

Stocks hit on AI margin fears, bonds lifted

- **SNAPSHOT:** Equities down, Treasuries up, Crude flat, Dollar up, Gold up
- **REAR VIEW:** The Information raises AI profitability concerns; NY Fed 1 & 5-year inflation expectations rise; Economic Optimism falls; Miran reiterates dovish arguments; Kashkari appears more concerned about inflation; Strong 3yr auction; EIA raises 2025 world oil demand forecast; TSLA lowers vehicle prices; DELL lifts guidance; IBM partners with Anthropic.
- **COMING UP:** **Data:** German Industrial Output (Aug), Japanese Overtime Pay (Aug), Swedish CPI Flash (Sep). **Events:** RBNZ & NBP Policy Announcements, FOMC Minutes (Sep). **Speakers:** ECB's Elderson, Lagarde; Fed's Musalem, Barr, Goolsbee, Kashkari; BoE's Pill. **Supply:** Australia, UK, Germany, US. **Holiday:** China.

MARKET WRAP

Stocks were sold on Tuesday, with weakness seen in the wake of reports in The Information that internal data shows the financial challenge of renting out NVIDIA (NVDA) chips and its impact on margins. This hit the large-cap tech sectors and weighed on indices before then hovering into the close. Oracle also sold off aggressively but closed off lows as several analysts were out defending the name, describing it as a buying opportunity. The downside in equities resulted in upside in T-notes, while gold had been pushing higher anyway, with futures hitting USD 4,000/oz. Gold did briefly move off highs, tracking other metals (silver and copper), but managed to reclaim the brief bout of weakness, while silver and copper did not. In FX, the Dollar climbed further, supported by a weaker Euro and Yen as the currencies continue to take a beating after the French PM resignation and Takachai winning the LDP leadership election. However, NZD underperformed ahead of RBNZ tonight, where market pricing is leaning towards a 50bps rate cut. Oil prices were choppy in thin news flow, ultimately settling flat. Data highlights saw the NY Fed SCE post higher inflation expectations in the one and five-year forecasts, while the RCM/TIPP Economic Optimism index declined slightly - neither sparked a market reaction. Fed speak saw Miran continue to toe a dovish line while Kashkari appeared more concerned about inflation than the labour market. Elsewhere, the 3-year T-note auction was well received.

US

NY FED SCE: One and three-year-ahead inflation expectations rose to 3.4% (prev. 3.2%) and to 3.0% (prev. 2.9%), respectively. The three-year-ahead inflation expectation was unchanged at 3.0%. Concerning labour, one-year ahead earnings growth expectations fell 0.1% to 2.4%, its lowest reading since April 2021. The mean probability that the unemployment rate will be higher one year from now increased 2% to 41.1%, the mean perceived probability of losing one's job in the next 12 months rose 0.4% to 14.9%, and the perceived probability of finding a job in the next three months if one's current job was lost rebounded from a series low of 44.9% in August to 47.4%. Regarding households, the expected growth in household income was unchanged at 2.9% (in line with TTM avg), while nominal household spending growth expectations fell 0.3% to 4.7%. Expectations about year-ahead financial situations deteriorated slightly, with a smaller share of respondents reporting that their households are expecting to be better off a year from now. For stocks, the perceived probability that US stock prices will be higher 12 months from now jumped 0.9% to 39.8%.

RCM/TIPP ECONOMIC OPTIMISM: The gauge of US consumer confidence slipped slightly in October to 48.3 from 48.7, marking two consecutive months below 50, signalling continued pessimism. The report also notes it is below the 297-month historical average of 49.2. Within the survey, investor confidence declined 2.0%, while non-investor confidence rose 1.2%. Meanwhile, the Personal Financial Outlook improved to 55.6 from 53.4. The Confidence in Federal Economic Policies declined to 46.4 from 47.3. Looking ahead, the six-month economic outlook index fell to 42.8 from 45.5. It also highlights that the Financial-Related Stress Index fell to 63.3 from 65.3, noting that a reading above 50 signals increased stress. The last time it was sub-50 was in February 2020, before the COVID pandemic. Meanwhile, this month's reading is above the 60.4 average since December 2007, signalling heightened financial stress relative to the long-term average. Raghavan Maury, President of TechnoMetrica, which conducted the survey, said, "Concerns about inflation and the impact of tariffs remain high, with food prices standing out as the leading economic worry."

