

Stocks and bonds chop to geopolitics

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar up
- **REAR VIEW:** Strong NVDA earnings, stock closes slightly up; Initial Claims unexpectedly fall, while Continued claims rise to multi-year highs; Philly Fed slumps; Mixed reports on the type of missiles used in Russia's latest attack on Ukraine; US official says Russia missile use is no gamechanger; Fed's Williams expects the disinflationary process to continue, Barkin leaves doors open, Schmid believes rates aren't overly restrictive and Goolsbee says rates are well above neutral; Weak US 10yr TIPS auction; SARB cut by 25bps as expected; CBRT keep the repo rate unch as forecasted; EZ Consumer Confidence falls below expectations; EIA nat gas surprise draws; ECB's Stournaras says a 25bps cut a Dec is the right response.
- **COMING UP:** Data: Japanese, EZ, UK, US PMIs, UK Retail Sales. Events: ECB's Lagarde, Nagel, Villeroy, de Guindos, Schnabel; SNB's Schlegel; Fed's Bowman. Supply: Australia.

MARKET WRAP

Stocks were choppy on Thursday but ultimately closed in the green as the market digested Nvidia (NVDA) earnings, mixed geopolitical updates and mixed US data. NVDA earnings overall were strong but saw some selling in post-market trade on Wednesday. Once pre-market trade opened on Thursday, the stock rallied before then plummeting once again on the opening bell, alongside other tech heavyweights. Nonetheless, the losses were short-lived with NVDA closing green with AAPL and MSFT flat while GOOGL remained suppressed with the DoJ locking the communications giant in its sight, pushing for a breakup. Also driving price action was geopolitics with initial escalation fears seen in the morning after Russia attacked Ukraine with what was initially reported as an ICBM, however, Western officials and Russian President Putin later stated it was an intermediate-range missile while the US said it was not a game changer. T-notes were also choppy, with peaks seen after the escalation fears and in the wake of mixed data but ultimately bear flattened as risk appetite improved and it was ruled the missile was not an ICBM. On data, Initial Claims fell beneath forecasts but Continued Claims rose above, while the Philly Fed survey was weak, albeit none of the data did little to alter the Fed narrative with money markets still pricing in a c. 55% probability of a 25bps rate cut in December. There were several Fed speakers too, Goolsbee noted the neutral rate is a long way below where rates currently are, but it makes sense to slow the pace of cuts as they get closer to that level. Barkin left options open, depending on how the economy reacts. Williams believes the disinflationary process will continue and that the labour market is now in balance. In FX, the Yen was the clear outperformer while AUD, CAD and USD also performed well with weakness seen in EUR and GBP. Oil settled green while gold prices trended higher with a focus on geopolitics.

US DATA

JOBLESS CLAIMS: Weekly initial jobless claims for the week ending November 16th, unexpectedly fell to 213k (exp. 220k) from the upwardly revised prior of 219k, its lowest figure since April. Regarding the prior week, continued claims rose more than anticipated to 1.908mln (exp. 1.873mln, prev. 1.872mln). On the continued claims, Pantheon Macroeconomics highlights it rose to the highest figure in three years, which adds to evidence that jobseekers are finding it increasingly difficult to find a new position, though the most recent week's data are often revised considerably. On initial claims, the unadjusted data fell by 18k to 213k while seasonals expected a fall of 12k. In the state breakdown, the three biggest drops were in California (-4,657), Georgia (-2,154), and Texas (-1,599), while Minnesota (+653) saw the largest gain. On Initial claims, Pantheon Macro highlights the drop is likely largely due to inaccurate seasonal adjustments. Also, it is in a week that followed the return of calmer weather and the resolution of strikes and furloughs at Boeing which disrupted the wider aerospace industry. Looking ahead, Pantheon expects claims to increase moderately this winter.

