US Market Wrap

30th August 2023: Dovish data hits the dollar while stocks add to recent gains

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Further dovish data, ADP misses, Q2 GDP revised lower; Pending home sales surprisingly rose; Hawks welcome the initial August Eurozone inflation metrics; Biden blocks sale of NVDA AI chips to Middle East; Deeper EIA crude draw than expected; Hurricane Idalia makes landfall in the US; AAPL tests using 3D printers to make devices in major shift; HPQ revenue missed and lowered FY EPS outlook.
- **COMING UP**: **Data**: Japanese Retail Sales, Chinese PMI, German Retail Sales, Unemployment Rate, EZ Flash CPI, Unemployment Rate, US PCE Price Index (Jul), IJC & Challenger Layoffs **Speakers**: Fed's Bostic, Collins; ECB's de Guindos; BoE's Pill **Earnings**: UBS, Pernod Ricard & Broadcom.

MARKET WRAP

The equity bid continued on Wednesday, once again supported by cool US economic data after the Q1 GDP 2nd estimate was revised lower and as the ADP missed expectations, although the prior was revised up. The move saw treasuries bounce from lows with the curve bull steepening as the dovish flow of data continues ahead of PCE (Thu) and NFP (Fri) to see if the string of dovish data continues. The upside in bonds and ultimately stocks was led by more dovish repricing for Fed rate cuts, with the first cut nearly fully priced for May 2024. However, a November hike still remains in play ahead of NFP with markets pricing in a c. 50/50 chance of rates being left unchanged or hiked 25bps. The dovish data led to Dollar selling with DXY dipping beneath 103.00 in the wake of the data before returning back above the psychological level. However, Treasuries pared off highs into settlement seeing yields relatively flat across the curve. In FX, as yields moved off lows, the Yen started to weaken, paring its post-data strength to see it underperform, while the Antipodes were flat and GBP outperformed. In stocks, sectors were predominantly in the green, led by technology, energy and industrials while Utilities and Health Care were the only sectors in the red. Crude prices were choppy but ultimately settled in the green amid the weaker dollar while the inventory data saw a huge stock draw, albeit not as large as the private report Tuesday night.

US

ADP: The ADP National Employment was cooler than expected at 177k (exp. 195k), down from the prior month's even hotter 371k print after a revision from 324k. Of course, the correlation between ADP and NFP is not great (last month's NFP was dovish whereas ADP was hawkish). Nonetheless, the report highlights information on wages where the change in annual pay for Job-Stayers rose 5.9% (prev. 6.2%), while Job-Changer's pay growth eased to 9.5% from 10.2%. ADP's Richardson noted that "This month's numbers are consistent with the pace of job creation before the pandemic," and "After two years of exceptional gains tied to the recovery, we're moving toward more sustainable growth in pay and employment as the economic effects of the pandemic recede."

GDP: The 2nd estimate for Q2 2023 GDP was revised lower to 2.1%, softer than the expected and prior 2.4%. Although growth was slower than initially thought, the PCE prices were too with the headline and core being revised down by 0.1% to 2.5% and 3.7%, respectively, vs. an expected unchanged reading. The deflator was also softer at 2.0% (exp. 2.2%, prev. 2.2%). The consumer spending, however, was revised up to 1.7% from 1.6% in the initial estimate. With the second estimate, downward revisions to private inventory investment and nonresidential fixed investment were partly offset by upward revisions to state and local government spending, exports, consumer spending, federal government spending, and residential investment. Imports, which are a subtraction in the calculation of GDP, were revised up.

PENDING HOME SALES: Pending home sales in July rose 0.9% (exp. -0.6%, prev. 0.4%) to 77.6, above the prior 76.9. In terms of regional breakdown, analysts at Oxford Economics note there remains a clear split in sales activity, with sales slumping in the Northeast and Midwest in July, but rising in the South and West. Oxford Economics writes, “Over the past year, pending sales in the former regions are down between 15-20%, while the declines in the South and West have been closer to 10-15%.” With the slight rise in the headline, OxEco suggests it will mean existing home sales will remain flat and close to 4.2mln annualised over the next month or two. Moreover, with the most recent rise in mortgage rates putting even further pressure on housing affordability and homes for sale, and the economy set to slow, Oxford expects a renewed leg down in pending home sales before the year is out.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 1 TICK HIGHER AT 110-27

The Treasury curve bounced from lows after more dovish data following a miss in ADP and the 2nd estimate of Q1 GDP as eyes turn to PCE (Thu) and NFP (Fri). At settlement, 2s -0.2bps at 4.888%, 3s -0.6bps at 4.574%, 5s -0.2 bps at 4.275%, 7s -0.1bps at 4.224%, 10s -0.4bps at 4.118%, 20s -0.4bps at 4.420%, 30s -1.0bps at 4.228%.

INFLATION BREAKEVENS: 5yr BEI -0.8bps at 2.307%, 10yr BEI -1.6bps at 2.276%, 30yr BEI -1.5bps at 2.272%.

