newsquawk

US Market Wrap - 14th November 2024

Dollar bid as Treasuries and Equities see selling on hawkish Powell

- **SNAPSHOT**: Equities down, Treasuries flatten, Crude up, Dollar up.
- **REAR VIEW**: Hawkish Powell; Hotter-than-expected Y/Y PPI figures, Initial Jobless Claims surprisingly falls; Larger EIA crude build than forecasted; Iranian Foreign Minister said Iran is ready to negotiate; Banxico cuts rates by 25bps, as expected; Australian Employment short of forecasts; ASML maintains 2030 sales outlook; Trump plans to kill consumer tax credit for EVs; US regulators plans to investigate MSFT Cloud Business; Trump picks RFK Jr. to lead HHS.
- **COMING UP**: **Data:** Chinese Retail Sales, House Prices, Unemployment Rate; German Wholesale Price; UK GDP, Services, US Retail Sales, Capacity Utilisation. **Events:** BoC SLOS. **Speakers:** ECB's Lane, Cipollone; Fed's Collins, Williams. **Supply:** Australia, Japan. **Earnings:** BAE Systems, Alibaba

MARKET WRAP

US indices were lower on Thursday, as were all sectors, aside from Energy and Technology, with Chair Powell prompting a broad-based hawkish reaction after he remarked that the economy is not sending signals that the Fed needs to be in a hurry to lower interest rates and that the economic strength gives the Fed the ability to approach its decisions carefully. As such, Dollar strength, as well as equity and Treasury weakness was seen, especially in the short-end of the curve, with money markets now pricing in a circa 60% chance of a 25bps in December versus 80% pre-Powell. Further within the remarks, the Chair noted that total personal consumption expenditures price index likely climbed 2.3% in October from a year earlier (prev. 2.1% in Sept) and core PCE likely climbed 2.8% (vs 2.7% in September). The Chair was the main event of the day and dominated trade in the last hour as participants awaited him, but do note after US PPI whereby figures printed incrementally above expectations Y/Y, it sparked a slight hawkish reaction. Elsewhere, jobless claims dipped to 217k vs exp. 220k, which continues to show that the labour market softening is very gradual. Elsewhere, the latest Trump-effect hit EV names and vaccine names, as the former was hit after Trump transition plans to kill USD 7.5k consumer tax credit for EVs, while the latter was weighed on after reports, which have since been confirmed, that Trump is to select RFK Jr. to lead the HHS. For the record, the crude complex was choppy on Thursday but settled firmer, albeit in thin oil-specific newsflow, while Treasuries were initially firmer pre-Powell. Looking to Friday, US Retail Sales is the highlight as well as remarks from Fed's Collins and Williams.

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POWELL: Fed Chair Powell delivered a hawkish set of remarks, as within his initial text release he noted the economy is not sending signals that the Fed needs to be in a hurry to lower interest rates and that economic strength gives the Fed the ability to approach its decisions carefully. On PCE, the Chair said the total personal consumption expenditures price index likely climbed 2.3% in October from a year earlier (prev. 2.1% in Sept) and core PCE likely climbed 2.8% (vs 2.7% in September). Furthermore, within the text release, Powell noted that moving policy over time toward neutral and policy path is not preset, while he expects inflation to continue to come down towards the 2% goal it is on a 'sometimes-bumpy' path. Reiterating recent remarks, Powell said the Fed is closely tracking a gradual decline in housing services inflation, which has yet to fully normalize. On the labour market, notes it is solid and it has cooled to a point where it is no longer a source of significant inflationary pressures. In the following Q&A, he said Fed independence means monetary policy decisions can't be reversed or reviewable and as they make decisions they are not thinking about the wellbeing of any political party. Regarding potential President-elect Trump, the Chair said it is too early to reach judgements on the effect of Trump's policies. On the PPI report today, Powell noted it was slightly more of an upward bump, but still thinks they are on track for inflation. Finishing on policy, and what saw another hawkish tilt, the Chair said policy is in a good place and has the space to cut rates if needed, and can be careful about cutting rates. Powell reiterated the two-policy pathway by saying mindful of risks they got too far and too fast, and also mindful of risks they don't go far enough.

