

### Stocks chop as US/China rhetoric ramps up while big bank earnings give mixed signals

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude down, Dollar down, Gold up.
- **REAR VIEW:** US-China relations worsen, Trump threatens terminating trade on cooking oil while China targets five US-linked firms; Powell sticks to neutral tone, floats incoming end to balance sheet contraction; French PM suspends pension reform until next Presidential election; UK unemployment Rate unexpectedly ticks higher; Germany's ZEW misses expectations; JPM & GS lower after earnings, WFC, BLK & C higher; ORCL Cloud announces plans to deploy 50k AI AMD chips.
- **COMING UP:** **Data:** Chinese CPI/PPI (Sep), EZ Industrial Production (Aug), NY Fed Manufacturing (Oct), Cleveland Fed CPI (Sep). **Events:** US Military Pay Date, Fed Beige Book. **Suspended Releases:** US CPI (Sep). **Speakers:** RBNZ's Conway; BoE's Ramsden, Breedon; ECB's de Guindos, Lane, Lagarde; Fed's Miran, Bostic, Waller, Schmid; RBA's Bullock, Kent. **Supply:** Australia, UK, Germany. **Earnings:** ASML, Bank of America, Morgan Stanley, Dollar Tree, Progressive.

### MARKET WRAP

US indices saw a gyration on Tuesday, as they were initially weighed on by continued heightened US/China tensions and mixed US bank earnings. Afterwards, indices reversed through the majority of the US session, before once again falling near the close as Trump once again upped his rhetoric on China. Overnight, MOFCOM said it is taking countermeasures against five US-linked firms and said the US cannot have talks while threatening new restrictions. Meanwhile, USTR's Greer later stated they have had constructive talks with China over the past six months, but China's rare earth measures are disproportionate, and 100% US tariffs on China could come sooner than November 1st. Trump concluded the day's updates on China, threatening to terminate business with China on cooking oil. Sectors ended mixed, as Tech and Consumer Discretionary lagged, while Consumer Staples and Industrials outperformed. On earnings (more details below), JPM and GS were the laggards, while WFC and BLK strengthened as attention turns to MS and BAC on Wednesday. The Dollar was lower and weighed on by the aforementioned US/China news, which saw AUD as the distinct G10 underperformer and once again fell foul towards the broader risk sentiment; JPY outperformed. The crude complex was weighed amid heightened US/China trade tensions and an oversupply of global oil as the IEA said the world oil market faces a surplus of almost 4m bpd next year. Spot gold was firmer but didn't get near the highs seen in the APAC session. Treasuries saw gains across the curve, and most notable in the short-end, while Powell touted an end of balance sheet drawdown. Ahead of the Fed blackout at midnight on Friday, the Chair said little new about the economy or on the interest rate path, but mentioned the Fed may be approaching the end of the balance sheet contraction in the coming months, and officials will be discussing the composition.

### FED

**FED CHAIR POWELL:** In the text release, there was little new information about the economy or on the interest rate path. It appears amid the government shutdown, he is relying on data already available, but added that there are other data sources used other than by the government. He does not appear to be focusing on one side of the mandate over the other, noting how downside risks to the labour market have risen, but available data shows tariffs are pushing up price pressures. Note, US CPI will be released on October 24th, the Friday before the next Fed meeting. Powell mentioned the Fed may be approaching the end of the balance sheet contraction in the coming months, and officials will be discussing the composition. The Fed have said before they want to get to a Treasury-only balance sheet - which Powell reiterated here. Reminder, in March, the Fed announced it will slow the pace of its balance sheet run off - reducing the monthly redemption cap on Treasuries to USD 5bn from USD 25bn, but maintained the MBS redemption cap at USD 35bn to support a move to a Treasury-only balance sheet. Powell stated here that the Fed's long-standing plan is to stop the balance sheet run off when reserves are somewhat above the level they judge to be consistent with an ample amount of reserves. Powell said now they may approach that point in the coming months. In the accompanying Q&A, he added data since the July meeting shows the labour market has softened considerably, and noted they will get access to the CPI and PPI report [before the next FOMC meeting]. On this, the Chair noted the Fed will start to miss data, which will become more challenging if the shutdown lingers and October is delayed. There is plausible data for the state of the job market, though private data is best as a supplement, and added substitutes are better for the job market than they are for inflation. Speaking on the balance sheet, Powell said not so far but a way to go.

**FED'S BOWMAN (voter):** Maintained her view of two more 25bps rate cuts before the year end, putting her in line with the Fed September SEP median view and alongside 8/19 members who share the same view.

**FED'S COLLINS (2025 voter):** The Boston Fed President said even with some additional easing, monetary policy would remain mildly restrictive, which is appropriate to ensure inflation resumes its decline once tariff effects fade. However, Collins acknowledged that policy is not a preset path; ahead, decisions will depend on data and their implication for the outlook. Given inflation risks are somewhat more contained, but with greater downside risks to employment, Collins argues that it's prudent to normalise policy a bit further this year to support the labour market. Collins expects more growth, a small climb in unemployment, and inflation to remain elevated in the near term, largely due to tariffs. Albeit, Collins' baseline is for inflation to remain elevated into next year as tariffs get passed through, before resuming its decline.

