# US Market Wrap

## 31st August 2023: Stocks mixed and bonds bid amid month-end ahead of NFP

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude up, Dollar up
- **REAR VIEW**: PCE all in line, but Core Y/Y underneath Powell's expectations; Jobless claims dip to a 5-wk low; Chicago PMI jumps higher; Challenger layoffs soars, although largely due to Yellow layoffs; Cooler-than-expected EZ Core CPI; 'Dovish' Schnabel; Novak will tell new main parameters of OPEC+ deal next week; Biden admin has not blocked chip sales to the Middle East; MSFT to unbundle Teams from Office products; Strong CRM report & lifts guidance.
- **COMING UP**: **Data**: Australian, Japanese, Spanish, Italian, French, German, Canadian, UK, EZ & Caixin PMI, UK Nationwide House Price, Italian GDP, US NFP & ISM Manufacturing **Speakers**: Fed's Bostic & Mester; ECB's Vujcic.

## MARKET WRAP

Stocks were mixed on Thursday with NDX outperforming, SPX and RUT flat while the Dow lagged. Treasury yields were lower by c 3bps across the curve which in turn gave a helping hand to the Yen, seeing it as the FX outperformer, although the Dollar still saw upside. There was a strong bid for Yen into the London fix which was likely month-end related, also supported by the lower yields. Through the European morning, there was a marked reversal in ECB pricing following some dovish comments from ECB's Schnabel, who gave a nod to a September skip citing concerns around growth, while the EZ Core CPI was softer than expected. Markets now look for a 30% probability of a hike in September, down from 60% pre-Schnabel and data. In the US, Fed pricing was little changed with PCE in line with expectations but consumer spending was hot, with analysts framing it as "unsustainable". The Chicago PMI was much hotter than expected, which helped support the Dollar to see DXY hit a high of 103.74. Crude prices trended higher apart from a brief knock in the afternoon, with the prospect of a more dovish ECB boosting oil demand prospects while we look to next week to hear from Russia about the new main parameters of the OPEC+ deal next week, who stated Russia has agreed with OPEC+ on further actions. Attention now turns to the NFP on Friday (preview below), with markets torn between expecting another Fed hike, or deeming that rates are already at terminal, as well as a range of views on the FOMC, the NFP data will be key in gauging expectations for future policy decisions.

## US

**NFP PREVIEW**: Headline NFP is expected to cool once again with job growth for August seen at 170k, down from July's 187k rise, although expectations vary between 40k and 230k. The unemployment rate is seen at 3.5%, while M/M wages are seen easing to 0.3% with Y/Y wages seen at 4.4% again. Labour market proxies for August saw the Initial Jobless Claims data (for the week that coincides with the BLS survey) fall from the August high of 250k. However, analysts are cognizant of the impact of not only Yellow Corp's bankruptcy on the NFP report, given Yellow had in excess of 30k employees, but also the impact of ongoing strikes. The latest JOLTS data, albeit for July, added to signs of a cooling labour market while the quits rate also fell. The ADP report was cooler than expected and was consistent with the pace of job creation before the pandemic. The CB Consumer Confidence respondents saw a deterioration in job market appraisal, with the percentage of those finding jobs plentiful declining M/M, and those finding jobs hard to get increasing. With markets torn between expecting another Fed hike, or deeming that rates are already at terminal, as well as a range of views on the FOMC, the NFP data will be key in gauging expectations for future policy decisions. Markets largely expect the Fed to keep rates unchanged in September, but November is seen as a coin toss for leaving rates unchanged or hiking by 25bps, where a dovish release could see pricing tilt more decisively towards the peak has passed, but a hot report may factor in one further tightening move with more confidence. With September largely seen as unchanged, barring any drastic releases, it is likely participants will focus more on November with the Fed in a patient stance, before then looking to the timing of rate cuts in 2024 - currently nearly fully priced for a 25bp cut in May after the JOLTS report and soft 2nd estimate of GDP. To download the full Newsquawk preview, please click here.

**PCE**: Headline PCE was in line at 3.3%, rising from the prior 3.0%, and also in line with Fed Chair Powell's estimate last week, on M/M, the 0.2% rise was also in line with expectations. Meanwhile, the core M/M was also in line at 0.2%, matching the prior pace, while Y/Y accelerated from 4.1% to 4.2%, in line with estimates. However, with the data predominantly in line, it is worth highlighting the Core PCE print of 4.2% is beneath Fed Chair Powell's forecast of 4.3%, so if anything it gives the Fed scope to be lean more dovish in their current patient stance, in particular when coupled with the dovish data seen this week, including JOLTS, ADP, and the 2nd estimate of GDP. Challenger Layoffs on Thursday were also dovish with all eyes now turning to NFP on Friday. However, within the PCE figures, ING highlights the Fed-eyed core services ex-housing rose 0.46% M/M, after the 0.3% gain in June, which could concern some Fed officials with mixed views on the FOMC on whether they have done enough on rates. Elsewhere in the report, Personal Income rose 0.2%, missing the 0.3% estimate, and slowing from the 0.3% prior, while adjusted consumption accelerated to 0.8% from 0.5%, above the 0.5% consensus, and real consumption rose 0.6%, up from the 0.4% last month. Analysts have noted that consumer spending figures are running at an unsustainable pace, ING writes that American consumers are running down savings and using their credit cards to finance a large proportion of this. The desk also adds that with student loan repayments starting in September, a correction is coming.

