US Market Wrap

25th August 2023: Powell's balanced approach sees stocks rise and bonds flatten

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar flat..
- **REAR VIEW**: Powell takes balanced approach; Mester notes there is probably more work to do on rates; Goolsbee still feels like there's a soft landing path; ECB sources note momentum is growing for a pause; Iran/US JCPOA speculation; BA readies 737 MAX China delivery restarts; Final UoM revised down, inflation expectations revised up.
- **WEEK AHEAD**: Highlights include US ISM, PCE and NFP, Australian, Swiss and EZ CPI, ECB Minutes, Chinese PMIs, To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing ECB Minutes; Reviewing Fed Chair Powell, PBoC LPR, CBRT and BoK. To download the full report, please click here.

MARKET WRAP

Price action was choppy around Fed Chair Powell's speech, who took a more balanced/neutral approach regarding future rate moves (please see below for a full summary). The knee-jerk reaction saw both stocks and bonds surge to highs but this was quickly pared as the full text was digested, but the losses did not last for long either. Stocks and bonds moved off the Powell lows throughout the rest of the session with stocks closing in the green while the Treasury curve flattened. Energy prices also saw gains but there was a knock in the afternoon around reports in Iranian press suggesting some sort of oil deal with the US, albeit it was more speculation given recent months of negotiations (prisoner swaps, uranium enrichment). The Dollar was flat with DXY trading either side of 104 with the CHF and Dollar outperforming while JPY was the laggard. Looking to next week, the NFP report will be key, while PCE is also due, as is the ISM Manufacturing PMI, please see the Week Ahead preview for a full summary (available above).

FED

CHAIR POWELL REVIEW: Powell largely towed a similar line to his July FOMC press conference, but since then there has been a range of Fed views on whether the Fed has done enough. Fed's Harker towed the line of the Fed has "probably done enough" (Dovish), while Collins said the Fed "may be at or near that point" (Neutral), or Bowman's view (in early August) that additional hikes will "likely be needed" (Hawkish). Powell seems to have taken the Collins/Neutral approach, expressing the Fed will proceed carefully when deciding to hike again, or hold steady, stressing the Fed will decide the next rate moves based on data. One thing all Fed speakers, and Powell, appear to be in agreement to is that they intend to hold rates until they are confident inflation is moving sustainably down to 2%. There has been a lot of discussion on the neutral rate recently and whether expectations for that rate have shifted higher, Powell did not provide a concrete view on the matter, saying the Fed cannot be certain what the neutral rate level is. It is worth noting the June SEP's median longer run rate view remained at 2.5%, but the central tendency shifted higher to 2.5-2.8% from 2.4-2.6%, while the range increased marginally to 2.4-3.6% from 2.3-3.6%, and we are set to receive new projections at the September 20th meeting for a clearer view of the neutral rate among the whole FOMC. Within the speech Powell was cognizant that monetary policy faces risks on both sides and stressed the economic uncertainty calls for agile monetary policy making ahead. The Fed Chair warned that above trend growth could warrant more Fed rate hikes, as could signs that the labour market is not cooling, however, he said that the Fed expect the labour market rebalancing to continue. Powell is also attentive to signs the economy is not cooling as expected, and he reiterated that lowering inflation will likely require softer labour markets, acknowledging there is evidence of tighter financial conditions contributing to slower growth in this cycle too. On wages, Powell said wage growth continues to slow, albeit gradually, but nominal wage growth must ultimately slow to a rate that is consistent with 2% inflation, noting real wage growth has been increasing as inflation falls. Powell did not want to commit to further rate moves, adding it is challenging to know when a sufficiently restrictive stance has been achieved and there are also uncertainties around the effects of policy lags, but stated the "wide range of estimates of these lags suggests that there may be significant further drag in the pipeline". Meanwhile, he added that in the current cycle, the decline in job openings without an increase in unemployment is welcome, but historically unusual and appears to reflect large excess demand for labour. Meanwhile, Powell stated that he sees evidence inflation is becoming more responsive to labour markets tightness. He warned doing too little could allow inflation to become entrenched, and ultimately require more work to do on policy at a high cost to employment but also that doing too much could do unnecessary harm to the economy.

MESTER (non-voter, hawk) said the Fed is getting closer to where they need to be with rates but although they have made a lot of progress on inflation, more evidence that inflation is coming down is needed and there is still probably more work to do with rates. However, she did caution the Fed needs to be careful as they do not want to over-tighten with rates. She repeated to other officials that the main Fed debate is whether rates are restrictive enough, while she also revealed in the June SEP that she did not pencil in any rate cuts for 2024 but she said that will be re-evaluated in September. Mester repeated Powell in noting the Fed has to be patient, and that it is very likely below-trend growth is needed to lower inflation. She also agreed the next policy choice will be determined by data.

