US Market Wrap

22nd November 2023: Stocks and Dollar rise ahead of Thanksgiving

- **SNAPSHOT**: Equities up, Treasuries flatten, Crude down, Dollar up.
- **REAR VIEW**: Jobless claims fall; Durable Goods plunge; Lofty UoM consumer inflation expectations; OPEC+ postpone weekend meeting; UK Autumn Statement broadly as expected; NVDA posts blowout report, but fails to impress investors
- **COMING UP**: **Desk**: The desk will operate a normal service on Thursday 23rd November until 18:00GMT/13:00EST, upon which the desk will close and then re-open later at 22:00GMT/17:00EST for the beginning of the Asia-Pacific session. **Data**: French, German, EZ & UK PMI (Flash), Japanese CPI **Events**: Riksbank, SARB, CBRT Policy Announcement, ECB Minutes, Banxico Minutes **Speakers**: Riksbank Thedeen; ECB's Schnabel & Cipollone **Holiday**: US Thanksgiving.

MARKET WRAP

Stocks grinded higher on Wednesday ahead of the Thanksgiving holiday with outperformance in Communication stocks while the majority of sectors were firmer, albeit Energy was flat but well off the lows as energy prices pared initial losses. Ahead of Thanksgiving, the US data points were front-loaded with the highlight being the jobless claims data with initial claims seeing a notable decline while continued claims saw the first fall since early September although analysts are cognizant of "holiday noise" ahead of Thanksgiving and then Christmas next month. The fall was enough to support the dollar and weigh on T-Notes but with the move somewhat capped on the tumbling Durable goods, primarily due to aircraft and auto orders. The tech sector was green in line with market performance but Nvidia (NVDA) tumbled post earnings despite a strong report, with participants wary of their expected hit from the US export curbs to China, while there also may be some profit-taking after its rally. Oil prices were very volatile, with WTI and Brent initially tumbling on the news that OPEC+ is to delay its meeting on the weekend, a sign that some producers may be against the expected production cuts and it is proving difficult for OPEC+ to come to an agreement. Nonetheless, oil had pared from lows once Europe left for the day but still settled lower. The Treasury curve flattened on the earlier jobless claims data with the front end weighed on ahead of supply next week while the Gilt weakness post-UK budget also saw Treasuries pressured.

GLOBAL

DURABLE GOODS: October Durable Goods declined more than expected to -5.4% (exp. -3.1%, prev. 4%), while ex-defense plunged 6.7% (prev. +5.0%), nondefense capital goods orders ex-air dipped 0.1% (exp. +0.1%, prev. -0.2%), and orders ex-transportation was unchanged (exp. +0.1%). As Pantheon Macroeconomics details, the fall in headline orders was primarily due to a 57.9% plunge in civilian aircraft orders, on top of a 3.8% slide in auto orders which largely reflects disruptions caused by the UAW strikes, and as such Pantheon believes rebound in November auto orders is a decent bet. Overall, the consultancy adds "the upshot from the [durable goods] report is that real business equipment investment is on course for another decline in Q4, after declining at a 3.8% annualized rate in Q3." In addition, "some of the weakness in core capital goods shipments in recent months has been offset by strength in business purchases of autos over the past couple years, however, business auto purchases flattened in Q3, and a period of outright declines is entirely plausible now, given extremely high financing costs and depressed capital spending intentions".

JOBLESS CLAIMS: Initial Jobless claims data for the week ending 18th November, which coincides with the usual BLS survey window, fell back to 209k from the prior revised 233k, well beneath expectations of the 226k print and towards the lower end of all analyst forecasts, that ranged between 206-235k. Meanwhile, the continued claims data, for the week ending November 11th, fell to 1.84mln from 1.862mln, the first decline in continuing claims since September 9th. The decline in both signal signs of strength in the jobs market albeit it will not be enough to see the Fed opt for another hike with their attention primarily on the NFP and inflation reports as they look to "proceed carefully". Meanwhile, Oxford Economics reminds us that "Tis the season for noise in jobless claims data " so the data may be harder to interpret over the holiday period. The seasonal factors had expected an increase of a sizable 48k and OxEco highlighted that "Over the rest of the year, seasonal factors anticipate larger than average swings in unadjusted claims, which is typical around year-end and the holidays, making noisier data more likely".

MICHIGAN SURVEY: The Uni of Michigan's final release of the November consumer sentiment survey saw the headline index revised up to 61.3 from the initial 60.4, with the upside a function of the current conditions sub-index being pushed up to 68.3 from 65.7, although the forward-looking expectations index was nudged lower to 56.8 from 56.9. Meanwhile, the survey's 1yr-ahead consumer inflation expectations were revised up to 4.5% from 4.4%, remaining the second-highest reading of the year behind April, while the 5-10yr expectations were left unchanged at 3.2%, the highest since 2011. As was observed in the preliminary report, the elevated inflation expectations come despite the fall in energy prices (which they generally track) and the softening of printed inflation data, something which led some commentators to forecast a revision lower in the final release. The concern here now is if those expectations are sustained or rise again moving forward given they may impede the return of inflation to target, and would test the Fed's view that inflation expectations remain anchored.

