

Stocks and bonds chop while the Dollar takes a hit with US/China relations in focus

- **SNAPSHOT:** Equities up, Treasuries down, Crude down, Dollar down, Gold up.
- **REAR VIEW:** BAC & MS beat and rise after earnings; Anthropic announces cheaper model to widen AI's appeal; Stellar ASML report; Beige Book notes employment levels largely stable in recent weeks; Impressive NY Fed Mfg.; Miran sticks to usual dovish tone; Bessent/Greer speak heavily on China.
- **COMING UP:** **Data:** Australian Employment (Sep), UK GDP (Aug), EZ Trade Balance (Aug), Philly Fed (Oct), Atlanta Fed GDP **Suspended Releases:** US Weekly Claims, PPI (Sep), Retail Sales (Sep) **Speakers:** BoJ's Tamura, Uchida; Fed's Waller, Barkin, Barr, Miran, Bowman, Kashkari; ECB's Lane, Lagarde; BoC's Macklem; BoE's Greene, Mann **Supply:** Japan, Spain, France **Earnings:** TSMC, Bank of New York Mellon, KeyCorp, Charles Schwab, United Airlines, ABB.

MARKET WRAP

Equity futures were bid overnight and into the US morning to peak just after the open before momentum turned with equities bottoming out after Europe left for the day. The trough was seen as Tech stocks took a hit, namely NVIDIA (NVDA), seemingly in response to a Reuters article that Anthropic updated its smallest AI model, which is much cheaper than its more expensive models, and performs as well or better. The news revived fears that tech names could be overpaying for AI chips from NVDA when the power needed may not be as much as initially thought - a similar reaction to the Deepseek fears. Elsewhere, there was a lot of focus on US/China relations. WSJ reported overnight that China is betting a hit on the US stock market will cause Trump to cave in negotiations. Meanwhile, Bessent and Greer spoke today, both noting that the recent export controls are a global supply chain power grab and act of economic coercion. However, Greer suggested there is room for positive relations with China, and he expects restrictions will not be implemented. In FX, the Dollar was sold with outperformance in the Pound, Franc and Yen, while CAD and Dollar underperformed. T-Notes bear flattened amid strong data from the NY Fed manufacturing PMI, while there is still a lack of official government data amid the shutdown, which still has no clear route to reopening. Oil prices saw further pressure with US/China and global oversupply fears in focus. Gold prices continued to push to fresh record highs, rising above USD 4,200/oz.

US

FED GOVERNOR MIRAN stuck to his usual dovish tone, but did acknowledge that moving in greater than 50bps increments is not necessary. However, he warned of the rising US/China tensions and noted that there is more downside risk than a week ago. He noted that with the change in the balance of risk, it is more urgent to get to a more neutral policy quickly, warning that the economy is vulnerable to shocks due to restrictive policy. He is less concerned about upside in inflation in the near future, and notes the labour market has clearly weakened. He sees substantial disinflation from housing in the coming months. On data, he is hopeful to have data in hand for the October meeting, and he will not rely on the outlook, but he is not seeing anything in alternative data yet to cast doubt on his base case. On the neutral rate, he said AI investment could lead to a higher rate, but there is difficulty in knowing the neutral rate exactly. On the balance sheet, he said it is appropriate to end QT in the not-too-distant future, adding he is not sure what the marginal benefit of additional reductions to the balance sheet would be.

BEIGE BOOK: Note, with a lack of government data, commentary from the Beige Book may get more attention than usual. It noted economic activity is little changed on balance since the prior report, but the outlook for future economic growth varied by district and sector. On the labour market, employment levels were largely stable in recent weeks, and demand for labour was generally muted across districts and sectors. In most districts, more employers reported lowering headcounts through layoffs and attrition, citing weaker demand, economic uncertainty, and in some cases, AI. Employers who reported hiring generally acknowledged improved labour availability, and some favoured hiring temp/part-time workers over full-time offers. Wages grew across all districts at a modest to moderate pace, while labour cost pressures intensified in recent weeks. The Beige Book has signs of stagflation, with little growth while prices continue to rise. However, employment levels were also largely stable, but more employers reported lowering headcounts.

