

Dollar pares some weekly strength, while bonds bounce, oil slides & stocks mixed into the weekend

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW:** Bostic stays hawkish & sees neutral policy rate in 3-3.5% range, above Fed consensus & prior personal range; Soft US Building Permits; Stellar NFLX report; Hotter-than-expected Japanese CPI; UK Retail Sales surprisingly rise; Upbeat Counterpoint Research comments on iPhone 16 sales in China; CVS downgrades Q3 guidance amid elevated medical costs.
- **COMING UP:** **Data:** German Producer Prices. **Event:** PBoC LPR. **Supply:** EU. **Speakers:** RBNZ's Conway; RBA's Hauser; Fed's Logan, Kashkari, Schmid. **Earnings:** SAP.
- **WEEK AHEAD:** Highlights include PBoC LPR, BoC, EZ & UK PMI. [To download the report, please click here.](#)
- **CENTRAL BANK WEEKLY:** Previewing PBoC LPR and BoC; Reviewing ECB and CBRT. [To download the report, please click here.](#)
- **WEEKLY US EARNINGS ESTIMATES:** [MON] NUE; [TUES] DHR, RTX, GE, PM, VZ, FI, LMT, TXN; [WED] TMO, BSX, T, KO, NEE, TMUS, IBM, TSLA, NOW; [THURS] UPS, HON, SPGI, UNP; [FRI] HCA. [To see the full estimates, please click here.](#)

MARKET WRAP

US indices (SPX +0.4%, NDX +0.7%, RUT -0.2%, DJIA +0.1%) had an upward bias on Friday with sectors following. Communications was the clear outperformer and buoyed by a stellar Netflix (NFLX) (+11.1%) report. Energy, Consumer Staples, and Financials were the only ones in the red with the former weighed on by the weakness in the crude complex which has seen heavy selling all week. The Middle East was sparse on Friday after Hamas leader Sinwar was killed on Thursday, although US President Biden, when heading onto the Air Force, stated he has an understanding of how and when Israel is going to respond to the missile attacks by Iran but declined to give any details. As such, Israel's retaliation against Iran still looms, but we are still no clearer on the timing. In FX, the Dollar trimmed its weekly gains as it saw a third consecutive week of strength with the Yen outperforming following firmer-than-expected Japanese CPI metrics overnight. T-Notes bull flattened with the curve supported by soft housing data, more specifically building permits. On the Fed footing, Bostic (2024 voter) said the neutral policy rate is in the 3-3.5% range (on 23rd Sept. he said he feels neutral is in the 3-3.25% range, and Fed median dot plot for neutral rate suggested 2.9%), and he expects to get 2% inflation near the end of 2025.

US

BUILDING PERMITS/HOUSING STARTS: Building permits fell 2.9% to 1.428mln in September, beneath the 1.46mln forecast and down from the prior 1.47mln. Within the permits data, single-family authorisations rose 0.3% to 970k from 967k, while multi unit buildings were at 398k. Housing starts fell 0.5% M/M to 1.354mln, albeit above the 1.35mln forecast while the prior was revised up to 1.361mln from 1.356mln. Single family starts rose 2.7% to 1.027mln from 1.00mln, while multi units were at 317k. Analysts at Pantheon Macroeconomics note that this report was not meaningfully affected by Hurricane Helen. Pantheon adds that the recent single family construction upturn likely reflects the boost from the drop in long-term interest rates since the Spring, but for October the impact of the Hurricanes will likely lead to a sharp fall in starts. The desk expects renewed falls in long-term rates relatively soon, but suggests the impact on the housing market will be limited as the average interest rate on stock of existing mortgages is just 3.9%, well below current market rates.

FED BOSTIC: Fed's Bostic (2024 voter) said the Fed needed to move the policy rate because risks had shifted, and that the neutral policy rate is in the 3-3.5% range. Note, on 23rd September he said he feels neutral is in the 3-3.25% range (median dot plot for neutral rate suggested 2.9%). Thereafter, Bostic noted he is not in a rush to get to neutral and will be patient. On inflation, the Atlanta Fed President expects to get to 2% inflation near the end of 2025, and that should be the timetable for getting rates to neutral. Regarding the 50bps rate cut, Bostic said an outsized first [rate cut] was appropriate and was very comfortable with that, as the Fed had kept rates high for a long time, so a big first step was appropriate. Furthermore, Bostic noted that still a lot of uncertainty on prices and consumer spending, and the job on inflation is not done and need to stay vigilant.

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLED 5+ TICKS HIGHER AT 112-07

T-Notes bull flatten with the curve supported by soft housing data. At settlement, 2s -3.7bps at 3.950%, 3s -3.8bps at 3.861%, 5s -3.3bps at 3.875%, 7s -2.9bps at 3.966%, 10s -2.3bps at 4.073%, 20s -1.6bps at 4.441%, 30s -1.5bps at 4.379%.