PHILLY FED: The November Philly Fed Manufacturing Business Outlook survey saw manufacturing activity soften overall in the region with the business index falling to -5.5 from +10.3, well beneath the +8 consensus, and beneath the most pessimistic forecast of 0. New orders and shipments declined but remained positive while employment turned positive from negative, suggesting an increase in employment overall. Prices Paid fell but remained in positive territory, where 27% of firms reported increases in input prices, none reported decreases and 67% reported no change. Prices received also declined but remained in positive territory, where 15% of firms reported increases in prices received for their goods, and 1% reported decreases, with 76% reporting no change. Looking ahead, the firm's median forecast was for an expected increase of 3.0% for their own products, up from the 2.8% when this question was asked in August. The firms' median forecast for the rate of inflation for U.S. consumers over the next year was also unchanged at 3.0%.

EXISTING HOME SALES: US Existing Home sales rose by 3.4% to 3.96mln in October, slightly above the 3.93mln forecast. Meanwhile, the months' worth of supply eased to 4.2 from 4.3 and the median existing-home sales price ascended 4.0% from October 2023 to USD 407,200, the 16th consecutive month of year-over-year price gains. Looking into the report, NAR Chief Economist stated "The worst of the downturn in home sales could be over, with increasing inventory leading to more transactions. Additional job gains and continued economic growth appear assured, resulting in growing housing demand." Looking ahead, the Chief Economist stated "Additional inventory and more home-building activity will help price increases moderate next year."

FED

WILLIAMS: NY Fed President Williams, in an interview with Barron's from 15th November, stated how economic growth has been good but at the same time there has been a pretty steady cooling of the labour market but inflation has steadily come down from very high levels. He said the Fed is not there yet on inflation. Williams also gave some forecasts: Sees growth of around 2.5% or a little bit higher for 2024 (prev. on 10th Oct, said between 2.25-2.5%), and the labour market is to continue where it is, suggesting maybe the unemployment rate will get to 4.25% (unchanged from his prior forecast); maintained his inflation forecast of 2.25% for 2024; the disinflationary process will continue, and the labour market is now in balance; not providing upward pressure on inflation. Wage inflation has also come down quite a bit and he expects that to continue. Williams does not see any signs of a recession in the data. He expects it will be appropriate, over time, to bring rates down closer to more normal or neutral levels, but he does not know exactly what that level is. He believes monetary policy is restrictive and that data, although moving up and down, is moving in a way that he would like to see. Williams said the Fed is pretty well positioned for risks. He believes that 2% is still a reasonable inflation target.

BARKIN: The Fed should not pre-emptively adjust monetary policy ahead of possible changes in economic policy, noting the US is more vulnerable to inflation shocks. Barkin expects inflation to continue dropping but cautioned businesses were passing on costs to consumers more readily than in the past. Barkin mentioned how businesses are concerned about the inflationary impacts of touted Trump policies, but also notes that boosting domestic energy production might be disinflationary. Does not want to pre-judge December, adding that forthcoming rate decisions would depend on data, which currently suggests that the economy is quite prosperous. He noted how if inflation stays above target, that supports the case to be careful on rate cuts, but also, if unemployment is accelerating, that supports the case to be more forward-leaning. Barkin explained the recent policy moves as a "recalibration", and said questions about the pace of cuts would be more relevant once the Fed enters a normalisation stage and policy settings are closer to neutral.

COLLINS: On Wednesday, Fed's Collins said some additional rate cuts are needed as policy is still restrictive but she does not want to cut rates too quickly. She also warned that overly slow rate cuts could hurt the labour market and that decisions will be made meeting-by-meeting, therefore keeping options open when discussing future policy. She added the final destination of rate cuts is unclear and that monetary policy is not on a preset course, but it is well positioned for the economic outlook. Any further slowdown in the job market is undesirable but risks to the outlook are roughly in balance. She categorized the Labour market as healthy and inflation as moving back to 2%. She noted that strong productivity means wage gains are not inflationary and the economy is in a good place, but progress to 2% inflation could be uneven. On the balance sheet, said the policy is most useful in unusual conditions, meanwhile noting it is too soon for the Fed to factor in the impact of the election on its work.

