



US Market Wrap

6th September 2023: Stocks and bonds fall after hot Services ISM

- **SNAPSHOT:** Equities down, Treasuries mixed, Crude up, Dollar flat.
- **REAR VIEW:** Hot US ISM Services report; 'Hawkish' BoC hold; Bleak German industrial orders offset by a significant June order; NBP surprisingly cuts rates by 75bps; Verbal Japanese intervention; Knot tows hawkish rhetoric; BoE's Bailey and Cunliffe both sounded somewhat dovish; ROKU to cut 10% of workforce; US preparing to escalate Mexico trade dispute.
- **COMING UP: Data:** Chinese Trade Balance, Imports & Exports; French NFP, German Industrial Production; UK House Prices, EZ Employment Final, US IJC **Events:** G20 Finance, Energy meeting & BoE's Monthly Decision Maker Panel **Speakers:** Fed's Goolsbee, Bowman, Logan, Harker, Williams, Bostic; ECB's Elderson, RBA's Lowe & BoJ's Nakagawa **Supply:** Japan, Spain, France & US.

MARKET WRAP

Equities declined, and Treasury yields rose in wake of hot ISM Services data, which was judged as hawkish, and resulted in a pushback on market pricing for Fed rate cuts (see below). The Bank of Canada offered a hawkish hold, keeping rates unchanged at 5.00%, but retaining optionality to tighten policy further in the face of persistent inflation. The Dollar Index continued its march higher, underpinned by higher yields; overnight, there was also a warning on FX from Japan's top currency diplomat, who said that authorities in Japan were monitoring FX with a high sense of urgency, and do not rule out any options regarding FX moves. Crude continued its upside in the wake of Tuesday's extension of supply curbs from Russia and Saudi Arabia; Saudis also raised October OSPs to Asia and North America, but gave a slight discount to NW Europe. Thursday's economic docket contains weekly initial jobless claims data, BoC Governor Macklem, and there are quite a few Fed speakers scheduled to give remarks ahead of the pre-meeting blackout kicking in at the end of this week.

NORTH AMERICA

BoC: The Bank of Canada held rates steady at 5%, as expected, albeit in a hawkish fashion; the accompanying statement noted that it is prepared to increase its policy interest rate further if needed. BoC further added that it decided to stand pat on rates due to recent evidence that excess demand in the economy is easing, and given the lagged effects of monetary policy. On the economy, the central bank remains concerned about the persistence of underlying inflationary pressures and there has been little recent downward momentum in underlying inflation. The pause was largely expected following recent data, as the economy contracted in Q2, manufacturing PMI moved deeper into negative territory and the unemployment rate crept higher, which was acknowledged by the bank as it noted the Canadian economy has entered a period of weaker growth and the tightness in the labour market has continued to ease gradually. Overall, while the bank warned that with inflation pressures remaining elevated it could yet hike again, ING "does not think they will need to as high borrowing exposure and lagged effects of policy tightening increasingly weigh on an economy that is already showing some cracks," concluding that the negative implications for CAD are, however, limited.

ISM SERVICES: ISM Services for August was a hot report across the board, highlighted by the headline rising to 54.5 (prev. 52.7), above the expected 52.5 and the upper forecast boundary range of 53.9. Elsewhere, new orders and employment lifted to 57.5 (prev. 55.0) and 54.7 (prev. 50.7), respectively. Business activity ticked higher to 57.3 (prev. 57.1), while the inflationary gauge of prices paid rose to 58.9 (prev. 56.8). The report adds, "there has been an increase in the rate of growth for the services sector, reflected by increases in all four subindices that directly factor into the composite Services PMI and faster supplier deliveries." Moreover, it notes sentiment among Business Survey Committee respondents varies by industry; however, the majority of panellists are positive about business and economic conditions. Overall, the report concludes, "the past relationship between the Services PMI and the overall economy indicates that the Services PMI for August corresponds to a 1.6% increase in real GDP on an annualised basis." Following the data set, a broad-based hawkish reaction was seen, with downside in USTs and US equities, with Fed pricing in a 91% chance of unchanged at the September meeting, vs. 93% before the data. Meanwhile, across the curve 4bps of cuts were removed.

