US Market Wrap

8th September 2023: Markets lack direction in thin Friday trade ahead of key US data

- **SNAPSHOT**: Equities flat, Treasuries mixed, Crude up, Dollar flat.
- **REAR VIEW**: Hot Canadian jobs report; Manheim August used-vehicle price index +0.2% M/M; ADBE upgraded at Mizuho; Balanced Fed speak; Mixed KR earnings, solve opioid settlement & sells >400 stores in ACI merger.
- **WEEK AHEAD**: Highlights include UK Jobs, US CPI & Retail Sales, ECB and Chinese Activity Data. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing ECB; Reviewing RBA and BoC. To download the report, please click here.

MARKET WRAP

There was a quiet feel to trading on Friday. In absence of any major catalysts, equities traded directionless not deviating too far off neutral; Energy led the gains, with crude futures continuing to rally, while Real Estate lagged amid higher short-end yields, while RH (RH) gave cautious commentary on the housing market. Treasuries were mixed, with the long-end rallying, and the short-end seeing selling action, though yield changes have been modest at best. While the Dollar Index was also flat, it has printed gains for an eight straight week. Crude futures continued to gain amid concerns about tightening supply dynamics. The general theme of the session was digesting Fedspeak from the week (which was balanced) ahead of the Fed's blackout window prior to its September 20th meeting, and looking to next week's key releases, which include CPI and retail sales out of the US, while in Europe, the ECB meeting is the main focus.

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FED: **Goolsbee (voter)** said it is possible to get on the 'golden path' and that monetary policy is working, while he added that overall inflation is above where they want it and there are risks. Goolsbee also stated that they are very rapidly approaching the time when the argument is not about how high should rates go, but rather how long rates have to stay high and collectively, the Fed forecast is that rates will have to stay up for a relatively extended period. **Logan (voter)** said it could be appropriate to skip an interest rate increase in September and skipping does not imply stopping rate hikes, while she noted that there is work left to do to get to sufficiently restrictive policy and is not yet convinced that they have extinguished excess inflation. **Williams (voter)** said the Fed is focused on its dual mandate and inflation is moving in the right direction, as well as noted that there is still more data to come before the next FOMC meeting. Furthermore, Williams stated that policy is in a good place and is data dependent, while he added that policy is restrictive, but the question is whether it is sufficiently restrictive. **Bostic (non-voter)** said there is still work to do to get inflation back to 2%, while he added the US economy is still working through pandemic dynamics and consumer strength has kept economic pain at bay.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 2 TICKS LOWER AT 109-29+

Treasuries finished mixed at the end of the week, with short-end yields seeing some modest upside, while longer-dated yields saw some downside, leaving the curve flatter by a couple of basis points. At settlement, 2s +3.4bps at 4.989%, 3s +2.4bps at 4.697%, 5s +1.9bps at 4.401%, 7s +1.1bps at 4.356%, 10s -0.2bps at 4.260%, 20s -1.9bps at 4.526%, 30s -2.0bps at 4.333%.

INFLATION BREAKEVENS: 5yr BEI +2.0bps at 2.402%, 10yr BEI +1.8bps at 2.338%, 30yr BEI +1.8bps at 2.332%.

THE DAY: There was an absence of fresh catalysts for the complex, with desks continuing to cite recent Fedspeak ahead of next week's CPI inflation report and retail sales. With the Fed on blackout ahead of its September 20th confab, these events will help to shape expectations into the meeting; currently, money markets are fully discounting the first rate cut in June 2024.

STIRS:

- SR3U3 +0.0bps at 94.583, Z3 -0.5bps at 94.550, H4 -2.0bps at 94.695, M4 -4.0bps at 94.955, U4 -5.5bps at 95.295, Z4 -6.0bps at 95.635, H5 -5.5bps at 95.915, M5 -4.5bps at 96.095, U5 -3.5bps at 96.185, U6 -1.0bps at 96.280, U7 +1.0bps at 96.265.
- NY Fed RRP Op demand at 1.525tln (prev. 1.535tln) across 94 bidders (prev. 97)

