 82.45/BBL

Oil prices were choppy in thin ranges Tuesday, taking some pause after the recent recovery rally ahead of the Sunday OPEC+ meeting. There is also a strong "holiday feel" to markets ahead of Thanksgiving, with traders looking to book square early. There were no major energy catalysts on Tuesday, although Argus did cite an official in the Iraqi /Kurdistan region as playing down the prospect of an imminent restart of crude exports via the Iraq-Turkey pipeline. Elsewhere, the Iranian Oil Minister announced that the country's production will reach 3.6mln BPD in March 2024, and is aiming for 4mln BPD for the next fiscal year. IEA's Birol was also on wires, saying that even if the OPEC+ oil production cuts are extended into 2024, the body still sees a slight surplus in the global market balance, but did say we are in a deficit currently with all stocks drawing at a fast rate. On which, participants now look to the US energy inventory data with the private release due later on Tuesday ahead of the official EIA figures on Wednesday. Current expectations (bbls): Crude +1.2mln, Gasoline -0.2mln, Distillates -0.8mln.

EQUITIES

CLOSES: SPX -0.20% at 4,538, NDX -0.58% at 15,933, DJIA -0.18% at 35,088, RUT -1.32% at 1,783.

SECTORS: Technology -0.83%, Real Estate -0.47%, Consumer Discretionary -0.38%, Energy -0.21%, Industrials -0.05%, Financials -0.04%, Communication Services -0.01%, Utilities +0.22%, Consumer Staples +0.35%, Materials +0.4%, Health +0.61%.

EUROPEAN CLOSES: DAX -0.01% at 15,900.53, FTSE 100 -0.19% at 7,481.99, CAC 40 -0.24% at 7,229.45, Euro Stoxx 50 -0.24% at 4,331.95, IBEX 35 -0.12% at 9,827.50, FTSE MIB -1.32% at 29,153.42, SMI +0.46% at 10,789.40.

STOCK SPECIFICS: **Lowe's Companies (LOW)** revenue and comp. store sales missed, alongside cutting FY outlook. Best Buy (BBY) revenue fell short, comp. sales largely disappointed and cut FY guidance. In addition, offered cautious commentary highlighted by saying consumer demand weakened through Q3 and what it has seen so far of Q4. **Zoom Video Communications (ZM)** lowered FY24 and next quarter revenue outlook. However, it beat on the top and bottom line in addition to raising FY and next quarter EPS guidance. **Analog Devices (ADI)** beat on current quarter but the next quarter guidance was soft, and said as outlined in Q3, expect customer inventory digestion to persist into H1, a reflection of a return to normal lead times and the challenging macro landscape. **DICK'S Sporting Goods (DKS)** topped Wall St.

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consensus on the top and bottom line while SSS surprisingly rose. Raised FY23 adj. EPS and comp. store sales growth guidance. **Medtronic (MDT)** surpassed Wall St. expectations on the top and bottom, in addition to raising FY24 organic revenue growth and EPS guidance. **Kohl's (KSS)** beat on profit and gross margin, but revenue and same-store sales fell short. **Burlington Stores (BURL)** marginally topped on profit and raised the lower end of its FY earnings guidance noting November was off to a strong start due to cooler weather. **Baidu (BIDU)** topped on EPS and operating profit while revenue marginally beat. **Broadcom (AVGO)** and **VMWare (VMW)** intend to close transaction on Wednesday after China's State Administration for Market Regulation (SAMR) decided to approve AVGO's acquisition of VMW with additional restrictive conditions. China's top copper producers are said to be looking for higher fees from **Freeport (FCX)** for processing the US miner's concentrates next year, above those agreed between Antofagasta (ANTO LN) and Jinchuan Group (2362 HK), according to Reuters sources. CNBC's Faber said Bezos was possibly selling more **Amazon (AMZN)** shares Tuesday, between 8-10mln. **Ford (F)** to cut jobs at the Michigan battery plant by 32%. Cuts capacity and investment planned for the site. Confident that batteries constructed with CATL will qualify for US subsidies.

