newsquawk

US Market Wrap - 13th November 2024

Stocks chop to in-line CPI while bonds steepen as traders boost dovish rate bets

- **SNAPSHOT**: Equities mixed, Treasuries steepen, Crude up, Dollar up
- **REAR VIEW**: In line US CPI; Federal Budget returns to a deficit in October; World oil demand outlook relatively unchanged in EIA STEO, output is seen rising; Fed's Logan says rise in bond yields partly reflects the rise in term premiums; Fed's Musalem says stronger data is likely behind the rise in treasury bonds term premia; Fed's Kashkari notes today's headline inflation, seems to be confirming the path the Fed is on; Israeli Officials say Iran has withdrawn a response due to Trump election; NVDA and SoftBank team up on world's first AI/5G telecom network
- **COMING UP**: **Data:** Australian Jobs, EU Jobs, GDP, US Initial Jobless Claims, US PPI (Final), NZ Manufacturing PMI, Japanese GDP QQ. **Events:** IEA OMR; ECB Minutes. **Speakers:** ECB's Lagarde, de Guindos, Schnabel; Fed's Powell, Barkin, Williams, Kugler; BoE's Bailey, Mann. **Supply:** US. **Earnings:** Siemens, Talanx, Deutsche Telekom, Merck, Swiss Re, Swiss Life, Burberry, B&M European, Disney, Brookfield, Applied Materials, JD.Com, Advanced Auto Parts.

MARKET WRAP

Stocks ultimately closed mixed with marginal upside with little changes in SPX, NDX and DJIA while RUT underperformed. The majority of sectors closed in the green with Consumer Discretionary and Energy outperforming but Communication and Technology lagged, limiting the gains in the broader indices. The focus of the day was on the US CPI data which ultimately was in line with expectations and sparked a dovish reaction due to the lack of upside surprise with traders boosting bets for a 25bps rate cut in December to a 85% probability vs c. 60% pre-release. The initial reaction was to sell the dollar and gold and buy stocks and bonds. The Dollar however swiftly reversed with focus returning to the Trump Trade which took DXY to fresh YTD highs. T-notes had pared in the long-end but the move held in the short-end with the curve notably steeper on the session as traders repriced December rate cut odds. Gold prices continued to sell throughout the session, falling beneath USD 2,600/oz to a low of USD 2,573/oz from a peak of USD 2,618/oz. Elsewhere, oil prices settled marginally higher in choppy trade in response to geopolitics. In FX, the antipodes and Yen underperformed with notable weakness seen once the dust settled from the initial CPI reaction.

US

US CPI: Core CPI in October rose by 0.28%, in line with the expected 0.3% and prior, but slightly down on an unrounded basis from 0.31%. The Y/Y was in line at 3.3%, matching the prior month's pace while the headline figures were also in line with expectations. The headline M/M rose by 0.24%, in line with the 0.2% forecast and prior but slightly up on an unrounded basis from 0.18%. The Y/Y print rose by 2.6%, in line with analyst expectations, up from the prior 2.4%. The data has seen money markets start to price in a December rate cut with greater certainty given the lack of upside releases in the print. There is still another CPI report before the December 18th FOMC, and both reports will be accounted for when the Fed makes their decision. Fed's Kashkari, before the data, said that if inflation between now and the meeting comes in hot, then the Fed can pause, however given this data was in line it has given more certainty to another 25bps rate cut in December. Nonetheless, attention after December will turn to the rate outlook for 2025 with fears of an inflationary impulse seen in response to President-elect Trump's policies (tax cuts, tariffs, increased spending). However, the Fed has said they will not front-run fiscal policy, but Powell did suggest in the Press Conference last week that they would implement policy into economic forecast models and the results would be taken into account. Looking into the report in more detail, Pantheon Macroeconomics highlights "Primary rent rose by 0.30%, slightly below its 0.36% six-month average, but owners' equivalent rent increased by 0.40%. Together, these two components accounted for a hefty 0.15pp of the increase in the core CPI". It also notes a 2.7% jump in used autos was also a main source of upward pressure in Core CPI.

