US Market Wrap

15th September 2023: Stocks plummet amid 'Quad Witching' as Fed week looms

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW**: UoM sentiment & inflation expectations fall; Strong NY Fed mfg survey; Hot Import/Export prices; Industrial production beats; Hot China activity data; Mixed ECB speak, hawkish sources; UAW workers strike; AAPL iPhone 15 Pro sees China delays; US prepared to ease Venezuela sanctions.
- **WEEK AHEAD**: Highlights include lots of central banks (FOMC, PBoC, BoJ, BoE, SNB, among them), Flash PMIs, UK inflation. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing FOMC, PBoC, SNB, BoE, BoJ, Norges, Riksbank, Banxico, BCB, CBRT, and minutes from the RBA and BoC. To download the report, please click here.

MARKET WRAP

Stocks were sold through the session on Friday with NDX weakest amid a chunky 'Quad Witching' options expiry in the absence of obvious news-driven catalysts. The stock selling built in the pre-market and accelerated after the cash open, hitting lows in the NY afternoon. The stock selling came despite the largely strong data, with the hot Chinese activity data followed by the jump in the NY Fed's manufacturing survey and strong US industrial production, although the Uni of Michigan sentiment survey did disappoint expectations. While on the inflation front, a strong jump in the August US import/export prices was offset by downward revisions and the fall in the Michigan survey's consumer inflation expectation gauges. Treasuries were sold, although most of the downside came in the European morning, with desks attributing some hawkish ECB source reports in the FT to the EGB-led weakness. Oil prices were slightly firmer in choppy trade, confirming their third consecutive W/W gain, amid the strong China and US data, as well as some supply updates. Meanwhile, the UAW union automaker strike has begun with around 11k workers touted to have walked out in the US, the UAW president said later on Friday that the union would be back at the bargaining table on Saturday, although there remains a healthy amount of scepticism amongst commentators on just how quickly a resolution will be found.

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NY FED: The NY Fed Manufacturing survey rose to 1.9, back to expansionary territory from the prior -19 and beating the estimate of -10, and was even above the most optimistic analyst forecast of 0.00. However, it is worth noting the NY Fed headline is very volatile. Looking into the release, New Orders returned to expansionary territory of 5.1 from the prior -19.9, while the shipments index rose 25 points to 12.4, showing an increase in both orders and shipments. The unfilled orders index remained below zero at -5.2, a sign that unfilled orders continued to decline. Similarly, the inventories index remained in contraction territory at -6.2, but not as deep as the prior 9.7 in August. The delivery times index ticked up to 2.1, suggesting little change in delivery times. Prices paid saw a slight acceleration in September to 25.8 from 25.2 while employment slipped marginally deeper into contractionary territory at -2.7 from the prior -1.4. Looking ahead, firms are more optimistic with the index for future business conditions rising to 26.3 from 19.9, which would be the highest level in over a year. The report adds that "New orders and shipments are expected to increase significantly in the months ahead, and employment is expected to grow." Meanwhile, CapEx edged down to 10.3, suggesting that capital spending plans remained somewhat weak. The next mfg. survey data we get is the Philly Fed index next Thursday.

MICHIGAN SURVEY: The Uni of Michigan Preliminary Survey for September saw headline sentiment fall from 69.5 to 67.7, a deeper fall than the expected 69.1, still within the analyst forecast range of 65.9-71.2. The Current Conditions component fell to 69.8 from 76.7, much beneath the 75.3 consensus while the forward-looking Expectations rose to 66.3 from 65.5, beating the 66 estimate, showing consumers are more optimistic about the future than the current situation. The report notes that with the headline at 67.7 points, sentiment is currently about 35% above the all-time historic low reached in June of 2022 but remains shy of the historical average reading of 86. Looking ahead, analysts at Oxford Economics suggest relatively low levels of consumer sentiment are consistent with a marked slowdown in consumer spending in the months ahead. Meanwhile, although the expectations print was solid, the UoM report highlights that "few consumers mentioned the potential federal government shutdown, but if the shutdown comes to bear, consumer views on the economy will likely slide, as was the case just a few months ago when the debt ceiling neared a breach". Regarding inflation expectations, the year-ahead forecasts eased to 3.1% from 3.5%, the lowest print since March 2021 and above the 2.3-3.0% average seen in the two years prior to the pandemic. Long run inflation expectations also moderated, falling to 2.7% from 3.0%, which would be the second time it has fallen beneath the 2.9-3.1% range over the last 26 months but is still above the top end of the 2.2-2.6% range seen in the two years prior to the pandemic.

