

Stocks rise on tech led gains after AMD/OpenAI deal

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar up, Gold up
- **REAR VIEW:** AMD signs AI/chip deal with OpenAI; US government shutdown enters its second week; Takaichi wins Japanese LDP leadership election; French PM resigns; OPEC+ hikes by less than recent reports had suggested; Ukraine drone attacks continue on Russian oil refineries; FITB to buy CMA
- **COMING UP:** **Data:** German Industrial Orders (Aug), US RCM/TIPP Economic Optimism, NY Fed SCE, Atlanta Fed GDP, Canadian Trade Balance (Aug), Ivey PMI (Sep), Chinese FX Reserves (Sep). **Suspended:** US International Trade, Consumer Credit. **Events:** EIA STEO. **Speakers:** Fed's Bostic, Bowman, Miran, Kashkari; ECB's Lagarde, Nagel. **Supply:** Japan, UK, Germany, US. **Earnings:** McCormick & Company. **Holiday:** China, South Korea.
- **WEEK AHEAD:** Highlights include FOMC Minutes, ECB Minutes, RBNZ, Canada jobs, OPEC+, Japan LDP leadership election. [Click here for the full report.](#)
- **CENTRAL BANK WEEKLY:** Previewing RBNZ, FOMC Minutes, ECB Minutes; Reviewing RBA and RBI. [Click here for the full report.](#)
- **US WEEKLY EARNINGS ESTIMATES:** Thin earnings docket with PEP the standout. [Click here for the full report.](#)

MARKET WRAP

US indices were primarily green with outperformance in the Nasdaq thanks to the rally in AMD shares. AMD has signed a deal with OpenAI, with OpenAI to deploy 6 gigawatts of AMD GPUs based on a multi-year agreement. Sectors were predominantly firmer, with Consumer Discretionary, Tech and Utilities leading the gains, while Real Estate, Consumer Staples and Health Care underperformed. Note, the Dow was the only sector to close red as Verizon (VZ) put downward pressure on the index following a CEO transition. US macro updates were light, given the US government shutdown entering its second week, with little sign of progress on a reopening so far. In FX, the Yen was the clear underperformer after Sanae Takaichi, who's perceived to advocate for looser fiscal policy and a more delayed BoJ tightening cycle, won the LDP leadership election. Meanwhile, the Euro was also pressured after the French PM resigned on the view that he couldn't form a working cabinet. Therefore, DXY saw modest strength due to the Yen and Euro weakness, while UST yields also moved higher. Treasury trade remains quiet amid the government shutdown and lack of data, with expected volatility in Treasuries (measured by the ICE BofA MOVE index) falling to lows last seen in December 2021. In commodities, crude prices are firmer following the modest OPEC+ 137k hike (some had expected 500k given recent reports). Meanwhile, gold surged above USD 3,900/oz as a possible solution to the US government shutdown remains to be seen. This week's focus will lie on UST supply, several Fed speakers, FOMC Minutes, and the Prelim October UoM report.

FIXED INCOME

T-NOTE FUTURES (Z5) SETTLED 9 TICKS LOWER AT 112-12+

T-notes bear steepen ahead of supply while the government remains shutdown. At settlement, 2-year +2.3bps at 3.595%, 3-year +2.6bps at 3.613%, 5-year +3.5bps at 3.743%, 7-year +3.7bps at 3.938%, 10-year +3.9bps at 4.158%, 20-year +4.0bps at 4.721%, 30-year +4.1bps at 4.755%.

INFLATION BREAKEVENS: 1-year BEI +1.4bps at 3.228%, 3-year BEI +1.3bps at 2.676%, 5-year BEI +1.1bps at 2.417%, 10-year BEI +0.6bps at 2.330%, 30-year BEI +0.6bps at 2.247%.

