



US Market Wrap

12th September 2023: Tech leads losses after disappointing AAPL event with bonds and Dollar choppy into CPI

- **SNAPSHOT:** Equities down, Treasuries mixed, Crude up, Dollar up.
- **REAR VIEW:** AAPL iPhone 15 prices seemingly underwhelm, with only Pro Max getting a price hike; Hot UK headline wage data subject to caveats; Mixed German ZEW survey, but current conditions worsen; OPEC MOMR flags tight supply ahead; Decent 10yr auction; ORCL miss on revenue with light guidance
- **COMING UP: Data:** UK GDP Estimate, Services, Industrial Output, US MBAs & CPI **Events:** IEA Oil Market Report **Supply:** Italy, UK, Germany & US **Earnings:** Exor.

MARKET WRAP

Stocks were lower Tuesday with the Nasdaq (-1.1%) leading the downside amongst the major indices ahead of Wednesday's CPI. The indices closed at lows, with disappointment over Apple's (AAPL; -1.7%) new iPhone pricing weighing. Oracle (ORCL) was another notable tech laggard (-13.5%) after its earnings and guidance disappointed. The energy sector was a notable outperformer following oil prices continuing their climb to fresh YTD peaks (WTI nearing USD 90/bbl), aided by warnings from OPEC of a tight supply outlook ahead, the Loonie outperformed in G10 FX in sympathy with oil. Treasuries were mixed/flatter as duration caught a mild bid while the short end was lightly offered in CPI pre-positioning; the 10yr auction was decent, but inconsequential for price action. The Dollar was marginally firmer, with Sterling in focus (and only slightly weaker) after no job growth seen in the latest monthly figures, although wage growth remains stubbornly firm. Euro was slightly weaker amid a mixed German ZEW survey ahead of the ECB confab on Thursday. Yen was the underperformer, giving back some recent strength, with a strong Japanese 5yr auction seeing lower domestic yields.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 3 TICKS HIGHER AT 109-28

Treasuries were mixed/flatter as duration caught a mild bid while the short end was lightly offered ahead of CPI; 10yr auction was decent. 2s +1.0bps at 5.005%, 3s +1.1bps at 4.676%, 5s -0.2bps at 4.412%, 7s -1.3bps at 4.361%, 10s -2.0bps at 4.268%, 20s -2.6bps at 4.538%, 30s -3.1bps at 4.346%.

INFLATION BREAKEVENS: 5yr BEI -0.7bps at 2.410%, 10yr BEI -0.5bps at 2.343%, 30yr BEI -0.9bps at 2.336%.

THE DAY: T-Notes traded in tight/choppy ranges Tuesday in light activity, finding lows of 109-23 and peaks of 109-28+. Catalysts were light ahead of US CPI on Wednesday. In Asia, there was a strong Japanese 5yr auction, supporting JGBs. In Europe, the latest UK job report saw no jobs added, while wage growth firmed. As cash bonds opened in NY, the curve saw some flattening with 2yr and ultra bond futs moving in opposite directions, taking T-Notes to session highs of 109-28+, seemingly positioning related ahead of CPI on Wednesday. The moves couldn't sustain, however, and T-Notes remained rangebound for the rest of the session. The 10yr auction was much better than the 3yr on Monday, but didn't lead to any range extension in futures.

10YR AUCTION: A respectable USD 35bln 10yr note reopening from the Treasury, stopping at 4.289%, which was on the screws, better than the six-auction avg. tail of 1.4bps and prior tail of 0.1bp. The bid/cover ratio was 2.52x, better than the avg. 2.44x but not as strong as the new issue offering at 2.56x. Dealers (forced surplus buyers) were left with 13.7%, less than average but a step-up from the new issue's very low 9.5%, with Indirects seeing a fall in participation to 66.3% from 72.2%.

STIRS:

- SR3U3 +0.25bps at 94.5825, Z3 +0.5bps at 94.545, H4 -1bps at 94.675, M4 -2.5bps at 94.92, U4 -3bps at 95.255, Z4 -3.5bps at 95.59, H5 -3bps at 95.87, M5 -3bps at 96.05, U5 -2bps at 96.15, U6 -0.5bps at 96.26, U7 +2bps at 96.255.
- SOFR flat at 5.30% as of Sep 11th, volumes fall to USD 1.378tln from 1.420tln.



- NY Fed RRP op demand at USD 1.494tln (prev. 1.549tln) across 94 counterparties (prev. 94).
- EFFR flat at 5.33% as of Sep 11th, volumes rise to USD 105bln from 104bln.
- US leaves 4-, 8-, and 17-week bill auction sizes unchanged at USD 80bln, 70bln, and 50bln, respectively; 4- and 8-week to be sold on Sep. 14th, and 17-week bills on Sep 13th; all to settle on Sep 19th.
- US sold USD 60bln of 42-day CMBs at 5.285%, covered 3.04x.

