

Markets chop to government shutdown, AI and US data

- **SNAPSHOT:** Equities mixed, Treasuries steepen, Crude up, Dollar down, Gold up.
- **REAR VIEW:** US to block NVIDIA's sale of scaled-back AI chips to China; Strong Canadian jobs report; Dismal UoM dataset; NY Fed SCE 1yr revised lower, 3-5yr left unchanged; Dems. to propose 1yr extension of Obamacare subsidies to end shutdown, but GOP aide said it is dead on arrival; Soft China trade data.
- **COMING UP:** **Data:** Norwegian CPI (Oct), EZ Sentix (Nov), Chinese M2 & New Yuan Loans (Oct) **Events:** BoJ Summary of Opinions (Oct) **Speakers:** BoJ's Nakagawa; BoE's Lombardelli **Supply:** UK **Earnings:** Hannover Re, CoreWeave, Barrick Mining.
- **WEEK AHEAD:** Highlights include China Inflation and Activity Data, UK Jobs, Aussie Jobs, NZ Inflation Forecasts, BoJ SOO. [Click here for the full report.](#)
- **CENTRAL BANK WEEKLY:** Previewing BoJ SOO, BoC Minutes; Reviewing BoE, RBA, BCB, Banxico, Norges, Riksbank. [Click here for the full report.](#)
- **WEEKLY US EARNINGS ESTIMATES:** Earnings season winds down with highlights being CSCO, DIS, AMAT. [Click here for the full report.](#)

MARKET WRAP

It was a choppy session to end the week with Thursday's risk-off tone initially seeping into Friday trade amid ongoing concerns over AI valuations and following more weak data with the UoM Survey painting a bleak picture of consumer sentiment amid the government shutdown. Stocks hit lows just after Europe left for the day before the downside gradually started to pare. A lift was seen in late trade on the Democrats offering a compromise by proposing a one-year extension of Obamacare subsidies to end the government shutdown. However, Republicans swiftly rejected this - but stocks stayed near highs into the closing bell with SPX sliding flat, while RSP and RUT outperformed. Nasdaq lagged as big tech stocks were still pressured ex-Amazon, with NVIDIA weighed on after reports the US is to block NVIDIA's sale of scaled-back AI chips to China. In FX, the Dollar was sold on weak US data again but off lows on the end of government shutdown hopes while CAD was the clear outperformer after a very strong jobs report. The Yen lagged amid the turn around in the risk-tone. T-Notes were little changed by settlement but upside was seen during the downbeat part of the session, with weakness seen as the risk environment improved. Attention next week is on supply. Crude and gold prices were also choppy amid the choppy risk tone but gold held onto its gains and traded either side of 4k, while crude settled green but closed the week red for the fifth time in six weeks.

US

UOM: Prelim University of Michigan data for November was dismal. Sentiment fell to 50.3 from 53.6, and beneath the expected 53.2, while both Conditions and Expectations fell beneath the bottom end of the forecast range with the latter even tumbling into contractionary territory. Numerically, Conditions printed 52.3 (exp. 59.2, prev. 58.6) and Expectations printed 49.0 (exp. 50.3, prev. 50.3). 1yr inflation expectations ticked higher to 4.7% from 4.6%, with 5yr moving lower to 3.6% from 3.9%. Surveys of Consumers Director Hsu noted that with the government shutdown dragging on, consumers are now expressing worries about potential negative consequences for the economy. November's fall in sentiment was widespread throughout the population, seen across age, income, and political affiliation. Hsu does note there was one key exception: consumers with the largest third of stock holdings posted a notable 11% increase in sentiment, supported by continued strength in stock markets.

NY FED SCE: The October NY Fed SCE saw inflation expectations ease to 3.2% from 3.4% in the one-year forecast, while 3-year and 5-year forecasts were maintained at 3.0%. Unemployment rate and job finding expectations worsened, while job loss expectations slightly improved. Spending and household income growth expectations remained largely unchanged. Perceptions and expectations about credit availability improved, but respondents were somewhat less optimistic about their future household financial situation. The highlight of the report was that consumers' perceptions of the jobs market worsened, while inflation perceptions improved - which would support the argument of doves on the Fed that they need to act and focus on the labour side of the mandate, but the hawks believe the Fed is missing more greatly on the inflation side.

JEFFERSON: Vice Chair Jefferson said that policy decisions are taken meeting by meeting, and he added he supported the 25bps cut last week, as we already knew due to the vote composition. Jefferson noted policy rate is somewhat restrictive after the latest cut, and the Fed will proceed slowly as policy approaches neutral. He noted risks have shifted with downside employment risks rising. On data, Jefferson remarked the Fed still has a lot of data on the economy despite lack of official reports, and has enough data to make policy, but said it is not a question that official data is the gold standard.

