

Market Weekly Insights

16th October 2023

Global Outlook

Oil Futures Volatile Amidst Hamas Attack: a Wait-and-See Situation for Global Crude Markets

Oil futures have fallen due to fears of supply disruption as a result of Hamas' attack. Brent crude closed last week at \$90.80 per barrel, and US West Texas Intermediate (WTI) crude slid down to \$87.75 per barrel. "Today, it's more like a ping pong game of fear-on, fear-off rather than trading on fundamentals," said Phil Flynn, an analyst at Price Futures Group. Prices surged last Monday, but many were quick to take profits.

Israel, however, produces very little crude oil. "No direct oil supplies are impacted by the conflict at the moment, so it's a wait-and-see situation," said John Kilduff, partner at Again Capital LLC. There is fear that if the conflict intensifies, it will begin to hurt the Middle East supply.

Israel's Financial Frontline Battle Amidst Ongoing Conflict with Palestine

In the throes of a deepening conflict with Palestinian militants in Gaza, Israel finds itself maneuvering through uncharted waters. The Bank of Israel announced that it will sell \$30 billion of foreign currency in the open market, coupled with the introduction of swap mechanisms offering liquidity of up to \$15 billion, reflecting the nation's proactive stance in the face of immense challenges.

The Israeli Shekel, already battered by a 10% depreciation in 2023 due to political instability, experienced a sharp 2.8% fall against the US dollar following the central bank's announcement. This devaluation was the most significant since 2020. Geopolitical tensions have injected unparalleled volatility into currency markets, posing multifaceted challenges to Israel's economy. The nation's exporters, particularly in the thriving tech sector, face increased pressure as the shekel weakens. Import costs surge, potentially fueling inflationary pressures. The decision to issue government bonds worth 2 billion shekels (\$508 million) amidst this turmoil is a testament to the government's resolve. However, the road ahead remains fraught with ambiguity. Analysts from financial institutions, including HSBC and JPMorgan, anticipate sustained pressure on the shekel.

S&P 500	\$4,367.25 +0.23%
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DJIA	\$33,871.00 +0.13%
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NASDAQ	\$15,164.75 +0.29%
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Russell 2000	\$1,736.40 +0.38%
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FTSE 100	\$7,599.60 -0.59%
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Nikkei 225	\$31,775.62 -1.67%
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WTI Crude	\$87.24 -0.51%
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10-yr Treasury	4.6%
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ISRAEL SHEKEL/US DOLLAR (in %)

