US Market Wrap

29th November 2023: Stocks pare early strength on hawkish Barkin

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude up, Dollar up.
- **REAR VIEW**: Hawkish Barkin commentary; Cooler-than-expected German & Spanish inflation; Hawkish RBNZ hold; US Q3 GDP revised higher; Saudi Arabia favours cuts of up to 1mln BPD, but faces opposition; CI/HUM reportedly in merger talks; New GM USD 10bln share buyback programme & reinstates dividend from 2024; INTU, WDAY, NTAP, CRWD, FL earnings impressed, but JBL & HRL offered cautious updates.
- **COMING UP**: **Data**: New Zealand Business Outlook, Australian Building Approvals, Chinese NBS PMI, Japanese Consumer Confidence Index, German Trade, Retail Sales, French GDP (Final), CPI, Produce Prices, German Unemployment, EZ CPI, Italian CPI, US Personal Consumption, PCE Price Index, IJC, Dallas Fed PCE, Canadian GDP, Average Weekly Earnings, Australian PMI (Final), Japanese Unemployment Rate **Events**: BoE's Monthly Decision Panel, OPEC+ Meeting **Speakers**: BoJ's Nakamura; Fed's Williams; BoE's Greene; ECB's Lagarde.

MARKET WRAP

Stocks and bonds had seen upside throughout the European morning after cooler-than-expected inflation prints from German states and Spain, with the later released national German CPI also much cooler than forecast. US equity futures peaked shortly after the cash open with little reaction seen to the revision higher in the 2nd estimate of Q3 US GDP, while PCE saw a slight revision lower. The upside, however, reversed shortly after the open with the downside supported by hawkish commentary from 2024 Fed voter Barkin who refused to take another rate hike off the table and noted rate cut talks are premature, offsetting some of the dovishness from Governor Waller on Tuesday. Fed dove Bostic, however, reiterated some dovish remarks on inflation and growth. Treasuries bull-steepened further with soft German inflation data adding to month-end factors while oil prices chopped to source reports ahead of the OPEC+ meeting on Thursday, with Saudi Arabia favouring curbs of up to 1mln BPD while Nigeria, Angola, and also the UAE, are reluctant to cut output with sources suggesting a rollover of most existing output curbs as the most likely scenario. In M&A, WSJ reported that Cigna (CI) and Humana (HUM) are in talks to combine in a stock-and-cash deal, according to sources, who note the deal could be finalised by year-end. Meanwhile, cloud names surged after impressive earnings from CrowdStrike (CRWD), Workday (WDAY), and NetApp (NTAP). Attention turns to the October US PCE report on Thursday, ahead of Fed Chair Powell and the ISM Manufacturing PMI on Friday.

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BARKIN (2024 voter) gave some pointedly hawkish commentary in a CNBC interview, saying he is not willing to take another rate hike off the table, warning he is still looking to be convinced on inflation. On the heels of Waller's dovish pivot on Tuesday, Barkin said rate cut talks are premature. The Richmond Fed President said he is hearing consumers are slowing down, but not falling off the table, noting that the revised consumer spending data is more consistent with what he is hearing on the ground. He said he is sceptical that price-setters at this point have gone back to where they were pre-COVID, saying 5.2% GDP growth tells firms that they can keep trying to raise prices. Barking said housing inflation is still elevated, and while rents have come down, housing prices are still going up. Said a lot of prices are still going up, driven by wages. The official wants the option of doing more on rates if inflation flares up again. He said markets have a different forecast (currently more than 110bps of cuts priced for 2024) than himself, where he believes inflation will be more stubborn than we'd like. Added that market bets on four rate reductions in 2024 might be based one expectations for a soft landing, "hope they are correct". Concluding that to lower rates, he needs to be confident inflation is headed back to 2%, and that if inflation remains elevated, there is no case for a rate cut.

BOSTIC (2024 voter, dove) said in a speech that the downward trajectory of inflation will likely continue, saying economic activity will slow in the coming months. The official noted tighter policy is biting harder into economic activity. The Atlanta Fed President, who was one of the first officials to call for the end of the hiking cycle, noted that firms' pricing power is diminishing. Said feedback points to ongoing disinflation and measured slowdown in economic activity. He concluded that the Fed can feel more confident in the current outlook.

MESTER (2024 voter, hawk) repeated monetary policy is in a good place and the Fed has time to vet incoming data. Further on monetary policy and the economy, the Cleveland Fed President said it is well positioned to be flexible and it must be nimble in current circumstances. On inflation, she sees clear progress in lowering still-high inflation. Separately,

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on banking, Mester said stress tests should be redesigned to help banks build up capital buffers and bank stress is reduced but underlying issues are still there. Later on, Mester said the Fed is very mindful of global financial and economic conditions, while the Fed balance sheet rundown can happen independent of FFR moves.