**CHALLENGER**: The Challenger Layoffs surged in August to 75k from the prior 24k in July, albeit the majority of the layoffs were led by the bankruptcy of Yellow Corp, which employed over 30k employees. Nonetheless, even without that 30k increase, would still be a decent jump to c. 45k. Looking into the report, it notes that so far in 2023, companies have announced plans to cut 557k jobs, +210% Y/Y, and the highest since 2020, with 2023 so far being the third highest year to date since 2009. In a similar vein to the July JOLTS report, Challenger noted that "Job openings are falling, and American workers are more reluctant to leave their positions right now". We will look to see if the August JOLTS data confirms this view after July openings fell and the quits rate declined. Industry-specific 25 out of 30 industries the report tracks saw an increase in layoffs this year, aside from Automotive, Government, Entertainment/Leisure, Industrial Goods, and Utilities. On hiring plans, employers announced plans to hire 7,744 workers, the lowest monthly total since November 2020".

**JOBLESS CLAIMS**: Initial jobless claims fell to a five-week low of 228k from 232k, and beneath the expected 253k as the headline seemingly looks to be settling into a range from about 230-250k, while continued claims rose to 1.725mln (exp. 1.703mln, prev. 1.697mln). On the data set, Oxford Economics note, “while signs of looser labor markets are emerging, the jobless claims data are a reminder that the cooling in labor market conditions is being accompanied by very few layoffs.” As such, Oxford expect some increase in layoffs later in the year as the economy slows but job losses will be relatively modest compared to previous recessions. As expected, the data set does not change the consultancy’s forecast for the Fed to keep policy steady at its September meeting.

**CHICAGO PMI**: Chicago PMI soared to 48.7 (prev. 42.8), its highest level since last summer, well-surpassing expectations of 44.1 and even the upper bound forecast range of 47.0. Regarding the figure, Pantheon Macroeconomics believe the improvement is more noise than signal, as it tends to lag the trend in civilian aircraft orders, albeit inconsistently, due to the heavy presence of Boeing. As such, a sizable chunk of the August jump likely reflects the surge in aircraft orders during the Paris Air Show, held in June. Therefore, the improvement in the headline is unlikely to be matched elsewhere in the country.

**FED**: Bostic (2024 voter, dove) repeated his view that US monetary policy is appropriately restrictive and it is enough to bring inflation to 2% over a reasonable time frame. Bostic repeated his call that the Fed should be cautious, patient and resolute, but noted inflation is still too high and he is not for easing policy any time soon. He stated inflation is on a downward path, and he expects a continued slow decline. However, should inflation unexpectedly climb, he would support further tightening. Bostic added that given the lagging nature of housing inflation, underlying inflation may well be close to target already, whilst also stating there is a measured cooling being seen in the labour market.

## FIXED INCOME

### T-NOTE (Z3) FUTURES SETTLED 6 TICKS HIGHER AT 111-01

**The Treasury curve was bid across the curve with futures continuing their ascent into month-end ahead of NFP**. At settlement, 2s -2.7bps at 4.857%, 3s -2.5bps at 4.546%, 5s -3.1bps at 4.242%, 7s -2.8bps at 4.193%, 10s -2.5bps at 4.093%, 20s -2.9bps at 4.390%, 30s -2.4bps at 4.204%.

**INFLATION BREAKEVENS**: 5yr BEI -0.7bps at 2.298%, 10yr BEI -1.9bps at 2.254%, 30yr BEI -2.1bps at 2.246%.

**THE DAY**: T-Notes saw marginal upside overnight into month-end before extending higher through the European morning as it tracked the move in Bunds, following some cautious commentary from ECB's Schnabel around growth and the EZ Core CPI printing beneath expectations. The data and commentary saw a marked dovish repricing for the ECB, money markets now imply just a c. 30% probability of a September rate hike, down from 60% pre-Schnabel and data. There was some chop in T-Notes on the PCE and Jobless Claims data, which overall was in line with expectations but consumer spending was hot, and is being framed as "unsustainable". Meanwhile, Challenger Layoffs saw a notable rise, albeit primarily led by the Yellow Corp bankruptcy. The jobless claims data fell marginally to 228k, beneath expectations for a rise to 235k from 232k, a level consistent with a tight labour market, despite the signs of cooling seen earlier in the week but attention turns to NFP on Friday for an overall picture of the labour market in August. The US data had little reaction to Fed money market pricing with the November meeting still seen as a coin toss between a rate hike or leaving rates unchanged while the first cut is still nearly fully priced for May, with a c. 90% probability of a cut occurring at that meeting. There was some chop in response to the Chicago PMI data which came in hotter than all analyst forecasts, but once that passed T-notes pushed higher into settlement to settle just half a tick off the highs.

