US Market Wrap

7th September 2023: Stocks slide amid AAPL woes while Dollar and Treasuries rise ahead of Fed speak

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar up.
- **REAR VIEW**: Initial jobless claims slides to 7-month low; Q2 productivity and unit labour costs revised up; Fed's Williams tows a balanced line; BA sees FY 737 deliveries at the low end of 400-450 jet range; China reportedly seeks to broaden the iPhone ban; Dovish UK DMP & House Prices; Further German data woes; BoC's Macklem echoes hawkish tones;
- **COMING UP**: **Data**: Japanese GDP, German CPI (Final), Canadian Employment & Chinese Money Supply **Speakers**: Fed's Bostic & Barr **Earnings**: Berkeley Group.

MARKET WRAP

US equities tilted to the downside, led by tech, as Apple (AAPL) continued downside in wake of reports that China plans to expand an iPhone ban to some state-backed firms. The Russell 2000 was also suffering, with some suggesting that regional banks were driving the downside after an FDIC report said that US bank profits and deposits were broadly steady in Q2, but regulators are still keeping a close eye on unrealised losses, while its "problem bank" list remained unchanged at 43 in Q2. Treasuries, meanwhile, saw bull-steepening plays, despite a spike higher in yields in pre-markets following weekly jobless claims data which came in below the forecast range, while Q2 productivity and unit labour costs were revised up - both data sets continue to allude to a solid labour market with decent wage gains, despite the Fed's efforts to cool the market. The Dollar Index continues its march higher, with some suggesting technical factors were also in play; there was a haven element, given the sell-off in the Nazzy and tech stocks, while Germany data continues to come in on the soft side, auguring poorly for growth in Europe's largest economy ahead. While the Fedspeak docket was heavy, there wasn't a lot of new information provided.

US

INITIAL JOBLESS CLAIMS: Initial jobless claims fell to a seven-month low of 216k (prev. 229k) beneath the expected 234k and outside the lower end of the forecast range (225k). Continued claims dropped to 1.679mln from 1.719mln, also shy of the consensus (1.715mln). Overall, while signs of looser labour markets are emerging, the low level of initial jobless claims is a reminder that any cooling in labour market conditions is being accompanied by few layoffs. As such, Oxford Economics expect some increase in layoffs later in the year as the economy slows but look for job losses to be relatively modest compared to prior recessions. Furthermore, while the dataset highlights labour market conditions may be cooling, it is still tight. Moreover, and as expected, the metrics do not alter OxEco's outlook for the Fed to keep policy steady at its meeting later this month, but more moderation in job growth will be needed to keep rate hikes permanently off the table.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 9+ TICKS HIGHER AT 109-31+

After the complex was firmer overnight, Treasury yields ultimately settled towards the bottom-end of the daily trading range despite moving higher in wake of US data. At settlement, 2s -7.2bps at 4.953%, 3s -7.0bps at 4.673%, 5s -5.8bps at 4.380%, 7s -4.5bps at 4.345%, 10s -3.0bps at 4.260%, 20s -0.9bps at 4.544%, 30s -0.6bps at 4.353%.

INFLATION BREAKEVENS: 5yr BEI +0.7bps at 2.380%, 10yr BEI +0.6bps at 2.319%, 30yr BEI +0.8bps at 2.313%.

THE DAY: Treasury yields were sent higher in pre-market equity trade after initial jobless claims data printed below the forecast range, while unit labour costs and productivity for Q2 were revised upwards, alluding to a solid labour market where wages are still on the rise. Reports also suggested that further corporate issuance added to the pullback on rate-lock related dynamics. But desks said that the drip in the complex was a buying opportunity for leveraged funds, while real money was said to be showing interest in 2s with yields above 5.0%. Additionally, some were explaining away the labour market data within the context of seasonal impacts around the Labor Day holiday, while comments from Fed officials were also eyed (NY Fed President Williams is due to speak after the publication of this note), with traders looking to see how widespread the caution in recent remarks from Fed's Waller are on the Committee as a whole. Elsewhere, the Treasury announced that the US will next week sell USD 44bln of 3yr notes (exp. USD 44bln), USD 35bln of 10yr notes (exp. USD 35bln), and USD 20bln of 30yr bonds (exp. USD 20bln); all to settle on September 15th.

