newsquawk

# US Market Wrap

## 30th November 2023: Dollar and yields rise on month-end while oil dances to OPEC

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: OPEC+ agree 2.2mln BPD voluntary cuts; Hawkish Daly; Balanced Williams; US PCE cools as expected; EZ HICP seemingly confirms the tightening cycle has concluded; ABBV to acquire IMGN; Soft Chinese data; Chicago PMI surges; Jobless claims rise; CRM profit beat & raise guidance.
- **COMING UP**: **Data**: Japanese, Chinese Caixin, EZ, US, Canadian Manufacturing PMI (Final), UK Nationwide House Prices, French Budget Balance, Italian GDP (Final), Canadian Unemployment Rate **Speakers**: Fed's Barr, Goolsbee, Powell, Cook; ECB's Elderson & Lagarde **Supply**: Japan.

## MARKET WRAP

Stocks were mixed throughout the session with downside in heavy weight tech stocks seeing the Nasdaq underperform and keep the S&P flat despite strong breadth with the majority of sectors in the green (aside from tech, comms and consumer disc.). Nonetheless, a chunky rally into the close accompanied by a chunky buy side imbalance on month end flows was enough to see the Nasdaq off worst levels and see the S&P close green. The Dow was the clear outperformer on the stellar Salesforce (CRM) report. Treasuries sold off across the curve with the expectedly soft EZ and US inflation data initiating profit taking after the rally earlier in the week. The Dollar jumped as it found support from the move in UST yields and more hawkish Fed commentary, this time from Daly, also spurring profit taking after month-end selling was observed throughout the week. Crude prices were choppy, but ultimately settled lower after the OPEC+ meeting which saw individual member states announce their production cuts for Q1 (more details in the Newsquawk OPEC summary). The US data saw PCE cool in line with expectations but the M/M headline was slightly softer than forecast, and the super core metrics eased further. Personal income and consumption eased while the jobless claims data saw further upside in continued claims while initial claims were in line. Chicago PMI saw a huge beat, but it was a function of the strong Boeing orders rather than overall economic strength. Attention turns to Fed Chair Powell on Friday and the ISM Manufacturing PMI data.

## US

**DALY (2024 voter)** gave some hawkishly-framed remarks in an interview with Germany's Borsen-Zeitung, saying it is still too early to know if the Fed is done hiking rates. Said it is premature to declare victory over inflation, calling on policymakers to remain vigilant and act prudently. She said she is "not thinking" about rate cuts at all right now, needing to better understand what is happening with the economy and inflation, then need to be prepared to either raise rates again if necessary or say the tightening cycle is complete if that is appropriate. The San Fran Fed President also said however that policy is in a "very good" place. She does not forecast a recession on the horizon. She warned, "If we had increasing evidence that inflation was either picking up again or even not falling any further, we would not hesitate to act and raise interest rates further", but said, "[that is] currently not our base case." Daly said she does want to take any meeting off the table because we are constantly collecting data, with still a lot information to come before December. On the recent inflation data, she said it is encouraging and that is currently on the way to temporarily reaching 2%, but warned she is not interested in temporary price stability.

**WILLIAMS (voter)** gave some balanced remarks in a speech, saying the Fed is at or near the peak for interest rates, but did caveat that if inflation pressures persist, the Fed could hike again. He said monetary policy is quite restrictive, and the most so in 25 years. On inflation, he sees up and downside risks, which makes him believe its appropriate to keep policy restrictive for some time. Nonetheless, his forecast is for inflation easing to 3% this year and 2.25% in 2024, and will close in on 2% in 2025. In his post-speech commentary, Williams said he would not speculate on conditions that would lead to Fed rate cuts. On reserves, the NY Fed President said there is still some distance to drain reverse repos, noting reserve scarcity is still well off in the future, whilst saying it is hard to predict where ample reserve level lies.

**PCE**: Headline PCE rose 3.0% in line with expectations, easing from the prior 3.4% pace. The M/M was a touch cooler than expected and was unchanged in October at 0.0%, easing from the prior pace of 0.4%, beneath the 0.1% forecast. The core metrics were both in line for the Y/Y and M/M at 3.5% and 0.2%, easing from 3.7% and 0.3%, respectively. The super core, ex-Food, Energy & Housing eased to 0.1% from 0.3%, while the Fed eyed core services ex housing eased to 0.1% from 0.4%. The net cooler than expected October PCE report is in fitting with the cooler than expected October CPI and PPI reports released earlier in the month. Although it is clear that price growth in the US is easing, there are fears the return to the 2% target could be a challenge with fears of sticky prices around 3% growth. However, growth is expected to ease going ahead and this could help return inflation to target as demand falls. Personal income rose 0.2% in October, in line with expectations but cooler than the prior 0.4% gain while consumption also saw a notable easing, to 0.2% from 0.7%, in line with analyst forecasts. Analysts at Oxford Economics note that looking ahead they see 2% growth in Q4, down from the 3.6% annualised growth in Q3, adding that slowing real incomes and rising savings are likely to drive consumption growth lower in H1 24.