MUSALEM (2025 voter) said the Fed may be on the "last mile" to price stability and inflation is expected to converge to the 2% target over the medium term, thus, in accordance with prior remarks in October, where he expects inflation to hit the target over the next couple quarters. Musalem then went on to say monetary policy is "well positioned" and the Fed can "judiciously and patiently" judge incoming data to decide on further rate cuts. The 2025 voter said recent information "suggests" that the risk of inflation moving higher has risen, after saying in October that upside risks to inflation are still there but risks aren't higher. He added risks to the job market remain unchanged or have even fallen. On the rate outlook, Musalem still won't predict the timing or size of future Fed easing but did say further rate easing is appropriate if inflation continues to fall. In the Q&A thereafter, he said it's hard to derive much signal from most recent jobs reports as the lower number was clouded by the storm and other impacts, albeit, in the text release he noted the labour market remains in the range of full employment. In another set of remarks, Musalem said data since the Fed meeting suggests the economy may be materially stronger than expected and inflation data is also stronger, but he has not yet changed the view that policy is on a path to neutral. Musalem added that stronger data is likely behind the rise in Treasury bonds' term premia. Noting that there is also some sense of higher inflation risk and some sense the Fed may not cut rates as much. He acknowledged the CPI data today was as expected, but would have preferred to see some continued decline on a three-month basis.

SCHMID (2025 voter), in wake of the data, said it remains to be seen how much more the Fed will cut rates, and where they may settle. He noted that rate cuts to date are an "acknowledgement" of growing confidence inflation is on the path to its 2% goal. Hopes that productivity growth can outrun the effects of slowing population growth and rising fiscal deficits. He will also not let enthusiasm over rising productivity get ahead of data or commitment to reaching the Fed's goals.

LOGAN (2026 voter), in a speech written before the inflation data, stated the Fed will "most likely" need more interest rate cuts, but should proceed cautiously. She said it is difficult to know how many rate cuts may be needed and how soon they need to happen. Models show that the FFR could be very close to neutral. The Dallas Fed president said that if Fed cuts too far, past neutral level, inflation could reaccelerate. She acknowledged the Fed has made a great deal of progress bringing down inflation and restoring balance to the economy, noting US economic activity is resilient. She added the Fed is not quite back to price stability yet, while the labour market is cooling gradually but not weakening materially. Sees upside risks to inflation and downside risks to employment, says financial conditions pose biggest potential challenges for monetary policy. On the recent rise in bond yields, she said it in part reflects a rise in term premiums, but if the rise continues, the Fed may need less restrictive policy.

KASHKARI (2026 voter), speaking after the US inflation data said that today's inflation data, on the headline level, seems to be confirming the path the Fed is on, and right now, "think inflation is heading in the right direction and have confidence on that". Furthermore, the

Minneapolis President is not ready to say that inflation is stuck above 2%, and if inflation is heading in the correct direction fast enough, stated "we will see". On the labour market, thinks it is currently in a good place, and said it is strong and healthy, and wants to keep it this way. Speaking of December and the Fed neutral rate, said it is still around six-weeks until the next Fed, with more data to come, and there is tremendous uncertainty on the neutral rate.

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLED UNCHANGED AT AT 109-13+

T-notes steepen in reaction to inline CPI which sees traders boost 25bps rate cut bets for December. At settlement, 2s -6.0bps at 4.284%, 3s -4.2bps at 4.264%, 5s -1.2bps at 4.303%, 7s +0.1bps at 4.382%, 10s +2.0bps at 4.453%, 20s +4.0bps at 4.738%, 30s +6.2bps at 4.639%.

INFLATION BREAKEVENS: 5yr BEI -1.1bps at 2.423%, 10yr BEI -0.6bps at 2.362%, 30yr BEI +0.3bps at 2.327%.

