

Dollar and yields rally as Powell pushes back against December rate cut

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude up, Dollar up, Gold down
- **REAR VIEW:** Fed cuts by 25bps as expected, Schmid votes for unchanged, Miran votes for 50bps cut; Chair Powell was hawkish, Dec cut far from assured; Fed ends QT from December; BoC cuts rates as expected, hints easing cycle is over; Japan's PM told Trump that banning LNG imports from Russia will be difficult; Trump says trade deal reached with South Korea; EIA crude stocks post bigger draw than expected; China's CFCO purchases 190k tonnes; Hot Australian CPI.
- **COMING UP: Data:** Spanish Flash HICP (Oct), German Unemployment (Sep), Flash GDP (Q3), Prelim. CPI (Oct), EZ Final Consumer Confidence (Oct), Japanese Tokyo CPI (Oct), Unemployment Rate (Sep). **Suspended Releases:** US GDP & PCE (Q3), Weekly Claims. **Events:** BoJ & ECB Policy Announcements; US President Trump and Chinese President Xi to meet. **Speakers:** BoJ Governor Ueda; ECB President Lagarde; Fed's Logan and Bowman. **Supply:** Italy. **Earnings:** Amazon, Apple, Coinbase, Reddit, MicroStrategy, Cloudflare, Riot Platforms, Eli Lilly, Merck, Comcast, Roblox, Mastercard, Standard Chartered, Shell, Kion, Lufthansa, Volkswagen, Puma, ING.

MARKET WRAP

US indices, Treasuries, and Gold saw notable selling, while the Dollar soared in the wake of a very hawkish Powell at the Fed press conference. In the decision beforehand, it cut rates by 25bps, as expected, to 3.75-4%, albeit in a 10-2 decision. Governor Miran dissented for a 50bps reduction, as he said he would, while Schmid opted to leave rates unchanged. It also announced it will end the balance sheet contraction from December 1st; two-way action was seen in markets. However, Powell started his presser by noting there are strongly differing views on how to proceed in December, with another cut far from assured. He added that today's cut was another risk management move, but going ahead, it is different. Continuing to add to the hawkish rhetoric, the Chair noted there is a growing chorus of feeling they should maybe wait a cycle [regarding another cut]. As such, a hawkish reaction was seen with T-Notes tumbling, ES falling beneath 6.9k, and spot gold testing USD 3.9k/oz to the downside. The Dollar surged to the detriment of G10 peers, with CHF and GBP the laggards, as DXY rose to highs of 99.356 from earlier lows of 98.62. Money markets are now pricing in c. 64% chance of a 25bps rate cut, vs. 92% in the immediate aftermath of the rate decision. The crude complex was firmer and boosted after larger-than-expected EIA draws, and was largely unmoved after hawkish Powell. There was a deluge of earnings, and NVDA (+3.1%) strength propped up Tech, as it topped USD 5tn market cap for the first time, but breadth was very narrow with the equal-weighted S&P 500 lower by ~1.1%. Ahead, there are five Mag-7 earnings before Friday, with lots of focus on the Trump/Xi meeting overnight.

North America

FED: The Federal Reserve cut rates by 25bps, as expected, to 3.75-4.00%, albeit in a 10-2 vote. On the dovish end of the spectrum, Governor Miran voted for a 50bps reduction, as he had touted prior to the meeting, while Schmid voted to leave rates unchanged. Within the statement, given the US Government shutdown and regarding the outlook, it notes that available indicators suggest that economic activity has been expanding at a moderate pace (prev. recent indicators suggest growth of economic activity moderated in the first half of the year). Meanwhile, on the employment side of the mandate, the statement judges that downside risks to employment have risen in recent months, while on inflation it continues to note that it has moved up since earlier in the year, and maintains that inflation "remains somewhat elevated". The Fed also announced changes to its balance sheet from December 1st. The Fed will reinvest all maturing holdings of Treasury securities, and it will reinvest all the payments from mortgage-backed securities into Treasury bills, allowing the Fed's holdings of MBS to continue to roll off the balance sheet. The Fed has previously signalled it wants a Treasury-only balance sheet, given housing market conditions.