UK AUTUMN STATEMENT REVIEW: Overall, the statement was broadly as expected with Hunt announcing numerous measures designed to “reduce debt and cut taxes”, but broadly keeping his powder dry by only announcing one major measure for households via the NI contribution cut. The headline measures which were as-expected included increasing the pension allowance by the full Triple Lock commitment (8.5%), extending the business rates discount and making the “full expensing” tax break permanent. The main surprise from Hunt was the reduction of the main 12% rate of employee national insurance to 10%, a larger cut than the 1pp reduction expected pre-statement, an announcement which seemingly weighed on Gilts. Pressure which was exacerbated in quick order by the release of the DMO Remit which had headline Gross Gilt Issuance at GBP 237.3bln vs exp. 222.88bln. Alongside the statement, the OBR provided its view and judged that the Chancellor is in adherence with the UK’s fiscal targets, though they make the point that the GBP 13bln of headroom (vs typical 29.7bln post-2010) available to Hunt is primarily a function of the reference period rolling by one year to 2028/29. Additionally, the Office’s accompanying forecast were well-received with the growth view stronger than expected across the board; crucially, inflation is below forecast in 2024 and returns to the BoE’s 2.0% target in 2025; a view that is slightly more optimistic than the BoE’s own assessment from the November gathering of 2.2%

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 4 TICKS LOWER AT 108-26

Treasuries flatten after falling jobless claims and lofty consumer inflation expectations ahead of 2s, 5s, and 7s supply. At settlement, 2s +2.5bps at 4.908%, 3s +1.9bps at 4.625%, 5s +2.3bps at 4.442%, 7s +1.6bps at 4.463%, 10s +0.2bps at 4.420%, 20s -1.5bps at 4.747%, 30s -2.6bps at 4.554%

Z3/H4 ROLL TRACKER: According to Quantitative Brokers, the roll from Dec'23 to Mar'24 futures is 36.4% complete for ZT, 36% for ZF, 34.9% for ZN, 33.4% for TN, 40.1% for ZB, and 45.6% for UB ahead of First Intention Day on Nov 29th.

INFLATION BREAKEVENS: 5yr BEI +0.9bps at 2.219%, 10yr BEI +1.5bps at 2.280%, 30yr BEI +1.4bps at 2.372%.

THE DAY: T-Notes retested their Tuesday highs of 109-03+ at the Globex reopen before Treasuries drifted lower as the APAC Wednesday session got going. There were little catalysts for the pullback and the moves were gradual, although there was some spillover from JGBs amid reduced BoJ purchases. T-Notes troughed at 108-27 at the London handover. Contracts gained momentum to the upside after the very well-received German 15yr Bund tap and after reports Germany's 2024 budget had been delayed. T-Notes were already making fresh highs in sympathy with EGBs as stateside trade began, with the curve initially in a bull-flattener.

The initial upside in the NY morning was underscored by the tumble in oil prices amid the OPEC+ meeting delay, seeing contracts peak at 109-08+ before a swift tumble lower sub 109 on release of the deeper fall than expected in the latest jobless claims figures, with the short end leading the fall reaffirming the flattener, while the decline in October durable goods orders likely cushioned the downside to some extent. There was also spillover pressure from Gilts, which sold off after the UK DMO announced more Gilt issuance than expected as part of the Autumn budget.

T-Notes broke through their early troughs of 108-29 and printed session lows of 108-19 in wake of the upward revisions to the Michigan survey's consumer inflation expectations. Interestingly, the long end held up much better throughout the US session, part of which is likely related to auction setup ahead of Thanksgiving with 2s, 5s, and 7s supply due early next week.

NEXT WEEK'S AUCTIONS: US to sell USD 54bln of 2yr notes on Nov 27th, USD 55bln of 5yr notes on Nov 27th, and USD 39bln of 7yr notes on Nov 28th; all to settle on November 30th.