THE DAY: T-notes steepened on Wednesday in wake of the US CPI data which ultimately was in line with expectations. The initial reaction was a dovish one with upside seen across the curve due to the lack of upside surprises. T-notes rose from c. 109-13 to a peak of 109-30+ in wake of the data before paring thereafter. Nonetheless, the front end of the curve remained bid as traders increased their bets for a 25bps rate cut in December with odds now at 85% from c. 60% pre-release. Several Fed speakers followed CPI; Kashkari noted level of the headline inflation level seems to be confirming the path that the Fed is on and he has confidence in that. Musalem spoke several times, noting data since the last Fed meeting suggests the economy may be materially stronger than expected and inflation data is also stronger, but he has not yet changed his view that policy is on a path to neutral. Logan's remarks were written before the inflation data, but acknowledged the rise in bond yields in part reflects the rise in term premiums, adding if the rise continues, the Fed may need a less restrictive policy. Musalem suggested that stronger data is likely behind the rise in treasury bonds' term premia. Schmid said it remains to be seen how much more the Fed will cut rates and where they may settle. T-notes had pared back to pre-CPI levels by settlement but the curve remained steeper with 2s10s widening 8bps by settlement.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: December 21bps (prev. 20bps), January 30bps (prev. 28bps), March 44bps (prev. 41bps).**
- US sold USD 64bln of 17-wk bills at 4.370%, covered 3.15x
- NY Fed RRP op demand at USD 238bln (prev. 164bln) across 66 counterparties (prev. 56).
- SOFR at 4.60% (prev. 4.60%), volumes at USD 2.298tln (prev. 2.184tln).
- EFFR at 4.58% (prev. 4.58%), volumes at USD 101bln (prev. 103bln).

CRUDE

WTI (Z4) SETTLED USD 0.31 HIGHER AT 68.43/BBL; BRENT (F5) SETTLED USD 0.39 HIGHER AT USD 72.28/BBL

The crude complex was choppy on Wednesday, as conflicting Middle East reports sparked oil to lows, and then later highs. Highlighting this, in the European morning oil saw some weakness following Iranian sources via Sky News Arabia that Iran postpones the implementation of the "Operation Honest Promise 3" operation against Israel after Trump's victory. Thereafter, WTI and Brent trundled to session lows of USD 66.94/bbl and 70.72/bbl, respectively, before rebounding to highs later in the session after Israel's defence Minister Katz stated no ceasefire and no arrangement in Lebanon that does not include Israel's right to enforce and act on its own against Hezbollah.

Elsewhere, the monthly EIA STEO saw 2024 world crude oil output marginally lift to 102.6mln BPD (prev. 102.5mln), with 2025 output seen at 104.7mln BPD (prev. 104.5mln). Regarding demand, 2024 world oil demand seen at 103.1mln BPD (prev. 103.1mln BPD), and 2025 demand of 104.4mln BPD (prev. 104.3mln). Ahead, the weekly private inventory data is after-hours, which has been delayed by a day on account of Veteran's Day on Monday. Current expectations are (bbls): Crude (exp. +0.1mln), Gasoline (exp. +0.6mln), Distillate (exp. 0.2mln).

EQUITIES

CLOSES: SPX +0.02% at 5,985, NDX -0.16% at 21,036, DJIA +0.11% at 43,958, RUT -0.94% at 2,369

SECTORS: Communication Services -0.57%, Technology -0.31%, Health -0.3%, Utilities -0.24%, Financials +0.06%, Materials +0.2%, Industrials +0.21%, Consumer Staples +0.28%, Real Estate +0.73%, Energy +0.84%, Consumer Discretionary +1.14%.

EUROPEAN CLOSES: DAX: -0.30% at 18,977, FTSE 100: +0.06% at 8,030, CAC 40: -0.14% at 7,217, Euro Stoxx 50: -0.10% at 4,740, AEX: -0.26% at 863, IBEX 35: -0.05% at 11,377, FTSE MIB: +0.30% at 33,708, SMI: -0.20% at 11,689, PSI: -0.60% at 6,295.

EARNINGS

- **Spotify Technology (SPOT):** Q4 profit guidance topped expectations with Q3 MAU slightly above forecasts.
- **Occidental Petroleum (OXY):** Adj. EPS beat with Q4 total production guidance above the St. consensus.
- **Rocket Lab (RKLB):** Slightly shallower loss per share than expected and revenue beat, alongside next quarter revenue guide better than forecasted.
- **Skyworks Solution (SWKS):** Next quarter outlook disappointed.