THE DAY: The Treasury curve was ultimately little changed on Wednesday, after the curve bull steepened from lows after more dovish US economic data, before paring to unchanged levels into settlement. The 2nd estimate of Q1 GDP was revised lower despite expectations for it being left unchanged while the latest ADP report was also beneath expectations. Eyes turn to PCE on Thursday and NFP on Friday to see if the string of dovish data releases continues. The September Fed rate decision is largely expected to be unchanged given Fed Chair Powell's patient approach message at Jackson Hole, something that SGH Macro's Tim Duy highlights as "not September" (in reference to hikes). There is, however, a lot of attention on November's meeting, where money markets price in a near coin toss for either a 25bp or hike or leaving rates unchanged, and the data through the rest of the week will help shape those expectations with more certainty. Meanwhile, looking ahead to 2024, the dovish data this week has started to price in more aggressive rate cuts, with a c. 75% probability of the first hike in May, at least one month earlier than initially seen this week. Meanwhile, it is worth noting the majority of open interest and volume is now in the December T-note contract.

STIRS:

- SR3U3 +1.3bps at 94.580, Z3 +1.5bps at 94.580, H4 +2.5bps at 94.775, M4 +2.5bps at 95.080, U4 +2.0bps at 95.455, Z4 +1.0bps at 95.805, H5 +0.5bps at 96.080, M5 +1.0bps at 96.255, U5 +1.0bps at 96.340, U6 +1.5bps at 96.430, U7 +1.0bps at 96.400.
- NY Fed RRP op demand at USD 1.697tln (prev. 1.693tln) across 96 counterparties (prev. 9)
- SOFR flat at 5.30% as of Aug 29th, volumes fall to USD 1.314tln from 1.384tln.
- EFFR flat at 5.33% as of Aug 29th, volumes fall to USD 102bln from 107bln.

CRUDE

WTI (V3) SETTLED USD 0.47 HIGHER AT 81.63/BBL; BRENT (X3) SETTLED USD 0.33 HIGHER AT 85.24/BBL

The crude complex was very choppy on Wednesday, as participants digest the latest Hurricane updates, further US data, and a much larger-than-expected EIA crude draw, albeit not as large as the private inventory report Tuesday night implied. WTI and Brent were largely bid through the European morning but hit highs of USD 82.05/bbl and 85.70/bbl, respectively, after US GDP 2nd estimate which was revised lower to 2.1% from 2.4%. Thereafter, WTI and Brent saw lows of USD 80.88/bbl and 84.59/bbl, respectively, after the weekly EIA which even saw crude stocks draw 10.584mln (exp. -3mln, prev. -6.135mln), albeit not as deep as the private inventory data on Tuesday. Meanwhile, gasoline drew 0.214mln, shy of the forecasted -1.2mln, and distillates built 1.235mln (exp. 0.338mln). Overall, refining utilisation fell 1.2% (exp. -0.3%) with production unchanged at 12.8mln BPD. Elsewhere, according to Interfax, Russian Deputy PM Novak said Russia will cut oil exports in September by 300k BPD vs June, and the country does not rule out extending the global output supply cut for October, but it is too early to talk about October although the move for October is to be discussed with partners. Lastly, market participants continue to eagerly track the developments on Hurricane Idalia, as it makes landfall in the US as a Category 3 Hurricane. Looking ahead, attention will be on US Core PCE (Thurs) and US NFP (Fri).

EQUITIES

CLOSES: SPX +0.38% at 4,514, NDX +0.56% at 15,462, DJIA +0.11% at 34,890, RUT +0.40% at 1,903.

SECTORS: Technology +0.83%, Energy +0.52%, Industrials +0.44%, Communication Services +0.36%, Real Estate +0.35%, Consumer Discretionary +0.33%, Consumer Staples +0.18%, Materials +0.15%, Financials +0.12%, Health -0.02%, Utilities -0.43%.

EUROPEAN CLOSES: DAX -0.24% at 15,892, FTSE 100 +0.12% at 7,474, CAC 40 -0.12% at 7,364, Euro Stoxx 50 -0.26% at 4,315, IBEX 35 -0.31% at 9,551, FTSE MIB +0.09% at 28,917, SMI -0.06% at 11,100.