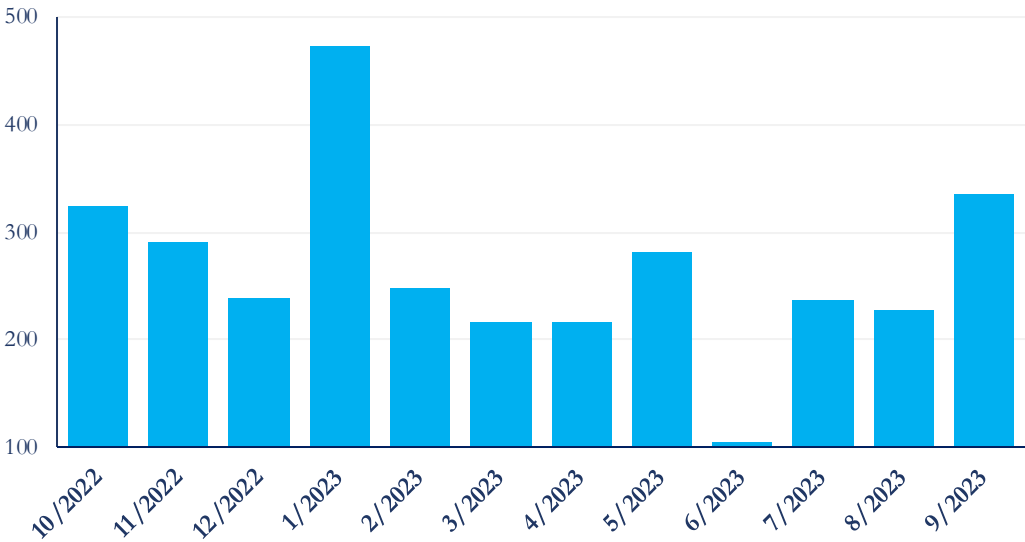


Moreover, the conflict could reverberate globally, unsettling financial markets and increasing geopolitical tensions. Escalating violence might disrupt regional stability, affecting energy supplies and international trade routes. This can potentially lead to broader political challenges and economic uncertainties for countries involved in the region. The Bank of Israel's interventions assume paramount importance in these challenging circumstances. While these measures offer immediate respite, the nation's policymakers are acutely aware of the need for sustained vigilance. The central bank's commitment to ensuring market stability while providing essential liquidity reflects a pragmatic approach in the face of adversity.

America This Week

US Job Market Surges in September

September saw an impressive addition of 336,000 jobs, surpassing expectations and marking the largest monthly increase since January. This growth comes from an upward revision in August's job numbers, revised by 40,000 jobs. Key sectors driving this growth included leisure and hospitality, with 96,000 jobs added, and government jobs, which saw a hefty boost of 73,000 jobs.



Despite this employment surge, wage growth is showing signs of cooling. Average hourly earnings only rose by 0.2% in September, falling below economists' expectations. The decline in wage growth, while helping to keep consumer spending strong, aligns with the Federal Reserve's aim to cool down the labor market and avoid inflationary pressures.

The unexpected strong job growth and concerns over rising wages have prompted speculation about potential rate hikes by the Federal Reserve. Stock market futures tumbled in response to the news, reflecting concerns about future Fed actions. The resilience of the labor market in the face of uncertainty and its impact on the broader economy are the focus of ongoing analysis and policymaker attention.

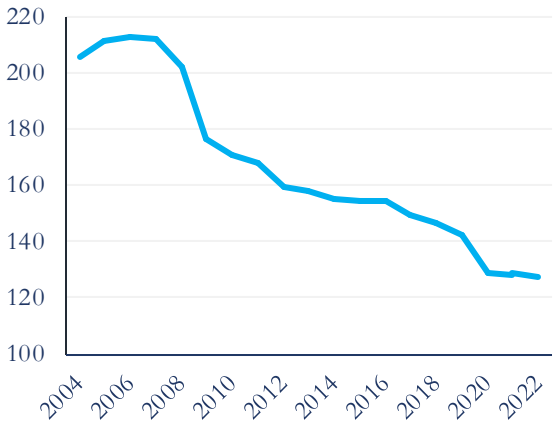
USPS Raising Stamp Prices as Less Letters Are Sent Out

Since 2004, the United States Postal Service (USPS) has witnessed a substantial 37% decrease in the annual volume of letters sent. This decline is primarily a result of the increasing prevalence of technology, which offers the convenience and swiftness of online communication.

Despite this substantial decline, USPS has put forth a proposal to increase the price of stamps to 68 cents, marking a 3% increase from the current rate. If approved, this adjustment would represent a staggering 17% increase since August 2021 and would signify the third stamp price increase in the same year.

Sources: Wall Street Journal, Statista, CNN, FRED

UNITED STATES POSTAL SERVICE TOTAL MAIL VOLUME (in billions)



This proposal is a key component of the Parcel Service's 10-Year Plan, aimed at achieving financial sustainability and averting an anticipated \$100 billion in losses. The USPS is also contemplating raising prices for international letters and other products, including certified mail. Should these changes receive approval, they are set to take effect on January 21st.