INTERNATIONAL TRADE: US international trade deficit in July widened to USD 65bln (exp. 68bln) from the downwardly revised USD 63.7 (initially 65.5bln), as a larger relative increase to imports (+1.7% M/M) offset the rise in



exports (+1.6% M/M). Looking into the bones, exports snapped a streak of three consecutive declines, while imports rose for just the second time in six months. Imports saw increases across all categories, aside from industrial supplies, with most of the strength coming from consumers goods (+4.1%) and capital goods (+3.2%). Exports strength was largely seen in autos (+11.3%) and industrial supplies (+2.5%). Overall, Oxford Economics notes, "while trade levels rose, the outlook for both exports and imports remains sluggish with headwinds continuing on both fronts". OxEco adds, foreign demand for exports is deteriorating, and the recent strengthening of the dollar will weigh on exports with a lag. Meanwhile, "signs are emerging of flagging strength in consumer spending as excess savings dry up and the labour market softens, which will dampen demand for imports going into peak shipping season."

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 8+ TICKS LOWER AT 109-22

The Treasury curve bear-flattened on Wednesday following hawkish Services ISM data, where all major sub-indices rose on the month, alluding to an economy which continues to be resilient in the face of rate hikes, while price pressures continue to remain. At settlement, 2s +6.1bps at 5.027%, 3s +7.0bps at 4.743%, 5s +5.6bps at 4.440%, 7s +4.1bps at 4.392%, 10s +2.6bps at 4.294%, 20s -1.0bps at 4.555%, 30s -1.4bps at 4.362%

INFLATION BREAKEVENS: 5yr BEI -0.0bps at 2.369%, 10yr BEI -0.4bps at 2.304%, 30yr BEI -0.5bps at 2.299%.

THE DAY: The front-end of the Treasury curve led the sell-off, with yields on 2yr notes spiking to return above 5.00%, again, while the longer-end of the curve was supported amid curve flattening plays, though eventually succumbed to the selling pressure. In wake of the data, bets for Fed rate cuts were pushed back out; the first fully-priced Fed rate cut is now being discounted for July 2024 vs. June 2024 before the release; and while there is around 30% probability the central bank will cut in May 2024, according to money market pricing, that is down from around 50/50 before the data was published. Meanwhile, Fed speak didn't add anything new to the narrative, and desks will be cognizant of a heavy Fed speakers slate on Thursday -- which includes the influential NY Fed President Williams early doors. The complex will also be eying weekly jobless claims on Thursday, while the Treasury will announce sizes for next week's 3s, 10s, 30s supply.

STIRS:

- SR3U3 +0.0bps at 94.580, Z3 -1.0bps at 94.545, H4 -2.5bps at 94.675, M4 -5.0bps at 94.925, U4 -7.5bps at 95.255, Z4 -8.5bps at 95.590, H5 -9.5bps at 95.860, M5 -9.5bps at 96.040, U5 -9.0bps at 96.135, U6 -7.5bps at 96.255, U7 -4.5bps at 96.235.
- NY Fed RRP Op demand at 1.606tln (prev. 1.568tln) across 96 bidders (prev. 97).

