US Market Wrap

13th September 2023: Stocks choppy with Treasuries firmer as hot-leaning CPI is looked through

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar up.
- **REAR VIEW**: CPI headline driven by energy spike, while supercore sees a rise; Weak 30yr auction; Airlines (AAL, SAVE, ULCC) cut guidance amid rising fuel costs; UK GDP data sinks; Bearish energy inventory data; NFLX and MMM comments underwhelm investors; Hawkish ECB sources; Fresh supply tightness warnings from IEA.
- **COMING UP**: **Data**: UK RICS Housing Survey, Australian Employment, US Retail Sales, IJC, PPI, NZ Manufacturing PMI **Events**: ECB Policy Announcement **Speakers**: ECB's Lagarde **Supply**: Japan & US.

MARKET WRAP

Stocks were choppy, and mixed, Wednesday with SPX and NDX closing with mild gains while the small caps RUT saw more notable losses. Trade was characterised by the fallout from the CPI report which saw Core M/M print 0.3%, above expected 0.2%, which initially saw a kneejerk hawkish reaction that swiftly unwound as many deemed the report as lacking anything to convince officials that more hikes are needed, despite the pick-up in supercore CPI, with the larger jump in the headline figures unsurprisingly driven by energy price increases which officials are likely to look past. Nonetheless, stocks saw some notable selling pressures later in the NY afternoon, albeit closing off lows. Treasuries were ultimately firmer as the dust settled post-CPI, reversing the initial weakness seen after hawkish ECB sources late on Tuesday, while the long end underperformed, highlighted by a weak 30yr auction. The Dollar closed off post-CPI highs as EMs outperformed ahead of US Retail Sales and ECB meeting on Thursday. Oil prices were slightly lower after paring gradually from fresh peaks made in the European morning alongside fresh supply tightness warnings from the IEA, with the later selling accentuated by bearish inventory data.

GLOBAL

US CPI: Core CPI M/M rose 0.3%, or +0.278% unrounded, above the prior/expected +0.2%, with core Y/Y printing 4.3% , down from July's +4.7%, and in line with the expected +4.3%. Headline M/M was in line with expectations at +0.6%, up from +0.2% on account of energy price increases, with Y/Y lifting to +3.7% from +3.2%, above the expected +3.6%. The report noted gasoline index was the largest contributor to the monthly all-items increase, accounting for over half of the increase, while a continued advancement was seen in the shelter index, which rose for the 40th consecutive month. Moreover, core services ex. shelter prices, which the Fed is following closely, rose 0.5%, the largest M/M increase since January, although the Y/Y growth rate moderated to 3.1%, the smallest annual gain since March 2021. The Fed will likely look through the headline M/M jump as it was driven by the recent rally in energy prices, and although core prices rose by a slightly stronger 0.3% M/M, a consensus appears to have built there is little in the report to convince Fed officials that they need to raise interest rates further. Nonetheless, Oxford Economics notes the uptick in the core CPI is a reminder that the risks remain tilted towards further rate hikes. But regardless, the consultancy expects that a slowing economy, looser labour market conditions, and moderating wage growth will support a further deceleration in inflation, allowing the Fed to keep policy steady until it begins to gradually cut rates in mid-2024.

ECB PREVIEW: 39/69 analysts surveyed by Reuters expected the ECB to stand pat on the deposit rate at 3.75%, with the remaining 30 looking for a 25bps hike to 4.0%. Since the survey was taken, a sources piece by Reuters News noted that the 2024 inflation forecast is expected to be revised higher from the 3% in June. As such, markets now assign a 68% chance to a 25bps hike. Data since the July meeting has put the ECB in a bind of needing to be cautious in the face of slowing growth, but not conveying a sense of complacency over inflation. Any decision to hike will likely be judged as the ECB having reached its terminal rate. To download the full Newsquawk preview, please click here.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 4+ TICKS HIGHER AT 110-00+

Treasuries were firmer as the dust settled post-CPI, while the long end underperformed, highlighted by a weak 30yr offering. 2s -2.3bps at 4.982%, 3s -1.7bps at 4.656%, 5s -1.9bps at 4.391%, 7s -1.8bps at 4.340%, 10s -1.2bps at 4.252%, 20s -0.6bps at 4.529%, 30s -0.4bps at 4.342%.

INFLATION BREAKEVENS: 5yr BEI -0.4bps at 2.407%, 10yr BEI -0.4bps at 2.340%, 30yr BEI +0.0bps at 2.337%.

THE DAY: After ending the US session Tuesday with a light bid, T-Notes pared back modestly lower into the APAC session amid the hawkish ECB sources reports, supported at 109-22 until European trade got underway, where new lows were made heading into the NY handover with the belly initially underperforming.

The release of CPI, with particular initial focus on core M/M printing +0.3%, above expected 0.2%, saw T-Notes kneejerk lower from 109-18+ to 109-03 before swiftly paring back higher. The report had something for bulls and bears alike, but clearly, the bulls ultimately had more swaying power with T-Notes making session highs before long, crossing into the black. The long end lagged however amid steepener flow and with an eye to the 30yr auction, which was poor (more below). Despite the poor auction, and a massive 20k+ block 5yr sale later on, futures contracts went into the settlement just off their highs; T-Notes peaked at 110-04+.

