US Market Wrap - 17th October 2024

Hot US data boosts yields and buoys the buck

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Hotter-than-expected US retail sales; Initial jobless claims unexpectedly declines; IP disappoints; Philly Fed impresses; Q3 Atlanta Fed GDPnow tracker revised higher; Strong Aussie jobs report; ECB largely as expected, while Lagarde leaves options for December open; Israel kills Hamas leader Sinwar; DE probed by FTC; Stellar TSM earnings; Dismal ELV report.
- **COMING UP**: **Data**: Japanese CPI, Chinese Retail Sales, Unemployment Rate, UK Retail Sales, US Building Permits **Events**: ECB Survey of Professional Forecasters **Speakers**: Fed's Bostic, Kashkari, Waller **Supply**: Australia **Earnings**: Regions Financial, Fifth Third Bancorp, Procter & Gamble, American Express, SLB, Ally Financial, Volvo AB.

MARKET WRAP

Stocks ultimately closed mixed with outperformance in the DJIA and underperformance in the Russell. The majority of sectors were red with outperformance in Technology, Energy and Financials. Tech was buoyed by semiconductors after strong TSMC (TSM) earnings while Nvidia (NVDA) printed fresh record highs. Financials were supported by gains in Blackstone (BX) after a strong earnings report. Elsewhere, T-Notes sold off across the curve in a steeper fashion after hotter than expected US retail sales data as well as a drop in jobless claims. IP data disappointed, but the Q3 Atlanta Fed GDPNow tracker was revised higher on account of the strong retail sales to 3.4% from 3.2%. The data gave a helping hand to the Dollar but AUD outperformed after a strong jobs report overnight. Elsewhere, the Yen was hit by the firmer UST yields. The Euro was ultimately weaker while the ECB was largely as expected, cutting rates by 25bps while Lagarde left options open for December, but later sources said that policymakers do expect a rate cut in December. Crude prices were choppy with participants still awaiting Israel's response to Iran. Elsewhere on geopolitics, Israel announced they had assassinated the leader of Hamas in a surprise encounter with Israel. Gold prices extended higher to fresh record highs while copper prices plummeted.

US DATA

RETAIL SALES: Retail Sales rose by 0.4% in September, above the 0.3% forecast, accelerating from the prior 0.1%. The core, ex-autos, rose by 0.5%, above the 0.1% forecast and prior 0.2%. The supercore, ex gas and autos, rose by 0.7%, above the prior 0.3%. Meanwhile, the control metric, a gauge of consumer spending in GDP, rose by 0.7%, above the prior and forecast of 0.3%. On the headline print, the gains were led by miscellaneous store retailers rising 4.0% M/M, clothing stores rose by 1.5% while food services and drinking places rose by 1.0%. On the downside, electronics fell 3.3%, gasoline stations -1.6%, and furniture -1.4%. The strong retail control print bodes well for Q3 GDP, which suggests to Capital Economics that consumption growth strengthened to over 3% annualised in Q3. However, "timelier data show a big drop in retail sales in the last week of September as Hurricane Helene made landfall, and Milton added to the disruption two weeks later, so prospects for October and the fourth quarter are looking softer."

JOBLESS CLAIMS: Initial Jobless Claims, for the week that coincides with the NFP survey week, fell to 241k from 260k, despite expectations for an unchanged print. The 4wk average, however, rose to 236.25k from 231.5k. Continued claims, for the week ending 5th October, rose to 1.867mln from 1.858mln, in line with expectations. Nonetheless, the sharp declines in the initial claims data was primarily a function of an unwind of claims after the impacts of Hurricane Helene and layoffs at Stellantis (STLAM IM), although many were expecting this week to show claims remaining elevated. The largest pullback in claims were seen in Michigan (-7,812), Florida (-3,428), Ohio (-2,532), and North Carolina (-2,404). Claims in Florida and North Carolina rose in the prior release due to the impact of Hurricane Helene while Oxford Economics highlighted that Michigan and Ohio were affected by layoffs at Stellantis (STLAM IM). Looking ahead, however, data will likely incorporate the impact of Hurricane Milton, while Boeing (BA) workers have been striking in Washington, it announced this week that the jet manufacturer is to lay off 17k workers, sending 60-day notices in mid-November. Oxford Economics note that the upside in continued claims to the highest level since late July will remain elevated while the strike at Boeing continues and as those impacted by storms return to their jobs or find new work.

