

newsquawk

US Market Wrap - 8th October 2024

Stocks catch a bid led by Tech rally while curve steepens

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW:** Israel yet to respond to Iran, but NBC reports it is considering striking energy facilities; Very poor US 3yr auction; Foxconn positive on NVDA; AXP sees multiple downgrades; 'Disappointing' China NDRC; PEP revenue misses & trims FY guidance; Deluge of Fed speak, but adds little new
- **COMING UP:** **Data:** Australian Consumer Sentiment, German Trade Balance, US Wholesale Sales **Events:** RBNZ & RBI Policy Announcement; FOMC & NBH Minutes **Speakers:** ECB's Elderson; Fed's Jefferson, Bostic, Logan, Goolsbee, Jefferson, Barkin, Collins, Daly **Supply:** Australia, UK, Germany, US.

MARKET WRAP

Stocks were bid throughout the US session with notable outperformance in the Nasdaq as tech and other heavyweight sectors outperformed, while the small cap Russell 2k lagged, but still closed green. The majority of sectors were green but Energy posted notable losses as crude prices slumped. The weak crude prices pared some of the recent geopolitical-induced rally with disappointing China NDRC updates overnight (lack of stimulus) hitting the demand side of the equation. Focus remains on geopolitics with crude prices settling off lows after an NBC report suggested that Iranian energy facilities are still a target under consideration by Israel, although Israeli officials suggest they will respond in a way that will not lead to an all-out war with Iran. T-Notes had pared some of the recent flattening with the 2s10s holding in positive territory. Meanwhile, the 3yr auction was very soft which initially hit the curve before paring into settlement to see the 10yr finish little changed. Attention turns to FOMC Minutes on Wednesday, US CPI on Thursday and PPI on Friday. In FX, the Dollar was flat while GBP and NZD saw mild outperformance after recent selling pressure in the Pound while attention overnight looks to the RBNZ rate decision. CHF lagged while Yen was little changed, trading either side of 148.00.

US

WILLIAMS: In an FT interview, the NY Fed President gave his first policy related remarks since the September FOMC. Williams said that the US economy is well positioned for a soft landing and the current monetary policy stance is well positioned to both keep maintaining strength in the economy and labour market. He stressed the 50bps rate cut was right in September and is still right today. Looking ahead, Williams noted that a half-point rate cut in September was not the rule of how the Fed will act in the future, adding his goal was to move interest rates to a neutral setting that no longer dampened demand over time.

KUGLER: Governor Kugler said she will support additional rate cuts if progress on inflation continues as expected; adding that policy will be data dependent. She stressed that if downside risks to employment escalates, cutting rates more quickly may be appropriate, whereas if incoming data does not provide confidence that inflation is moving to target, slowing normalisation may be appropriate. The Fed Governor wants a 'balanced' approach to inflation to avoid undesirable slowdown in labour market and economic growth, although she warned that Hurricane Helene, and Middle East events could impact the US economic outlook. On the September NFP report, she said it was very welcome and showed a healthy level of jobs, noting that labour market cooling has started and the Fed is looking at trends, not single data.

MUSALEM: The St Louis Fed President said that more rate cuts are likely given the economic outlook, adding his personal rate outlook is above the Fed's median view but he won't predict the timing or size of future Fed easing. Musalem noted that the costs of easing too much outweigh easing too little, but he did support the Fed's decision last month to cut rates by 50bps, noting policy patience has served the Fed well. Musalem added that a cooler job market is still consistent with a strong economy and he expects inflation pressures to continue to abate, with inflation continuing to converge to 2% over the next couple of quarters. He noted that financial conditions remain supportive of growth and Fed rate cuts have breathed some life into housing, but he did flag some rising credit troubles, but issues are still small, adding that some economic activity is slowed by rate policy and election uncertainty. On the September jobs report, he said it was very strong and the labour market is strong and healthy, noting there is no emergency in the jobs market right now but the jobs report did not cause a change in the outlook. He said the current policy path is still appropriate despite the jobs data, while he does not pay much attention to market pricing of the Fed's outlook. Musalem concluded he will not prejudice the outcome of coming Fed meetings.

BOSTIC: The Atlanta Fed president said that the labour market has slowed down but it is not slow or weak, noting monthly job creation above what is needed to account for population growth. The economy is close to the Fed's targets and moving closer, but inflation rate is still 'quite a ways' above 2%. There is a risk that the economy is too strong, and it could hamper policy recalibration. Meanwhile, businesses say that consumers have become much more price sensitive and curbing their ability to raise prices. Bostic also warned that hurricanes Helene and Milton potentially have significant implications for the economy over the next three to six months, and that changes in supply chains means business cost structures will also change, something Fed will need to understand.

