US Market Wrap - 10th October 2024

Markets chop to mixed data and hawkish Bostic

- **SNAPSHOT**: Equities down, Treasuries steepen, Crude up, Dollar flat.
- **REAR VIEW**: US CPI hot across the board; Initial jobless claims soar, but with Hurricane/strike caveats; Hawk Bostic opens the door to a November skip; Williams highlights future cuts to be decided by data; Awaiting Israel response to Iran; Strong US 30yr auction; AMD event disappoints.
- **COMING UP**: **Data**: German CPI (Final), UK GDP Estimate, Services, Manufacturing Output, US PPI, Canadian Unemployment, UoM Inflation Prelim **Events**: BoC SCE & Outlook Survey; Fitch Credit Review on France **Speakers**: Fed's Goolsbee, Logan, Bowman **Supply**: Australia, Italy **Earnings**: JPMorgan, BlackRock, Wells Fargo, Bank of New York Mellon, Fastenal.

MARKET WRAP

Stocks ultimately closed in the red with underperformance in the Russell 2k while the majority of sectors were red, and 351 SPX stocks closed red, with 149 in the green. Sectoral underperformance was seen in Real Estate, Communication Services and Consumer Staples, while Energy, Materials and Tech outperformed - the only sectors to close green. Energy was buoyed by continued upside in the crude space on geopolitical escalation fears, although the Israeli response to Iran is yet to be seen. Bonds chopped with the curve steeper after US data, Fed speak and the auction. The US data was mixed, which saw US CPI hotter than forecasts while jobless claims surged, albeit primarily due to hurricane distortions - the net response in T-Notes was higher. However, remarks from Fed's Bostic (2024 voter) to the WSJ reversed the bid. The Atlanta Fed President said he is definitely open to a November skip, noting some elements of the inflation data validate that view. The downside was prevented from sliding further as the 30-year bond auction was very strong, stopping through by 1.5bps, seeing the first stop-through since June, paring some of the Bostic downside into settlement. In FX, the Dollar was ultimately flat but choppy in response to the aforementioned data and Fed speak, while the Yen and Swissy outperformed, but CAD lagged.

US

CPI: CPI came in hotter than expected across all gauges, core CPI rose 0.3% M/M (exp. 0.2%), and headline M/M rose 0.2% (exp. 0.1%). Core Y/Y rose 3.3% (exp. 3.2%), edging slightly higher from the prior 3.2%, whereas headline Y/Y increased by 2.4% (exp. 2.3%), though waned from August's 2.5%. Concerning annualised rates (Core), they mostly ticked up from September, namely, the 3mth, rising to 3.1% (prev. 2.1%), while the 6mth eased to 2.6% (prev. 2.7%) but the 12mth rose to 3.3% (prev. 3.2%). Regarding shelter and food, the two indexes contributed to over 75% of the monthly increase, BLS said, albeit on a positive note, the owner's equivalent rate rose 0.3%, which Oxford Economics highlights is the lowest print since June. On the hot report, OxEco believes it doesn't signal a reacceleration of inflation, nor will it deter the Fed from cutting by 25bps at the November meeting. In addition, the recent FOMC minutes downplayed a reignition in inflation, as almost all participants agreed upside risk to inflation had diminished. As to why OxfordEco won't alter near-term inflation and monpol forecast changes, they think that there might have been some idiosyncratic factors that contributed to the hot report as prices for tobacco/smoking products, admission to sporting events, and college textbooks saw large gains, which many "won't be duplicated over the next couple months". On the 2024 rate outlook, the report further cements the recent repricing in Fed pricing, in which money markets have unwound the possibility of a 50bps rate cut at the November meeting, as the debate on November policy decision now involves a 25bps cut or a hold (Refinitiv pricing - 85% for 25bps cut, 15% for a hold). That said, October's Jobs report and September's PCE report lie ahead before the next Fed policy decision.

