

## Stocks hit on touted US export control response to China

- **SNAPSHOT:** Equities down, Treasuries flat, Crude up, Dollar flat, Gold down.
- **REAR VIEW:** US mulling export controls on goods to China made with or containing US software; US to announce "substantial pick up" in Russia sanctions today or tomorrow; US lifts key restriction on Ukraine's use of Western-long range missiles; Trump/Xi meeting on schedule, Greer and Bessent to meet with China officials in Malaysia; Weak NFLX and TXN earnings; Cooler-than-expected UK CPI;
- **COMING UP:** **Data:** US National Activity Index (Sep), Existing Home Sales (Sep), EZ Consumer Confidence Flash (Oct), Canadian Retail Sales (Aug), Australian Flash PMIs (Oct). **Suspended Releases:** US Weekly Claims **Events:** CBRT Policy Announcement, CCP 4th Plenum (20th-23rd), European Council (23rd-24th). **Speakers:** ECB's Lane, Fed's Bowman and Barr (Fed on Blackout). **Supply:** UK, US **Earnings:** Intel, American Airlines, Freeport McMoRan, Honeywell, Dow, Southwest Airlines, T-Mobile US, Blackstone, PG&E.

## MARKET WRAP

US indices were in the red on Wednesday and saw some pressure in the US afternoon amid reports that the Trump admin is mulling export controls to China on goods made with or containing US software, although some of the move attempted to pare as digestion of the further details seemed less extreme. Nonetheless, risk-off trade resumed into the close. Sectors were mixed with Industrials and Consumer Discretionary residing as the laggards, and Energy outperforming, buoyed by gains in the crude complex. Before settlement, benchmarks were already boosted by bullish factors, but notably extended on two reports: 1) Trump admin lifts key restriction on Ukraine's use of Western long-range missiles, via WSJ, and 2) Bessent said a substantial pick up in Russia sanctions is expected, and will be announced today or tomorrow. Back to stocks, there was a deluge of earnings with disappointing TXN and NFLX reports, the arguable highlights. The Dollar was choppy, but it was more or less flat at pixel time with CAD boosted by aforementioned oil prices, and the Pound hit on a cooler-than-expected inflation print, which saw a markedly dovish move in BoE pricing. Spot gold tested USD 4k/oz to the downside, but has since rebounded, albeit remains lower on the session, with a lot of the areas in the market that have witnessed extreme upside (gold, nuclear power stocks, rare earths) coming under notable pressure this week. T-Notes settled flat in choppy trade with focus on US/China relations, with little move seen on a solid 20-year auction.

## FIXED INCOME

### T-NOTE FUTURES (Z5) SETTLE 1+ TICK HIGHER AT 113-25+

**T-Notes settled flat in choppy trade with focus on US/China relations** . At settlement, 2-year -1.3bps at 3.442%, 3-year -1.2bps at 3.443%, 5-year -0.8bps at 3.552%, 7-year -0.9bps at 3.730%, 10-year -1.2bps at 3.951%, 20-year -1.2bps at 4.508%, 30-year -1.1bps at 4.537%.

**INFLATION BREAKEVENS:** 1-year BEI +1.7bps at 3.179%, 3-year BEI +0.6bps at 2.604%, 5-year BEI +1.7bps at 2.346%, 10-year BEI +1.1bps at 2.268%, 30-year BEI +0.9bps at 2.211%.

**THE DAY:** T-Notes ultimately settled flat in choppy trade. T-Notes hit highs of 113-29 in the US morning before fading with little fresh headlines driving price action at the time. However, later on, risk-off trade saw T-Notes shoot higher again following reports that the US is mulling export controls on US software (ranging from laptops to jet engines) in response to China's rare-earth restrictions. However, the report acknowledged that narrower options are also under discussion, and this option may not get implemented. Also likely supporting the broader upside was the notable gains in crude, while gold prices added to the prior day's losses. A lot of areas in the market that have witnessed extreme upside (gold, nuclear power stocks, rare earths) have come under a lot of pressure this week. Elsewhere, in the UK, Gilts were supported after cooler-than-expected CPI data bolstered BoE rate cut bets. Meanwhile, Bunds were choppy with some pressure seen following another soft auction. Back in the US, the 20-year bond auction was strong with a large stop through (more below). Attention remains on the US CPI on Friday ahead of the FOMC next week.

