newsquawk

US Market Wrap - 9th October 2024

Stocks bid and bonds hit ahead of US CPI

- **SNAPSHOT**: Equities up, Treasuries down, Crude down, Dollar up
- **REAR VIEW**: FOMC Minutes confirms some officials would have preferred a 25bps cut; Mixed US 10yr auction; Fed's Logan supported decision to cut rates, but with a more gradual approach ahead; Jefferson to take decisions meeting by meeting; AtlantaFed GDPNow unchanged at 3.2%; US Whole Sales and Inventory revisions miss; Bigger-crude builds than expected in EIA, though, less than API; ECB's Kazimir not as convinced as media reports on an October cut; RBNZ cut the OCR by 50bps as expected; DoJ weighs a breakup of Google
- **COMING UP**: **Data:** Japanese Corporate Goods Prices, Italian Industrial Output, US CPI, Initial Jobless Claims, US Federal Budget, NZ Manufacturing PMI, Chinese M2 Money Supply. **Events:** ECB Minutes; Tesla Robotaxi Event; AMD AI Event. **Speakers:** Fed's Cook, Barkin, Williams. **Supply:** Japan, US. **Earnings:** Domino's Pizza, Delta.

MARKET WRAP

Stocks closed in the green on Wednesday with the Dow outperforming while the Russell lagged. Sectors were predominantly firmer with Health, Technology and Industrials leading; Financials also saw decent gains ahead of the start of earnings. Utilities, Communications and Real Estate lagged. Communication weakness was weighed on by Google (GOOGL) after the DoJ indicated it is mulling a Google breakup. Meanwhile, China ADRs were hit with participants still sceptical about the actual impact fresh policy will have on the economy; the China Finance Ministry is to hold a press briefing on October 12th to introduce details of intensifying its fiscal policy. Out of the US saw commentary from Fed Vice Chair Jefferson who stuck to the script, while Fed's Logan said she supported the recent rate cut but she supports a more gradual pace of easing ahead. The FOMC minutes revealed little new but highlighted how some participants would have preferred a 25bps cut at the September meeting, but the substantial majority backed a 50bps move. Elsewhere the US data saw disappointing wholesale sales data, but the Atlanta Fed GDPNow tracker was unchanged at 3.2%. T-notes sold off across the curve with lows seen after a mixed 10yr auction, while the move higher in yields supported the Dollar and weighed on the Yen. Elsewhere, NZD underperformed the AUD after the RBNZ cut rates by 50bps as expected. Crude prices settled in the red with weakness seen in the wake of the inventory data showing a smaller build than the private report on Tuesday while participants are still wary of Israel's response to Iran. Biden and Netanyahu had a conversation today to discuss the response but few details were revealed, although ABC reported that "members of the Biden administration were still relatively satisfied with the level of detail that was shared and felt the Israeli government was receptive to their arguments for sticking to conventional military targets rather than nuclear or oil production sites". Attention turns to US CPI & Jobless Claims on Thursday, as well as the ECB minutes.

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FOMC MINUTES: The minutes in the FOMC highlighted the differences of opinion at the Fed, similar to the range of views seen in the Summary of Economic Projections. The minutes noted the 50bps rate cut was supported by a "substantial majority", however some would have preferred to cut rates by 25bps, and a few others indicated they could have supported 25bps, while others noted there had been a plausible case for a 25bps cut in July. The arguments for a 50bp move was that the recalibration of the policy stance would bring it into better alignment with recent indicators on inflation and the labour market, and it would also help sustain the economic strength and labour market while continuing to promote progress on inflation. Some had also noted there had been a plausible case for a 25bp rate cut at the July meeting, and that inter-meeting data had provided further evidence that inflation was on a sustainable path towards 2% while the labour market continued to cool. Meanwhile, several said a 25bp cut would be in line with a gradual path of policy normalisation, and it would allow policymakers time to assess the degree of policy restrictiveness as the economy evolved, while a few added such a move could signal a more predictable path of policy normalisation. Meanwhile, some emphasise reducing policy restraint too late or too little could risk unduly weakening economic activity and employment, but several said reducing by too soon or too much could risk stalling or reversing progress on inflation. On the neutral rate, some said uncertainty about the longer-term neutral rate level complicated the assessment of the degree of restrictiveness, making it appropriate to reduce restraint gradually. On the balance sheet, several discussed the importance of communication QT could continue for some time, even as rates are reduced. On the economy, almost all participants agreed upside risks to inflation had diminished, and almost all judged risks to achieving the Fed's goals were roughly in balance. Nonetheless, members viewed the economic outlook as uncertain and agreed that they were attentive to the risks to both sides of the Committee's dual mandate.