WILLIAMS: NY Fed President Williams said the Fed may soon embark on reserve management bond buying, which is technical, not a signal on monetary policy. He added the fed rate control toolkit has been working well, and he expects standing repo facilities to see active use as needed.

FIXED INCOME

T-NOTE FUTURES (Z5) SETTLED 1 TICK HIGHER AT 112-27+

T-Notes steepen amid choppy risk environment ahead of supply next week . At settlement, 2-year -1.1bps at 3.555%, 3-year -1.3bps at 3.563%, 5-year -1.2bps at 3.677%, 7-year -0.9bps at 3.868%, 10-year -0.2bps at 4.091%, 20-year +0.7bps at 4.668%, 30-year +0.9bps at 4.696%.

INFLATION BREAKEVENS: 1-year BEI +1.0bps at 2.771%, 3-year BEI +0.6bps at 2.485%, 5-year BEI +1.2bps at 2.306%, 10-year BEI +0.6bps at 2.268%, 30-year BEI +0.8bps at 2.225%.

THE DAY: T-Notes steepened on Friday, with the curve ultimately little changed in comparison to some of the other market moves. The trading themes were largely the same as Thursday, with T-Notes finding some support from the risk-off trade, but the moves in T-Notes were not as strong as Thursday's. Perhaps next week's refunding kept the upside limited. Data today concentrated on consumer surveys, with the UoM sentiment survey falling by more than expected, with a drop in both conditions and expectations. The inflation expectations eased in the 5-year forecast to 3.6% from 3.9%, but rose in the one-year to 4.7%. This compared to the NY Fed survey, which saw the 1-year ease to 3.2% but 3- and 5-year forecasts maintained at 3.0%. Elsewhere, Fed's Williams and Jefferson spoke. Williams said the Fed may soon embark on reserve management bond buying, but stressed this is a technical move and not a signal on monetary policy. Jefferson said policy decisions will be taken meeting by meeting, and called policy somewhat restrictive, but suggested the Fed will proceed slowly as they approach neutral, but did warn that risks have shifted with downside employment risks rising. Note, the risk tone did improve in late trade as Democratic Senators made a compromise to propose a one-year extension of Obamacare subsidies to end the government shutdown; however, a Senior Senate GOP Aide quickly said the Democratic proposal is dead on arrival.

SUPPLY

Bills

- US to sell USD 95bln of 6-week bills, USD 86bln of 13-week bills, and USD 77bln of 26-week bills on November 10th; all to settle on November 13th.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing:** Dec 16bps (prev. 17bps), January 28bps (prev. 27bps), March 37bps (prev. 36bps) .
- NY Fed RRP op demand at USD 10.8bln (prev. 12.7bln) across 14 counterparties (prev. 12)
- NY Fed Repo Op demand at USD 2.00bln across two operations today (prev. 0.001bln).
- EFFR at 3.87% (prev. 3.87%), volumes at USD 94bln (prev. 94bln) on November 5th.
- SOFR at 3.92% (prev. 3.91%), volumes at USD 3.156tln (prev. 3.147tln) on November 6th.

CRUDE

WTI (Z5) SETTLED USD 0.32 HIGHER AT 59.75/BBL; BRENT (F6) SETTLED USD 0.25 HIGHER AT 63.63/BBL

The crude complex ended the day with gains, but closed the week down for the fifth time in six weeks . Energy-specific newsflow was light on Friday, but wider markets saw risk-off trade with broad US equities hit hard after a dismal preliminary University of Michigan November report, which further exacerbated broad-based Mag-7 selling. WTI chopped between USD 59.32-60.46/bbl and Brent USD 62.98-64.03/bbl, as participants await the next risk event given the ongoing US Government shutdown. One angle to keep an eye on is the impact of jet fuel demand, as with the US cancelling c. 4% of flights due to the shutdown, it means that demand for jet fuel has lessened ahead of the holiday season amid fewer flights. There are also fears from airlines 20% of flights may need to be cancelled if things worsen. In the weekly Baker Hughes rig count (w/e 7th Nov), Oil rigs were unchanged at 414, Natgas rose 3 to 128, leaving the total up 2 at 548.

EQUITIES

CLOSES: SPX +0.06% at 6,725, NDX -0.28% at 25,060, DJI +0.16% at 46,987, RUT +0.54% at 2,432.

