

newsquawk

US Market Wrap - 7th October 2024

Stocks and bonds dive while oil rallies on geopolitics

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW:** Awaiting Israel's response, which is reportedly "imminent"; Kashkari said balance sheet shrinking has a ways to go and pencilled in neutral rate at closer to 3%; AAPL downgraded at Jefferies; AMZN downgraded at Wells Fargo; SMC I shipping 100,000 GPUs per quarter; NHC said Milton is rapidly intensifying into a category 5 Hurricane.
- **COMING UP: Data:** Japanese All Household Spending, Australian NAB Business Conditions, German Industrial Output, French Trade Balance, US NFIB Business Optimism Index, RCM/TIPP Economic Optimism, International Trade, Canadian Trade Balance **Events:** RBA Minutes; EIA STEO **Speakers:** RBA's Hauser; Fed's Kugler, Bostic, Collins, ECB's Schnabel; BoE's Breeden **Supply:** Japan, Netherlands, UK, Germany, **US Earnings:** PepsiCo.
- **WEEK AHEAD:** Highlights include US CPI, RBNZ, Minutes from FOMC, ECB and RBA, Canada jobs, and UK GDP. [To download the report, please click here.](#)
- **CENTRAL BANK WEEKLY:** Previewing Minutes from FOMC, ECB and RBA, Rate decisions from RBNZ, RBI and BOK; Reviewing Riksbank Minutes. [To download the report, please click here.](#)

MARKET WRAP

Stocks sold off throughout the session with underperformance in the Nasdaq while Utilities, Communication Services and Consumer Discretionary sectors lagged, while Energy was the only sector to close in the green. Nvidia (NVDA) saw notable gains while Super Micro (SMCI) surged after it said it is shipping 100k GPUs per quarter. Oil prices rallied throughout the session with participants awaiting Israel's response to Iran, which is reportedly due "imminently". There is also attention on Hurricane Milton, which was upgraded to Category 5, however, Reuters reports that while some oil facilities have shut, it is expected to miss most oil infrastructure. T-Notes sold off throughout the session in a continuation of the post-NFP trade on Friday while higher oil prices also likely weighed with the 10yr yield rising back above 4.00%. Elsewhere, there was no tier 1 US data to digest while Fed's Kashkari noted that he sees the neutral rate closer to 3%. In Europe, Retail Sales Y/Y disappointed while both ECB's Villeroy and Kazaks were supportive of an October rate cut. The downside in equities saw haven FX (CHF and JPY) outperform, while JPY was supported after commentary from the top FX diplomat in Japan warning against speculative moves after the recent Yen weakness. Cyclical currencies (AUD, NZD, CAD, GBP) lagged its peers with both the Dollar and Euro flat on the session.

US

KASHKARI: Fed's Kashkari noted that the balance of risks have shifted away from higher inflation towards maybe higher unemployment, but noted that overall the US economy is resilient. He stated the labour market still looks strong and he wants to keep it that way. He is not seeing signs of resurgent inflation, adding that the reduction in new rents gives the Fed confidence that housing inflation will come down. Kashkari suggests that underbuilding is a big source of housing inflation, while supply chain disruptions and labour shortages are another source, as is the rise of work from home. He stated the balance sheet shrinking has a ways to go yet, and that he has pencilled in the neutral rate at closer to 3% (vs Fed median of 2.9%), but there is huge uncertainty about the neutral rate. On CRE, he said the "shoe is yet to drop" from office sector CRE, noting he is looking very carefully but is not seeing evidence of systemic risk.

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLED 11+ TICKS LOWER AT 112-15+

10yr yield climbs back above 4.00% as bond sell off continues after hot September NFP on Friday while oil prices surge on geopolitics. At settlement, 2s +6.9bps at 4.001%, 3s +5.9bps at 3.900%, 5s +5.3bps at 3.867%, 7s +4.9bps at 3.928%, 10s +4.5bps at 4.026%, 20s +4.3bps at 4.379%, 30s +3.6bps at 4.304%.

INFLATION BREAKEVENS: 5yr BEI +3.9bps at 2.343%, 10yr BEI +3.3bps at 2.259%, 30yr BEI +2.1bps at 2.255%.

