newsquawk

US Market Wrap

28th November 2023: Dollar dips as Treasuries rip on tip of dovish Waller and month-end flows

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Fed hawk Waller touts rate cuts; Israel/Hamas truce breaches; OPEC+ meeting could be delayed further; US Consumer Confidence surpasses expectations; Richmond Fed disappoints; Poor US 7yr auction; MU updates Q1 guidance; PDD earnings beat; Hawkish ECB's Nagel; Panama rules First Quantum mine deal unconstitutional.
- **COMING UP**: **Data**: Australian CPI, German State & Nationwide CPI, German Import Prices, Spanish CPI, Italian Consumer Confidence, UK Mortgage Lending, EZ Economic Sentiment, US MBA's, GDP Estimates, PCE Prices, Advance Goods Trade Balance, Japanese IP Forecast **Events**: RBNZ Policy Announcement; Fed Beige Book **Speakers**: BoJ's Adachi; BoE's Bailey; Fed's Mester **Supply**: Australia, UK, Germany & Italy.

MARKET WRAP

Stocks were choppy on Monday with no clear direction after fading the rally initially seen on the back of the dovish shift from Fed's Waller (hawk) - who talked up the potential for rate cuts next year whilst pushing back on the need for more hikes - with many cautious amid expected month-end equity selling flows. It was a different story in govvies, where Treasuries saw sustained bull-steepening after Waller's comments, while a brief selling spell into the poor 7yr auction was faded into the close, with month-end buying getting pointed to by many desks. The Dollar was sold broadly, with the index hitting a trough of 102.60, the lowest seen since mid-August (sell side models point to month-end Dollar selling); the Yen continues to see strong outperformance in G10. Oil prices were firmer with the dovish Fed commentary and Israel/Hamas truce breaches offsetting reports about a lack of OPEC+ progress, with uncertainty high ahead of Thursday's scheduled meeting. Copper prices were bid amid a Panama court ruling against Canada's First Quantum. Gold prices rallied to six-month highs amid the fall in the Dollar and yields.

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WALLER (voter, hawk) said in a speech he is "increasingly confident" policy is well positioned to slow the economy and get inflation back to 2%. The dovish tilt was all the more striking after he went as far in his post-speech commentary as saying that there are good economic arguments that if the inflation was to continue falling for several more months, then you could lower the policy rate - the subject of rate cuts have largely been taboo for Fed officials. He added that if inflation consistently declines, there is no reason to insist that rates remain really high. He of course gave all the usual contemporary caveats, that nothing is guaranteed, saying inflation is still too high and it's too early to note if slowing will be sustained; Waller wants to see some improvement in services inflation ex-housing. Waller also said he will closely monitor goods and services prices in the coming weeks. He said he is encouraged by signs of moderating economic growth, highlighting that consumer spending is cooling, while manufacturing and non-manufacturing activity has slowed - he believes that absent a shock, there is no reason a soft landing cannot be attained. The Fed Governor expects Q4 GDP to perhaps be 1-2%, adding that the last few weeks of data make the Q3 print seem like a "one-off" jump in growth. Attention now falls on Powell for Friday to see if he will follow Waller in shifting dovishly.

BOWMAN (voter, hawk), in a speech, gave familiar hawkish rhetoric that increasingly stands against the recent flow of data and market pricing, saying her baseline outlook is that the Fed will need to increase interest rates further to keep policy sufficiently restrictive. Adding that she remains willing to support raising the Fed funds rate at a future meeting should inflation progress stall. She did note a degree of flexibility to react to incoming data, however, which makes it hard to put too much weight on her comments given the recent softening of the inflation data and question marks on the economy. Bowman said she sees risks to inflation from higher services consumption. Believes there are risks energy prices may hurt inflation improvements. Said it is unclear if more supply-side advances will curb inflation, and that future gains in labour force participation may be limited.

WILLIAMS (voter, dovish), in comments taken from a new BIS report, said it is encouraging to see the decline in inflationary pressures. The NY Fed President also said it was encouraging that longer-run inflation expectations have been very stable, caveating that rising inflation expectations uncertainty is not a sign expectations have become unanchored.

CONSUMER CONFIDENCE: US consumer confidence rose in November, following three consecutive months of decline, to 102.0 from the revised lower 99.1, above the expected 101 – Present Situation Index slightly ticked down to 138.2 from 138.6, driven by less optimistic views on current job availability, which outweighed slightly improved views on the state of business conditions, but Expectations lifted to 77.8 from 72.7, reflecting improved confidence about future business conditions, job availability, and incomes. Despite the latter's improvement, it remains below 80 for a third consecutive month (a level that historically signals a recession within the next year). Elsewhere, Jobs hard-to-get lifted to 15.4% (prev. 14.1%) and 12-month inflation expectations for November dipped to 5.7% (prev. 5.9%). Overall, the report adds that while consumer fears of an impending recession abated slightly, to the lowest levels seen this year, around two-thirds of consumers surveyed in November still perceive a recession to be "somewhat" or "very likely" to occur over the next 12 months, which is consistent with the short and shallow recession the Conference Board anticipate in H1 2024. The report concludes that write-in responses revealed consumers remain preoccupied with rising prices in general, followed by war/conflicts and higher interest rates.

