US Market Wrap - 30th October 2024

Stocks hit in midst of earnings season as Tech underperforms

- **SNAPSHOT**: Equities down, Treasuries flatten, Crude up, Dollar down
- **REAR VIEW**: Hot ADP; Gilts tumble after UK budget; Stellar GOOGL earnings; Soft AMD guidance; LLY tumbles on revenue miss; EY sent resignation letter to SMCI; Q3 GDP shy of forecast, but Core PCE above; Hot German CPI; Mixed Aussie CPI figures; OPEC+ could delay planned output hike for December; Surprise EIA crude draw.
- **COMING UP**: **Data:** Chinese NBS PMIs, German Retail Sales, EZ CPI, US Challenger Layoffs, PCE (Sept), Initial Jobless Claims, Employment Costs, Canadian GDP, NZ HLFS Jobs. **Events:** BoJ Policy Announcement. **Speakers:** BoJ Governor Ueda; BoE's Breeden. **Supply:** UK. **Earnings:** MRK, UBER, CMCSA, MA, AMZN, INTC, AAPL. To download the full report, please click here.

MARKET WRAP

Stocks ultimately closed in the red but the NDX was the clear laggard as weakness in semis post-AMD (AMD) earnings offset strong Google (GOOGL) earnings. Semis were also hit after Ernst & Young announced it sent a letter of resignation to Super Micro (SMCI), which saw the stock plummet, weighing on Nvidia (NVDA). Elsewhere, highlights included a huge miss in Eli-Lilly (LLY) earnings with weight loss drugs missing estimates, sending the stock down by over 6% by session end. Meanwhile, on a more macro footing, US data was mixed, the ADP saw a huge beat - but some analysts are sceptical to revise their NFP forecasts due to the lack of correlation between the two, while Q3 GDP rose by 2.8%, beneath the 3.0% forecast and prior, but in line with the Atlanta Fed tracking estimate. The Q3 Core PCE rose by 2.2%, above the 2.1% forecast but down from the prior 2.8%. Aside from data, the focus laid on the UK budget, which when fully digested saw Gilts tumble on the inflationary prospects of the budget and heavy supply forecasts (more below). The downside in Gilts weighed on T-notes with the curve ultimately flattening while the 10yr settled flat. Crude prices settled in the Green, supported by a surprise draw in the US inventory data. In FX, the Euro was bid after hot German inflation numbers while GBP was ultimately sold in the aftermath of the budget; Yen was flat ahead of the BoJ overnight.

US

ADP: The ADP's gauge of national employment surprised to the upside in October, printing 233k (beating expectations of 114k); the median change in annual pay for job-stayers eased to 4.6% Y/Y (prev. 4.7%), while the change for job-changers fell to 6.2% Y/Y (prev. 6.6%); ADP's chief economist said that "even amid hurricane recovery, job growth was strong in October," adding that "as we round out the year, hiring in the US is proving to be robust and broadly resilient.". Note, ahead of the October NFP on Friday, Pantheon Macroeconomics stated there is no need to adjust their NFP forecast, given the poor track record of the ADP being able to forecast NFP.

US GDP: Advanced GDP data showed the US economy growing 2.8% in Q3, short of the street consensus of 3.0%, but in line with the Atlanta Fed's GDPnow tracking estimate. GDP sales rose to 3.0% from 1.9%; consumer spending picked up to 3.7% from 2.8%; the deflator rose 1.8% (exp. 2.0%; prev. 2.5%), while core PCE prices rose to 2.2% in the quarter (exp. 2.1%; prev. 2.8%). "Despite earlier fears that the US economy was headed for recession, growth continued to out-perform other DMs," Capital Economics writes. However, it notes that while consumption growth accelerated, real personal disposable income increased by a more modest 1.6%. "Normally, we would suggest the latter means the former can't be sustained, but most recently there has been a pattern of income growth being revised up markedly." It adds that overall, the economy appears to be doing "just fine." In terms of the implications for Fed policy, Pantheon Macroeconomics say the solid Q3 data still won't prevent the Fed from cutting rates further next week (money markets are assigning a 95% probability of a 25bps rate cut at the November 7th confab). Pantheon says that the 2.2% increase in the core PCE deflator in Q3 implies a 0.34% M/M increase in September, assuming no revisions to July and August. "That suggests a slight upside risk to our forecast of 0.26%, but we suspect that much of the gap between the latest monthly and quarterly numbers will be bridged by small upward revisions to the earlier months' data." Pantheon says the bigger picture is that underlying inflation is essentially back to the Fed's 2%, with the far stronger prints in the first half of this year looking increasingly like a blip rather than anything more fundamental, and it expects core inflation to remain in check for the foreseeable future. "With the underlying inflation backdrop looking far more reassuring another strong quarter of growth in Q3 is no barrier to the Fed easing by 25bps next week, not least because the GDP numbers are subject to big - and endless - revisions, and job growth is trending downwards, September's strong print aside." In fact, Pantheon thinks that a clearer deterioration in the growth and labour market in the coming months will encourage the Fed to move more forcefully.