STIRS:

- SR3U3 +0.3bps at 94.583, Z3 +1.0bps at 94.555, H4 +4.0bps at 94.715, M4 +7.5bps at 95.000, U4 +9.5bps at 95.350, Z4 +11.0bps at 95.700, H5 +11.0bps at 95.975, M5 +10.5bps at 96.145, U5 +8.5bps at 96.220, U6 +4.0bps at 96.290, U7 +2.0bps at 96.255.
- NY Fed RRP Op demand at 1.535tln (prev. 1.606tln) across 97 bidders (prev. 96)

CRUDE

WTI (V3) SETTLED USD 0.67 LOWER AT USD 86.87/BBL; BRENT (X3) SETTLED USD 0.68 LOWER AT 89.92/BBL

Oil was choppy on Thursday, but eventually fell victim to broader risk-off sentiment and a firmer Dollar. Throughout the US afternoon, WTI and Brent trundled to lows of USD 86.39/bbl and 89.46/bbl, respectively, although into settlement it managed to pare losses, but not fully enough to continue its positive streak amid light crude-specific newsflow. Despite saying this, according to Reuters calculations, Russia's offline primary oil refining capacity seen rising by 44% in September from August to 4.635mln tonnes, and it was revised up by 4.5% from the previous plan in September. In addition, the weekly EIA data saw a deeper crude draw than expected, in-fitting with APIs on Wednesday, while Distillates saw a slightly bigger build and Gasoline larger draw. Overall, refining utilisation fell 0.2% (exp. +0.1%, prev. -1.2%) with production unchanged at 12.8mln BPD. Lastly, it is worth being cognizant of a couple of refinery shutdowns: Phillips 66 (PSX) Carson, California refinery (363k BPD) experienced an equipment failure. Chevron (CVX) Pasadena refinery (110k BPD) reported an unplanned operational issue. The Friday calendar is sparse with market participants awaiting US CPI (Sep. 13th) ahead of the FOMC (Sep. 20th).

EQUITIES

CLOSES: SPX -0.32% at 4,451, NDX -0.73% at 15,258, DJIA +0.17% at 34,500, RUT -0.99% at 1,855.

SECTORS: Technology -1.57%, Materials -0.44%, Industrials -0.31%, Energy -0.22%, Financials -0.2%, Communication Services +0.11%, Consumer Staples +0.34%, Health +0.47%, Consumer Discretionary +0.5%, Real Estate +0.71%, Utilities +1.27%.

EUROPEAN CLOSES: DAX -0.14% at 15,718, FTSE 100 +0.21% at 7,441, CAC 40 +0.03% at 7,196, Euro Stoxx 50 -0.40% at 4,221, IBEX 35 -0.05% at 9,310, FTSE MIB -0.20% at 28,155, SMI +0.66% at 10,996.

STOCK SPECIFICS: **Boeing (BA)**: CFO said the recovery from the recent quality issue will be lumpy and not linear, sees FY 737 deliveries at the low end of the 400-450 jet range. BCA margins will be negative in the current quarter and BDS margins will also be negative. Furthermore, sees slightly negative cashflow in Q3 and reiterates FY view. On production, expects to get to 787 rate of 5/mth this year. (At earnings, reiterated 787 production targets of 10/mth by 2025-26, and increased 787 production to 4/mth). **Apple (AAPL)**: China reportedly seeks to broaden the iPhone ban to state firms and agencies, according to Bloomberg. **WestRock (WRK) and Smurfit Kappa (SMFKY)** are nearing a deal to combine into a USD 20bln entity, according to WSJ citing sources; the deal could be announced as soon as this week. **ChargePoint (CHPT)**: Deeper loss per share than expected and missed on revenue. FY24 revenue view light. **Dutch Bros (BROS)**: Commenced an underwritten public offering of USD 300mln of shares of its Class A common stock. **G-III Apparel (GIII)**: Smashed consensus on the top and bottom line alongside stellar guidance. **UiPath (PATH)**: Beat on the top and bottom line. Raised FY24 revenue outlook. **Verint (VRNT)**: Missed on both profit and revenue alongside cutting FY24 revenue view. **McDonald's (MCD)**: Upgraded at Wells Fargo; said the co. "is firing on all cylinders" when it comes to innovation and that it could see upside in H2. **Verizon (VZ)**: Raised dividend ~2% to USD 0.6650/shr (prev. 0.6525). **PDD (PDD)**: Grizzly Research was negative on the co; believes PDD is a "dying, fraudulent company, and its shopping app is cleverly hidden spyware that poses an urgent security threat to US national interests." **Walmart (WMT)**: Cuts starting pay for some new hires, according to WSJ. **General Motors (GM)**: Offered UAW employees a 10% wage hike over a 4 years. Following this, UAW President called GM's contract offer "insulting", adding that it does not come close to the equitable agreement.

