US Market Wrap - 15th October 2024

Stocks fall as dire ASML and LVMH earnings hit sentiment

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar flat
- **REAR VIEW**: NY Fed Mfg plummets in October, SCE unveils 1yr infl expectations unchanged, 3- and 5yr rise; Fed's Daly is "cautiously optimistic" about the economic outlook; Israel tells the US they will strike Iranian military sites, not oil or nuclear; IEA OMR lowers 2024 world oil demand growth forecast, raises 2025; UK adds more jobs than expected, unemployment surprisingly ticks lower; Soft Canadian CPI; Better-than-expected German ZEW Economic Sentiment; Woeful ASML Q3 bookings; LVMH Q3 revenue disappoints; US weighs capping AI chips sales to some countries; BA files for mixed shelf registration of up to USD 25bln.
- **COMING UP**: **Data:** UK CPI, Services, Italian CPI, US Import/Export prices. **Speakers:** BoJ's Adachi; ECB's Lagarde. **Supply:** Australia, UK, Germany. **Earnings:** Citizens Financial Group, U.S. Bancorp, Abbott Laboratories, Morgan Stanley, Prologis, ASML, Whitbread.

MARKET WRAP

US indices primarily closed in the red with underperformance in the Nasdaq while Russell outperformed, closing green. The Nasdaq weakness was led by weakness in the tech space which accelerated after weak guidance from ASML (ASML NA). Semiconductors were already under pressure on Bloomberg reports that the US is looking to curb chip exports to the Gulf from Nvidia (NVDA) and AMD (AMD) in the interest of national security. Further adding to the risk-off was a woeful LVMH (MC FP) earnings report which missed analyst forecasts, and also noted that consumer confidence in mainland China is back in line with the all-time low during covid. The report also weighed on peers like Ralph Lauren (RL) and Tapestry (TPR) in the US. Sectors closed mixed with outperformance in defensives like Real Estate, Staples and Utilities, while Financials closed marginally buoyed after a slew earnings reports. Charles Schwab (SCHWB) rallied. Bank of America (BAC) held onto its gains, although Goldman Sachs (GS) pared all its pre-market gains to close flat, while Citi tumbled after the open. Note, Citi's Net Interest Income (NII) disappointed, with soft guidance - but other metrics were strong. The crude space tumbled but settled off lows, the downside was predominantly led by reports that Israel will not target Iranian oil or nuclear facilities, but separate reporting via AP suggested such a commitment is not "iron-clad". China demand woes also weighed on crude, and sentiment with the Yuan weaker vs the buck while the China ETFs (FXI, PGJ) slumped. Reports in WSJ noted that there were no measures to significantly boost China consumption, while sources noted such measures are in the works, but nothing substantial is imminent. Elsewhere, T-notes were firmer aside from the short end with the fall in oil prices supporting T-notes while a super soft Canadian CPI report saw a follow-through effect from Canadian bonds as traders increased their 50bp bets for the BoC next week. In FX, the Dollar was flat but saw some strength as Trump touted more tariffs (again) in an interview with Bloomberg, while US data was mixed. The NY Fed manufacturing survey slumped but with an upside in prices and employment, while the NY Fed consumer expectation survey saw 3 and 5yr inflation expectations rise, with the 1yr unchanged, but the expectations of credit card delinquencies rose to the highest level since April 2020. Elsewhere, the Yen outperformed as US yields fell, while Antipodes were hit on risk appetite and China woes.

US

NY FED MANUFACTURING: The NY Fed Manufacturing Survey for October sharply dropped to -11.9, well below the expected 3.85 and forecast range, as well as September's 11.5. Diving into the report, a plummet in New Orders to -10.2 from 9.4 sent the headline to its lowest level since May this year, in addition, to the large fall in General Business Conditions (from 11.5 to -11.9) and Shipments (from 17.9 to -2.7). On the flip side, Prices paid rose to 29 from 23.2 and the Number of employees grew by 9.8 to 4.1. Looking ahead, the six months expectations, however, saw prices paid slightly fall by 1.2 to 43, while General Business Conditions rose by 8.1 to 38.7, alongside increases in Shipments and Prices Received. On the report, Richard Deitz, the Economic Research Advisor at the New York Fed, notes "Manufacturing activity contracted modestly in New York State in October, with firms reporting that new orders declined. Despite this contraction, employment expanded for the first time in a year, though by a small degree, and optimism about the outlook grew strongly."