## SUPPLY

### Notes

- Overall, a decent auction. The US Treasury sold USD 13bln of 20-year bonds at a high yield of 4.506%, stopping through the when issued by 1.2bps - a stronger sign of demand when compared to the prior and six auction average of a 0.2bps stop through. The bid-to-cover was little changed from the September offering at 2.73x, but remained above the six auction average of 2.64x. The breakdown saw direct demand ease slightly to 26.3% from 27.9%, but remain above the 20.4% average. Indirect demand also slipped slightly, to 63.6% from 64.6%, below the 66.5% average. This left dealers with 10% of the offering, above the 7.6% prior but below the 13.1% average.
- US Treasury to sell USD 26bln of 5-year TIPS on October 23rd; all to settle October 31st.

## Bills

- US sells 17-week bills at a high rate of 3.735%, B/C 3.27x

## STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: Oct 25bps (prev. 24bps), Dec 48bps (prev. 49bps), January 64bps (prev. 64bps).
- NY Fed RRP op demand at USD 4bln (prev. 4.7bln) across 8 counterparties (prev. 10)
- NY Fed Repo op demand at USD 0bln (prev. 0bln)
- EFFR at 4.11% (prev. 4.11%), volumes at USD 85bln (prev. 82bln) on October 21st.
- SOFR at 4.23% (prev. 4.16%), volumes at USD 2.957tln (prev. 2.945tln) on October 21st.
- Treasury Buyback (2-3yr, liquidity support, max USD 4bln): Accepts USD 1.9bln of 8.6bln offered, accepts 7 eligible issues out of 34. Offer to cover 4.53x

## CRUDE

**WTI (Z5) SETTLES USD 1.26 HIGHER AT 58.50/BBL; BRENT (Z5) SETTLES USD 1.27 HIGHER AT 62.59/BBL**

The crude complex was firmer and continued on an upward trend throughout the duration of the day. Heading into the start of the session on Wednesday, energy was also on an upward trajectory amid a continuation of gains seen on Tuesday on reports that the US is filling up its SPR. Providing a further fillip higher in the European morning, were reports from Mint, that India and the US are closing in on a long-pending trade deal that could slash current tariffs from Indian exports to 15-16% from 50%. Later on, the energy space got a further fillip higher as US Energy Secretary Wright said the SPR will be gradually filled up, oil prices are 'low' and a great time to buy. For the record, no reaction was seen in benchmarks, but in the weekly EIA data, crude saw a surprise draw, in line with the private metrics, while gasoline saw a larger-than-anticipated draw, and distillates a smaller-than-forecasted draw. Overall, crude production fell 7k W/W to 13.629mln. WTI traded between USD 57.34-58.92/bbl and Brent USD 61.38-62.96/bbl.

## EQUITIES

- **CLOSES:** SPX -0.53% AT 6,699, NDX -0.99% AT 24,879, DJI -0.71% AT 46,591, RUT -1.45% AT 2,452.
- **SECTORS:** Energy +1.29%, Health +0.59%, Consumer Staples +0.58%, Real Estate +0.40%, Utilities -0.27%, Materials -0.35%, Financials -0.65%, Technology -0.83%, Communication Services -0.90%, Consumer Discretionary -1.04%, Industrials -1.34%
- **EUROPEAN CLOSES:** Euro Stoxx 50 -0.80% at 5,642, Dax 40 -0.71% at 24,158, FTSE 100 +0.93% at 9,515, CAC 40 -0.63% at 8,207, FTSE MIB -1.03% at 42,210, IBEX 35 +0.09% at 15,782, PSI +0.40% at 8,305, SMI -0.10% at 12,610, AEX -0.06% at 966.