PHILLY FED: Philly Fed business index in October rose to 10.3 from 1.7 (exp. 3.0), and above the upper bound of the forecast range. Looking at the breakdown, Employment fell into negative territory at -2.2 (prev. 10.7), while New Orders and Shipments surged to 14.2 (prev. -1.5) and 7.4 (prev. -14.6), respectively. CapEx index dipped to 23.5 (prev. 25.0), while the inflationary gauge of Prices Paid fell to 29.7 from 34.0. Looking ahead, the 6-month index soared to 36.7 from 15.8. Overall, and as the report notes, responses to the survey suggest an overall increase in regional manufacturing activity this month. The indicators for current activity, new orders, and shipments were positive, and all rose from last month. On balance, firms indicated mostly steady employment and continued to report increases in prices. The survey's future indicators suggest more widespread expectations among the firms for growth over the next six months.

INDUSTRIAL PRODUCTION: Industrial Production fell by 0.3% in September, more than the expected -0.2%, after rising in September by the downwardly revised 0.3%. Behind the move, the report noted a strike at a major producer of civilian aircrafts (Boeing) and the effects of two hurricanes weighed on the figure by 0.6%. Manufacturing output fell 0.4% (exp. -0.1%), from August's revised 0.5%. Capacity Utilisation printed 77.5% (exp. 77.8%, prev 77.8%). Pantheon Economics pointed out the volatile auto production in IP dropped by 1.5%, which "we think reflects issues with seasonal adjustment". The firm added "Manufacturing will see rebound when the Boeing strike ends. But surveys of the manufacturing sector and companies' investment intentions suggest that the Fed's nascent easing cycle has done little so far to boost demand for manufactured goods, and external demand is too weak to push manufacturing out of its current malaise."

NAHB: The October NAHB Housing Market Index rose to 43.0 from 41.0, above the expected 42.0. The report notes that "With inflation gradually easing and builders anticipating mortgage rates will moderate in coming months, builder sentiment moved higher for a second consecutive month despite challenging affordability conditions". It also highlights that while housing affordability remains low, builders are feeling more optimistic about 2025 conditions. However, the "wild card for the outlook remains the election, and with housing policy a top tier issue for candidates, policymakers should be focused on supply-side solutions to the housing crisis." The report also notes that despite the start of the Fed easing cycle, many prospective home buyers remain on the sidelines, waiting for lower interest rats. NAHB forecasts uneven declines for mortgage interest rates in the coming quarters, which will improve housing demand but place stress on building lot supplies due to tight lending conditions for development and construction loans.

ECB

ECB REVIEW: As expected, the ECB opted to cut the Deposit Rate by 25bps. Despite the bank seemingly positioning itself for an unchanged rate today in the wake of the September meeting, soft outturns for inflation and survey data forced the hand of the Bank into easing policy. Accordingly, the ECB today reaffirmed its data-dependent credentials and reiterated that it will keep policy rates sufficiently restrictive for as long as necessary. The only minor tweak in the policy statement was that the Bank now sees inflation at 2% in the course of 2025 vs. previous guidance of H2 2025. At the follow-up press conference, Lagarde noted that there will be a lot more data available before the December 12th meeting, which suggests that there is not a preset expectation on the GC over what happens at the final meeting of the year. Furthermore, Lagarde stated that she has not opened the door to another rate reduction in December. That being said, she noted that there is no question that policy is currently restrictive. With regards to today's decision, the President noted that it was a unanimous one on the GC. Overall, the ECB remains in the midst of its rate-cutting cycle, however, is remaining as flexible in its guidance as it can when it comes to the specific policy path it will undertake. Market pricing fully prices another 25bps rate cut in December with a further 115bps of easing seen in 2025. In wake of the meeting, Reuters ECB sources suggested a December cut is to be expected, unless economic data shows a marked turnaround. The sources specified that policymakers expect a further move at the December 12th meeting barring a major rise in data such as core and services inflation, or in indicators of economic growth. They also added that US elections and threat of fresh trade tariffs if Trump is elected were seen as a major source of uncertainty. In addition, Bloomberg sources largely echoed this, saying ECB officials see a December cut very likely with the 2% goal nearer.

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLED 15+ TICKS LOWER AT 112-01+

T-Notes bear steepen after a rise in retail sales and a fall in jobless claims . At settlement, 2s +5.2bps at 3.987%, 3s +5.3bps at 3.899%, 5s +6.6bps at 3.908%, 7s +7.5bps at 3.995%, 10s +8.1bps at 4.097%, 20s +9.3bps at 4.457%, 30s +9.5bps at 4.394%.