FED CHAIR POWELL: Powell was hawkish in the press conference, with the main takeaway being that a December rate cut is not a foregone conclusion, and there are differing views on the Committee regarding a December rate cut. However, there was considerable support for today's decision, calling it another risk management move, but going ahead, it is a different story. He also warned that, amid a lack of official government data, "driving in the fog, you could slow down". He was also asked about other reasons why the Fed could enter a pause, noting the Fed has already moved 150bps from peaks, and is currently in the area where many estimates of the neutral rate are, hence some think it is time to take a step back. He also said that there is a growing chorus of feeling that maybe they should wait a cycle [to cut again]. Powell still sees policy as modestly restrictive. He noted CPI was a little softer than expected, while inflation away from tariffs is not far from the 2% goal, suggesting it may be 0.5-0.6% above target. Note, we will not see the official PCE report on Friday for September, but Powell estimates headline PCE and Core PCE both rose 2.8% (prev. headline 2.7%, core 2.9%). The Chair does not see weakness in the job market accelerating, but highlighted that they haven't seen the September payroll report due to the government shutdown, but state-level claims data is not suggesting a significant deterioration. On the balance sheet, the Fed said the December 1st date for ending the balance sheet contraction gives the market a little time to adapt, and that it is clear they are only slightly above an ample level of reserves. Powell also noted they do want to move the balance sheet to shorter-duration, but have not decided on an endpoint, and they want the balance sheet duration to fall very gradually.

US PENDING HOME SALES: Pending home sales for September showed no change M/M, vs. an anticipated rise of 1% and against last months' 4.2% rise. At the regional level, they were mixed, with increases in the Northeast and South offset by declines in the

Midwest and West. In the data set, NAR Chief Economist Lawrence Yun noted that "Contract signings matched the second-strongest pace of the year. However, signings have yet to fully reach the level needed for a healthy market despite mortgage rates reaching a one-year low." Yun further added that "a record-high stock market and growing housing wealth in September were not enough to offset a likely softening job market."

BOC: The Bank of Canada cut rates by 25bps, as expected, taking rates to 2.25%, matching the bottom end of the BoC's neutral rate estimate. The BoC maintained the view of their neutral rate despite the rate cut, suggesting that any further rate cuts would be accommodative. The BoC described current interest rates as "about the right level", implying there is little room left for more easing, or at least the BoC will observe effects of recent easing before acting again, depending on how the economy evolves. The statement did say that if the outlook changes, they are prepared to respond. It also noted that the structural damage caused by the trade conflict reduces the capacity of the economy and adds costs, noting this limits the role that monetary policy can play to boost demand while maintaining low inflation, suggesting there is not much more monetary policy can do. Both these additions to the statement suggest a clear holding bias from the BoC. Within the MPR, the BoC returned to a base case scenario. It sees Q4 25 growth (Y/Y) at 0.5%, down from the 1.9% seen in the January MPR (before the BoC switched to a scenario-based approach), and compares to the July MPR of 0.7%. Headline CPI in Q4 25 is seen at 2.0% (down from 2.4% in January, up from 1.9% in July). Core CPI is seen at 2.9% (up from 2.1% in January and down from 3.1% in July). Analysts at RBC note that their base case assumes no further rate reductions, and they expect a ramp-up in fiscal stimulus to do a lot of the heavy lifting in the policy response to address tariff-related issues in the economy.

FIXED INCOME

T-NOTE FUTURES (Z5) SETTLED 18 TICKS LOWER AT 112-29

T-notes bear flatten after Powell pushes back on December rate cut. At settlement, 2-year +11.6bps at 3.610%, 3-year +10.8bps at 3.609%, 5-year +10.4bps at 3.717%, 7-year +10.0bps at 3.884%, 10-year +8.9bps at 4.072%, 20-year +6.8bps at 4.591%, 30-year +6.3bps at 4.610%.