JEFFERSON: Fed Vice Chair Jefferson noted the Fed rate cut recalibrated policy to maintain the strength of the labour market, adding economic growth is solid, inflation has eased substantially and the labour market has noticeably cooled. Jefferson acknowledged inflation is much closer to the 2% goal and he expects to continue to make progress towards it. He echoed the Fed's statement that the balance of risks to Fed's two mandates has been brought roughly into balance. Looking ahead, he will watch incoming data, the evolving outlook, and the balance of risks in considering additional policy rate adjustments, echoing Powell in the FOMC Presser that he is to make decisions meeting by meeting.

LOGAN: Fed's Logan (2026 voter) said a more gradual path on rate cuts is likely appropriate from here, and upside risks to inflation mean the Fed should not rush to reduce rates. Logan continues to see meaningful risk inflation could get stuck above the Fed's 2% goal, and lowering the policy rate gradually would allow time to judge how restrictive monetary policy may or may not be. The Dallas Fed President added that normalising policy gradually also allows the Fed to best balance the labour market risks. On the September meeting, Logan supported the decision to start normalising policy by lowering the policy rate (but she did not specify by 25 or 50bps). Regarding the economy, she noted inflation and the labour market are within striking distance of the Fed's goals, and added that the labour market has cooled, and faces more risk it will cool beyond what is needed to return inflation to 2%. On neutral FFR, she stated it is uncertain and structural economic changes mean it may be higher than pre-pandem

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLED 8+ TICKS LOWER AT 112-06+

T-notes sold across the curve ahead of supply and FOMC minutes. At settlement, 2s +2.8bps at 4.007%, 3s +2.6bps at 3.914%, 5s

+3.6bps at 3.901%, 7s +3.5bps at 3.970%, 10s +2.6bps at 4.061%, 20s +2.0bps at 4.409%, 30s +1.2bps at 4.337%.

INFLATION BREAKEVENS: 5yr BEI +0.9bps at 2.363%, 10yr BEI +0.8bps at 2.288%, 30yr BEI +0.8bps at 2.286%.

THE DAY: T-notes meandered overnight and in the European morning, trading between 112-21 and 112-15+. However, selling pressure was observed in the European morning before extending in the US session. Weakness in Europe was observed after it was announced that China's foreign ministry was to hold a press briefing on fiscal policy and economic development, which supported risk assets and weighed on fixed income. T-notes meandered once again until the start of the US session where selling resumed while US equity futures caught a bid. There was little US data to digest today, but Vice Chair Jefferson spoke towing the party line that decisions will be made meeting by meeting. Meanwhile, Dallas Fed President Logan expressed a desire for a more gradual approach to easing ahead. T-notes sold off into the auction, with fresh lows seen thereafter after a relatively mixed auction when compared to recent averages, but nowhere near as strong as the prior auction (see below). There was little reaction to the FOMC minutes, which revealed that some officials would have preferred a 25bp cut, while a few others could have supported it. It also noted that several discussed the importance of communicating quantitative tightening could continue for 'some time' even as rates are reduced.

10YR: Overall a mixed auction but not as strong as the September offering. The 0.4bps tail was not as strong as the prior stop-through of 1.4bps but a touch better than recent averages. The Bid-to-Cover of 2.48x was beneath the prior 2.64x and six auction average 2.51x. Direct demand fell to 8.44% from 13.7%, well beneath the 16.2% average but the indirect demand remained strong at 77.63%, above the prior 76.0% and average of 68.6%. This left dealers taking under 14% of the auction, slightly better than the average 15.2% but still up from the prior 10.2%.

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

STIRS

- **Market Implied Fed Rate Cut Pricing: November 21bps (prev. 22bps D/D), December 46bps (prev. 50bps), January 64bps (prev. 69bps).**
- NY Fed RRP op demand at USD 343bln (prev. 325bln) across 71 counterparties (prev. 65)
- SOFR at 4.84% (prev. 4.83%), volumes at USD 2.166tln (prev. 2.350tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 90bln (prev. 86bln).

