

Initial risk-off sentiment reverses after Russia/Ukraine tensions intensify, with stocks green & Dollar flat

- **SNAPSHOT:** Equities up, Treasuries up, Crude flat, Dollar flat.
- **REAR VIEW:** Tensions in Ukraine-Russia war intensify; Soft US housing data; Hot Canadian CPI; BoE's Mann reiterates hawkish tone; Fed's Schmid echoes recent remarks; ECB's Panetta said the ECB should move to a neutral monetary stance, or expansionary if necessary; Production at Equinor Sverdrup restarts; Balanced RBA minutes; WMT report impresses.
- **COMING UP:** **Data:** Chinese LPR; German Producer Prices, UK CPI, Services, EZ Negotiated Wage Rates (Q3). **Speakers:** ECB President Lagarde, de Guindos; BoE's Ramsden; Fed's Barr, Cook, Bowman & Collins. **Supply:** Japan, Australia, Germany, US. **Earnings:** NVIDIA, Snowflake, Palo Alto, NIO, TJX, Wix.com, Williams-Sonoma, JD Sports, IDS, Halma.

MARKET WRAP

US indices ended the day with gains, in what was a choppy day across markets, as sentiment swung between the European and US sessions. In the European morning, there was a notable risk-off trade amid heightened geopolitical tensions as Russia's Kremlin said "Russia reserves the right to use nuclear weapons in an event of aggression", as well as Ukraine making its first ATACMS strike inside Russia. Following this, Treasuries, Dollar, and Gold caught a bid with haven FX (JPY, CHF) outperforming, while stocks and oil sold off as did other global FX peers vs. the Dollar. Once extremes were hit, highlighting by USD/JPY hitting a low of 153.29, sentiment reversed through the US session, albeit on no particular headline in pretty light newsflow. Illustrating the volatility of the moves, the Dollar is flat as is the Yen against the Buck, while high beta FX outperforms, and Treasuries only end the session marginally firmer, while stocks and oil also are green. Elsewhere in the day, the Loonie saw notable strength after Canadian inflation data came in hotter than expected which saw hawkish BoC repricing. Out of the US, housing data came in beneath consensus while Fed's Schmid (2025 voter) said little new. For the record, sectors were mixed with Technology and Communication Services sitting atop of the pile with the former buoyed by strength in Nvidia (NVDA) (+4.9%) ahead of earnings on Wednesday. In terms of stock-specific highlights, Super Micro Computer (SMCI) surged 31% after the Co. appointed BDO as its new auditor, aiming to resolve filing delays, while Walmart reported beats on key metrics for the quarter, accompanied by strong guidance, leaving WMT 3% higher into the close.

US

HOUSING STARTS/BUILDING PERMITS: Privately-owned US Housing Starts fell by 3.1% in October from prior 1.353mln to 1.311mln, beneath the 1.33mln forecast. Single-family housing starts in October fell 6.9% to 970,000. Meanwhile, multi-family starts were 326k. Privately owned building permits declined by 0.6% from 1.425mln to 1.416mln, beneath the 1.43mln forecast. Single family permits rose 0.5% to 968k, while multi-family permits were 393k. Oxford Economics highlight that starts were a touch weaker due to the impact of Hurricanes but they expect starts in the South to rebound as rebuilding in the areas most impacted by the storm gets underway. Looking ahead, Oxford Economics "expect a gradual improvement in starts throughout the year but see downside risks to our forecast from sticky mortgage rates, as well as labor shortages and higher building costs if we take President-elect Trump's policies on immigration and tariffs at face value".

FIXED INCOME**T-NOTE (Z4) FUTURES SETTLED 7 TICKS HIGHER AT 109-27**

T-Notes caught a bid in flight to quality on the Russia/Ukraine escalation. At settlement, 2s -0.6bps at 4.278%, 3s -1.4bps at 4.236%, 5s 2.1bps at 4.254%, 7s -2.7bps at 4.319%, 10s -2.6bps at 4.388%, 20s -3.1bps at 4.676%, 30s -3.0bps at 4.576%.

INFLATION BREAKEVENS: 5yr BEI +0.3bps at 2.426%, 10yr BEI -0.3bps at 2.348%, 30yr BEI -1.4bps at 2.315%.

THE DAY: T-Notes traded sideways overnight before rallying in the European morning, with T-Notes rising from lows of 109-19 overnight to a peak of 110-04+ in the aftermath of escalating geopolitics. The upside was primarily a function of Russia updating its nuclear doctrine, noting it reserves the right to use nuclear weapons in the event of aggression. The updated doctrine came as Ukraine made its first ATACMS strike inside Russia after US President Biden allowed for the long-range missiles to be used by Ukraine against Russia over the weekend. Elsewhere, focus was on Fed speak and economic data. Fed's Schmid largely echoed remarks from the prior week, noting that rates are still somewhat restrictive, but not overly so. US Housing Starts and Building Permits missed analyst expectations, but analysts at Oxford Economics expect a gradual improvement in 2025 after a flat Q4 vs Q3, but with downside risks related to sticky mortgage rates, labour shortages and higher building costs in the wake of Trump's presidency. Elsewhere, Canadian inflation data was in focus after coming in hotter than expected which saw money markets start to price a 25bps rate cut with more certainty, as opposed to another 50bps rate cut in Canada. After T-Notes hit the peaks once US trade got underway, they had pared to sub 110-00 as risk appetite improved while IFR highlighted that likely profit-taking and a flurry of rate-locked IG deals also added to the pullback.