CRUDE

WTI (V3) SETTLED USD 1.55 HIGHER AT 88.84/BBL; BRENT (X3) SETTLED USD 1.42 HIGHER AT 92.06/BBL

Oil prices rallied to fresh YTD peaks on Tuesday, aided by the latest OPEC monthly oil report that flagged tight supply ahead. WTI and Brent futures hit peaks of USD 89.37/bbl and 92.40/bbl during the US session. The upside gained momentum as US trade got underway, coming on the coattails of the OPEC report, which didn't contain anything all too new/surprising, but traders latched on to newswire headlines that "OPEC data show 3mln-barrel shortfall as Saudis extend cut", referring to the 1mln BPD voluntary Saudi cuts since around mid-year. OPEC left its 2023 and 2024 world oil demand growth forecasts unchanged. Whereas the separate release from the EIA also released on Tuesday saw the 2023 world oil demand forecast raised by 50k BPD to a 1.81mln BPD Y/Y increase and the 2024 forecast cut by 250k BPD to a 1.36mln BPD Y/Y increase. Traders now look to the US energy inventory data with the private release due later on Tuesday ahead of the EIA figures on Wednesday. Current expectations (bbls): Crude -1.9mln, Gasoline +0.2mln, Distillate +1.3mln.

EQUITIES

CLOSES: SPX -0.57% at 4,461, NDX -1.11% at 15,289, DJIA -0.05% at 34,646, RUT +0.01% at 1,855.

SECTORS: Technology -1.75%, Communication Services -1.06%, Consumer Discretionary -0.9%, Consumer Staples -0.71%, Industrials -0.37%, Materials -0.24%, Health -0.17%, Real Estate -0.03%, Utilities +0.13%, Financials +0.85%, Energy +2.31%.

EUROPEAN CLOSES: DAX -0.54% at 15,715, FTSE 100 +0.41% at 7,527, CAC 40 -0.35% at 7,252, Euro Stoxx 50 -0.28% at 4,242, IBEX 35 +0.21% at 9,455, FTSE MIB +0.21% at 28,584, SMI +0.13% at 10,986.

APPLE EVENT: In short, Apple announced that the Vision Pro is on track for early next year, alongside announcing the Watch Series 9 and new iPhone 15/iPhone 15 Pro. While plenty of attention is on the event, with many specifics, the key takeaway (from a stock reaction perspective) was the pricing point for the new phones, which resulted in marked pressure in shares. iPhone 15 will start at USD 799 with the Plus at USD 899, which many noted was beneath many expectations. Meanwhile, iPhone Pro starts at USD 999 and Pro Max at USD 1199 (up USD 100).

STOCK SPECIFICS: Oracle (ORCL) missed on revenue with next quarter guidance light; suggestions that strong competition in the cloud-computing industry and a digital spending pullback are weighing on its revenue growth. In addition, mgmt. said they are accelerating the transition of Cerner customers from license purchases to cloud subscriptions, which is a near-term revenue headwind. EU antitrust regulators are asking cos. for their views on Microsoft's (MSFT)/Activision (ATVI) remedies to the UK competition agency. WestRock (WRK) entered into a merger agreement with Smurfit Kappa to create the world's largest listed paper and packaging company worth almost USD 20bln. Activist investor Starboard said GoDaddy (GDDY) is deeply undervalued with significant opportunities for shareholder value creation. Nvidia (NVDA) and Adeia (ADEA) resolved existing litigation on confidential terms. Uber (UBER) and PayPal (PYPL) expanded their relationship. UPS (UPS) said that the US Teamster union cost will increase at a 3.3% compound annual growth rate over the life of the agreement, with the costs in H2 '23 about USD 500mln more than expected. Walmart (WMT) CEO said US consumers have held up better than expected and feels 'pretty good' about H2 '23. Said US consumers are poised for some relief in prices and expects prices to decrease in general merchandise in the short term but not all the way back to where they were two years ago. While sees next year's consumer headwinds "about the same".