INFLATION BREAKEVENS: 5yr BEI -0.7bps at 2.390%, 10yr BEI -0.1bps at 2.305%, 30yr BEI +0.2bps at 2.300%.

THE DAY: T-Notes were sold overnight and in the European morning with the curve weighed on by China data which saw strong activity data, while UK retail sales in the morning were stronger than expected. T-Notes hit lows of 111-29+ after the UK data before paring somewhat ahead of US data, which saw softer than expected housing starts and building permits while analysts expect further weakness in October due to the impacts of Hurricanes. The data lifted T-Notes to session highs of 112-09+ before meandering into settlement. Note, after the soft housing data, the Atlanta Fed GDPNow tracker was maintained at 3.4%. On Fed speak, Bostic was the highlight later in the session as he said neutral policy rate is in 3-3.5% range (on 23rd Sept. he said he feels neutral is in the 3-3.25% range, and Fed median dot plot for neutral rate suggested 2.9%), and expects to get 2% inflation near end of 2025. Elsewhere, there was little Fed speak of note with Waller focusing on decentralised finance. On the ECB, Reuters sources suggested that some governors wanted to drop the pledge to keep policy tight at this week's meeting, while ECB's Villeroy noted they have total optionality for upcoming meetings. There was also BoJ sources via Bloomberg that the BoJ sees little need for a rate hike this month, but will not rule it out in the future. They also noted that although financial markets have calmed down compared to August, the BoJ still sees the situation as unstable and it is difficult to predict when such uncertainty will be resolved.

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 24bps (prev. 23bps D/D), December 44bps (prev. 43bps), January 62bps (prev. 61bps).**
- NY Fed RRP op demand at USD 260bln (prev. 262bln) across 52 counterparties (prev. 59).
- SOFR at 4.85% (prev. 4.86%), volumes at USD 2.334tln (prev. 2.317tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 96bln (prev. 97bln).

CRUDE

WTI (X4) SETTLED USD 1.45 LOWER AT USD 69.22/BBL; BRENT (Z4) SETTLED 1.39 LOWER AT USD 73.06/BBL

The crude complex ended the day, and week, notably in the red in what was a choppy session as oil continued its six-day losing streak. On Friday, headline specific newsflow was fairly sparse although, when going onto his Air Force, US President Biden stated he has an understanding of how and when Israel is going to respond to the missile attacks by Iran but declined to give any details. As such, Israel's retaliation against Iran still looms, but we are still no clearer on a timing. In addition, participants continue to see potential weekend geopolitical risks after the Hamas leader Sinwar was confirmed to have been assassinated on Thursday, whilst Israel noted the war will not stop until hostages are recovered. Into settlement, WTI and Brent sit towards the bottom end of the week's ranges of USD 68.69-75.08 and USD 72.50-78.55/bbl, respectively, as traders await any Middle East updates over the weekend. For the record, in the weekly Baker Hughes data oil rigs were up 1 at 482, with nat gas down 2 at 99, leaving the total declining 1 to 585.

EQUITIES

CLOSES: SPX +0.40% at 5,865, NDX +0.66% at 20,324, DJIA +0.09% at 43,276, RUT -0.21% at 2,276

SECTORS: Energy -0.35%, Financials +0.02%, Consumer Staples +0.18%, Industrials +0.26%, Consumer Discretionary +0.45%, Materials +0.47%, Health +0.48%, Technology +0.48%, Utilities +0.56%, Real Estate +0.73%, Communication Services +0.92%.

EUROPEAN CLOSES: DAX: +0.38% at 19,658, FTSE 100: -0.32% at 8,358, CAC 40: +0.39% at 7,613, Euro Stoxx 50: +0.77% at 4,985, AEX: +0.53% at 903, IBEX 35: +0.17% at 11,925, FTSE MIB: +0.47% at 35,204, SMI: +0.24% at 12,334, PSI: -0.62% at 6,674.

EARNINGS

- **Netflix (NFLX):** EPS, revenue, and streaming paid memberships beat expectations, supported by a 35% increase in ad-tier memberships. Guidance for the next quarter and FY25 was also above the consensus.
- **Intuitive Surgical (ISRG):** Topped Q3 profit and revenue estimates, driven by strong demand for its da Vinci surgical robots
- **SLB (SLB):** Q3 revenue missed, although EPS was slightly above consensus.
- **Procter & Gamble (PG):** Revenue fell short, affirmed FY25 guidance and the CFO said the China market continues to be weak and will be for a number of quarters.
- **American Express (AXP):** Fell on the day, despite profit for the quarter and profit guidance surpassing St. forecasts as the slight revenue miss takes focus.
- **Ally Financial (ALLY):** Cut FY24 NIM guidance and raised net-charge off view.

