US Market Wrap - 31st October 2024

Stocks hit by tech, Crude soars on geopols, while Bonds sell off continues

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar down.
- **REAR VIEW**: US PCE broadly in line, but Core Y/Y slightly above; US initial jobless claims falls below forecast range; Israeli intelligence points at an Iran attack from Iraq in the coming days; MSFT & META fall after earnings; EZ unemployment rate ticks lower & CPI above expectations; OpenAI adds search to ChatGPT; Continued fallout from UK budget; Hawkishly-perceived Ueda press conference; Employment costs increase at smallest increment since Q2 2021; Chicago PMI plummets.
- **COMING UP**: **Data:** Australian PPI, Swiss CPI, US NFP, ISM Manufacturing PMI. **Supply:** Australia. **Earnings:** ExxonMobil, Chevron, Ares Management, Dominion Energy, Charter Communications, Imperial Oil, LyondellBasell, Cardinal Health, Cboe Global Markets.

MARKET WRAP

US indices (SPX -1.9%, DJIA -0.90%, RUT -1.6%) saw weakness on Thursday with the tech-heavy Nasdaq 100 (-2.4%) notably lagging and weighed on by losses in mega-cap names Microsoft (MSFT) (-6%) and Meta (META) (-4.1%), post earnings, which has hit the whole sector highlighted by Technology the distinct sectorial underperformer, followed by Consumer Discretionary and Communication Services. Consumer Staples, Energy, and Utilities are the only ones in the green. In FX, the Dollar saw slight weakness with the Yen and the Pound the clear over and underperformers, respectively, against the Buck. The Yen was supported following BoJ Governor Ueda's hawkishly-perceived press conference in the wake of the BoJ rate decision, while Sterling continues to be hit by post-UK budget fallout. On this, concerns have been stoked by borrowing forecasts from the OBR which have subsequently seen a surge in UK yields which the Pound has been unable to benefit from due to the fiscal risk premium which now appears to be embedded. As such, Treasuries were lower, albeit settling off the lows, and were largely led by Gilts, although did see two-way action on US data. Recapping the data, initially jobless claims fell below the forecast range, while PCE metrics in September were mostly as expected, except for Core Y/Y which was slightly on the hot side. The crude complex was firmer and benefitted from the initial Dollar weakness and an ever-continuing tense Middle Eastern situation, but soared after settlement on Axios' reports that Israeli intelligence suggests Iran is preparing to attack Israel from Iraqi territory in the coming days, possibly before the US presidential election. Looking ahead, mega-cap earnings from Apple and Amazon after-hours will be very closely watched, ahead of NFP on Friday, then the US election and FOMC next week.

US

PCE: The September PCE was in line with expectations on the headline, rising 0.2% M/M, but accelerating from the prior 0.1% pace. Meanwhile, the Y/Y rose by 2.1%, in line with expectations while the prior was revised up to 2.3% from 2.2%. The core metrics saw a 0.3% rise M/M, in line with forecasts while the prior was revised up to 0.2% from 0.1%, while the Y/Y rose by 2.7%, matching the prior pace but above the 2.6% analyst forecast. The data overall was largely as expected, but the Y/Y core was marginally above expectations. Nonetheless, it will do little to alter the Fed's thought process ahead of next week's meeting, while attention will be turning to the NFP on Friday, albeit it will likely be skewed by recent Hurricanes and strikes at Boeing. Elsewhere in the report, personal income rose by 0.3%, in line with forecasts, picking up from the prior, while adj. consumption rose by 0.5%, above the 0.4% forecast and the prior revised 0.3% (initially 0.2%). On prices, ING highlight that the Fed does not need inflation at 2% Y/Y to allow further cuts, it just has to be confident the M/M rates are on the right path; the desk looks for a 25bps rate cut next week from the Fed, in line with analyst forecasts and market pricing.

JOBLESS CLAIMS: Initial jobless claims (w/e Oct. 26th) tumbled to their lowest since May, printing 216k from 228k, much beneath the expected, 230k, and the bottom end of the forecast range. Note: seasonal factors had expected an increase of 7,292 (3.6%) from the prior week. Given the headline, the 4-week average dipped to 236.5k from 238.75k, meanwhile, continued claims fell to 1.862mln (prev. 1.888mln, exp. 1.885mln). On the headline, Pantheon Macroeconomics note, Hurricanes Helene and Milton and the Boeing strike have distorted the numbers considerably in recent weeks, and the precise impact of these factors is impossible to isolate. Nonetheless, and looking ahead to payrolls on Friday, Pantheon thinks the latest claims numbers support its view that Hurricane Milton will have a relatively small impact on October's nonfarm payrolls. As such, they are assuming a hit to payrolls from Milton of around 25K, but are braced for a surprise, in either direction.