GOOLSBEE: It makes sense to slow the pace of interest rate cuts as the Fed gets close to where rates will settle. Over the next year, it feels like rates will end up a fair bit lower than where they are today. Goolsbee noted that inflation is on its way down to 2% and the labor market is close to stable full employment. He has gotten more comfort that they are not crashing through full employment and the labour market is moving into stable, full employment. The Chicago Fed President said that neutral is a long way below where rates are now, and it feels like the Fed is heading to 2% inflation. He noted how the Fed relies on economic data that is forward-looking like inflation expectations, but will not speculate on the effect of policies that are predicted but not in place.

FIXED INCOME

T-NOTE (Z4) FUTURES SETTLED 6 TICKS LOWER AT 109-16

T-Notes chopped to geopolitics, mixed US data and as stocks see-sawed. At settlement, 2s +4.1bps at 4.349%, 3s +3.7bps at 4.300%, 5s +2.9bps at 4.302%, 7s +2.3bps at 4.359%, 10s +2.0bps at 4.426%, 20s +2.2bps at 4.688%, 30s +2.2bps at 4.614%.

INFLATION BREAKEVENS: 5yr BEI -0.3bps at 2.439%, 10yr BEI -0.7bps at 2.353%, 30yr BEI +0.5bps at 2.327%.

THE DAY: T-notes chopped, hitting a high in the US morning as traders digested mixed geopolitics, US data and choppy equity action. On the former, Russia attacked Ukraine with what was initially reported as an ICBM however Western Officials and Russia later stated it was a medium-range missile and Ukraine had been warned ahead of the attack by the US. The peaks of 109-28+ were seen in the wake of the US data and cash equity open. On the data, although Initial Claims fell beneath expectations, it was met with a rise in Continued Claims and a notable drop in the Philly Fed survey. There was also some flight-to-quality after the US cash equity open which saw notable downside in major US indices on little news, which took T-notes to the aforementioned peaks. Nonetheless, the equity dip was bought with stocks rallying in the US afternoon which was accompanied by weakness in USTs. The afternoon downside in T-notes was supported by Reports in Reuters that the Russian attack on Ukraine is not a game changer, which ultimately saw the curve bear flatten and settle around lows. Attention turns to US flash PMI data on Friday ahead of supply next week.

10YR TIPS: The US Treasury sold USD 17bln of 10yr TIPS, which ultimately was met with a poor reception. The auction tailed by 2.1bps, larger than the prior 0.2bps tail while the B/C fell to 2.35x from 2.44x, beneath the six auction average. The breakdown saw dealers take a chunky 14.1% of the auction, as both direct and indirect demand dropped.

NEXT WEEK SUPPLY: US Treasury to sell USD 69bln of notes on Nov. 25th, USD 70bln of 5yr notes on Nov 26th, and USD 44bln of 7yr notes on Nov. 27th; to settle Dec 2nd - as expected. Bills: US to sell USD 81bln 13-wk bills on November 25th; USD 48bln 52-wk bills on November 26th; USD 40bln 30-day CMBs on November 25th; USD 80bln 41-day CMBs on November 26th; all to settle on November 29th.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: December 14bps (prev. 13bps), January 19bps (prev. 20bps), March 33bps (prev. 35bps).**
- US sold USD 95bln in 4wk bills at high rate of 4.540%, B/C 2.68x; sold USD 90bln in 8wk bills at high rate of 4.480%, B/C 2.52x
- NY Fed RRP op demand at USD 189bln (prev. 218bln) across 57 counterparties (prev. 64)
- SOFR at 4.56% (prev. 4.57%), volumes at USD 2.155tln (prev. 2.275tln)
- EFFR at 4.58% (prev. 4.58%), volumes at USD 102bln (prev. 99bln)