30YR AUCTION: A generally weak USD 20bln 30yr auction from the Treasury, with the reopening stopping at 4.345%, which despite being the highest at-auction yield of the cycle, still tailed 1bp, compared to the six-auction average 0.2bp tail, albeit not as bad as last month's 1.4bp tail. The bid/cover ratio was 2.46x, which was better than the average (and prior) 2.42x. Dealers (forced surplus buyers) were left with a sizeable 15.8% (prev. 12.5%, avg. 10.5%), which was reflective of a pullback in Indirects demand to 64.5% from 67.8% last month.

STIRS:

- SR3U3 +0.75bps at 94.59, Z3 flat at 94.545, H4 +0.5bps at 94.685, M4 +1.5bps at 94.94, U4 +2bps at 95.275, Z4 +3bps at 95.62, H5 +3bps at 95.90, M5 +3bps at 96.085, U5 +3.5bps at 96.185, U6 +3bps at 96.295, U7 +2.5bps at 96.28.
- SOFR flat at 5.30% as of Sep 12th, volumes rise to USD 1.448tln from 1.378tln.
- NY Fed RRP op demand at USD 1.546tln (prev. 1.494tln) across 95 counterparties (prev. 94).
- EFFR flat at 5.33% as of Sep 12th, volumes rise to USD 108bln from 105bln.
- US sold USD 50bln of 17-week bills at 5.33%, covered 2.95x.

CRUDE

WTI (V3) SETTLED USD 0.32 LOWER AT 88.52/BBL; BRENT (X3) SETTLED USD 0.18 LOWER AT 91.88/BBL

Oil prices were ultimately slightly lower Wednesday after paring gradually from fresh peaks made earlier in the session, accentuated by bearish inventory data. WTI and Brent futures hit session peaks of USD 89.64/bbl and 92.84/bbl, respectively, in the European morning, before better selling developed through the US session. The peaks coincided with the release of the IEA monthly report which maintained its 2023 and 2024 global oil demand growth forecasts but warned of a substantial market deficit through Q4. The weekly US energy inventory data saw crude stocks build 4mln bbls, much bigger than the private data indicated on Tuesday and a reverse of analyst estimates for a 1.6mln bbl draw, while crude production rose 100k BPD to 12.9mln BPD in the latest week. The products saw a combined net build of a massive 9.6mln bbls too. Elsewhere of note, all Libyan eastern oil ports have reopened following a shutdown on September 9th due to a storm; Russia's Energy Minister said Russian production is seen at 527mln tons in 2023 (10.54mln BPD), down from 535mln in 2022; Kazakhstan's Atyrau refinery has stopped some equipment amid the latest power outage; BofA sees potential for Brent to rise above USD 100/bbl before year-end.

EQUITIES

CLOSES: SPX +0.13% at 4,467, NDX +0.38% at 15,348, DJIA -0.20% at 34,575, RUT -0.78% at 1,840.

SECTORS: Utilities +1.21%, Consumer Discretionary +0.9%, Communication Services +0.4%, Technology +0.31%, Consumer Staples +0.25%, Health +0.03%, Financials -0.1%, Materials -0.58%, Industrials -0.66%, Energy -0.75%, Real Estate -1.03%.

EUROPEAN CLOSES: DAX -0.39% at 15,654, FTSE 100 -0.02% at 7,525, CAC 40 -0.42% at 7,222, Euro Stoxx 50 -0.46% at 4,222, IBEX 35 -0.33% at 9,424, FTSE MIB -0.36% at 28,481, SMI -0.14% at 10,971.

STOCK SPECIFICS: **Frontier (ULCC), Spirit Airlines (SAVE), and American Airlines (AAL)** all lowered next quarter guidance citing rising fuel costs. ULCC added there has been a 'recent significant unexpected change in the booking trajectory'. **Moderna (MRNA)** reported positive data from flu shot and expects to add USD 10-15bln in annual sales five years after launching new products; Scaling down COVID vaccine manufacturing. **Amazon (AMZN)** is raising the pay for its contract delivery drivers. **Ford (F) and General Motors (GM)** were both upgraded at UBS; for GM, believes that if there's no labour strike, earnings in H2 could exceed expectations, and the current negative sentiment around the stock makes it an attractive investment. **Apple (AAPL)** said it has provided French ANFR representatives with multiple Apple /independent lab results confirming its compliance re. iPhone 12 radiation levels. **Virtu Financial (VIRT)** couldn't agree on a settlement, and as such the SEC has now filed a lawsuit alleging Virtu's internal information barriers were inadequate. **Xpeng (XPEV) and Nio (NIO)** were lower after cautious commentary from EC President von der Leyen; Commission is to begin an anti-subsidy investigation into Chinese EVs. **Rocket Pharmaceuticals (RCKT)** reached alignment with the FDA for Danon Disease and announced public offering of USD 150mln of stock. **Sigma Lithium (SGML)** board received proposals for Sigma Lithium and Sigma Brazil from leading global cos. and is conducting a strategic review.

