

Stocks rally and bonds sold ahead of CPI, while oil surges on US/Russia tensions

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar flat, Gold up
- **REAR VIEW:** Trump and Xi to meet next Thursday; US may probe China's 2020 trade deal; Macron wants EU to use strongest trade tool on China; US sanctions Russia oil majors; Chinese oil majors suspend Russian oil buys; US may take stakes or provide funding in quantum computing; Japan's RENGO seeking wage hikes of 5%; Soft 5yr TIPS auction; Weak TSLA earnings, but stock fades losses.
- **COMING UP:** **Data:** Japanese CPI (Sep), UK Retail Sales (Sep), EZ, UK & US Flash PMIs (Oct), US CPI (Sep). **Suspended Releases:** US Build Permits (Sept), US New Home Sales (Sep). **Events:** CBR Policy Announcement, European Council (23rd-24th) **Credit Review:** Moody's on France **Speakers:** RBA's Bullock; ECB's Cipollone and Nagel **Supply:** Australia **Earnings:** NatWest, Porsche, Sanofi, Eni, Saab, Procter & Gamble

MARKET WRAP

US equity indices firmed on Thursday, following the downside on Wednesday. There wasn't a specific headline trigger, and equity futures were in the ascendancy since the start of European trading. EV maker Tesla (TSLA) completely pared the losses incurred in Wednesday's afterhours trading following its earnings report, which was received poorly by investors. Healthcare names came under pressure after an update from Molina (MOH), which cut its profit guidance amid a rise in medical costs. Quantum computing names were bid on suggestions that the US was mulling equity stakes; later, Yahoo Finance reported that the administration is not necessarily considering taking equity stakes, with sources stating that companies have approached the White House with proposals, but any potential investment (possibly via warrants or loans) would aim for taxpayer returns and use leftover Chips Act funds. Energy names, meanwhile, were higher, tracking the gains in crude benchmarks, which surged after the US sanctioned Russian oil majors Rosneft and Lukoil over the Ukraine war, triggering expectations that India will cut Russian crude imports to near zero and potentially pave the way for a US-India trade deal. The bid in crude came to the detriment of Treasuries, where yields ticked higher over the course of the session, though there wasn't much reaction to a soft 5yr TIPS sale. In afternoon trading, stocks were bumped higher again after it was reported that Trump will meet with China's President Xi in Asia next Thursday. Elsewhere, the White House said a meeting between US President Trump and Russia's President Putin is not completely off the table, nor is a meeting between Putin and Zelensky; Trump is reportedly frustrated by the lack of concrete progress from Russia and wants to see tangible steps toward ending the war. Traders will now turn their attention to upcoming risk events, by way of US CPI data on Friday, next week's Fed meeting (25bps rate cut is being priced by money markets, with many suggesting that the Fed may also end QT), next week's meeting between Presidents Trump and Xi; ahead of that meeting, the USTR Greer and Treasury Secretary Bessent will be in Malaysia on Friday.

US

EXISTING HOME SALES: US existing home sales rose 1.5% to 4.06mIn in September (exp. 4.06mIn, prev. 4.0mIn); the inventory of homes for sale stood at 1.55mIn units, 4.6 months' worth (unchanged vs the previous 4.6 months' worth). The national median home price for existing homes was up +2.1% Y/Y at USD 415,200. Pantheon Macroeconomics said the rise to a seven-month high is likely a reflection of lower mortgage rates feeding through, also noting that the 30-year rate on new mortgages was down to 6.4% by mid-September (vs over 6.9% in early June). Pantheon says that the historical relationship between rates and sales suggests a significant further recovery in existing home sales in the months ahead, which will be aided by the recovery in the supply of existing homes on the market. Still, the consultancy expects sales to stay below pre-COVID levels due to limited scope for further mortgage rate declines, a weak labour market, and poor affordability, with typical monthly payments at about 40% of disposable income versus 25% in the 2010s, requiring modest home price declines to revive demand. Pantheon thinks slight falls in home prices are probably required to get the market moving again, adding that it sees prices resuming their downtrend soon, as the fleeting boost from the recent drop in mortgage rates fades

FIXED INCOME**T-NOTE FUTURES (Z5) SETTLE 10 TICKS LOWER AT 113-15+**

T-notes were lower across the curve in response to rallying oil prices while traders await US CPI on Friday . At settlement, 2-year +4.0bps at 3.484%, 3-year +4.1bps at 3.487%, 5-year +4.9bps at 3.602%, 7-year +4.8bps at 3.780%, 10-year +4.2bps at 3.995%, 20-year +3.6bps at 4.547%, 30-year +3.8bps at 4.577%.

INFLATION BREAKEVENS: 1-year BEI +1.7bps at 3.205%, 3-year BEI +1.7bps at 2.627%, 5-year BEI +1.2bps at 2.362%, 10-year BEI +1.5bps at 2.287%, 30-year BEI +1.2bps at 2.226%.

