newsquawk

US Market Wrap

14th September 2023: Stocks rally after ECB signals no more hikes and hot US data

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar up
- **REAR VIEW**: ECB hikes, signals rates are now sufficiently restrictive; Hot US Retail Sales, but internals not as hot; Hot PPI following jump in oil prices; Jobless claims rise, but not as much as expected; PBoC cuts RRR 25bps; Strong demand for ARM IPO; Hot Aussie jobs; UAW and Detroit Three talks still far apart ahead of deadline; DIS in talks to sell ABC Network to NXST and set to cut Disney+ streaming target.
- **COMING UP**: **Data**: Chinese 1-Year MLF, Retail Sales, Unemployment Rate, French & Italian CPI (Final), EZ Labour Costs, Italian Trade Balance, US UoM Sentiment, NY Fed Manufacturing, Import & Export Prices **Events**: BoE/IPSOS Inflation attitude survey & ECB TLTRO Repayment Publication **Speakers**: ECB's Lagarde & CBR's Nabiullina.

MARKET WRAP

Stocks rallied on Thursday with the Vix closing on a 12 handle amid the ECB's perceived final hike and hot US retail sales and energy-driven PPI figures. Small caps (RUT) outperformed among indices, while SPX and NDX saw equal gains, with the Arm (ARM) IPO taken in stride ahead of 'Quad Witching' option expiries on Friday. Treasuries were ultimately lower (10s +4bps) after whipsawing to dovish ECB guidance and hot US economic data. Oil prices resumed their ascent to fresh YTD peaks, with WTI breaching USD 90/bbl, with the hot US data accentuated by China's RRR cut, that's despite the rip higher in the Dollar. The terminal signalling from the ECB saw EUR/USD hit its lowest since March at c. 1.0630, while the Yuan took a knock after the PBoC's RRR cut. Meanwhile, automakers are on watch after there is still no agreement made between the UAW union and the 'Detroit 3' ahead of the deadline to reach a pay agreement by the end of Thursday before mass strikes begin, which could potentially lead to a big labour shock to the US economy.

GLOBAL

ECB: Defying the consensus (which was deemed as somewhat stale given hawkish source reporting by Reuters earlier in the week), the ECB opted to pull the trigger on a 25bps hike to all three of its key rates, taking the deposit rate to 4.0%. The accompanying statement noted that the GC now judges that rates "have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target". Furthermore, "rates will be set at sufficiently restrictive levels for as long as necessary". Elsewhere, no tweaks were made to the parameters of its APP or PEPP with reinvestments in the latter set to continue "until at least the end of 2024". For the accompanying macro projections, 2023 inflation was upgraded to 5.6% from 5.4%, 2024 (in-fitting with source reporting by Reuters) raised to 3.2% from 3.0% and 2025 lowered to 2.1% from 2.2%, but still ultimately seen just above target. Growth projections for 2023-25 were lowered across the board. At the follow-up press conference, Lagarde cautioned that the economy is likely to remain subdued in the coming months and price pressures remain strong. During the Q&A, the President stated that, whilst some members favoured a pause in rates, today's decision was backed by a "solid majority". In a follow-up question, Lagarde noted that the GC has not discussed PEPP reinvestments. When questioned on the path of rates beyond September, Lagarde, in an attempt to embed some optionality for the Bank, stated that she is not saying that the ECB is at peak rates. Overall, despite the President refraining from committing to being at a peak rate, the market and analyst community is of the view that given the slowing growth rate, the ECB is now at terminal. The question for ECB-watchers is how the Eurozone's growth prospects will fare in the face of another hike by the Bank. As it stands, markets dismiss the prospect of further tightening by the GC and fully price in a rate reduction by July 2024 vs. October 2024 pre-announcement.

US RETAIL SALES: Headline retail sales rose 0.6% in August, up from 0.5% in July (revised down from 0.7%) and well above expectations of a 0.2% gain. Looking into the report, a lot of the headline upside was led by a surge in gasoline station sales which rose 5.2% from July's 0.1% gain, offsetting some of the sting given how volatile this component can be and its sensitivity to gas prices. Meanwhile, auto prices rose 0.3% in August M/M, which is hotter than what analysts at Oxford Economics were looking for, given the decline in manufacturers' auto sales. The ex-autos rose 0.6% (exp. 0.4%), while the prior was revised down to 0.7% from 1.0%. The control metric posted a surprise gain of 0.1% despite expectations for a 0.1% decline, although the prior was revised down to 0.7% from 1.0%. Ox Eco writes the strength in July, despite being revised down, "still implies real consumer spending growth is tracking close to 3% annualized in Q3, but momentum appears to be fading". Overall, although the data was hotter than expected, the downward revisions do offset some of the heat and a lot of the upside was led by the jump in gas sales and autos, seeing the super core, ex-gas and autos, rise just 0.2%, cooling from the prior 0.7%, which was also revised down from 1.0%. Looking ahead, Oxford Economics suggest clearer signs the labour market is losing momentum, while higher gasoline prices put pressure on real income again, and the additional drag from student loan repayment resumption, "it is hard to see consumers spending as freely over the rest of the year". OxEco expects "a sharp slowdown in consumption growth, which will be the decisive factor tipping the economy into a mild recession over the coming quarters."