NY FED MANUFACTURING: NY Fed Manufacturing in October soared to 10.7 from -8.7, above the expected -1.4 and the top end of the forecast range. New orders and employment notably improved to +3.7 (prev. -19.6) and +6.2 (prev. -1.2), respectively, but prices paid also jumped to 52.4 from 46.1. Shipments rose back into positive territory, and inventories improved but remained in negative territory. Looking ahead, the six-month business conditions index printed 30.5 (prev. 14.8), but prices paid and received also moved higher. Overall, NY Fed Research Advisor Deltz said, "Manufacturing activity increased modestly, the third increase in the past four months. Price increases picked up and are expected to pick up further in the months ahead, and optimism about the outlook improved noticeably."

FIXED INCOME

T-NOTE FUTURES (Z5) SETTLED 5+ TICKS LOWER AT 113-07+

T-Notes see two-way trade. At settlement, 2-year +2.4bps at 3.504%, 3-year +2.5bps at 3.508%, 5-year +2.4bps at 3.626%, 7-year +2.2bps at 3.814%, 10-year +1.8bps at 4.040%, 20-year +1.8bps at 4.605%, 30-year +1.1bps at 4.635%.

INFLATION BREAKEVENS: 1-year BEI +1.7bps at 3.214%, 3-year BEI -0.4bps at 2.616%, 5-year BEI -0.4bps at 2.356%, 10-year BEI -0.4bps at 2.284%, 30-year BEI -0.4bps at 2.223%.

THE DAY: T-Notes saw two-way trade on Wednesday, with upside overnight and into the morning fading in the US session. The initial upside was a continuation of the price action seen on Friday amid deteriorating US/China woes and commentary from Fed Chair Powell on the balance sheet. However, upside faded in the US session perhaps as participants digested data and commentary from the government and Fed officials. On data, the NY Fed Manufacturing survey beat expectations across the board, while prices paid and employment both rose. Meanwhile, US Treasury Secretary Bessent and USTR Greer spoke on China, both explaining that China's restrictions on exports are a global supply chain power grab and an act of economic coercion. Greer expects that the restrictions threatened will not be implemented and will revert to the prior agreement, noting there is room for a positive relationship with China. Bessent also reiterated they want to help China, adding the US told China that if the fentanyl issue is fixed for six months, the tariffs related to fentanyl can be removed. However, Bessent did warn that if China wants to be an unreliable partner of the world, it will need to decouple. Meanwhile, Fed Governor Miran stuck to his dovish tone, warning there is more downside risk than a week ago, suggesting it is more urgent to get to a more neutral policy quickly; however, he suggested the Fed do not need to move quicker than 50bps increments.

Amid the lack of data, the latest Fed's Beige Book may get more attention. It found economic activity had little changed, while employment levels were largely stable but more employers reported lowering headcounts. Prices also rose further.

SUPPLY

Bills

- US to sell USD 110bln in 4-week bills and USD 95bln in 8-week bills on October 16th; to settle October 21st
- US sold 17-wk bills at a high rate of 3.810%, B/C 2.87x

STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: Oct 24bps (prev. 24bps), Dec 48bps (prev. 49bps), January 62bps (prev. 62bps).
- NY Fed RRP op demand at USD 5.5bln (prev. 3.51bln) across 20 counterparties (prev. 7)
- EFRR at 4.10% (prev. 4.10%), volumes at USD 80bln (prev. 87bln) on October 14th.
- SOFR at 4.19% (prev. 4.15%), volumes at USD 2.932tln (prev. 2.895tln) on October 14th.

CRUDE

WTI (X5) SETTLED USD 0.43 LOWER AT 58.27/BBL; BRENT (Z5) SETTLED USD 0.48 LOWER AT 61.91/BBL

Oil saw further weakness on ongoing US/China tensions, oversupply of oil concerns and easing geopolitical risk premium. There was a lack of "new" headline newsflow on Wednesday, but attention continues to reside on the aforementioned topics, and also the US/Hamas peace deal, as the first phase of the deal is yet to be completed. On the day, WTI and Brent saw gradual upside through the European session and to the cash equity open, in line with risk sentiment, to hit highs of USD 59.42/bbl and 63.04/bbl, respectively. Benchmarks then sold off through the US afternoon as global risk appetite dwindled, seeing WTI hit a low of USD 58.20/bbl and Brent 61.79. In terms of bank commentary, BofA maintained Brent forecast of USD 61/bbl in Q4, and USD 64/bbl in H1 '26, and sees a floor likely forming at USD 55/bbl; if US-China trade tensions escalate in the midst of the OPEC+ production ramp up, the desk warns Brent could drop below USD 50/bbl.

EQUITIES

CLOSES: SPX +0.41% at 6,672, NDX +0.68% at 24,745, DJI -0.04% at 46,253, RUT +0.89% at 2,518.