THE DAY: T-notes were sold on Monday with Treasury traders still awaiting the resumption of key economic data amid the government shutdown. Bloomberg highlighted that the shutdown and lack of data have seen the ICE BofA MOVE Index fall to the lowest level since December 2021 on Friday, taking another leg lower following the shutdown. However, outside the US, price action was busy with volatile JGB trade overnight on the LDP Leadership election that saw Takaichi announced as LDP leader, initially seeing 10yr JGBs surge as the expansionist economic policies proposed saw traders dial back BoJ rate hike bets, albeit the move did pare with rate hikes only likely set to be postponed, not removed completely. Bloomberg reported that a Takaichi adviser said a hike by the BoJ in October would be too soon, but it would be better timed in December. Meanwhile, in Europe, OATs underperformed after the resignation of new French PM Lecornu, seeing the OAT-Bund 10yr spread widen to a new YTD peak of c. 88.2bps. There was little to digest from the US on Monday, given the shutdown, but this week will see UST supply, several Fed speakers, FOMC Minutes, and the Prelim October UoM report.

SUPPLY

Notes/Bonds

- US Treasury to sell USD 58bln in 3yr notes on Oct 7th, USD 39bln of 10yr notes on Oct 8th and USD 22bln in 30yr bonds on Oct 9th; all to settle October 15th; sizes all as expected

Bills

- US sold USD 84bln of 3-month bills at high rate of 3.850%, B/C 2.91x; sold USD 75bln of 6-month bills at high rate of 3.695%, B/C 3.04x.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: Oct 24bps (prev. 24bps), Dec 45bps (prev. 46bps), January 56bps (prev. 57bps).**
- NY Fed RRP op demand at USD 22bln (prev. 25bln) across 19 counterparties (prev. 14)
- EFFR at 4.09% (prev. 4.09%), volumes at USD 95bln (prev. 102bln) on October 3rd.
- SOFR at 4.18% (prev. 4.20%), volumes at USD 3.018tln (prev. 3.022tln) on October 3rd.

CRUDE

WTI (X5) SETTLED USD 0.81 HIGHER AT 61.69/BBL; BRENT (Z5) SETTLED USD 0.94 HIGHER AT USD 65.47/BBL

Crude prices gained after a modest OPEC+ hike. In the Sunday meeting, OPEC+ agreed to hike production by 137k, a hike seen as modest given reports last week pointed towards a 500k bpd hike. The group remains cautious about increasing its production share in the global oil market due to predictions of an upcoming supply surplus in Q4 and into next year. Crude benchmarks gapped higher, hitting eventual peaks of USD 62.12/bbl and 65.77/bbl in WTI and Brent, respectively, before paring some strength throughout the day. Crude prices saw brief upside later in the session following Reuters reports that Russia's Kirish oil refinery has halted its largest unit, the CDU-6, following a second attack from Ukraine in a month. The CDU-6 unit has a capacity of 160k bpd, accounting for ~40% of the plant's total processing capacity. Industry sources noted that recovery could last a month. Sideways trade lasted into the oil settlement. Following Hamas's agreement to release all Israeli hostages, Hamas and Israeli delegations began negotiations in Egypt. Note, UBS writes that oil demand has likely peaked for 2025 and should gradually fall in the months ahead. UBS expects Brent to remain in a USD 60-70/bbl band and estimates that the actual volume of additions from the OPEC+ 137bpd hike in November will be only 60-70k BPD.

EQUITIES

CLOSES: SPX +0.36% at 6,740, NDX +0.78% at 24,979, DJI -0.14% at 46,695, RUT +0.41% at 2,486

SECTORS: Real Estate -0.99%, Consumer Staples -0.59%, Health -0.48%, Financials -0.11%, Materials +0.01%, Industrials +0.47%, Energy +0.52%, Technology +0.57%, Communication Services +0.88%, Utilities +0.98%, Consumer Discretionary +1.05%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.36% at 5,631, Dax 40 +0.07% at 24,396, FTSE 100 -0.15% at 9,477, CAC 40 -1.36% at 7,972, FTSE MIB -0.29% at 43,132, IBEX 35 -0.08% at 15,573, PSI +0.78% at 8,178, SMI +0.28% at 12,544, AEX +0.56% at 967