JOBLESS CLAIMS: Initial jobless claims (w/e Oct. 5th) surged to 258k, above the prior 225k, and outside the upper bound of the forecast range, albeit there are notable hurricane/strike caveats. The 4wk average rose to 231k (prev. 224.25k). Highlighting this, Pantheon Macroeconomics notes, "The surge in initial claims, to their highest level in more than a year, can be mostly put down to disruption caused by Hurricane Helene, which made landfall late on September 26. Ongoing furloughs and strikes at Boeing have probably played a role too." On states specifically, Pantheon highlights that the unadjusted claims in both Washington, where Boeing has major manufacturing facilities, and the six states hit hardest by Helene jumped by 19k last week, well above their level in the same week last year, with 8.5k and 3.8k of this increase coming in North Carolina and Florida, respectively. For the record, continued claims (w/e Sep. 28th) rose to 1.861mln from 1.819mln, above the expected 1.83mln and also above the upper end of the forecast range.

BOSTIC (2024 voter): The Atlanta Fed President gave an interview to the NYT, where he said he is totally comfortable with skipping a meeting if the data suggests that is appropriate. He repeated he pencilled in one more 25bp cut this year, but he added after the CPI data that the choppiness "is along the lines of maybe we should take a pause in November". He said he thinks the Fed have the ability to be patient and wait and let things play out a little longer, noting there are elements of the CPI report that he thinks validate that view. He also questioned whether "janky" reports signal a new trend, noting he uses the word "janky" to explain data that bounces around a bit.

WILLIAMS: NY Fed President Williams expects the economy will allow the Fed to cut rates further, noting the pace and size of future cuts is to be determined by economic data. He said the economy is solid and labour market is in a good place, suggesting the recent rate cut should leave the economy in a strong place. Williams sees inflation easing to 2.25% this year (vs core PCE median 2.6%, PCE median 2.3%). He sees GDP between 2.25-2.5% (vs median 2.0%) in 2024, and to average 2.25% over the next two years (2025 median and 2026 median 2.0%). He sees unemployment at 4.25% in 2024, and around that in 2025 (vs median of 4.4% for both years). Williams also added that the jobs market is unlikely to be an inflation driver going forward. In the Q&A, Williams said economic activity is largely balanced, and recent data has been consistent with recent trends. He said that disinflation has been pretty steady despite "wiggles". He also said there are plenty of reserves in the financial system and he does not know when the Fed will end the balance sheet drawdown.

DALY (2024 voter): Said she fully supported a half-point rate cut and is quite confident the Fed is on the path to 2% inflation, she noted the US is at full employment, and with the policy rate steady, the real rate was rising. She noted the rising real rate was a recipe for overtightening and injuring the labour market, adding the rate cut was a recalibration, to rightsize rates for the economy. She stressed the size of the September rate cut does not say anything about the pace or size of the next cuts. She noted that two or one more cut this year is what is likely. The Fed will watch data and monitor the labour market and inflation, adding they will make more or fewer adjustments to rates as necessary. She does not want to see a further slowing in the labour market. Daly added that businesses have cautious optimism and the Fed's job is not to bring prices down, it is to bring the growth rate of prices down to 2%. The San Francisco Fed President said they are coming near to the inflation target, but she is not yet satisfied and victory has not been declared.

GOOLSBEE (2025 voter): In a CNBC interview, the Chicago Fed President said that inflation came in around expectations and there was improvement on the housing front. He said the overall trend is clearly that inflation has come down a lot and the job market has cooled to a level of full employment. He said that if data continues to illustrate unemployment is not deteriorating that will relieve some of his concerns. Goolsbee is in total agreement with the spirit of what Fed Chair Powell said, noting the Fed has shifted to a more normal, balanced risk event and the Fed has to think about both sides of the mandate. Looking ahead, Goolsbee said there will probably be more close Fed meetings, adding they do not want to get ahead or behind. He also said that concerns of passive tightening are not as relevant now that the Fed is moving. Goolsbee stressed the Fed has to take a longer view on data, noting the vast majority on the Fed projections believe rates will come down a fair amount over the next 12-18 months. He noted that there is still a lot of data coming in and Fed is trying to figure out what is going on, noting nothing is ever off the table.

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLED 4 TICKS LOWER AT 112-02+

T-Notes chopped to US data, hawkish Bostic, and strong 30yr auction. At settlement, 2s -4.3bps at 3.974%, 3s -3.9bps at 3.883%, 5s -1.0bps at 3.896%, 7s +0.0bps at 3.976%, 10s +1.0bps at 4.077%, 20s +1.9bps at 4.429%, 30s +3.3bps at 4.371%.