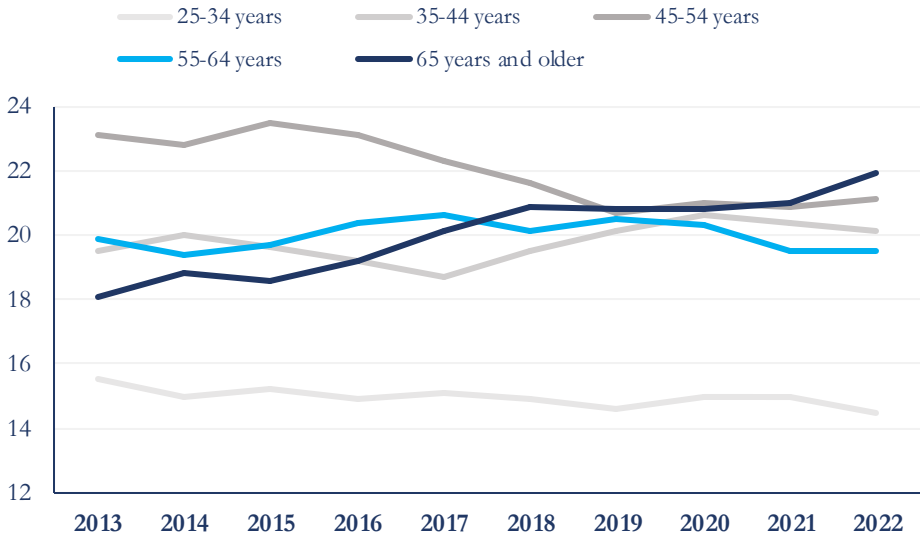
In the second quarter of fiscal year 2023, the USPS reported a net loss of \$2.5 billion, further emphasizing the financial challenges it faces. For the past 15 years, the Postal Service has consistently operated at a loss. Given this trend, it remains uncertain whether the proposed price increase will suffice to ensure long-term financial viability. Nevertheless, only time will tell if these measures can lead to a reversal of the USPS's financial fortunes.

Macro Highlights

United States Senior Population Upholding the Economy

With rising interest rates, consumer spending has remained remarkably robust. This resilience can be largely attributed to the aging population of the United States. As of August, the 65+ demographic has reached its highest level since 1920, accounting for 17.7% of the entire US population. Notably, this senior population contributed to 22% of total consumer spending in the United States last year, marking the highest percentage on record. Several factors contribute to their increased spending, including the sheer size of the baby boomer generation, which numbers around 73 million.

SHARE OF CONSUMER SPENDING PER AGE GROUP (in %)



This demographic group also possesses strong financial stability, a reduced reliance on borrowing, and the security of homeownership. Consequently, fluctuations in interest rates have a diminished impact on their financial well-being, enabling them to spend more freely.

September CPI Report

Inflation numbers for September are out and higher than expected. On Thursday, the US Bureau of Labor Statistics released its monthly CPI report with the index rising 0.4% from August and 3.7% on a YOY basis.

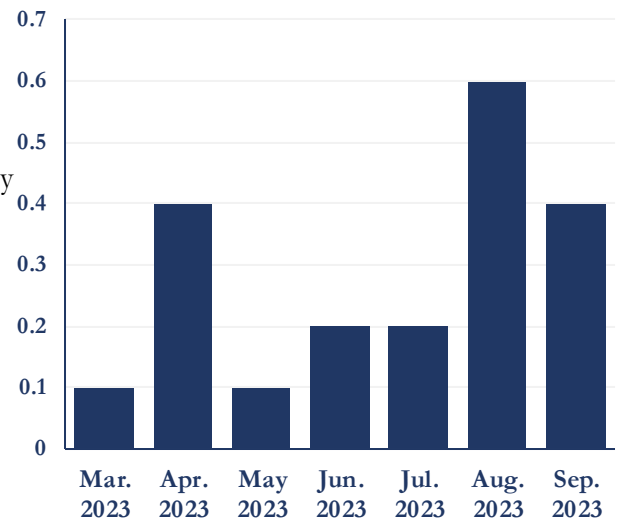
Sources: Wall Street Journal, Forbes, Bureau of Labor Statistics

This falls slightly above expectations of 0.3% and 3.6%, respectively. On the other hand, core inflation, which excludes the volatile food and energy sectors, stuck to August rates and September expectations at 0.3% on the month and 4.1% on the year. The 4.1% annual rate is the lowest increase in two years.

Key drivers within the report include the index for shelter, which rose to 0.6%, accounting for half of the increase. Used cars put downward pressure on the overall metric by declining 2.5% in September. This comes as the resolution of pandemic-related supply chain issues frees up the new car market, reducing demand for used vehicles.

Overall, the numbers suggest that prices have generally cooled, although rising gas prices may apply upward pressure in the coming months. With that said, it appears unlikely the Fed will pursue another rate hike next month, instead opting for a higher-for-longer stance to achieve their 2% inflation mandate.