**JOBLESS CLAIMS**: Initial jobless claims ticked higher to 218k (prev. 211k), but beneath the expected 218k, while continued claims, for the week that coincides with BLS survey period, rose to 1.927mln from 1.841mln (exp. 1.872mln). Seasonals had expected a decrease of 48,111 from the previous week. On the data, ING notes, “there have been questions over seasonal adjustment issues and data volatility, but the trend is certainly towards higher continuing claims while initial claims remain low.” In essence, firms are reluctant to fire workers, but they are less inclined to hire new workers, which was also the message from Wednesday’s Beige Book, which reported that “most Districts reported flat to modest increases in overall employment”.

**PENDING HOME SALES**: Pending home sales for October fell 1.5% (prev. +1.0%), albeit less than the expected decline of 2.0% to 71.4 (prev. 72.5), which Oxford Economics notes “is no surprise given the spike in mortgage rates in October to a 23-year high.” The consultancy thinks the headline could see a slight rebound in November, due to the recent falls in interest rates which have pushed mortgage rates down more than 50bps. Nonetheless, Oxford adds, “Despite the recent decline in mortgage rates, rates remain well above 7%, which, alongside rising home prices, have made homebuying unaffordable for many households.” Looking ahead, Oxford expects existing home sales on a SAAR basis to remain below 4mln in Q1 ‘24.

**CHICAGO PMI**: Chicago PMI surged to 55.8 in November, way above the expected (45.4) and the previous (44), to the highest level seen since May 2022. However, the usual caveats apply to the headline print as it was likely boosted by the surge in Boeing (BA) aircraft orders, which led the Chicago PMI by several months due to the heavy presence of Boeing in the area. Highlighting this, Pantheon Macroeconomics quip, “we don’t believe for a second that this is indicative of a sudden resurgence in national manufacturing activity”, and as such suggest the lagged trend in aircraft orders suggests that the Chicago PMI will fall back before long.

## FIXED INCOME

**T-NOTE (H4) FUTURES SETTLED 16+ TICKS LOWER AT 109-25+**

**Treasuries were sold on Thursday with expectedly soft European and US inflation data initiating profit-taking after this week's rally**. At settlement, 2s +6.9bps at 4.717%, 3s +7.4bps at 4.479%, 5s +8.4bps at 4.303%, 7s +8.2bps at 4.372%, 10s +9.2bps at 4.363%, 20s +8.5bps at 4.715%, 30s +8.4bps at 4.535%.

**INFLATION BREAKEVENS**: 5yr BEI +1.5bps at 2.183%, 10yr BEI +3.5bps at 2.254%, 30yr BEI +3.3bps at 2.344%.

**THE DAY**: T-Notes (H4) hit a peak of 110-14 at the Tokyo handover, just shy of Wednesday's 110-15+ peak before better selling developed into the APAC session in what appears natural consolidation after the strong rally this week. Nonetheless, there was a weak 2yr JGB auction, although Chinese PMI data came in soft. Contracts found support at 110-05+ at the European handover before finding a brief bounce into more soft-sided European inflation data. However, the strength couldn't sustain with profit taking cited by many desks, led by EGBs, in addition to expiring EZ energy packages that may cap further inflation downside going ahead, seeing T-Notes go on to print fresh lows at the NY handover of 110-03.

T-Notes found a mild bid ahead of the 08:30ET data slate, and then went on to retest their earlier peaks of 110-14 as the soft Oct PCE data was confirmed, alongside the rise in jobless claims, particularly the continuing claims figures again. But the tape was soon exhausted and profit-taking kicked in again to see USTs sell off through the rest of the NY morning. Some hawkishly tilted comments from Fed's Daly (2024 voter) and a surge in the Chicago PMI accelerated the downside. T-Notes hit session lows of 109-23+, hovering just above for the remainder of the session. Traders will now be looking ahead to ISM Mfg. and Powell on Friday.