## FIXED INCOME

### T-NOTE FUTURES (Z5) SETTLED 8 TICKS HIGHER AT 113-13

**T-Notes add to recent upside as US/China tensions boil while Powell touts end of balance sheet drawdown.** At settlement, 2-year -4.6bps at 3.477%, 3-year -4.9bps at 3.481%, 5-year -4.8bps at 3.599%, 7-year -4.3bps at 3.789%, 10-year -3.2bps at 4.019%, 20-year -1.7bps at 4.582%, 30-year -1.5bps at 4.619%.

**INFLATION BREAKEVENS:** 1-year BEI -2.5bps at 3.195%, 3-year BEI -1.2bps at 2.625%, 5-year BEI -1.5bps at 2.364%, 10-year BEI -1.3bps at 2.291%, 30-year BEI -0.6bps at 2.228%.

**THE DAY:** T-Notes climbed overnight and through the morning to hit peaks around the start of US trade. Upside was supported by haven demand amid further tensions between the US and China. China announced it has taken countermeasures against five US-linked firms. T-Notes had then pared some of the upside ahead of Fed Chair Powell. The Fed Chair gave little new information on his view on the Federal Funds rate and the economy, reiterating that downside risks to the labour market have increased, while available data shows tariffs are pushing up prices. He also noted the data in hand suggests the current economy is where it was in September. T-Notes did see some slight gains in the wake of Powell's speech, however, albeit this was primarily related to commentary on the balance sheet. The Fed Chair indicated reserves may reach an ample level in the coming months — a threshold the Fed has long associated with ending balance sheet runoff. When this occurs, the Fed will stop allowing up to USD 5bn in Treasuries to roll off each month and will instead reinvest the full amount of maturing Treasury holdings, effectively stabilizing the size of its balance sheet. Powell also reiterated the Fed's longer-term goal of holding only Treasuries, suggesting that when the time comes, the Fed may continue allowing MBS to roll off while fully reinvesting maturing Treasury holdings.

### SUPPLY

#### Bills

- US to sell USD 110bn in 4-week bills and USD 95bn in 8-week bills on October 16th; to sell USD 69bn of 17-week bills on October 15th; all to settle October 21st
- US sold USD 3-month bills at a high rate of 3.845%, B/C 2.88x; Sold 6-month bills at a high rate of 3.685%, B/C 2.95x
- US sold 6-week bills at a high rate of 4.010%, B/C 2.62x

### STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: Oct 24bps (prev. 25bps), Dec 49bps (prev. 48bps), January 62bps (prev. 60bps).**
- NY Fed RRP op demand at USD 3.51bn (prev. 4.1bn) across 7 counterparties (prev. 10)
- SOFR at 4.10% (prev. 4.10%), volumes at USD 87bn (prev. 84bn) on October 10th.
- SOFR at 4.15% (prev. 4.13%), volumes at USD 2.895tn (prev. 2.923tn) on October 10th.

## CRUDE

### WTI (X5) SETTLED USD 0.79 LOWER AT USD 58.70/BBL; BRENT (Z5) SETTLED USD 0.93 LOWER AT USD 62.39/BBL

**The crude complex was lower, reversing some of Monday's gains, amid heightened US/China trade tensions and an oversupply of global oil.** Overnight, China's MOFCOM said it is taking countermeasures against five US-linked firms and said the US cannot have talks while threatening new restrictions. Meanwhile, USTR's Greer later stated they have had constructive talks with China over the past six months, but China's rare earth measures are disproportionate, and 100% US tariffs on China could come sooner. Re. the oversupply, the IEA lowered its 2025 world oil demand growth forecast to 710k BPD (prev. 740k BPD), and notably added that the world oil market faces a surplus of almost 4mln BPD next year as OPEC+ producers and non-OPEC rivals raise output and demand remains sluggish. Focus continues to surround the Israel/Hamas deal - Israel will reportedly not reopen the Rafah border crossing between Gaza and Egypt on Wednesday, and will reduce the flow of aid into the territory as Hamas has only returned 4 of the 28 Israeli hostages' bodies. On this, Trump said the job is not done as the dead have not been returned, adding phase two begins "right now", and later noted "we'll find out", when asked if Hamas is holding up their side of the deal. WTI traded between USD 57.68-59.82/bbl and Brent 61.50-63.63.

## EQUITIES

**CLOSES:** SPX -0.16% at 6,644, NDX -0.69% at 24,579, DJI +0.44% at 46,270, RUT +1.38% at 2,495

**SECTORS:** Technology -1.59%, Consumer Discretionary -0.26%, Energy -0.07%, Communication Services +0.23%, Health +0.27%, Materials +0.87%, Utilities +0.92%, Real Estate +1.06%, Financials +1.12%, Industrials +1.17%, Consumer Staples +1.72%.