SEASONALLY ADJUSTED
CHANGES of ALL ITEMS
(in %)



Industry News

New Aquisition in the Battle for Chip Supremacy

This Tuesday, chipmaker AMD (NASDAQ: AMD) announced plans to acquire Nod.ai, an artificial intelligence and machine learning software company. Under the deal, AMD would absorb Nod.ai's experienced engineering team and technologies to expand the firm's open AI software capabilities. Nod.ai's automation software is highly compatible with AMD hardware and its tools are expected to give customers access to generative AI technologies including various developer tools, libraries, and a machine learning model. Existing AMD products that are expected to be affected by the acquisition include Instinct data-center accelerators, Ryzen processors, EPYC™ processors, Versal™ SoCs, and Radeon GPUs.

This deal is one of many steps the firm has taken to expand and strengthen their AI solution portfolio against AI chip leader, Nvidia (NASDAQ: NVDA). For context, in its most recent quarterly earnings report, Nvidia recorded \$13.507 billion in revenue, a 101% YOY increase, compared to AMD's revenue of \$5.359 billion, an 18% YOY decline. The acquisition of Nod.ai complements AMD's June release of the Instinct MI300 chip, a series of chiplets packaged together with a shared memory and network capable of AI and high-performance computing capabilities; its set to compete with Nvidia's dominate H100 chip.

The deal is of an undisclosed amount and is expected to close within AMD's current fiscal quarter.

Highly Integrated AI Products Pose Profitability Issues for Tech Companies

Tech companies are forging ahead with the development of cutting-edge AI technology that garners widespread acclaim, yet they grapple with the challenge of turning these innovations into profitable ventures. The intricate nature of AI tools demands tightly integrated servers and costly, power-hungry chips.

Both Microsoft and Google are launching AI-backed upgrades to their software, albeit with higher price tags. Concurrently, Zoom is harnessing an in-house AI solution to trim costs. While some companies opt for flat fees, it becomes progressively more expensive for customers as their product usage intensifies, due to the need for robust server infrastructure. Consequently, many companies adopt variable pricing based on usage, as opposed to a fixed rate. For instance, Microsoft plans to charge \$13 per month for basic Microsoft 365 software, alongside an additional \$30 per month, while Google is set to charge \$30 per month.

The unpredictability surrounding the profitability of AI software has understandably given investors cause for concern. Nevertheless, the share prices of AI companies have seen an upward trend this year, underscoring the industry's potential. OpenAI, for instance, now commands a valuation of \$90 billion, emblematic of the promise held by this sector. May Habib, CEO of Writer, anticipates that the coming year will mark a reduction in uncertainty regarding generative AI investments.












Amazon Launches First Satellites for Project Kuiper

On Friday afternoon, a rocket carrying two prototype Amazon satellites for Project Kuiper was launched from Florida's Cape Canaveral Space Station. The primary objective of the launch was to demonstrate the satellites' performance in space and test various associated systems. Project Kuiper, Amazon's ambitious endeavor, is committed to providing fast and affordable broadband access to underserved and unserved communities worldwide. Amazon's CEO, Andy Jassy, has expressed considerable optimism regarding the project and has allocated a substantial investment of \$10 billion, securing approval for the deployment of over 3,200 satellites.

However, some industry analysts have raised pertinent questions concerning the project's competitive advantage, particularly in a market where satellite internet tends to be notably more expensive than ground-based alternatives. Amazon is actively engaged in efforts to minimize operational costs and enhance cost-efficiency. Furthermore, Amazon is entering a market already dominated by SpaceX's Starlink, boasting over 2 million customers, a constellation of 4,800 satellites in orbit, and a revenue stream of \$1.4 billion.

Amazon has also faced legal disputes with an investor over its selection of rocket providers for Project Kuiper's launches. To achieve success with this ambitious project, Amazon must not only focus on cost reduction but also effectively differentiate itself from existing competitors like Starlink and other key players in the satellite internet market.

Market Insights Team

					
Momo Hassan	Jade Chan	Varun Jhamvar	Rahul Kapur	Jack Miller	Alyssa Nguyen
Director	Associate	Analyst	Analyst	Analyst	Analyst
	 Northeastern University	 Northeastern University		 Northeastern University	 Northeastern University

Sources: Wall Street Journal