INDUSTRIAL PRODUCTION: US Industrial Production was strong, where the headline rose 0.4% in August, above the 0.1% consensus but did slow from the downwardly revised prior 0.7% (initially 1.0%). Manufacturing output rose 0.1% in line with expectations, but slower than the prior 0.4% (revised down from 0.5%). Capacity utilisation rose however to 79.7% from 79.5%, also above expectations of 79.3%. Although overall a strong release, it was not as strong as the prior month which also saw downward revisions, implying it is more in line with expectations that the headline suggests. Analysts at ING point out that this has been a bit of a trend recently with large prints subsequently seeing chunky downward revisions. ING adds "On balance the report is OK and is stronger than what is implied by the manufacturing ISM report, which has been in contraction territory for 10 consecutive months. However, auto output is up near record highs. Strip this out and the chart below shows there is a much tighter relationship between the ISM and non-auto related manufacturing".

IMPORT/EXPORT PRICES: The US import/export prices both were hotter than expectations, particularly export prices that rose 1.3% M/M in August, above the 0.4% consensus. The Import prices rose 0.5%, above the 0.3% estimate. Although both saw upside surprises, the priors did see downward revisions, falling to 0.1% from 0.4% for the import prices, while export prices were revised down to 0.5% from 0.7%. The gain in import prices was led by higher fuel prices while for export prices, higher non-agricultural prices more than offset lower agriculture prices.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLE 7+ TICKS LOWER AT 109-16+

Treasuries were sold in the fallout of the ECB and strong US data. At settlement, 2s +2.1bps at 5.035%, 3s +3.1bps at 4.715%, 5s +3.5bps at 4.454%, 7s +3.3bps at 4.409%, 10s +3.4bps at 4.324%, 20s +2.8bps at 4.593%, 30s +2.7bps at 4.412%.

INFLATION BREAKEVENS: 5yr BEI +0.4bps at 2.411%, 10yr BEI +0.5bps at 2.351%, 30yr BEI +0.2bps at 2.346%.

THE DAY: T-Notes traded with a modest bid during APAC trade on Friday with resistance seen at 109-28+; a fleeting period of weakness was seen after the strong Chinese economic data. However, better selling kicked in during the European morning, with some hawkish ECB sources in the FT being attributed by desks to the weakness in EGBs, ergo Treasuries, although note we have also had some dovish official commentary to offset that. T-Notes found support at 109-15 ahead of US trade getting underway. Note there was another block ZF/ZB steepener late in the London morning, adding to the same blocks on Thursday.

The hotter-than-expected NY Fed mfg. survey in combination with the hotter-than-expected import/export prices data saw T-Notes (Z3) edge to session lows of 109-12+, but failed to sustain the selling. Those lows were cemented after the fall in the Uni of Michigan survey's inflation expectations, seeing T-Notes bounce to NY session highs of 109-21+, with contracts rangebound for the rest of the session.

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.

STIRS:

- SR3U3 +0.75bps at 94.6075, Z3 flat at 94.55, H4 -2.5bps at 94.65, M4 -3.5bps at 94.875, U4 -4bps at 95.19, Z4 -4bps at 95.525, H5 -4bps at 95.81, M5 -3.5bps at 96.005, U5 -3.5bps at 96.11, U6 -3.5bps at 96.235, U7 -3.5bps at 96.215.
- SOFR flat at 5.30% as of Sep 14th, volumes rise to USD 1.436tln from 1.385tln.
- NY Fed RRP op demand at USD 1.401tln (prev. 1.492tln) across 96 counterparties (prev. 97).
- EFFR flat at 5.33% as of Sep 14th, volumes fall to USD 92bln from 104bln.

CRUDE

WTI (V3) SETTLES USD 0.61 HIGHER AT 90.77/BBL; BRENT (X3) SETTLES USD 0.23 HIGHER AT 93.93/BBL

Oil prices were slightly firmer Friday in choppy trade amid strong China and US data and some supply updates, confirming the third consecutive W/W gain. WTI and Brent futures hit fresh peaks during APAC trade at USD 91.15

/bbl and 94.63/bbl, respectively, coming on the heels of the hotter-than-expected Chinese IP and retail sales data for August. The European morning was characterised by some profit-taking, perhaps catalysed by the Turkish Energy Minister saying the survey of the Iraq-Turkey oil pipeline (450k BPD) is complete and that the pipeline would soon be technically operational. The hot NY Fed mfg. survey was released alongside the hot US import/export price data, but that failed to cause much reaction, instead, the benchmarks continued to the downside, with WTI and Brent hitting session lows of USD 89.22/bbl and 92.67/bbl, respectively, later in the NY morning. But once Europe departed for the weekend, prices recovered into the black going into the NY afternoon, albeit failing to near their APAC peaks. The latest Baker Hughes US weekly rig count saw oil rigs up 2 at 515, nat gas up 8 at 121, and total up 9 at 641. There were also late Bloomberg reports that the US is prepared to ease Venezuela sanctions if conditions are met, but it didn't lead to much price reaction, perhaps given the tall order conditions, such as the nation moving toward a "free and fair" presidential election.

