US Market Wrap

27th November 2023: Bonds rise after mixed supply while the buck slips and stocks chop into month-end

- **SNAPSHOT**: Equities flat/down, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Soft New Home Sales data; Weak Dallas Fed Mfg. survey; Weak 2yr Auction; Strong 5yr auction; Saudi seek OPEC+ cuts, but some are resisting; Israel-Hamas extend truce; ECB's Lagarde touts QT/PEPP discussion; Judge rules against META in FTC case; EU warns AMZN takeover of IRBT may restrict competition.
- **COMING UP**: **Data**: Australian Retail Sales, German GfK Consumer Sentiment, French Consumer Confidence, Italian Producer Prices, Italian Trade Balance, US Consumer Confidence, Richmond Fed Index **Events**: Fed Discount Rate Minutes **Speakers**: BoE's Ramsden & Haskel; RBA's Bullock; Fed's Goolsbee, Waller, Bowman, Barr; ECB's Lane **Supply**: Japan, UK & US.
- **WEEK AHEAD**: Highlights include US PCE, ISM; OPEC; EZ inflation. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Reviewing minutes from the FOMC, ECB, RBA; reviewing the PBoC, Riksbank, CBRT. To download the report, please click here.

MARKET WRAP

Stocks were little changed in choppy trade on Monday despite notable strength in bonds. Meta (META) selling saw the major indices pare from their highs into the close after a judge ruled against it in its privacy lawsuit with the FTC. Treasuries rallied through the session amid soft new home sales and Dallas Fed mfg. data, ignoring the weak 2yr auction and taking solace from the strong 5yr ahead of Tuesday's 7yr offering. We are also entering the period of the month where month-end flows make their mark with USTs generally seeing larger buying than usual in a refunding month. The Dollar was sold Monday, with Barclays' month-end model forecasting broad-based, strong Dollar selling. The FX highlight was Yen, however, with broad-based strength, finding tailwinds from the strength in USTs and EGBs, with the latter continuing to find a bid amid the uncertainty around German spending. Oil prices were ultimately little changed in choppy trade, with the softer Dollar offsetting an Israel/Hamas ceasefire extension ahead of Thursday's OPEC+ meeting, where reports suggest no agreement has yet been made but there appears to be expectations that will change heading into the event.

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NEW HOME SALES: New home sales for October fell 5.6% to 679k, beneath the expected 723k and the previous 719k. Looking at the details, new home supply rose to 7.8 months' worth (prev. 7.2 M/M), while the median sales price dropped 17.6% Y/Y to USD 409.3k (prev. 496.8k). On the headline miss, Oxford Economics note rising mortgage rates were an unavoidable drag, and with mortgage rates coming off their multidecade high, new home sales may perk up in November. Further ahead, the consultancy notes, "a frozen existing home market, along with homebuilder incentives, will also lend some support to the market for newly built homes."

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLE 19+ TICKS HIGHER AT 109-00

Treasuries rally through the session amid soft housing data, ignoring the weak 2yr auction and taking solace from the strong 5yr. 2s -6.7bps at 4.892%, 3s -7.5bps at 4.604%, 5s -8.9bps at 4.414%, 7s -9.4bps at 4.433%, 10s -9.4 bps at 4.390%, 20s -9.0bps at 4.726%, 30s -8.5bps at 4.532%.

Z3/H4 ROLL TRACKER: According to Quantitative Brokers, the roll from Dec'23 to Mar'24 futures is 83.9% complete for ZT, 83.7% for ZF, 76.0% for ZN, 71.5% for TN, 74.3% for ZB, and 77.1% for UB ahead of First Intention Day on Nov 29th.

INFLATION BREAKEVENS: 5yr BEI -5.2bps at 2.161%, 10yr BEI -5.1bps at 2.232%, 30yr BEI -4.0bps at 2.335%.

THE DAY: Modest selling pressure at the Globex reopen saw T-Notes (Z3) sold to lows of 108-06, where a lack of appetite to extend lower was seen during the APAC morning. 108-14 served as resistance at the London handover before better buying later in the European morning in sympathy with EGBs (with potential reduced German spending plans front of mind) saw the level breached, with contracts printing highs into the NY handover.

It was one way trade higher for USTs through stateside trade Monday with the soft New Home Sales data underpinning the strength ahead of supply. A weak 2yr auction failed to see a meaningful pullback in the tenor or the rest of the curve, although the decent 5yr auction later on saw the whole curve extend higher. T-Notes settled at highs with the belly strongest ahead of Tuesday's 7yr supply and consumer confidence data. Looking beyond, the week's highlights include Wednesday's GDP and German CPI, Thursday's PCE, and Friday's ISM Mfg. and Fed Chair Powell appearances. It's also worth mentioning it's Treasury refunding month so the index duration extension for month-end is larger than regular and may be playing into UST strength.