RICHMOND FED: The Richmond Fed Composite Manufacturing index slowed in November to -5 from +3 in October, with shipments falling to -8 (prev. +9), new orders to -5 (prev. -4) and employment to 0 (prev. +7). Within the manufacturing sector, firms were not optimistic about local business conditions, the index fell to -14 from -9. Looking ahead, the index for future business conditions also disappointed, falling to -5 (prev. -3). On prices, the average growth rate for prices paid was flat, while prices received edged down slightly. In the services sector activity was flat in November, with the revenue index rising to +1 from -11. Expectations for future revenue and demand decreased, with the demand expectations index falling slightly into negative territory. However, firms grew somewhat less pessimistic about local business conditions, rising to -9 from -15, while expected conditions increased to -7 (prev. -22). The average growth in prices paid and prices received decreased slightly and firms expect both growth rates to moderate over the coming year.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 16+ TICKS HIGHER AT 109-28+

Treasuries saw big bull-steepening after Fed hawk Waller touts the potential for cuts next year; poor 7yr auction was faded. 2s -10.6bps at 4.751%, 3s -10.5bps at 4.499%, 5s -9.0bps at 4.300%, 7s -6.4bps at 4.366%, 10s -4.2bps at 4.346%, 20s -1.6bps at 4.710%, 30s -0.6bps at 4.527%.

INFLATION BREAKEVENS: 5yr BEI +2.1bps at 2.183%, 10yr BEI +0.8bps at 2.242%, 30yr BEI +0.2bps at 2.341%.

THE DAY: Treasuries held onto their Monday bid as APAC trade got underway on Tuesday, drifting slightly lower in sympathy with JGBs after the 40yr JGB auction came in on the soft side. Heading into the London morning, T-Notes (H4) managed to claw new highs of 109-15+ - note some block 2s5s flatteners at the time - but some typically hawkish ECB's Nagel comments (saying hikes are not necessarily over) followed by a weak 30yr Gilt auction, capped further strength for govvies amid light activity.

As stateside trade got going, the front end saw notable buying in the absence of a catalyst at first. That was until Fed hawk Waller (voter) said he is "increasingly confident" policy is in the right position, initiating further bull-steepening flow, which came just a few minutes after the better-than-feared consumer confidence report and decline in the Richmond Fed index. The bull-steepener saw another big jolt after Waller's comment that if inflation was to continue falling for several more months, then the Fed could cut rates. Simultaneously released comments from Bowman (voter), who continued to warn of her view for further hikes likely being needed, fell largely on death ears.

T-Notes went on to print session highs of 109-28+ late in the NY morning before dipping into the 7yr auction (which was poor; details below), but contracts recovered to highs heading into settlement with many pointing to month-end buying. Looking ahead, attention will focus on Wednesday's GDP (2nd reading) and German CPI, Thursday's PCE, and Friday's ISM Mfg. and Fed Chair Powell appearances.

7YR AUCTION: A poor 7yr auction from the Treasury, offsetting the decent showing from the 5yr on Monday and amplifying duration supply concerns. The USD 39bln (+1bln vs Oct) worth of notes were sold at 4.399%, with the c. 50bps of richening from last month marking a tail of the When Issued yield by a chunky 2.1bps vs last month's 0.2bp stop-through and six-auction avg. stop-through of 0.4bps. The auction was covered 2.44x, beneath the prior 2.70x and avg. 2.60x. Dealers (forced surplus buyers) were left with a massive 20.3% (prev. 11%), the highest since November 2022, with notable declines in both Directs and Indirects participation.

STIRS:

- SR3Z3 +1.5bps at 94.62, H4 +5.5bps at 94.775, M4 +10bps at 95.05, U4 +13.5bps at 95.385, Z4 +15bps at 95.73, H5 +15.5bps at 96.04, M5 +15.5bps at 96.27, U5 +15bps at 96.40, Z5 +14bps at 96.445, Z6 +11bps at 96.40, Z7 +7bps at 96.27.
- Fed pricing back to 100bps of cuts priced through 2024 vs c. 90bps pre-Waller, with March cut odds back above 30%.
- SOFR flat at 5.32% as of Nov 27th, volumes rise to USD 1.602tln (prev. 1.521tln).
- NY Fed RRP op demand at USD 0.873tln (prev. 0.867tln) across 91 counterparties (prev. 92).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 97bln (prev. 101bln).
- US sold USD 70bln of 42-day CMBs at 5.285%, covered 2.92x; sold USD 47bln of 1yr bills at 4.935%, covered 3.56x.
- US cuts 4-week auction size to USD 80bln (prev. 85bln), leaves 8- and 17-week bill sizes unchanged at USD 80bln and 56bln, respectively; 4- and 8-week sold on Nov 30th, 17-week on Nov 29th; all to settle on Dec 5th.