CRUDE

WTI (V3) SETTLES USD 0.85 HIGHER AT USD 87.54/BBL; BRENT (X3) SETTLES USD 0.56 HIGHER AT 90.60/BBL

The crude complex continued its ascent higher on Wednesday after Tuesday reports that Saudi Arabia and Russia are to extend supply curbs. As such, WTI and Brent ground higher throughout the US afternoon, albeit on no headline-driven news, to print highs of USD 88.08/bbl and 91.10/bbl, respectively. On the day, ISM Services was hot across the board, highlighted by the headline rising to 54.5 (prev. 52.7, exp. 52.5), above the upper forecast boundary range of 53.9, which led to a slight hawkish shift in Fed pricing. Elsewhere, the US reportedly prepares to escalate its trade dispute with Mexico, according to Reuters citing sources, where the admin asked energy cos. to prepare affidavits detailing how Mexico has blocked investments. Additionally, Saudi Arabia is to raise October Arab Light OSP to Asia and North America, but a slight discount to NW Europe. Aside from this, oil-specific news flow was fairly sparse on Wednesday as traders await the private inventory data (expectations below) after-hours ahead of the weekly EIAs on Thursday, with no more tier 1 US data this week ahead of CPI next week. Current expectations (bbls): Crude -2.1mln, Distillate +0.2mln, Gasoline -1mln.

CHEVRON: Chevron (CVX) workers at its Australian LNG facilities will pause action until Friday 06:00 local time, according to a union official. On Monday, Australian union said it plans a full strike at Chevron's Wheatstone and Gorgon LNG facilities in Australia for two weeks from September 14th if demands are not met.

EQUITIES

CLOSES: SPX -0.69% at 4,465, NDX -0.88% at 15,371, DJIA -0.57% at 34,444, RUT -0.33% at 1,874.



SECTORS: Technology -1.37%, Consumer Discretionary -0.97%, Health -0.6%, Communication Services -0.54%, Industrials -0.48%, Materials -0.33%, Real Estate -0.23%, Consumer Staples -0.18%, Financials -0.16%, Energy +0.14%, Utilities +0.21%.

EUROPEAN CLOSES: DAX -0.19% at 15,741, FTSE 100 -0.16% at 7,426, CAC 40 -0.84% at 7,194, Euro Stoxx 50 -0.70% at 4,239, IBEX 35 -0.83% at 9,314, FTSE MIB -1.54% at 28,211, SMI -0.36% at 10,919.

STOCK SPECIFICS: **Roku (ROKU):** To reduce workforce by 10% and also lifted its Q3 sales view. Along with the workforce reductions, said it plans to consolidate office space and review its content slate to trim expenses. **Enbridge (ENB) Dominion (D):** ENB entered into an agreement to acquire three natgas distribution companies from D for USD 14bln. **Southwest Airlines (LUV):** Does not expect August 2023 weather-related disruptions to have a material impact on Q3 results. However, August bookings were at lower end of guidance and expects Q3 RASM to come in at the low end of its previous guidance, as fuel costs have risen. **AerCap (AER):** Agreed to settle an insurance claim over Russia's refusal to return 17 jets leased to airline Aeroflot; received "cash insurance settlement proceeds" of USD 645mln. **GitLab (GTLB):** Surprise profit per share and beat on revenue. Q3 guidance was better-than-expected and raised FY24 outlook. **AeroVironment (AVAV):** Beat on the top and bottom line. Backed FY24 adj. EPS view but raised revenue guide. **AMC (AMC):** Filed for the sale of 40mln shares and plans to use proceeds to bolster liquidity and repay debt. **ResMed (RMD):** Upgraded at Needham. **Toast (TOST):** Upgraded at UBS; cited improved potential for quarterly net new additions as well as margin expansion. **Kraft Heinz (KHC):** Exec said that as inflation moderates, will be able to achieve more gross margin than it now has into the rest of the year. **Sysco (SYY):** Affirmed FY24 EPS view between USD 4.20-4.40 (exp. 4.32), and revenue of USD 80bln (exp. 79.5bln). **T-Mobile (TMUS):** CEO said higher cash flow has opened up more buybacks and authorising USD 19bln in buybacks, adding to its current USD 14bln. Mobile 'is more competitive now'. **Alteryx (AYX):** Reportedly working with Qatalyst Partners to explore a potential sale, according to Reuters sources.

