US Market Wrap

29th August 2023: Stocks and Bonds rally after dovish JOLTS

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Dovish JOLTS data; Consumer Confidence tumbles lower; Stellar US 7yr auction; Chinese banks considering additional deposit rate cuts to boost growth; FDX Express to raises shipping costs; Strong PDD earnings; CTLT reaches settlement with Elliott; BBY earnings beat.
- **COMING UP**: **Data**: Australian CPI, German & Spanish CPI, US ADP National Employment, US GDP Estimates (Prelim) & PCE Prices Prelim (Q2) **Speakers**: ECB's Centeno **Supply**: Germany & Italy **Earnings**: Delivery Hero, Eiffage, Prudential & Salesforce.

MARKET WRAP

Stocks and bonds surged on Tuesday with the majority of the upside supported by the dovish JOLTS data, alongside a weak consumer confidence print which reduced the implied probability of another Fed rate hike in November to c. 50% from c. 60% previously. The dovish JOLTS report will be a welcome sign for the Fed who would like to see some cooling of the labour market to help with its battle against inflation. The upside in stocks continued throughout the session to ultimately see the SPX test 4500 while the Nasdaq tested 15400, outperforming other indices with large gains in the Communication, Consumer Discretionary and Technology heavyweights which were buoyed by the lower Treasury yields. Meanwhile, the AI craze also continued with GOOGL finding support after it announced AI for enterprises, helping buoy the stock while NVDA closed with gains north of 4%. All sectors closed in the green but with relative underperformance in Utilities, Energy and Consumer Staples. Crude prices surged in fitting with the weaker dollar and rally in equities after the dovish JOLTS data while Hurricane risks linger. The Treasury curve saw pronounced bull steepening following the dovish data while the 7yr auction saw impressive demand, seeing a stop through of 2bps. The move lower in yields saw the Dollar underperform in FX, which in turn supported the Yen from worst levels but the improved risk and more China support measures announced overnight help the Antipodes outperform.

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JOLTS: The July JOLTS data was dovish, with the number of job openings edging down to 8.827mln from 9.165mln (revised down from 9.528mln), beneath the consensus of 9.465mln and also beneath all other analyst forecasts with the lowest analyst forecast at 9.3mln. July JOLTS was the lowest since March 2021, but remains above the pre-COVID levels of c. 7mln. The quits rate edged down slightly to 2.3% from 2.4% in the prior report, taking it to the lowest since January 2021. The Fed will be pleased with this result as it shows signs of a cooling labour market, which the recent minutes noted would likely be necessary to bring inflation back to target and add to the recent declines seen in JOLTS reports recently. Analysts at Oxford Economics highlight the drop in the quits rate is important as wages tend to be correlated with the quits rate, with a six-month lag, albeit the quits rate still suggests a wage inflation level well above the level the Fed sees as consistent with its 2% target. OxEco write the data "supports our forecast that the Fed has reached the terminal policy rate, and we expect Friday's employment report to offer further evidence of loosening in the labor market".

CONSUMER CONFIDENCE: US Consumer Confidence plunged to 106.1 in August, much beneath the expected (116.0) and the downwardly revised 114.0 in July. The Present Situation index dipped to 144.8 (prev. 153.0), while Expectations declined to 80.2 (prev. 88.0), back near the recession threshold of 80, reflecting less confidence about future business conditions, job availability, and incomes. Consumers may be hearing more bad news about corporate earnings, while job openings are narrowing, and interest rates continue to rise—making big-ticket items more expensive. Notably, expectations for interest rates jumped in August after falling two months ago. Moreover, the outlook for stock prices fell and average 12-month inflation expectations ticked up. The measure of expected family financial situation, six months hence (not included in the Expectations Index) softened further. Looking at some of the internals, Present Situation Consumers' assessment of current business conditions was slightly less positive in August, while Consumers' appraisal of the labour market deteriorated. Moreover, Expectations Six Months Hence Consumers were less optimistic about the short-term business conditions outlook, with Consumers' assessment of the short-term labour market outlook less favourable on top of consumers' short-term income prospects worsening.

FIXED INCOME

T-NOTE (U3) SETTLED 22 TICKS HIGHER AT 110-10+

Treasury's bull steepen as dovish JOLTS bolster odds Fed is already at terminal while eyes turn to PCE and NFP later in the week. At settlement, 2s -12.6bps at 4.884%, 3s -13.2bps at 4.574%, 5s -12.1bps at 4.270%, 7s -11.3 bps at 4.220%, 10s -9.6bps at 4.116%, 20s -7.5bps at 4.416%, 30s -6.0bps at 4.229%.

INFLATION BREAKEVENS: 5yr BEI -1.6bps at 2.318%, 10yr BEI -1.5bps at 2.299%, 30yr BEI -1.4bps at 2.292%.