INFLATION BREAKEVENS: 5yr BEI +3.2bps at 2.388%, 10yr BEI +3.3bps at 2.298%, 30yr BEI +3.0bps at 2.290%.

THE DAY: T-Notes saw gradual selling pressure overnight in wake of the stronger than expected Australian jobs report before meandering in the European morning, moving off lows after the Final EZ inflation data saw a slight revision lower. Nonetheless, the primary move occurred in wake of the US data highlights of the week, which saw a stronger than expected retail sales report, including the control metric which is a good gauge for consumer spending in GDP. Jobless claims also saw a notable reversal from the Hurricane Helene impact, although many had expected claims to remain elevated this week. Meanwhile, Industrial Production data disappointed expectations with a downward revision. T-Notes sold off in response to the claims and retail sales data but saw little reaction to the soft IP to eventually hit lows of 112-00 before meandering just above the round level into settlement. In wake of the data, Atlanta Fed updated their GDP tracker for Q3 to estimate growth at 3.4%, up from the prior 3.2%. Attention turns to Building Permits/Housing Starts and a slew of Fed speakers, including Kashkari, Bostic and Waller on Friday. However, overnight focus will lie on China activity data, ahead of UK retail sales in the morning. Looking ahead to the PCE data at the end of the month, WSJ's Timiraos noted that economists who map the CPI and PPI into the PCE think core inflation for the Fed's preferred gauge will be around 0.26% in September, vs the 0.09% in August.

NEXT WEEK SUPPLY: US to sell USD 13bln of 20yr bonds on October 23rd and USD 24bln in 5yr TIPS on October 24th, as expected; to settle October 31st

STIRS

- Market Implied Fed Rate Cut Pricing: November 23bps (prev. 24bps D/D), December 43bps (prev. 46bps), January 61bps (prev. 65bps).
- US to sell USD 72bln in 26wk bills and USD 81bln in 13wk bills on October 21st, to settle October 24th.
- NY Fed RRP op demand at USD 262bln (prev. 272bln) across 59 counterparties (prev. 55)
- SOFR at 4.86% (prev. 4.86%), volumes at USD 2.317tln (prev. 2.272tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 97bln (prev. 91bln).

CRUDE

WTI (X4) SETTLED USD 0.28 HIGHER AT 70.67/BBL; BRENT (Z4) SETTLED USD 0.23 HIGHER AT 74.45/BBL

The crude complex ended the day with slight gains in choppy trade . Geopolitically, Israel PM Netanyahu confirmed that Israel killed the Hamas leader Sinwar during an IDF activity in Gaza. Netanyahu further added that its task is not complete and will continue full force until its hostages return. Meanwhile, reports that Israel is looking to reportedly exclude Iranian nuclear and oil facilities in its retaliation have somewhat diminished the chances of a wider escalation in the region. Note, there has been no timeline set for the retaliation, although some suggest it could be before the US elections. Elsewhere, in the weekly EIA data, which was delayed a day due to US Columbus Day on Monday, crude stocks saw a surprise draw, in fitting with the private inventory figures, while Distillates and Gasoline both drew more than forecasted, also as seen in API's Wednesday night. Overall, crude production rose 100k to 13.5mln. On US data, WTI and Brent saw some slight weakness given the Dollar strength seen in wake of US Retail Sales, Initial jobless claims, and Philly Fed. For the record, WTI and Brent saw highs of USD 71.11/bbl and 74.41/bbl, respectively, against earlier lows of USD 69.44 and 73.26/bbl.

EQUITIES

CLOSES: SPX -0.02% at 5,841, NDX +0.08% at 20,190, DJI +0.37% at 43,239, RUT -0.25% at 2,281.

SECTORS: Energy +0.44%, Technology +0.42%, Financials +0.32%, Materials +0.12%, Consumer Discretionary UNCH, Industrials -0.25%, Consumer Staples -0.41%, Health -0.58%, Real Estate -0.68%, Communication Services -0.69%, Utilities -0.93%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.81% at 4,948, DAX +0.80% at 19,588, CAC 40 +1.22% at 7,584, FTSE 100 +0.67% at 8,385, SMI +0.94% at 12,308, FTSE MIB +1.09% at 35,039, IBEX 35 -0.77% at 11,905, AEX +0.66% at 899.