2YR AUCTION: A poor USD 54bln 2yr auction from the Treasury, where the 4.887% auction stop marked the first tail of the When Issued since July at a chunky 1.1bps. It's worth factoring in the USD 3bln M/M increase to the auction size from the October issue alongside the c. 15bp rally in 2s since then, coming at a time when strats are cautioning against a further rally in 2yr paper until we get closer to any Fed cuts.

5YR AUCTION: A decent USD 55bln 5yr auction from the Treasury, offsetting the poor 2yr and improving the sentiment ahead of Tuesday's 7yr auction. The auction stopped at 4.420%, where despite the near 50bps of richening from last month's 4.899% stop and USD 3bln increase in auction size, still marked a 0.5bp stop-through the When Issued yield, much better than October's tail of 1.9bps and the six-auction avg. 0.1bp tail. The internals weren't as strong with the bid /cover ratio beneath average and Dealer takedown above average.

STIRS:

- SR3Z3 +0.5bps at 94.605, H4 +0.5bps at 94.715, M4 +2.5bps at 94.95, U4 +4.5bps at 95.25, Z4 +6bps at 95.575, H5 +7.5bps at 95.885, M5 +8bps at 96.11, U5 +9bps at 96.25, Z5 +9.5bps at 96.30, Z6 +10.5bps at 96.285, Z7 +11bps at 96.195.
- SOFR rises to 5.32% as of Nov 24th from 5.31%, volumes fall to USD 1.521tln from 1.547tln.
- NY Fed RRP op demand at USD 867bln (prev. 866bln) across 92 counterparties (prev. 94).
- EFFR flat at 5.33% as of Nov 24th, volumes fall to USD 101bln from 102bln.
- US sold USD 81bln of 3-month bills at 5.280%, covered 2.87x; sold USD 73bln of 6-month bills at 5.240%, covered 3.01x.

CRUDE

WTI (F4) SETTLES USD 0.68 LOWER AT 74.86/BBL; BRENT (F4) SETTLES USD 0.60 LOWER AT 79.98/BBL

Oil prices were ultimately little changed in choppy trade on Monday, with a softer Dollar offsetting an Israel/Hamas ceasefire extension ahead of Thursday's OPEC+ meeting. WTI and Brent (F4) contracts hit session lows of USD 74.06 /bbl and 79.13/bbl, respectively, in the European morning before rising gradually to highs of USD 76.23/bbl and 81.17 /bbl, respectively, later in the NY morning. Downside pressures were pinned on reports a deal had been reached to extend the Israel/Gaza truce for two days. While support is being pinned on the softer Dollar and optimism reported last Friday that OPEC+ will reach an agreement to deepen and lengthen production cuts despite the internal squabbles that initially delayed the meeting to Nov 30th from Nov 26th. Nonetheless, there was some downside in the benchmarks on Monday on Bloomberg headlines that Saudi Arabia is seeking OPEC+ quota cuts while some members are resisting, with members yet to clinch an agreement.

EQUITIES

CLOSES: SPX -0.19% at 4,550, NDX -0.13% at 15,962, DJI -0.16% at 35,333, RUT -0.35% at 1,801.

SECTORS: Real Estate +0.38%, Consumer Discretionary +0.19%, Utilities +0.09%, Technology +0.04%, Materials -0.08%, Consumer Staples -0.24%, Financials -0.28%, Energy -0.4%, Communication Services -0.48%, Industrials -0.58%, Health -0.64%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.39% at 4,355.15, SMI -0.54% at 10,821.06, FTSE 100 -0.37% at 7,460.70, FTSE MIB -0.31% at 29,342.29, DAX -0.39% at 15,966.37, CAC 40 -0.37% at 7,265.49, PSI +0.50% at 6,366.50, IBEX 35 -0.03% at 9,936.10.

STOCK SPECIFICS: EU regulators warned that **Amazon's (AMZN)** USD 1.4bln acquisition of **iRobot (IRBT)** may restrict competition in the market, sending IRBT shares lower. Meta (META) saw some afternoon weakness after a judge denied Meta's bid to force the FTC into court over the privacy deal. Elliott amassed a stake of more than USD 2bln in **Crown Castle (CCI)** and plans to engage about ways to boost its shares. Elliott calls for 'significant' changes noting it 'suffers from a profound lack of oversight'. **Footlocker (FL)** was downgraded at Citi ahead of earnings on Wednesday. The brokerage forecasts EPS below consensus based on weaker comps. and gross margin; adds a weakening macro environment and still elevated inventory levels are driving FL to be more promotional than plan this fall and holiday. **Okta (OKTA)** was downgraded at Jefferies; said security breach announced on Oct. 20th has significantly degraded the brand and lead to a lack of trust among its customers. **GE HealthCare (GEHC)** was downgraded at UBS. **Mondelez (MDLZ)** was upgraded at RBC citing share gains, category growth and expanding retail footprint. **Kraft Heinz (KHC)** announced USD 3bln share buyback authorisation. Australia's competition watchdog calls for new laws due to digital giants' growth like **Amazon (AMZN), Apple (AAPL), Google (GOOG), Meta (META), and Microsoft (MSFT)**. Strength in names related to online shopping **(AMZN, AFRM, ETSY, PYPL)** as numerous surveys (Adobe Analytics, Salesforce data, Mastercard Spendingpulse) point to robust cyber sales over the Black Friday weekend. AFRM is doing particularly well after Adobe called out very robust growth for BNPL services. **Broadcom (AVGO)** has reportedly laid off many VMWare employees after closing its USD 69bln acquisition, according to Business Insider. Meanwhile, FBN's Gasparino suggests that **Paramount (PARA)** rumours of a sale are probably not rumours if the co. can find a buyer.