CRUDE

WTI (F5) SETTLED USD 1.35 HIGHER AT USD 70.10/BBL; BRENT (F5) SETTLED USD 1.42 HIGHER AT USD 74.23/BBL

Crude prices settle firmer, driven by continued escalations in the Ukraine-Russia war. Crude prices started to grind higher into the early hours of European trade, with gains extending amid Ukraine's Airforce saying Russia launched ICBMs from the Astrakhan region in the morning, resulting in risk-off trade across equities and a bid in the fixed-income space. Thereafter, a Kremlin Spokesperson said the storm shadow attack on Russia is a new escalation, subsequently reigniting the existing risk on trade. That said, reports from CNN/Reuters diverged from the aforementioned, with a cited Western official noting "Russia did not use an ICBM last night". Later on, a US official said Russia likely only possesses a handful of experimental intermediate-range ballistic missiles used for the strike on Thursday. Russia's President Putin himself said Russia fired a new medium-range ballistic missile, and in the case of escalation, Russia will respond symmetrically. Nonetheless, crude prices continued to edge higher, with WTI and Brent peaking at USD 70.38/bbl, USD 74.37/bbl, respectively. In the US session, a dollar bid emerged, with DXY breaching above the 107 handle, adding pressure onto crude prices, which ultimately remained firmer by+ USD 1.40/bbl on the day, as escalatory events in Ukraine/Russia filled the void of energy-related catalysts.

EQUITIES

CLOSES: SPX +0.53% at 5,949, NDX +0.36% at 20,741, DJIA +1.06% at 43,870, RUT +1.65% at 2,364

SECTORS: Communication Services -1.73%, Consumer Discretionary -0.3%, Technology +0.56%, Real Estate +0.64%, Energy +0.82%, Health +0.83%, Materials +1.2%, Industrials +1.23%, Consumer Staples +1.24%, Financials +1.27%, Utilities +1.75%.

EUROPEAN CLOSES: DAX: +0.75% at 19,147, FTSE 100: +0.79% at 8,149, CAC 40: +0.21% at 7,213, Euro Stoxx 50: +0.59% at 4,757, AEX: +0.88% at 866, IBEX 35: +0.19% at 11,612, FTSE MIB: +0.20% at 33,295, SMI: +0.51% at 11,598, PSI: +0.12% at 6,360

EARNINGS

- **Nvidia (NVDA):** Q3 adj. EPS and revenue beat. Guidance for next quarter was in line with expectations. Margins were in line.
- **Palo Alto Networks (PANW):** Guidance for next quarter was in line; approved two-for-one forward stock split
- **Deere & Co (DE):** EPS beat.
- **Warner Music Group (WMG):** EPS missed.
- **Snowflake (SNOW):** EPS and revenue beat accompanied by strong guidance for the next quarter and FY.

STOCK SPECIFICS

- **Bank of New York Mellon (BK)** - Won debit-card contract with US Treasury Department. Contract won from **Comerica (CMA)**, but CMA sign 3yr extension to help with the transfer.
- **Fox Entertainment (FOXA) & Hulu (DIS)** extend major streaming deal with pact worth north of USD 1.5bln.
- **Amazon (AMZN)** - Likely to be investigated under EU's Digital Markets Act next year, via Reuters citing sources.
- **Ulta Beauty (ULTA):** Downgraded at William Blair to 'Market Perform' from 'Outperform'. The firm believes comp and operating margin estimates are optimistic and embedded expectations of an early 2025 inflexion in the beauty category are unlikely to be realised.
- **Palo Alto Networks (PANW):** Upgraded to 'Buy' from 'Neutral' at Rosenblatt with a USD 430 PT (prev. 390). The firm notes a "strong" Q1 performance and evident success of its platform strategy, which is driving larger deals and "impressive" NGS ARR growth.
- **** Roblox (RBLX):**** Shorted by Hunterbrook Capital. Note, Bear Cave and Hindenburg are also short RBLX.
- **Summit Materials (SUM):** Quikrete reportedly in advanced talks to buy the Co., according to WSJ.
- **Apple (AAPL):** Aims to launch Siri revamp in 2026 with more in-house AI.

