

## Market fear eases on bank earnings and US/China optimism

- **SNAPSHOT:** Equities up, Treasuries down, Crude flat/up, Dollar up, Gold down
- **REAR VIEW:** Trump reaffirms meeting with Xi in two weeks, says "no" when asked if he thinks high tariffs on China will stand; Jobless Claims reportedly fell in latest week; Zelensky says need Tomahawks; Senior Hamas official declines to say yes or no on whether they will disarm; Fed's Musalem would support another cut if more downside risks to labour evolve; Regional bank earnings ease credit fears.
- **COMING UP: Data:** Chinese House Prices (Sep), Retail Sales (Sep) & Industrial Output (Sep), German Producer Prices (Sep), Canadian Producer Prices (Sep), US Leading Index (Sep), New Zealand Trade (Sep). **Events:** PBoC LPR, CCP 4th Plenum (20th-23rd). **Speakers:** BoJ's Takata; ECB's Schnabel; RBA's Jones. **Supply:** EU, Italy. **Earnings:** Sandvik, Zions Bancorp, Cleveland Cliffs.
- **WEEK AHEAD:** Highlights include CPI from the US, UK, Japan and Canada, Global Flash PMIs, Japanese PM Vote, and Chinese Activity Data. [Click here for the full report.](#)
- **CENTRAL BANK WEEKLY:** Previewing PBoC LPR, BoK, CBRT; Reviewing RBA Minutes. [Click here for the full report.](#)
- **WEEKLY US EARNINGS ESTIMATES:** Earnings plentiful with highlights including GE, RTX, NFLX, LRCX, IBM, TSLA, INTC, PG. [Click here for the full report.](#)

## MARKET WRAP

Stocks were predominantly bid on Friday with SPX, NDX and DJI all posting gains; however, the RUT saw further pressure. The regional banking ETF had pared some of the prior day's losses following woes at ZION and WAL, but regional bank earnings today were strong and helped with the reversal in sentiment. Also supportive of the risk-on trade was commentary on China from US President Trump, who said "no" when asked if he thinks the high tariffs on China will stay, noting they get along well with China and he will be meeting Chinese President Xi in two weeks. Elsewhere, T-notes were sold across the curve while gold saw notable pressure, falling from a peak of USD 4,378/oz to a low of USD 4,187/oz, albeit it looks set to end the week back above USD 4,200/oz. Oil prices saw choppy trade but ultimately settled little changed. In FX, the Looney and Antipodes outperformed while the Dollar saw slight upside. T-notes sold off on the dialled down regional bank woes and China optimism, but in funding markets, SOFR remained above the target for the FFR in the latest data (yesterday), albeit the standard repo facility saw no participation today.

## US

**FED'S MUSALEM** (2025 Voter, Hawk): Musalem highlighted that he could support a path with another cut if more risks to the jobs market emerge and inflation is contained. He sees limited space before cuts would make policy accommodative, noting policy is somewhere between restrictive and neutral. He said it is important for the Fed to be cautious right now, and it is premature to say what comes with FOMC meetings after October. He noted how tariff will work their way through the economy into mid-2026. He suggested that by H2 2026 the economy will move back towards 2% inflation, but needs policy to lean against inflation. On services inflation, he said it has been at a high level and needs more work to get it lower. Musalem added that consumption from all income groups has been strong, but purchasing power is still an issue for many. On the labour market, Musalem said there is not an imminent problem for the labour market, but job market risks have increased, and data suggest the risk of high unemployment is increasing. He reiterated his breakeven rate of 30-80k, but warned it could go below zero, and the unemployment rate may not move.

**FED'S KASHKARI** (2026 voter): Said it is too soon to know the effect of tariffs on inflation, and the impact of tariffs is taking longer to be felt than he had guessed. He expects services inflation to trend down, and it is possible that goods inflation could spill over, with most folks noting they are still concerned about inflation. Added that the job market is slowing down, and they are likely betting the economy is slowing more than it really is. Regarding the balance of the mandate, the Minneapolis President said there is more risk of a labour market negative surprise than an uptick in inflation, but noted the Fed prioritising labour market over inflation control could lead to bad outcomes for workers. On the shutdown, as expected, he quipped that it is challenging to read signals without core government data, and the longer it lasts, the less confident they are when reading the economy correctly.