GOOLSBEE (voter, dove) said he still feels like there is a path to a soft landing, noting nothing has happened in the last two months that makes him think the golden path is impossible. Looking ahead, Goolsbee did not want to speculate about upcoming Fed action, while on Powell's speech he noted Powell was "properly sober" in his speech, and said it would be premature to declare victory. On lags, he said there is no obvious answer to the full effect of policy lags, but it argues for a bit of caution, noting to keep eyes on inflation in the short run as you cannot observe what lags are as you have to wait and see. When quizzed on the inflation target, he said the Fed should not give it up, it cannot be changed until you hit it and he is willing to be patient to get inflation back to 2%.

DATA

UOM: The final UoM survey for August was revised down to 69.5 from 71.2, despite expectations for an unrevised print. Forward-looking expectations and current conditions were both revised lower to 65.5 (prev. 67.3) and 75.7 (prev. 77.4), respectively. On the inflation footing, 1-yr ahead expectations edged up to 3.5% from 3.3%, with the longer term 5-10yr rising to 3.0% from 2.9%. Regarding the headline, OxEco notes, “while the recent rise in gasoline prices took a toll, a strong labor market and easing inflation anchored sentiment at the end of August.” Looking ahead, it thinks sentiment is likely to fall further in the months ahead, though, as the labour market softens, consumers dip further into excess savings, and the economy enters a period of slower growth. On inflation, the consultancy wouldn’t be surprised to see increases in expectations over the next few months given its prospects for gasoline prices to trend higher over the balance of the year.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 5 TICKS LOWER AT 109-14

The treasury curve flattened on Friday in wake of Fed Chair Powell, which resulted in choppy price action as he took a more balanced approach. At settlement, 2s +4.4bps at 5.063%, 3s +3.2bps at 4.728%, 5s +3.0bps at 4.437%, 7s +1.7bps at 4.364%, 10s +0.4bps at 4.239%, 20s +0.0bps at 4.500%, 30s -1.1bps at 4.291%.

INFLATION BREAKEVENS: 5yr BEI -0.2bps at 2.361%, 10yr BEI -1.1bps at 2.332%, 30yr BEI -1.2bps at 2.320%.

THE DAY: T-Notes generally traded sideways during APAC, European and the early US hours in anticipation of Fed Chair Powell. The knee jerk reaction was a dovish one, with T-Notes and stocks briefly rallying with the T-Note futures hitting a high of 109-23 before swiftly paring to print lows shortly after at 109-03+. Traders looked at both the hawkish and dovish sides of Powell's speech, but to summarize he did not commit to further rate hikes, but he also did not rule them out. He also shared the view of others on the FOMC that rates will need to be kept at a sufficiently restrictive level until they are confident inflation is returning to the 2% target. Nonetheless, Treasuries pared from lows to settle at 109-14. There was little reaction to the Final UoM data release, which saw inflation expectations revised up for both the 1yr and 5-10yr, with the former now at 3.5% from 3.3% in the prelim, and the latter at 3.0% (prev. 2.9%). The sentiment data also was weak, falling beneath expectations with both expectations and current conditions declining. Attention next week turns to US PCE, which Powell sees coming in at 3.3% (exp. 3.3%, prev. 3.0%) with core at 4.3% (exp. 4.2%, prev. 4.1%), as well as the NFP report which will help in determining future Fed expectations, given Powell and Co. have said that it is likely a slowing in the labour market is needed to return inflation to target. The ISM Manufacturing PMI will also be in focus.

STIRS:

- SR3U3 -2.0bps at 94.568, Z3 -4.0bps at 94.555, H4 -8.0bps at 94.715, M4 -10.0bps at 95.000, U4 -10.5bps at 95.355, Z4 -9.0bps at 95.680, H5 -6.5bps at 95.920, M5 -4.5bps at 96.075, U5 -3.5bps at 96.150, U6 -3.5bps at 96.245, U7 -2.0bps at 96.250.
- NY Fed RRP Op demand at 1.687tln (prev. 1.732tln) across 94 bidders (prev. 96)
- SOFR flat at 5.30% as of Aug 24th, volumes rose to USD 1.344tln from 1.27tln.
- EFFR flat at 5.33% as of Aug 24th, volumes unchanged at USD 105bln.