NY FED SCE: The NY Fed Survey of Consumer Expectations saw inflation expectations unchanged on the 1yr projections at 3.0%, but the 3 and 5-yr forecast rose to 2.7% (prev. 2.5%) and 2.9% (prev. 2.8%), respectively. On the labour market, the mean probability of leaving one's job voluntarily in the next twelve months increased to 20.4% from 19.1%, and the mean perceived probability of finding a job in the event of job loss increased to 52.7% from 52.3% in August. Elsewhere in the report, expectations around credit access improved but credit card delinquency expectations rose to the highest level since April 2020. Looking ahead, the year-end spending, income and growth forecasts eased while the median rise in home price expectations rate eased to 3.0% from 3.1%.

FED'S DALY (2024 Voter) said she is cautiously optimistic about the economic outlook, and noted that talk of gradual rate cuts means less than it appears. She stressed the September 50bp cut was the tight size, noting the Fed must deliver its mandate, with risks to the mandate now more balanced. Looking ahead, she said if forecasts are met, she sees one or two more rate cuts this year, while on the balance sheet, she said there is still room to run down the balance sheet further, adding the Fed must watch markets carefully for signs of balance sheet wind down should stop. She acknowledged that keeping a large balance sheet has its costs, while also noting it is good for the Fed to be graudal with policy in uncertain times.

FIXED INCOME

T-NOTE (Z4) FUTURES SETTLED 18+ TICKS HIGHER AT 112-14

T-notes caught a bid throughout the session supported by lower oil prices and soft Canada inflation data. At settlement, 2s +1.1bps at 3.952%, 3s +0.3bps at 3.861%, 5s -2.1bps at 3.858%, 7s -3.2bps at 3.936%, 10s -3.9bps at 4.034%, 20s -5.6bps at 4.381%, 30s -6.0bps a 4.322%

INFLATION BREAKEVENS: 5yr BEI -4.8bps at 2.376%, 10yr BEI -4.1bps at 2.287%, 30yr BEI -3.7bps at 2.279%.

THE DAY: T-notes were bid throughout the session as oil prices plummeted on reports Israel will not strike Iranian nuclear or oil facilities while WSJ reports that measures to boost consumption in China are in the works, but nothing substantial is imminent which left participants

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wondering whether the measures will be enough. T-notes saw a further boost in wake of the Canadian inflation data which was notably softer than expected and participants started to increase 50bps bets from the BoC next week, with the follow through effect from Canadian bonds supporting Treasuries. At the same time, the NY Fed Manufacturing Survey was released which saw a notable decline led by a slump in New Orders but the prices paid and employment components rose. Meanwhile, the latest NY Fed Survey of Consumer expectations release saw choppy price action after the 1yr expectations were unchanged at 3% but the 3yr expectations rose to 2.7% (prev. 2.5%) and the 5yr expectations rose to 2.9% from 2.9%, but many were also highlighting the highest credit card delinquency expectations rate since April 2020. The Trump interview saw little reaction, to the Treasury space but it is worth noting that the Republican Presidential candidate echoed his love for tariffs as a way to boost the US economy, touting figures as high as 50% and even 100% in special circumstances to get countries to set up plants in the US. When he was quizzed about high debt his policies may bring, he said it is to support growth, as is lowering taxes.

STIRS

- **Market Implied Fed Rate Cut Pricing: November 24bps (prev. 21bps D/D), December 46bps (prev. 43bps), January 65bps (prev. 62bps).**
- US to sell USD 95bln of 4wk bills, USD 89bln of 8wk bills on October 17th; and USD 64bln of 17wk bills, to settle October 22nd
- US sold USD 86bln of 3mth bills at 4.515%, covered 2.96x; sold USD 76bln of 6mth bills at 4.27%, covered 3.05x
- US sold USD 80bln in 43-day CMBS at a high rate 4.685%, B/C 2.62x
- NY Fed RRP op demand at USD 286bln (prev. 332bln) across 50 counterparties (prev. 59).
- SOFR at 4.81% (prev. 4.82%), volumes at USD 2.058tln (prev. 2.198tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 94bln (prev. 98bln).