INFLATION BREAKEVENS: 1-year BEI -12.4bps at 2.899%, 3-year BEI -1.5bps at 2.534%, 5-year BEI +0.3bps at 2.315%, 10-year BEI +0.8bps at 2.281%, 30-year BEI +0.6bps at 2.231%.

THE DAY: T-notes traded sideways overnight and throughout the start of the US session, before selling off ahead of the FOMC. The statement itself was ultimately little changed, cutting rates by 25bps as expected, and announcing an end to the balance sheet drawdown from December 1st. However, Fed Chair Powell was hawkish in the press conference. Within the opening statement, he pushed back on expectations for a December rate cut, noting there are differing views on the committee on how to proceed ahead, and another cut is far from assured. He even suggested later in the Q&A that there is a growing chorus of feeling to maybe wait another cycle before resuming rate cuts. T-notes sold off across the curve, predominantly in the short-end as rate cut expectations were pared. Money markets are only pricing in a 65% probability of a December rate cut now, down from a 98% probability previously.

- **SUPPLY**

Notes

- Sold USD 30bln of 2-year FRNs at a high discount margin of 0.190%.

Bills

- US to sell USD 95bln of 8-week bills and USD 110bln of 4-week bills on October 30th; all to settle on November 4th
- US sold 17-week bills at a high rate of 3.705%, B/C 2.94x

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: Dec 17bps (prev. 23bps), January 27bps (prev. 33bps), March 36bps (prev. 42bps). Prev = pre-Fed, adjusted for today's rate cut.**
- NY Fed RRP op demand at USD 19.5bln (prev. 14.1bln) across 15 counterparties (prev. 13)
- NY Fed Repo Op demand at USD 10.2bln (prev. 7.7bln)
- EFFR at 4.12% (prev. 4.12%), volumes at USD 92bln (prev. 88bln) on October 28th.
- SOFR at 4.31% (prev. 4.27%), volumes at USD 3.067tln (prev. 3.019tln) on October 28th. Remains above the top-end of the Fed Funds target range.

CRUDE

WTI (Z5) SETTLED USD 0.33 HIGHER AT USD 60.48/BBL; BRENT (Z5) SETTLED USD 0.52 HIGHER AT USD 64.92/BBL

The crude complex was firmer and boosted after larger-than-expected EIA draws. In the European morning, WTI and Brent edged to troughs of USD 59.70/bbl and USD 63.92/bbl, respectively, as Japanese PM Takaichi told US President Trump that banning LNG imports from Russia will be difficult. In wake of that, benchmarks ground higher amid risk-on sentiment, largely deriving from continued NVDA strength, with the complex seeing a further fillip higher on bullish EIA metrics, Crude saw a chunky draw of 6.858mIn (exp. -0.211mIn), Distillates -3.362mIn (exp. -1.735mIn), and Gasoline -5.941mIn (exp. -1.903mIn), leaving the weekly production rising 15k W/W – this saw WTI and Brent hit highs of USD 61.02/bbl and USD 65.37/bbl. After the FOMC, which saw the Fed cut by 25bps as expected, but alongside a somewhat unexpected hawkish dissent (Schmid wanted unchanged rates) and a hawkish Chair Powell (pushed back against a clear path for Dec cut), oil saw a muted reaction.

EQUITIES

CLOSES: SPX +0.00% at 6,891, NDX +0.41% at 26,120, DJI -0.16% at 47,632, RUT -0.87% at 2,485

SECTORS: Real Estate -2.66%, Consumer Staples -2.00%, Materials -1.79%, Financials -1.70%, Health -0.97%, Consumer Discretionary -0.50%, Utilities -0.02%, Industrials +0.25%, Energy +0.80%, Communication Services +1.04%, Technology +1.05%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.02% at 5,705, Dax 40 -0.64% at 24,123, FTSE 100 +0.61% at 9,756, CAC 40 -0.19% at 8,201, FTSE MIB +0.26% at 43,243, IBEX 35 +0.39% at 16,150, PSI +0.44% at 8,386, SMI -0.47% at 12,302, AEX +0.08% at 975.