EARNINGS:

- **CSX (CSX):** Top and bottom line missed; sees next quarter revenue down moderately from lower fuel prices and softer coal markets.
- **Kinder Morgan (KMI):** Adj. EPS and revenue fell short; expects refined product volumes to be slightly below plan for the FY.
- **Alcoa (AA):** Profit surpassed forecasts, although revenue slightly missed.
- **Blackstone (BX):** EPS and AUM beat expectations.
- **TSMC (TSM):** Revenue topped St. consensus, alongside positive Q4 guidance, supported by strong demand for AI-related semiconductors.
- **Elevance Health (ELV):** EPS missed and weak guidance. Expects Medicare members in 4+ star plans to decline in 2025 and CEO said there are "unprecedented challenges in the Medicaid business". As a result, Molina Healthcare (MOH) and Centene (CNC) saw

pressure.
- **Truist Financial (TFC):** Reported top and bottom-line beats.
- **Travelers (TRV):** Adj. EPS and revenue beat with the Co. remaining confident in its outlook into 2025 and beyond.
- **Nokia (NOK):** Sales fell 8% in Q3, weighed on by a slowdown in the Indian market. The CEO expects FY profit to be within the bottom half of the guidance range.

STOCK SPECIFICS:

- **Expedia (EXPE):** Uber has explored a bid for Expedia, according to FT. Discussions are at an early stage, and no formal approach has been made.
- **Uber (UBER):** Downgraded at Daiwa as the firm sees limited valuation upside and potential risks from a high fixed-cost robotaxi model even under an Uber network.
- **Lucid Group (LCID):** Announced it anticipates a bigger-than-expected loss for Q3 and a public offering of over USD 262mln shares.
- **Amazon (AMZN):** AWS said **Nvidia (NVDA)** Blackwell online early next year, according to Bloomberg. AMZN stated it will have first production quantities of the new chip and early next year before real production volumes.
- **Google (GOOGL):** Exec overseeing search and advertising leaves role, according to WSJ.
- **Deere (DE):** Probed by US FTC over farm equipment repair practices, according to Bloomberg.

US FX WRAP

The Dollar was firmer on Thursday, and saw a bout of strength in wake of US retail sales, which rose more than expected. Alongside this, initial jobless claims unexpectedly fell to 241k, with expectations for the headline to remain unchanged at 260k, while Philly Fed printed outside the upper bound of the forecast range. In terms of levels, the Dollar Index rose from a 103.44 trough to a 103.87 peak, topping its 200 DMA (103.77) with the round 104.00 the next level to the upside before the high of 104.43 set on 2nd of August. Looking to Friday, focus lies on Housing Starts and Building Permits, as well as Fed speak from Bostic, Kashkari and Waller.

G10 FX was mixed. AUD strengthened and outperformed, while its Antipodean counterpart NZD was flat, while GBP saw marginal gains. To the downside, CHF saw slight losses, while EUR, CAD, and JPY were all hit with the latter the laggard as USD/JPY hit a peak of 150.30 in wake of the aforementioned US data in a lack of anything else ahead of Japanese CPI overnight.

As mentioned, the **Euro** suffered losses despite the ECB announcement and accompanying Lagarde press conference largely as expected, although a slight nuance in the statement suggested the ECB sees inflation at 2% "in the course of" 2025 (prev. it saw inflation reaching 2% in the H2 of 2025). The greater interest lies in what will come next for the ECB beyond today, however, President Lagarde kept quiet on future decisions whilst suggesting today's outcome was unanimous, whilst also stressing the Bank's data-dependency. In wake of the meeting, sources suggested policymakers do expect a rate cut in December, unless economic data shows a marked turnaround. EUR/USD looks to end the US session towards the bottom of a 1.0812-73 range.

The Aussie was buoyed by jobs data overnight, further bolstering opinions that the RBA will delay the start of its rate-cutting cycle until next year. Recapping the data, the headline was much above expectations, and also above the upper bound of the forecast range, while the unemployment unexpectedly fell to 4.1% from 4.2%. AUD/USD hit a high of 0.6710 against a low of 0.6660, but currently sits beneath the round 0.6700.

EMFX was mixed. Yuan, TRY and BRL were flat, CLP was sold hard, while MXN and ZAR also saw weakness, but not to the degree of the Chilean Peso. Overall, the dollar continues to gain, and emerging currencies stay largely offered as possibility of another Trump term of tariffs hangs over global FX markets. As such, ING notes that this may be hard to shake off given such a tight election. If we look across global FX markets, one could be forgiven for thinking that the market is starting to position for a Trump win, as most emerging currencies are under pressure, with particular attention of the Mexican Peso. Elsewhere, the CBRT maintained its weekly repo rate at 50%, as expected. In China, there was plenty of rhetoric from officials, in addition to Securities Times reporting that major Chinese banks are to lower deposit rates from Friday.