US FX WRAP

The Dollar was slightly firmer on Wednesday, albeit within fairly thin parameters, but saw a boost soon after the US cash equity open on a strong ISM services report. Highlighting the strength, the headline jumped to 54.5 (prev. 52.7, exp. 52.5), above the upper forecast boundary range of 53.9, with all major internals also getting a boost higher. Fed's Collins (non-voter), who was the only Fed speaker, said it is time for monetary policy to be patient and deliberate while it is too soon to say inflation sustainably moving back to target. Looking to Thursday, there is a plethora of speakers scheduled, with Williams (voter) arguably the highlight in the European morning, followed by comments from Harker (voter), Goolsbee (voter), Bostic (non-voter), with Bowman (voter) and Logan (voter) after-hours. For reference, DXY printed a high of 105.030 vs. a low of 104.590.

JPY saw mild gains against the Buck, but came well off earlier best-levels following verbal intervention from top currency diplomat Kanda, who said authorities will closely monitor FX with a high sense of urgency, and won't rule out any options for response to FX moves. This was later followed by Japan's Chief Cabinet Secretary Matsuno noting it is important for FX to move stably reflecting fundamentals and sharp FX moves are undesirable. USD/JPY rebounded off lows around 147.03, with the psychological round level acting as resistance, to a high of 147.81, a level it currently sits around.

Antipodeans were mixed, with the Aussie flat and the Kiwi seeing weakness vs. the Greenback on account of the broad Dollar strength and risk-off sentiment, as opposed to anything currency-specific. The Aussie remained in lockstep with the Yuan between 0.6404-0.6358, while the Kiwi drifted down from 0.5903 to 0.5860 in advance of NZ manufacturing sales.

GBP was the G10 underperformer and reversed from a high of 1.2587 to a low of 1.2483, amid little help from BoE members at the TSC. Governor Bailey and BoE's Cunliffe both sounded somewhat dovish even without Dhingra who continued to defend her dissension against recent rate hikes. In sum, the former said many indicators signal a fall in inflation which will be quite marked and the MPC is no longer in a phase where it is clear that rates need to rise, we are now data-driven as policy is restrictive. Cunliffe chimed with Bailey that policy decisions are finely balanced and Dhingra persisted with her view that domestic factors are likely to continue easing pressure on the CPI, adding that there is no evidence yet to suggest firms will seek to increase margins and the lagged effects of further tightening pose serious risks of output volatility in order to make a small dent on inflation.

EUR was flat, while **CHF** saw slight losses amid the Buck's resurgence in wake of the aforementioned hot ISM Services report. USD/CHF traded between 0.8882-8944, with EUR/USD towards the middle of its 1.0748-04 range. For the single-currency, German Industrial Orders for July declined much more than expected, while Knot provided some hawkish commentary. He noted markets may underestimate a September hike and it will be a close call, as a further hike is only a possibility and not a certainty. Kazmir later followed this up by declaring one more, likely last, interest rate hike is still needed and he prefers a +25bps rate hike next week.



CAD was flat, with the cross trading largely sideways after settlement from a 'hawkish hold' from the BoC. To recap, it held rates steady at 5%, as expected, with the accompanying statement noting that it is prepared to increase its policy interest rate further if needed. Post-rate decision, which was largely overshadowed by strong ISM numbers at the same time, the Loonie saw some strength as the crude complex ground to highs through the US afternoon. Looking ahead, Canadian building permits (Jul) and Governor Macklem speaking are the highlights ahead of the jobs report on Friday.

EMFX was largely in the red, with highlights out of Poland, Mexico, and Turkey. Zloty saw notable weakness after the NBP unexpectedly slashed Polish rates by 75bps to 6%, against the expectations a 25bps cut. The Mexican Peso weakened in response to headlines suggesting that the US is preparing to escalate its trade dispute with Mexico, adding that the Biden admin asked energy companies to prepare affidavits detailing how Mexico has blocked investments. Conversely, the Lira finally derived some traction from Turkish Government action as President Erdogan vowed to ensure that FX-protected deposits are converted into TRY deposits.

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