SECTORS: Real Estate +1.50%, Utilities +1.29%, Communication Services +1.27%, Technology +0.73%, Consumer Staples +0.15%, Consumer Discretionary +0.10%, Health +0.03%, Energy -0.08%, Financials -0.08%, Industrials -0.47%, Materials -0.49%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.89% at 5,602, Dax 40 -0.11% at 24,211, FTSE 100 -0.30% at 9,425, CAC 40 +1.99% at 8,077, FTSE MIB -0.40% at 41,907, IBEX 35 -0.10% at 15,570, PSI +0.29% at 8,252, SMI +0.54% at 12,502, AEX +0.61% at 955.

EARNINGS:

- **Bank of America (BAC):** EPS, revenue & NII beat; Better than expected next quarter NII view.
- **Morgan Stanley (MS):** Top & bottom line impressed
- **ASML (ASML):** Orders beat with strong next quarter guidance
- **Progressive (PGR):** EPS missed expectations.
- **Dollar Tree (DLTR):** 2026 EPS growth expectations topped expectations.
- **Synchrony Financial (SYF):** Profit surpassed Wall St. expected.
- **Citizens Financial Group (CFG):** EPS & revenue topped.
- **Abbott Laboratories (ABT):** Slight revenue miss

STOCK SPECIFICS:

- Artificial intelligence startup **Anthropic** has overhauled its smallest AI model, Haiku, as Cos. increasingly opt for AI systems that are almost as capable as the most advanced tools – but come at a much cheaper cost.
- **Apple (AAPL)** pledges to boost China cooperation
- Santa Barbara Superior Court's tentative ruling indicated that it will deny **Sable Offshore (SOC)** claims against the Coastal Commission

- **NVIDIA (NVDA)** upgraded at HSBC to 'Buy' from 'Hold'.
- **BlackRock (BLK)** and **NVIDIA (NVDA)** strike USD 40bln takeover of one of the world's largest data centre operators.
- **Amazon (AMZN)** plans to cut 15% of HR staff as it seeks to reduce costs & invest heavily in AI infrastructure.

FX

The Dollar was lower on Wednesday and continued to be weighed on by jitters surrounding US/China relations and a follow-through from the dovish-leaning Powell on Tuesday. Both Treasury Secretary Bessent and USTR's Greer spoke heavily on China, with the former noting that if China wants to be an unreliable partner of the world, the US will need to decouple, but echoed that the US does not want to decouple; it wants to de-risk. The NY Fed Manufacturing was largely impressive as the headline smashed expectations, with new orders, employment, and six-month ahead indices impressive, although prices did rise. Beige Book noted employment levels were largely stable in recent weeks, and demand for labour was generally muted across Districts and sectors. Note, the Beige Book may get more attention given the lack of Government data due to the shutdown. Lastly, Miran spoke extensively, but reiterated his known dovish views, albeit suggested the Fed do not need to move in larger than 50bps increments. DXY traded between 98.653-99.077.

G10 FX was largely firmer against the Greenback, with only CAD seeing losses. All in all, it was a choppy day in the FX space with little fresh headline newsflow. **JPY** traded between 150.91-151.87 as LDP leader Takaichi asked Innovation Party leaders for their support in a premiership vote and coalition; talks will start from Thursday. For the Pound, and ahead of the November 26th budget, the Guardian reported that Chancellor Reeves said higher taxes on the wealthy "will be part of the story". Cable chopped from 1.3316-1.3403.

Antipodeans were both on the front foot, with the Aussie outperforming its counterpart in the wake of a strong **Yuan** fix by the PBoC and hawkish comments from RBA's Hunter, who said recent data has been a little stronger than expected and inflation is likely to be stronger than forecast in Q3. She also noted that the labour market and economic conditions might be tighter than assumed. AUD/USD traded between a range of 0.6483-6523 and NZD/USD 0.5706-31. RBA's Bullock and Kent expected to speak later, with Australian employment in the early hours.

EMFX almost exclusively gained vs. the Dollar on account of the aforementioned weakness. On data, **Brazilian** retail sales Y/Y slightly topped expectations, with the M/M print in line, while **South African** retail sales massively disappointed. On central bank speak, for the **MXN**, Banxico Deputy Governor Heath advocated caution in interest rate cuts, and said Banxico will be in the neutral zone if rates are cut 25bps in November and December. Meanwhile, for the **PLN**, two NBP policymakers urged more caution on further monetary easing due to inflation risks, signalling that last week's interest-rate cut may be followed by a pause in November.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com