PENDING HOMES: US Pending Home sales rose by 7.4%, above the consensus rise of 1.0% and above the top end of analyst forecast ranges, which saw the highest estimate of 6.0%. The 7.4% rise took the index to 75.8 from 70.6, the highest level since March. Pending sales climbed in all four major US regions, led by the West, while Y/Y contract signings grew in the Northeast and West but were unchanged in the Midwest and South. The NAR Chief Economist Yun stated that M/M "Contract signings rose across all regions of the country as buyers took advantage of the combination of lower mortgage rates in late summer and more inventory choices," noting that "Further gains are expected if the economy continues to add jobs, inventory levels grow, and mortgage rates hold steady." The report also highlights that the Chief Economist expects the median existing-home price will rise to USD 410,700 in 2025 and to USD 420,000 in 2026, meanwhile, the annual 30-year fixed mortgage rate will slide to 5.9% in 2025 but then move higher to 6.1% in 2026.

UK

UK BUDGET: Chancellor Reeves outlined a larger-than-expected headline tax measure which is largely at the function of a hefty change to employer NI levels. Furthermore, Reeves changed the fiscal rules largely as expected. Within the budget, updates around draught beer, soft drinks, vaping, housing and retail/leisure property rates sparked some action in respective stocks. As a whole, the OBR assessed the budget as favourable for near-term growth but then largely unchanged from the prior views towards the end of the forecast period. From this, it is worth cautioning that the time-lag of Labour investment measures might mean that while the budget is medium/long-term expansionary, the benefit of this hasn't been realised in the forecast period. The modest 5yr growth assessment is likely the primary factor behind Reeves having headroom of just GBP 15.7bln under her borrowing rule. Furthermore, the "golden rule" has headroom of just GBP 9.9bln, a figure which is near to the "historically small" figure at the Spring budget and could be subject to a downward-revision, or possible removal, on any negative update/shock to the Treasury's revenue generation. For the full analysis piece, please click here.

FIXED INCOME

T-NOTE FUTURES (Z5) SETTLED 1+ TICKS HIGHER AT 110-22+

T-notes flatten on mixed data, refunding and UK budget; Gilt collapse weighs. At settlement, 2s +4.3bps at 4.162%, 3s +5.6bps at 4.130%, 5s +3.7bps at 4.141%, 7s +2.2bps at 4.204%, 10s +0.6bps at 4.280%, 20s -1.4bps at 4.607%, 30s -2.4bps at 4.495%

INFLATION BREAKEVENS: 5yr BEI +3.6bps at 2.499%, 10yr BEI +2.5bps at 2.334%, 30yr BEI +2.1bps at 2.335%.

THE DAY: T-notes meandered overnight before catching a slight bid once European trade got underway before tumbling on the much hotter-than-expected ADP print. The ADP print came in above all analyst forecasts, however, analysts were sceptical about adjusting their NFP forecasts in the wake of the data given the lack of correlation between the two. T-notes saw two-way price action in response to the Quarterly GDP report which missed on the headline while Core PCE was a touch hotter than expected. At the same time, the latest quarterly refunding announcement was released and was largely as expected with expected auction sizes left unchanged. The Treasury also maintained its language that it does not expect to need to increase nominal coupon or FRN auction sizes for at least the next several quarters. T-notes bottomed out at 110-22 at the time of the data and refunding, before paring to a peak of 111-06. However, the gains were shortlived as once the UK budget was digested and Gilts started to tumble. The UK Chancellor announced tax hikes in the UK of GBP 40bln, focussing on businesses. The OBR release also noted that borrowing will increase by an average of GBP 32.3bln over the next five years, while it assessed it will increase UK interest and gilt rates by 0.25%. It also suggested that firms will be passing on 60% of the hefty NI costs via lower wages and higher prices. The increased borrowing forecasts and inflationary commentary saw Gilts tumble from 96.40 to a low of 94.33, which took T-notes down with them, falling back to the earlier lows, settling just above them as attention turns to Monthly PCE on Thursday and NFP on Friday.

STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: November 23bps (prev. 24bps D/D), December 43bps (prev. 43bps), January 58bps (prev. 60bps).
- US sold USD 64bln in 17wk bills at a high rate of 4.430%, B/C 2.99x.
- NY Fed RRP op demand at USD 229bln (prev. 245bln) across counterparties 54 (prev. 58).
- SOFR at 4.82% (prev. 4.82%), volumes at USD 2.116tln (prev. 2.194tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 100bln (prev. 99bln).

CRUDE

WTI (Z4) SETTLED USD 1.40 HIGHER AT 68.61/BBL; BRENT (F5) SETTLED 1.43 HIGHER AT 72.16/BBL

The crude complex was firmer amid a couple of bullish catalysts, mainly OPEC+ sources noting the group could delay the planned oil output hike scheduled for December by one month or more. In addition to this, WTI and Brent were further buoyed by weekly EIA inventory data after a surprise crude draw as well as gasoline stocks unexpectedly drawing, both in fitting with the private data last night. Note, Distillates drew less than expected while crude production was unchanged at 13.5mln. There was little new by way of Middle Eastern updates, with the most apparent update coming in the APAC session whereby Axios citing Israeli officials noted Hezbollah is ready to distance itself from Hamas in Gaza and the IDF is close to ending ground operation in villages in Lebanon that border with Israel. Nonetheless, despite the aforementioned bullish impulses WTI and Brent came off highs throughout the latter end of the US session. For the record, WTI and Brent saw highs of USD 69.14/bbl and 72.66/bbl, respectively, against earlier troughs of 67.28 and 70.71. Looking ahead, the risk events continue to come thick and fast with mega-cap earnings (AAPL, AMZN, MSFT), Core PCE (Thurs), ISM Mfg. and NFP (Fri).

EQUITIES

CLOSES: SPX -0.33% at 5,814, NDX -0.79% at 20,388, DJIA -0.22% at 42,142, RUT -0.23% at 2,233

SECTORS: Technology -1.34%, Consumer Staples -0.26%, Utilities -0.24%, Health -0.19%, Industrials -0.19%, Consumer Discretionary +0.01%, Energy +0.04%, Materials +0.37%, Real Estate +0.39%, Financials +0.42%, Communication Services +0.99%.

EUROPEAN CLOSES: DAX: -1.09% at 19,267, FTSE 100: -0.73% at 8,160, CAC 40: -1.10% at 7,428, Euro Stoxx 50: -1.31% at 4,885, AEX: -1.49% at 881, IBEX 35: -0.68% at 11,715, FTSE MIB: -1.21% at 34,503, SMI: -1.14% at 11,964, PSI: -0.73% at 6,392.

STOCK SPECIFICS

- **Alphabet (GOOG):** Adj. EPS, revenue, and ad revenue beat expectations. CapEx expected to remain stable in Q4.
- **Advanced Micro Devices (AMD):** EPS and revenue held up, but Q4 revenue guidance missed.
- **Eli Lilly (LLY):** Profit and revenue missed expectations, particularly for Zepbound and Mounjaro; CEO notes demand for Zepbound remains strong.
- **Humana (HUM):** FY EPS view below Street consensus.
- **Visa (V):** Beat on top and bottom line; raised dividend by 13% to USD 0.59/shr.
- **Chipotle Mexican Grill (CMG):** Revenue and Q3 comp sales missed expectations.
- **Reddit (RDDT):** Unexpected profit for the quarter; revenue beat expectations and guidance impressed.
- **Snap (SNAP):** EPS and revenue above expectations; announced $500mln stock repurchase program.
- **Caterpillar (CAT):** Bottom line underwhelmed; lowered Q4 sales and revenue guidance.
- **Chubb (CB):** Q3 core operating EPS beat; net premiums written missed.
- **Automatic Data Processing (ADP):** Adj. EPS and revenue surpassed Street consensus.
- **Super Micro Computer (SMCI):** Ernst & Young sent a letter of resignation to the company.
- **ConocoPhillips (COP)** - Reportedly exploring sale of Permian shale assets worth over USD 1bln, according to Reuters citing sources.

