US Market Wrap - 23rd October 2024

Stocks & Bonds hit with Dollar bid in touted Trump Trade

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up
- **REAR VIEW**: BoC cut by 50bps, as widely expected; Larger EIA crude builds than expected; Russia to reportedly help Iran counter Israeli strike; AAPL iPhone 16 orders reportedly cut by 10mln units for Q4 24-Q2 25 and delays debut of Mac Studio; BA earnings miss and CEO said 737 target for production is to be delayed; Woeful Kering earnings; MCD hit by E.coli outbreak; US Existing Home sales fall to lowest level since October 2010; Soft US 20yr bond auction; Fed's Beige Book unveils little unchanged economic activity in nearly all Districts since early Sept.
- **COMING UP**: **Data:** EZ, US Flash PMIs, US Weekly Claims, New Home Sales. **Speakers:** ECB's Lane, McCaul; Fed's Hammack; BoE's Bailey, Mann. **Supply:** Japan. **Earnings:** Renault, Orange, Danone, UniCredit, Equinor, London Stock Exchange Group, Unilever, Abrdn, Bunzl, Barclays, Honeywell International, United Parcel Service, Southwest Airlines, Northrop Grumman, American Airlines Group, Union Pacific, Capital One Financial.

MARKET WRAP

US indices were lower (SPX -0.9%, RUT -0.8%, DJIA -1%) with the tech-heavy Nasdaq 100 (-1.6%) lagging as it was weighed on by weakness in mega-cap names Apple (AAPL) (-2.2%) and Nvidia (NVDA) (-2.8%). AAPL was weighed on by cautious analyst commentary and reports of Mac delays, while NVDA was hit after it announced a flaw in the blackwell AI chip, although TSMC (TSM) fixed the issue. As such, sectors were largely in the red with Consumer Discretionary and Technology the laggards, while Real Estate and Utilities were the only sectors in the green due to their haven nature in risk off trade. Once again, there was a deluge of earnings and stock specific headlines with the highlights arguably the McDonald's (MCD) (-5%) E.Coli outbreak, and Boeing (BA) (-1.8%) underwhelming after a weak earnings report added to recent woes. In FX, the Dollar Index continued on its recent strength amid the ongoing 'Trump Trade' as he garnered further momentum into winning the election. Antipodeans underperformed given the risk off trade although the CAD was the G10 'outperformer' (ex Dollar), despite the Loonie initially weighed on by the BoC policy rate announcement, whereby they cut rates by 50bps as anticipated and appeared to declare victory against inflation. The crude complex was weaker, weighed on by the broad Dollar strength and bearish EIA inventory data. Treasuries saw notable weakness with the curve bear flattening, in what seemingly was a continuation of the Trump Trade. For the record, the Fed Beige Book noted on balance, economic activity was little changed in nearly all Districts since early September, though two Districts reported modest growth.

US

EXISTING HOME SALES: Fell 1% in September to 3.84mln from 3.88mln, and slightly beneath the expected 3.86mln. Inventory of homes for sales was 4.3 months' worth, slightly increasing from August's 4.2 months' worth. The supply of homes for sale continued to rise, with inventory rising 23% Y/Y. Increases in supply are hitting home price growth, highlighted by the median home prices declining for a third consecutive month. Overall, Oxford Economics expects resilient demand to keep a floor under home prices, particularly if mortgage rates resume their decline as we expect. In addition, Ox Eco notes that their baseline assumes a modest recovery in home sales gets underway in Q4 and gains traction in 2025. However, the consultancy adds, the recent rebound in mortgage rates and Hurricanes might delay that recovery.

FED BEIGE BOOK: On balance, economic activity was little changed in nearly all Districts since early September, though two Districts reported modest growth. Reports on consumer spending were mixed, with some Districts noting shifts in the composition of purchases, mostly toward less expensive alternatives. Regarding the labour market, employment increased slightly during this reporting period, with more than half of the Districts reporting slight or modest growth and the remaining Districts reporting little or no change. Many Districts reported low worker turnover, and layoffs reportedly remained limited. Demand for workers eased somewhat, with hiring focused primarily on replacement rather than growth. Meanwhile, wages generally continued to rise at a modest to moderate pace. On prices, inflation continued to moderate with selling prices reportedly increasing at a slight or modest pace in most Districts. Home prices edged up in many Districts, while rents were reported to be steady or down slightly. For the full release, please click here.

