US Market Wrap - 24th October 2024

Stocks and bonds catch a bid; TSLA soars on strong earnings

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar down
- **REAR VIEW**: Stellar TSLA earnings; Initial jobless claims unexpectedly falls; New Home Sales tops consensus; Strong S&P Global Flash PMI's; Mixed EZ PMI's; The Times reports Israel delayed attack on Iran due to leaked documents, which Israel later denied; UK Chancellor Reeves changes debt rule; Weak US 5yr TIPS auction.
- **COMING UP**: **Data**: EZ M3, German Ifo, US Durable Goods, UoM (Final) **Event**: Moody's on France, PBoC MLF **Speakers**: RBNZ's Conway; Fed's Collins **Earnings**: NatWest, Porsche, Mercedes-Benz; Colgate-Palmolive

MARKET WRAP

Stocks were predominantly firmer on Thursday after the recent selling pressure this week. Outperformance was seen in the NDX while SPX and RUT closed with marginal gains, although the DJIA closed red after disappointing IBM and Honeywell earnings. The Nasdaq outperformance was led by the rally in Tesla (TSLA) shares after a strong earnings report last night, which saw the Consumer Discretionary sector outperform, while Materials, Utilities and Industrials lagged. T-Notes chopped with pressure seen in wake of the fall in jobless claims and PMI beats, albeit the move failed to hold with T-Notes rallying throughout the rest of the session. The strength was led by the long end on no apparent catalyst, but it does follow the notable downside recently while perhaps downside in oil was somewhat supportive. Oil was also choppy, and tumbled on reports in the morning that Israel delayed its response to Iran following the leak of the US documents, however Israel later denied this - but there was no relief in oil prices. In FX, the Yen outperformed on account of lower yields while EUR and GBP also saw notable gains amid a flurry of ECB speak while the pound was buoyed by the outperformance of UK Gilt yields after Chancellor Reeves announced a change to the debt rule to unlock more spending.

US

FLASH PMIS: US S&P Global Flash Manufacturing PMI for October rose to 47.8 from 47.3, and above the expected 47.5. Services also topped forecasts, printing 55.3 (prev. 55.2, exp. 55.3), leaving the Composite lifting to 54.3 from 54.0, above the 53.8 forecast. Looking ahead, having slumped to a 23-month low in September, optimism about output in the coming year rebounded sharply in October, hitting a 29-month high. The report notes, the October flash PMI is consistent with GDP growing at an annualized rate of around 2.5%. In addition, it notes weaker price pressures are consistent with inflation running below the Fed’s 2% target. On the workforce, says businesses nevertheless remain cautious about hiring but more encouragingly, confidence in the longer, year ahead, outlook has improved as companies hope that a stabler post-election environment is more conducive to growth.

INITIAL JOBLESS CLAIMS: The Weekly Initial Jobless Claims, for the week ending 19th October, fell to 227k from 242k, despite expectations for an unchanged print as states battled with the recovery of Hurricanes; Florida saw a 4k increase in claims due to Milton, but this was more than offset elsewhere (Georgia (-2k), Michigan (-1.7k), New York (-2.7k), North Carolina (-2.9k), Ohio (-1.9k) and Texas (-2k)). Despite the drop in claims, the 4wk average ticked up to 238.5k from 236.5k. Meanwhile, for the week ending 12th October, continued claims rose to 1.897mln from 1.869mln. Note, the unadjusted initial claims data fell by 20k to 203k, while seasonal factors had expected a decrease of 9.5k. Meanwhile, the unadjusted continued claims rose by 37k to 1.635mln, whereas the seasonal factors expected an increase of 13k. Overall a solid report with claims returning back to levels seen pre-hurricanes, and to a level that Oxford Economics suggests is consistent with a labour market that continues to be characterized by few layoffs. This would be in fitting with the latest Fed beige book, albeit which was prepared on or before October 11th, which noted that layoffs remained limited.

NEW HOME SALES: New Home sales rose by 4.1% to 738k from 709k, above the 720k forecast. Oxford Economics says the data shows there was little impact on sales from Hurricane Helene in September, but perhaps there may be an impact in the months ahead. Meanwhile, the supply of new homes rose to 7.6mths worth from 7.9 months. The median sales price of new houses sold was USD 426,300. Looking ahead, OxEco expect lower mortgage rates, pent-up demand and a still relatively scarce supply of existing homes to support new home sales over the balance of 2024 and into 2025.

