

### Dollar strength continues, with T-Notes hit in technical trade & oil buoyed by the Middle East

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** Iranian embassy officials reportedly involved in the assassination attempt of Israeli PM; Netanyahu is to hold consultations tonight with cabinet re. response to Iran; Richmond Fed improves in October, albeit still negative; IMF WEO sees US growth forecasts lifted and China's cut; JPM's CEO Dimon would reportedly consider a role in a Harris administration; GM rallies on strong earnings while VZ and LMT sink after underwhelming reports.
- **COMING UP: Data:** US Existing Home Sales. **Event:** BoC Policy Announcement. **Speakers:** BoE's Breeden, Bailey; Fed's Bowman; ECB's Lagarde, Lane, Cipollone; RBNZ's Orr; BoJ's Governor Ueda; BoC's Macklem & Rogers. **Supply:** UK, Germany & US. **Earnings:** Michelin, Carrefour, Heineken, Akzo Nobel, Deutsche Bank, Volvo Car, Iberdrola, Barratt, Redrow, WPP, Reckitt Benckiser, Roche; AT&T, Boston Scientific, General Electric, Coca-Cola, Roper Technologies, General Dynamics, Boeing, T-Mobile US, Tesla, IBM, ServiceNow, Altria Group.

### MARKET WRAP

US indices were choppy on Tuesday, albeit settling with upside bias (SPX flat, NDX +0.1%, DJIA flat) but underperformance was in the small-cap Russell 2000 (-0.4%). Sectors were also mixed amid a deluge of earnings with Industrials and Materials the laggards, with the former weighed on by disappointing GE Aerospace (GE) (-9%) and Lockheed Martin (LMT) (-6%) earnings, and the latter by Sherwin-Williams (SHW) (-5.5%). Consumer Staples was the outperforming sector. Aside from earnings, fundamental newsflow was quite sparse on Tuesday in a week that lacks tier 1 US data, although the crude complex saw a second consecutive day of gains and was buoyed by a couple of catalysts in the European morning. One, Israeli PM Netanyahu will hold consultations tonight with various cabinet ministers regarding the response to Iran, and two, Iranian embassy officials were reportedly involved in the drone attempt on Netanyahu. In addition, and later in the session, Channel 12 citing two sources said the Israeli army has completed its preparations to attack Iran and it seems that it will be within days. The Dollar was firmer once again, continuing to be buoyed by rising optimism that Donald Trump will win the US election, while Antipodeans were the G10 outperformers and attempted to pare some of its recent losses. Lastly, Treasuries were ultimately lower but did chop in technical trade on another day with a lack of fundamentals. Looking ahead, US corporate earnings continue to come thick and fast with Tesla (TSLA) and Coca-Cola (KO) the highlights on Wednesday, in addition to the BoC policy rate announcement.

### NORTH AMERICA

**BoC PREVIEW:** The Bank of Canada is expected to cut rates by 50bps to 3.75% on Wednesday, according to 19/29 analysts surveyed by Reuters, while 10 analysts look for a smaller 25bps rate cut. Alongside the rate decision, the latest Monetary Policy Report will be released as well as a speech from Governor Macklem. Remarks from BoC Governor Macklem on 10th September, a week after the BoC cut by 25bps for the third consecutive time, stated that bigger cuts are possible if the economy and CPI are weaker. The August inflation data was soft, although a strong September jobs report saw money markets price a 25 or 50bps move as a near-coin flip. Thereafter, the September inflation data was notably softer than forecast and 50bps bets ramped up, supported by the latest Business Outlook Survey showing firms expect prices and wage growth to soften further. As things stand, money markets are pricing in c. 48.5bps of easing at the upcoming meeting, implying a 94% probability of a 50bps reduction. The focus of the meeting will largely be on the rate decision, however, the statement and MPR will be eyed for guidance and how the BoC is explaining the recent soft inflation data. We will also look to the MPR for the BoC's economic forecasts. [To download the full Newsquawk preview, please click here.](#)

### FIXED INCOME

#### T-NOTE (Z4) FUTURES SETTLED 5+ TICKS LOWER AT 111-11

**T-Notes chop in technical trade on another day with a lack of fundamentals.** At settlement, 2s +1.2bps at 4.037%, 3s +3.1bps at 3.980% 5s +2.9bps at 4.005%, 7s +2.8bps at 4.101%, 10s +2.2bps at 4.204%, 20s +1.1bps at 4.558%, 30s +0.6bps at 4.493%.