CRUDE

WTI (V3) SETTLED USD 0.78 HIGHER AT 79.38/BBL; BRENT (V3) SETTLED USD 1.12 HIGHER AT 84.48/BBL

The crude complex was choppy, but ended the day in the green but that was not enough to prevent a second consecutive week of losses. Crude-specific newsflow was sparse to end the week, with all attention on Fed Chair Powell at Jackson Hole, and then the following speakers. Powell largely towed a similar line to his July FOMC press conference, but he took a more neutral stance giving both hawkish and dovish arguments when it comes to future rate hikes, stressing the current uncertainty. Despite the lack of oil specific news, WTI and Brent fell to session lows of USD 78.14/bbl and 82.67/bbl, respectively, after Iranian press Tasnim tweeted Iran and US seem to have reached an agreement on the entry of Iranian oil into the world market (taken from translation, which appears to cite commentary from a Bloomberg article). Oil later recovered as risk sentiment picked up to settle just off earlier highs. Elsewhere, according to Reuters, Nigeria Q2 2023 oil production stood at 1.22mln BPD (vs 1.51mln in Q1), Lastly, the weekly Baker Hughes rig count saw oil rigs fall 8 to 512, natgas dip 2 to 115, leaving the total down 10 to 632.

LNG: On the LNG front and over in Australia, the Offshore Alliance union members at Woodside Energy endorsed the in-principle agreement which was reached by the Co. and unions yesterday. Chevron meanwhile said it has not received any notice of intent to strike from Australian LNG unions after news yesterday that workers at Chevron's Australian downstream LNG facilities voted to allow unions to call strikes if needed, according to the union cited by Reuters; over 99% of the 433 workers that voted were in favour of taking action.

EQUITIES

CLOSES: SPX +0.67% at 4,405, NDX +0.85% at 14,941, DJIA +0.73% at 34,346, RUT +0.40% at 1,853.

SECTORS: Consumer Discretionary +1.1%, Energy +1.07%, Industrials +0.86%, Technology +0.82%, Utilities +0.78%, Health +0.6%, Consumer Staples +0.56%, Financials +0.34%, Real Estate +0.27%, Materials +0.27%, Communication Services +0.17%.

EUROPEAN CLOSES: DAX +0.07% at 15,632, FTSE 100 +0.07% at 7,339, CAC 40 +0.21% at 7,230, Euro Stoxx 50 +0.07% at 4,235, IBEX 35 +0.15% at 9,339, FTSE MIB +0.49% at 28,208, SMI -0.18% at 10,957.

STOCK SPECIFICS: **Boeing (BA)** reportedly readies the 737 MAX China delivery restart after four years; may ship first 737 MAX to China in the next few weeks. **Danaher (DHR)** reportedly in the lead to acquire **Abcam PLC (ABCM)**, prevailing over a bid from **Agilent Tech (A)**, according to Reuters citing sources. **Hostess Brands (TWNK)** is reportedly working with Morgan Stanley to explore a sale after fielding take-over interest from major snack food makers, according to Reuters citing sources; **General Mills (GIS), Mondelez International (MDLZ), PepsiCo (PEP) and Hershey (HSY)** are reportedly among the cos. that have shown an interest. Wiz is reportedly considering a potential bid for **SentinelOne (S)**, according to Bloomberg. Maui County sued **Hawaiian Electric (HE)** for damages over the island's wildfires. Following this, HE suspended its dividend. **Netflix (NFLX)** was upgraded at Loop Capital. UAW said members voted to strike at three Detroit automakers, **General Motors (GM), Ford (F), and Stellantis (STLA)**. Veritas is reportedly considering a takeover offer for **Blackberry (BB)**, according to Bloomberg.

EARNINGS: **Ulta Beauty (ULTA)** beat on EPS, revenue, and comp. sales; lifted FY guidance. **Workday (WDAY)** surpassed expectations on the top and bottom line; raised FY24 subscription revenue view. **Marvell Technology (MRVL)** continued on its descent seen on Thursday. Earnings were more-or-less in line, while Q3 adj. EPS view was as expected. Exec forecast sequential revenue growth to accelerate in Q3, driven primarily by AI and cloud infrastructure. **Gap (GPS)** beat on EPS but missed on revenue and comp. sales declined more than expected. **Nordstrom (JWN)** beat on profit and marginally surpassed revenue expectations. GMV fell 8.5% Y/Y, and net sales included a 275bps negative impact from the wind-down of Canadian operations. Reiterated FY23 adj. EPS outlook. **Affirm Holdings (AFRM)** posted a shallower loss per share than expected and beat on revenue. Expect to achieve operating income profitability in FY24. Q1 revenue guidance better-than-expected.