NFIB: The US small business optimism index saw a slight improvement in September to 91.5 (prev. 91.2). However, the uncertainty index rose to 103, the highest on record. NFIB Chief Economist Dunkelberg highlights that "Uncertainty makes owners hesitant to invest in capital spending and inventory, especially as inflation and financing costs continue to put pressure on their bottom lines. Although some hope lies ahead in the holiday sales season, many Main Street owners are left questioning whether future business conditions will improve." On prices, the report highlights the net percent of owners raising average selling prices rose two points M/M to 22% seasonally adjusted. 23% reported that inflation was their single most important problem in operating their business, down 1 point M/M but remaining the top issue. Looking into the breakdown, it says "Price hikes were the most frequent in the finance (64% higher, 4% lower), retail (48% higher, 9% lower), transportation (41% higher, 18% lower), and construction (38% higher, 12% lower) sectors. Seasonally adjusted, a net 25% plan price hikes in September". On the labour market, 32% reported raising compensation (-1 pt M/M), remaining the lowest reading since April 2021. A net 23% plan to raise compensation in the next three months, rising 3pts M/M. 9% of owners cited labour costs as their top business problem, while 17% said labour quality was their top business problem.

INTERNATIONAL TRADE: US international trade for August saw a deficit of USD 70.4bln, shallower than the prior deficit of USD 78.9bln and the expected USD 70.6bln. Exports rose 2.0% M/M, with food, feeds, and beverages the only component to decline. Auto exports rose 6.2%, while capital goods (+3.1%), consumer goods (+4.7%), and industrial supplies (+1.5%) all added to the increase. Imports declined 0.9% M/M, with the drop mostly seen in industrial supplies and autos. Overall, Oxford Economics expect a widening in the deficit in the September data, but risks are that net trade proves a smaller drag on GDP growth than the 0.4ppt they have in their forecast. In addition, the resolution of the

dockworkers strike earlier this month ensures supply chain disruptions would be minimal and removes a key risk to the trade outlook.

FOMC MINUTES PREVIEW: The Minutes will be quite backwards looking given the events since the FOMC, but it will be used to see if many of the non-voters were against the 50bps rate cut and would have joined Bowman in opting for a 25bps rate cut. The Minutes will also elaborate on the cases for cutting by 50bps or 25bps, Waller had suggested 50bps was the right call as Core PCE is running below their target, noting if you annualise the last four months, it leaves inflation running at less than 1.8%. However, Bowman said that she voted for 25bps as she feared a 50bps rate cut would give the impression of a premature declaration of victory on inflation. She also highlighted that core inflation remains uncomfortably above the 2% target, with upside risks given ongoing growth in spending and wages. The Minutes will also be eyed to gauge appetite for easing ahead, but Powell has largely guided us to 25bps in November, and another 25bps in December. However, the Summary of Economic Projections saw a very wide range of views. For 2024, two on the Fed pencilled in no more cuts, while seven pencilled in 25bps of more easing, while nine pencilled in 50bps of easing, and one pencilled in 75bps of easing, leaving the median at 50bps of more easing throughout the last two meetings of the year. Given there were several changes to the FOMC statement, discussions around the updated language will also be eyed with risks to the mandate now seen as "roughly balanced". [To see the full Newsquawk preview, please click here.](#)

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLED HALF A TICK LOWER AT 112-15

T-Notes steepen in reversal of recent post-NFP flattening with attention turning to FOMC Minutes and US CPI. At settlement, 2s -3.1bps at 3.973%, 3s -2.0bps at 3.883%, 5s -0.7bps at 3.862%, 7s +0.2bps at 3.932%, 10s +0.7bps at 4.033%, 20s +1.0bps at 4.387%, 30s +1.7bps at 4.321%.

INFLATION BREAKEVENS: 5yr BEI -0.8bps at 2.346%, 10yr BEI +0.3bps at 2.271%, 30yr BEI +0.4bps at 2.266%.

THE DAY: T-Notes initially caught a bid overnight with the yield curve steepening after the recent flattening with upside supported by the disappointing China stimulus update and in the wake of commentary from Fed's Musalem and Williams. The latter noted a 50bps rate cut was the right decision in September, and still the right decision today, but stressed a half-point cut is not the rule of how the Fed will act in the future. T-Notes peaked at 112-24 during the APAC session before selling emerged once the European session with the downside led by the long end as the curve remained steeper on the session. Aside from the overnight remarks from Williams and Musalem, Kugler also spoke to the FT, noting she will support additional rate cuts if progress on inflation continues as expected, and that the September jobs report was very welcomed. Meanwhile, both Bostic and Kugler raised concerns about Hurricane Helene and Milton potentially having significant implications for the US economy. US data saw international trade post a narrower deficit than expected, and the Atlanta Fed GDPNow tracker was updated to incorporate the batch of recent data (ISM Services, jobs report, auto sales and trade data), resulting in an upgrade to 3.2% growth from 2.5%. T-Notes continued to sell off, bottoming just before the US cash equity open at 112-10, although pared somewhat ahead of the 3yr auction, which ultimately was very weak and added further pressure to the curve. Attention later this week turns to the FOMC Minutes on Wednesday, and US CPI on Thursday.