US FX WRAP

The Dollar was slightly firmer on Thursday, albeit off highs, as it saw impetus off the unexpected fall in jobless claims to a seven-month low. As such, the Dollar Index hit a high of 105.15, breaching Wednesday's high of 105.030, although technicians note resistance in the form of a longer term Fib retracement around 105.370 and representing 38.2% of the fall from last year's peak to current 2023 trough. Despite this, we await a slew of Fed speak this evening, namely Bostic (2024), Williams (voter), Bowman (voter) and Logan (voter), prior to a sparse Friday calendar. The Greenback may have also benefited from haven flows in risk averse conditions, as the Apple (AAPL) weighed on stock sentiment.

CAD was the G10 underperformer and saw headwinds from the pullback in the crude complex, albeit not on anything headline-driven. Governor Macklem echoed the hawkish tone from Wednesday's BoC hold, noting the longer it waits, the harder it will likely to be to reduce inflation, and the Bank is prepared to raise rates again, but don't want to hike more than it has to. Macklem added monetary policy may not be restrictive enough to restore price stability. On the data front, Ivey PMI for August rose back into expansionary territory, with focus now on Friday's jobs report.

Antipodeans were mixed, with NZD seeing marginal gains and the AUD flat vs the Greenback. The Kiwi saw impetus from Q2 Manufacturing Sales which returned back into positive territory, as NZD/USD hit a high of 0.5894, but ran out of momentum ahead of 0.5900. Meanwhile, the Aussie was weighed on by soft trade updates, weakness in the Yuan, and softness in iron ore. On the metal, China State Planner said it is to strengthen market regulation and price analysis on iron ore. AUD/USD traded between 0.6363-94 ahead of a light overnight session.

CHF, EUR, and GBP all saw losses vs. the Buck. The Pound was hit by a steeper than expected deceleration in UK property prices, per Halifax, post-dovish leaning remarks from BoE Governor Bailey and MPC member Cunliffe on Wednesday, and ahead of August's DMP that revealed considerably cooler 12-month forward inflation expectations. Cable breached beneath 1.2450, albeit briefly, to a low of 1.2446 from a high of 1.2509. The single currency saw more dismal data out of German, and while the Euro stoutly defended 1.0700, after jobless claims it succumbed to the key level to see EUR/USD hit a low of 1.0687. Lastly, USD/CHF was within a very tight range on Thursday, highlighted by a trough of 0.8910 and a peak of 0.8940.

JPY was the G10 outperformer and saw USD/JPY test 147.00 to the downside, although not breaching it ahead of a slew of data overnight in the form of GDP, Current Account and Trade. On the day, the Yen benefitted from a retreat in US Treasury yields, while BoJ Board Member Takata made similar comments to Wednesday, where he noted that Japan's economy is recovering moderately and Japan is seeing early signs of achieving 2% inflation, while he added that there is a sign of change in Japan's trend inflation as rising wages push up inflation expectations.

EMFX was mixed. CNH, TRY, CLP, and MXN saw losses, while ZAR saw gains, and BRL was flat. For the record, Mexican core inflation slowed more than expected. Elsewhere, there was no respite for the PLN as NBP Governor Glapinski refuted that the 75bps rate cut was politically motivated and cited the outlook for Polish inflation instead. Specifically, he said projections show that in coming quarters CPI will fall fast and there has already been a rapid decline in inflation. Conversely, the TRY got some recognition by association as Moody's declared that Turkey's post election change of course in terms of economic policy was a credit positive. On the flip-side, the ZAR was undermined by a wider current account deficit, albeit narrower than consensus and the Yuan continued to weaken on wider Chinese growth jitters irrespective of better-than-forecast trade data.