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US MARKET WRAP 9th October 2019: Markets bid on (mainly) progressive China suggestions

*** SNAPSHOT:** Equities up, Treasuries down, Dollar flat, Crude flat.
*** REAR VIEW:** China may offer the US a mini deal, but expectations are low; Fed minutes non-event but did note excessive market expectations; A50 extension likelihood increasing; Turkey offensive into Northern Syria begins.
*** UPCOMING:** Data: UK GDP, US CPI and Initial Jobless Claims, Chinese M2 Money Supply. **Speakers:** BoE's Carney, Fed's Kashkari, Daly, Mester and Bostic, ECB's Lane. **Events:** ECB Minutes, OPEC Monthly Oil Report. **Supply:** US and Japan **Earnings:** Delta Airlines. **Note:** US/China principal level trade talks begin.

*** US/CHINA TRADE:** Chinese officials said - in the late session – that Beijing had reduced its expectations for progress from the trade talks this week, mentioning a loss of goodwill from the US blacklisting the 28 Chinese companies. Risk appetite was buoyed beforehand on earlier reports: China is reportedly open to a partial trade deal despite the tech blacklist, adding China would accept a limited deal as long as no more tariffs are imposed by the US, including the two rounds of higher duties set to come into effect later this month and in December. China would offer non-core concessions, such as the continued purchases of agricultural products, however the region would not give in on any sticking points such as IP theft and large-scale state subsidies. If these are not offered, it goes against the views of the US delegation who all want a large-scale deal, and not an interim one. The Chinese also reportedly offered to purchase an extra USD 10bln of US agricultural goods a year to ease the trade war as they further look for an interim deal - the 10bln offer will boost annual soybean purchases to 30mln tonnes from 20mln - the report also notes that Vice Premier Lie He is coming to the table with real offers and that the Chinese are ready to de-escalate, according to people briefed on the matter. Elsewhere, in response to yesterday's US visa ban on those related to the oppression of the Uighur Muslims, where the Chinese embassy said it violates international relations and undermines Chinas interest, reports unsurprisingly announce that China may reportedly restrict US visas with anti-Chinese links. The initial US visa ban had nothing to do with the trade talks, the US has said, but the Chinese are sceptical.

*** FOMC MINUTES:** Most policymakers believed a 25bp cut was needed due to the economic outlook, risk management and inflation objectives; several noted statistical models of recession in medium term increased notably. Several policymakers favoured keeping rates unchanged, saying the baseline economic projection had changed very little and that uncertainties would not derail the expansion. A couple of policymakers preferred a 50bp cut and stressed that forward guidance might also be needed, and on the flip side, a couple said a rate cut might be too much insurance and could leave policy with less scope for future shocks. Reminder, Rosengren and George were the hawkish dissenters at the September meeting, whilst Bullard voted for a 50bps cut. A few said markets see more future accommodation than they see as appropriate and might need to better align market expectations with their expectations; currently markets forecast 33.3bps (just over 1) of cuts by the end of 2019, and 76.8bp (just over 3) worth of cuts worth by the end of 2020. The FOMC are generally more concerned about risks associated with trade, geopolitics and global economy. Adding, although readings on labour markets and overall economy is strong, a clearer picture emerged on weakness on investment, factories and exports. On reserves, several suggested the consideration of an SRF as part of monetary policy; a few noted the possibility of resuming trend growth of balance sheet to stabilise the reserves, and policymakers agreed recent money market developments implied they should soon talk about the appropriate level of reserve balances.