CRUDE

WTI (X4) SETTLED USD 3.25 LOWER AT 70.58/BBL; BRENT (Z4) SETTLED USD 3.21 LOWER AT USD 74.25/BBL

Crude was hit on reports Israel to avoid striking Iranian oil and nuclear facilities, while China's demand woes also added pressure. Both WTI and Brent crude futures tumbled on Tuesday with WTI hitting a low of USD 69.71/bbl, and Brent a low of USD 73.34/bbl. The downside was primarily in response to reports, in WaPo initially, (but later reported by several others), that Israel PM Netanyahu told the US that Israel would strike Iranian military targets and not nuclear or oil sites. Further pressure was seen in the European morning after WSJ reported that absent from measures over the weekend were significant moves to boost consumption, and people close to the ministry said that such measures are in the works, but nothing substantial is imminent - adding to fears the stimulus measures will not have the desired impact. Crude settled marginally off lows after AP reported similar to the aforementioned WaPo article, but added US officials state that nothing is iron-clad with Israel, warning these guarantees are not conclusively confirmed and may change. Elsewhere, the IEA OMR for October cut the 2024 world oil demand growth forecast to 860k BPD from 900k BPD. It did however raise the 2025 forecast to 1mln BPD (prev. 950k BPD).

EQUITIES

CLOSES: SPX -0.76% at 5,815, NDX -1.37% at 20,160, DJIA -0.75% at 42,740, RUT +0.05% at 2,250

SECTORS: Energy -3.04%, Technology -1.79%, Health -1.24%, Industrials -0.74%, Materials -0.03%, Communication Services -0.02%, Consumer Discretionary +0.21%, Financials +0.26%, Utilities +0.45%, Consumer Staples +0.64%, Real Estate +1.23%.

EUROPEAN CLOSES: DAX: +0.06% at 19,521, FTSE 100: -0.52% at 8,249, CAC 40: -1.05% at 7,522, Euro Stoxx 50: -1.85% at 4,948, AEX: -2.52% at 899, IBEX 35: +0.67% at 11,930, FTSE MIB: -0.29% at 34,578, SMI: -0.17% at 12,238, PSI: -0.29% at 6,698.

EARNINGS

- **UnitedHealth Group (UNH):** Lowered its FY adj.EPS view and reported a higher-than-expected Medical care ratio.
- **Johnson & Johnson (JNJ):** Reported earnings beats driven by the strong sales of oncology drugs, and raising FY guidance.
- **PNC Financial Services (PNC):** EPS and revenue surpassed market expectations, with the company saying it's well positioned to achieve record NII in 2025.
- **Bank of America (BAC):** EPS, revenue, and NII topped expectations. Co notes it's in a position where NII is poised to grow, and deal pipelines remain very good at this point.
- **Charles Schwab (SCHW):** Profit and revenue beat the St. consensus
- **Goldman Sachs (GS):** Reported Q3 top and bottom line, NII, and AUM above analysts expectations
- **Citigroup (C):** Posted better-than-expected Q3 earnings and revenue, noting it's on track to meet expense and revenue targets for the year. C expects Expects FY NII to be down, but better than earlier expectations.

STOCK SPECIFICS

- **Boeing (BA):** Filed for a mixed shelf registration of up to USD 25bln, and entered into a USD 10bln supplemental credit agreement, amid the planned 17k layoffs in November.
- **Nvidia (NVDA), AMD (AMD):** The US is contemplating restrictions on the sales of AI chips from companies like Nvidia, and AMD to certain countries, primarily focusing on the Persian Gulf region, Bloomberg reports.
- **Apple (AAPL):** The iPhone has reached record-high sales volume for the third quarter this year, with record sales only fractionally beaten by Samsung, Apple Insider reports.
- **TotalEnergies (TTE):** Expects its Q3 downstream results to sharply decrease due to a 65% drop in refining margins in Europe and elsewhere.
- **Airbnb (ABNB):** Added to Evercore ISI's 'Tactical Underperform' list, suggesting the potential for a "subdued bottom-line outlook".
- **Coty (COTY):** Announced a negative pre-announcement for Q1, cutting like-for-like sales growth view, noting a slower US market and tight retailer inventory management.
- **Wolfspeed (WOLF):** Set to receive USD 750mln in government grants for its new North Carolina silicon carbide wafter manufacturing plant facility, the US Commerce Department said.
- **US Steel (X):** Republican Presidential Candidate Trump says he would stop the US-Steel sale to Nippon Steel if the sale is not completed.
- **Alphabet (GOOGL):** Republican Presidential Candidate Trump said Google has a lot of power, which is "very bad to me", when asked about breaking up the co., says "I'd do something".