FIXED INCOME

T-NOTE (Z4) FUTURES SETTLED 10 TICKS LOWER AT 111-01

T-notes continue to take a beating with the curve bear flattening. At settlement, 2s +4.1bps at 4.078%, 3s +4.9bps at 4.029%, 5s +4.4bps at 4.050%, 7s +3.8bps at 4.139%, 10s +3.0bps at 4.236%, 20s +2.8bps at 4.586%, 30s +1.5bps at 4.509%.

INFLATION BREAKEVENS: 5yr BEI -2.6bps at 2.393%, 10yr BEI -1.6bps at 2.315%, 30yr BEI -1.3bps at 2.313%.

THE DAY: T-notes continued with a downward bias this week to see T-notes hit a low of 110-30+, before settling just above the level. The downside was a continuation of the "Trump Trade" ahead of the 20yr bond auction (more below). In the US, the focus was on earnings and a few negative updates for big tech names, but the Fed's Beige Book was also in the limelight. The Beige Book found that on balance economic activity was little changed in nearly all districts, while employment increased slightly, with over half of the districts reporting slight or modest growth with the others reporting little to no change. Meanwhile, inflation continued to moderate with selling prices increasing at a slight or modest pace in most districts. Elsewhere, the BoC cut rates by 50bps as was largely expected, although some did look for a 25bp cut. The BoC also largely declared victory on inflation, noting the cut was to boost growth and keep inflation around the target. Meanwhile, Reuters sources suggested that ECB policymakers are starting to debate whether rates will have to go below the neutral level in the current easing cycle, although Chief Economist Lane noted they do not have a dramatic weakening of the economy, but some recent data raises questions about growth projections."

20YR: Overall, the 20yr bond auction was not as bad as the last auction, but worse than average. The US Treasury sold USD 13bln of 20yr bonds at a high rate of 4.590%, tailing the when issued by 1.6bps, which was disappointing when compared to the six auction average for a stop-through of 0.6bps, albeit not as large as the prior 2.00bps tail. The B/C was above the prior but beneath the average, while demand increased in both direct and indirect, albeit the 67.87% indirect bidders was beneath the 72.78% average, but direct takedown of 17.64% was marginally above the average of 16.93%. This left dealers with 14.48% of the auction, not as large as the prior month's 20yr issuance, but above the 10.29% average.

THIS WEEK SUPPLY: US to sell USD 24bln in 5yr TIPS on October 24th, as expected; to settle October 31st.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: November 23bps (prev. 23bps D/D), December 41bps (prev. 42bps), January 58bps (prev. 59bps).**
- Treasury Buyback (Liquidity Support, 7.5-30yr TIPS): Treasury accepts USD 323mln of USD 977mln offers; accepting 12 issues vs 18 eligible.
- US sold USD 64bln in 17wk bills at 4.445%, covered 2.97x
- 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 0.97 LOWER AT 70.77/BBL; BRENT (Z4) SETTLED USD 1.08 LOWER AT 74.96/BBL

The crude complex was weaker, weighed on by the broad Dollar strength and also bearish EIA inventory data. On the geopolitical footing, there was little headline newsflow on Wednesday and no response, or escalation seen from Israel yet. However, in the European morning, Sky News Arabia sources reported that Russia will help Iran to counter the planned Israeli strike in some form and that Russia will help Iran without risking harm to its relations with Israel. The sources added this Russian assistance may be by giving Iran early warning and instructions to protect potential targets or may include the detection of attacking aircrafts and electronic jamming. Back to EIA's, oil saw downside in wake of the metrics after crude stocks had a much larger build than expected, gasoline saw a surprise build, and distillates drew less than forecasted. Overall, crude production was unchanged at 13.5mln. Looking ahead, tier 1 US data releases are once again non-existent on Thursday, although there are initial jobless claims as well as earnings from NextEra Energy (NEE) and Valero Energy (VLO). For the record, WTI and Brent saw highs of USD 71.72/bbl and 76.05/bbl, respectively, against lows of USD 70.13/bbl and USD 74.42/bbl.