*** SYRIA/TURKEY:** Turkey launched an offensive, operation "Peace Spring", into Northern Syria, following the US' withdrawal from the region earlier in the week. The region is currently being held by Kurdish forces, who are holding thousands of ISIS forces. There has also been reports that the Kurds have fired artillery back into Turkish towns close to the Syrian border. Later in the session the Turkish Defence Ministry reported its troops had entered Northern Syria and begun their ground operations. The Turkish offensive has sparked international condemnation, with the UK, France and Germany vowing to call a UN Security council move. Earlier reports suggested that the attack had been coordinated with the Russians, however, a Senior Russian Lawmaker said that the offensive into Syria could be "construed" as a violation of Syria's sovereignty, adding that Russia is in Syria for "different reasons". US President Trump, who has faced widespread criticism from within his party over the decision to remove troops from the region, doubled down with familiar arguments, citing his desire to pull the US out of "endless wars" and arguing that entering the Middle East in the first place had been a mistake.

*** FED:** Fed Chair Powell spoke at a Fed listens event, mainly avoiding direct policy comments. Powell said the Fed's "protection" from short-term political pressure makes it important to "clearly explain" policy; repeats that economy is in a good place with strong job market, adding it is important to keep inflation around the 2% target so there is room to adjust policy whilst keeping expectations anchored.

* **JOLTS:** Job openings in August slowed to 7.041mln from 7.174mln, missing expectations for 7.191mln openings; marking a third consecutive monthly decline. Blackrock's Rieder notes that this latest report raises the possibility that the measure has peaked for the cycle. The quit rate also fell, which Rieder sees as a signal of employee confidence in securing an improved work position as diminishing; the decline in vacancies to unemployed ratio for a fifth month also a troubling sign.

*** US T-NOTE FUTURES (Z9) SETTLED 13+ TICKS AT 131-09:** The TPLEX drifted lower through the session as risk appetite improved in reaction to (somewhat) progressive developments out of the Chinese delegation, who showed interest in making some progress in talks. The September meeting FOMC minutes had a muted reaction on the Treasury curve with market pricing for future cuts little changed. By

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settlement yields were higher by 4.5bps across the entire curve. The 10-year Treasury auction held-up decent, stopping through the WI by 0.1bps and covered 2.43x, above the six-auction average of 2.38x, although indirects took a haircut off their average.

*** 30-YEAR BOND AUCTION PREVIEW:** US to sell USD 16bln of 30-year bonds on 10th October 2019 at 1300 EDT/1800 BST. SocGen's analysts, who hold a negative bias going into the auction, say the 30-year sector is trading rich in asset swap versus older 30s; the bank argues that demand has been falling in the long-end noting that seven of the last 10 auctions have tailed, while cover ratios averages have also been edging lower. SocGen says this indicates that investors have been staying away from long-end auctions. Additionally, 30s yields are currently trading near all-time lows seen in August, which may also turn-off buyers.

*** WTI (X9) SETTLED USD 0.04 LOWER AT USD 52.59/BBL; BRENT (Z9) SETTLED USD 0.08 HIGHER AT USD 58.32/BBL:** Energy markets sold off in the tail end after being bid all session - alongside major equity bourses - on the back of some progressive rumblings from the Chinese delegation ahead of the trade talks, in addition to Turkey's offensive in Syria. Oil benchmarks were volatile on the EIA inventory data release as crude stocks printed a 2.9mln bbl build (less than the API report but exceeding the expected 1.4mln bbl build) alongside a 200k BPD increase in US production to a record 12.6mln BPD. The products were price supportive with gasoline and distillates drawing more than expected, although refining utilisation declined by 0.7% (exp. +0.3%) for a fourth consecutive decline, alluding to weak user demand for products. The geopolitical risk premium rose on Wednesday as the Turkish armed forces launched its operation "Peace Spring" in Syria, providing a new front for oil participants to monitor in the Middle East when evaluating supply risks. Elsewhere, OPEC has raised Nigeria's production limit target to 1.774mln BPD (prev. 1.685mln BPD), although Nigeria has not been compliant with the supply cuts thus far - Reuters latest survey had Nigeria's production at 1.95mln BPD at the end of September.