**STIRS**:

- SR3U3+0.8bps at 94.585, Z3 +2.0bps at 94.595, H4 +3.0bps at 94.800, M4 +4.0bps at 95.120, U4 +3.5bps at 95.490, Z4 +3.0bps at 95.835, H5 +3.0bps at 96.110, M5 +2.5bps at 96.280, U5 +3.0bps at 96.370, U6 +4.0bps at 96.470, U7 +3.5bps at 96.435,
- NY Fed RRP op demand at USD 1.652tln (prev. 1.697tln) across 105 counterparties (prev. 96)
- SOFR flat at 5.30% as of Aug 30th, volumes fall to USD 1.311tln from 1.314tln.
- EFFR flat at 5.33% as of Aug 30th, volumes fall to USD 100bln from 102bln.
- US sold USD 80bln 4-wk bills at 5.280%, covered 2.95x; sells USD 70bln 8wk bills at 5.290%, covered 2.77x.
- US is to sell USD 69bln 13-week bills, USD 45bln 52-week bills, and USD 62bln 26-week bills on September 5th which are to settle on September 7th; sizes unchanged.

## CRUDE

**WTI (V3) SETTLED USD 2.00 HIGHER AT 83.63/BBL; BRENT (X3) SETTLED USD 1.59 HIGHER AT 86.83/BBL**

**The crude complex, once again, saw a choppy session but settled at session highs as WTI and Brent look set to snap their two-week losing streak**. On the day, oil was bid in the European morning amid couple of helpful factors, as Schnabel left the door open for a skip at the September alongside cooler-than-expected EZ core CPI. Both which saw ECB market pricing moving clearly in a dovish direction to the view that the ECB is more likely to hold steady in September. As US participants entered for the day, the bid continued to see WTI and Brent hit intra-day highs, but the complex started to turn after Russia's Deputy PM Novak spoke. He noted the country will tell new main parameters of OPEC+ deal next week and did agree with OPEC+ on further actions; details were light, however. The move was further accentuated after risk sentiment soured after the cash open, to see WTI and Brent tumble to US session lows. However, oil managed to reverse this move, and more, as it continued its ascent higher to settle at highs without any headline catalyst. Looking ahead, all attention is on the jobs report on Friday prior to Baker Hughes.

**IDALIA**: For Hurricane Idalia, NHC announced Idalia is losing its tropical characteristics, but strong winds and storm surges continue along the coast of North Carolina. Meanwhile, Kinder Morgan announced all Tampa and Charleston facilities have resumed operations, and it is finalising an assessment of the Wilmington facilities, which are expected to resume operations Friday morning.

## EQUITIES

**CLOSES**: SPX -0.16% at 4,507, NDX +0.25% at 15,501, DJIA -0.48% at 34,721, RUT -0.19% at 1,899.

**SECTORS**: Consumer Discretionary +0.51%, Technology +0.37%, Energy +0.14%, Communication Services +0.11%, Materials -0.06%, Financials -0.41%, Industrials -0.51%, Consumer Staples -0.54%, Real Estate -0.77%, Utilities -1.04%, Health -1.20%.

**EUROPEAN CLOSES**: DAX +0.35% at 15,947, FTSE 100 -0.46% at 7,439, CAC 40 -0.65% at 7,317, Euro Stoxx 50 -0.44% at 4,296, IBEX 35 -0.47% at 9,506, FTSE MIB -0.29% at 28,832, SMI +0.19% at 11,112.