GDP: US GDP saw a revision higher in Q3 for the second estimate to 5.2% from 4.9%, above expectations of 5.0%. The deflator was unrevised and in line with expectations at 3.5% while the GDP sales was revised up to 3.7% from 3.5% in the Advance. The Q3 consumer spending eased to 3.6% from the prior 4% but this will not incorporate the latest Black Friday-Cyber Monday expenditures, which will be incorporated to the Q4 GDP report. The PCE prices saw revisions lower, the headline was revised to 2.8% from 2.9% with the core revised to 2.3% from 2.4%, despite expectations for core to be left unrevised. It is worth noting the timelier October PCE report will be released on Thursday. Looking ahead, with the strong GDP growth seen in Q3, Fed Governor Waller (hawk) said on Tuesday that he expects Q4 GDP to be 1-2% perhaps, saying the last few weeks of data make the Q3 print seem like a one-off jump in growth. WSJ's Timiraos reminds us that in October Waller had suggested that "something has to give", noting that growth has to slow or disinflation will stall. He revealed on Tuesday that it appears the pace of the economy is giving, which suggests the disinflation pace could continue, particularly if growth is set to slow in the months ahead.

ADVANCED GOODS TRADE: The US advanced goods trade deficit rose to USD 89.94bln in October from USD 86.6 bln, as with imports virtually unchanged, exports declining 1.7% to USD 170.8bln drove the fall. As Oxford Economics illustrates, weakness was concentrated in consumers goods and autos, the latter of which was likely a function of the now-ended UAW strike. Though unchanged in total, the details to imports showed declines to autos, consumer goods, and industrial supplies offset entirely by a gain in capital goods. Looking ahead, the consultancy “expect imports to weaken during the quarter as consumption slows and spending shifts towards services and away from goods, but any downturn would likely prove brief as [Oxford] see consumption slowing rather than contracting.“

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 13+ TICKS HIGHER AT 110-10

Treasuries bull-steepened further with soft German inflation data adding to month-end factors; hawkish Barkin and upward GDP revisions faded. At settlement, 2s -8.6bps at 4.650%, 3s -8.0bps at 4.405%, 5s -6.3bps at 4.223%, 7s -6.8bps at 4.289%, 10s -6.9bps at 4.267%, 20s -8.3bps at 4.621%, 30s -8.1bps at 4.443%

INFLATION BREAKEVENS: 5yr BEI -0.3bps at 2.170%, 10yr BEI -1.1bps at 2.224%, 30yr BEI -2.1bps at 2.316%.

THE DAY: Treasuries extended their Tuesday bid through the APAC Wednesday session in a steady fashion. T-Notes (H4) hit initial peaks of 110-14+ in sympathy with EGBs at the London handover on the heels of soft German regional CPI data. However, a sustained bid through the European morning failed to materialise and contracts pared from highs, although held ground above 110; there was a respectable German Bund auction providing some support.

The 08:30ET US data release saw two-way UST flows, with the upward revisions to US Q3 GDP also including downward revisions to the PCE. T-Notes made a run towards earlier highs (110-14+) with the front end leading but failed to breach beyond 110-11 before dipping to interim lows of 110-00+. As the dust settled, renewed buying surfaced with the belly lagging the short and long end, but T-Notes finally printed new session highs of 110-15+ after some dovish commentary from Fed's Bostic. But sellers soon resurfaced after Barkin, on CNBC, pushed back against rate cuts. T-Notes chopped sideways into the close, holding onto the majority of their gains.

Questions will now be asked if there is much month-end buying left to be done given the rally in recent sessions. Meanwhile, attention lies on the busy end to the week amid Thursday's PCE and Friday's ISM Mfg. and Fed Chair Powell appearances.

STIRS:

- SR3Z3Z3 +1.0bps at 94.628, H4 +6.5bps at 94.840, M4 +12.0bps at 95.170, U4 +15.0bps at 95.535, Z4 +14.0bps at 95.875, H5 +12.0bps at 96.165, M5 +9.5bps at 96.365, U5 +7.0bps at 96.475, Z5 +5.5bps at 96.505, Z6 +4.0bps at 96.445, Z7 +5.0bps at 96.325.
- SOFR flat at 5.32% as of Nov 29th, volumes fall to USD 1.593tln from 1.602tln.
- NY Fed RRP op demand at USD 0.914tln (prev. 0.873tln) across 91 counterparties (prev. 91)
- EFFR flat at 5.33% as of Nov 29th, volumes also flat at USD 97bln.
- US sold USD 56bln of 17-week bills at 5.240%, covered 2.92x.

