US Market Wrap

5th December 2023: Stocks chop and bonds rip after tumbling job openings data

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar up.
- **REAR VIEW**: Job openings tumble; Dovish RBA and ECB's Nagel; ISM Services accelerates; Moody's changes China rating to Negative from Stable; Russia's Novak jawbones OPEC+ action; AXP weak billings update; CHTR warns on broadband additions; CVS 2024 guidance tops expectations; Rockstar Games sets 'GTA VI' launch for 2025.
- **COMING UP**: **Data**: Australian Real GDP, Final Consumption Expenditure, EZ, German, French, Italian & UK Construction PMI, German Industrial Orders, EZ Retail Sales, US MBAs, ADP National Employment, International Trade, Canadian Trade, Ivey PMI **Events**: NBP Policy Announcement & BoC Policy Announcement, BoE's FSR **Supply**: Australia, UK.

MARKET WRAP

Stocks were choppy Tuesday with SPX and NDX little changed whilst the Russell 2k unwound some of its recent outperformance. The indices hit their intraday peaks after the cash open, just on the heels of the dovish reaction seen in wake of the tumble in October JOLTS job openings, although the upside surprise in the ISM Services tempered those spirits. Treasuries bull-flattened with govvies globally bouncing amid dovish central bank updates, with the momentum continuing after the US data. Long-end yields are making new post-Powell lows (30y at 4.30%) although the front-end is reluctant to follow suit, albeit is still bid on the day. The Dollar made strong gains, climbing higher through the session, with particular strength vs the AUD (and NZD in spillover) after the RBA left rates unchanged and with a statement less hawkish than expected; EUR was also sold amid ECB's Nagel saying the latest inflation data removes the need for further ECB hikes ahead of the meeting next Thursday (nearly 150bps of ECB hikes are now priced across 2024, with 130bps priced for the Fed). Yuan was pressured amid Moody's downgrading its outlook on China. Oil prices were choppy but lower again, with a recovery attempt on some jawboning from Russia's Novak not enough to sustain any meaningful recovery amid the Dollar's ascent. Gold prices continued to trundle lower after the spike to all-time highs earlier this week. Bitcoin continued to climb higher, hitting peaks above USD 44k, the highest since H1 2022.

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JOLTS: US JOLTS Job Openings fell to 8.733mln in October from 9.35mln in September, well beneath the expected 9.3 mln and the lowest since March 2021, in what marks the latest data set pointing to labour market cooling alongside the business surveys and the Beige Book. Declines were seen across industries, although healthcare, finance, leisure and hospitality, and retail trade saw sharp falls. The fall in job openings has seen the ratio of openings to unemployed workers - which has a correlation to core inflation - fall to 1.34 from 1.47, the lowest level since August 2021 but still above the balanced labour market level of 1.00, or the c. 0.5 series average pre-COVID. Meanwhile, the quits rate remained flat at 2.3%, which remains the lowest since late 2020 after peaking at 3% in 2021, although that is the top-end of the pre-COVID range. The hires rate was also unchanged at 3.7%, which is within pre-COVID ranges. There is more timely labour market data to come this week with the November ADP employment report on Wednesday, the weekly jobless claims figures on Thursday, and the November NFP report on Friday, which is expected to be upwardly biased due to the return of striking workers.

ISM SERVICES: Headline US ISM Services PMI for November accelerated to 52.7 from 51.8, above analyst forecasts of 52.0. The upside was met with an acceleration in business activity, rising to 55.1 from 54.1 while new orders saw further expansion at 55.5, matching the October figure. Employment accelerated to 50.7 from 50.2, while prices paid eased to 58.3 from 58.6. The report notes that "The services sector had a slight uptick in growth in November, attributed to the increase in business activity and slight employment growth. Respondents' comments vary by both company and industry. There is continuing concern about inflation, interest rates and geopolitical events. Rising labor costs and labor constraints remain employment-related challenges." Analysts at Oxford Economics note it confirms the sector continues to expand, albeit at a more modest pace than the prior quarter and the desk expects it to settle into a range just above the expansion threshold of 50. Oxford Economics adds that "Consumption is set to slow in the coming quarters, but we expect the goods sector to shoulder the brunt of the pullback as tighter lending and credit standards and higher-for-longer interest rates weigh on spending, hiring, and investment". Meanwhile on Q4 growth, OxEco suggest the current level of the services index supports their forecast for below-trend growth of 1%.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 23+ TICKS HIGHER AT 110-29+

Treasuries bull-flattened Tuesday amid dovish central bank updates and softening labour market data. 2s -8.1 bps at 4.577%, 3s -8.8bps at 4.330%, 5s -9.9bps at 4.139%, 7s -11.1bps at 4.193%, 10s -11.3bps at 4.173%, 20s -13.0 bps at 4.485%, 30s -12.8bps at 4.309%.