FED'S MIRAN: Miran remains optimistic going forward, citing the removal of uncertainty and a more sanguine inflation outlook than other Fed members. Miran believes average recent inflation should moderate and doesn't see tariffs driving inflation by that much. Keep in mind, these are all well-known views of the Fed dove. Miran remarked on other known views, noting the real neutral rate is likely 0.5%, and he has a preference for policy to be forward-looking, given the lags of policy impact. Miran is optimistic the Fed will have the needed data by the October FOMC, but added that private data doesn't fill the gap.

KASHKARI (2026 Voter): The Minneapolis Fed president says it is too soon to know if inflation will be sticky from tariffs, noting data is sending some stagflation signals. He is bullish on labour as workers have a very important role in the economy. He also said there is a lack of evidence supporting declarations of AI replacing workers. He believes it is far too soon to know the impact of AI on the economy. On rates, he reiterated that the Fed is committed to making decisions based on data and analysis, not political considerations. He is not convinced that a few rate cuts will translate to lower mortgage rates, and if the Fed were to drastically lower rates, he would expect the economy to have a burst of high inflation. Kashkari added that if there's massive demand for investment in data centres, that will push up interest rates.

FIXED INCOME

T-NOTE FUTURES (Z5) SETTLED 9 TICKS HIGHER AT 112-21+

T-notes catch bid as risk sentiment sours. At settlement 2-year -0.2bps at 3.543%, 3-year -0.1bps at 3.555%, 5-year -0.8bps at 3.672%, 7-year -1.4bps at 3.861%, 10-year -1.9bps at 4.087%, 20-year -2.3bps at 4.656%, 30-year -2.1bps at 4.694%.

INFLATION BREAKEVENS: 1-year BEI +0.1bps at 3.216%, 3-year BEI -0.5bps at 2.668%, 5-year BEI -1.9bps at 2.406%, 10-year BEI -1.0bps at 2.320%, 30-year BEI -0.4bps at 2.235%.

THE DAY: T-notes saw mild pressure in the European morning to hit lows in the US morning before paring as US trade got underway. A flip into negative risk sentiment came after an article in The Information highlighted the challenge that data centre names have when renting out NVIDIA (NVDA) chips, weighing on the large-cap tech AI names. The downside in equities sparked bidding across the Treasury curve. There were also several Fed speakers around this time, with Governor Miran continuing to toe a dovish and optimistic line, while Kashkari appeared more concerned about inflation than the labour market. The data highlights were the NY Fed SCE and the RCM/TIPP Economic Optimism index. The NY Fed saw inflation expectations rise in the one-year and five-year, while unemployment expectations rose 2%, with the mean perceived probability of losing one's job in the next year also rising by 0.4%, and the probability of finding a job in the next three months if the current job was lost rebounded to 47.4% from 44.9%. Meanwhile, the RCM/TIPP economic optimism saw a slight decline. The six-month outlook also dropped, the personal financial outlook improved, and confidence in federal economic policies fell. Attention then turned to the 3-year auction, which was well received (more below).