**INFLATION BREAKEVENS:** 5yr BEI +2.0bps at 2.418%, 10yr BEI +2.1bps at 2.332%, 30yr BEI +1.9bps at 2.326%.

**THE DAY:** T-Notes saw further selling pressure overnight and into the European morning to bottom at 111-09, a level that was met with support several times throughout the session and coincides with a 10yr yield of 4.22% with some citing the 4.20% level as a key technical. Once the levels were hit a reversal was seen with T-Notes peaking at 111-20+, before ultimately falling lower testing those earlier troughs. There were few fresh fundamental drivers for the choppiness on Tuesday other than technical levels, particularly in a week with no Tier 1 data releases out of the US. Some of the pressure may have been supported by the rally in oil prices on fears of geopolitical escalation, but it could also be argued that a geopolitical escalation could spark haven demand - although other havens were mixed; Dollar, Yen and Swissy flat but Gold was notably bid. Attention on Wednesday will turn to Existing Home Sales data and the 20yr bond auction ahead of Initial Jobless Claims, S&P Global PMI flash reading for October, and New Home Sales all due Thursday.

**THIS 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 42bps (prev. 44bps), January 59bps (prev. 62bps).**
- US sold USD 86bln of 3-mth bills at 4.510%, covered 3.07x; sold USD 76bln of 6-mth bills at 4.310%, covered 2.92x.
- NY Fed RRP op demand at USD 238bln (prev. 261bln) across counterparties 60 (prev. 59).
- SOFR at 4.82% (prev. 4.84%), volumes at USD 2.322tln (prev. 2.168tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 96bln (prev. 98bln).

## CRUDE

**WTI (Z4) SETTLED USD 1.53 HIGHER AT 72.09/BBL; BRENT (Z4) SETTLED USD 1.75 HIGHER AT 76.04/BBL**

The crude complex saw a second consecutive day of gains and was buoyed by a couple of catalysts in the European morning. WTI and Brent were initially subdued, giving back some of Monday's gains, however, following two key geopolitical updates, the complex extended higher, setting the sentiment for the duration of the US session. Firstly, Israeli PM Netanyahu will hold consultations tonight with various cabinet ministers to discuss Israel's response to Iran's missile attack. Secondly, there were reports that Iranian embassy officials were involved in the drone attempt on Netanyahu and his abode. As such, this stoked the crude complex to rise to intra-day highs before extending higher through the US session, albeit settling off peaks. Thereafter there were several conflicting updates, namely, the IRGC commander said Israel "is not likely to make a significant move" against Iran and Israel may carry out "a limited and small attack", via SNN, while Al Arabiya reported that a possible response to Iran may include targeting homes of Iranian officials due to attempted assassination of PM Netanyahu. Meanwhile, according to Israel's Channel 12 citing sources, the Israeli army has completed its preparations to attack Iran and it seems that it will be within days. In the meeting with US Secretary of State Blinken and Israeli PM Netanyahu, they discussed the concrete steps to capitalise on the death of Hamas leader Sinwar. For the record, WTI and Brent saw peaks of USD 72.09/bbl and 76.32/bbl, respectively, against earlier lows of 69.35 and 73.57.

## EQUITIES

**CLOSES:** SPX -0.05% at 5,851, NDX +0.11% at 20,384, DJIA -0.02% at 42,925, RUT -0.37% at 2,232

**SECTORS:** Industrials -1.19%, Materials -0.86%, Utilities -0.40%, Consumer Discretionary -0.27%, Health -0.16%, Financials -0.12%, Technology +0.15%, Real Estate +0.16%, Energy +0.20%, Communication Services +0.35%, Consumer Staples +0.92%.

**EUROPEAN CLOSES:** DAX: -0.13% at 19,436, FTSE 100: -0.14% at 8,307, CAC 40: -0.01% at 7,535, Euro Stoxx 50: -0.03% at 4,940, AEX: -0.11% at 897, IBEX 35: -0.07% at 11,833, FTSE MIB: -0.64% at 34,734, SMI: -0.76% at 12,169, PSI: -1.12% at 6,555.

## EARNINGS

- **General Motors (GM):** Adj. EPS and revenue beat alongside lifting EPS guidance, noting it's on track to reach 2024 EV production and profitability targets.
- **RTX Corp (RTX):** Top and bottom line beat, guidance for the top and bottom was raised, while FY24 Capex guide was trimmed.
- **3M Company (MMM):** Profit and revenue surpassed St. consensus.
- **GE Aerospace (GE):** CEO said they will be ramping up deliveries of the GE9X engine next year but may be at a slower rate than was anticipated. Note, revenue and EPS beat, with profit guidance raised above expectations.
- **Lockheed Martin (LMT):** Q3 revenue missed while adj. EPS beat.
- **Philip Morris International (PM):** Profit and revenue were above analysts expectations, with dividend raised by 3.8%.
- **Verizon Communications (VZ):** Revenue fell short of forecasts, although profit exceeded the expected, and FY24 guidance was maintained.
- **Norfolk Southern Corp (NSC):** Top and bottom line beat.
- **Danaher Corp (DHR):** EPS and revenue beat, while it anticipates that non-GAAP core revenue will decline by low -single digits Y/Y.
- **Sherwin-Williams (SHW):** Adj. EPS and revenue missed.

