US Market Wrap

11th September 2023: NDX leads stocks higher amid the Dollar's slide vs rips in Yen, Yuan and Antipodes

- **SNAPSHOT**: Equities up, Treasuries down, Crude flat, Dollar down.
- **REAR VIEW**: Chinese data offers recovery glimpse; BoJ's Ueda touts rate hikes; AAPL extends QCOM chip contract; TSLA upgraded at Morgan Stanley; EU Commission cuts EZ GDP growth forecast; Weak US 3yr auction; Arm IPO seeing strong demand; Dovish WSJ's Timiraos article on the Fed.
- **COMING UP**: **Data**: Australian Consumer Sentiment, NAB Business Confidence, German Wholesale Price, UK Labour Data, German & EZ ZEW & US NFIB Business Optimism Index **Speakers**: BoE's Mann **Supply**: Australia, Japan, Netherlands, UK & US.
- **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

Stocks were firmer Monday, overcoming a period of turbulence at the NYSE open, with the Nasdaq leading the charge ahead of Wednesday's CPI figures. Russell 2k and the Dow Jones were notable laggards. US macro catalysts on the day were on the light side with mixed NY Fed consumer inflation expectations the 'highlight', leaving WSJ's Timiraos article from the weekend to fester, which highlighted a dovish shift in the Fed's rate path being underway. In stocks, Tesla (TSLA) rallied after a Morgan Stanley upgrade; Qualcomm (QCOM) rallied amid Apple (AAPL) extending its chip contract for three more years; and Bloomberg reported Softbank's (9984 JT) Arm IPO is now 10x oversubscribed. Elsewhere, USD/JPY saw its largest fall in two months, with JGB yields hitting new recent peaks, after BoJ Governor Ueda flirted with rate hikes out of negative territory. The Yuan also surged from recent lows, supporting the antipodes too, after Beijing gave a strong warning against bets on renminbi depreciation and released positive lending data earlier than usual; inflation data from the weekend saw a move back out of deflationary territory. Treasuries bear-steepened after the pick-up in China data and hawkish BoJ commentary; the poor US 3yr auction and corporate supply also weighed. Oil prices were choppy/flat, with the rally losing momentum despite the pick-up in China data, Libya supply risk, and a weaker Dollar.

US

NY FED SCE: One-year inflation expectations rose to 3.6% from 3.5%, while the long-term five-year also rose 0.1ppt to 3.0% from 2.9%. However, the three-year expectations dipped to 3.8% from 3.9%. Elsewhere in the survey, August saw a 3.1% rise in home price expectations, the highest since July 2022, while record consumers project higher food, gas, rents, medical costs in August, and overall households are more downbeat on the current and future finances. The report adds that income growth perceptions declined in August, and job loss expectations rose sharply to its highest level since April 2021. Perceptions about current credit conditions and expectations about future conditions both deteriorated, with households' perceptions about their current financial situations and expectations for the future also deteriorated.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 4+ TICKS LOWER AT 109-25

Treasuries bear-steepened Monday after a pick-up in China data and hawkish BoJ commentary from the weekend; poor US 3yr auction and corporate supply also weighed. 2s +0.7bps at 4.991%, 3s +0.9bps at 4.703%, 5s +1.2bps at 4.408%, 7s +2.0bps at 4.372%, 10s +3.0bps at 4.286%, 20s +3.6bps at 4.561%, 30s +4.4bps at 4.376%.

INFLATION BREAKEVENS: 5yr BEI +0.6bps at 2.413%, 10yr BEI +0.8bps at 2.352%, 30yr BEI +0.8bps at 2.347%.

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THE DAY: Treasuries entered the NY session already in a bear-steepener, coming on the heels of the pick-up in Chinese data (return out of deflation and strong lending activity) in addition to the hawkish Ueda comments from the weekend, with the BoJ chief flirting with the idea of hiking rates which saw JGB yield hit new recent peaks. The dovish WSJ's Timiraos article on the Fed from the weekend failed to dictate the tone. T-Notes hit session lows of 109-20 ahead of the European handover, later paring to interim resistance at 109-28 in the NY morning after a choppy open for stocks, failing to clip the globex open highs of 109-29.

Perhaps the recovery would have been more notable if it weren't for the chunky US corporate IG debt supply pipeline on Monday. There was little notable price action either to the latest NY Fed consumer inflation expectations, which were mixed with 0.1% rises in the 1yr and 5yr gauges but a 0.1% fall in the 3yr. The poor 3yr auction later in the afternoon also capped any recovery attempts.

3YR AUCTION: A weak USD 44bln 3yr auction from the US Treasury where the USD 2bln increase in size from last month coincided with a 1bp tail vs. the six-auction average of a 0.9bp stop-through and particularly poor form vs. August's 1.8bp stop-through. The tail came despite the auction stopping at a cycle high of 4.660%, a significant step-up in yield from August's stop of 4.398% - perhaps a reflection of event risk ahead of CPI Wednesday and FOMC/SEPs next week. The auction was covered 2.75x, shy of the average 2.79x and prior 2.9x. Dealers (force surplus buyers) were left with a chunky 20.2%, well above the average 14.2% in further evidence of absent demand, which was driven by Indirects participation tumbling to 57.7% from last month's 74%.