CRUDE

WTI (F4) SETTLED USD 1.55 HIGHER AT 76.41/BBL; BRENT (G4) SETTLED USD 1.60 HIGHER AT 81.47/BBL

Oil prices were firmer in choppy trade on Tuesday with dovish Fed commentary and Israel/Hamas truce breaches offsetting reports about a lack of OPEC+ progress. The first bout of strength arrived in the European morning amid reports Israel had fired rockets amid the truce. Kazakhstan's energy minister was also on wires at the time noting oil output in the country had been cut by more than half amid a storm disrupting Black Sea crude shipping. That was before reports hit that OPEC+ still had not come to an agreement ahead of Thursday's scheduled meeting as stateside trade got underway, sending WTI (F4) and Brent (G4) contracts to session lows of USD 74.64/bbl and 79.70 /bbl, respectively. The dip was bought fairly swiftly, however, coming amid more reports of the ceasefire breaking in Israel. But new highs weren't made until Fed hawk Waller gave some notable dovish leaning remarks, weighing heavily on the Dollar and yields, with the oil benchmarks taking it in their stride to see WTI (F4) and Brent (G4) peak at USD 77.02/bbl and 81.97/bbl in the NY afternoon, hovering near high into settlement. Traders now look to the weekly US energy inventory data with the private release due later Tuesday ahead of the official EIA figures on Wednesday. Current expectations (bbls): Crude -0.9mln, Gasoline +0.2mln, Distillates +0.4mln.

EQUITIES

CLOSES: SPX +0.10% at 4,554, NDX +0.30% at 16,010, DJIA +0.24% at 35,416, RUT -0.46% at 1,792.

SECTORS: Consumer Discretionary +0.54%, Real Estate +0.52%, Consumer Staples +0.4%, Communication Services +0.32%, Utilities +0.31%, Materials +0.2%, Technology +0.19%, Energy +0.06%, Financials -0.1%, Industrials -0.24%, Health -0.5%.

EUROPEAN CLOSES: DAX -0.39% at 15,966.37, FTSE 100 -0.37% at 7,460.70, CAC 40 -0.37% at 7,265.49, Euro Stoxx 50 -0.39% at 4,355.15, IBEX 35 -0.03% at 9,936.10, FTSE MIB -0.31% at 29,342.29, SMI -0.59% at 10,815.10.

STOCK SPECIFICS: Micron (MU) updated Q1 guidance due to improved supply and demand balance and improved pricing but desks note it only very modestly and gross margins are just now back to break-even. Post-update, CEO said it is making good progress in meetings with Chinese officials. Shares were still lower, however, with investors not enthused by the magnitude of the upgrade. **PDD Holdings (PDD)** Q3 earnings topped expectations, with shares surging as the sales figures baloon. UK's CMA said the **Adobe (ADBE)**/Figma deal could harm UK digital design sector. **Argenx (ARGX)** announced ADVANCE-SC study did not meet primary and secondary endpoints. **Meta's (META)** EU ad-free subscription faces an early privacy challenge; as NOYB filed a complaint with an Austrian regulator, saying that it amounted to paying a fee to ensure privacy. Hedge Fund Anson has built a stake in **Twilio (TWLO)** and is pushing for a sale, according to The Information. **PG&E (PCG)** reinstated its dividend of USD 0.01/shr for the first time since 2017, and more-or-less reaffirmed FY23 and 24 guidance. **Zscaler (ZS)** beat on the top and bottom line alongside strong next quarter and FY outlook, but desks cited initial weakness to the affirmation of FY billings guidance. **AWS (AMZN)** CEO Selipsky announced Amazon S3 Express One Zone, a low latency cloud object storage and AWS Graviton4 processor. Unveils next generation AWS-designed chips and is expanding partnership with **Nvidia (NVDA)** to deliver advanced infrastructure for GenAI. Further, AWS and NVDA announced strategic collaboration to offer new supercomputing infrastructure, software, and services for generative AI. Separately, Nvidia CEO announces deployment of the new L4, L40 and brand new GH200 chips, while CFO added it will bring new products for China; SAAS business is approaching USD 1bln within this quarter; said it would love a third foundry partner apart from **TSMC (TSM)** and **Samsung (005930 KS)**. **Boeing (BA)** was upgraded at RBC; said 2024 outlook for BA is more favourable as demand in both the cos. commercial and defense segments grows more sustainable. **Affirm (AFRM)** was upgraded at Jefferies. **Shopify (SHOP)** was downgraded at Piper Sandler saying the shares hold an untenable valuation. **Farfetch (FTCH)** tycoon reportedly bids to take the luxury fashion site private after a failed US float, according to The Telegraph. **Merck (MRK)** raised quarterly dividend to USD 0.77/shr (prev. 0.73). **Disney (DIS)** CEO Iger told employees that the task he faced after returning a year ago was harder than expected and played down his previous comments suggesting major asset sales were on the table, according to WSJ.