US PPI: US PPI rose 0.7% M/M in August, above the expected and prior 0.4%, marking the largest increase since June 2022 and heavily driven by a 10.5% increase in the energy component; the headline Y/Y figure rose 1.6%, above the expected +1.2%, and up from the prior +0.8%. Looking at the core, M/M rose 0.2%, in line with expectations and down from the prior +0.4%, while the core Y/Y printed 2.2% as expected. Pantheon Macroeconomics highlights that the fuel price increases fed into the core via a 1.6% jump in transportation prices following eight straight monthly declines. Meanwhile, "trade services - that is, gross margins for retailers and wholesales - fell by 0.3%, mostly in the auto retailer component", which the consultancy says, "pushed margins below their year-ago level for the first time since the pandemic-driven surge, and the improvement in supply chains over the past 18 months points to further declines ahead." Pantheon concludes that PPI is unlikely to fall much further over the next few months amid the oil price surge, "but we expect new lows next year, with a real chance of zero core PPI inflation in the spring. That, in turn, implies further downward pressure on the core PCE and GDP deflators."

JOBLESS CLAIMS: Weekly initial jobless claims rose to 220k, up 3k from the upwardly revised prior 217k, but not as much as the expected 225k; the 4wk moving average moved down 5k to 224.5k. The non-seasonally adjusted figure fell 16.9k to 174.5k, where the seasonal factors had expected a fall of 19.1k. The largest contributors to the fall in the NSA figures by states were Ohio (-3.5k), Missouri (-3.3k), and New York (-3k). Continued jobless claims rose slightly to 1.688 mln from 1.684mln, which was beneath the expected 1.695mln.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLE 8+ TICKS LOWER AT 109-24

Treasuries were ultimately lower after whipsawing to dovish ECB guidance and hot US economic data. At settlement, 2s +3.2bps at 5.016%, 3s +3.1bps at 4.687%, 5s +3.0bps at 4.421%, 7s +4.0bps at 4.377%, 10s +4.2bps at 4.290%, 20s +4.4bps at 4.565%, 30s +4.8bps at 4.385%

INFLATION BREAKEVENS: 5yr BEI +0.8bps at 2.406%, 10yr BEI +0.8bps at 2.342%, 30yr BEI +1.0bps at 2.341%.

THE DAY: T-Notes caught a mild bid into the APAC Thursday session, aided by a 2.3k TY block buy, and going on to hit interim resistance at 110-05+; the strong Aussie jobs report didn't ignite any selling pressure, with AGBs firmer on the session. The European arrival saw better selling develop with the long-end weakest, taking T-Notes to interim support at 109-29 ahead of the US arrival.

The ECB hike was overshadowed by the statement language that many inferred as "one and done", leading to a rally in EGBs, seeing T-Notes mark out fresh peaks. But not for long after the strong beat on August US retail sales, with lower weekly jobless claims than expected, and some energy-driven beats on headline August PPI, that saw T-Notes reverse to interim lows of 109-24. However, the selling struggled to sustain (at first) and taking some cues from EGBs amid the Lagarde presser, T-Notes whipsawed higher again to stretch to session peaks of 110-07+. That proved another headfake and contracts tested their session lows again as Europe began closing shop. And absent a feeble attempt at reclaiming 110, T-Notes hovered near lows into the settlement, eking out a trough of 109-22+.

STIRS:

- SR3U3 +1.0bps at 94.60, Z3 +0.5bps at 94.55, H4 -0.5bps at 94.675, M4 -2.5bps at 94.91, U4 -4bps at 95.235, Z4 -4.5bps at 95.57, H5 -4bps at 95.855, M5 -3.5bps at 96.045, U5 -3bps at 96.15, U6 -2.5bps at 96.27, U7 -3bps at 96.25.
- SOFR flat at 5.30% as of Aug 13th, volumes fall to USD 1.385tln from 1.448tln.
- NY Fed RRP op demand at USD 1.492tln (prev. 1.546tln) across 97 counterparties (prev. 95).
- EFFR flat at 5.33% as of Aug 13th, volumes fall to USD 104bln from 108bln.
- US sold USD 81bln of 4-week bills at 5.285%, covered 2.66x; sold USD 70bln of 8-week bills at 5.295%, covered 2.77x.
- US to sell USD 69bln of 13-week bills and USD 62bln of 26-week bills both on Sep 18th, settling on Sep 21st.