STOCK SPECIFICS:

- **Bloom Energy (BE):** EPS & revenue topped.
- **Centene (CNC):** Surprise profit per shr & revenue topped; raised FY EPS guide.
- **Caterpillar (CAT):** Top & bottom-line surpassed Wall St. expected.
- **Verizon (VZ):** Profit topped.
- **Boeing (BA):** Choppy trade; deeper loss per shr. than expected & took a USD 4.9bln charge for the latest delay to the 777x jetliner; Revenue beat & surprise positive FCF.
- **CVS Health (CVS):** Took \$5.7bln charge on struggling health care delivery unit; note, strong Q3 metrics & raised FY revenue view.
- **Mondelez International (MDLZ):** Revenue marginally light & anticipates challenging conditions to continue in some markets.
- **Etsy (ETSY):** Revenue and profit beat; CEO to step down.
- **Fiserv (FI):** Profit & revenue way light alongside slashing FY profit view.
- **Stride (LRN):** 2026 outlook disappointed.
- **Teradyne (TER):** Q3 metrics and guidance strong.
- **Varonis Systems (VRNS):** Q3 figures missed, Q4 & FY25 revenue outlook underwhelmed.
- **Visa (V):** Profit in line, revenue slightly above expectations.
- **American Electric Power (AEP):** Top line beat & announced \$72bln capital plan supported by 28GW new load.
- **GE Healthcare (GEHC):** Strong report & lifted FY adj. EPS outlook.
- **TE Connectivity (TEL):** Top & bottom line beat with strong next quarter profit view.
- HHS Secretary Kennedy on **Tylenol (KVUE)** said not enough evidence to show it definitely causes autism but some studies seem "very suggestive".

FX

The Dollar rallied on a hawkish Fed Chair Powell. The Fed cut by 25bps as widely expected, with dissent growing at the October meeting as Schmid (2025 voter) joined the camp with Miran (voter), albeit arguing for unchanged rates, while Miran continues to advocate for 50bps increments. Schmid, in the past, has expressed concerns over inflation being too high, arguing that the Fed must maintain inflation credibility, and as such, policy is appropriately calibrated (said in late Sept). Back to Powell, in the press conference, USD strength accelerated after he downplayed market expectations of another cut in December, arguing another cut is far from assured, with differing views present on the committee regarding the policy path ahead. Changes within the statement saw the Fed sound more optimistic on economic activity. The Fed announced the end of QT, an expected decision, effective December 1st. DXY rose sits near the 99.356 session high from earlier 98.62 lows. Expectations of a 25bps rate cut in the December meeting fell to 65% from ~98% pre-Fed decision.

G10FX ex-CAD was sold vs USD as reduced expectations over another Fed cut in September saw the Dollar soar and left participants revising the attractiveness of USD peers on a rate differential basis. CHF, GBP, and JPY were the biggest losers, while USD/CAD was unchanged.

CAD finished the trading day flat as strength found on the BoC's rate decision was offset by developments at the Fed. The BoC cut rates by a further 25bps to 2.25% as widely expected, with the scope for more easing seemingly limited given the accompanying statement. The central bank described the current policy rate as "about the right level" to keep inflation close to 2% while helping the economy through this period of structural adjustment. Following the BoC announcement, USD/CAD hit lows of 1.3889 before paring to around 1.3950 into APAC trade.

AUD was originally leading G10 strength after a hotter-than-expected Australian CPI data, which resulted in firms (GS & CBA) dropping their rate cut calls from the RBA. Odds of a Nov cut dropped to 8% from ~42% prior the the release. AUD/USD reached highs of 0.6617 before succumbing to late-staged USD strength, leaving the pair at ~0.6561 at the time of writing.

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