STIRS:

- SR3Z3 -1.3bps at 94.603, H4 -3.0bps at 94.725, M4 -3.5bps at 94.965, U4 -4.5bps at 95.250, Z4 -4.5bps at 95.570, H5 -4.5bps at 95.865, M5 -3.5bps at 96.090, U5 -2.5bps at 96.220, Z5 -2.0bps at 96.270, Z6 -2.0bps at 96.245, Z7 -0.5bps at 96.150.
- SOFR flat at 5.31% as of Nov 21st, volumes fall to USD 1.603tln from 1.621tln.
- NY Fed RRP op demand at USD 0.932tln (prev. 0.931tln) across 97 counterparties (prev. 95)
- EFFR flat at 5.33% as of Nov 21st, volumes rise to USD 102bln from 101bln.
- US sold USD 86bln in 4-week bills at 5.300%, covered 2.58x; sold USD 81bln in 8-week bills at 5.280%, covered 2.73x; sold USD 56bln 17-week bills at 5.260%, covered 3.08x.
- US cuts 42-day CMBs to USD 70bln from 75bln; sold on Nov 28th, settling on Nov 30th.
- US leaves 13-, 26-, and 52-week bills unchanged at USD 75bln, 68bln, and 44bln, respectively; 13- and 26-week sold on Nov 27th and 52-week on Nov 28th; all to settle on Nov 30th.

CRUDE

WTI (F4) SETTLED USD 0.67 LOWER AT 77.10/BBL; BRENT (F4) SETTLED USD 0.49 LOWER AT 81.96/BBL

The crude complex was lower on Wednesday on account of OPEC+ postponing the JMMC until November 30th (initially 26th). Following the announcement, sources noted it was due to a disagreement over some members' oil production figures and associated quotas, and the issues are linked to African countries (Newsquawk OPEC preview available here). Throughout the morning there were conflicting reports that the meeting was delayed, which saw choppiness, but after the official confirmation, WTI and Brent slid to lows of USD 73.79bbl and 78.41/bbl, respectively. However, as European traders left for the day oil gradually pared some of its losses to settle way off the lows, as characterised by thin holiday trade in a lack of headline newsflow. Elsewhere, the Venezuelan Deputy Oil Minister said it is producing around 850k BPD of oil (vs 735k BPD in September) and it will progressively recover market share for its oil in the US following sanctions easing. Meanwhile, FERC noted Freeport LNG received approval to return part of its export plant in Texas to full operation, while according to a Reuters source TC Energy's (TRP) Columbia Gas pipeline failure in Virginia was caused by a stress corrosion cracking and external corrosion. Looking ahead, there is little scheduled on the calendar for the rest of the week on account of the Thanksgiving holiday.

DATA: In the weekly EIA data, crude stocks built more than forecasted, 8.701mln (exp. 1.5mln) and in line with the private inventory metrics on Tuesday, while Distillates drew a bit more than expected, -1.018mln (exp. -0.69mln) but contrasting to last night’s slightly shallower draw - Gasoline had a surprise build, 0.749mln (exp. -0.15mln). Weekly crude production was unchanged at 13.2mln as was refining utilisation at 0.9% (exp. 0.9%). Lastly, Baker Hughes was on Wednesday due to Thanksgiving: Oil rigs were flat at 500, with Nat Gas up 3 to 117, leaving the total up 4 to 622.

EQUITIES

CLOSES: SPX +0.41% at 4,556, NDX +0.43% at 16,001, DJIA +0.53% at 35,273, RUT +0.69% at 1,795.

SECTORS: Communication Services +0.88%, Consumer Staples +0.71%, Health +0.54%, Consumer Discretionary +0.5%, Financials +0.39%, Real Estate +0.37%, Utilities +0.34%, Technology +0.28%, Industrials +0.19%, Materials +0.12%, Energy -0.11%.

EUROPEAN CLOSES: DAX +0.36% at 15,957.82, FTSE 100 -0.17% at 7,469.51, CAC 40 +0.43% at 7,260.73, Euro Stoxx 50 +0.47% at 4,352.05, IBEX 35 +0.61% at 9,887.40, FTSE MIB +0.01% at 29,154.91, SMI +0.51% at 10,836.90.

STOCK SPECIFICS: **Nvidia (NVDA)** had a blowout report; top and bottom line beat with Q4 revenue guidance better-than-expected. Although it did state it expects sales to China to decline significantly in Q4, but it will be offset by growth in other regions, noting its competitive position has been harmed from US export controls. Post-earnings, NVDA's PT was lifted at numerous brokerages including, but not limited too, BofA, UBS, MS, WFC, GS, and JPM. On the results, some analysts cited by Bloomberg suggested that the results "failed to satisfy the loftier expectations of shareholders who have bet heavily on an AI boom." **Deere & Co (DE)** revenue missed with the FY EPS outlook light of expectations. **Nordstrom (JWN)** missed on revenue and noted continued uncertainty and softening consumer spending, but added it was heading into the holiday season in a favourable inventory position. **Autodesk's (ADSK)** next quarter profit guidance was light, and Piper Sandler downgraded the stock noting “it may take time to build investor confidence” in the company’s growth forecast. However, EPS, revenue, and operating margin beat alongside lifting FY bottom line view. **HP Inc (HPQ)** EPS was in line but revenue missed expectations as both personal systems and printing divisions revenues declined. The next quarter profit outlook came in slightly light vs expectations. **Guess (GES)** missed on EPS and revenue and cut its FY24 outlook and next quarter guidance was light. GMV -7.1% Y/Y and total company net sales

-6.8% Y/Y. **GoDaddy (GDDY)** was upgraded at RBC. **Virgin Galactic (SPCE)** was downgraded at Morgan Stanley. FAA has cleared **Boeing (BA)** to start certification flight tests of 737 MAX 10; FAA granted type inspection authorization for the 737 MAX 10 this week.