EQUITIES

CLOSES: SPX -0.92% at 5,797, NDX -1.55% at 20,067, DJIA -0.96% at 42,515, RUT -0.79% at 2,214

SECTORS: Consumer Discretionary -1.82%, Technology -1.68%, Communication Services -1.37%, Energy -0.48%, Health -0.46%, Materials -0.35%, Industrials -0.30%, Consumer Staples -0.12%, Financials -0.12%, Utilities +1.01%, Real Estate +1.02%.

EUROPEAN CLOSES: DAX: -0.20% at 19,383, FTSE 100: -0.58% at 8,259, CAC 40: -0.50% at 7,497, Euro Stoxx 50: -0.36% at 4,921, AEX: -0.82% at 890, IBEX 35: +0.27% at 11,865, FTSE MIB: -0.10% at 34,697, SMI: -0.05% at 12,157, PSI: -0.52% at 6,521.

EARNINGS

- **Boeing (BA):** Reported a bigger loss per share than expected and missed on revenue. CFO said the 38/month target for 737 production will be delayed; Facing seat and heat-exchanger delays for the 787 Dreamliner.
- **Texas Instruments (TXN):** Top and bottom line beat, noting automotive revenue increased in the upper single digits in Q3 primarily due to strength in China.
- **General Dynamics (GD):** EPS missed while revenue beat.
- **Thermo Fisher Scientific (TMO):** Revenue and FY guidance fell short of the St. consensus.
- **Hilton Worldwide Holdings (HLT):** Q3 revenue and bottom line guidance disappointed.
- **Boston Scientific (BSX):** Missed on Q3 revenue expectations, although adj. EPS and FY EPS guidance beat.
- **AT&T (T):** EPS beat, while revenue underwhelmed. Co. noted a USD 4.4bln goodwill impairment from a faster decline in legacy services in the business wirelines unit in Q3.
- **GE Vernova (GEV):** Earnings unexpectedly turned negative for the quarter, though the Co. beat on revenue and affirmed its outlook.
- **Coca-Cola (KO):** Beat on revenue and profit, although, cash flow fell from the prior year due to a USD 6bln IRS tax litigation deposit.
- **Starbucks (SBUX):** Prelim Q4 figures showed a miss on profit and revenue. Co. raised its quarterly cash dividend and suspended guidance for FY25.

STOCK SPECIFICS

- **McDonald's (MCD):** CDC said the Co. is linked to a severe E.coli outbreak, with 10 people hospitalized and one dead. McDonald's removed quarter pounders, which were linked to the outbreak, from menus in the impacted area. McDonald's later said, it has not yet ruled out beef in the E.coli outbreak (sells 1mln quarter pounders every two weeks), and a fifth of US restaurants not offering quarter pounder. Meanwhile, a Colorado state epidemiologist said they expect more E.coli cases from the outbreak.
- **Qualcomm (QCOM):** Arm (ARM) is planning to cancel a chip licensing agreement with the Co.
- **TSMC (TSM):** Reportedly cuts off a client it discovered funnelling chips to Huawei, via Bloomberg.
- **Nvidia (NVDA):** CEO Huang said the design flaw with its latest Blackwell AI chips, which impacted production, has been fixed with the help of partner TSMC.
- **Spirit Airlines (SAVE):** Frontier and Spirit Airlines revive merger discussions, WSJ reports.
- New York AG investigates **Capital One Financial (COF)** and **Discover Financial Services (DFS)** agreements.
- **Apple (AAPL):** iPhone 16 orders reportedly cut by around 10mln units for Q4 24-Q2 25; no evidence yet that Apple Intelligence could boost iPhone shipments in the near term, via TF Intl. Securities analyst Ming Chi Kuo. Meanwhile, Apple delays the planned debut of Mac Studio until later in 2025, according to Bloomberg; preparing to launch new low-end iPad around spring 2025 and readies MacBook air models with M4 chip for early 2025.
- **Siemens (SIE GY)** is said to be in talks to acquire **Altair Engineering (ALTR).**