3YR: The US Treasury sold USD 58bln of 3yr notes at a high yield of 3.878%, tailing the when issued by 0.7bps (the first tail since June), a much softer reception than the prior stop through of 1.7bps and six auction average for the high yield to come in on the screws. The Bid-to-Cover also disappointed at 2.45x, vs. the prior 2.66x and average 2.57x. The soft demand was led by a pullback in indirect demand, taking just 56.9% of the auction, well below the prior 78.2% and average of 66.1%. Direct demand saw a decent improvement to 24%, however, up from the 11.3% and average of 18.1%. Nonetheless, it still saw dealers with a chunky 19.2% takedown, above the average 15.8% and prior 10.5%.

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

STIRS

- Market Implied Fed Rate Cut Pricing: November 22bps (prev. 22bps D/D), December 50bps (prev. 49bps), January 69bps (prev. 68bps).
- US sold USD 80bln in 42-day CMB's at 4.720%, covered 2.96x
- US to sell USD 64bln of 17-week bills on October 9th; to sell USD 95bln of 4-week bills and USD 90bln of 8-week bills on October 10th; all to settle on October 15th
- NY Fed RRP op demand at USD 325bln (prev. 323bln) across 65 counterparties (prev. 54)
- SOFR at 4.83% (prev. 4.83%), volumes at USD 2.350tln (prev. 2.350tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 86bln (prev. 84bln).

CRUDE

WTI (X4) SETTLED USD 3.57 LOWER AT 73.57/BBL; BRENT (Z4) SETTLED USD 3.75 LOWER AT 77.18/BBL

The crude complex was notably lower, and gave back some of its recent extensive gains amid the ever-escalating Middle Eastern tensions as players await the Israeli response. WTI and Brent saw significant downside, although did briefly pare some losses after one of the latest updates was NBC reporting that Israel is considering striking energy facilities in Iran, while in further news PM Netanyahu refused to approve Defense Minister Galant's trip to Washington planned for tonight until he gets a phone call with President Biden and until the Israeli cabinet approves the response to Iran's missile attack. Nonetheless, oil prices were subdued after the Chinese NDRC update disappointed, as they did not announce any fiscal bonanza, in addition to the fact that the Israeli retaliation on Iran looms which will be the next big catalyst, depending on the extent of the attack and the scope it has to further escalate tensions. Elsewhere, NHC said Hurricane Milton rapidly intensified into a category 5 hurricane and is expected to make landfall on Wednesday. For the record, WTI and Brent saw highs of USD 78.46/bbl and 81.14/bbl, respectively, against later lows of 73.82 and 77.40. Looking ahead, aside from the geopolitical updates, attention will be on private inventory data after-hours, whereby current expectations are (bbls): Crude +2.0mln, Distillates -1.9mln, Gasoline -1.1mln.

EIA STEO: US oil production to average 13.32mln BPD in October (prev. 13.25mln BPD in September), and to average 13.51mln BPD in November.

EQUITIES

CLOSES: SPX +0.97% at 5,751, NDX +1.55% at 20,108, DJIA +0.30% at 42,080, RUT +0.09% at 2,195.

SECTORS: Technology +2.12%, Communication Services +1.07%, Consumer Discretionary +1.04%, Consumer Staples +0.67%, Financials +0.57%, Health +0.54%, Real Estate +0.28%, Industrials +0.22%, Utilities +0.06%, Materials -0.37%, Energy -2.63%

EUROPEAN CLOSES: Euro Stoxx 50 -0.40% at 4,912, DAX -0.20% at 18,912, CAC 40 -0.72% at 7,476, FTSE 100 -1.36% at 8,184, SMI +0.04% at 11,887, FTSE MIB -0.24% at 33,503, IBEX 35 +0.15% at 11,606, PSI -0.37% at 6,654, AEX -0.28% at 905.