US FX WRAP

The Dollar Index again managed to breach 107.00 on Wednesday, despite mixed price action against major peers, with GBP and EUR weakness helping drive the greenback higher. The day saw reignited concerns over the war between Ukraine and Russia, albeit, reports diverged, with initial reports suggesting Russia fired an ICBM while Western officials and Russia said it was an intermediate-range missile. Regardless, JPY outperformance was present, though failed to offset the DXY upside. Concerning US newsflow, initial claims surprisingly fell below expectations to their lowest figure since April, while continued claims jumped more than anticipated to their highest level in three years. Furthermore, the Philly Fed Business Index in November slumped and the Leading Index Chg monthly fall was larger than forecasts. On Fed speak, Williams updated his forecasts, seeing modest upward revisions to his growth for 2024, to 2.5% from 2.25-2.5%. Going forward for the dollar, S&P Flash PMIs (Nov) and Final UoM figures (Nov) are in focus on Friday trade, with UoM's headline sentiment expected to be revised upwards to 73.7 from 73.

JPY, AUD, and CAD gained against the buck to varying degrees. For the latter, slight gains were supported by firmer crude prices in addition to the rebound in PPI figures in PPI for October, after seeing deflation in the prior month; USD/CAD briefly dipped below 1.3937 (21 DMA) before hovering beneath the open of 1.3975 ahead of Canada Retail Sales on Friday. Aussie outperformed its antipodean counterpart, the Kiwi, with AUD/USD above the 0.65 handle, peaking at 0.6532 ahead of 0.6557 (21 DMA).

JPY was the only G10FX to markedly gain vs the buck, potentially a function of the persistent geopolitical tensions, albeit, treasury yields were higher and the CHF saw losses. Separately, Japan reportedly plans an economic package of around JPY 21.9tln. Meanwhile, BoJ's Governor Ueda largely reiterated the policy narrative, of data dependency and refrained from commenting on short-term exchange rate moves; USD/JPY sits in the mid-range of the 154 mark, leaving 153.66 (21 DMA) as the test to the downside.

GBP and EUR were the bottom dwellers on Thursday, with Ukraine/Russia escalations weighing on the Euro. Meanwhile, the latest Flash EZ Consumer Confidence continued to disappoint, unexpectedly falling to -13.7 (exp. -12.4), its lowest reading since June. Meanwhile, French Business Confidence improved to 97 (exp. 9.5), driven by a reduction in pessimism from manufacturers concerning past production, overall order books & foreign order books. On tariff woes, ECB's Villeroy noted possible US tariffs are not expected to alter the inflation outlook in Europe and inflation may sustainably be at 2% in early 2025; victory against inflation is in sight. Elsewhere, ECB's Stournaras said a 25bps December rate cut is "the right response", and should cut every meeting until they reach 2%. EUR/USD will remain in focus as it looks set to head into overnight trade below 1.05 ahead of a series of PMI data out of Europe.

Cable slid for the second consecutive day to the low end of the 1.26 handle, with no clear direct driver behind the move. In the background, BoE's Mann towed the usual hawkish tone, adding 100bps of cuts is too aggressive. Next on the pipeline for the UK, is October's Retail Sales, seen falling 0.3% after posting 0.3% growth in September. Moreover, Flash PMIs are also due. Mfg PMI is expected to rise to neutral (50), while Services is anticipated to remain steady in expansionary territory.

In EMFX, the TRY had a muted reaction to the CBRT holding the weekly repo rate at 50% as expected for the eighth consecutive meeting. The statement noted signs of an improvement in services inflation have become more apparent, but inflation expectations and pricing behaviour continue to pose risks to the disinflation process. Elsewhere, the SARB cut the repo rate by 25bps to 7.75% as expected in a unanimous decision; USD/ZAR heads into APAC trade unchanged. USDMXN saw gains despite Mexican retail sales meeting expectations.

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