STIRS:

- SR3U3 -0.5bps at 94.58, Z3 -2bps at 94.535, H4 -1bps at 94.685, M4 -1bps at 94.945, U4 -0.5bps at 95.29, Z4 -1 bps at 95.625, H5 -1.5bps at 95.90, M5 -1bps at 96.085, U5 -1.5bps at 96.17, U6 -1.5bps at 96.265, U7 -2.5bps at 96.235.
- NY Fed RRP op demand at USD 1.549tln (prev. 1.525tln) across 94 counterparties (prev. 94).
- SOFR falls to 5.30% on Sep. 8th from 5.31%, volumes fall to USD 1.420tln from 1.479tln.
- EFFR flat at 5.33% as of Sep. 8th, volumes fall to USD 104bln from 105bln.
- US sold USD 71bln of 3-month bills at 5.315%, covered 2.98x; sold USD 64bln of 6-month bills at 5.300%, covered 3.15x.

CRUDE

WTI (V3) SETTLED USD 0.22 LOWER AT 87.29/BBL; BRENT (X3) SETTLED USD 0.01 LOWER AT 90.64/BBL

Oil prices were choppy Monday, with the rally losing momentum despite the pick-up in China data, Libya supply risk, and a weaker Dollar. Oil prices hit their peaks for the session in the NY morning with WTI and Brent futures printing highs of USD 88.15/bbl and 91.45/bbl, respectively. A choppy open for US stocks saw oil prices pare gains. Meanwhile, initial signs of a recovery in China improved after strong lending data and a move out of deflation in the region. Another potentially demand-supportive factor to consider is the latest Reuters reports of a light refinery maintenance period in Europe this autumn, with Wood Mackenzie noting offline capacity is down 40% Y/Y at 800k BPD, with refiners set to take advantage of the high margins on offer. On the supply side, major oil export ports in Libya have been forced to close since Saturday after storms and floods in the country's east.

EQUITIES

CLOSES: SPX +0.67% at 4,487, NDX +1.19% at 15,461, DJIA +0.25% at 34,663, RUT +0.19% at 1,855.

SECTORS: Consumer Discretionary +2.77%, Communication Services +1.17%, Consumer Staples +0.83%, Health +0.68%, Technology +0.45%, Materials +0.42%, Financials +0.38%, Utilities +0.35%, Real Estate +0.02%, Industrials -0.01%, Energy -1.32%

EUROPEAN CLOSES: DAX +0.36% at 15,800, FTSE 100 +0.25% at 7,496, CAC 40 +0.52% at 7,278, Euro Stoxx 50 +0.44% at 4,255, IBEX 35 +0.75% at 9,435, FTSE MIB +1.03% at 28,525, SMI +0.24% at 10,975.

STOCK SPECIFICS: **Apple (AAPL)** extended **Qualcomm (QCOM)** modem chip contract for three more years, providing 5G smartphone models to Apple for ’24, ’25, and ’26, a sign that Apple is struggling to bring its own chips to production. **Hostess Brands (TWNK)** is to be acquired by **JM Smucker (SJM)** for roughly USD 35.24/shr or USD 5.6 bln. TWNK closed Friday at USD 28.11/shr. **RTX (RTX)** provided an update on Pratt & Whitney GTF fleet; re-affirmed adj. EPS and FCF outlook but lowered FY23 sales view and added it will recognise a ~USD 3bln charge in Q3. **Tesla**

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(TSLA) was upgraded at Morgan Stanley and had its PT raised to USD 400 (prev. 250); said Tesla's Dojo supercomputer could power a near USD 600bln jump in market value by boosting the adoption of robotaxis and its software services. **Meta (META)** is developing a powerful AI system to rival OpenAI, according to WSJ; aims to create an AI model more advanced than their recent Llama 2 release, with a focus on generative AI for human-like text and analysis. **Alibaba's (BABA)** outgoing CEO Daniel Zhang unexpectedly quit its cloud business. In June, BABA said Zhang was leaving as chairman and CEO of Alibaba Group to focus on the cloud intelligence unit. **Kenvue (KVUE)** was upgraded at Deutsche Bank. **Softbank's (SFTBY)** Arm IPO sees strong demand, 10x oversubscribed according to Bloomberg, which the FT notes is pushing it to close the order book early on Tuesday instead of Wednesday; FT added that pricing could land towards the top end of the initial price range of USD 47-51/shr.