**STIRS**:

- SR3Z3 +0.0bps at 94.625, H4 -1.5bps at 94.825, M4 -4.0bps at 95.135, U4 -7.0bps at 95.470, Z4 -9.0bps at 95.790, H5 -9.5bps at 96.075, M5 -9.5bps at 96.275, U5 -9.5bps at 96.380, Z5 -9.5bps at 96.410, Z6 -9.5bps at 96.350, Z7 -9.5bps at 96.230.

- SOFR falls to 5.31% as of Nov 29th, volumes fall to USD 1.578tln from 1.593tln.
- NY Fed RRP op demand at USD 0.888tln (prev. 0.914tln) across 95 counterparties (prev. 91).
- EFFR flat at 5.33% as of Nov 29th, volumes fall to USD 96bln from 97bln.
- US sold USD 80bln in 4-week bills at 5.290%, covered 2.75x; sold USD 80bln at 5.280%, covered 2.75x.
- US leaves 42-day, 13- and 26-week bill auction sizes unchanged at USD 70bln, 75bln, and 68bln, respectively; 13- and 26-week sold on Dec 4th and 42-day CMBs on Dec 5th; all to settle on Dec 7th.

## CRUDE

**WTI (F4) SETTLED USD 1.90 LOWER AT 75.96/BBL; BRENT (G4) SETTLED USD 2.02 LOWER AT 80.86/BBL**

**The crude complex was ultimately lower after initial strength in the European morning faded on OPEC+ disappointment and a rising Dollar**. On the former, the downside started in late US morning, and continued throughout the afternoon, on reports that OPEC+ cuts in Q1 are to be announced by members individually, "as they are all voluntary", which saw WTI and Brent tumble to lows of USD 75.05/bbl and 80.02/bbl, respectively with a lot of unknowns at the time. Following the initial headline, the details emerged which saw Saudi Arabia and Russia extend their existing voluntary production cuts of 1mln BPD and 500k BPD, respectively, from year-end to the end of Q1 24. Iraq announced voluntary production cuts of 220k to the end of Q1, UAE 160k, Kuwait 135k, Kazakhstan 82k, Algeria 51k, and Oman 42k, taking the total to c. 2.2mln BPD, a bit more than the 2mln BPD expectation. OPEC noted that afterwards, the voluntary cuts will be returned gradually subject to market conditions. (*For more details on the OPEC+ meeting, please click here*). With Angola and Nigeria in disagreement heading into the meeting, Angola rejected the OPEC quota for 1.11 mln BPD, saying it will not adhere to it and will produce 1.18mln BPD instead. However, we are still yet to hear from Nigeria.

Note, as previously mentioned, in the European morning WTI and Brent rose to session highs of USD 79.60/bbl and 84.61/bbl, respectively, following initial source reports OPEC+ has a prelim. agreement for oil output cuts in excess of 1mln BPD. Looking ahead, all attention turns to Fed Chair Powell and ISM Mfg. on Friday.

## EQUITIES

**CLOSES**: SPX +0.38% at 4,567, NDX -0.25% at 15,947, DJIA +1.47% at 35,950, RUT +0.29% at 1,809.

**SECTORS**: Health +1.24%, Industrials +1.07%, Financials +1.01%, Materials +0.97%, Consumer Staples +0.84%, Real Estate +0.83%, Energy +0.63%, Utilities +0.4%, Technology -0.08%, Consumer Discretionary -0.17%, Communication Services -1.01%.

**EUROPEAN CLOSES**: DAX +0.30% at 16,215.43, FTSE 100 +0.41% at 7,453.75, CAC 40 +0.59% at 7,310.77, Euro Stoxx 50 +0.24% at 4,381.15, IBEX 35 -0.04% at 10,058.20, FTSE MIB +0.16% at 29,737.38.

**STOCK SPECIFICS**: **Salesforce (CRM)** beat on EPS and raised FY24 guidance. **Snowflake (SNOW)** surpassed expectations on the top and bottom line; lifted FY product revenue guidance. **Synopsys (SNPS)** topped Wall St. consensus on profit and revenue in addition to lifting Q1 and FY outlook. **Pure Storage (PSTG)** missed on revenue with Q4 and FY guidance short. **Nutanix (NTNX)** EPS and revenue beat; next quarter revenue outlook was better-than-expected and lifted FY24 guidance. **PVH (PVH)** revenue missed, while next quarter EPS and FY revenue growth guide was light. Returned to profit in Q3 and lifted FY earnings outlook, although the guidance disappointed those who expected better after the performance of its peers of late. **ImmunoGen (IMGN)** is to be acquired by **AbbVie (ABBV)** for USD 31.26/shr in cash or USD 10.1bln. Note, IMGN closed Wednesday at USD 16.06/shr. **Hewlett Packard Enterprise (HPE)** announced an expanded strategic collaboration with Nvidia (NVDA) to build an enterprise computing solution for generative AI. **Ford (F)** reinstated FY23 guidance after the conclusion of UAW strikes. New guidance reflects the effects of strikes and notes affected US operations have been restarted. Expects adj. EBIT of USD 10-10.5bln, Adj. FCF 5-5.5 bln. The new US labor pact with UAW is expected to cost USD 8.8bln. **Snap (SNAP)** and **Pinterest (PINS)** were upgraded at Jefferies; said both cos. “have catalysts for rev growth upside” in 2024.