BARCLAYS FINANCIALS CONFERENCE: Wells Fargo (WFC) CFO said performance on the consumer side is still really good and "comfortable" with previous FY23 NII guidance of +14% Y/Y (exp. +14.9%). Is seeing 'more of the same' on the deposit side and still expects them to go down during the year. Moreover, WFC has been buying back stock in Q3, but at a slower pace than in H1. Affirm (AFRM) exec expects higher funding costs to hit margins. Comerica (CMA) exec said it has not added any brokered deposits in Q3, and expenses in Q3 could come in above prior guidance. Looking ahead, CMA could see loan growth starting in 2024. First Horizon (FHN) CEO said they are focused on driving balance sheet profitability and do remain asset sensitive. On deposit trends, noted there is good momentum. PNC Financial (PNC) CEO said they are doing better than forecasted on total deposits; focused on keeping expense growth



low and are working on a structural programme for it. CEO expects cost savings to benefit the bottom line in 2024 and also hinted at a large expense cutting plan that will flow to the bottom line in '24. **Morgan Stanley (MS)** exec said the bank is in the midst of sustained recovery in activity and that credit capital markets are performing really well. On proposed capital rules, they are inconsistent and certain things do not make sense and are "not the right answer", but nonetheless is prepared. Added profitability will rebound as Eaton Vance integration costs phase out. **Northern Trust (NTRS)** CFO said cost cuts are 'hitting hard' in Q3 and August was 'soft as we anticipated it to be'. Looking ahead, sees Q3 NII 'closer to down 10%' vs. prior guidance of down 5%. **Goldman Sachs (GS)** CEO said trading activity is relatively good and is actively trying to sell on-balance sheet assets; will have impairments in CRE in Q3. Will continue to do buybacks at a lower level and 2024 should be a better year, for sure.

US FX WRAP

The Dollar was choppy on Tuesday but is currently slightly firmer, albeit within thin ranges, as market participants await the pivotal US CPI report on Wednesday. Equity newsflow was busy amid Apple's event, various financial conferences, and Oracle earnings, but broader macro/currency-specific newsflow for the Dollar was light, albeit the reserve currency benefitted amid some haven demand as risk sentiment soured into the NY close. Elsewhere, NFIB small business optimism index marginally declined to 91.3 in August, from 91.9. On the Fed footing, ahead of the FOMC next Wednesday, Reuters latest poll suggested 94 out of 97 economists expect the Fed to keep the FFR unchanged at 5.25-5.50%, with 58 out of 87 expecting the Fed to wait until at least end of March before cutting rates.

Loonie was the G10 outperformer, although only seeing marginal gains vs the Buck, as it profited off the resurgence in oil prices aided by the latest OPEC monthly oil report that flagged tight supply ahead. As such, USD/CAD hit a low of 1.3544 against an earlier peak of 1.3593.

Swissy was flat, and whilst USD/CHF traded in narrow parameters (0.8902-34), the Swissy garnered some appeal with its safe-haven properties as risk appetite waned through the NY afternoon.

Sterling stumbled on weak UK labour market metrics alongside strong headline average earnings to see Cable retreat from 1.2530 towards 1.2460. On the release, UK employment data hinted at stagflation, as average weekly earnings for the three months to July hit a new high at 8.5%, while the unemployment rate rose to its highest in three years and employment surprised with no jobs added in August. This comes as participants await Wednesday's GDP, IP and Trade updates for more independent impetus. For the record, although getting no reaction, BoE's Breeden agreed with the MPC that the risks to inflation around the August forecasts are to the upside.

Euro was lower after the German ZEW current conditions deteriorated further, and worst than feared, but economic sentiment improved despite remaining notably in negative territory. The reported added experts are even more pessimistic about the current economic situation vs August. Meanwhile, ahead of the ECB meeting on Thursday, ECB's Villeroy, in an AFP interview, said ECB will bring inflation toward 2% by 2025. EUR/USD hit a low of 1.0706, but the Euro managed to defend the round level.

Yen was the G10 underperformer on Tuesday, paring some recent strength rather than anything fresh, after outperforming on Monday after Governor Ueda hinted over the weekend about rate hikes later in the year. however, it is worth noting a Nikkei article released today said "there is a sense at the BOJ that December [hike] is too soon. And while the government is keen on moves that could support the weak Yen, December is a politically difficult time. A January decision.. appears to be more realistic scenario". Nonetheless, the Yen did its level best to defend 147.00 vs the Buck, but eventually relented and subsequently hit a high of 147.24 compared to Monday's 147.27 peak.

EMFX was predominantly weaker vs. the Buck due to the broad-based rebound in the Dollar, with MXN the outperformer. The Chilean Peso was weighed on by weakness in copper, while the BRL saw IBGE Inflation IPCA M/M print 0.23% for August (exp. 0.28%, prev. 0.12%), and 4.67% Y/Y (exp. 4.67%, prev. 3.99%). Brazilian Treasury Secretary Ceron noted the economic team chose to establish a more aggressive primary budget target to intensify the fiscal adjustment process, while Planning Minister Tebet noted he is "absolutely calm" regarding achieving the primary budget target in 2024 and hope to see a reduction of at least 50bps in interest rates in each of the next rate-setting meetings. INR was flat, with Y/Y CPI printing 6.83% in August, shy of the expected 7% and prior 7.44%, while Industrial Output rose to 5.7% (exp. 4.8%, prev. 3.7%). PLN continued its tumble, weighing on CEE neighbours.

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