

newsquawk

US Market Wrap - 28th October 2024

Stocks and bonds chop while oil dives in wake of Israel's response to Iran

- **SNAPSHOT:** Equities up, Treasuries down, Crude down, Dollar flat.
- **REAR VIEW:** 'Limited' & 'Moderate' Israel response to Iran; US Treasury financing estimate less than initial Q4 estimate; Ruling coalition loses its parliamentary majority in Japanese election; META develops AI search engine to lessen reliance on GOOGL & MSFT; Both US auctions see tails.
- **COMING UP: Data:** US Advance Goods Trade Balance, Wholesale Inventories, US Consumer Confidence; JOLTS Job Openings
Speakers: BoC Governor Macklem & Rogers **Supply:** Japan, UK, Germany, US.
- **WEEK AHEAD:** Highlights include US NFP, ISM Mfg, PCE, GDP, EZ and Australian CPI, UK Budget, BoJ and Japan LDP Election. [I download the report, please click here.](#)
- **CENTRAL BANK WEEKLY:** Previewing BoJ; Reviewing PBoC and BoC. [To download the report, please click here.](#)
- **WEEKLY US EARNINGS ESTIMATES:** Earnings season continues with mega-cap names in abundance, with highlights from GOOGL, AMD, META, MSFT, AMZN, INTC, and AAPL. [To download the full report, please click here.](#)

MARKET WRAP

Stocks ultimately closed primarily in the green although the Nasdaq gave up early gains as Tech sold off. The only sectors to close in the red were Tech and Energy, with the latter weighed on by tumbling crude prices in the aftermath of Israel's response to Iran, whereby the response was seen as 'moderate' as it only focused on military targets and avoided oil or nuclear facilities. The Israeli response resulted in initial upside for stocks but did close off highs as tech weakness weighed. The downside in oil prices did support other oil sensitive stocks like airlines (JETS) and cruises (NCLH, RCL, CCL). Elsewhere, T-Notes were choppy, initially sold on the risk on trade as geopolitical risk premium was unwound but started to see a gradual upside in the European morning - perhaps driven by the notably lower oil prices. Nonetheless, gains were shortlived and T-Notes sold off ahead of supply and the financing estimates, likely driven by dealer succession. The auctions were ultimately soft, while financing estimates saw little reaction ahead of quarterly refunding on Wednesday. In FX, the Dollar saw mild weakness while the Euro outperformed and Yen lagged, with JPY hampered by higher UST yields and in wake of the LDP losing its parliamentary majority over the weekend.

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLE 11+ TICKS LOWER AT 110-22+

T-Notes chop in reaction to Israeli response ahead of auctions, and financing estimates in a busy week. At settlement, 2s +3.7bps at 4.136%, 3s +4.4bps at 4.082%, 5s +5.3bps at 4.105%, 7s +4.5bps at 4.186%, 10s +4.0bps at 4.272%, 20s +3.4bps at 4.617%, 30s +2.3bps at 4.522%.

INFLATION BREAKEVENS: 5yr BEI -0.2bps at 2.434%, 10yr BEI +0.1bps at 2.289%, 30yr BEI +1.0bps at 2.303%.

THE DAY: T-Notes saw gradual selling pressure overnight with markets responding to the 'limited' Israeli response to Iran, although the reaction was mostly felt in oil markets as geopolitical risk premium unwound with the response avoiding oil and nuclear facilities. Oil prices tumbled which started to hand some support to T-Notes ahead of front-loaded supply this week, although dealer concession saw these gains pair ahead of the 2 and 5yr supply (see below) to see T-Notes hit lows of 110-18+. The auctions ultimately came in soft and focus turned to the financing estimates, with T-notes paring from the lows ahead of the release. The Treasury announced it expects to borrow USD 546bln in Q4, down from the initial Q4 estimate of USD 565bln and above the USD 490bln forecast from Goldman Sachs. Looking ahead, the Treasury announced it expects to borrow USD 823bln in Q1 25, assuming an end-March cash balance of USD 850bln (Goldman expected USD 753bln, based on end-March cash balance of USD 750bln. Attention turns to the refunding announcement on Wednesday, as well as a plethora of key data this week, including NFP, PCE and GDP.