ECI: Employment Costs index rose slightly less than anticipated in Q3 as it printed 0.8% (exp. 0.9%, prev. 0.9%), its lowest increase since Q2 2021. Components, Benefits and wages grew 0.8% for the quarter, with benefits previously rising 1% while wages in Q2 grew by 0.9%. Oxford Economics says wage growth, as measured by the ECI, now falls within the 3.5-4% pace, consistent with the Fed's 2% inflation target, given the stronger productivity trends this cycle. The agency believes the 2024 US election poses an upside risk to wage growth, particularly if Donald Trump is re-elected. Oxford Eco added, under their Trump scenarios, which would involve looser fiscal policy, higher tariffs, and immigration restrictions lift inflation relative to the baseline; adding anywhere between a peak of 0.2ppt to 0.6ppt to their baseline forecast of wage growth during the next four years as workers would need to be compensated for higher inflation.

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLED 7+ TICKS LOWER AT 110-15

Treasuries were lower on Thursday, albeit settling off the lows, and were largely led by Gilts, although did see two-way action on US data. At settlement, 2s +1.2bps at 4.166%, 3s +1.4bps at 4.131%, 5s +2.8bps at 4.153%, 7s +3.2bps at 4.219%, 10s +1.6bps at 4.280%, 20s -0.3bps at 4.591%, 30s -0.9bps at 4.470%.

INFLATION BREAKEVENS: 5yr BEI +0.3bps at 2.510%, 10yr BEI -1.4bps at 2.329%, 30yr BEI -2.5bps at 2.318%.

THE DAY: T-Notes meandered overnight before selling off as the European session got underway with Gilts facing more pressure in the wake of the budget on Wednesday. T-Notes managed to pare some of the morning's downside as attention turned to the US data, which saw Challenger Layoffs report 56k layoffs, down from the prior month's 72k, while PCE was in line with expectations, although core Y/Y was slightly above and Employment Costs were slightly beneath expectations. Jobless Claims, however, saw a notable drop to 116k, the lowest level since May and well beneath the consensus, 230k, prior, 228k, and the lower bound of the forecast range, 220k. The data saw two-way price action but ultimately started to move lower as Gilts saw further pressure, weighing on global fixed income, seeing T-Notes hit lows of

110-04+. T-Notes reversed course into settlement, however, to settle at 110-15, well off the earlier lows. Attention turns to NFP on Friday, as well as key earnings after hours from AMZN and AAPL, before the election and Fed next week.

STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: November 23bps (prev. 23bps D/D), December 43bps (prev. 43bps), January 59bps (prev. 58bps).
- NY Fed RRP op demand at USD 201bln (prev. 229bln) across counterparties 57 (prev. 54).
- US to sell USD 72bln of 26wk bills and USD 81bln of 13-wk bills on 4th November, to sell USD 80bln in 42day CMBs; all to settle November 7th.
- SOFR at 4.81% (prev. 4.82%), volumes at USD 2.045tln (prev. 2.116tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 104bln (prev. 100bln).

CRUDE

WTI (Z4) SETTLED USD 0.65 HIGHER AT USD 69.26/BBL; BRENT (F5) SETTLED USD 0.61 HIGHER AT USD 73.16/BBL

The crude complex was firmer and benefitted from the initial Dollar weakness and an ever-continuing tense Middle Eastern situation. One of the main updates came early in the European session in a since-deleted post on X from Sky Arabia that Tel Aviv is considering launching a large-scale pre-emptive attack against Iran. Since then, the Israeli Military issued a couple of evacuation orders in Lebanon, but conflicting reports have come thereafter. Sky News Arabia, citing CNN, initially said US officials doubt the possibility of reaching a ceasefire before the presidential election, however, Asharq News later reported that an Israeli official told ABC News that there is significant progress towards a ceasefire in Lebanon after several days of meetings. Further, Sky News Arabia citing US Secretary of State Blinken noted 'good progress' towards a ceasefire in Lebanon. Elsewhere, but still regarding the Middle East, Mossad posted on X that "Movement of Ballistic missiles in Iran". On the supply side, Energy Intel's Bakr said, regarding recent OPEC+ source reports, that "they didn’t even talk about this yet". As a reminder, Reuters sources reported on Wednesday that OPEC+ could delay the planned oil output hike scheduled for December by one month or more. Looking ahead, the US payrolls report is the highlight on Friday ahead of the US election and FOMC next week. WTI and Brent hit highs of USD 69.76/bbl and 73.26/bbl early in the US session, before dwindling off them through the afternoon but coming nowhere near the earlier lows in the EZ morning of USD 68.30/bbl and 71.82/bbl.

EQUITIES

CLOSES: SPX -1.86% at 5,705, NDX -2.44% at 19,890, DJIA -0.90% at 41,763, RUT -1.63% at 2,197

SECTORS: Technology -3.57%, Consumer Discretionary -1.81%, Real Estate -1.73%, Communication Services -1.63%, Materials -1.52%, Financials -1.22%, Industrials -1.13%, Health -0.81%, Consumer Staples -0.14%, Energy +0.66%, Utilities +1.04%.

EUROPEAN CLOSES: DAX: -1.03% at 19,059, FTSE 100: -0.61% at 8,110, CAC 40: -1.05% at 7,350, Euro Stoxx 50: -1.28% at 4,823, AEX: -0.80% at 874, IBEX 35: -0.36% at 11,673, FTSE MIB: -0.64% at 34,281, SMI: -1.44% at 11,793, PSI: +2.21% at 6,533.