## FIXED INCOME

### T-NOTE FUTURES (M5) SETTLED 9 TICKS LOWER AT 113-15

**T-Notes were sold on Friday as strong regional bank earnings helped ease some credit fears, while Trump was optimistic on China.** At settlement, 2-year +3.5bps at 3.462%, 3-year +3.8bps at 3.467%, 5-year +3.8bps at 3.588%, 7-year +3.5bps at 3.777%, 10-year +2.7bps at 4.003%, 20-year +1.8bps at 4.570%, 30-year +1.6bps at 4.599%.

**INFLATION BREAKEVENS:** 1-year BEI -0.7bps at 3.187%, 3-year BEI +0.3bps at 2.586%, 5-year BEI +0.2bps at 2.325%, 10-year BEI -0.6bps at 2.253%, 30-year BEI -0.7bps at 2.203%.

**THE DAY:** T-notes sold off across the curve on Friday as strong regional bank earnings quelled some of the Thursday fears. The earnings saw the regional banking ETF rise on Friday, albeit still much lower than before Thursday's sell-off. T-notes fell from overnight peaks of 114-02, a level not seen since April 2025, when Trump announced his trade policies. On trade today, he was rather optimistic, reiterating that things will be fine with China and that he doubts the high tariffs on China will come into effect. There was no data today, but Bloomberg, citing state data, noted initial jobless claims fell in the latest week to 215k from an estimated 234k in the prior week. Meanwhile, Fed speak saw remarks from Musalem (2025 voter) during the session, who said he could support another rate cut if more risks to the jobs market emerge and inflation is contained. Kashkari (2026 voter), in after-hours on Thursday, said if the Fed prioritises the labour market over inflation control, it could lead to bad outcomes for workers. Elsewhere, in funding markets, SOFR remained above the Fed target rate on October 16th, ticking up to 4.30% from 4.29% D/D, suggesting ongoing liquidity concerns. Usage of the Reverse Repo facility at the NY Fed (where participants park excess cash) has diminished drastically recently, falling to c. USD 4bln from the roughly USD 200bln figures seen in July. With excess cash seemingly scarce, usage of the standard repo facility (where participants borrow extra cash from the Fed) had accelerated in recent sessions, rising to USD 8.35bln yesterday, from USD 6.75bln on October 15th - both above the Q3 quarter-end spike of USD 6bln, and rising to the highest levels since 2020. However, there was no usage in today's standard repo operation. Attention next week turns to the US CPI on Friday and the Treasury supply.

## SUPPLY

### Notes

- US Treasury to sell USD 13bln of 20-year bonds on October 22nd and USD 26bln of 5-year TIPS on October 23rd; all to settle October 31st.

### Bills

- US Treasury to sell USD 86bln of 13-week bills and USD 77bln of 26-week bills on October 20th, to sell USD 95bln of 6-week bills on October 21st; all to settle October 23rd.

## STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing:** Oct 25bps (prev. 26bps), Dec 50bps (prev. 53bps), January 65bps (prev. 69bps).
- NY Fed RRP op demand at USD 4bln (prev. 7bln) across 6 counterparties (prev. 11)
- EFRF at 4.11% (prev. 4.10%), volumes at USD 85bln (prev. 81bln) on October 16th.
- SOFR at 4.30% (prev. 4.29%), volumes at USD 3.045tln (prev. 3/059tln) on October 16th.

## CRUDE

**WTI (X5) SETTLED USD 0.08 HIGHER AT 57.54/BBL; BRENT (Z5) SETTLED USD 0.25 HIGHER AT 61.29/BBL**

The crude complex was ultimately little changed in choppy trade, but ended the third straight week with losses as souring US/China tensions and global oversupply dominated the tape. However, benchmarks saw a boost as US players entered for the day as Trump said the US will be fine with China, and when he was asked if high China tariffs will stand, he said no. Energy-specific newsflow on Friday was light, as the broader macro picture was focused on the softening of the regional bank woes we saw on Thursday, which helped support sentiment. Nonetheless, the Kremlin said there are many questions that need to be answered by Lavrov and Rubio before the summit between Putin and Trump, but it could take place within two weeks or more. On Israel/Hamas, Reuters reported that Senior Hamas official Nazzal stated he cannot answer yes or no on whether Hamas will give up arms, and in response, the Israeli PM's office said Hamas are to be disarmed, 'no ifs, no buts'. For the record, the weekly Baker Hughes rig count saw oil unchanged at 418, nat gas +1 at 121, leaving the total +1 at 548. WTI traded between USD 56.60-57.72/bbl and Brent between USD 60.14-61.47/bbl.