Note, and on data, ING highlighted that the state data shows the weak October NFP headline number was not entirely due to temporary strike- and hurricane-related factors and that there is a broader cooldown in play, suggesting that a December Fed cut remains more likely than not. ING adds that "Today's numbers show that Florida employment fell 38k in October relative to its six-month trend growth of 13k. This allows us to approximate that the hurricane effect depressed Florida payrolls by around 51k." Adding the minor impacts in the Carolinas in Virginia, makes it founded to c. 60-65k. The hurricane-related impacts and the Boeing impacts, plus the headline NFP, suggest to ING a figure of around 121k (12k (actual) +44k (strikes) +65k (hurricanes)).

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: December 14bps (prev. 15bps), January 21bps (prev. 23bps), March 36bps (prev. 37bps).**
- US sold USD 80bln in 42-day CMBs at 4.480%, covered 2.55x
- US to sell USD 64bln of 17-wk bills on November 20th; to sell USD 90bln of 8-wk bills and USD 95bln of 4-wk bills on November 21st; all to settle November 26th

- NY Fed RRP op demand at USD 201bln (prev. 200bln) across 62 counterparties (prev. 59).
- SOFR at 4.57% (prev. 4.57%), volumes at USD 2.297tn (prev. 2.425tn).
- EFRR at 4.58% (prev. 4.58%), volumes at USD 103bln (prev. 104bln).

CRUDE

WTI (F5) SETTLED USD 0.07 HIGHER AT USD 69.24/BBL; BRENT (F5) SETTLED USD 0.01 HIGHER AT USD 73.31/BBL

The crude complex was choppy, but ultimately flat as heightened geopolitical tensions dominated macro newsflow on Tuesday. Recapping, Ukraine made its first ATACMS strike inside Russia, after receiving approval from the Biden admin, while the Kremlin noted Russia reserves the right to use nuclear weapons in an event of aggression, and the updated nuclear doctrine signed by Putin is a "very important text". On the back of the Kremlin headlines, notable risk-off sentiment was seen with WTI and Brent hitting intra-day lows of USD 68.48/bbl and 72.65/bbl, respectively. Thereafter, contracts edged higher through the EZ afternoon and into the US morning before seeing immediate downside, albeit immediately paring roughly half the move, after the IAEA said Iran has agreed to stop producing near bomb-grade uranium. As a result, WTI matched its earlier low while Brent marginally breached it to 72.61/bbl. Nonetheless, as risk sentiment recovered through the US afternoon, so did WTI and Brent to settle essentially flat. Separately, in wake of Monday's outages, Equinor said production has restarted at its Johan Sverdrup oilfield (720k BPD) and expects the oilfield to produce at 2/3 of normal capacity during morning hours today. For the record, on the Middle East, US Envoy Hochstein stated talks are continuing to narrow the gaps on a ceasefire deal. Ahead, private inventory data after-hours is the next schedule catalyst, whereby current expectations are (bbls): Crude 0.1mln, Distillate -0.02mln, Gasoline -0.9mln.

EQUITIES

CLOSES: SPX +0.40% at 5,917, NDX +0.71% at 20,685, DJIA -0.28% at 43,269, RUT +0.80% at 2,325

SECTORS: Energy -0.67%, Financials -0.64%, Health -0.48%, Materials -0.28%, Industrials -0.06%, Consumer Staples +0.34%, Consumer Discretionary +0.42%, Real Estate +0.45%, Utilities +0.66%, Communication Services +1.03%, Technology +1.22%.

EUROPEAN CLOSES: DAX: -0.67% at 19,061, FTSE 100: -0.13% at 8,099, CAC 40: -0.67% at 7,230, Euro Stoxx 50: -0.83% at 4,751, AEX: -0.39% at 862, IBEX 35: -0.74% at 11,588, FTSE MIB: -1.28% at 33,325, SMI: -0.77% at 11,542, PSI: -0.84% at 6,360

EARNINGS

- **Walmart (WMT):** Adj. EPS, revenue, comparable sales, and FY guidance topped analysts' expectations.
- **Medtronic (MDT):** Next quarter adj. EPS guidance fell short.
- **Lowes (LOW):** Beat quarterly expectations and raised guidance, but the home-improvement retailer is still under DIY pressure with weaker demand for bigger and pricier discretionary projects.
- **XPeng (XPEV):** Revenue and vehicle deliveries beat in Q3, accompanied by strong Q4 guidance.