THE DAY: T-notes were lower across the curve in response to rallying oil prices while traders await US CPI on Friday. The surge in oil prices followed the US sanctioning major Russian Energy companies; reports suggest that Chinese state oil firms were suspending Russian seaborne oil purchases in fear of sanctions, while the sanctions also bolstered expectations that India will cut Russian oil purchases to zero. Elsewhere, traders are very attentive to the US CPI report due on Friday, one of the only pieces of government data we will receive during the government shutdown. The data will help refine expectations for next week's Fed

meeting, where the central bank is likely to lower rates by 25bps. There will also be attention on the balance sheet, after Fed Chair Powell alluded to upcoming changes with the level of reserves approaching an ample level, a level that the Fed has long said would mark the end of the balance sheet drawdown. However, the Fed does want to revert to a Treasury-only balance sheet, so it would not be surprising if it continues to allow mortgage-backed securities to continue to roll off the balance sheet, currently at USD 35bln a month, while reinvesting the full amount of USTs that mature each month - currently it allows USD 5bln to roll off the balance sheet.

SUPPLY

Notes

- US Treasury to sell USD 69bln of 2-year notes on October 27th, USD 70bln 5-year notes on October 27th and USD 44bln of 7-year notes on October 28th; all to settle October 31st.
- US to sell USD30bln in 2-year FRN's on October 29th, to settle October 31st.

Bills

- US to sell USD 86bln in 13-week bills and USD 77bln in 26-week bills on October 27th.
- To sell USD 95bln in 6-week bills and USD 50bln in 52-week bills on October 28th.

STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: Oct 24bps (prev. 25bps), Dec 49bps (prev. 48bps), January 65bps (prev. 64bps).
- NY Fed RRP op demand at USD 7bln (prev. 4bln) across 15 counterparties (prev. 8)
- NY Fed Repo op demand at USD 3bln (prev. 0bln)
- EFFR at 4.11% (prev. 4.11%), volumes at USD 91bln (prev. 85bln) on October 22nd.
- SOFR at 4.21% (prev. 4.23%), volumes at USD 2.956tln (prev. 2.957tln) on October 22nd.

CRUDE

WTI (Z5) SETTLES 3.29 HIGHER AT 61.79/BBL; BRENT (Z5) SETTLES USD 3.40 HIGHER AT 65.99/BBL

Oil prices rose after the US sanctioned Russian oil majors Rosneft and Lukoil over the Ukraine war, triggering expectations that India will cut Russian crude imports to near zero and potentially pave the way for a US-India trade deal. Overnight, the sanctions lifted energy stocks in China and Australia, but pressured Indian refiners. Europe plans to impose its own measures, including a ban on Russian LNG imports. The broader commodity rally followed a WSJ report late Wednesday, which stated that the US was to allow Ukraine to use European long-range missiles for strikes inside Russia; President Trump has since denied the report, calling it "fake news," adding that the US has "nothing to do" with such missiles, after reports that Ukraine could use British-made Storm Shadow missiles with US targeting data. Separately, Ukraine confirmed that its military hit Rosneft's Ryazan refinery (342k BPD capacity) overnight. As the US day got underway, Reuters reported that Chinese State oil majors were suspending Russian seaborne oil purchases due to worries related to Western sanctions, sending crude futures back towards highs. Crude futures were then knocked off highs following remarks from Kuwait's oil minister, who said that OPEC was ready to offset any shortages in the market by rolling back output cuts; he also spoke about how oil demand is shifting more towards the Middle East and Gulf regions. In other supply-related news, production at the Ekofisk 2/4 K oil and gas platform in the North Sea is shut, according to reports citing operator ConocoPhillips (COP). Elsewhere, JPMorgan estimates that China has been stockpiling oil for months, adding 160mln barrels in 2024 — its largest increase since 2020 — bringing reserves to about 1.25bln barrels; the bank says Russia supplied 17% of its imports, much of it stored.

EQUITIES

- **CLOSES:** SPX +0.58% at 6,738, NDX +0.88% at 25,097, DJI +0.31% at 46,735, RUT +1.27% at 2,483.
- **SECTORS:** Energy +1.28%, Industrials +1.28%, Technology +0.99%, Materials +0.95%, Consumer Discretionary +0.75%, Financials +0.26%, Health +0.04%, Real Estate -0.01%, Communication Services -0.04%, Utilities -0.05%, Consumer Staples -0.40%
- **EUROPEAN CLOSES:** Euro Stoxx 50 +0.49% at 5,667, Dax 40 +0.28% at 24,219, FTSE 100 +0.67% at 9,579, CAC 40 +0.23% at 8,226, FTSE MIB +0.41% at 42,382, IBEX 35 +0.07% at 15,792, PSI +0.58% at 8,354, SMI -0.40% at 12,564, AEX +0.82% at 974.