THE DAY: T-Notes continued to push lower on Monday after the sharp sell-off on Friday in wake of the hot September NFP report. Also adding to the pressure was the upside in oil prices as tensions in the Middle East remain high with participants on watch for the Israeli response to Iran, with reports suggesting it is coming "imminently" - but there has yet to be an exact time frame. The upside in oil prices sparks inflationary fears and whether it will have much impact on the Fed's easing cycle ahead, particularly when coupled with the hot September jobs report which saw participants completely unwind 50bps rate cut bets. There was little US data to digest on Monday, aside from a slight dip in US employment trends, which had little impact given the stellar September NFP report. Fed speak saw Kashkari note his estimate of the neutral rate is closer to 3% (vs Fed median of 2.9%), while Bostic and Musalem are due after hours. Attention this week lies on US CPI, FOMC Minutes and Treasury supply.

THIS WEEK SUPPLY: US Treasury to sell USD 58bln of 3yr notes on Oct. 8th, USD 39bln of 10yr notes on Oct 9th, and USD 22bln of 30yr bonds on Oct 10th, all to settle on October 15th, as expected.

STIRS

- **Market Implied Fed Rate Cut Pricing: November 22bps (prev. 24bps D/D), December 49bps (prev. 54bps), January 68bps (prev. 76bps).**
- US sold USD 85bln of 3-month bills at 4.550%, covered 2.62x; sold USD 76bln of 6-month bills at 4.305%, covered 3.38x.
- NY Fed RRP op demand at USD 323bln (prev. 330bln) across 54 counterparties (prev. 57)
- SOFR at 4.83% (prev. 4.85%), volumes at USD 2.377tln (prev. 2.182tln).
- EFFF at 4.83% (prev. 4.83%), volumes at USD 84bln (prev. 81bln).

CRUDE

WTI (X4) SETTLED USD 2.76 HIGHER AT 77.14/BBL; BRENT (Z4) SETTLED USD 2.88 HIGHER AT 80.93/BBL

The crude complex was firmer, again, continuing on its recent bid its seen on the heightened Middle Eastern tensions and also another significant Hurricane. Updates have actually been pretty thin on Monday in Israel, but latest reports via Israel's Channel 13 citing a US official is that information indicates that the Israeli response to Iran is imminent, and as such market participants are on watch for the response and the potential escalator follow up from Iran, depending on the impact of Israel's response. On the Hurricane footing, the NHC announced Milton is rapidly intensifying into a Category 5 Hurricane and looks like it is going to make landfall in Florida on Wednesday morning. Another factor potentially supporting the move higher was Saudi Arabia raising its OSPs for Asia (potentially after Chinese stimulus). Looking ahead, aside from the aforementioned Israel retaliation, there is the weekly private inventory data on Tuesday, with CPI on Thursday, and PPI and UoM prelim on Friday. For the record, WTI and Brent saw highs of USD 77.22/bbl and 80.94/bbl, respectively, against lows of 73.62 and 77.23.

EQUITIES

CLOSES: SPX -0.96% at 5,969, NDX -1.17% at 19,801, DJIA -0.94% at 41,954, RUT +1.50% at 2,213.

SECTORS: Energy +0.35%, Materials -0.17%, Industrials -0.29%, Health -0.49%, Technology -0.68%, Real Estate -0.73%, Consumer Staples -1.1%, Financials -1.24%, Consumer Discretionary -1.92%, Communication Services -1.97%, Utilities -2.32%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.29% at 4,931, DAX -0.14% at 19,012, CAC 40 +0.46% at 7,510, FTSE 100 +0.28% at 8,304, SMI +0.03% at 11,951, FTSE MIB +0.66% at 33,791, IBEX 35 +0.49% at 11,655, AEX +0.11% at 908.