## STOCK SPECIFICS

- **Cheesecake Factory (CAKE):** Activist JCP Investment Management urges Cheesecake Factory to consider a break up and spin off three of its smaller brands into a separate company, according to WSJ
- **First Solar (FSLR):** Upgraded at Citi; believes the stock can benefit in almost any election outcome, where a democratic win could drive the sharpest recovery, while a Republican win would likely drive higher tariffs resulting in a longer-term recovery.
- **Coherent (COHR):** Downgraded at Rosenblatt Securities, seeing FY25 headwinds that "may disappoint more bullish expectations". That said, Rosenblatt believes Coherent will be a "long-time AI winner", and argues the stock looks good for investors with a three-year horizon.
- **Altair Engineering (ALTR):** Exploring a sale after attracting takeover interest, according to Reuters citing sources.
- **Five9 (FIVN):** Is under pressure from second activist, Legion Partners, on costs and board seat, according to Reuters sources.
- **Goldman Sachs (GS):** Faces CFPB fine over credit-card business, WSJ reports

## US FX WRAP

The **dollar index** edged slightly higher on Tuesday, as gains arose from modest downside in EUR and JPY. Behind the move, fresh drivers were sparse, with 'Trump trade' continued to be cited as he garners further momentum in winning the US election in two weeks. In addition, the recent combination of growing Middle East tensions and continued selling in the Treasury space seemingly support the dollar. Meanwhile, ING believes the size of the bond and FX moves are now being exacerbated by some deleveraging ahead of the US election. The latest October data saw the Richmond Fed Comp Index rise to -14 (prev. -21), supported by improvements in new orders and shipments, albeit, the print marked a whole year of declining activity. Catalysts in the near term remain light for the Buck, as the Weekly Claims data on Thursday lies ahead, but until then, the US election and Israeli response will be heeded.

**Euro weakness** persisted on Tuesday, as dollar strength once again outweighed, leaving EUR/USD below 1.08, the first time since August. The day saw a series of ECB remarks, where dove Centeno said he thinks the neutral rate is at about 2% or slightly below, and the undershooting EZ inflation target is a new risk and could stifle growth. Neutral colleague Villeroy towed Centeno's latter remark but added that inflation could be at target in early 2025, and there is no reason for rates to stay restrictive in 2025. Lastly, President Lagarde said inflation numbers have been relatively assuring, doesn't know where neutral is and is confident the inflation target will be reached in 2025. Wednesday will see the flash Consumer Confidence figure for October (exp. -12.5, prev. -12.9) and another slew of remarks from the ECB, namely, Lagarde, Lane, and Cipollone

**Cyclical FX** outperformed in the G10 space, particularly the top gainers, the Kiwi and Aussie, while the Pound lagged, heading into APAC trade steady. Newsflow on the day remained light for activity FX, although, action resumes on Wednesday, where the BoC is expected to cut rates by 50bps to 3.75%, with money markets pricing in a 91% chance of a 50bps cut, although some analysts do see a 25bps cut ([Newsquawk BoC preview available here](#)).

The **Yen and Franc** slightly diverged as higher US yields continued to drag on the Yen, while USD/CHF hovered around the 0.8650 mark. Overnight remarks from BoJ's Executive Director Kato, unveiled that the BoJ are not targeting an FX level but are carefully looking at upside risks from rising import prices. Nonetheless, USD/JPY crept above the 151 handle, closing the gap to the 200 DMA (151.35), with ING noting markets are adding some political risk premium into the Yen after the latest polls showed the ruling LPD-Komeito coalition losing support

ahead of the election on Sunday.

In **EMFX**, the highlight was the NBH, which held rates steady as expected, after previously cutting by 25bps. The NBH noted upside risks to inflation have increased and a pause in rate cuts was warranted. Going forward, the Central Bank said decisions will be taken in a cautious and data-driven manner, and the disinflation trend is expected to continue from Q1 2024; HUF strengthened vs USD and EUR. Overall EMFX performance was mixed, upside was seen in MXN, COP, and CLP, while losses were visible in BRL. Regarding BRL, BCB's Chief Neto said it's very difficult to imagine interest rates much lower than they are today unless they manage a positive shock on the fiscal side; USD/BRL continued to trend higher towards August's peaks.

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