STOCK SPECIFICS

- **Nvidia (NVDA):** CEO Huang announced that NVDA and SoftBank have piloted the world's first combined AI and 5G telecom network.
- **Super Micro Computer (SMCI):** Delays filing of September-quarter financial report.
- **Rivian Automotive (RIVN):** Agreed with Volkswagen (VOW3 GY) to create a new joint venture and VW raises investment to USD 5.8bln.
- **Spirit Airlines (SAVE):** Filed for a non-timely 10-Q with the SEC and WSJ says it could file for bankruptcy within weeks.
- **Amgen (AMGN):** Phase 1 study results showed no bone safety concern for Maritide; to share Phase 2 topline data later this year. Note, this comes after negative reports regarding the trial on Tuesday.
- **Starbucks (SBUX):** Downgraded to 'Sell' from 'Neutral' at Redburn Atlantic with a PT of USD 77 (prev. 84); said there is little room for error with shares trading above a 20yr average valuation multiple.
- **AMD (AMD):** Is to lay off 4% of its workforce, via CRN; measure is part of an AI chip push.
- **VF Corp (VFC):** Cut to junk by S&P.
- **Meta (META):** To launch ads on threads in early 2025, according to The Information.

- **Zeta Global Holdings (ZETA):** CulperResearch says they are short on the Co.
- Activist Investor Nelson Peltz said **Disney (DIS)** will get a "respectable CEO" with former **Morgan Stanley (MS)** CEO Gorman spearheading search to find successor for Bob Iger, via CNBC conference.
- **Cannabis names:** Trump picks Matt Gaetz who is "pro-weed" to serve as Attorney General.

US FX WRAP

The dollar initially saw weakness upon the October CPI report which saw all metrics in line with expectations, with the DXY troughing at 105.71. Moreover, Fed pricing saw odds of a December 25bps rate cut rise to ~ 85% from 60% pre-data. Regardless, dollar strength picked up at the US cash open as a continuation of a trump trade seems to offer recent data implications. Meanwhile, the day saw a series of remarks from Fed members. Fed's Logan (2026 Voter) said it is difficult to know how many rate cuts may be needed and how soon they need to happen, and the rise in bond yields in part reflects a rise in term premiums. "If the rise continues, Fed may need less restrictive policy". On the inflation report, said the headline level seems to be confirming the path the Fed is on, "thinks inflation is heading in the right direction and have confidence on that". Elsewhere, the latest US Federal Budget surged to a deficit of USD 257bln (prev. surplus of USD 64bln), driven by one-off factors and calendar adjustments in benefit payments, where excluding these components, left the budget at a deficit of USD 47bln. With the DXY setting a fresh YTD high of 106.53, 2023's high of 107.34 lies ahead as a key level to test, as another set of Fed members are to give remarks on Thursday with PPI (Oct) in the background.

The GBP and EUR both saw a fourth straight day of losses against the dollar, as continued buck strength took the reins, while EUR/GBP pared some of Tuesday's gains. Both currencies saw remarks from their respective central bank members, with BoE's Mann noting headline CPI is "not telling us whether underlying inflation dynamics have been vanquished". Mann who is known for her hawkish stance, refrained from voicing on any inflationary impact from the recently unveiled Labour budget, although, she noted she's ready to cut rates in bigger steps when inflation risks have gone; Cable for a brief spell dipped below 1.27 to lows of 1.2687, before attempting to climb back above the round level. Meanwhile, ECB's Villeroy said he expects mores more rate cuts, and expects the French Unemployment Rate to increase to ~8% before easing back down to 7% (Q3 French Unemployment Rate 7.4% (exp. 7.4%, prev. 7.3%)). Concerns over the US election result were noted by the ECB members, with Nagel saying Trump's proposed tariffs could cost Germany 1% in economic output, while Villeroy said the US election result risks lifting inflation.

Antipodes were the worst performers in the G10 space amid the combination of buck strength and a lack of revival in optimism surrounding the China stimulus. The overnight Australian Wage Price Index for Q3 was slightly cooler than expected, on the yearly and quarterly gauges, further weighing on the Aussie, leaving it at fresh quarterly lows of 0.6481. Elsewhere, USD/CNH gained modestly, despite earlier induced weakness from the PBoC which set the midpoint of USD/CNY at 7.1991 (exp. 7.2305, prev. 7.1927).

In EMFX, better-than-expected Brazilian Service Sector growth in September did little to help the BRL, as the trump trade hurts the Real, which previously performed poorly under Trump's 1st term. On the upcoming fiscal package, Finance Minister Haddad said he's not sure if there is enough time to announce it this week, but will announce it once President Lula gives authorisation. Lastly, the MXN outperformed in the EM space ahead of the widely expected 25bps rate cut decision to 10.25% from Banxico on Thursday, with only one analyst surveyed expecting the central bank to hold rates.