STOCK SPECIFICS:

- **Apple (AAPL):** Downgraded at Jefferies saying it likes Apple Intelligence long-term but near-term expectations for iPhone 16 and even 17 "are too high" with AI-capable smartphone technology likely a few years away.
- **Amazon (AMZN):** Downgraded at Wells Fargo; said Amazon's "positive estimate revision story faces multiple headwinds."
- **Pfizer (PFE):** Activist investor Starboard Value has acquired a USD 1bln stake in the Co.
- **American Express (AXP):** Downgraded at JPM; sees "asymmetric risk" with the trading near the high-end of its valuation range and with limited upside to estimates.
- **Intel (INTC):** Slashed orders for Gaudi 3 AI accelerators by over 30% due to headwinds caused by internal changes and demand fluctuations.
- **Alphabet (GOOGL):** Cautious mention in the WSJ; said Google's dominance in the USD 300bln search advertising market is weakening.
- **Visto Outdoor (VSTO):** Agreed to sell itself in two parts for USD 3.35bln.
- **Arcadium Lithium (ALTM):** Rio Tinto (RIO) is in talks to acquire the Co., with a deal being potentially valued at between USD 4-6bln.
- **Air Products & Chemicals (APD):** Activist investor Mantle Ridge has acquired a stake worth over USD 1bln and plans to push for strategic improvements.
- **Barnes (B):** To be acquired by Apollo (APO) for USD 3.6bln, or USD 47.50/shr in cash. Note, it was reported last week that Apollo was in talks to buy Barnes with the deal likely to be valued at more than USD 45/shr.
- **Hon Hai Precision Industry (HNHPF):** Foxconn reported Q3 revenue above expectations and driven by strong AI server demand.
- **Super Micro (SMCI):** Said it recently deployed more than 100,000 GPUs with liquid cooling solution (DLC) for some of the largest AI factories ever built.
- **Alphabet (GOOGL):** US judge orders Google to open up app store to more competition, according to a court filing. Judge ruled that Google Play must allow rival Android app stores. Note, Google is to appeal the verdict and ask courts to pause implementing remedies.

US FX WRAP

The Dollar was flat to start the week in what was a day of pretty quiet newsflow as participants await Israel's response to Iran. There was no tier 1 US data on Monday, with only Fed's Kashkari (2026 voter) on the wires, who said balance sheet shrinking has a ways to go yet, and he pencilled in neutral rate closer to 3% at the September SEP's, but there is huge uncertainty about the neutral rate (Fed median 2.9%). Highlighting the thin newsflow, the Dollar Index saw a high of 102.620 vs. a low of 102.36. Looking ahead, FOMC Minutes (Wed), CPI (Thurs), PPI & UoM prelim (Fri) are the highlights, as well as any Middle East escalation and the category 5 hurricane Milton.

Safe-haven FX, CHF and JPY, were the clear G10 outperformers on Monday and only ones to gain against the Buck due to their haven appeal, given participants awaiting the Israeli response and how they decide to do so. While the Yen firmed today and saw USD/JPY hit a low of 147.86, it doesn't stop the recent Yen weakness, highlighted by the pair trading at 142 just last week. In addition, Japan's top FX diplomat warned against speculative moves as the Yen fell as he said "We will monitor currency market moves including speculative trading with a sense of urgency".

EUR was flat against the Greenback and EUR/USD was in tight parameters, 1.0955-86. In terms of the day, ECB's Villeroy said the ECB will quite probably cut rates in October due to rising risk of inflation undershooting the 2% target, while Kazaks told Econostream he expects continued cuts of the same magnitude, unless the economy does worse than expected. He added there is no need to delay the decision in October and if ECB sees in October that they can cut rates, "and I think we can – then we will". On the data footing, EU retail sales (Aug) disappointed Y/Y but was in line with expectations M/M, while the Sentix Index (Oct) was not as bad as feared.

Activity currencies, GBP, CAD, NZD, and AUD, all saw losses to varying degrees against the Greenback with the Antipodeans the worst performers as they were hit all by risk-off sentiment as opposed to much currency-specific newsflow. Cable went as low as 1.3060, vs. an earlier peak of 1.3134, while AUD/USD and NZD/USD traded between 0.6744-6810 and 0.6113-6173, respectively. In the week ahead the major risk events are RBNZ, RBA Minutes, UK GDP, and Canada jobs.

EMFX was mixed against the Greenback, with the ZAR and Yuan firmer, while BRL, MXN, and CLP all weakened with the latter weighed on by lower copper prices. TRY and INR were flat. In terms of EM data, Brazilian IGP-DI Inflation Index (Sep) was above expectations, as was Chilean Trade Balance (Sep). Participants were perhaps cautious given the frequently mentioned geopolitical tensions, but also due to a slew of important EM data this week in the form of Colombian, Brazilian, and Mexican inflation, in addition to the Peru rate decision.