STOCK SPECIFICS:

- **IonQ (IONQ), Rigetti Computing (RGTIW), D-Wave Quantum (QBTS), Quantum Computing (QUBT)** : Trump's admin in talks to take equity stakes in quantum computing firms, via WSJ,
- **Rigetti (RGTI)** says it is in ongoing talks with the US government on quantum funding, via CNBC.
- **Tesla (TSLA)**: Profit missed
- **IBM (IBM)**: Shares hit by sales in hybrid cloud unit, which grew c. 14%, decelerating from 16% growth in Q2
- **Molina Healthcare (MOH)**: EPS way short of exp. & slashed profit guidance amid tough environment; Humana (HUM), Centene (CNC) weighed on by MOH.
- **Medpace Holdings (MEDP)**: Top & bottom line topped; Raised FY outlook
- **QuantumScape (QS)**: Shallower loss per shr. than exp. & started shipping B1 samples of its QSE-5 cell
- **Las Vegas Sands (LVS)**: EPS & rev. beat; Adds \$2bln to stock buyback prog. & raises annual div.
- **Honeywell (HON)**: Solid Q metrics & lifted FY profit view
- **American Airlines (AAL)**: Shallower loss per shr. than exp. & stellar next Q & FY profit guide

- **Warner Bros. Discovery (WBD)**: Dismissed 3 offers from PSKY, incl. 1 that provided CEO Zaslav a position in leading the combined Co.
- **Moderna (MRNA)**: Phase 3 study of investigational cytomegalovirus vaccine did not meet primary efficacy endpoint
- **Roper (ROP)**: Guidance underwhelmed
- **Coca Cola (KO)** expects impairment charge of c. USD 1bln during Q4 related to the sale of a portion of interest in its bottling operations in Africa.
- **NVIDIA (NVDA)** Drive tweets they are working with **Uber (UBER)** to advance autonomous vehicle development.
- **SuperMicro (SMCI)** prelim Q1 update disappointed, seeing the stock tumble.

US FX WRAP

The **Dollar** Index was little changed on Thursday in risk-on trade, which saw Antipodes outperform and Yen underperform. For the buck, UST yields were higher throughout the session while attention largely turns to the US CPI on Friday. Amid the government shutdown, Geopolitical tensions were high, namely between Russia and the US, after fresh sanctions were announced on Russia. Participants will also be eyeing any updates from the talks in Malaysia between USTR Greer and Treasury Secretary Bessent on Friday.

The **Euro** was also little changed, with price action focused on more risk-sensitive currencies today. Nonetheless, overnight, ECB's Kazaks said "it may well be the case that the next rate move could as easily be a hike as a cut" – comments which are in contrast to Villeroy (cut more likely than hike) and Kocher (sees equal chance). On trade, French President Macron has reportedly been calling on the EU to use its strongest trade tool, the Anti-coercion instrument, against China. Meanwhile, EZ Consumer Confidence beat expectations at -14.2 (exp. -15.0, prev. -14.9).

The **Yen** was sold on Thursday amid higher UST yields and US equity prices, which offset strength seen in the morning following reports that Japan's RENGO will be seeking wage hikes of 5% or more in 2026 Shunto negotiations.

The offshore **Yuan** saw strength vs the buck on reports that Trump will be meeting with Chinese President Xi next week, while after-hours on Wednesday, he said he thinks he will make a deal with Xi. However, the NYT also reported that the US is to probe China's 2020 trade deal compliance, which would likely complicate current relations, which are seemingly on edge given China's export controls and a touted response from the US.

The **Pound** was sold vs the Dollar and Euro with soft CPI earlier in the week still taking its toll, while BoE's Dhingra (Dove) spoke, warning that tariffs will lead to a reduction in overall growth but with minor downward price pressure in the medium term.

Antipodes benefited from the rally in stocks, with peaks seen after the WH announced the date for the Presidential meeting between the US and China, given that both Australia and New Zealand are key trading partners with China.

CAD was flat vs the buck despite the rally in crude prices. Canadian Retail Sales rose 1.0% M/M, in line with expectations, but the core retail sales (ex-autos) missed expectations. StatCan also expects September retail sales to have fallen 0.7% M/M in the preliminary estimate. Meanwhile, Canadian PM Carney is looking to meet with Chinese President Xi next week during his trip to Asia.

KRW was sold vs the Dollar after the BoK maintained rates overnight as expected; however, the decision was not unanimous, with board member Shin stating a rate cut is needed to support growth. It also said it will maintain a rate cut stance to mitigate downside risk to economic growth. Four members also said the door for rate cuts should be open for the near future, but two said current rates should be maintained.

In **EMs**, MXN firmed amid stronger-than-expected retail sales data, but the first half of October inflation data was soft. MXN was likely supported by the broader risk sentiment on Thursday. BRL also saw strength, likely also supported by risk sentiment, while President Lula said he will seek a fourth term in next year's election. CLP rallied, tracking gains in copper prices, but COP outperformed on the surge in energy prices following fresh Russia sanctions. TRY saw mild gains while the CBRT cut rates by 100bps as expected to 39.50%, noting the tight monetary policy stance will be maintained until price stability is achieved.

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