CRUDE

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WTI (F4) SETTLED USD 1.45 HIGHER AT 77.86/BBL; BRENT (G4) SETTLED USD 1.41 HIGHER AT 82.88/BBL

The crude complex was choppy on Wednesday but eventually firmer, settling at highs after further OPEC+ source reports continued to highlight that Saudi Arabi want deeper production cuts. The latest WSJ sources highlighted the known issues that OPEC+ is reportedly mulling new oil production cuts amid the Middle East conflict, as Saudi Arabia favours a curb of up to 1mln BPD, while other members oppose downgrading quotas, with UAE now reluctant to cut output. However, the piece added, “a rollover of most existing output curbs is the most likely scenario" ahead of the scheduled meeting on Thursday (Newsquawk preview available here). Prior to this, WTI and Brent were choppy as they initially hit intra-day peaks in the European morning on account of the broad Dollar weakness, but later pared these gains to hit session lows of USD 75.67/bbl and 80.72/bbl, respectively. Elsewhere, Kazakhstan's KazTransOil is to increase oil supplies to Germany by 54% in November, while in December Kazakhstan is to supply 200k tons of oil to Germany via Druzbha (vs 100k tons in initial plan).

EIA: In the weekly EIA data, Crude saw a surprise a surprise build, going against the draw seen in the private data on Tuesday, while Gasoline noticed a larger build than forecasted and Distillates printed an even greater build than the inventory metrics, irrespective of expectations for more-or-less flat. Overall, refining utilisation rose to 2.8% (exp. & prev. 0.9%) with crude production unchanged at 13.2mln.

FORECASTS: Barclays said the fair value forecast for Brent next year is USD 93/bbl and the forward curve is at USD 80 /bbl, as oil markets have likely gone too far in worrying about demand and OPEC+ cohesion. On demand, said it is not falling off a cliff, and arguments about new target level for African producers do not pose an existential threat to OPEC+. Meanwhile, a Reuters poll sees Brent averaging USD 83.40/bbl in 2023 (prev. 84.80/bbl in Oct poll), and WTI USD 78.68 /bbl (prev. 80.32/bbl). Looking to 2024, Brent and WTI seen averaging USD 84.43/bbl (prev. 86.62/bbl) and USD 80.50 /bbl (prev. 83.02/bbl), respectively.

EQUITIES

CLOSES: SPX -0.09% at 4,550, NDX -0.14% at 15,987, DJIA +0.04% at 35,430, RUT +0.61% at 1,803.

SECTORS: Real Estate +0.73%, Financials +0.71%, Materials +0.38%, Industrials +0.33%, Health +0.02%, Technology +0.01%, Consumer Discretionary -0.35%, Utilities -0.79%, Consumer Staples -0.81%, Energy -0.88%, Communication Services -1.12%.

EUROPEAN CLOSES: DAX +1.09% at 16,166.45, FTSE 100 -0.43% at 7,423.46, CAC 40 +0.24% at 7,267.64, Euro Stoxx 50 +0.52% at 4,370.65, IBEX 35 +0.59% at 10,062.60, FTSE MIB +1.06% at 29,688.45, SMI +0.35% at 10,798.10.

STOCK SPECIFICS: **Cigna (CI)** and **Humana (HUM)** are reportedly in talks to combine in a stock-and-cash deal, according to WSJ citing sources; the deal could be finalised by year-end. **General Motors (GM)** announced a USD 10bln share buyback programme and raised its dividend 33% to USD 0.12/shr starting in 2024. It also reinstated its FY23 outlook. In 2024, co. expect significantly higher Ultium EV production and significantly improved EV margins. **UnitedHealth (UNH)** reaffirmed its FY23 EPS outlook and guided the FY24 revenue outlook above expectation. **Las Vegas Sands (LVS)** is to offer USD 2bln common stock. **PG&E (PCG)** announced a proposed offering of USD 1.5bln convertible senior secured notes due 2027 to repay a portion of its existing term loan. **Jabil (JBL)** lowered its Q1, Q2 and FY outlook; said during the final stretch of Q1, it experienced a softening in demand as a result of short-term inventory corrections. Elliott Management has taken a USD 1bln stake in **Phillips 66 (PSX)**. **Rover (ROVR)** agreed to be acquired by **Blackstone (BX)** for USD 11/shr in cash or USD 2.3bln; the transaction is currently expected to close in Q1 '24. Note, ROVR closed Tuesday at USD 8.50/shr. **Apple (AAPL)** is reportedly discontinuing in-house modem development after several unsuccessful attempts to perfect its own custom 5G modem chip, according to MacRumors citing sources. **Disney (DIS)** CEO Iger said linear network TV is not for sale and he will definitely step down at the end of 2026. Added it is pretty obvious US-China tensions impact business and not as optimistic about Disney's growth in China as earlier, but is still bullish about Shanghai Disneyland and expects to expand that park 'relatively soon'.