*** BREXIT:** Early in the EU session, reports indicated that the EU was prepared to make a significant concession in a new Brexit deal offer to the UK; supposedly they would allow for the provision of a mechanism for the Northern Ireland assembly to leave a new Irish backstop after a number of years, with discussions for a 2025 timeframe. These reports resulted in immediate upside for Sterling. However, it was subsequently rebuffed as journalists highlighted that Downing Street has previously made it clear that they will not accept a Northern Ireland only backstop, which is essentially what this proposal entails. Additionally, EU sources noted they are not about to make a bold new offer and DUP made it very clear that the reported deal is a non-starter; they do not see it as an improved offer. Resultantly, Sterling reverting back to pre-announcement levels, and little has changed on the Brexit front. UK PM Johnson will be meeting Irish PM Varadkar on Friday, a meeting which is being seen by many as a last chance for the EU and UK to come to an agreement. Given the gulf between the two sides positions, any breakthrough is seen as unlikely. The EU has expressed willingness to grant the UK another A50 extension to allow for time for a general election/second referendum, with an extension until next June being touted. Despite reiterating a willingness to continue negotiating until the last minute, any incentive for the EU to make further concessions is weak given that UK law mandates that the PM request an extension should he fail to secure a deal by the 19th, desks note.

*** CLOSING LEVELS**: S&P 500 0.9% at 2919, NASDAQ-100 1.1% at 7691, Dow Jones 0.7% at 26346,

* **SECTORS:** Consumer Discretionary 0.9%, Consumer Staples 0.8%, Energy 1.1%, Financials 1%, Health Care 0.7%, Industrials 0.9%, Information Technology 1.5%, Materials 1%, Telecommunication Services 0.4%, Utilities 0.5%

*** STOCK SPECIFICS**: Netflix (NFLX) were hit after PT cuts at both Rosenblatt and Moness Crespi with the former anticipating a Q4 subscriber guidance being more conservative ahead of competition from Disney (DIS) and Apple (AAPL), and the latter lowering its Q3 estimates and FY19/20 subscriber estimates due to a weaker macro environment and an "increasingly fierce competition". American Airlines (AAL) traded higher; the airline announced it will extend the Boeing (BA) 737 MAX cancellations through to middle of January, expecting it to resume to service from January 16th. Following the move AAL, narrowed its Total Revenue per Available Seat Mile (TRASM) to 1.5-2.5% from 1-3% y/y. Johnson and Johnson (JNJ) were lower after it has to pay USD 9bln in punitive damages in a trail over risk of male breast growth related to its Risperdal drug. Semiconductors (SOX) were higher today after TSMC (TSM) September sales increased 7.6% y/y, although note, M/M the figures did fall. LVMH (MC FP) reported its earnings after the European close where revenue beat expectations, noting EU, US and Asia performed strong despite the difficult backdrop in Hong Kong.

*** FX WRAP:** The news that China is open to a "mini deal" with the US, which triggered risk on during early European hours, saw havens come under pressure; **USDJPY** rose from the low 107.20s to just shy of the 107.50 mark, while **EURCHF** broke back above 1.09, before advancing to 1.0930. **XAU** was hit less hard and managed to hold within yesterday evening's USD 1505-1515/oz parameters. **DXY** initially traded lower on the news sending the buck to similar lows seen yesterday, just beneath 98.90. The DXY clawed back initial losses throughout the remainder of the session and headed into Asia trade relatively unchanged; **CNH** was firmer against the greenback. **GBP** had its own roller-coaster journey, spiking from the low 1.2200s to just shy of 1.2300 on reports that the EU were ready to make a new Brexit offer (essentially a time limited NI only backstop) before retracing the entire move after the EU denied the reports and it became clear that, even if true, the DUP/Brexiteer wing of the party would never accept the offer anyway. In EMFX, **TRY** among underperformers as Syrian tensions escalate with operation "peace spring" underway, pushing USDTRY to multi-month highs. On the flipside, **ZAR** outperformed although failed to breach the 15.0 handle to the downside against the buck amid an improved business confidence data (92.4 from 89.1); **MXN** also firmer as headline and core inflation metrics picked up.