## EQUITIES

**CLOSES:** SPX +0.53% at 6,664, NDX +0.65% at 24,818, DJI +0.52% at 46,191, RUT -0.60% at 2,452

**SECTORS:** Utilities -0.38%, Materials -0.35%, Industrials +0.05%, Technology +0.37%, Health +0.63%, Consumer Discretionary +0.64%, Real Estate +0.66%, Communication Services +0.76%, Energy +0.80%, Financials +0.84%, Consumer Staples +1.23%.

**EUROPEAN CLOSES:** Euro Stoxx 50 -0.77% at 5,608, Dax 40 -1.76% at 23,845, FTSE 100 -0.86% at 9,355, CAC 40 -0.18% at 8,174, FTSE MIB -1.45% at 41,758, IBEX 35 -0.24% at 15,609, PSI -0.90% at 8,266, SMI -0.51% at 12,638, AEX -0.33% at 956

### STOCK SPECIFICS:

- **Regional Bank ETF (KRE):** Paring some of the prior day losses as Regional Banking earnings quelled some of the fears on Thursday.
- **Regions Financial (RF):** Revenue beat with provision for credit losses lower than expected.
- **Truist (TFC):** EPS, revenue & NIM beat with provision for credit losses lower than expected.
- **Fifth Third Bancorp (FITB):** EPS, revenue, & NII topped with provision for credit losses lower than expected.
- **Huntington Bancshares (HBAN):** EPS topped & raised FY25 NII midpoint.
- **Ally Financial (ALLY):** All major metrics impressed.
- **State Street (STT):** NII light of expectations.
- **American Express (AXP):** EPS & revenue beat, provisions for credit losses were less than expected.
- **Micron (MU):** Will halt sales of server chips to Chinese data centres.
- **Eli Lilly (LLY) / Novo Nordisk (NVO):** Trump mentioned drug costs 'will be much lower' late yesterday.

- **Venture Global (VG:)** Reportedly held talks with Ukraine for additional cargoes of LNG from Plaquemines, according to Reuters.
- **Intel (INTC):** Reportedly has at least one volume foundry customer for their 18a/ap process, via SemiAccurate.

## FX

**The Dollar Index** was modestly firmer as concerns surrounding US regional banks eased on Friday due to the latest earnings reports within the space not signalling any further credit deterioration related to alleged fraud. DXY's gains were a function of modest EUR downside, while CAD strength was an offsetting factor. Further good news arrived via Trump on China, the US President reaffirmed the meeting with Xi in two weeks, and when asked if high tariffs on China will stand, Trump said no. The remarks added support for the US equity futures rebound from lows in the European morning. Despite credit concerns being trimmed on Friday, the dovish Fed repricing on Thursday largely remained, with money markets still fully pricing 50bps of easing by year-end. Elsewhere, the Atlanta Fed GDPnow model (Q3) was slightly revised up to 3.9% (prev. 3.8%), albeit this was solely due to the Treasury Monthly Statement on Thursday. At the Fed, Musalem (2025 voter) paved the way for another cut if downside labour market risks increase, while Kashkari (2026 voter) continues to sound caution with respect to inflation. DXY rose to ~98.40 from earlier 98.025 lows.

**CAD, AUD, NZD, and NOK** all saw strength vs USD; meanwhile, **SEK & CHF** were little changed, and **EUR** saw modest weakness. Currency-specific drivers were light to end the week, with remarks from ECB members and BoC's Governor Macklem the main events. The main message from ECB members is that of no imminent change to policy, with Kazaks saying they can take time to look at data. Wunsch argues that the chances that further rate cuts will be needed are receding and is comfortable with market pricing (~4bps of easing seen by year-end). Separately, BoC's Macklem said growth is not expected to feel strong and will not be enough to close the output gap; No major further decline in exports is expected, but neither is a rapid rebound. EUR/USD trades around 1.1670 from earlier 1.1728 highs, while USD/CAD hovers around 1.4014 lows.

Precious metals took a hit on Friday, giving back some of the strong October gains. Profit taking was likely a factor, giving the move largely isolated. Gold dropped to ~4,220 from earlier 4,381 highs, with palladium seeing the steepest losses (-9%) amongst the big four. An independent metal trader writes, "I think Trump's more conciliatory tone since the initial 100% tariff announcement has taken a little heat out of the precious trade". Concerning the debasement trade, which some desks have been associating with the gold rally over the past couple of months, Rabobank writes, "Debasement would imply a move away from the USD and US treasuries into assets such as gold, and there is very little evidence to back up these flows". The firm argues that diversification of portfolios may prove a better explanation of the move into assets such as gold.

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