NEXT WEEKS AUCTIONS: US to sell USD 13bln in 20yr Bonds reopening on Sep 19th, to settle on Oct 2nd; to sell USD 15bln in 10yr TIPS reopening on Sep 21st, to settle on Sep 29th.

CRUDE

WTI (V3) SETTLES USD 1.64 HIGHER AT 90/16/BBL; BRENT (X3) SETTLES USD 1.82 HIGHER AT 93.70/BBL

Oil prices resumed their ascent to fresh YTD peaks on Thursday, with hot US economic data and China RRR cut emboldening the upward momentum despite a rip higher in the Dollar. WTI and Brent futures climbed through the session, settling just off their highs at USD 90.50/bbl and 93.89/bbl, respectively, with the former crossing the symbolic USD 90/bbl handle for the fist time this year. There were several positive macro demand catalysts to pick from, with China cutting its RRR, US retail sales coming in hot, and the ECB signalling the end of its hiking cycle. All plausible catalysts to add colour to an upward-trending market, in addition to the overarching bullish themes. Otherwise, there were little oil-specific catalysts for traders to dig into on the day.

EQUITIES

CLOSES: SPX +0.84% at 4,505, NDX +0.82% at 15,474, DJIA +0.96% at 34,907, RUT +1.4% at 1,867.

SECTORS: Real Estate +1.71%, Utilities +1.47%, Materials +1.4%, Energy +1.26%, Communication Services +1.18%, Industrials +0.99%, Consumer Discretionary +0.88%, Financials +0.87%, Consumer Staples +0.82%, Technology +0.7%, Health +0.25%.

EUROPEAN CLOSES: DAX +0.97% at 15,805, FTSE 100 +1.95% at 7,673, CAC 40 +1.19% at 7,308, Euro Stoxx 50 +1.36% at 4,280, IBEX 35 +1.33% at 9,549, FTSE MIB +1.37% at 28,872, SMI +0.95% at 11,080, PSI +1.54% at 6,227

STOCK SPECIFICS: **ARM Holdings (ARM)** IPO priced at USD 51/shr, which was at the top end of its target range, while it opened above USD 56/shr before extending higher once live trading was underway, ultimately to close the session at USD 63.59/shr. **Disney (DIS)** is reportedly going to cut its 2024 target for Disney+ streaming subscribers, according to Bloomberg, weighing on **Netflix (NFLX)** and **Roku (ROKU)** in late trade. Elsewhere, Bloomberg reported **Disney (DIS)** is in preliminary talks to sell ABC Network and TV stations to **Nexstar Media (NXST)**. **Visa (V)** is seeking authorisation to conduct an exchange offer programme that would have the effect of releasing transfer restrictions on portions of Visa's Class B common stock, paving the way for the biggest US banks to eventually sell their shares valued at USD 96bln. **Microsoft Corp's (MSFT)** recent proposal to split Teams from a broader business software package and sell to customers separately with an annual discount is not enough to satisfy EU concerns, according to Bloomberg. Workers at **Chevron's LNG (CVX)** projects in Australia are escalating industrial action, which could range from total strikes to hours-long work stoppages, Reuters reported. Berkshire Hathaway sold 5.5mln **HP Inc (HPQ)** shares. **Amazon (AMZN)** has introduced generative AI to simplify product listing creation for sellers, making it easier to create listings. **Tesla (TSLA)** has reportedly combined a series of innovations to make a technological breakthrough that could transform the way it makes electric vehicles and help Elon Musk achieve his aim of halving production costs, according to Reuters citing sources. **Delta (DAL)** cut profit guidance on higher costs but notes Q3 revenue is now seen within the upper half of initial guidance. **Alnylam (ALNY)** gene silencing drug, patisiran, to treat heart disease saw an outside FDA panel back the expanded use of the drug in a 9-3 vote that the benefits outweigh the risks. The panellists, however, were concerned about the meaningfulness of the drug's benefit, Reuters reported. **AMC Entertainment (AMC)** completed its at-the-market equity offering to raise more than USD 325mln. **Taiwan Semiconductor (TSM)** is reportedly taking an increasingly optimistic view of Japan as a production base, according to Reuters citing sources, as problems persist at its new factory in Arizona. **Dexcom (DXCM)** took a hit on a Bloomberg report that an **Apple (AAPL)** project is aiming to develop a non-invasive blood sugar monitoring system.