## US FX WRAP

**The Dollar** jumped on Thursday despite a softer-than-expected PCE report, albeit confirming the soft CPI and PPI reports seen earlier in the month. The upside was led by a bounce in UST yields on some more hawkish Fed commentary, this time from Daly (2024 voter), noting it is too soon to call time on rate hikes and it is premature to declare victory on inflation and that she is not thinking about rate cuts at all right now. Williams, however, was more balanced saying the Fed is at or near the peak for interest rates. The upside in the Buck on Thursday to highs of 103.59

has wiped out the losses seen earlier in the week on month-end selling. Looking ahead, participants await Fed Chair Powell and ISM Mfg. on Friday.

**The Euro** fell victim to the stronger Dollar and was the G10 underperformer with cooler-than-expected EU inflation data keeping pressure on the single currency. There was more ECB speak on Thursday - Econostream suggested the ECB will discuss QT in December but there is some preference for coming to a decision on QT next year. Panetta said the ECB needs to avoid useless damage to the economy, while Nagel said recent inflation is encouraging, but the ECB cannot be satisfied yet and that inflation risks are still to the upside so further hikes cannot be ruled out. EUR/USD hit a low of 1.0878 from highs of 1.0984 with the low breaching the 23rd November low of 1.0882.

**The Yen** was also a G10 underperformer, but not quite to the same extent as the Euro with the aforementioned upside in UST yields and the Dollar hitting the Japanese currency. Overnight, there was mixed data for Japan with a miss in retail sales but a beat in Industrial Production. Consumer confidence rose and housing starts were not as bad as feared. BoJ's Nakamura said they will be looking at the upcoming July-September MoF quarterly business sentiment survey as among data in gauging whether conditions are falling in place for a policy shift, but noted it would be risky to change policy on the assumption that things will improve ahead in Japan's economy.

**Cyclical currencies** were mixed. NZD was flat, holding onto its Wednesday gains after the hawkish RBNZ hold while AUD saw some weakness and initially dipped beneath 0.6600 to lows of 0.6572 in wake of the aforementioned Daly comments which gave a helping hand to the Buck. However, AUD/USD managed to reclaim the 0.66 handle shortly afterwards and hovers around the level at time of writing (just before the US close). CAD saw marginal strength despite the downside in crude on OPEC day, while GBP was among the underperformers after inflation expectations eased for the year ahead in the latest BoE monthly decision-maker panel. However, BoE's Greene (hawkish) noted that doing too little is a bigger risk than doing too much with monetary policy, and despite the weakness, Cable managed to keep its head above 1.2600. Note, in Canada, the latest Reuters BoC poll found analysts expect the BoC to hold at 5.00% next week, and expect the BoC to cut rates by at least 100bps in 2024, in fitting with current market pricing.

**EMFX** was generally weaker with BRL, MXN, CLP and COP all weaker vs the Greenback to a similar magnitude. The Lira was one of the outperforming EM currencies as oil prices fell despite the dovish aspects of the latest CBRT minutes, noting the current level of tightness is significantly close to the level required to establish the disinflation course, and accordingly, pace of monetary tightening will slow down. ZAR was weaker as gold sold off while South African PPI M/M was a touch softer than expected, easing to 1.0% from 1.5% (exp. 1.1%); Y/Y accelerated to 5.8% from 5.1%, in line with forecasts, however. In CEE, PLN saw notable selling, as did the HUF vs the Euro. Hungarian PPI tumbled in October, although Polish GDP data accelerated and CPI was mixed. Elsewhere, the Yuan saw only mild weakness vs the rampant dollar despite softer-than-expected PMI data in China overnight. KRW was also softer vs the Dollar after the BoK left rates unchanged at 3.5%, as expected, but cut its 2024 growth forecast. It also dropped the phrase "considerable time" from the policy statement in saying it will maintain a restrictive policy stance.