INFLATION BREAKEVENS: 5yr BEI -3.2bps at 2.123%, 10yr BEI -2.9bps at 2.189%, 30yr BEI -2.1bps at 2.257%.

THE DAY: Treasuries entered the NY session already in a bull-flattener with govvies globally resuming their ascent after Monday's consolidation. The short end lagged despite dovish central bank updates, particularly ECB's Schnabel who said further hikes are unlikely given the Nov inflation data and the less hawkish than expected RBA statement. Moody's outlook downgrade of China was also in focus.

The long end gained particular bullish momentum in the NY morning ahead of the US data slate, with T-Notes making progress towards their post-Powell highs of 110-28 from Friday, although the short end continued to really struggle to follow suit. The big fall in JOLTS job openings saw the whole curve spike higher, with T-Notes breaking through the Friday peaks and to new highs of 110-31+; 2yr yields didn't manage to claw new lows beyond Friday's 4.54%. But, further upside in the front and belly never came, with the upside surprise in the ISM Services capping a further dovish repricing, albeit the long end managed to continue its outperformance.

Traders are now looking to ADP on Wednesday, Jobless Claims on Thursday, and the NFP report and Michigan survey both on Friday. Not to mention the approaching mini-refunding announcement on Thursday for next week's 3yr, 10yr, and dreaded 30yr auctions.

FED PRICING: 128bps of cuts are now priced across 2024 vs 125bps late on Monday, although that figure did exceed 130bps at the extremes after the JOLTS data.

STIRS:

- SR3Z3 +0.25bps at 94.6225, H4 +3.5bps at 94.895, M4 +5.5bps at 95.27, U4 +6.5bps at 95.65, Z4 +8bps at 95.995, H5 +10bps at 96.29, M5 +11bps at 96.485, U5 +11bps at 96.585, Z5 +11bps at 96.61, Z6 +11bps at 96.535, Z7 +12bps at 96.42.
- SOFR fell to 5.37% as of Nov 4th after spiking to 5.39% on Nov 1st, volumes fall to USD 1.631tln from 1.650tln; rate remains elevated vs the 5.31/5.32% area it was at before month-end.
- NY Fed RRP op demand at USD 0.834tln (prev. 0.816tln) across 82 counterparties (prev. 84).
- EFFR at 5.33% as of Nov 4th (prev. 5.33%), volumes fall to USD 103bln (prev. 107bln).
- US sold USD 70bln of 42-day CMBs at 5.285%, covered 3.04x.
- Treasury left its 4-, 8-, and 17-week bill auction sizes unchanged at USD 80bln, 80bln, and 56bln, respectively; 4- and 8-week to be sold on Dec 7th and 17-week bills on Dec 6th; all to settle on Dec 12th.

CRUDE

WTI (F4) SETTLED USD 0.72 LOWER AT 72.32/BBL; BRENT (G4) SETTLED USD 0.83 LOWER AT 77.20/BBL

Oil prices were choppy but lower again on Tuesday, with Russia's Novak jawboning not enough to sustain any meaningful recovery amid the Dollar's strength. WTI and Brent front-month futures hit intra-day session lows of USD 72.17/bbl and 77.15/bbl, respectively, in the European morning and on some volume, which did coincide with some reports that China's authorities have called on schools nationwide to enhance disease monitoring amid the uptick in respiratory illnesses. But, the November lows for WTI and Brent of USD 72.16/bbl and 76.60/bbl were rejected firmly, and benchmarks pared losses from there. The upside later in the NY morning was accentuated after Russian press reported Russian Deputy PM Novak saying Russia will start tightening restrictions on oil and fuel supplies under OPEC+ as early as December and that it intends to fully fulfil its obligations to voluntarily reduce oil and fuel supplies as early as January. But the strength failed to sustain, and prices meandered back lower again into settlement, with Brent hitting a marginal new session low of USD 77.09/bbl as it weighed on by the rising Dollar.