US FX WRAP

The Dollar saw mild selling pressure on Monday ahead of month-end after soft New Home Sales data and lower yields. On Month-end, Barclays' month-end rebalancing model indicates a broad-based, strong Dollar selling signal; noting it is a stark contrast to the prior three months. Barclays note it is primarily driven by the rally in global equity and bond markets month-to-date. Barclays also adds that their analysis shows that trading a few days before month-end improves the model's performance, suggesting flows are now spread over the week before month-end. Meanwhile, keeping the buck pressured, was the move lower in UST yields across the curve with DXY lows seen in wake of the solid 5yr auction, offsetting the weak 2yr offering earlier in the session. Elsewhere, it was a quiet session with a lot of focus on the Black Friday and Cyber Monday retail spending after a record Black Friday while Buy Now Pay Later methods also hit records. Attention later in the week turns to US GDP (Q3, 2nd estimate on Wednesday), October PCE (Thursday) and ISM Manufacturing PMI on Friday, with Fed Chair Powell also due to speak on Friday.

The Euro was relatively flat vs the buck trading either side of 1.0950 amid ECB Speak and Germany agreeing on the draft 2023 supplementary budget. The Euro strengthened once Europe had left for the day while US yields continued falling. ECB President Lagarde repeated now is not the time to start declaring victory and that the ECB needs to remain attentive to the different forces affecting inflation. She expects the weakening of inflationary pressures to continue, even though headline inflation may rise slightly in the coming months. Lagarde added that PEPP will be discussed in the not so distant future and will re-examine the proposal to continue reinvesting until the end of 2024. Elsewhere, an ECB insider said a rate cut is the likeliest next move, but it will not come soon, according to Econostream.

The Yen saw strength and was the G10 outperformer with USD/JPY falling from highs of 149.67 to lows of 148.56. The Yen strength was observed after hot Services PPI data but primarily as US and EGB yields moved lower. There was also commentary from BoJ Governor Ueda, who reiterated the domestic economy is recovering moderately and says there is not enough certainty on attaining the price goal yet. Ueda said there are some positive signs seen in wage and inflation but there is high uncertainty on whether this cycle will strengthen and he cannot say yet with conviction that Japan will sustainably and stably hit 2% inflation. Elsewhere, on wages, reports suggest that the country’s metalworks union is seeking a pay rise of over 11%.

The Yuan was marginally weaker vs the Dollar after industrial profit growth slowed, supporting the case for more stimulus. Meanwhile, the PBoC issued a notice to strengthen financial support for private companies, pushing banks to set private-sector lending targets. It also issued its Q3 monetary policy report, where it expects China's "around 5%" 2023 growth target can be achieved, repeating it will prevent one-sided, self-reinforced expectations in the currency.

Cyclical currencies performed well with Antipodeans also G10 outperformers with NZD/USD briefly rising back above 0.6100 into APAC trade while AUD/USD rose above 0.6600 ahead of retail sales data and remarks from RBA Governor Bullock at the HKMA Conference. GBP only saw mild gains vs the dollar and Euro despite more push-back on rate cut expectations from BoE Governor Bailey. CAD also saw just marginal gains with weaker oil prices keeping gains in the CAD limited.

EMFX was mixed. MXN was softer amid commentary from Banxico Deputy Governor Heath, who noted that if inflation continues to drop, especially core inflation, an "adjustment" to the interest rate could come by February or March. However, Heath suggested that any early interest rate cuts should be seen as slight adjustments and not the start of a rate-cutting cycle, noting one or two cuts could come, but very gradually and with great caution. BRL was flat vs the buck, as was CLP, however, the COP saw notable strength despite softer oil prices. Elsewhere, ZAR saw gains as gold shined while TRY saw mild weakness. In Israel, the BoI left rates unchanged at 4.75% as expected and noted the economy was strong, adding in the past it has shows ability to recovery from difficult periods. However, within its forecasts it lowered its Staff Inflation forecast and also lowered its rate forecasts for 1yr ahead to 3.75-4.0% from 4.0-4.25%.