EARNINGS

- **Microsoft (MSFT):** Next quarter total revenue guidance disappointed investors, despite beating on profit and revenue for the current quarter.
- **Meta Platform (META):** Sold after raising CapEx guidance, and beyond into 2025, even though, EPS and revenue beat in the current quarter.
- **Starbucks (SBUX):** EPS and revenue fell short, although prelim figures were released last week, likely suppressing any downside after today's report.
- **Cigna Corp (CI):** EPS and revenue beat.
- **Merk & Co (MRK):** FY revenue view underwhelmed.
- **Estee Lauder (EL):** Withdrew FY25 outlook and cut its quarterly dividend by 47% to 0.35.
- **Uber Technologies (UBER):** Gross bookings fell short for the quarter, with the next quarter's gross bookings view also disappointing.
- **Mastercard (MA):** Adj. EPS and revenue beat.
- **Comcast (CMCSA):** Top and bottom line surpassed St. consensus.
- **ConocoPhillips (COP):** Adj. EPS exceeded expectations and boosted the share buyback programme by USD 20bln.
- **Bristol-Myers Squibb (BMY):** Profit and revenue beat, with FY profit outlook raised.
- **Altria Group (MO):** Top and bottom line exceeded the consensus.
- **Regeneron Pharmaceutics (REGN):** EYLEA base product sales declined 21%, and reported a lower net selling price for EYLEA compared to Q3 2024, while R&D expenses increased by 18%.
- **Booking Holdings (BKNG):** Beat on the top and bottom lines and raised FY24 guidance for said metrics.
- **Eaton Corporation (ETN):** Revenue missed.
- **Carvana (CVNA):** Current quarter metrics beat analysts' expectations alongside positive guidance.
- **Robinhood (HOOD):** EPS and revenue underwhelmed
- **Coinbase (COIN):** Missed on the top and bottom lines.
- **eBay (EBAY):** Guidance for the next quarter and FY disappointed.
- **OpenAI (MSFT):** Adds search to ChatGPT, challenging **Google (GOOGL),** according to WaPo.

US FX WRAP

The dollar index headed into the overnight trade a touch weaker as Yen strength outweighed weakness in the Pound, leaving the index steady at the low end of the 104 handle. The day saw a mixed bag of US data, in which weekly initially jobless claims fell below the forecast range to 216k (exp. 230k), resulting in downside in short-duration Treasuries, whereas PCE metrics in September were mostly as expected, except for Core Y/Y which was slightly on the hot side at 2.7% (exp. 2.6%). Lastly, the Employment Cost Index rose by 0.8% in Q3, its smallest increase since Q2 2021. Attention for the buck still largely lays on the result of the upcoming US election next Tuesday, but in the meantime, NFP on Friday is a key catalyst, where the US economy is expected to add 133k jobs, and the Unemployment Rate is to stay steady at 4.1%. Moreover, PMI data for October is due from ISM Mfg. and S&P.

G10FX price action was mixed, with strength seen in JPY, CHF, and EUR, while downside was predominately contained in GBP, and NOK, with the remaining constituents flat on the session. Regarding Cable's downside, which involved the pair heading to levels last seen in August, it was seemingly a continuation of participants digesting the recent UK budget on Wednesday, and concerns have been stoked by borrowing forecasts from the OBR which have subsequently seen a surge in UK yields which the Pound has been unable to benefit from due to the fiscal risk premium which now appears to be embedded. Looking ahead, folks at BMO Capital believe that the BoE meeting next week is now more likely to keep rates unchanged, when "considering the composition of the MPC, and the effect the budget measures will have on the

BoE projections and on inflation persistence, we think at least 5 may well vote for an unchanged Bank Rate". For reference money markets put ~80% chance of a 25bps rate cut at the meeting; cable sits off lows of 1.2845, as the 200 DMA (1.2807) lies to the downside.

The Yen was the clear gainer in the G10 space amid the BoJ unanimously keeping the short-term policy rate unchanged at 0.25%, as expected. The move higher however stemmed from remarks made by BoJ's Governor Ueda, who downplayed concerns over financial stability risks acting as an impediment to further policy tightening. The governor noted that uncertainties remain but markets have slowly regained stability (prev. said won't hike when markets are unstable), as such, boosting optimism regarding a future rate hike, leaving USD/JPY at lows of 151.84, with the 200 DMA (151.51) approaching.

EUR/USD extended into a fourth consecutive day of gains, although there was little follow-through from EZ Unemployment Rate which surprisingly ticked lower. Moreover. EZ CPI was above expected, but regional releases had suggested such an outcome. Nonetheless, EUR/USD rose above its 200 DMA (1.0864) but failed to remain above the 21 DMA (1.0881).

In EMFX, BRL saw losses despite the Unemployment Rate for Sept falling unexpectedly while neighbouring COP also lagged. For reference, the Colombian Central Bank cut interest rates by 50bps to 9.75%, a decision backed by a majority of seven board members. For Friday, LatAm FX remains of focus with Industrial data due from Brazil, while September job figures are to be released in Mexico.