US FX WRAP

The Dollar was lower on Tuesday and hit a trough of 102.60, the lowest seen since mid-August, after Fed hawk Waller (voter) unfurled some dovish remarks, as he first said he is "increasingly confident" policy is well positioned to slow economy and get inflation back to 2%, before later remarking there are good economic arguments that if inflation was to continue falling for several more months, then you could lower the policy rate. For the record, Goolsbee (2023 voter) said overall the Fed have made progress on inflation and Bowman (voter) remained on the hawkish side, noting her preference for hiking rates further if inflation progress stalls. Elsewhere, US Consumer Confidence rose and was better than expected, while Richmond Fed largely disappointed. In addition, month-end models, from the likes of Barclays and Credit Agricole, point to Dollar selling with the former citing a strong sell signal. Looking ahead, attention turns to US GDP (Wed), PCE (Thurs), ISM Mfg. (Fri) accompanied by Chair Powell's appearances (Fri).

Yen was the G10 outperformer and was the largest beneficiary from the Dollar weakness and lower US Treasury yields to breach 147.50 from an earlier peak of 148.83, with the next level to the downside to watch the 21st November low of 147.14, and after that the next low is mid-September. Nonetheless, BoJ's Adachi speaks Wednesday ahead of a raft of data throughout the week.

Activity currencies all saw strength against the Buck, albeit it to varying degrees, with the Antipodeans outperforming and the Loonie the relative laggard in spite of oil tailwinds coupled with the flagging Greenback. For the Antipodeans, AUD/USD and NZD/USD hit 3-month highs of 0.6665 and 0.6147, respectively, although the Aussie was already supported by RBA's hawkish Bullock underlining upside inflation risks which outweighed the retail sales miss. Australian inflation metrics and RBNZ rate decision (preview here) are due Wednesday, where the latter are unanimously forecasted to keep the OCR unchanged at 5.50% where rhetoric and data continue to suggest no near-term policy tweaks. Cable managed to breach 1.2700 to highs of 1.2714, almost irrespective of BoE's Haskel underscoring his rationale for wanting tighter policy (labour market tightness will need higher rates for longer to get inflation sustainably back to target).

Euro and **Franc** both saw gains, just not as extreme as the aforementioned currencies. On the day, it took a while for the single-currency to crack Fib resistance, but once the Dollar fell foul to the myriad mix of negative factors, EUR/USD topped 1.1000 regardless of EGBs spiking along with USTs. ECB's Nagel towed a hawkish tone in the European morning, saying rate hikes are not necessarily over, and would have to hike again if inflation outlook worsened. Elsewhere, softer yields helped the Swissy appreciate from north of 0.8800 to lows of 0.8762. Onto Wednesday, there is a slew of inflation data from the likes of Germany and Spain, ahead of EZ-wide inflation data on Thursday.

Scandis were firmer. NOK gleaned some attraction from Brent's bounce, but not as much as could or arguably should have due to the aforementioned EUR strength, but the SEK outperformed as Riksbank's Floden said the bank needs to see a few months more inflation before it can begin to be a bit more comfortable with developments.

EMFX was almost exclusively firmer, with the TRY, flat, the clear underperformer amid the bounce in oil. Although, European fund giant Amundi is reportedly "dipping its toe" back into Turkey's Lira and has started to cover its underweight position in the TRY, Reuters reported. ZAR and CLP benefitted from the strong gains seen in spot gold and copper, respectively, as the latter was aided by Panama's top court ruling the First Quantum mine deal is unconstitutional. For other LatAm, Fitch expects consumer discretionary demand to vary among countries, as it anticipates discretional demand to continue to be weak in Colombia due to still-high inflation and no signs of easing in country's monetary policy, but in Brazil and Chile the beginning of interest rate cut cycles and controlled inflation should gradually restore purchasing power. In Mexico, it will be tough to replicate 2023's consumption behaviour, while overall pressures from intense competition and sluggish consumption will likely continue to pressure LatAm retailers' profit margins throughout 2024.