US FX WRAP

The Dollar was bid on Wednesday heading into the Thanksgiving holiday with DXY rising above the 17th November low (103.79) and the round 104 to a high of 104.21, with technicians eyeing 104.50 and the 16th and 17th Nov. highs of 104.55. There were several data points released on Wednesday ahead of the US holiday - Durable Goods saw a notable decline, paring the prior month's strength with the drop led by aircraft and auto goods. Jobless claims were the highlight and sparked the upside in the buck after a strong decline in initial claims while the continued claims saw its first dip since early September, albeit at a time where the claims data is quite noisy due to the holidays. The final November UoM survey saw headline sentiment revised up which was led by a jump in current conditions, while the inflation expectations saw the 1yr ahead rise slightly to 4.5% from 4.4%, with the 5-10yr unchanged at 3.2%.

The Euro was weaker as the Dollar advanced with EUR/USD falling from highs of 1.0922 to test support at 1.0850 before paring to c. 1.0880 heading into the Asia session. There was little EU data to digest on Wednesday aside from the EZ consumer confidence report, which saw a marginal improvement. However, there was a lot of attention on Germany after the government cancelled the talks on the 2024 budget; while reports suggested a decision on the 2024 budget would no longer be possible before year-end. Elsewhere, ECB's Nagel said he believes the bank is close to the terminal rate but cannot say if the ECB will hike again, but thinks the ECB rates will stay where they are for a while, also noting that he has no concerns the ECB is creating a hard landing scenario. ECB's Centeno stated they will soon have conditions in the near future to reverse the cycle of tightening.

The Yen was the G10 underperformer vs the Buck, seeing USD/JPY rise from 148.03 to highs of 149.74, a level it resides around heading into APAC trade. Commentary from Japanese PM Kishida said that the BoJ's monetary policy is not aimed at guiding FX in a certain way, while he expects BoJ to take appropriate monetary policy, sharing views with the government, according to Jiji. Meanwhile, the latest Reuters poll shows 84% of economists think BoJ will end YCC and 16% think the BoJ will tweak YCC, while 85% forecast the BoJ to end NIRP in 2024 which is up from 63% in the October poll. Note, overnight BoJ reduced JGB purchases in the 5-10yr and 25yr+ to JPY 525bln (prev. JPY 575bln) and JPY 25bln (prev. JPY 100bln), respectively.

Cyclical currencies were lower on account of the Dollar strength. NZD was also a G10 underperformer but not to the same extent as the Yen while GBP also lagged. GBP was softer after the latest Autumn budget which was mostly in line with expectations but it did see a larger-than-expected cut to National Insurance contributions while Gilts sold off on the greater-than-forecasted Gilt issuance. Cable fell sub 1.25 to lows of 1.2450.

AUD was marginally softer but not to the same extent as the NZD, with weakness perhaps limited after hawkish leaning RBA Governor Bullock. Bullock said prices are rising strongly and demand in the economy has been stronger than expected, noting the remaining inflation challenge is increasingly homegrown and demand driven, reiterating that more substantial monetary policy tightening is the right response.

CAD was relatively flat vs the Dollar with USD/CAD hitting highs of 1.3765 following the initial tumbling of oil prices after OPEC+ agreed to postpone their meeting, with producers having difficulty in coming to an agreement on production cuts. Nonetheless, as oil rebounded from the lows (still settled in the red) CAD also moved off its worst levels. Meanwhile, BoC Governor Macklem also spoke, stating rates may now be restrictive enough, but said if inflation persists then the BoC is prepared to hike further, noting that inflation in Canada is still too high and progress of lower it is slower than what was hoped. The Governor later added that expectations of near-term inflation being slow to come down is a concern but repeated long-term inflation expectations remain well anchored.

LatAm FX was relatively flat. BRL, MXN and COP are unchanged vs the Buck heading into APAC trade but the CLP was the underperformer on weaker copper prices. Note, BRL did pare earlier strength after the Brazilian government forecasted a larger primary deficit with lower than expected revenues and higher than expected spending. In Mexico, retail sales were worse than expected. Elsewhere, **ZAR** saw notable weakness despite a jump in South African headline inflation but Core was only marginally above expectations with eyes turning to the SARB rate decision on Thursday. However, analysts at Capital Economics suggest that given the rise in inflation via non-core components, the tightening cycle is unlikely to be restarted.

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