STOCK SPECIFICS

- **AMD (AMD):** Signed an AI chip-supply deal with OpenAI, with an option for a 10% stake.
- **Comerica (CMA):** Fifth Third Bancorp (FITB) to buy CMA in a USD 10.9bln deal.
- **Critical Metals (CRML):** The Trump admin rejected reports that it's looking to take a stake in CRML.
- **Tesla (TSLA):** Teased an October 7th scheduled event.
- **Firefly Aerospace (FLY):** To acquire SciTec for ~USD 855mln.
- **Micron (MU):** Upgraded to 'Overweight' from 'Equal Weight' at Morgan Stanley.
- **TPG (TPG):** Upgraded at JPMorgan to 'Overweight' from 'Neutral'.
- **Papa John's (PZZA), Shake Shack (SHAK), Portillo's (PTLO), Sweetgreen (SG):** Downgraded at BofA.
- **Verizon (VZ):** Appointed Dan Schulman as CEO, effective immediately. Reiterated FY guidance. Dan Schulman previously served as the CEO of PayPal (PYPL).
- **Spotify (SPOT):** Announced that Spotify Free and Premium users can bring Spotify into their ChatGPT conversations.
- **OpenAI:** CEO Altman says, "there are many parts of AI that are kind of bubbly, I think this is how new tech revolutions go". Meanwhile, Altman said ChatGPT now has 800mln active weekly users (vs 700mln in a mid-September report, and 400mln in February).
- **Applovin (APP)** has been probed by the SEC over data-collection practices, Bloomberg reports. Note, Muddy Research earlier in the year published a short report alleging that AppLovin's ad tactics "systematically" violate app stores' terms of service by "impermissibly extracting proprietary IDs from Meta, Snap, TikTok, Reddit, Google, and others." In so doing, AppLovin is funnelling targeted ads to users without their consent.

FX

The Dollar Index was bid, largely thanks to heavy JPY selling after the Japanese LDP election (more below). Aside from political developments in France and Japan, US newsflow remained on the quiet side as the US government shutdown entered its second week. Tier 1 releases were absent, and so was Fed speak, leaving international developments as the main drivers. Trade updates saw US President Trump announce 25% tariffs on all medium and heavy-duty truck imports into the US. Meanwhile, Trump and Brazilian officials sounded optimistic about the call between Trump and Brazilian President Lula, with Lula asking Trump to withdraw 40% tariffs on all Brazilian goods. The dollar remained muted towards the trade subject. DXY sits at ~98.10 from Friday's close of 97.71.

The Euro and OATs faced pressure following the French PM's resignation after recent appointments to the PM's cabinet were met with heavy disapproval from opposing parties. GE/FR spreads hit their widest level since January, with the focus now on President Macron's next steps, namely, if and who he appoints as successor. As it stands, outgoing PM Lecornu and Macron are to hold last-ditch talks, with Lecornu remarking that he will tell Macron by Wednesday evening if it is possible or not, so he can draw the

appropriate conclusions. EUR/USD now trades lower at ~1.1710 from earlier 1.1741 highs. GBP, CAD, and CHF were little changed against USD.

JPY was by far the worst G10 performer to start the week, weighed by Sanae Takaichi winning the LDP Leadership election. Takaichi is viewed by markets as an advocate for looser fiscal policy and for a delayed BoJ rate hike cycle, and as such, a bearish development for the Yen, putting USD/JPY at from at ~150.2 from earlier lows of 149.06. Takaichi adviser Honda said it would be a "bit too much" if USD/JPY breached 150. The move was accompanied by a dovish repricing in BoJ expectations, with a ~75% chance of a hold seen at the October meeting and ~50% chance in December. Next steps include BoJ Governor Ueda's appearance on October 8th, and the Diet returning in mid-October with a vote to appoint LDP's Takaichi as PM due thereafter. Elsewhere, risk-on trade was seen in Antipodes, with focus on the upcoming RBNZ rate decision on Wednesday.

BRL heads into APAC trade firmer against USD following positive commentary from the admin on Lula's call with Trump. Discussions between the two are to continue, with Brazil aiming for the US to remove its 40% tariffs on its goods. Meanwhile, BCB's Galipolo said central bankers currently believe the dollar's behaviour is now responding much more to the US policy cycle and expectations of rate cuts. On inflation, Galipolo remarked it's still far from the 3% target, and expects credit to slow down.

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