**EUROPEAN CLOSES:** Euro Stoxx 50 -0.16% at 5,559, Dax 40 -0.64% at 24,232, FTSE 100 +0.10% at 9,453, CAC 40 -0.18% at 7,920, FTSE MIB -0.22% at 42,076, IBEX 35 +0.29% at 15,586, PSI +0.02% at 8,228, SMI -0.43% at 12,431, AEX -0.25% at 949.

### EARNINGS:

- **Goldman Sachs (GS):** Expenses rose more than expected; note, EPS, revenue, & FICC topped with provision for credit losses better than anticipated.
- **JPMorgan (JPM):** EPS, revenue, FICC & equities revenue beat; Credit loss provision. above expected, with NII light; Solid FY NII guidance.
- **Wells Fargo (WFC):** Top & bottom-line beat; note, NII & NIM missed.
- **Johnson & Johnson (JNJ):** EPS, revenue topped & raised FY sales guidance.
- **BlackRock (BLK):** Profit and revenue surpassed Wall St. expectations.

- **Ericsson (ERIC):** Q3 results were significantly boosted by the sale of Iconectiv, resulting in a one-time capital gain.

#### STOCK SPECIFICS:

- **Oracle Cloud (ORCL)** announced plans to deploy 50k AMD (AMD) AI chips.
- **Walmart (WMT)** partnered with OpenAI to create AI-first shopping experiences; plans an instant checkout via ChatGPT for customers shopping.
- **General Motors (GM)** approved USD 1.6bln in charges for its EV alignment.
- **Polaris (PII)** to spin off Indian Motorcycle into a standalone Co. and will be accretive to EBITDA & EPS
- **Alphabet (GOOGL)** to spend \$15bln on AI data centre in largest India investment
- **Samsung Electronics** expects strongest profit in 3yrs.
- **Microsoft (MSFT)** will rent capacity from Nscale at a data centre in Portugal, as the company expands its computing resources to meet growing demand for AI, according to Bloomberg; project will use NVIDIA's (NVDA) latest AI chips.
- **Intel (INTC)** revealed a 160-GB, energy-efficient data center GPU that is part of a new annual GPU release cadence to deliver on the chipmaker's new strategy of providing open systems and software architecture for AI systems, according to CRN.

#### BROKER MOVES:

- **T-Mobile (TMUS)** upgraded at RBC Capital to 'Outperform' from 'Sector Perform'.
- **Albemarle (ALB)** downgraded to 'Neutral' from 'Buy' at BofA.
- **Salesforce (CRM)** downgraded at Northland to 'Market Perform' from 'Outperform'.

## FX

**USD:** Overnight updates from China's Ministries defending China's national interests weighed on the dollar and US equities in APAC trade. The Transport Ministry has opened an investigation into the US 301 tariffs' impact on China's shipping industry, while the Commerce Ministry took countermeasures against five US-linked firms. Choppy trade followed, DXY hit APAC lows of 99.07 before moving to 99.475 highs in the US morning on little newsflow, before again moving lower despite the rebound in US equities, hitting fresh lows of 98.985. USTR Greer, in an interview with CNBC, said 100% US tariffs on China could come soon; a muted reaction was seen. Elsewhere, developments arrived via the Fed. Chair Powell sparked a slight dovish market move in Treasuries after noting they may be approaching the end of the balance sheet contract in the coming months. Additionally, Powell noted the available data suggests the current economy is where it was in September, but data shows tariffs are pushing up price pressures. Meanwhile, Vice Chair of Supervision Bowman maintained her view of two more 25bps rate cuts by year's end, putting her line with the Fed SEP September median view.

**JPY, EUR, and CHF** saw strength vs. USD on Tuesday, while worsening US-China trade relations limited the rebound in AUD despite the USD weakness through the US afternoon, as the Aussie once again falls foul to broader market sentiment. Meanwhile, Germany's ZEW saw Economic Sentiment fall shy of expectations, 39.3 (exp. 41.0, prev. 37.3), while Current Conditions unexpectedly worsened to -80.0 (exp. -74.8, prev. -76.4). The ZEW President commented that "Hopes for a medium-term recovery remain". At the ECB, Lagarde offered little new on policy, reiterating they are generally in a good place, while Villeroy said the next move is more likely to be a cut than a hike.

**GBP** was weighed by the UK job data, as the ILO Unemployment Rate unexpectedly rose to 4.8% (exp. 4.7%, prev. 4.7%). Concerning wages, 4.7% ex-bonus and a 5.0% headline print are not consistent with further significant easing; though, the BoE will welcome the moderation of private sector wage growth. BoE market pricing took a dovish turn with the first 25bps rate cut fully priced by March 2026 (pre-data April). Cable is now little changed vs USD at ~1.3330 as broad-based USD weakness offset the earlier GBP weakness on said data.

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