CRUDE

WTI (X4) SETTLED USD 0.33 LOWER AT 73.24/BBL; BRENT (Z4) SETTLED USD 0.60 LOWER AT 76.58/BBL

Crude settles in the red but off lows after inventory data. Attention remains on the impact of Israel's response to Iran. US President Biden and Israeli PM Netanyahu had a call (which ultimately revealed little details), however, before the phone call The Times of Israel reported that the Israeli response to Iran "as of now, will likely focus on military targets, but that could still change", and the "US wants to make sure the response doesn't lead to more escalation". After that, Iran State Media citing a chief aide to the IRGC suggested they are prepared to launch 1000s of missiles at Israel and they'll hit Israeli military and economic sites if they are attacked, and while there will not be a war, it will hit back if Israel strikes. In terms of oil-specific newsflow, the crude complex saw upside in the wake of the weekly EIA data whereby crude stocks saw a larger build than expected, but not as great as the private inventory build seen on Tuesday night. In addition, distillates and gasoline drew more than expected, while crude production rose 100k to 13.4mln. Looking ahead, market participants await the aforementioned Israel response, while on the macro footing, US CPI is on Thursday. For the record, WTI and Brent saw lows of USD 71.53/bbl and 75.15/bbl, respectively, against peaks of 74.45/bbl and 78.02/bbl.

OPEC: Russian Deputy PM Novak stated it is too early to assert if the global market is ready to digest additional OPEC+ oil barrels in Dec, and there is no change to OPEC+ deal currently being discussed. The group will later decide on the December 1st summit format. Lastly, oil output at Kazakhstan's Tengiz field rose to a record 699k BPD in early-October, according to Reuters citing sources/calculations. Kazakhstan is likely to meet the OPEC+ quota in October, due to maintenance at Kashagan, although OPEC+ compliance could become problematic from November onwards, as output rises at the facilities.

EQUITIES

CLOSES: SPX +0.71% at 5,792, NDX +0.80% at 20,269, DJIA +1.03% at 42,512, RUT +0.26% at 2,201

SECTORS: Utilities -0.89%, Communication Services -0.55%, Real Estate +0.02%, Energy +0.50%, Materials +0.64%, Consumer Discretionary +0.73%, Consumer Staples +0.78%, Financials +0.87%, Industrials +0.92%, Technology +1.01%, Health +1.02%.

EUROPEAN CLOSES: DAX: +1.00% at 19,258, FTSE 100: +0.65% at 8,244, CAC 40: +0.52% at 7,560, Euro Stoxx 50: +0.67% at 4,982, AEX: +0.60% at 916, IBEX 35: +0.06% at 11,742, FTSE MIB: +0.59% at 33,933, SMI: +0.80% at 12,107, PSI: +0.55% at 6,706.

STOCK SPECIFICS

- **Alphabet (GOOG):** US regulators are weighing a breakup of the Co. as a remedy for its monopoly case. DoJ also proposed that Google may need to share its search data to mitigate its dominance, albeit, no decisions have been made as of yet.
- **TSMC (TSM):** Reported September revenue of TWD 251.9bln, therefore, according to Reuters calculations, implying Q3 revenue above analysts' expectations.
- **Boeing (BA):** S&P may cut Boeing's credit rating to junk. As such, Boeing is exploring options to raise billions, including selling stock and hybrid securities, to protect its credit rating from such a downgrade.
- **Reddit (RDDT):** Initiated with a Buy at Jefferies with a USD 90 PT, forecasting EBITDA 12% above the 2026 consensus.
- **Arcadium Lithium (ALTM): Rio Tinto (RIO)** has reached a definitive agreement to acquire ALTM for USD 5.85/shr, in an all-cash transaction.
- **Honda Motor (HMC):** Recalling about 1.7mln vehicles in the US as difficulty in steering on certain modes can increase the risk of a crash, the NHTSB said.
- **Home Depot (HD):** Upgraded at Loop Capital on home improvement retail demand bottoming.
- **Tesla (TSLA):** Sold 88,321 China-made vehicles in September, according to CPCA.
- **Illumina (ILMN):** Unveiled MiSeq i100 series sequencing systems to advance net gen sequencing for labs; US list price for i100 is USD 49k, and USD 109k for the MiSeq plus.
- **Apple's (AAPL):** Former hardware chief, whom oversaw vision pro, Dan Riccio, is to retire after 26 years of service; Vision products group will be overseen by John Ternus.
- **Tesla (TSLA):** CEO Musk is expected to discuss full-self-drive for the semi truck at the Tesla Robotaxi event, via Bloomberg citing sources; Event takes place on October 10th.