SUPPLY

Notes/Bonds

3-Year: Overall, a strong auction. The US Treasury sold USD 58bln of 3yr notes at a high yield of 3.576%, stopping through the when issued by 0.8bps, another sign of strong demand after the September offering, which saw a 0.7bps stop through. The bid-to-cover was not as high as last month's, 2.66x vs September's 2.73x, but was still above the six-auction average of 2.55x. Direct demand saw an improvement, rising to 26.58% from 17.4%, above the 20.5% average, while indirect demand fell to 62.7% from 74.2%, slightly below the six auction average of 64.1%. This left dealer participation at 10.72%, an increase from last month's but not as high as the six-auction-average. US Treasury to sell 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 6-week bills at a high rate of 4.000%, B/C 2.69x
- US to sell USD 95bln of 8-week bills (prev. 90bln), to sell USD 69bln of 17-week bills (prev. 67bln) on October 8th; to sell USD 110bln of 4-week bills (prev. 105bln); all to settle on October 14th

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: Oct 24bps (prev. 24bps), Dec 45bps (prev. 45bps), January 55bps (prev. 56bps).**
- NY Fed RRP op demand at USD 5bln (prev. 22bln) across 16 counterparties (prev. 19)
- EFRR at 4.09% (prev. 4.09%), volumes at USD 84bln (prev. 95bln) on October 6th.
- SOFR at 4.15% (prev. 4.18%), volumes at USD 2.981tn (prev. 3.018tn) on October 6th.
- Treasury Buyback (Liquidity Support, 10-20yr, max. USD 2bln): Accepts USD 2bln of 30bln offered; Offer to cover 15x (prev. 12x), accepts 2 out of 32 eligible issues.

CRUDE

WTI (X5) SETTLED USD 0.04 HIGHER AT 61.73/BBL; BRENT (Z5) SETTLED USD 0.02 LOWER AT 65.45/BBL

Crude prices take a breather after a two-day bounce, settling flat. WTI and Brent saw a gradual decline through the day with choppy trade in between, experiencing large swings at times despite light newsflow, before paring losses into settlement. Energy updates include a marginal rise to ADNOC's November crude OSP at USD 70.22/bbl (prev. 70.10/bbl). Meanwhile, the EIA STEO saw the 2025 world oil demand forecast raised, but the 2026 forecast was maintained. WTI and Brent's intraday range are as follows: USD 60.72-62.04/bbl and 64.53-65.84/bbl, respectively. Separately, and what may arouse geopolitical/trade conflicts in the future, traders selling Russian oil recently began seeking payment in CNY from Indian state refiners, according to Reuters, citing sources. On geopolitics, Senior Hamas official Mahmoud Al-Mardaw said, "President Trump's plan is mainly an Israeli plan"... The resistance will not accept an agreement that does not end the war or one that can represent a reversal of the rights of the Palestinian people". Nonetheless, oil prices were unreactive to geopolitical developments, as focus turns to the Private Inventory data after the US close. Expectations (bbls): Crude +1.9mln, Distillate -1.2mln, Gasoline -0.9mln.

EQUITIES

CLOSES: SPX -0.38% at 6,715, NDX -0.55% at 24,840, DJI -0.20% at 46,603, RUT -1.12% at 2,458

SECTORS: Consumer Discretionary -1.43%, Communication Services -0.73%, Industrials -0.57%, Technology -0.52%, Materials -0.29%, Real Estate -0.29%, Health +0.08%, Financials +0.14%, Energy +0.14%, Utilities +0.42%, Consumer Staples +0.86%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.33% at 5,610, Dax 40 +0.04% at 24,389, FTSE 100 +0.05% at 9,484, CAC 40 +0.04% at 7,975, FTSE MIB -0.17% at 43,071, IBEX 35 -0.19% at 15,527, PSI -0.75% at 8,117, SMI -0.16% at 12,531, AEX -0.64% at 961

STOCK SPECIFICS

- **Oracle (ORCL)** is banking on bigger revenue to offset profit margin decreases. The Information reports that internal data

shows the financial challenge of renting out Nvidia (NVDA) chips. The Information says previously undisclosed data on Oracle AI cloud business points to an industry-wide challenge. "Internal documents show the fast-growing cloud business has had razor-thin gross profit margins in the past year or so, lower than what many equity analysts have estimated". Following the report, Mizuho analyst Panigrahi reaffirmed an Outperform rating on Oracle with a USD 350 PT, viewing today's share decline after The Information article on AI margins as a buying opportunity.