PPI: Overall, the US PPI data was a touch hotter than expected on the Y/Y prints with upward revisions on the prior report. Headline M/M rose by 0.2%, in line with expectations while the prior was revised up to 0.1% from 0.0%. The Y/Y headline rose by 2.4%, above the 2.3% forecast, with the September data being revised up to 1.9% from 1.8%. The Core numbers rose by 0.3%, in line with forecast but up from the prior 0.2%, while the Y/Y rose by 3.1%, above the 3.0% forecast and up from the prior 2.9%, which was revised up from 2.8%. The super core metrics, ex food, energy and trade, rose 0.3% M/M, up from the 0.1% prior, with the Y/Y rising 3.5%, up from the prior 3.3%, which was revised up from 3.2%. The focus of this report will be how the PPI and CPI translate into the PCE report. UBS acknowledged that some of the PCE components within the PPI report are hot. Pantheon Macroeconomics highlight that PPI portfolio management prices rose by 3.5%, while domestic air transportation prices rose by 8.8%, both larger than anticipated. Therefore, Pantheon Macroeconomics are revising their forecast for the increase in core PCE to 0.30% from 0.26%. Money markets are still pricing in an 80% probability of a 25bps rate cut in December, albeit it is down marginally from the 85% in the prior session.

JOBLESS CLAIMS: Initial jobless claims, for the week ending 9th November, fell to 217k from 221k, beneath the expected 223k. Continued claims, for the preceding week, printed at 1.873mln, a touch beneath the 1.88mln forecast, and down from the prior 1.884mln. The unadjusted data rose by 17k to 229k while seasonals had expected a 21k increase. Within the unadjusted data, California saw the largest increase in claims state-wide, rising by 6k. Meanwhile, Michigan claims saw the largest decline, falling by 4k. Note, Oxford Economics highlight that their "base case is for claims to remain in recent ranges, which we view as consistent with a resilient labor market. However, starting with the next week's report, seasonal factors related to holidays and seasonal layoffs may make the headline figures noisier than usual for several weeks".

KUGLER: Fed Governor Kugler said the Fed must be mindful of both sides of the mandate right now, and if the disinflation process stalls it could call for the Fed to pause on cuts. On the labour market, Kugler noted if it sputters, it is appropriate to gradually reduce interest rates while overall labour markets have rebalanced and cooled. Kugler further added there has been considerable progress on easing inflation pressure, while housing and other factors may complicate lowering inflation further.

BARKIN (2024 voter): The Richmond Fed President said the Fed is making great progress but needs to keep it going, and there is still more demand for housing than supply. Furthermore, the Richmond Fed President said a better way to address housing imbalance at this point is to build more, not suppress demand. On workers, Barkin said the current level of unemployment is fine, whether it is normalizing or weakening is something still to be determined. Barkin added companies still feel that labour is short on a long-term basis but they are not firing, and job growth is slowing. He later added the biggest risk to growth is likely the unemployment and a cycle of layoffs would dampen spending, and also a significant market correction could also cause families with more net worth to slow consumption.

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLED 4 TICKS HIGHER AT 109-17+

Treasuries settle slightly higher, albeit well-off peaks, as they sell off at settlement in response to Chair Powell's hawkish text release. At settlement, 2s -3.9bps at 3.948%, 3s -4.2bps at 3.857%, 5s -3.3bps at 3.875%, 7s -2.6bps at 3.969%, 10s -1.9bps at 4.077%, 20s -1.1bps at 4.446%, 30s -0.9bps at 4.385%

INFLATION BREAKEVENS: 5yr BEI -0.7bps at 2.390%, 10yr BEI -0.3bps at 2.303%, 30yr BEI +0.0bps at 2.299%.

THE DAY: T-Notes sold off overnight to find support at 109-06 several times throughout the European morning before paring ahead of the US data. The hotter-than-expected PPI and below-expected Jobless Claims numbers saw T-Notes fall back to the earlier lows but eventually breach 06 to a fresh low of 109-04. However, despite the hotter-than-expected economic data, T-Notes then pared to fresh session highs of 109-23 with Treasuries firmer across the curve in a flatter manner after the steepening on Wednesday and as attention turned to Fed Chair Powell. Powell delivered a hawkish text release, whereby he said the economy is not sending signals that the Fed needs to be in a hurry to lower interest rates, and as such T-Notes notably sold off from 109-17 to around 109-07 about 10 minutes later. Note, T-Notes settled during the sell-off in Treasuries hence the reason they settled off the Powell low. In wake of remarks from Fed Chair Powell, money markets now see a ~61% chance of a 25bps cut in December vs the 85% probability seen on Wednesday and 80% probability seen after the PPI and Claims data.