US FX WRAP

The Dollar was firmer on Tuesday, printing a high of 103.710, in choppy trade as it found some strength after the poor US 10yr TIPS auction (and resulting yield rise) after another lacklustre US morning. The November FOMC Minutes garnered little sustained reaction, noting that all participants agreed that the FOMC was in a position to proceed carefully and everyone on the FOMC saw rates remaining restrictive for some time. Elsewhere, US existing home sales were a little worse than expected, stretching to 13yr lows, and the Philly Fed non-manufacturing survey indicated overall improvement in business activity, while the indices for general activity at the firm level and sales/revenues returned to positive territory for the first time since July. Aside from this, newsflow was light with trade pretty directionless amid the thin calendar as participants await Thanksgiving.

GBP, NZD, and CAD were the G10 outperformers and saw slight gains, albeit well off earlier best levels after the Buck's revival. Nonetheless, the Kiwi was boosted by encouraging trade data to see NZD/USD bounce from lows of 0.6030 to 0.6086, while the GBP was underpinned by hawkish BoE commentary to see Cable trade between 1.2502-59. Whilst it is too lengthy to cover it all, here is a recap of some of the main remarks from TSC: Ramsden would not rule out having to raise Bank Rate further in the future, while Mann noted the prospects for more persistent inflation imply a need for tighter monetary policy. Bailey reiterated that it's sensible to keep rates where they are and markets put too much weight on current data releases and the BoE is concerned about potential inflation persistence. The Governor added markets underestimate the risk of inflation persistence and QT is only having a small impact on yields, possibly 10-15bps. Ahead of the Autumn Statement on Wednesday, Times reports Chancellor Hunt is expected to cut national insurance for employees and self-employed, while FT reported he will put a GBP 9bln-a-year permanent tax break for businesses (Newsquawk preview available here).

CAD was largely unreactive to the CPI report, where the headline cooled sharply to 3.1% Y/Y (exp. 3.2%, prev. 3.8%), with the M/M printing as expected at 0.1% (prev. -0.1%). Core Y/Y and M/M was 2.7% (prev. 2.8%) and 0.3% (prev. -0.1%), respectively, with the Core CPI average dipping to 3.77% (prev. 4.0%). The headline dip was largely due to lower gasoline prices, which reflected a switch to cheaper winter gasoline blends and a favourable base-year impact from a year ago when OPEC announced production cuts. Looking ahead, Oxford Economics expect the BoC will keep the policy rate at 5% through mid-2024, before beginning to slowly ease given its concern that inflation could get stuck above target.

EUR was the G10 laggard, to see EUR/USD hit a low of 1.0901 after an earlier 3-month peak of 1.0964. ECB President Lagarde spoke at an event, saying she expects headline inflation to rise again slightly in the coming months, said the Bank needs to remain attentive until it has firm evidence that conditions are in place for inflation to return sustainably to target. Schnabel and Centeno were on the wires also but said little new. In other news, the German government announced it has frozen new spending under the large ESF, marking the latest budgetary casualty in the fallout from the constitutional court ruling last week, providing support to EGBs.

AUD and JPY were flat. The Aussie failed to breach key technical resistance vs the Buck following hawkish RBA remarks/minutes and faded from the 200 DMA, 0.6589, to lows of 0.6545. Regarding the minutes, they stated that staff projections for inflation assumed one or two more rate hikes and the Board noted the Cash Rate remained below rates in many other countries, while rising house prices could indicate that policy was not especially restrictive.

EMFX was largely weaker, but the Yuan saw strong gains and continued its upward momentum vs the Greenback. In the European morning, Reuters sources noted China's major state-owned banks have been active in the currency market this week, buying the Yuan and helping hasten its recovery against a broadly weaker buck. For the Real watchers, the Brazilian government cut its 2023 and 2024 GDP forecasts to 3.0% (prev. 3.2%) and 2.2% (prev. 2.3%), respectively, while BCB Chief Neto said the last inflation number had good quality and rise in state tax ICMS has an

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effect of between 10-20bps on inflation. Lastly, the HUF was undermined by dovish NBH guidance following the widely forecast 75bps cuts as Deputy Governor Viraj suggested the Base Rate could be cut to single digits by February 2024 (11.5% currently).

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