THE DAY: Treasuries ground higher in APAC trade before paring the gains through the European morning following several more reports of China support measures and in anticipation of the US data. The JOLTS report was very dovish, printing beneath all analyst expectations, being the latest sign of a cooling labour market in a welcome sign for the Fed in their fight against inflation. Meanwhile, the consumer confidence report was also well beneath expectations with both the outlook and present situation index declining. The data release saw Treasuries rally across the curve in a steeper fashion with a cooling labour market reducing the need for more Fed rate hikes with just a 50% probability of a Fed rate hike being priced in November vs c. 60% on Monday while rate cuts are still fully priced by June, with two cuts fully priced by July. Attention then turned to supply, and despite the rally in futures, the 7yr auction was very strong, stopping through the WI by 2bps.

SUPPLY: The 7yr auction was very strong with a high yield of 4.212%, stopping through the WI by 2bps, the largest stop-through since January 2023. The bid to cover was also strong, above the prior and six auction average, also the highest since January. The solid demand of the auction came despite a richening of Treasuries across the curve in wake of the dovish JOLTS data, but some, such as Oxford Economics, note the data reinforces their view that the Fed is already at terminal rate, and given this was the highest yielding 7yr auction on record, it has seemed to help support demand for the supply. The increased demand was led by the indirect bidders which took home 75.3% of the auction, well above the prior 69.8% and average 68.4%, while direct bidders took a step back, taking 15% of the auction (prev. 15.9%, six-auction average 18.8%). This left dealers with just 9.8% of the auction, lower than the prior 14.3% and average 12.8%.

STIRS:

- SR3U3 +3.0bps at 94.570, Z3 +6.5bps at 94.570, H4 +11.5bps at 94.755, M4 +14.0bps at 95.055, U4 +15.5bps at 95.435, Z4 +14.5bps at 95.790, H5 +14.0bps at 96.075, M5 +13.0bps at 96.245, U5 +12.5bps at 96.330, U6 +11.5bps at 96.410, U7 +8.5bps at 96.385.
- NY Fed RRP op demand at USD 1.693tln (prev. 1.709tln) across 98 counterparties (prev. 97).
- SOFR flat at 5.30% as of Aug 28th, volumes rose to USD 1.384tln from 1.344tln.
- EFFR flat at 5.33% as of Aug 28th, volumes rise to USD 107bln from 103bln.

CRUDE

WTI (V3) SETTLED USD 1.06 HIGHER AT 81.16/BBL; BRENT (V3) SETTLED USD 1.07 HIGHER AT 85.49/BBL

The crude complex was choppy on Tuesday, but after dovish US JOLTS data oil has been on an upward trajectory in line with improved risk sentiment and Dollar selling. On the day, WTI and Brent were bid in the European morning and hit initial intra-day peaks of USD 80.83/bbl and 85.15/bbl, respectively, after Bloomberg source reports noted Chinese banks are said to be considering additional deposit rate cuts in order to boost growth. However, as US players entered for the day oil gave up its gains to hit lows of USD 79.34/bbl and 83.80/bbl ahead of the US data. Nonetheless, the much larger than forecast drop in Job Openings and considerably weaker-than-expected consumer confidence gave risk sentiment a fillip higher, which saw oil grind higher for the duration of the session and the Buck slide to lows. As such, WTI and Brent topped out at 81.26/bbl and 85.51/bbl, respectively, ahead of private inventory data after-hours where current expectations are: Crude -2.9mln, Gasoline -1.4mln, Distillate +0.1mln. Elsewhere, the other bullish catalyst in focus is Hurricane Idalia which is forecast to intensify rapidly into a major hurricane before making landfall in Florida on Wednesday. Furthermore, Chevron (CVX) evacuated staff from US Gulf of Mexico oil platforms ahead of Hurricane Idalia, although output is not affected, yet, while Martin Midstream (MMLP) is to halt the Tampa, Florida oil terminal.

EQUITIES

CLOSES: SPX +1.45% at 4,497, NDX +2.15% at 15,376, DJIA +0.85% at 34,852, RUT +1.42% at 1,895.

SECTORS: Communication Services +2.46%, Consumer Discretionary +2.36%, Technology +2.11%, Materials +1.68%, Real Estate +1.15%, Financials +0.89%, Health +0.83%, Industrials +0.78%, Consumer Staples +0.41%, Energy +0.30%, Utilities +0.28%.

EUROPEAN CLOSES: DAX +0.88% at 15,931, FTSE 100 +1.72% at 7,465, CAC 40 +0.67% at 7,373, Euro Stoxx 50 +0.81% at 4,327, IBEX 35 +0.96% at 9,581, FTSE MIB +1.21% at 28,890, SMI +0.67% at 11,107.