STOCK SPECIFICS: **Apple (AAPL)** +1.2%: Tests using 3D printers to make devices in major shift, according to Bloomberg. New approach will use less material and be more eco-friendly and is trying out the process with steel Apple Watches. **HP Inc (HPQ)** -7%: Profit was in line, but revenue missed and lowered FY EPS outlook. **Johnson & Johnson (JNJ)** flat: Provided guidance update after **Kenvue (KVUE)** spin-off; FY23 adj. EPS view short of expectations but forecasts 12.5% growth in its annual adj. profit. **Hewlett Packard Enterprise (HPE)** +3%: Marginally beat on the top and bottom line alongside raising FY adj. EPS outlook. **Ambarella (AMBA)** -20%: Q3 revenue guide light; although, posted a shallower loss per share than expected and marginally beat on revenue. **PVH (PVH)** +2%: Earnings surpassed expectations, raised FY profit view and boosted stock repurchases by up to USD 400mln. Exec noted it saw another strong quarter across both Calvin Klein and TOMMY HILFIGER. **Box (BOX)** -12%: Q3 guidance was light and lowered FY revenue outlook. Note, EPS and revenue marginally beat while it boosted stock buyback programme by USD 100mln. **Visa (V) Mastercard (MA)** +0.5%: Plans to increase fees that many merchants pay when they accept customers' credit cards, according to WSJ. **Align Technology (ALGN)** +1%: HSBC initiated coverage with a 'Buy' rating. **Texas Instruments (TXN)** -1%: Downgraded at Bernstein; cited concerns around the capital-intensive nature of its long-term strategy to increase in-house chip production. **Baidu (BIDU)** +3%: Rolled out AI chatbot to the public, after Bloomberg reported it was among the first firms to win China approval for AI models. For marijuana names, ETFs **MSOS** +20% **MJ** +10%: US HHS called for moving marijuana (MSOS, MJ) to a lower-risk US drug category. **Deere (DE)** +2%: Raised quarterly dividend to USD 1.35/shr (prev. 1.25).

US FX WRAP

The Dollar was lower on Wednesday, printing a low of 102.920 after a bout of pressure from disappointing US data. On this, ADP was cooler than expected at 177k (exp. 195k, prev. 371k), although the correlation between ADP and NFP is not great ahead of the jobs report on Friday, and with the below consensus print it provided another sign of cooler labour market conditions post-JOLTS on Tuesday. There was an upgrade to private payrolls for the prior month, but not enough to compensate or disguise the fact that it meant an even more marked slowdown between July and August. That was followed in quick succession by downward revisions to the Q2 GDP metrics, including headline and Core PCE, aside from consumer spending and corporate profits. Moreover, the soft landing narrative was sullied by the aforementioned downgrade to growth, from 2.4% to 2.1% and reflected in Fed pricing via a first cut nearly being fully factored in by May 2024. Although, the Greenback demise was somewhat halted from an unexpected rise in pending home sales. Looking ahead, attention is on the aforementioned NFP (Fri) and US Core PCE (Thurs).

EUR and GBP were the G10 outperformers, with the single-currency seeing a boost in the European morning on a hawkish reaction after German North Rhine-Westphalia State CPI rose for both M/M and Y/Y, despite expectations for the mainland, where the Y/Y CPI figure was expected to cool to 6.0% from 6.3%. Following this, Bavaria State cooled, more as was expected, but Brandenburg later rose, again. This all led up to the headline inflation print, which printed 6.1% (prev. 6.2%), above the expected 6.0%, but a mildly dovish reaction was briefly observed across EZ asset classes given that some desks had readjusted expectations to a more pronounced level above consensus following the earlier state CPIs. All this comes ahead of the EZ-wide HICP print on Thursday. As such, EUR/USD traded between 1.0856-0945 but the Euro ran out of momentum as it attempted to breach 1.0950 to the upside. The Pound seemingly garnered momentum on the premise that the BoE is likely to remain in tightening mode for longer, as opposed to anything headline driven, in addition to Cable clearing technical resistance via the 100 DMA, 1.2645, before taking on the psychological 1.2700 level in the process of reaching 1.2746.

CAD, CHF, AUD, and NZD were all flat vs. the Buck. Firstly, the Aussie overcame bearish and dovish data, with AUD /USD finding underlying bids at 0.6450 and scaling 0.6500 irrespective of soft monthly CPI, woeful building approvals, and construction not as good as expected, however it failed to hold about 0.6500. Elsewhere, the Kiwi briefly scaled over 0.6000 compared to a 0.5940 low despite NZ building consents dipping sharply. The Swissy clawed back to probe 0.8750 from just under 0.8800 even though Swiss investor sentiment turned more negative. Meanwhile, USD/CAD traded between 1.3514-76 with the Loonie largely underpinned by choppy crude prices as the cross hit lows in line with Brent prices hitting highs. Looking ahead, Australian housing data is overnight, ahead of Canadian GDP on Friday.

JPY was the G10 underperformer, with USD/JPY hitting a high of 146.56 vs. a low of 145.57 in tandem with whippy US Treasury yields and underpinned by particularly hefty option expiry interest at 145.50 (2.8bln). For the record, remarks from BoJ Tamura were largely balanced, though he did express the view that achieving the Bank's inflation objective is in sight.

EMFX was mixed. Yuan, TRY, ZAR, BRL were all lower, whilst RUB, MXN saw gains. For the Yuan, another raft of support measures from China designed to prop up the property sector and revive the overall economy, but the Yuan remained cautious regardless of general Dollar weakness awaiting Chinese PMIs. Meanwhile, the PLN was unimpressed with broadly neutral NBP minutes, the BRL was undermined by a softer than forecast Brazilian IGP-M inflation index and the ZAR decoupled from bullish Gold and unwound some of its corrective gains instead. Lastly, Banxico raised 2023 GDP growth forecast to 3.0% (prev. 2.3%), and 2024 to 2.1% (prev. 1.6%), adding balance of risks for inflation remain biased to the upside while the Banxico governor repeated rate cuts are not on the table.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com