STOCK SPECIFICS

- **Nvidia (NVDA):** Taiwan's AI server supply chain, including Foxconn and Quanta Computer, has dismissed reports about Nvidia's GB200 servers overheating, stating they had not encountered such issues, according to reports in UDN
- **Super Micro Computer (SMCI):** Appointed BDO as its new auditor and aims to resolve filing delays. The plan seeks additional time to regain compliance with the listing rules, if approved, the deadline could be extended to February next year.
- **Advanced Micro Devices (AMD):** Chief Accounting Officer resigned, effective November 18th. Smith's departure is unrelated to accounting or financial issues.
- **Amcor (AMCR), Berry Global (BERY):** Entered into a merger agreement, where Cos. will combine in an all-stock transaction.
- **Kraft Heinz (KHC):** Downgraded at Piper Sandler; notes the stock is at 52-wk lows, needing visibility and confidence in better US retail momentum to remain positive.
- **American Water (AWK):** Upgraded at UBS citing a strong balance sheet and growth potential.
- **Alphabet (GOOG):** DoJ plans to ask a judge to require Google to sell its Chrome browser, citing illegal search market monopolisation, Bloomberg reports.
- **Corteva (CTVA):** CFO expects to return c. USD 4.5bln to shareholders via dividends and buybacks between 2025-27.
- **Apple (AAPL):** Is selling Apple News ads directly for the first time, according to Axios; It's pitching new ad units that it hopes will maximize revenue for itself and its publishing partners.
- **Merck (MRK):** The latest industry giant to be linked to a takeover bid for **Incyte (INCY)**, with which it collaborates on several drug development projects, via Sky News.
- **T-Mobile (TMUS):** Said it has made no decision to end **Nokia (NOK)** relationship, via Bloomberg; this follows earlier reports that suggested the relationship would be cut.

US FX

The Dollar was choppy on Tuesday, at first weakening into European hours as recent strength continued to unwind. That said, a risk-off theme emerged, prompting a move higher in the buck, lifting DXY to a session peak of 106.63. Behind the move were elevated geopolitical tensions surrounding the Ukraine-Russia war, in which the Kremlin responded to Ukraine's first ATACMS strike in Russia (recently approved by the US): the updated nuclear doctrine signed by Putin is a "very important text", "Russia reserves the right to use nuclear weapons in an event of aggression". That said, haven strength in the Yen and Franc weighed on any further upside in the DXY, and once the sell-off in risk assets reached their respective troughs, strength faded in the buck into the US session, leaving DXY flat on the day. Ahead, the focus remains on Trump's pick for Treasury Secretary, meanwhile, Fed's Barr (Vice-Chair Supervision), Cook (Voter), Bowman (Voter), and Collins (2025 Voter) are set to appear on Wednesday.

CAD, AUD, and NZD strengthened against the greenback, while the GBP underperformed its cyclical peers, heading into APAC trade flat. The latest Canadian CPI metrics were hotter-than-expected on both the headline and gauges the BoC uses, resulting in hawkish repricing in BoC expectations. On the downside, the 21 DMA (1.3924) is a key level for USD/CAD. Separately, Antipodes benefitted from the reversal in sentiment eventual risk-on theme, resulting in three days of consecutive gains for the high-beta FX; AUD/USD hovers around intraday peaks of 0.6532, while Kiwi sits marginally above the 0.59 handle. Regarding RBA Minutes which concerned the RBA's decision to maintain the Cash Rate for the eighth consecutive meeting, little reaction was seen in AUD/USD. Little new insight was gained from the release, as the central bank reiterated inflation remains too high and is not expected to return sustainably to the midpoint of the target until 2026, where forecasts are based on the technical cash rate to stay steady until mid-2025.

Multiple BoE members spoke on Tuesday, albeit, had little sway over movements in **Cable**. Of interest was hawkish Mann, who lived up to

her attributed tone, by saying it is important to keep rates on hold and not pursue a gradualist strategy of rate cuts; "the current stance of monetary policy is not particularly restrictive". Cable still has much work to do to reclaim recent losses, with the 200 DMA (1.2818) seeming distant from the current 1.26 handle; UK CPI/PPI and BoE's Ramsden lie ahead on Wednesday.

Havens and the **Euro** were left little changed versus the greenback. On the former, gains were found in the European session, in the aforementioned risk-off/flight to quality trade. USD/JPY fell to as low as 153.29, while USD/CHF troughed at 0.8802. Nevertheless, the flight to the Yen and France faded, despite the upside in Gold and Treasuries still holding, albeit off peaks. Elsewhere, ECB's Panetta said the ECB should move to a neutral or expansionary stance. However, this appears to be an out-of-consensus view. On data, EU HICP Final YY (Oct) was in line with expectations; EUR/USD bottomed at 1.0525, then pared the move, residing slightly below 1.06 into overnight trade.

In **EMFX**, the highlight was the NBH, who left the Base Rate unchanged at 6.5% for the second month in a row, as expected. NBH Deputy Governor Virag said one member proposed a rate cut and refused to comment on a December decision, adding they will hold the base rate steady for as long as needed. In the statement, a data-dependent approach was voiced, as well as attention to the expected state of the FX swap market at the end of the year. Elsewhere, NBP's Dabrowski said conditions for allowing the start of the easing cycle will begin between March and July 2025; PLN and HUF saw notable losses vs the EUR and USD. Looking forward, the emphasis will be on the ZAR for the latest CPI figures in October.

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