WEEKLY FX WRAP

Buck bolts into Jackson Hole and backs out initially post-Powell

USD/EUR - Market participants were primed for the release of preliminary PMIs as the major event ahead of the annual JH Symposium, but China grabbed more headlines and attention before all that when the PBoC defied expectations for 15 bp cuts to its LPRs by opting to trim the 1-year rate 10 bp and keep the 5-year unchanged instead. This ensured a lively start to the week, with the Greenback under pressure from the Yuan that was also propped by reports of Chinese state banks soaking up Cnh liquidity and squeezing one month forward prices as a result. However, the Dollar regained poise by the end of Monday's session and the DXY pared declines within a 103.140-500 range to set the scene for a more volatile Tuesday. Indeed, the index absorbed more downside pressure to the brink of 103.000 before staging a firmer recovery to top 103.710 and close above a key Fib that had been elusive since the DXY reclaimed 103.00+ status on August 14. Roll on to flash PMI day, and it began with a boom for the Buck as France rang alarm bells following a weaker than forecast and deeper sub-50.0 services print in advance of Germany's services sector collapse from growth into contraction. Eur/Usd slumped further from w-t-d peak and a test of the 100 DMA, at 1.0930 to the edge of the 200 DMA near the round number below from around 1.0872, while the Dollar index got to within a whisker of 104.000 before being undermined by sub-consensus US PMIs. The DXY reversed through 103.500, but this proved to be a short-lived relapse as it quickly regrouped and topped 104.000 on Thursday with the aid of yet another lower than expected weekly jobless claimant count. This almost left the stage clear for Fed Chair Powell's keynote speech from Jackson Hole, but the Greenback breached more technical and psychological levels in the interim as it raised the bar ro 104.310 in index terms. In fact, the Buck could well have been too bulled up given the reaction to his remarks that were hardly dovish, with the DXY briefly down to a new intraday low at 103.730 before bouncing back over 104.000 to a fresh 104.440 best. To recap, Powell said the FOMC is prepared to raise rates further if appropriate, and intends to keep policy restrictive until it is confident that inflation is moving sustainably down to 2%, adding that the Fed will proceed carefully when deciding to hike again or hold steady - for more see 15.02BST post on the Headline Feed. Next up from Wyoming, a trio of other Fed officials, though for the Euro ECB President Lagarde's address will likely be of much more interest as the pause in September or not conundrum continues. On that very note, sources suggested earlier that momentum is growing for a halt in rate hikes as recession fears increase, albeit the debate still open and policymakers agree that any decision to pause would need to make clear the job is not done and future hikes could still be needed. Nevertheless, Eur/Usd hovered close to its 1.0767 trough and was not helped by a bleak German Ifo survey.

NZD/AUD/JPY/CAD - It turned into a race to the bottom of the G10 pile after the Greenback overcame knee-jerk losses in buy rumour/sell fact fashion, but the Kiwi was already lagging down under due to worrying NZ trade and retail sales data, not to mention a relatively resilient Aussie bolstered by strength in underlying commodities and the Yuan keeping afloat of record lows by virtue of heavy-handed PBoC midpoint fixes and other forms of intervention. Hence, the Aud/Nzd cross was mostly bid between 1.0797-1.0871 bounds, irrespective of Aud/Usd and Nzd/Usd both losing 100+ pips from 0.6488 and 0.5985 respectively. Meanwhile, Yen weakness came mainly via yield differentials compounded by bearish technicals and the distinct lack of Japanese jawboning even as Usd/Jpy rallied from 144.55 to new y-t-d pinnacle of 146.63, and the Loonie lurched to 1.3636 from 1.3497 on similar grounds, though much weaker than expected ex-auto Canadian retail sales were in the mix as well.

CHF/GBP - The Franc enjoyed periods of strength during bouts of pronounced risk aversion and when US Treasury yields were comparatively soft (10 year cash circa 4.175% vs 4.365% at the other extreme), while the Pound saw fleeting upside after better than forecast UK public finance data. Nonetheless, Usd/Chf rallied to 0.8876 from 0.8761 and Cable recoiled to 1.2549 from 1.2800 with Sterling suffering an all sector preliminary PMI slide and two dire CBI surveys along the way.

SCANDI/EM - Not much joy for the Sek regardless of big falls in Swedish jobless rates and attempts to talk it by the Finance Minister and Riksbank Governor, while the Nok gleaned some traction from buoyancy in Brent crude. Elsewhere, the Cny and Cnh were propped up by the PBoC's ongoing skew to onshore reference rates, buying by China's major state-owned banks and flesh around the bones of stimulus for the property market, the Try received a big boost from the CBRT exceeding all expectations with a massive 750 bp hike to the one week Turkish repo rate, the Inr when the RBI supplemented daily purchases by asking some banks to refrain from taking fresh non-deliverable forward arbitrage positions, and the Zar took some shine from Gold regaining hold of the Usd 1900/oz handle to offset benign SA CPI metrics and build on plans to expand the BRICS bloc.