EARNINGS: **Intuit (INTU)** beat on top and bottom line. Q2 profit view was light and reaffirmed its FY guidance. **Workday (WDAY)** surpassed expectations on EPS and revenue, in addition to subscription revenue marginally topping forecasts. **Dollar Tree (DLTR)** EPS and revenue missed, with SSS light across the board with an exec noting they experienced softening throughout the quarter. Next quarter profit was better-than-expected. **NetApp (NTAP)** top and bottom line exceeded Wall St. consensus, with the Q3 and FY24 outlook better than anticipated. **Hormel Foods (HRL)** earnings missed and expects earnings to decline in H1 due to impact from lower turkey markets, lower volumes in retail segment and softness in China business. **Foot Locker (FL)** EPS and revenue beat, with comp. sales not as bad as

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feared. **CrowdStrike (CRWD)** EPS and revenue beat, on top of next quarter guidance impressing and boosting FY24 outlook. **Petco (WOOF)** posted a surprise loss per share and missed on revenue on top of cutting FY profit guidance. CEO stated it is navigating a 'challenging consumer environment'.

US FX WRAP

The Dollar was marginally bid on Wednesday hitting highs of 103.02, but failing to hold above the psychological round level, with the DXY hovering around 102.75 heading into APAC trade. Highs were seen in wake of the US data which saw upward revisions to Q3 US GDP growth although the PCE Prices eased slightly. Meanwhile, Fed's Barkin (2024 voter) was more hawkish than Waller on Tuesday, noting he is not willing to take another rate hike off the table and said that rate cut talks are premature. Bostic, meanwhile, said the downward trajectory of inflation will likely continue and economic activity will slow in the coming months. Looking ahead, US PCE (Thurs) and ISM Mfg. (Fri) accompanied by Chair Powell are the highlights.

The Euro was only marginally softer vs. the Dollar heading into overnight trade with EUR/USD failing to hold above 1.10. EUR/USD trundled lower through the session after a bout of cooler-than-expected inflation reports, including Spain and Germany with the cool regional German prints leading to the cooler-than-expected national report. ECB's Stournaras, however, noted that ECB April rate cut bets seem a bit optimistic, noting the first rate cut could come in the middle of 2024.

JPY firmed vs. the Buck with UST yields lower across the curve, supporting the Yen, but USD/JPY failed to hold beneath 147.00 after BoJ's Adachi stressed it is appropriate to patiently maintain easy policy, adding the steps the BoJ took in October to make YCC more flexible are not aimed at laying the groundwork for policy normalisation.

CHF was the G10 outperformer as it benefitted from softer global bond yields and while the latest Swiss investor sentiment remained negative, it was not as weak as the prior month.

Cyclical currencies were mixed. AUD was the G10 underperformer while NZD was one of the outperformers. The Kiwi strength followed the RBNZ rate decision which left rates unchanged, as expected, but it raised both the OCR and CPI forecasts, reiterating that rates will need to remain restrictive for a sustained period of time. Meanwhile, RBNZ Governor Orr said the RBNZ has been adamant on holding rates through next year, noting their latest projection shows an upward bias to rates but it is not a done deal. Meanwhile, Aussie inflation data was soft in October. The cooler-than-expected inflation and hawkish RBNZ hold saw AUD/NZD tumble, weighing on the Aussie albeit AUD/USD found support at 0.6600 once again.

GBP and **CAD** were flat vs. the Greenback amid a choppy risk tone. In the UK, the latest mortgage data was strong while BoE's Bailey said the BoE are seeing some weakening of economic activity, but stressed they are not in a place now where they can discuss cutting rates.

EMFX was mixed. COP was the laggard, CLP was flat, while both BRL and MXN saw weakness on the back of the aforementioned Dollar strength. Alongside the dollar strength, BRL's weakness was attributed to the BCB which opted to establish new procedures for banks, which could see a BRL 34bln increase in total capital requirements for the financial system. In Mexico, the latest Banxico Quarterly report saw growth estimates revised up while its inflation forecasts were revised to match the latest November forecasts within the Banxico statement. Governor Rodriguez noted they do not see a rate cut in December, but it is possible they could begin a discussion of rate cuts in meetings early next year.

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