UAW STRIKE: With the deadline for an agreement between UAW and the Detroit Three at midnight EST tonight, chances of a strike are increasing with WSJ noting the two sides are still far apart. General Motors (GM) had offered a new contract but it has not heard back from the UAW while Ford (F) said its last offer is very good but they also have not heard back. Ford believes the odds of a strike are very high. The UAW union announced a 'stand up strike' strategy in the case no agreement is reached by the midnight deadline, noting it will target a to-be-determined number of facilities to walk out on strike tonight and expand until a deal is reached.

US FX WRAP

Dollar jumps on hot data and Euro tumbles after ECB signals its final hike

The Dollar surged on Thursday, supported by strong US economic data with retail sales printing above expectations while PPI followed suit to CPI and was hotter than expected, taking DXY north of 105 to highs of 105.43. Also supportive were actions from the ECB and PBoC, seeing both the Euro and Yuan weaker.

The Euro was the relative laggard after the ECB hit markets with a dovish hike, where the 25bp hike was largely expected, despite a non-trivial chance of no hike priced in. The kicker, however, was the guidance within the statement signalled that rates are at sufficiently restrictive levels to over time bring inflation back to target, implying the ECB is at the terminal rate, but Lagarde did attempt to push back somewhat on this by stating the door is not open or closed on future rate moves. The Euro hit its lowest level against the Dollar since March, with EUR/USD troughing at 1.0633.

The Yuan was also weaker in the aftermath of the RRR cut from the PBoC in Beijing's latest measure of support for the Chinese economy. The RRR was cut by 25bps effective September 15th; after this reduction, the weighted average deposit reserve ratio of financial institutions will be approximately 7.4% but it excludes financial institutions that have implemented a 5% deposit reserve ratio. PBoC also said it is to maintain the basic stability of the exchange rate, and firmly support the sustainability of the real economy, noting recovery will improve and promote the economy to achieve effective qualitative improvement and reasonable quantitative growth. USD/CNH hit a peak of 7.2969.

The Yen was flat vs the firmer Dollar despite higher UST yields with USD/JPY remaining above 147 throughout the session but it did attempt a move beneath the level several times during the session but it was rejected every time and eventually pared back to c. 147.50. The Yen saw big outperformance against other currencies such as Sterling and Euro.

Cyclical currencies were mixed, CAD and AUD outperformed with CAD buoyed by the rally in oil prices spurred by encouraging demand aspects from hot US data and dovish central bank actions. USD/CAD hit a low of 1.3494 but failed to hold beneath 1.35 for long, remaining above the psychological level heading into APAC trade. The Aussie was the outperformer, rising against the buck but gains were still limited given the strength of the Dollar seeing AUD/USD hit a peak of 0.6459 thanks to strong risk sentiment and a very hot Aussie labour market report. The Kiwi was softer vs the Dollar and the Aussie, with AUD/NZD rising from lows of 1.0836 to high of 1.0888, a level it remains just shy of heading into the Friday session.

Sterling was already on a slippery slope, but fell even harder in sympathy with the Euro as BoE hike probabilities were pared back beyond the 25bp factored in for September. Meanwhile, on technicals, Cable lost a key chart prop in the form of the 200 DMA to see GBP/USD briefly dip beneath 1.2400 ahead of the BoE/Ipsos UK inflation attitudes survey on Friday and after a collapse in the RICS house price balance to 14-year lows.

EMFX was mixed. In LatAm, BRL, MXN and COP posted gains vs the Dollar with the COP and MXN boosted by the jump in oil prices while BRL was supported by strong services data which rose 0.5% in July. The Peruvian Sol (PEN) saw gains thanks to gains in copper ahead of the Peru central bank rate decision with LatAm currencies generally supported by the PBoC RRR cut. However, the CLP was the outlier and failed to see gains despite the upside in copper. ZAR saw notable weakness rising back above 19.00 against the Dollar on continued power concerns within South Africa while attention turns to the SARB next Thursday where analysts expect rates to be left unchanged but see 75bps of cuts in 2024, with the first 25bp cut in Q1. In CEE, HUF was weaker vs the Euro and the Dollar after a Hungarian rate setter told Reuters the central bank could cut its base rate to 10-11% by year-end, down from the current 13%, but noted the fallout from last week's NBP cut means we must consider each move very carefully. The Polish Zloty also continued its recent slide.