NEXT WEEK SUPPLY: US Treasury to sell USD 16bln in 20yr bonds on 20th November, to settle 2nd December; USD 17bln in 10yr TIPS on 21st November, to settle Nov 29; as expected.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: December 16bps (prev. 21bps), January 23bps (prev. 30bps), March 37bps (prev. 44bps).**
- US sold USD 95bln in 4wk bills at a high rate of 4.510%, B/C 2.77x; Sold USD 90bln in 8wk bills at a high rate of 4.460%, B/C 2.77x
- NY Fed RRP op demand at USD 215bln (prev. 238bln) across 51 counterparties (prev. 66).
- SOFR at 4.59% (prev. 4.60%), volumes at USD 2.233tln (prev. 2.298tln).
- EFFR at 4.58% (prev. 4.58%), volumes at USD 105bln (prev. 101bln).

CRUDE

WTI (Z4) SETTLED USD 0.27 HIGHER AT USD 68.70/BBL; BRENT (F5) SETTLED USD 0.28 HIGHER AT 72.56/BBL

The crude complex was choppy on Thursday but settled firmer, albeit in thin oil-specific newsflow. On the day, WTI and Brent were initially subdued and saw lows of USD 67.92/bbl and 71.79/bbl, respectively, in the European morning before rebounding to later highs of 69.39 and 73.22 as global sentiment improved, although then paring through the US session, settling well off extremes. However, into settlement contracts did notice a little bid higher to settle well within the intraday ranges. Regarding Middle Eastern updates, they suggested Israel-Hezbollah clashes are expanding to areas outside of the border region, although the Israeli Cabinet Minister later stated that Israel is closer to reaching an arrangement on Lebanon fighting than at any point since the start of the war, which followed earlier reports via WaPo that Israel is preparing a Lebanon ceasefire plan as a "gift" to President-elect Trump.

In the IEA OMR, it raised the 2024 world oil demand growth forecast to 920k BPD (prev. 860k BPD), while the 2025 forecast was seen at 990k BPD (prev. 1mln BPD). IEA said China is the main drag on global oil demand growth and Chinese demand contracted for a sixth straight month in Oct. Note, the EIA STEO maintained its 2024 world oil demand forecast whilst marginally upgrading its 2025 forecast

Concerning the weekly EIA data, which was delayed a day on account of Veteran's Day, Crude saw a larger build than expected, vs. the surprise draw in private figures, while Distillates and Gasoline both posted unexpected draws, again, differing from the private numbers. Overall, weekly crude production fell 100k to 13.4mln.

EQUITIES

CLOSES: SPX -0.60% at 5,949, NDX -0.66% at 20,897, DJIA -0.47% at 43,751, RUT -1.37% at 2,337

SECTORS: Industrials -1.69%, Consumer Discretionary -1.54%, Health -1.54%, Real Estate -0.93%, Materials -0.7%, Communication Services -0.66%, Utilities -0.38%, Financials -0.26%, Consumer Staples -0.22%, Technology +0.05%, Energy +0.14%.

EUROPEAN CLOSES: DAX: +1.37% at 19,264, FTSE 100: +0.51% at 8,071, CAC 40: +1.32% at 7,312, Euro Stoxx 50: +1.98% at 4,834, AEX: +1.33% at 874, IBEX 35: +1.29% at 11,524, FTSE MIB: +1.93% at 34,358, SMI: +0.73% at 11,789, PSI: +1.27% at 6,375.

EARNINGS

- **Disney (DIS):** EPS and revenue beat with FY25 profit guidance above consensus.
- **Cisco (CSCO):** Adj. EPS and revenue exceeded forecasts, although the latter declined Q/Q. Ahead, next quarter guidance impressed and raised FY outlook.

STOCK SPECIFICS

- **ASML (ASML):** Affirmed its 2030 sales outlook, expecting the annual semiconductor market growth rate at ~9% from 2025-2030.
- **Capri Holdings (CPRI):** Announced the termination of the merger with Tapestry (TPR) due to unlikely US regulatory approvals.
- **CNH Industrial (CNH):** Greenlight Capital's Einhorn revealed a new position in CNH, calling the stock "cheap".
- **American Air Lines (AAL):** Upgraded at Barclays; bank expects airline fundamentals to turn "sharply positive" in 2025, noting the Cos. balance sheet leverage is fading, and its business travel share has room to improve, and the carrier will renegotiate co-brand card agreements in 2025.
- **Charles Schwab (SCHW):** Reported October bank deposits of USD 83.26tln and October core net new assets USD 24.6bln
- **Alphabet (GOOGL):** CFPB reportedly looks to place Google under federal supervision, according to WaPo.
- **Super Micro Computer (SMCI):** Shares continued to plummet, extending on losses from Wednesday after it said it would delay the filings of the period ending Sept. 30th.
- **Biogen (BIIB):** EMA recommends Biogen' Leqembi for treatment of early Alzheimer's disease.