**STOCK SPECIFICS**: **Microsoft (MSFT)** -0.3%: To unbundle its chat app Teams from Office products in order to address EU antitrust concerns. Changes will apply to Europe and Switzerland from October 1st. **Salesforce (CRM)** +3%: EPS and revenue beat with adj. operating margin above expectations. Saw strong new business growth internationally. Looking ahead, Q3 guidance was better-than-expected and it lifted the FY outlook. **CrowdStrike (CRWD)** +9%: Earnings beat. Q3 guide surpassed expectations and lifted FY outlook. **Hormel Foods (HRL)** -3%: Profit and revenue fell short; cut FY EPS view. **Dollar General (DG)** -12%: Earnings missed, SSS surprisingly declined in addition to cutting FY23 profit view. Sees FY EPS growth seen down 22-34% (prev. -8% to 0%). **Okta (OKTA)** +14%: Earnings beat. Q3 revenue guide topped expectations and it lifted the FY24 outlook. **Shopify (SHOP)** +8.5%: **Amazon (AMZN)** announced the Buy with Prime app for Shopify, a new app integration that makes it easy for merchants to offer Buy with Prime on Shopify stores. **Palantir Technologies (PLTR)** -9%: Downgraded at Morgan Stanley; said investors are now looking for tangible revenue from cos. AI initiatives and may be disappointed. Note, stock has soared 154% this year. Of note for EV names: US Energy Secretary Granholm says the US is making up to USD 12bln available for automakers and suppliers to retrofit facilities to produce EVs. **ICE (ICE) Black Knight (BKI)**: US FTC said it secures settlement with ICE and Black Knight resolving antitrust concerns in mortgage technology deal; BKI is to sell two software products to Constellation. **Intel (INTC)**: Upped the midpoint of guidance at the Deutsche Tech conference.

## US FX WRAP

**The Dollar** was firmer on Thursday and hit a high of 103.740 amid month-end models pointing towards Dollar buying. In contrast to the last two sessions, US data did not undermine the Buck as US PCE came in line across all major metrics, although Core Y/Y accelerated from 4.1% to 4.2%, in line with estimates, but shy of Fed Chair Powell's forecast of 4.3%. Challenger layoffs surged, largely due to the Yellow layoffs, while Chicago PMI soared and jobless claims dipped to a five-week low. In addition to this, the EUR weakness, which has the biggest weighting in the DXY basket, aided the Dollar. Looking ahead, all attention is on the US jobs report on Friday which is expected to print 170k against the prior 187k.

**EUR** was the clear G10 underperformer and saw steep losses against the Buck, highlighted by EUR/USD hitting a low of 1.0836 against an earlier peak of 1.0939. The single currency was weighed on by a couple of factors, known ECB hawk Schnabel towed a neutral line, which in itself is dovish, as she spoke about both a hike and a skip for the next meeting while adding the EZ economic outlook remains highly uncertain, and activity has visibly moderated and forward-looking indicators flag more weakness ahead. Following this, EZ core CPI was cooler-than-expected which resulted in a marked dovish reaction, highlighted by market pricing now seeing a 69% chance the ECB holds steady in September. Further still, de Guindos added the latest data from July and August points towards economic deceleration in Q3 and probably in Q4, and a decision for September is still up for debate. Note, ECB Minutes added little new noting a further rate hike in Sept would be necessary if there was no convincing evidence that the effect of the cumulative tightening was strong enough, but probable that the September projections would revise the inflation path sufficiently downward.

**AUD, NZD, and CAD** were all flat against the Dollar and truth be told the respective crosses traded within narrow parameters. Despite saying this, the Loonie received a revival towards the tail end of the session as oil prices soared into settlement to see USD/CAD print a low of 1.3505 against an earlier peak of 1.3557. Meanwhile, the Aussie gleaned protection via a much bigger than forecast rise in Q2 Capex and the Kiwi from improvements in ANZ business survey readings. For reference, AUD/USD and NZD/USD were caged in 0.6462-6507 and 0.5931-77 ranges, respectively.

**CHF** and **GBP** saw losses, with the Swissy's weakness appearing to be on positioning and month-end woes as opposed to anything currency-specific. Sterling was weighed on, as BoE chief economist Pill warned against complacency on inflation given second-round effects, but backs a steady for longer strategy rather than overtightening. Although, he did balance it out against his line around the possibility of doing too much. In terms of levels, USD/CHF hit a high of 0.8845 vs a low of 0.8772, while Cable recoiled from 1.2734 to 1.2653.

**JPY** was the clear outperformer, noticing strong gains against the Greenback with desks citing month-end factors. As such, USD/JPY hit a low of 145.36 after an earlier peak of 146.24. Attention turns to the US jobs report on Friday, where desks note given there is little sign the BoJ will tighten soon, a strong jobs data report would be a buy.

**EMFX** was mixed. Yuan, RUB, TRY saw gains, while BRL, MXN, and ZAR all saw losses vs. the Buck. TRY benefitted from firmer than expected Turkish GDP in advance of the CBRT underscoring guidance for more tightening as appropriate, while the Yuan finally received a tangible reason to rally after the PBoC lowered down payments for first and second-time home buyers, and then China's Industrial Bank announced it will cut Yuan deposit rates: 1yr by 10bp and 2yr by 20bp, with effect from September 1st. Conversely, the PLN was softer and perhaps in some part due to NBP's Wnorowski 'confirming' that the Bank is heading towards first rate cut, but it is too early to say whether it will be in September or October.