STOCK SPECIFICS:

- **American Express (AXP):** Downgraded at HSBC and BTIG, with positives priced in and unachievable expectations as the reasons, respectively.
- **Bank of America (BAC):** Berkshire continued selling its stake in the Co, taking its total ownership to 10.1% worth around USD 31.4bln.
- **Nvidia (NVDA):** Foxconn said it was building the world's largest super chip manufacturing facility for Nvidia's GB200, and said the outlook for Q4 was strong. In addition, Morgan Stanley was constructive on NVDA.
- **Penn National Gaming (PENN):** Announced prelim Q3 figures, whereby retail operation EBITDA beat and noting it sees EBITDA loss shallower than expected.
- **PepsiCo (PEP):** Revenue missed and trimmed FY annual sales forecast. In commentary, said inflation and higher borrowing costs over the last few years continue to impact consumer spending and there is a subdued growth environment.
- **Honeywell (HON):** To spin off advanced material business to shareowners, on pace to deploy USD 25bln through 2025; spin-off transactions will not impact FY24 guidance.
- **Samsung Electronics (SSNLF):** Reported Q3 prelim figures, whereby both operating profit and revenue came in light and cited delays in AI chip sales, increased competition from Chinese rivals in conventional chips, and one-off costs.
- **Roblox (RBLX):** Hindenburg Research short on the name.
- **Wells Fargo (WFC):** Upgraded at Wolfe Research.
- OpenAI reportedly eases away from **Microsoft (MSFT)** data centres and is discussing a deal with **Oracle (ORCL)** to build the world's most powerful AI data centre, according to The Information.
- **General Motors (GM):** CEO said it is on track to achieve positive variable profitability for EVs in Q4 and 2025 profits will be in a similar range to 2024. Believe its EV losses peaked this year and sees new vehicles and improving EV profitability driving continued growth.
- **Boeing (BA):** May be cut to junk by S&P; currently 'BBB-' and outlook negative; Boeing will likely require incremental funding. Estimates Boeing to incur cash outflow of ~USD 10bln in 2024.

US FX WRAP

The Dollar Index was flat and within tight parameters, 102.290-640, in a lack of tier 1 US data ahead of FOMC Minutes on Wednesday, CPI (Thurs), and PPI, UoM prelim, and big bank earnings on Friday. Nonetheless, in short, US NFIB rose marginally, August International trade saw a slightly narrower deficit than forecasted, and Atlanta Fed GDPnow model for Q3 was revised higher to 3.2% from 2.5%. Meanwhile, there was a slew of Fed speak (Musalem, Williams, Kugler, Bostic) with comments from NY Fed's Williams arguably the highlight as in an interview with the FT said the US economy is well positioned for a soft landing and the current monetary policy stance is well positioned to both keep maintaining strength in the economy and labour market.

G10 FX was mixed against the Greenback on Tuesday, with CAD, AUD, and JPY seeing slight losses. CHF was a notable underperformer, while EUR and NZD were flat and GBP saw marginal gains.

In terms of currency-specific newsflow, the **Aussie** was weighed on due to the disappointment from the Chinese NDRC overnight, whereby they failed to announce a raft of new stimulus measures. In addition, albeit garnering little reaction, RBA Minutes stated the Board discussed scenarios for lowering and raising interest rates in the future and members felt not enough had changed from the previous meetings that the current Cash Rate best-balanced risks to inflation and the labour market. For the **Kiwi**, participants await RBNZ overnight ([Newsquawk preview available here](#)) where the central bank is largely expected to cut rates by 50bps.

EUR/USD traded in narrow ranges, 1.0962-96, despite some better data out of Germany in the form of industrial output but it does not alter the fact the economic outlook for the EZ remains a bleaker one than that of the US and therefore it remains to see how much EUR/USD can rise. There was a deluge of ECB rhetoric (Elderson, Kazaks, Vasle, Nagel, Centeno) with many noting they are open to a rate cut at the October meeting.

The pound was the marginal outperformer, and as mentioned a touch firmer after what has been a tough run for the pound on account of last week's dovish comments by BoE Governor Bailey. Today's session lacked fresh UK catalysts and could remain the case with nothing on the calendar this week until Friday's monthly GDP data.

EMFX was largely lower against the Buck, with the Yuan, ZAR, BRL, CLP, and MXN all seeing notable weakness, while TRY was flat and largely buoyed by the losses seen in the crude complex. Commodity FX in the Rand and Chilean Peso were hit by weakness in gold and copper, respectively, while the Yuan was weighed on by a disappointing NDRC and lack of stimulus updates. Elsewhere, soon-to-be BCB President Galipolo said data suggests Brazil's economy is not slowing down and disinflation is poised to be slower and more costly, while its FX rate floats to absorb shock. Galipolo was approved by the Economic Affairs Committee today, and will go to the Senate to formally approve him before he begins his role in January.

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