## STOCK SPECIFICS:

- **Texas Instruments (TXN):** Weak next Q guidance
- **Netflix (NFLX):** Profit light, hit by a Brazilian tax dispute, but sales were in line & had its best-ever ad sales Q
- **Intuitive Surgical (ISRG):** Stellar report & lifted FY procedure growth outlook & profit margin view
- **Thermo Fisher (TMO)** beat on EPS and revenue and raised guidance.
- **Capital One Financial (COF):** EPS & rev. beat
- **Hilton Worldwide (HLT):** Top & bottom line beat w/ strong next Q & FY profit view
- **Western Alliance (WAL):** Profit, rev., NII topped w/ better than exp. FY25 NII guidance. It also said the disputed loans are a one-off problem.
- **GE Vernova (GEV):** EPS & rev. surpassed Wall St. consensus
- **Mattel (MAT):** Q3 metrics disappointed.
- **Beyond Meat (BYND)** rally continues on meme stock hype/short squeeze.

## STOCK SPECIFICS:

- **Apple (AAPL):** Reportedly drastically cutting iPhone Air prod. orders but boosting other 17 models, via Nikkei
- **DraftKings (DKNG):** Acquiring predictions platform Railbird to prepare for the launch of its new mobile platform, DraftKings Predictions
- **Avadel Pharmaceuticals (AVDL):** To be acquired by ALKS for up to \$20/shr in cash; AVDL closed Tues. at \$17.87/shr. **Google (GOOGL)** unveils quantum computing breakthrough with willow chip; achieved demonstration of verifiable quantum advantage. **General Motors (GM)** reportedly intends to bring eyes-off driving to market in 2028, debuting on the Cadillac Escalade IQ Electric SUV. Jim Chanos says he is still short **Carvana (CVNA)**

## US FX WRAP

The Dollar was weaker on Wednesday, albeit in a choppy day of trade, as participants largely await the US CPI on Friday ahead of the FOMC next Wednesday, whereby they are widely expected to cut by 25bps. On the Government shutdown, where there is little sign of progress, Bloomberg's Wasson said the House Ways and Means Committee Chair Smith remarked that lawmakers are weighing a stopgap bill through December 2026. In terms of broader sentiment, ING notes that a further USD rally from here will be harder to justify unless markets find reasons to price out one of the three Fed cuts expected by March, with the most realistic driver of such hawkish repricing this week being a hot CPI figure on Friday, which ING do not anticipate. Regarding US/China, USTR's Greer said the location for the meeting between Trump and Xi is on schedule, with Bessent and Greer meeting Chinese officials in Malaysia to see if there is room to move forward.

**G10 FX** was mixed, as the CAD outperformed on surging energy prices, with USD/CAD hitting a low of 1.3977. Antipodeans, hit on risk sentiment, and the Pound were the G10 laggards as the latter saw pressure after cooler than expected UK CPI. Money market pricing moved markedly dovish in the wake of the release, with a 76% chance of a cut by year-end priced in vs 44% pre-release; the first full 25bps cut is priced in by Feb 2026. On the data release, ING notes that the main dovish surprise comes from food prices, which is a big concern for the BoE of late, which actually fell on the month and are now 0.5pp below the BoE's August forecasts. Cable traded between 1.3306-87.

**EUR, JPY, and CHF** all saw slight gains and traded within pretty narrow parameters, with Yen watchers awaiting Japanese CPI on Friday. For the Swissy, little move was seen, but SNB's Schlegel said inflation is expected to rise slightly in the coming quarters, while ECB's Kazaks said it may well be the case that the next rate move could as easily be a hike as a cut. EUR/USD traded between 1.1578-1622 ahead of Lane on Thursday.

**EMFX** was mixed. HUF, ARS, CLP, INR gained, COP, MXN, BRL, ZAR weakened, with TRY and Yuan flat. For the Rupee, Mint reported overnight that India and the US are closing in on a long-pending trade deal that could slash current tariffs from Indian exports to between 15-16% from 50%. ZAR was hit by the further slump in gold prices, albeit the precious metal came way back off its trough, whereby it tested USD 4k/oz to the downside. In addition, there was mixed South African inflation - CPI M/M in line, Y/Y cooler-than-expected, with core Y/Y in line, and M/M surpassing expectations. Lastly, Mexican IGAE economic activity for August was better than anticipated, with M/M rising above consensus and Y/Y not falling as much as feared.

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