INFLATION BREAKEVENS: 5yr BEI +5.0bps at 2.423%, 10yr BEI +3.6bps at 2.328%, 30yr BEI +2.4bps at 2.315%.

THE DAY: T-Noted meandered overnight before selling off slightly in the European morning with attention turning to the US data. The data saw two-way price action, where immediate downside was seen on the hot CPI prints but the surge in jobless claims offset this and more, taking T-Notes to highs of 112-11+. The unusual jump in jobless claims (above all analyst forecasts) is likely due to the impact of Hurricane Helene, while in the weeks ahead there will also be the impact of Hurricane Milton to deal with. T-Notes then saw notable weakness after the WSJ published an interview with the Fed's Bostic, where he said he was open to a cut in November and that there are elements of the CPI report that validate that view, noting the choppiness in inflation is along the lines of "maybe we should take a pause in November". T-Notes then sold off to 111-28 before a very strong 30yr bond auction put a limit to the downside, paring back above 112 into settlement.

30YR: Overall a strong 30yr auction, likely supported by the concession in wake of hawkish Bostic remarks just before the auction. The US Treasury sold 22bln of 30yr bonds at a high yield of 4.389%, stopping through the WI by 1.5bps, much stronger than the prior tail of 1.4bps and six auction average for a tail of 0.9bps, marking the first stop through in the 30yr auctions since June. The Bid-to-Cover of 2.50x was well above the prior and average of 2.38x. Although a strong auction, there was a lack of direct demand which only took 7.37% of the supply, down from the prior 15.7% and the average of 18.4%, however, this was heavily offset by a surge in indirect bidders. Indirect demand jumped to 80.47% from 68.7%, well above the six-auction average of 65.4%, leaving dealers with just 12.16% of the auction, beneath the prior 15.7% and average 16.2%.

STIRS

- Market Implied Fed Rate Cut Pricing: November 21bps (prev. 21bps D/D), December 46bps (prev. 46bps), January 65bps (prev. 64bps).
- NY Fed RRP op demand at USD 323bln (prev. 343bln) across 68 counterparties (prev. 71)
- US sold USD 95bln 4-wk bills at a high rate of 4.75%, B/C 2.74x; sold USD 90bln 8wk bills at a high rate of 4.64%, B/C 2.92x
- SOFR at 4.83% (prev. 4.84%), volumes at USD 2.220tln (prev. 2.166tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 94bln (prev. 90bln).

CRUDE

WTI (X4) SETTLED USD 2.61 HIGHER AT 75.85/BBL; BRENT (Z4) SETTLED USD 2.82 HIGHER AT 79.40/BBL

The crude complex was firmer on Thursday, grinding higher throughout the session . Notable upside was observed in WTI and Brent on reports that US President Biden asked not to attack nuclear or oil facilities in Iran, but Israeli PM Netanyahu said that "this is a historic opportunity". Following this, Reuters sources reported that Gulf states are lobbying the US to stop Israel from attacking Iranian oilfields. Nonetheless, and as market participants continue to await the Israeli response, NYT reported that the Israeli security cabinet is expected to approve the response plan to Iran, ahead of the expected Security Cabinet vote on Israel's response any time tonight. On the macro footing, US CPI was above expectations across the board while jobless claims saw a huge rise, albeit with hurricane/strike caveats, but did little to move the crude complex. WTI and Brent saw earlier lows of USD 73.26/bbl and 76.72/bbl, respectively, before printing highs of USD 75.86/bbl and 79.43/bbl. Crude settled at the highs.

EQUITIES

CLOSES: SPX -0.21% at 5,780, NDX -0.13% at 20,242, DJIA -0.14% at 42,512, RUT -0.55% at 2,188.

SECTORS: Energy +0.79%, Materials +0.21%, Technology +0.08%, Consumer Discretionary -0.26%, Utilities -0.31%, Financials -0.32%, Health Care -0.35%, Industrials -0.54%, Consumer Staples -0.54%, Communication Services -0.61%, Real Estate -0.89%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.24% at 4,949, DAX -0.23% at 19,145, CAC 40 -0.24% at 7,516, FTSE 100 -0.07% at 8,218, SMI -0.27% at 12,067, FTSE MIB +0.43% at 33,901, IBEX 35 -0.72% at 11,589, AEX -0.48% at 908.