SECTORS: Energy +1.55%, Utilities +1.37%, Real Estate +1.34%, Materials +1.27%, Consumer Staples +1.26%, Financials +0.70%, Industrials +0.46%, Health +0.13%, Consumer Discretionary +0.04%, Technology -0.32%, Communication Services -0.83%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.90% at 5,560, Dax 40 -0.75% at 23,556, FTSE 100 -0.55% at 9,683, CAC 40 -0.18% at 7,950, FTSE MIB -0.35% at 42,918, IBEX 35 -1.34% at 15,901, PSI -2.27% at 8,187, SMI -0.02% at 12,296, AEX -1.07% at 951.

STOCK SPECIFICS:

- **Affirm (AFRM):** Top & bottom beat w/ 42% surge in transaction volume signalling robust demand for lending platform.
- **Airbnb (ABNB):** Rev. beat, stronger-than-exp. bookings & upbeat Q4 guidance that signalled resilient travel demand.
- **Akamai Tech (AKAM):** EPS & rev. topped alongside the strong next Q & FY outlook.
- **Block (XYZ):** Profit & rev. missed
- **Constellation Energy (CEG):** Profit light as was midpoint of FY EPS view
- **DraftKings (DKNG):** Overall weak results & guidance despite CEO saying he is "most bullish" on Cos. future.
- **Expedia (EXPE):** Strong results alongside bullish sales outlook.
- **Meat Packaging Names (TSN, HRL, PPC, JBS):** US President Trump said he has asked DoJ to immediately start an investigation into meat packaging Cos.
- **Meta (META)** is investing USD 600bln in US infrastructure and jobs, including industry-leading AI data centres; commitment is by 2028 to support AI tech, infrastructure and workforce expansion.

- **Microchip (MCHP)**: Strong Q metrics, but next Q guidance disappointed.
- **Monster Beverage (MNST)**: Top & bottom line surpassed Wall St. exp.
- **NVIDIA (NVDA)** scaled-down B30A AI chip reportedly cannot be sold to China after White House blocked approvals.
- **Take-Two (TTWO)**: Deeper loss per shr. than exp. & delayed release of GTA VI, again.
- **Tesla (TSLA)** shareholders approved Musk's pay plan, worth up to \$1tn w/ over 75% support.
- **Trade Desk (TTD)**: EPS & rev. topped w/ better than exp. next Q outlook.

FX

The Dollar Index was weaker on Friday, and tumbled to a low of 99.397 from an earlier peak of 99.872 as a dismal UoM report weighed. On this, prelim UoM for November saw Sentiment, Conditions, and Expectations all fall, with the latter two beneath the bottom end of the forecast range and Expectations into contractionary territory. Accompanying this, 1yr inflation expectations also rose to 4.7% from 4.6%. Following this, heavy Dollar selling was observed to the benefit of most global peers, although do sit off worst levels at the time of writing. Given the lack of tier 1 data due to US government shutdown, more emphasis is being placed on other data sets, and the labour market figures on Thursday and UoM today do not paint a pretty picture of the economy. NY Fed SCE saw 1yr inflation expectations move higher, with 3 and 5-yr unchanged at 3%, but the perception of the labour market worsened. In late trade, the Dollar caught a bid on government reopening prospects, albeit was sold again on the Republicans rejecting the Democratic compromise.

G10 FX was mixed. **CAD** was the clear outperformer and was buoyed after a stellar Canadian jobs report. Employment unexpectedly rose 66.6k (exp. -2.5k, prev. 60.4), while the unemployment rate fell to 6.9% (exp. & prev. 7.1%). However, the job increases were led by part-time jobs, with full time jobs declining from the prior months 106k increase. USD/CAD printed a low of 1.4037 from an earlier high of 1.4126.

GBP, EUR, and CHF all profited off of the Greenback's losses, as opposed to anything currency specific, with the Swissy also likely benefitting from some haven appeal. The Pound strengthened for the second day in a row despite the BoE's dovish hold on Thursday, which largely reflects the Dollar softness as opposed to UK-specific catalysts.

Antipodeans were mixed. Aussie saw gains, while the Kiwi was the G10 underperformer and likely hit on risk-averse sentiment and some pointed towards continued headwinds from cautious remarks from RBNZ's Hawkesby. Both AUD/USD and NZD/USD traded between very narrow ranges, highlighted by the former's 25pip range, but the Aussie was underpinned by firmer copper prices and cross-driven demand, with AUD/NZD briefly breaching 1.1550 before easing within a 1.1486-1.1560 range.

EMFX was mixed. ILS, CLP, TRY weakened, COP, HUF, BRL, MXN, ZAR firmed, while the Yuan was flat. Overnight, and despite garnering little move, there was weak Chinese trade data as exports unexpectedly fell Y/Y and imports did not rise as much as anticipated.

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