Elsewhere, on Tuesday, Saudi Arabia cut its OSPs across all regions for January Arab Light; Qatar also cuts its OSPs. Libya's NOC Chair said current production is at 1.3mln BPD (vs 1.218mln on 6th Nov), saying it's on track to increase capacity to 2mln BPD in the next three-to-five years and hopefully production will increase by 100k BPD by end-2024. Traders now look to the weekly US energy inventory data; this week's expectations (bbls): Crude -1.4mln, Gasoline +1.0mln, Distillate +1.5mln.

EQUITIES

CLOSES: SPX -0.06% at 4,567, NDX +0.24% at 15,877, DJIA -0.22% at 36,124, RUT -1.38% at 1,856.

SECTORS: Energy -1.7%, Materials -1.37%, Industrials -0.86%, Utilities -0.81%, Consumer Staples -0.79%, Financials -0.51%, Real Estate -0.45%, Health -0.17%, Communication Services +0.22%, Consumer Discretionary +0.32%, Technology +0.82%.

EUROPEAN CLOSES: DAX +0.78% at 16,533.11, FTSE 100 -0.31% at 7,489.84, CAC 40 +0.74% at 7,386.99, Euro Stoxx 50 +0.85% at 4,452.35, IBEX 35 +0.59% at 10,238.40, FTSE MIB +0.56% at 30,082.88, SMI +0.15% at 10,968.70.

STOCK SPECIFICS: **Rockstar Games (TTWO)** lined up "Grand Theft Auto VI" for a 2025 launch in the first trailer, disappointing many investors who expected it to be released sooner. **CVS Health (CVS)** backed FY23 adj. EPS guidance while FY24 outlook surpassed expectations; raised quarterly dividend 10% to USD 0.665/shr. **GitLab (GTLB)** Q3 earnings beat and raised guidance. **AT&T (T)** selected **Ericsson (ERIC)** to construct a telecom network employing ORAN tech, aiming to cover 70% of US wireless traffic by late 2026; will drop **Nokia (NOK)**. **Johnson & Johnson (JNJ)** provided FY24 guidance; adj. EPS slightly light, but includes 0.15 dilutive impact associated with the recent acquisition of Laminar, but organic sales growth view beat. **J M Smucker (SJM)** EPS beat while revenue was in line; cut FY23 profit view but said it is confident in ability to reach sales and earnings expectations for this FY. **Designer Brands (DBI)** posted a massive miss on both EPS and revenue on top of comp. sales declining 9.3%; slashed FY23 guidance. **Albemarle (ALB)** was downgraded at Piper Sandler. **Google (GOOGL)** is to begin accepting and running ads for sports betting via state-approved entities within Vermont. **Microsoft (MSFT)** is adjusting prices for cloud services to align global levels, effective Feb. 1st, 2024. **Starbucks (SBUX)** CEO said China's recovery will be choppy, but it is normalizing at half the pace than what you would think it would. Said demand growth next year will be more back-end loaded. **ALLETE (ALE)** is reportedly exploring a sale with advice from JPMorgan (JPM), according to Reuters sources. **Charter Communications (CHTR)** CFO stated it could see negative broadband additions in Q4. Exec added Nov. has been 'similarly soft' vs. Oct., and in Oct. it had seen "a little bit" of carryover churn, adding that November has been "similarly soft."

FINANCIALS: Amid the Goldman Sachs conference we heard from a slew of financials. **KeyCorp (KEY)** lowered Q4 non-interest income outlook to down 5-8% (prev. +1-3%) and sees Q4 loans down 1-3% Q/Q. CEO said it's at inflection point on NII, rates uncertainty "puts everything on pause" and tailwinds are coming from capital markets and NII. **American Express (AXP)** CEO said they are likely the only issuer not at 2019 write-off rates, but warned billings in October were not as strong as Q3 albeit November billings were. Not seeing a slowdown in demand for premium, fee-paying cards. **Goldman Sachs (GS)** CFO said fixed income and equities trending nearly flat Y/Y. **Truist (TFC)** CEO stated higher-end consumers are still spending in hotels and on air tickets, while lower-income consumers are more stressed and have higher delinquency rates. **JPMorgan (JPM)** said consumer credit normalised as expected and not yet deteriorated. Forecasts Q4 markets revenue 'flattish' Y/Y and 'single digit growth' in Q4 IB fees from Q3. **PNC Financial (PNC)** CEO expects to see record NII in 2025 after hitting a trough in 2024; expenses are seen stable in 2024 and says the bank has started to "dip our toes" in share repurchases. **Bank of America (BAC)** CEO said consumer spending is levelling out to pre-pandemic levels and still feel good regarding NII guidance (in October it forecasted FY23 at USD 57bln against current street expectations for 57.2bln). Will be c. USD 1bln of IB fees in the quarter, noting that IB is down alongside broader Wall St. Said NII is expected to trough in H1 24 before seeing growth in H2 24.