- US agencies probe **Citi (C)** over ties to oligarch Kerimov, according to Barron's.
- **EV Names:** Trump transition plans to kill USD 7.5k consumer tax credit for EVs, according to Reuters sources; **Tesla (TSLA)** representatives support ending EV subsidy. EV subsidy viewed by Trump transition as easy target for elimination with broad support in new Republican Congress.
- **Microsoft (MSFT):** US regulators plan to investigate Microsoft's Cloud business, according to FT.
- **Vaccine names:** US President-elect Trump expected to select RFK Jr. to lead HHS, according to Politico. Since been confirmed after-hours.

US FX WRAP

The Dollar Index extended into a 5-day streak of gains, breaching the 107 level, albeit, for a short period. Prior to Chair Powell remarks (more below), the Greenback was already seeing strength in a continuation of rotation into the dollar post-US election in pre-PPI trade. Nevertheless, the move higher was trimmed notably, despite the short-term strength in the buck post-PPI, which unveiled hotter-than-expected yearly core and headline figures, alongside upward revisions to the prior figures, including the M/M headline print. The PPI report sent DXY to 106.96, but short of session highs of 107.07, as strength initially waned throughout the session, perhaps due to a mixture of repositioning and profit taking. Once Fed's Powell text release hit the wires, a notable dollar bid was seen, coincident with the short end of Treasuries selling off after trading flattish pre-Powell. Chair Powell's remarks were seen as hawkish, whereby he noted the "economy is not sending signals that the Fed needs to be in a hurry to lower interest rates"; the total PCE price index likely climbed 2.3% in October from a year earlier (prev. 2.1% in Sept); core PCE likely climbed 2.8% (vs 2.7% in September). As such, the hawkish reaction cemented the existing G10FX downside, resulting in notable downside across the board, amid a repricing in Fed rate expectations, now seeing a 63% chance of a 25bps rate cut at the December meeting (prev. 81%). On Friday, key events for the buck include October's Retail Sales and Industrial Production figures, as well as remarks from Feds Collins and Williams.

The Euro was modestly lower on Thursday, after briefly dipping below the 1.05 handle. Further dollar strength weighed on the Euro, offsetting any positives that could be found in Thursday's EZ data, where Flash Employment growth in Q3 rose more than expected on a Y/Y and M/M basis. After the ECB Minutes for October, the debate over a 25/50bps cut at the December meeting is still at large, with ECB pricing on Refinitiv seeing a 39% chance of a 50bps move. The latest ECB Minutes noted October's cut as a risk management move, but they were deemed stale given what has come since. Separately, GDP Flash estimates were in line with expectations. Lows for EUR/USD were found at 1.0497, with the pair heading into APAC trade in the lower end of the session range of 1.0497-1.0582 after Powell's hawkish remarks. Elsewhere the latest Reuters poll found, that 43/46 economists surveyed expect the ECB to cut the deposit rate to 2.0% or the lower by end-2025, meanwhile, 34/39 economists surveyed expect US President-elect Trump's proposed tariffs to significantly impact the EZ economy,

The Pound recently lost the mantle of being the best G10FX against the dollar, becoming second, weakening momentarily below August's lows. Cable troughed at 1.2631 before trimming the majority of losses heading into Powell. Remarks from BoE speakers were largely anticlimactic, however, Mann noted a few things of interest; "High-term premia within bond yields due to elevated inflation is more damaging to investment than the BoE rate", and on the US election, Mann said, "we are looking at more volatility and an upward bias to inflation from trade/financial market fragmentation." Looking ahead to Friday, GDP Prelim figures for Q3 are on the docket, alongside Manufacturing Output and Services Growth in September.

Overnight Australian employment change in October fell short of the expected +25k, only adding 15.9k after previously adding 64.1k. As such. **AUD/USD** immediately fell by 12pips to 0.6480, with weakness lingering through the day, only for Fed's Chair Powell to send AUD/USD another leg lower to fresh session lows of 0.6641. Elsewhere, the **Yen** suffered from late remarks from Fed's Powell which sent US Treasury yields higher, particularly on the lower end, leaving USD/JPY steady above the 156 mark.

In EMFX, the highlight was Banxico, who cut rates by 25bps to 10.25% as widely expected in a unanimous decision. In the statement, the central bank noted, that the balance of risks to the growth of economic activity remained biased to the downside and actions will be implemented in such a way that the reference rate remains consistent at all times with the trajectory ended to enable an orderly and sustained convergence of headline inflation to the 3% target during the forecast period. On inflation, Banxico still expected headline inflation to converge at the target in Q4 25, albeit, upwardly revised headline CPI forecasts for H1 25, particularly in Q1.