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLED 8 TICKS HIGHER AT 111-09

T-Notes bull flatten after recent weakness despite strong US data. At settlement, 2s -1.4bps at 4.072%, 3s -2.2bps at 4.014%, 5s -3.0bps at 4.027%, 7s -3.0bps at 4.115%, 10s -3.6bps at 4.206%, 20s -4.2bps at 4.549%, 30s -4.6bps at 4.469%

INFLATION BREAKEVENS: 5yr BEI -2.7bps at 2.369%, 10yr BEI -1.3bps at 2.303%, 30yr BEI -1.1bps at 2.305%.

THE DAY: T-Notes were choppy on Thursday, catching a bid overnight after the recent weakness before selling off in response to the lower than expected jobless claims data. The move extended lower after the hotter than expected S&P Global Flash PMI data for October, which saw T-notes eventually hit a low of 111-00+. The downside post PMIs was short lived, however, and T-Notes pared and took out the earlier highs to reach a fresh peak of 111-13+. There was little news behind the move but it is worth noting the upside follows a week of weakness. Elsewhere, it is worth noting that Gilts underperformed in the fixed income space after reports that Chancellor Reeves was to adjust the debt rule to free up more money for investment; Reeves later confirmed the reports, noting they will be changing how they measure the debt in next week's budget to free money for investment. Back in the US, Fed's Hammack noted inflation has eased notably but it has not yet returned to its goal, while the 5yr TIPS auction was soft, as eyes turn to a plethora of updates, including Treasury supply, quarterly refunding, PCE, GDP and the October NFP report.

5YR TIPS: The US Treasury sold USD 24bln in 5yr TIPS, tailing the when issued by 2.9bps, a disappointment in comparison to the prior stop through of 3bps and six auction average of a 1.3bps stop through. The B/C was beneath prior and recent averages, while primary dealers took an upsized 7.9% of the auction, above the 6% average and 2.3% prior, due to a fall in indirect demand beneath the average. Direct demand saw a slight decline but remained in line with the average.

NEXT WEEK SUPPLY: US Treasury to sell USD 69bln in 2yr notes on October 28th, USD 70bln in 5yr notes on October 28th and USD 44bln in 7yr notes on 29th October; to settle October 31st.

STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: November 24bps (prev. 23bps D/D), December 43bps (prev. 41bps), January 59bps (prev. 58bps).
- NY Fed RRP op demand at USD 203bln (prev. 271bln) across 53 counterparties (prev. 84).
- SOFR at 4.83% (prev. 4.83%), volumes at USD 2.129tln (prev. 2.226tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 99bln (prev. 98bln).

CRUDE

WTI (Z4) SETTLED USD 0.58 LOWER AT 70.19/BBL; BRENT (Z4) SETTLED USD 0.58 LOWER AT 74.38/BBL

The crude complex was lower and was weighed on by reports in The Times that Israel delayed the response to Iran due to the need to change some strategies following the recent US intelligence leak. Although, The Times of Israel citing Army Radio later reported that Israel deny this claim, and there is no connection in relation to the timing of the response and the leak of the documents. Separate sources from Kann News noted that plans for an attack on Iran have passed the approval of the Chief of Staff and the Minister of Defense and Israel are waiting for a "green light" from the political level. Elsewhere, fundamental newsflow was actually fairly sparse on Thursday and participants continue to await the major risk events such as the tier 1 US data, followed by the US Election, and the FOMC after that. In terms of energy company earnings, Equinor (EQNR NO) saw profits dip in Q3, but sees FY production stable, while Valero (VLO) beat on the top and bottom line.

EQUITIES

- **CLOSES**:SPX +0.21% at 5,910, NDX +0.83% at 20,233, DJIA -0.33% at 42,374, RUT +0.23% at 2,219
- **SECTORS**: Consumer Discretionary +3.24%, Communication Services +0.24%, Real Estate +0.22%, Technology +0.21%, Financials +0.08%, Energy -0.19%, Consumer Staples -0.22%, Health -0.68%, Utilities -0.71%, Industrials -0.71%, Materials -1.42%
- **EUROPEAN CLOSES**: DAX +0.39% at 19,454, FTSE 100 +0.13% at 8,269, CAC 40 +0.08% at 7,503, Euro Stoxx 50 +0.27% at 4,936, AEX +0.67% at 896, IBEX 35 -0.21% at 11,840, FTSE MIB 0.00% at 34,699, SMI +0.24% at 12,177.