- **Meta (META):** Meta AI to roll out to 21 new locations, launching in UK, Brazil, Latin America and Asia.

US FX WRAP

The dollar index's hefty rally seen last week resumed on Wednesday, with the dollar gaining against all of its G10 peers, despite the lack of macro drivers in the US space. The dollar index incrementally climbed higher throughout the day, finishing the day just beneath at session highs of 100.93, as Fedspeak and FOMC Minutes were the highlights of the day, even though resulting in muted reactions in the buck. On the former, remarks were seen from Fed's Vice Chair Jefferson, who said the Fed's September rate cut was neither proactive or reactive, and the size of said cut, was timely. Meanwhile, Fed's Logan (2026 Voter) said she supported the decision to start normalising policy by cutting the policy rate, albeit, refrained from stating the size of cut she would have supported. The Dallas voter believes a more gradual path on rate cuts is likely appropriate from here. Emphasis ahead now lies on US CPI on Thursday, in addition to, Initial Jobless Claims, Fed's Barkin, Cook, Williams, and the US Federal Budget.

EUR/USD ended the day lower, slipping just below its 90DMA (1.0941) as resumed dollar strength outweighed a possible rebound of the pair's October selloff. Newsflow was contained to ECB speak, in which, Stournaras sees the case for two more rate cuts this year, conversely, Kazimir says he's not convinced as media reports on an October cut. Elsewhere, Patsalides spoke for the first time as a governor, saying there seems to be room for a rate cut, and Middle-east implications should be assessed. On oil prices, Wunsch said if the increase accelerates, the ECB runs the risk of having to recalibrate interest rate policy in the short term. Lastly, Makhlouf said services inflation and wage growth present some uncertainty, albeit, they remain on track to hit 2% inflation in Q4 2025. Looking ahead, ECB's Minutes on Thursday is now in focus.

G10 FX entirely saw losses versus the greenback, led by the Kiwi and Yen, while the Pound and Euro outperformed, although, weakened notably vs the Dollar. Outside of the US, macro news was seen out of New Zealand, whereby, the RBNZ cut the OCR by 50bps to 4.75% as expected, sending NZD/USD below its 90DMA (0.6119) and 200DMA (0.6096) to around 0.6057. The Committee said the New Zealand economy is now in a position of excess capacity, encouraging price- and wage-setting to adjust to a low-inflation economy, thus, indicating greater confidence in its inflation mandate, when compared to the remarks in August (firms might adjust prices asymmetrically- changing prices quickly when inflation was high and rising, but more slowly when inflation is falling"). AUD/NZD heads into the US close at around 1.1085, a level not seen since late July this year.

The Yen and Franc were of no exception towards the slump seen in the G10 space, particularly, with the rising US yields in the background. For the Yen, that approached lows not seen since July, as USD/JPY sets fresh weekly highs of 149.36, as the 90DMA (150.77) comes into view, and the 200 DMA (151.14) when looking further out.

EMFX were almost entirely in the red on the day, except for the IDR, INR, and TRY. On the INR, the RBI kept its Repurchase Rate unchanged at 6.5%, as expected, while it unanimously voted to switch stance to neutral after previously remaining focused on the withdrawal of accommodation. NBH Minutes unveiled the September decision to cut by 25bps was unanimous, and such decisions will be taken in a cautious and data-driven manner. In Latam, September inflation data from Brazil and Mexico, were largely cooler than anticipated, adding further pressure to the currencies, with the former now in focus ahead of Thursday's Brazilian Retail Sales (August). The Yuan sold off vs the Dollar with participants turning their attention to an October 12th press briefing with the Finance Ministry on fiscal policy and economic development.