STOCK SPECIFICS

- **Apple (AAPL):** iPhone 16 sales +20% vs. the iPhone 15, while Pro and Pro Max sales were +44% Y/Y, according to Counterpoint Research.
- **CVS Health (CVS):** Updated Q3 guidance amid elevated costs, sees profit markedly below the expected, while CEO Lynch stepped down.
- **Lamb Weston (LW):** Activist investor Jana Partners has built a stake of roughly 5% in Lamb Weston, aiming to push the Co. to explore a sale, WSJ reports.
- **United States Cellular (USM):** Announced parent company TDS has approved its deal with Verizon to sell 663mln MHz pops of cellular spectrum licenses, and 11mln MHz pops of AWS & 19mln MHz pops of PC licenses.
- **Coherent (COHR):** Downgraded to 'Neutral' from 'Buy' at B. Riley, noting "there isn't much room for an error" with Coherent at these valuation levels.
- **Boston Scientific (BSX):** Downgraded at Needham to 'Hold' from 'Buy', citing expectations of overall revenue growth slowing, viewing the stock as fairly valued.
- **Acadia Healthcare (ACHC):** Veterans Department is investigating the company, NYT reports.
- **BNPL names (AFRM):** CFPB rule aims to treat BNPL like credit cards, Bloomberg reports.
- **Humana (HUM):** Reportedly receives a takeover bid, according to Betaville chatter.
- **Ally Financial (ALLY):** Cut FY24 NIM & raised net-charge off view, while profit and revenue beat.

US FX WRAP

The dollar index's weekly surge was trimmed on Friday, as hot data from constituents in the index (Pound & Yen), offset potential buck upside. Regarding US newsflow, the day was quiet, as a larger fall in Building Permits than was forecasted did little to spark a reaction in the greenback, albeit, Treasuries caught a bid. Elsewhere, Atlanta Fed GDPNow was left unchanged at 3.4%, and Fed's Bostic maintained his hawkishness, seeing the neutral policy in the 3-3.5% range (Fed median is 2.9%), and expects inflation to 2% inflation near the end of 2025. He did, however, say the outsider's first-rate cut was appropriate and was very comfortable with that. DXY heads into the weekend below its 200 DMA (103.78), but off lows of 103.45, marking its third consecutive week of gains.

The Pound is set to finish the week flat, erasing the losses induced by the UK CPI figures seen earlier this week, as UK Retail Sales unexpectedly rose 0.3% in September (exp. -0.3%), as non-food, computer and telecommunications retailers had the strongest contribution to growth. Whereas, supermarkets' sales volume fell by 2.4%, their largest M/M fall in 2024, slightly offsetting the headline result. Nevertheless, next week is a quiet one in the UK, as the 50 DMA (1.3130) is a key level to the upside, while the 100 DMA (1.2957) is one to the downside with Cable currently sitting at around 1.3040.

G10 FX was for the most part firmer vs the Dollar, except for Scandi FX, and the CAD which saw muted trade. The Yen was the best performer in the space following the hotter Y/Y CPI print seen nationwide overnight, 2.4% (exp. 2.3%). CapEco noted on the print, they expect inflation ex fresh food and energy to remain around 2% until early next year, then gradually falling below 2%, and expect the BoJ to press ahead with another interest rate hike before year-end. In the end, USD/JPY fell below the 150 handle, just off lows of 149.37 before a thin week scheduled in Japan. Elsewhere, EUR/USD snapped its seven-day losing streak, exiting oversold territory as the 200 DMA (1.0871) nears. Macro updates in Europe were few and far between, though, the ECB Survey of Professional Forecasts did unveil 2024 inflation and

growth forecasts slightly revised downwards, perhaps expected, after ECB's President Large post-decision statement, whereby she said activity has been somewhat weaker than expected.

The Yuan, Aussie, and Kiwi were helped overnight by the stronger-than-expected China data, where Retail Sales and Industrial Output were above the consensus, and PBoC Governor Pan reiterated remarks of potential further reduction in the RRR this year. CapEco commented that while the MoF didn't provide a figure on the size of the fiscal stimulus on Saturday's presser, the commitment to use existing funds to boost fiscal spending in Q4 and a hint of expansion of the budget deficit next year should ensure that the annual growth target is narrowly met this year. The Yuan finishes the week in the red, despite Friday's outperformance, while AUD/USD and NZD/USD loom around monthly lows.

In EMFX, the CLP underperformed following the unanimous decision from the Chilean Central Bank to cut rates by 25bps to 5.25%, as expected. The board estimated if assumptions in the central scenario of the September IPoM materialise, the rate will see further reductions to meet its neutral level. That said, the Trump trade remains the key driver of LatAm FX performance this week, as MXN, CLP, COP, and BRL all end the week well in the red. In CEE, Monday will see the PLN in focus, with PPI, Employment, Sector wages, and Industrial Output figures from Poland (Sept).

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