US FX WRAP

The Dollar was firmer on Tuesday, and while it saw weakness amid a broad-based dovish reaction in the wake of the JOLTS data, the move was somewhat offset by the strong headline ISM Services. On the data, October job openings printed their lowest since 2021 falling to 8.733mln (prev. 9.35mln in Sept.), well beneath the expected 9.3mln. Meanwhile, ISM Services PMI for November accelerated to 52.7 (prev. 51.8), above analyst forecasts of 52.0. The upside was met with an acceleration in business activity, rising to 55.1 from 54.1 while new orders saw further expansion at 55.5, matching the October figure. Employment accelerated to 50.7 (prev. 50.2), while prices paid eased to 58.3 from 58.6. In terms of levels, the Dollar index printed a high of 104.09, breaching the 21 DMA at 104.08, with 22nd Nov high at 104.21 and 100 DMA at 104.40 the next levels to watch to the upside. Looking ahead, there is more timely labour market data to come with the November ADP employment (Wed), jobless claims (Thurs), and November NFP report (Fri), which is expected to be upwardly biased due to the return of striking workers.

AUD was the clear G10 laggard in the aftermath of the RBA policy decision which lacked hawkish undertones, and then further weighed on by the Dollar strength. In terms of the meeting, RBA kept the Cash Rate Target unchanged at 4.35%, as expected, while it reiterated its forward guidance that whether further tightening is required to ensure inflation returns to the target in a reasonable timeframe will depend upon data and evolving assessment of risks. As such, AUD/USD eventually printed a low of 0.6545 vs. an earlier peak of 0.6625 ahead of November AIG data on Wednesday.

CAD, CHF, GBP, EUR, and NZD all saw similar losses on account of the broad Buck bid and general risk aversion, with some currencies seeing individual headwinds. The Loonie was further weighed on by weaker oil prices, while the Kiwi saw headwinds from its Aussie counterpart. In terms of levels, NZD/USD and USD/CAD traded between 0.6126-74 and 1.3535-91, respectively, with Cable bottoming out at 1.2578. Looking ahead, participants await BoE FSR (Dec) and BoC on Wednesday (Newsquawk preview here).

For the Euro, it felt initial pressure in early European hours after ECB hawk Schnabel said the current level of restriction is sufficient, has increased confidence that the 2% target will be met in 2025 but the ECB must not declare victory prematurely, whilst further hikes are “rather unlikely” after November inflation data. EUR later recovered some of its losses, but as European players left for the day and the aforementioned Dollar strength picked up, EUR/USD hit a low of 1.0779, a level it sits around now. On the data footing, EZ PMIs were revised up but the now cast data said the bloc is on the cusp of a technical recession alongside wage-driven service inflation in Germany. Separately, ECB Survey of Consumer Expectations (October 2023) saw median consumer inflation expectations for the next 12 months and for three years ahead left unchanged.

JPY was the G10 outperformer, and flat against the Buck, as it benefitted from its safe-haven appeal amid souring risk sentiment and narrowing rate differentials vs the other major central banks. During APAC trade, the Yen failed to react to softer-than-expected Tokyo CPI metrics - which is seen as a leading indicator of the national trend. USD/JPY marked a range for the session between 146.57-147.38, currently residing towards the top end of the range.

EMFX was mixed. MXN, BRL, RUB, and TRY saw gains while CLP, ZAR, HUF, and CNH were sold. The latter was weighed on after Moody's revised China's outlook to negative, maintaining the A1 rating as it reflects risks relating to persistently lower medium-term economic growth and ongoing downsizing of the property sector. On the data footing, Caixin Services PMI data provided brief tailwinds as it printed a 3-month high at 51.5 (exp. 50.7). In addition, it was reported that China's major state-owned banks were seen acquiring Dollars via onshore swaps and selling them in the spot FX market. Elsewhere, ZAR and CLP were weighed on by falling gold and copper prices, respectively, while BCB Chief Neto said the current easing pace is appropriate and continues to see 50bp cuts at the coming meetings.