US FX WRAP

The dollar index rose for the third consecutive day to new heights of 104.57, benefiting from higher UST yields. No tier 1 data releases were seen, while Fed's Daly (Voter) noted the labour market has returned to a more sustainable balance, and risks to goals are now more balanced which is a significant improvement from two years ago. Nevertheless, the recent themes of a potential Trump presidency and geopolitical tensions continue to linger behind the move, with the risk-off trade in equities adding support. As usual, Thursday is of focus for the weekly initial claims data, while US New Home Sales (Sep) and Flash S&P Global PMIs for October are due.

EUR/USD trundled lower into the 1.07 region as dollar strength remains the driver for the pair with support from dovish ECB speak/reports; EUR/USD hit a low of 1.0762. On data, Flash Consumer Confidence for October edged higher to -12.5 (prev. -12.9), as expected, hitting the highest level since 2022, but considering Confidence remains well subdued, the Euro is gonna need a lot more to add support. Meanwhile, multiple ECB speakers remarked on Wednesday, namely, dove Centeno said downside risks to growth are accumulating and a 50bps cut is on the table. Whereas, hawk Knot noted pretty confident inflation will hit 2% in 2025, and the consumer recovery will take a bit longer. There was also a fresh set of ECB sources from Reuters, noting that policymakers are debating whether rates will have to go below neutral level in the current easing cycle. Elsewhere, ING's call remains for EUR/USD at 1.07 pre-US election, while Rabobank Research points out that the recent IMF forecast of no growth for Germany this year, could lead to an inflationary theme that would arise from the ongoing impact of the energy transition and an ageing demographic which has shrunk the pool of available labour, which they expect that many German exporters would welcome further softening in monetary conditions and a lower value for EUR/USD. Focus now turns to Thursday for Flash HCOB PMI data (Oct) from EZ, France, and Germany.

G10FX were entirely in the red as the flight to the dollar trade persisted. Newsflow picked up on the day, where remarks were seen from RBNZ's Orr, albeit, had little sway on NZD/USD which dipped below September's lows. Orr noted they see persistence in domestic and service inflation in NZ, and that policy is still at a restrictive level. Ultimately, the day was fixed on the BoC, which cut rates by 50bps as expected to 3.75%. The BoC noted they will take decisions one meeting at a time, and Governor Macklem later said, "Overall, we view the risks around our inflation forecast as reasonably balanced. As such, the lack of certainty surrounding further cuts in combination with 2024/25 CPI forecasts lowered and growth views unchanged, BoC pricing initially moved dovishly before paring, now pricing in 27bps of cuts in the December meeting (prev. 30) and 54bps by January (prev. 58bps); USD/CAD outperformed its G10 peers, incurring modest losses vs the buck. Note, ING reiterated that "One of our key calls in G10 FX in October has been a stronger CAD versus AUD and NZD as markets build their hedging against a Trump re-election."

The Yen and Antipodes were the clear laggards, with the latter not being helped by the uncertainty of US-China relations growing as the US election approaches, while both were impacted by the risk off trade in US equities. On the Yen, higher US yields weighed, resulting in USD/JPY breaching its 200DMA (151.37), and heading to peaks of 153.18. BoJ's Governor Ueda made a late appearance on the day, noting the BoJ is still maintaining a "fairly easy" monetary stance, adding, that it's very hard to pin down the appropriate size of rate hikes from here on; USD/JPY was muted to the remarks.

In EMFX, price action was to the downside, led by COP, HUF, and PLN. On the flip side, MXN outperformed despite Retail Sales in August disappointing analysts as September lows failed to be met. Elsewhere, South African CPI figures in September were mixed, the monthly Core was slightly hotter, while Headline Y/Y was a touch cooler; USD/ZAR is trading around monthly lows heading into overnight trade. Lastly, USD/INR was flat amid RBI Minutes, where Chief Das said the outlook for headline inflation towards the later party of the year and early next year points to further alignment with the 4% target, while MPC member Kumar said they believe it is an opportune moment for the RBI to begin the process of normalising monetary policy.

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