US FX WRAP

The dollar was ultimately flat in choppy trade, extending on recent gains against the Euro and Antipodes while paring recent strength against

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the Yen. The dollar index pared early weakness at the US cash open in risk off trade, extending while Republican Presidential candidate Trump's interview with Bloomberg got underway. The former president towed the usual enthusiasm surrounding tariffs, living up to the inflationary theme his policies beget, albeit, the rally failed to breach earlier peaks set in the European session. On data, the day saw a poor October Mfg report from the NY Fed, falling to its lowest figure since May, -11.9 (exp, 3,85, prev. 11.5), and the NY Fed's SCE (September), which kept 1yr inflation expectations at 3%, while the 3yr rose to 2.7% (prev. 2.5%) and 5yr increased to 2.9% (prev. 2.8%). However, the expectations on credit card delinquencies rose to the highest rate since April 2020. On Fedspeak, Daly (2024 Voter) said she is "cautiously optimistic" about the economic outlook, adding that 3% may be around the neutral rate (vs Fed median of 2.9%). Looking ahead, US Import/Export Prices on Wednesday for September are next in view, with Retail sales on Thursday.

The Euro modestly weakened on Tuesday, more so on dollar strength rather than Euro weakness, as EUR/USD heads into overnight trade-off session lows of 1.0883, but continues to trend daily to its 200 DMA (1.0873). On the data front, Germany's ZEW Economic Sentiment rose more than was anticipated to 13.1 (exp. 10.0, prev. 3.6), supported by the expectation of stable inflation rates and the associated prospect of interest rate cuts by the ECB. Meanwhile, the report saw Current Conditions unexpectedly fall to -86.9 (exp. -84.5). On inflation, the region saw in line Spanish Final inflation data, while French CPI was on the cool side.

The Pound was amongst the better performers versus the buck as the latest UK jobs report revealed a much larger print than anticipated in Employment Change in August, +373k (exp. 250k), an unexpected drop in the ILO Unemployment rate to 4.0 % (exp. 4.1%) while UK Avg Earnings (Ex-Bonus) grew 4.9% as expected. In terms of BoE pricing, that was largely unchanged, perhaps as ONS noted in the release that the report may be overstating underlying employment growth, albeit, Cable's bid persisted over the European session, finding a peak of 1.3103 at the US cash open, before paring the move late into the US session, finishing flat ahead of APAC trade. On the contrary, some desks are positing that vacancy data and HMRC metrics should be seen as more accurate as they are pointing towards more of a loosening in the jobs market. Next up for Cable watchers is UK CPI and PPI on Wednesday. Regarding the budget at the end of the month, FT reported that Chancellor Reeves is aiming to close the GBP 40bln funding gas as she plans tax hikes in the budget, a much larger number than the initial GBP 22bln touted.

USD/CAD wiped out initial gains on the cooler-than-expected Canadian CPI with tumbling crude prices looming in the background, as perhaps USD/CAD reaching overbought territory, resulted in the CAD snapping its 9-day-losing streak, despite the soft data. For BoC pricing that reacted dovish, now seeing 43bps of easing at the October meeting next week (prev. 37bps) and 81bps by year-end (prev. 73bps).

G10 FX was mixed on the day, with the Yen and Pound outperformed, while Antipodes and the Euro lagged. The Yen's outperformance came amid the fall in UST yields, with the pair briefly setting troughs below the 149 handle, before regaining the mark. A Reuters poll overnight found 87% of those surveyed expect the BoJ to hike rates to 0.5% by end-March 2025, while 51% (prev. 46%) expect the BoJ to keep rates at 0.25% through year-end. Elsewhere, the SEK was flat versus the buck, and weaker against the Euro following in line with inflation metrics from Sweden. Looking ahead, NZD/USD will be the focus ahead of New Zealand CPI data overnight, which for Q3 is expected at 0.7% Q/Q and 2.2% Y/Y.

In EMFX, losses were largely seen, particularly in the LatAm space, as CLP, COP, and MXN all got wasted amid weaker commodity prices (oil and copper), and the aforementioned Trump Tariff interview with Bloomberg. Economic commentary from the International Monetary Fund (IMF) noted it sees Mexico's economic growth slowing to around 1.5%, citing capacity constraints and tight monetary policy. IMF added inflation risks remain on the upside and increased global risk aversion and unforeseen effects from recent reforms could weigh on Mexico's output. PLN is next in focus with Polish inflation data on Wednesday.

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