EARNINGS

- **Tesla (TSLA)**: Beat on EPS and gross margins; expects slight growth in vehicle deliveries in Q4 & Cybertruck production increased, achieving positive gross margin for the first time
- **ServiceNow (NOW)**: Revenue and profit exceeded expectations, and announced it has partnered with Nvidia (NVDA) to accelerate enterprise adoption of Agentic AI.
- **International Business Machines (IBM)**: Revenue and FCF missed. Expecting next quarter revenue growth to match Q3 and FY FCF guidance disappointed.
- **United Parcel Service (UPS)**: Top and bottom line beat.
- **Dow (DOW)**: EPS and revenue beat, with next quarter guidance above consensus.
- **Honeywell International (HON)**: Revenue fell short for the quarter and on the FY view.
- **Carrier Global (CARR)**: Revenue underwhelmed, though did announce an increase of its share repurchase authorisation to USD 4.7bln
- **American Airlines (AAL)**: Next quarter profit view missed, and expects 2024/25 CapEx to be lower than prior plans due to aircraft delivery delays.
- **Keurig Dr Pepper (KDP)**: Revenue slightly short and is to purchase Ghost for over USD 1bln.
- **Northrop Grumman (NOC)**: EPS beat while revenue missed.
- **Lam Research (LRCX)**: Top and bottom line beat, with midpoint of next quarter guidance also better than expected.
- **UPS (UPS)**: Q3 EPS and revenue surpassed Wall St. consensus

STOCK SPECIFICS

- **Boeing (BA)**: Boeing factory workers rejected a contract proposal, extending a strike that began on September 13th.
- **Apple (AAPL)**: Marketing head to announces plans to update Macs next week.
- **TSMC (TSM)**: Arizona chip yields reportedly surpass Taiwan's, according to Bloomberg.
- **Yum (YUM)**: Pulls fresh onions at some Taco Bell, Pizza Hut, and KFC stores and is pulling onions out of 'abundance of caution'.
- **Burger King (QSR)**: Announced there are no indications of illness, but it is pulling onions at 5% of locations.
- **Summit Materials (SUM)**: Quikrete reportedly said to make a takeover approach for Summit Materials (SUM), according to Bloomberg citing sources.

US FX WRAP

The Dollar was lower and pared some of its recent notable strength, as it was weighed on by falling Treasury yields in a week that has been devoid of tier 1 risk events ahead of a couple of massive events, starting with NFP and culminating in FOMC, with the US Election sandwiched in between. Nonetheless, S&P Global Flash PMIs impressed with Manufacturing and Services both rising slightly more than expected, albeit with the former in contractionary territory for the third straight month. Elsewhere on data, initial jobless claims surprisingly dropped to 227k from 242k, with expectations for an unchanged print. The only Fed speaker on the docket was Hammack (2024 voter), whereby she added little new as she noted that inflation has eased notably but has not returned to goal.

The Pound was one of the G10 outperformers with Cable hitting a high of 1.2987, as it benefitted from the Reeves-induced jump in UK yields. However, the upside in Sterling was tempered by softer than anticipated UK PMI data with the accompanying release suggesting 0.1% quarterly growth in October. Antipodeans saw marginal gains vs. the Buck, while CAD was the relative laggard, albeit only seeing minimal weakness, as it was potentially weighed on by lower oil prices.

EUR and JPY both saw strength, with the latter the G10 outperformer. The Euro has grinded higher throughout the US afternoon given the aforementioned Dollar weakness, as opposed to anything currency specific. Although, in the EZ morning PMI data was mixed as French metrics were soft, followed by slightly more encouraging German figures before the final EZ release printed mixed but underscored the complex growth picture for the region. In addition, there was a deluge of ECB speak with Chief Economist Lane noting the disinflation process is well on track and inflation is set to return to target in the course of 2025. Meanwhile, ECB's Wunsch said the ECB does not need a discussion on 50bps at this stage.

The Yen managed to pare some recent losses after USD/JPY printed a fresh multi-month peak of 153.18 on Wednesday. Regarding commentary, Japanese Finance Minister Kato attempted to jawbone the currency overnight whereby he said the Yen's recent slide is "one-sided and "rapid." Furthermore, BoJ Governor Ueda said markets remain unstable and that the recent yen fall is driven partly by optimism over US economic outlook.

EMFX took a breather from its recent selling pressure with the Yuan, BRL, ZAR, and COP all gaining, while the MXN and CLP were flat. On the data footing, Mexican and Brazilian data for October was hotter than expected, while on the speaker front there was a plethora out of Brazil. The highlight was arguably from Finance Minister Haddad who said there are reasons to imagine that whatever the outcome of US elections and this will lead to a change in economic policy in general, with a significant global impact. He later added, if there is a need to reinforce parameters for the government's fiscal framework to stand, this is the path that will be taken.