CONFERENCES: **US Bancorp (USB)** CEO now anticipates NII coming in below mid-point. **Citi (C)** CFO said reorganisation does not change expenses guidance, reaffirming its revenue guidance too, and expects to do modest stock buybacks this quarter. FICC unit performance is "good" this quarter, while markets total revenue is going to be up low single digits and IB could be flat to up a bit. **Netflix (NFLX)** CFO said spin off accounts are skewing towards ad-free with healthy proportion going to ad tier. Warned that 90% of growth is outside of the US, which is impacting ARPU. Added it needs to get back to more balanced revenue growth in 2024, and has been managing in 18-20% operating margin range (exp. 22%). Meanwhile, said it is not prudent to keep growing at 3ppt of margin per year. **3M (MMM)** sees a slow growth environment in 2024 and flagged weakness in its electronics and consumers segment in current and next quarters. Consumer has shifted spending from discretionary to staples and other experimental activities. Seeing significant drop in US retailers' inventories amid slowing spending on consumer electronics, while China has been slower and continuing to see it slower in Q3.

US FX WRAP

The Dollar was ultimately firmer on Wednesday as it saw a fillip higher into the close, albeit on no clear driver. The index hit highs of 104.980 after the US CPI report. In short, Core CPI M/M rose 0.3%, above the prior/expected +0.2%, with core Y/Y in line with the expected +4.3%. Headline M/M was also in line, but with Y/Y lifted to +3.7% from +3.2%, above the expected +3.6%. The Fed will likely look through the headline M/M jump as it was driven by the recent rally in energy prices, and although core prices rose by a slightly stronger 0.3% M/M, a consensus appears to have built there is little in the report to convince Fed officials that they need to raise interest rates further. Aside from the inflation metrics, newsflow was once again fairly light as attention now turns to US Retail Sales and ECB on Thursday.

Safe-havens, CHF and JPY, saw mild losses against the Buck with the Yen being weighed on by receding concerns about a possible BoJ rate hike or imminent MoF FX intervention. Nonetheless, USD/JPY hit a high of 147.72 in wake of the aforementioned CPI data. USD/CHF hit a low of 0.8907 as the Swissy managed to stoutly defend the round level, but was within tight parameters illustrated by a high of 0.8952.

Antipodeans experienced modest divergence, as the NZD displayed resilience against the Dollar whilst the AUD succumbed to its high-beta status alongside ongoing woes surrounding China. In terms of levels, AUD/USD traded between 0.6381-6434, while NZD/USD hit a peak of 0.5926 against a low of 0.5881 as traders await the Australian jobs report Thursday. For reference, 23k jobs are expected to be added (prev. -14.6k) with the unemployment rate remaining at 3.7%. While for the Kiwi watchers, NZ Manufacturing PMI is due on Friday.

Pound was flat, recovering from a first fall after UK GDP data and a later one from US CPI. On the former, it came in much softer-than-expected for July across all the main metrics, with ONS pertinently highlighting that "This is the first month since June 2022 that all three sectors contributed negatively to GDP on the month." While the release adds to broader concern around an impending economic slowdown and possible contraction within Europe, it has not had any marked impact on BoE pricing with markets continuing to ascribe around a 75% chance of a 25bp hike taking place. Cable hit a low of 1.2437, vs. a peak of 1.2511, as it managed to defend the 200DMA at 1.2432.

Loonie was flat and within fairly narrow parameters on Wednesday, and saw weakness on two accounts: firstly, after the US CPI report USD/CAD spiked to highs, but after the Loonie recovered these losses, it again saw gradual weakness as oil sold off through the afternoon, albeit on no particular headline.

Euro was lower, as traders await the pivotal ECB meeting on Thursday (preview here). Market pricing has tilted slightly hawkish (vs recent sessions) following the source reports on Tuesday which suggested that the 2024 inflation forecast is expected to be revised higher from the 3% in June. Earlier this morning, pricing for a 25bps hike was around 72%, although this has dipped to 62% ahead of the US mid-week close. EUR/USD is set for modest losses between a 1.0713-64 parameter. Note also Bloomberg reports that Germany is set to cut its 2023 GDP forecast to a 0.3% contraction from its current view of a 0.4% expansion.

EMFX was predominantly firmer vs. the Buck, highlighted by the Yuan, RUB, ZAR, BRL, MXN, and CLP all seeing gains. LatAm was led by gains in the Colombian Peso, as investors assessed US inflation data reflecting sticky inflation. For the BRL, a Tax Reform official said Brazil's government expects a broad tax reform on income to be voted on by Congress in 2024, with new rules only coming into effect in 2025.

PLN saw gains amid the Polish PM Adviser stated that the PLN has weakened beyond the optimal level for Poland and added the optimal level for EUR/PLN is between the 4.40-4.60 range. Following the initial remark EUR/PLN fell from 4.6650 to 4.6450 at which point it briefly stabilised before falling further to a 4.6091 trough. As a reminder, this follows the 75bps rate reduction (exp. 25bps) by the NBP last week, a move that has drawn criticism from opposition politicians heading into the October election cycle.