CRUDE

WTI (V3) SETTLED USD 0.64 HIGHER AT 87.51/BBL; BRENT (X3) SETTLED USD 0.73 HIGHER AT 90.65/BBL

The crude complex ended the day, and second consecutive week, in the green as oil was buoyed by news earlier in the week that Saudi Arabia and Russia are to extend voluntary production cuts. As has been seen through the large parts of this week, oil specific newsflow was light on Friday as WTI and Brent chopped between narrow parameters of USD 86.15-87.95/bbl and 89.30-91.02/bbl, respectively, but settled off either extreme. On the day, according to Reuters sources, Marathon (MPC) Galveston Bay refinery's (593k BPD) FCC remains shut, US OSHA to commence a fire probe, while in a later update at the same refinery it reported emissions from flare 3 321. Separately, Tennessee Gas Pipeline declared a force majeure affecting TGP Rose Lake (420527) leased capacity to TGP Hamburg; declared due to upcoming scheduled maintenance which would impact deliveries to rose lake delivery meter. Lastly, in the weekly Baker Hughes rig count, oil rose 1 to 513, natgas fell to 113, leaving total up to 632. Looking ahead, amid Fed blackout attention will be US CPI (Wed) and Retail Sales (Thurs).

GAS: Australia union confirmed planned strikes by Chevron (CVX) Australia LNG workers from 13:00 local time on Friday and said Chevron is demanding to be given special concessions in bargaining which the union rejected. Elsewhere, Russia expects to sell gas to China at half the price for Europe, according to Bloomberg.

EQUITIES

CLOSES: SPX +0.14% at 4,457, NDX +0.14% at 15,280, DJIA +0.22% at 34,577, RUT -0.23% at 1,851.

SECTORS: Energy +0.97%, Utilities +0.96%, Communication Services +0.35%, Financials +0.24%, Technology +0.21%, Consumer Staples +0.16%, Materials +0.12%, Consumer Discretionary +0.03%, Health -0.04%, Industrials -0.46%, Real Estate -0.63%.

EUROPEAN CLOSES: DAX +0.14% at 15,740, FTSE 100 +0.49% at 7,478, CAC 40 +0.62% at 7,240, Euro Stoxx 50 +0.41% at 4,238, IBEX 35 +0.59% at 9,364, FTSE MIB +0.26% at 28,230, SMI -0.38% at 10,951.

STOCK SPECIFICS: **Kroger (KR)**: Beat on adj. EPS but missed on revenue with identical store-sales light. Re-affirmed FY guidance and expects the environment to remain challenged going forward. Moreover, KR reached agreement in principle for nationwide opioid settlement; agreed to pay up to USD 1.2bln to states. Is to sell more than 400 stores to C&S Wholesales in USD 1.9bln in connection with ACI merger. **Eli Lilly's (LLY)**: Diabetes drug Mounjaro approved by UK watchdog. **DocuSign (DOCU)**: Beat on the top- and bottom-lines alongside lifting stock repurchase programme by USD 300mln to USD 500mln. Raised FY24 revenue view with Q3 guidance marginally above the expected. **Gilead (GILD)**: Upgraded at BofA and raised its price target to USD 95 (prev. 88); said its growing pipeline is unappreciated by investors. **Smith & Wesson Brands (SWBI)**: Surpassed expectations on the top- and bottom-lines. **Snowflake (SNOW)**: DA Davidson initiated coverage with a Buy rating; said it is in an advantageous position with “best-in-class growth rates” and is set to benefit from increased demand for AI applications. **Adobe (ADBE)**: Upgraded at Mizuho; said that accelerating web traffic is reason to become more optimistic on Adobe. **RH (RH)**: Earnings beat, but next quarter guidance was light. CEO said it continues to expect the luxury housing market and broader economy to remain challenging throughout FY23.