BARCLAYS FINANCIALS CONFERENCE: **JPMorgan (JPM)** CEO Dimon said the US consumer is "pretty good" and excess savings are normalising. Dimon further warned of economic risks from QT, fiscal spending, and war. For JPM specifically, the boss added it is buying back stock at a lower level, and can continue stock buybacks through 2024 and meet capital requirements. **Bank of America (BAC)** spoke at the same conference, where an exec said on the commercial side, they have added over 1.1k clients this year, with clients still holding about 27% more cash in their accounts on average vs. pre-pandemic. CFO said deposits are flat to up, which is better than expected and they are seeing lower loan growth, especially in card and commercial. He further added the big two drivers in the quarter will be markets and trading, and IB pool is down 20-30%, but BofA is doing better. **M&T Bank (MTB)** CFO said the long-term debt rule is to have a minimal impact on its earnings; added CRE clients are really committed to properties.

US FX WRAP

The Dollar started the week on the back foot, on account of other broad-based strength in peers such as the Yen, Yuan, and Aussie (more details below), as opposed to anything particularly US-specific. As such, newsflow for the Buck was fairly light on Monday as market participants await pivotal data in the form of CPI (Wed) and Retail Sales (Thurs), ahead of the FOMC next Wednesday. Ahead of the meeting, WSJ's Timiraos wrote over the weekend, noting an important shift in Fed officials' rate stance is underway and the Fed is likely to pause increases this month, then take a harder look at whether more hikes are needed. Back on the inflation footing, the NY Fed's monthly consumer inflation expectations survey saw rises in the short (1yr) and long-term (5yr) horizons but easing in the mid-term (3yr). The report added that August saw a 3.1% rise in home price expectations, the highest since July 2022, while households are more downbeat on their current and future finances. For reference, the Dollar printed a low of 104.410 vs. a high of 104.890.

The Yen saw strong gains following comments from BoJ Governor Ueda, where he said the Bank cannot rule out that they might have sufficient data by year-end to determine whether they can end negative rates. Ueda further added they will end negative rates if they judge that achieving the price target becomes possible and that they will keep ultra-easy policy for now. As such, USD/JPY printed a low of 145.92, breaching the psychological 146.00 to the downside, albeit only briefly, coinciding with fresh recent peaks in JGB yields, with attention now on the Japanese Tankan survey on Wednesday.

The Yuan saw strength on a number of factors, as it was boosted by the PBoC setting the strongest fix signal on record and also after data over the weekend which showed China bounced back from deflation. Moreover, the Yuan was further buoyed by PBoC meeting with China's self-regulating FX body to discuss a mechanism to maintain stability, including taking action when necessary to correct one-sided, pro-cyclical activities and resolutely defend against currency overshooting risks. The next scheduled highlights in the region are the industrial output/retail sales data and MLF rate setting all on Friday.

Aussie and **Kiwi** saw strong gains in tandem with the China updates, managing to latch on to the Yuan rebound in addition to solid gains in iron ore to reclaim 0.6400 and 0.5900 handles vs Buck, respectively. Specifically, AUD/USD hit a high of 0.6449 and NZD/USD topped out at 0.5935. Looking ahead, there is a slew of New Zealand card data ahead of Australian Consumer Sentiment (Aug) and NAB Business data (Aug) all on Tuesday. Later in the week, Australian jobs report on Thursday.

Euro and **Sterling** both saw gains vs. the Greenback, with the single-currency benefitting from the broader Dollar retreat despite the EU Commission cutting its EZ GDP growth forecast for both 2023 and 2024, whilst raising its inflation estimates. The Commission's stagflationary forecasts coincided with European periphery debt underperformance ahead of the ECB on Thursday. The Pound was firmer, but saw little reaction to hawkish remarks from BoE's Mann (who is typically the most hawkish member on the board). Nonetheless, she said in a published speech that she would rather err on the side of over-tightening and in her view, holding rates constant at the current level risks enabling further inflation persistence which will have to be unwound eventually with a worse trade-off. Overall, Cable's September slide has so far

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held above the 200DMA, now at 1.2427, with the immediate focus now on Tuesday's UK employment report, with a chunky 185k drop in employment and 0.1% jobless rate increased forecast. Money markets are currently pricing in an 80% implied probability for a 25bp hike (20% for unchanged) at the BoE meeting next Thursday.

CAD and **CHF** saw slight strength against the Buck, with USD/CAD even managing to breach the 21DMA (1.3569) to the downside, to lows of 1.3562. For the Swissy, aside from a minor incursion, the Franc hovered beneath 0.8900 against its US peer for the most part and was hardly helped by rises in Swiss weekly sight deposits to break a trend of withdrawals.

EMFX was firmer across the board, aside from the Lira which saw slight losses as it found it tough to ignore remarks from Turkish President Erdogan conceding that the year ahead will be a difficult period for inflation and he hopes to see a permanent fall, but time is needed for new economic policies and monetary policy effects to be felt. CLP was buoyed by a bounce in copper prices, likely riding the coattails of the China optimism, while the Mexican Peso was underpinned by better-than-expected Mexican industrial production. In South Africa, the ZAR managed to shrug off worse than anticipated SA manufacturing output with the aid of solid Gold prices.

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