STOCK SPECIFICS:

- **Domino's Pizza (DPZ):** Beat on EPS, and for 2025 it expects annual global retail sales growth and annual income from operations growth to be generally in line with its 2024 expectations.
- **Delta Air Lines (DAL):** EPS missed, noting the CrowdStrike (CRWD) outage resulted in a 0.45 EPS hit. The next quarter profit view was also light.
- **Tesla (TSLA):** Expected to unveil the next-gen Robotaxi with updated AI hardware and version 13 of FSD at its Robotaxi event at 22:00EDT.
- **Nike (NKE):** Upgraded at Truist; said Nike is "moving in the right direction" and some near-term wins from the fresh team should be enough to "show investors there are better times ahead".
- **PayPal (PYPL):** Downgraded at Bernstein, wants more visibility into the long-term trajectory of the cash-cow button and the ability of PayPal's new initiatives to cumulatively move the needle for gross profit growth.
- **10x Genomics (TXG):** Next-quarter revenue guidance fell short of St. consensus.
- **GXO Logistics (GXO):** Exploring a potential sale after receiving takeover interest, Bloomberg reports.
- **AMD (AMD):** Had its latest event, which saw the co. announce new Turin EPYC data center CPUs and it has as many as 192 processor cores. The latest server CPU chips are built on Zen 5 architecture that offers about 37% speed gain for advanced AI data

crunching. Said Co. is qualifying chip production at TSMC (TSM) Arizona plant and has no current plans to use foundries other than TSMC for advanced manufacturing.

US FX WRAP

The Dollar was marginally firmer on Thursday and saw two-way action after US data, whereby jobless claims soared to 258k (exp. 230k, prev. 225k), albeit with Hurricane/strike caveats, and US CPI was hot across the board. Later in the session the Greenback rose to session highs of 103.170 in wake of a hawkish set of remarks from Fed’s Bostic who in an interview with the WSJ said “I am totally comfortable with skipping a meeting if the data suggests that’s appropriate”, and speaking after the US CPI, added "This choppiness to me is along the lines of maybe we should take a pause in November. I’m definitely open to that.” However, the Dollar has those gains at pixel time. Looking to the to the tail end of the week, PPI, UoM prelim, and big banks earnings are on Friday.

Safe-havens, CHF and JPY , were the G10 outperformers and benefitted from the waning risk appetite as players continue to await the Israel retaliation to Iran, whereby US President Biden recently said he realised that Israel is interested in a greater response to Iran than he expected. For the Yen, it saw very modest strength in the European morning after BoJ Deputy Governor Himino said “If the outlook for economic activity and prices presented in July report is achieved, BoJ will accordingly raise interest rates”. For the Swissy, it saw minimal reaction, but SNB vice-chairman said price stability is the key thing they do at the SNB, and the central bank has already pointed to another interest rate cut, but there are no promises. USD/JPY hit a low of 148.36 vs. an earlier high of 149.54, while USD/CHF traded between 0.8561-8612.

Antipodeans were also firmer and attempted to pare some of the RBNZ induced weakness. Regarding the day, the Aussie and Kiwi firmed overnight before weakening through the EZ session, but once again picking up a head of steam in wake of the aforementioned US data. Nonetheless, AUD/USD and NZD/USD traded within pretty narrow parameters illustrated by the 0.6711-42 and 0.6059-95 ranges respectively.

EUR, GBP, and CAD all saw losses to varying degrees against the Buck in limited currency-specific newsflow. For the single-currency, the latest ECB minutes didn’t add too much to the debate as the narrative, and echoed by officials since, seems to be that officials are not yet ready to declare victory on inflation with an increasing focus on the risks to the growth outlook. On Friday, Canadian jobs report and BoC SCE & outlook survey are the highlights for the Loonie, while for the Pound there was a raft of data.

EMFX was largely firmer vs. the Buck, with Yuan, BRL, ZAR, RUB, CLP, and COP all noticing gains, while TRY and MXN were flat. In terms of data, Brazilian Retail Sales (Aug) were much better than anticipated, while in late trade the finance minister stated taxing millionaires is on the table under a potential tax reform. For the Mexican Peso, Banxico Minutes unveil all members agreed that Mexico's economic activity is undergoing a period of weakness, while Heath stuck to his hawkish rhetoric, but most said the MXN has traded within a broad range, noting depreciation episodes, and that such depreciation has partially reversed.