WEEKLY FX WRAP

Loonie stages late challenge, but Buck remains resilient

USD/JPY/CAD - A US holiday-truncated week, but no lack of action as the Dollar and DXY made light work of clawing back losses incurred on Labor Day with the aid of a firm rebound in Treasury yields on return from the 3-day break, and perhaps a bit more attention afforded to comments from Fed’s Mester than Waller even though the former is not a 2023 voter and the latter is. Mester said the cost of undershooting in monetary policy at the moment is still higher, while Waller contended that recent data will allow the Fed to proceed carefully and gives the FOMC space before making the next rate decision, with further hikes dependent on data. Indeed, the index recovered from Monday’s 104.020 low and only faded on approach to 105.00 before regaining momentum in time for strong services ISM readings that supplemented relatively robust manufacturing metrics and more than made up for downward tweaks to final services and composite PMIs. Onto Thursday, and the Greenback received another fundamental boost via sub-forecast initial weekly claims and the continuing count along with an upgrade to Q2 unit labour costs. The DXY probed 105.000 with a bit more conviction and posted its w-t-d peak at 105.150, but failed to really test the next bullish technical objective in the form of a long term Fib retracement level (105.370/380). Friday arrived with remarks from Fed’s Logan favouring a September skip that chimes with market pricing, but also a pronounced squeeze in Yen shorts overnight that forced Usd/Jpy down to 146.60 from 147.00+, albeit not for long as Japanese officials stuck to verbal rather than physical intervention and BoJ members largely maintained dovish guidance, with the possible exception of Takata. Usd/Jpy snapped back up towards 147.87 high having held just above 146.00 at the start of the week when the Buck was low on US sponsorship and it was left to the Loonie to apply pressure in stark contrast to this time last Friday. In truth, Usd/Cad was on the back foot prior to a hot Canadian LFS, Wednesday’s hawkish BoC hold and follow-up speech by Governor Macklem underscoring the accompanying statement, as crude prices spiked in response to lengthier extensions to Saudi and Russian oil output cuts. Nevertheless, the Loonie nudged the Kiwi close for best performer on Friday as Usd/Cad lurched from circa 1.3689 to within single digits of 1.3600, inside its wider 1.3694-1.3576 extremes, and the index pulled back from 105.070 to 104.660 at one stage.

NZD/AUD - As noted above, the Kiwi outpaced its major peers and US rival heading into the weekend, with Nzd/Usd back on the 0.5900 handle between 0.5961-0.5860 parameters, but for no obvious reason beyond an encouraging recovery in NZ manufacturing sales. Perhaps the Aud/Nzd cross provided a tailwind given that the Aussie never looked comfortable above 0.6400 against its US counterpart, let alone likely to revisit best levels not far under 0.6500 having reversed to a 0.6358 midweek trough in the face of ongoing Yuan depreciation. For the record, even a hawkish tone from the RBA after its pause and firmer than consensus Q2 GDP prints hardly offer traction.

EUR/CHF/GBP - In many ways, the more medium term outlook for the Euro, Franc and Pound could boil down to what the ECB, SNB and BoE decide to do at this month’s respective policy meetings, assuming the Fed does hold fire, but in the meantime they all conceded ground to the based on economic fundamentals, and given especially dire Eurozone macro releases. Meanwhile, testimony from the BoE including Governor Bailey, MPC member Cunliffe and discounting serial rate rise dissenter Dhingra was taken dovishly due to the observation that following a lengthy and uninterrupted tightening cycle, the Bank is much closer to the pinnacle. Eur/Usd was propped up by various chart supports allied to heavy option expiry interest and apparently the defence of a big no touch at the 1.0700 strike, but lost 1.0800+ status on the way to basing at 1.0687 before stabilising to an extent. Usd/Chf advanced from around 0.8833 to 0.8944 and Cable collapsed from 1.2642 to 1.2446 with only the 200 DMA left to arrest the slide.

SCANDI/EM - The Sek finally salvaged some pride, but not on Swedish specifics or the Riksbank insisting it is undervalued as it benefited from some corrective positioning, while buoyant Brent underpinned the Nok. Elsewhere, more rearguard defences by the RBI kept the Inr off all time lows and the same went for the Cny and Cnh regardless of Chinese data that could have been construed positively, as the PBoC’s persisted with highly elevated daily settings for the onshore Renminbi. Conversely, the NBP sent the Pln into freefall by slashing rates 75 bp vs 25 bp anticipated and refuting a political angle in view of the fact that Polish CPI has dropped significantly and the trend is seen continuing over coming quarters. In Latam, the Mxn was rattled by the US escalating its trade dispute with Mexico and thus could not ride the WTI wave as easily as it might.