STOCK SPECIFICS: **Catalent (CTLT)** +5%: Confirmed a co-operation agreement with Elliott Investment Management; appointed John Greisch as executive Chair and added four new independent directors with two chosen by Elliott. Note, Elliott's push comes as Catalent's stock value has dropped, and it has faced operational challenges and management changes. **Best Buy (BBY)** +4%: Beat on EPS, revenue, gross margin, with comp. sales largely better-than-expected. However, BBY narrowed FY adj. EPS view and CEO said its industry continues to experience lower consumer demand. **3M (MMM)** +1%: Agreed to pay USD 6bln to settle around 260k lawsuits from US military members claiming hearing loss due to their earplugs. **PDD Holdings (PDD)** +15%: Surpassed expectations on EPS and revenue; said it saw a "positive shift in consumer sentiment" during Q2. **NIO (NIO) -**1%: Deeper loss per share than expected and missed on revenue. Q2 deliveries 23,520 (prev. guided 23-25k in June) and declined Y/Y, although Q3 deliveries seen between 55-57k (exp. 48,465). **Oracle (ORCL)** +3%: Upgraded at UBS; said shares could rally another 20% due to AI-related tailwinds. **J M Smucker (SJM)** +2%: Profit beat and raised FY guidance. Although, revenue missed and said ongoing inflation, supply chain challenges and macroeconomic environment continue to impact results, causing uncertainty and risk for FY24 guide. **Toyota Motor (TM)** flat: Halted production at its assembly plants in Japan due to a system malfunction; likely to gradually resume vehicle production at domestic factoring from Wednesday. **Apple (AAPL)** +2%: Sets September 12th date for launch of iPhone 15 and new watches. **Walmart (WMT)** +1%: Asks pharmacists to voluntarily take wage cuts and reduce hours worked to save costs, according to Reuters sources

US FX WRAP

The Dollar was in the red on Tuesday and started its descent lower after dovish US data, which improved risk sentiment to see stocks climb higher throughout the duration of the session and resulted in DXY hitting lows of 103.36. On the data, July JOLTS job openings edged down to 8.827mln (prev. 9.165mln, exp. 9.465mln) beneath all other analyst forecasts. The July JOLTS was the lowest since March 2021, but remains above the pre-COVID levels of c. 7mln. The quits rate edged down slightly to 2.3% from 2.4%, taking it to the lowest since January 2021. Meanwhile, Consumer Confidence plunged to 106.1 in August, much beneath the expected (116.0) and the downwardly revised 114.0 in July. The Present Situation index dipped to 144.8 (prev. 153.0), while Expectations declined to 80.2 (prev. 88.0), back near the recession threshold of 80. Looking ahead, participants await US PCE (Thurs), US NFP & ISM Manufacturing (Fri).

AUD, NZD, EUR, CHF, and JPY were all firmer against the Buck, albeit to varying degrees, with the Antipodeans the clear outperformers while EUR, CHF, and JPY saw similar gains. The aforementioned currencies all benefitted from the Buck's demise as opposed to anything currency-specific, although the Aussie was spurred higher by gains in iron ore alongside the risk on trade, which also supported the NZD. In terms of levels, AUD/USD and NZD/USD hit best levels of 0.6486 and 0.5977, respectively, with the crosses currently residing at the peaks into APAC trade. Meanwhile, EUR/USD hit highs of 1.0891 and USD/CHF hit lows 0.8776, with the former looking to test 1.09 to the upside. There is a slew of EZ data on Wednesday, ahead of EZ CPI and ECB Minutes on Thursday, while for the Aussie watchers there is building approvals and monthly CPI.

For the **Yen**, it was hard to tell whether a retreat in US Treasuries was 'the' catalyst or just one of several key drivers, but the rebound in yields certainly gave USD/JPY a boost overnight. The headline pair breached Monday's high, then 147.00 and 1.5bln option expiry interest between the round number and 147.10 before stalling at 147.36. However, the upside in the cross pared on the aforementioned US data and subsequent move lower in UST yields which hit the buck and supported the Yen, taking USD/JPY to lows of 145.68.

CAD and **GBP** were firmer, but the relative 'underperformers' although the Loonie was later supported by a rebound in crude prices. Month-end positioning may be weighing as Credit Agricole noting their FX model signals likely to be mild USD buying across the board, with the strongest buy signal in the case of the USD vs the CAD. Nonetheless, Cable and USD/CAD traded between 1.2564-2654 and 1.3555-3637, respectively, also sitting at best levels.

EMFX was largely firmer, with the TRY, lower, and MXN, flat, the relative underperformers. COP saw gains amid tailwinds from copper, while the Yuan regained momentum amidst latest speculation about Chinese banks lowering mortgage rates. HUF seemed content to see the NBH shave 100bps off the 1-day depo rate having held benchmarks and thereby closing the corridor by another full point, but the TRY was far from delighted with a collapse in Turkish economic sentiment or the trade deficit more than doubling in size.

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