- **Tesla (TSLA)**: Website showed standard RWD Model Y in the US is priced at USD 39,990 with range of 321 miles (EPA est.); Standard RWD Model 3 in the US is priced at USD 36,990 with 321 Miles (EPA est.); Standard Model Y and Model 3 open for orders immediately; many location show deliveries between December 2025 and January 2026.
- US DoE reportedly mulling revoking up to USD 1.1bln in grants for **General Motors (GM)** and **Stellantis (STLA)**, via a document cited by Reuters.
- **Eli Lilly (LLY)**: Ex-FDA regulator Peter Marks reportedly joins Eli-Lilly (LLY), via STAT News
- **International Business Machines (IBM)**: Announced partnership with Anthropic.
- **Dell (DELL)**: Raised outlook on long-term annual revenue growth and reaffirmed FY outlook for Q3 and FY26.
- **AMD (AMD)**: Upgraded at Jefferies with new USD 300 PT after OpenAI deal.
- **Constellation Brands (STZ)**: Top & bottom line beat.
- **IREN (IREN)**: Signed additional multi-year cloud services contracts.
- **Trilogy Metals (TMQ)**: US to take 10% stake in TMQ.
- **Hudbay Minerals (HBM)**: Resumed operations at the Constancia mine in Peru.
- **James Hardie (JHX)**: Q2 guidance topped expectations.
- **Netflix (NFLX)**: Upgraded to 'Buy' from 'Neutral' at Seaport Research.
- **Dollar Tree (DLTR)**: Downgraded at Jefferies to 'Underperform' from 'Hold'.
- **GE HealthCare (GEHC)**: Downgraded to 'Neutral' from 'Buy' at Citi.

FX

The Dollar broadly strengthened against G10 peers. The continuation of the US government shutdown is failing to have a lasting impact on USD, as perhaps continued USD selling needs a new catalyst to move lower, namely, the largely absent US data. NY FED SCE saw an uptick in the one-year-ahead and five-year-ahead inflation expectations, while the perceived probability of finding a job in the next three months if one's current job was lost rebounded somewhat from a series low. Separately, the RCM/TIPP Economic Optimism fell in October. The day saw multiple Fed speakers. Governor Miran continues to have a sanguine outlook on inflation, while 2026 voter Kashkari cautioned on tariffs impact on inflation, and is not convinced that a few rate cuts will translate to lower mortgage rates. DXY now hovers around 98.6 from earlier 98.125 lows.

G10FX was entirely sold against the USD, with JPY extending on the Takiachi/LDP-infused weakness seen on Monday. USD/JPY broke above the March 150.21 high, hitting peaks of 151.93. NZD was also offered ahead of the RBNZ rate decision overnight. As it stands, 46% of a 25bps RBNZ cut is priced in by money markets while the remaining 54% prices in a 50bps rate cut. Participants will then eye the statement for any clues on policy and if the central bank will continue to lower rates to below its previously projected trough of around 2.50%. [Click here for the full RNBZ Newsquawk Preview.](#)

In Europe, German Industrial Orders fell less than expected in August, -0.8% (exp. 1.1%, prev. -2.9%, rev. -2.7%). Destatis writes that "The negative development in new orders in the manufacturing sector in August 2025 is primarily due to the significant decline in new orders in the automotive industry (seasonally and calendar-adjusted -6.4% compared to the previous month)." EUR/USD now trades at ~1.1660, while EUR/GBP was marginally lower at ~0.8680.

EMFX: Argentina reportedly has spent at least USD 1.5bln over six days defending the ARS, Bloomberg writes. USD/ARS was little changed on the day. Elsewhere, HUF saw notable underperformance amongst CEE peers amid government pressure to cut rates despite the NBH standing firm on its tight policy view. Hungary's Economy Minister sounded similar to PM Orbán on Monday, calling the base rate too high and saying that the NBH could ease and meet its inflation target. Meanwhile, Hungarian Industrial Output saw a notable decline.

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