2YR: The US Treasury sold USD 69bln of 2yr notes at a high yield of 4.130%, tailing the when issued by 0.8bps, indicative of a soft auction. The tail was larger than the prior which came in on the screws and not as strong as the six auction average of a 0.4bps stop through. The Bid-to-Cover of 2.50x fell from 2.59x, beneath the 2.65x average. The weak auction saw direct demand rise to 23.84% from the prior and average of 19.7%, although the indirect demand saw a notable drop to 58.23% from 67.6%, well beneath the 67.1% average. The weak indirect demand saw dealers take a chunky 17.93%, well above the prior 12.8% and average 13%.

5YR: Another soft auction from the US ahead of quarterly refunding and key US data. The US Treasury sold USD 70bln of 5yr notes with a high yield of 4.138%, tailing the when issued by 1.6bps; above the six auction average of a 0.5bps tail and vs the prior auction being on the screws. The bid-to-cover of 2.39x was in line with the prior and recent averages, although direct demand fell and indirect demand rose. Dealers were left with 14.17%, in line with recent averages but above the prior 11.5%.

THIS WEEK SUPPLY: US Treasury to sell USD 44bln in 7yr notes on 29th October; to settle on October 31st.

STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: November 24bps (prev. 24bps D/D), December 42bps (prev. 44bps), January 59bps (prev. 61bps).
- US sold USD 79bln of 6-mth bills; high rate 4.325%, B/C 3.25x
- US sold USD 89bln in 3mth bills; high rate 4.490%, B/C 2.90x
- NY Fed RRP op demand at USD 251bln (prev. 227bln) across 67 counterparties (prev. 62)
- SOFR at 4.83% (prev. 4.83%), volumes at USD 2.188tln (prev. 2.246tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 104bln (prev. 98bln).

CRUDE

WTI (Z4) SETTLED USD 4.40 LOWER AT 67.38/BBL; BRENT (F5) SETTLED USD 4.63 LOWER AT 71.42/BBL

The crude complex reopened notably in the red as the Israel response to Iran was deemed 'moderate'. At the open last night WTI and Brent gapped lower before seeing extended selling pressure in the European morning to hit troughs of USD 66.92/bbl and 70.82/bbl, respectively. Thereafter, oil remained under pressure throughout the duration of the session given aforementioned update. Briefly recapping, the retaliation was deemed as relatively moderate as Israel avoided hitting Iran's energy and nuclear facilities, instead focusing on military targets. As a result, it removed extensive geopolitical risk premia from the energy benchmarks, and broader market sentiment was largely based of geopolitics, ahead of a deluge of risk events throughout the duration of this week, and next. In addition, following the retaliation, according to Al Jazeera, parties concerned (re. Israel) are looking into the possibility of resuming negotiations and meeting technical teams within days, with Israel PM Netanyahu later noting that the Mossad head has returned from Doha meetings on Gaza and mediators will continue talks in coming days with Hamas to see if it is possible to advance the deal. However, a Senior member of the Gaza abductees' deal negotiating team resigned due to lack of progress on the deal, according to Israel Broadcasting Corporation cited by Sky News Arabia.

EQUITIES

CLOSES: SPX +0.27% at 5,824, NDX unch. at 20,351, DJIA +0.65% at 42,388, RUT +1.63% at 2,244.

SECTORS: Financials +1.14%, Materials +0.80%, Utilities +0.79%, Communication Services +0.70%, Industrials +0.27%, Real Estate +0.28%, Health +0.13%, Consumer Discretionary +0.12%, Consumer Staples +0.11%, Technology -0.07%, Energy -0.65%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.56% at 4,971, DAX +0.34% at 19,530, CAC 40 +0.79% at 7,557, FTSE 100 +0.45% at 8,286, SMI +0.51% at 12,246, FTSE MIB +0.69% at 35,016, IBEX 35 +0.77% at 11,904, PSI -0.88% at 6,456, AEX -0.22% at 897

STOCK SPECIFICS:

- **TSMC (TSM):** Halted shipments to Sophgo after a chip it produced was discovered in a Huawei AI processor, the Ascend 910B. Separately, TSMC founder Morris Chang warned that the Co. is facing its "most severe" challenges due to US restrictions on chip exports to China, Bloomberg reported.
- **Intel (INTC):** Plans to expand its Chengdu, Sichuan facility with new server chip packaging and testing services, according to DigiTimes Asia.
- **ON Semiconductor (ON):** Beat on EPS and revenue with guidance in line. However, said that sell-through outside of China is expected below forecast in H2.
- **Google (GOOGL):** Plans to release its Gemini 2.0 AI model in December, aligning with OpenAI's anticipated launch of its next flagship model.
- **McDonald's (MCD):** Will resume Quarter Pounder sales after tests confirmed the patties were not linked to a multi-state E. coli outbreak, Axios reported.
- **Boeing (BA):** Plans to raise over USD 15bln, potentially starting Monday, to enhance liquidity and avoid a credit downgrade, Bloomberg reports. Boeing could increase the amount depending on investor demand, the report added. Note, Boeing (BA) then confirmed it is to offer 90mln shares of common stock and USD 5bln of depositary shares.
- **Energy Stocks (XLE, CVX, XOM):** Energy names are trading lower as oil prices tumbled in response to the limited response from Israel on Iran, where the attack only focused on military targets, avoiding oil and nuclear facilities. Airlines and Cruise lines are performing well on the lower oil costs.
- **Robinhood (HOOD):** Announced the launch of the US presidential election event contracts, enabling customers to trade based on their prediction for the tightly contested race between Democratic Presidential Nominee Harris and Republican Presidential Nominee Trump.
- **Corning (GLW):** AT&T (T) announces USD 1bln fibre deal with Corning.
- **Meta (META):** Co. reportedly develops AI search engine to lessen reliance on Google (GOOGL) and Microsoft (MSFT), according to The Information.
- **Rapid7 (RPD):** Reportedly exploring takeover interest from buyout firms including Advent, Bain, and EQT, according to Reuters sources.

US FX WRAP

The Dollar was marginally weaker, albeit mixed against peers, in a relatively quiet day of newsflow ahead of a couple of weeks which sees numerous notable events namely JOLTS (Tues), QRA/ US GDP Advance Q3 (Wed), PCE (Thurs), and NFP (Fri) as well as a deluge of pivotal earnings (GOOGL, AAPL, AMZN, META, INTC) and then the US election and Fed the week after. Regarding the newsflow to start the week, the highlight was undoubtedly the Israel response to Iran over the weekend which was deemed as 'moderate' and not very escalatory which provided the sentiment of Monday trade. On the Treasury Financing estimates, ahead of QRA on Wednesday, US Treasury expects to borrow USD 546bln (prev. 740bln Q/Q) in Q4, assuming end of December cash balance of USD 700bln (prev. USD 850bln Q/Q), whereby the borrowing estimate is USD 19bln lower than the Q4 estimate announced in July 2024.

G10 FX was mixed. EUR, CHF, and GBP all eked out slight gains, while NZD and CAD were flat, with AUD and JPY seeing losses with the latter notably underperforming. The Yen was the clear G10 underperformer as it was weighed on by the Japanese election over the weekend which saw the ruling coalition lose its parliamentary majority. USD/JPY hit a high of 153.87, a level not seen since late July.

For the three gainers there was little currency-specific newsflow, with Pound watchers awaiting the UK Budget on Wednesday ([Newsquawk preview available here](#)), while for the Euro, in a day of little ECB speak, participants will be awaiting the weeks data with EZ GDP metrics on Wednesday expected to underline the bloc's weak growth prospects, whilst inflation data the following day is expected to see headline HICP remain below 2%.

Antipodeans were mixed, with the Aussie underperforming its Kiwi counterpart. Overnight, AUD/USD printed a multi-month low while NZD/USD remained stuck on a 0.59 handle and in thin ranges, despite the cross also printing a multi-month low at 0.5957. CAD was flat despite the tumbling oil prices after the aforementioned Middle Eastern update.

EMFX was mixed. ZAR, MXN, COP saw losses, while CLP gained, and BRL was flat. Ahead, attention will be on the US election as a Trump win, which seems ever more likely, would be bearish for EMs, whereas they would likely fare much better from a Harris win. For the Brazilian Real, according to O Globo sources, Brazil's Finance Minister Haddad is set to meet with President Lula shortly to discuss spending cuts and the technical team from the Ministry of Finance has been working hard to present a series of measures, which will be reviewed by President Lula before being submitted to the National Congress. The economic team is preparing a spending review package aimed at cutting BRL 30-50bln in expenses.

Copyright © 2024 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

Copyright © {{ copyright-year }} Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com