US FX WRAP

The dollar index fell for its third consecutive day, heading into overnight trade at the very low end of the 104 mark, as Euro strength (explained below) dominated price action. Overall, US data was mixed, with ADP National Employment surging above the consensus, +233k (exp. 114k), Core PCE Prices rising 2.2% (exp. 2.1%), and Q3 Advance US GDP slightly below the consensus. That said, the US data sparked a little reaction in the buck, as participants continued to refrain from using the ADP figure as a gauge for the upcoming NFP report on Friday, (exp. +113k). October's ISM figures will also be awaited on Friday, but until then, weekly claims data, particularly Core PCE M/M (Sept, exp. 0.3%) will be watched.

The Euro strengthened against the buck, supported by a series of hot data out of Europe, namely, hot German and Spanish CPI, Germany and EZ Flash GDP figures for Q3 growing more than expected (Q/Q & Y/Y). Elsewhere, Eurozone Services Sentiment in October beat expectations, while Industrial and Economic Sentiment fell short. Meanwhile, appearances were seen from ECB's Schnabel, Villeroy, and Nagel, with the former, noting that there is no need to go below neutral and that they should expect more frequent supply-side shocks, resulting in inflation impacts. Next for the Euro is Flash EZ HICP and Unemployment figures on Thursday, with EUR/USD sitting just under its 200 DMA (1.0868).

The pound headed into the unveiling of the new UK's Labour budget as the clear underperformer in the G10 space, wiping out Tuesday's lows, and bottoming eventually at 1.2938 as the announcement got underway but the cross managed to grind higher as the budget was presented. The budget is to raise taxes by GBP 40bln (exp. 35-50bln) and the new target for public debt will be based on Public Sector Net Financial Liabilities (PSNFL), a rule now on a 3yr rolling basis (prev. 5yr). Nonetheless, there was notable weakness in Gilts after the OBR assessed the budget will increase UK interest and gilt rates by 0.25% and that firms will be passing on 60% of the hefty NI costs via lower wages, and as such, higher prices for the BoE. The Pound then saw two-way price action at the time but ultimately underperformed in G10 FX while Gilt yields rallied. Note, Cable is currently beneath its 100 DMA (1.2974) ahead of APAC trade. Pantheon Macroeconomics remarked, "Substantial extra upfront expenditure and looming jump in businesses' labour costs, will compel the MPC to ease slowly".

Havens and Antipodes all gained on session relative to the buck, as Aussie led the charge, despite cooler-than-expected Aussie CPI figures, although, RBA's quarterly CPI metrics (Trimmed and Weighted) were hotter, as well as, the Weighted Median Y/Y (Q3). Moreover, AUD/USD hit fresh multi-month lows overnight (0.6538), with an RSI of 30 approaching, which too was perhaps behind the pair's rebound. Meanwhile, SNB's Chairman Schlegel says the CHF is a safe haven, which appreciates in times of uncertainty and is ready to react to pressure and intervene in FX markets; USD/CHF sits below its 100 DMA (0.8681), while USD/JPY hovers around bottom end of the 153 handle ahead of the BoJ's rate decision, where the central bank is expected to hold rates steady at 0.25% (money markets price ~ 91% chance of a hold).

EMFX was pressured by the buck in a downbeat risk environment. For Brazil, NFP increased by 248k in September, above the expected 229k, and the IGP-M Inflation Index (Oct) was slightly hotter, helping the BRL outperform its LatAm peers, albeit, USD/BRL heads into the overnight close flat. Elsewhere, Rand's weakness appeared after the South African Treasury raised the 2024/2025 consolidated budget deficit view to 5% from 4.5% and gross debt is now seen stabilising at 75.5% of GDP in 2025/26 (prev. 75.3%). Growth forecasts were also lowered for 2024 but raised in 2025.