EQUITIES

CLOSES: SPX -1.22% at 4,450, NDX -1.75% at 15,202, DJI -0.83% at 34,619, RUT -1.05% at 1,847

SECTORS: Technology -1.95%, Consumer Discretionary -1.88%, Energy -1.31%, Communication Services -1.11%, Materials -1.1%, Consumer Staples -0.82%, Health -0.74%, Financials -0.55%, Industrials -0.53%, Real Estate -0.51%, Utilities -0.49%.

EUROPEAN CLOSES: DAX +0.56% at 15,893, FTSE 100 +0.50% at 7,711, CAC 40 +0.96% at 7,378, Euro Stoxx 50 +0.38% at 4,296, IBEX 35 +0.01% at 9,549, FTSE MIB +0.08% at 28,895, SMI +0.90% at 11,197, PSI -0.38% at 6,203.

STOCK SPECIFICS: China announced it is to sanction **Northrop Grumman (NOC)** and **Lockheed Martin (LMT)** regarding supplies to Taiwan. **Apple (AAPL)** iPhone 15 Pro Max models in China quickly see four to five week delays, according to Bloomberg; 15 Pro is seeing two to three week delays. **Taiwan Semiconductor (TSM)** reportedly told major suppliers to delay the delivery of high-end chip-making equipment, as the world's top contract chipmaker grows increasingly nervous about consumer demand, according to Reuters citing sources. **Disney (DIS)** said it has made no decision with respect to the divestiture of ABC or any other property and any report to that effect is unfounded, but it is open to considering a variety of options for linear businesses. Bloomberg also reported Byron Allen is said to make a USD 10bln bid for ABC and other networks. Note, just before the closing bell Thursday BBG reported DIS is said to be lowering its target of Disney+ subscribers. **Adobe (ADBE)** earnings topped expectations with strong guidance but the stock failed to benefit; analysts at DA Davidson noted near-term upside is captured in the stock price and it prefers to remain on the sidelines. **Charles Schwab (SCHW)** was hit after it announced it expects to post pre-tax margin of 40% or greater when reporting Q3 results next month; while its August total client assets fell 2% M/M. **Lennar (LEN)** EPS and revenue topped expectations with strong margins on home sales while its Q4 net orders guidance midpoint fell just short expectations. The **Abcam (ABCM)** founder, Dr Jonathan Milner, is to vote against the proposed USD 5.7bln or USD 24.00/shr acquisition of ABCM from **Danaher (DHR)** and is now pushing to replace the board and take back reins as CEO. Milner holds a 6.1% stake in the company and argues the deal materially undervalues ABCM, reported FT. **Nucor (NUE)** announced it sees Q3 EPS between 4.10-4.20 (exp. 4.65), noted the largest impact on earnings is expected to occur at its sheet mills. Nasdaq is to list options on **Arm Holdings (ARM)** from Monday September 18th across all six of its exchanges. A **McDonald's (MCD)** franchisee group said the new California fast food bill will cause a "devastating financial blow", according to CNBC.

UAW: The UAW has launched strikes at the **Detroit Three (F, GM, STLA)** factories. The strike will halt production of the Ford Bronco (F), Jeep Wrangler (STLA) and Chevrolet Colorado (GM) pickup trucks, along with other popular models, according to Reuters. The two sides failed to come to a labour deal agreement by Thursday's deadline. US President Biden spoke on the matter and said the record profits had not been shared fairly, and companies should go further on their offers to workers. He also said that negotiations have broken down, but the UAW President later denied this claim saying they expect to be at the negotiating table with the Detroit Three on Saturday, and all three companies received a comprehensive counter offer from UAW and are currently awaiting a response. S&P provided an update, warning if strikes persist for over a week and expand, it will result in a material reduction in earnings and liquidity in the US auto sector relative to the 2023 base case. It sees momentum in the sector breaking modestly in H2 23 with a flattish volume environment in 2024. However, S&P do expect the automaker ratings to remain steady.

WEEKLY FX WRAP

Soft UoM survey undermines otherwise unflappable Greenback

USD/EUR: In contrast to the recent run of mainly strong or better than forecast US macro releases, preliminary University of Michigan sentiment missed consensus and came with a deeper downturn in conditions plus considerably cooler 1 and 5 year inflation projections to more than outweigh an upturn in consumer expectations, However, the Buck retained an underlying bid with the DXY holding just above 105.000 and still on course to continue its bull run irrespective of a firmer recovery in the Euro. In fact, the index remained within sight of a Fib around 105.370 that was breached on Thursday when Eur/Usd reversed sharply in wake of the ECB raising rates by another 25 bp and all but signalling the end of its tightening cycle. To recap, the key line from the statement said rates have reached levels that, if maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to target. The headline pair slumped from a knee-jerk high of 1.0734 to sub-1.0700 initially, and further to form a multiple trough between 1.0633-35 after the post-meeting press conference as President Lagarde did little to dispel the view that the hike was the final GC act even though she denied that the Bank was calling a peak. This in turn helped the DXY top 105.000 having narrowly fallen short post-CPI data on Wednesday, as hot headline inflation was discounted due to the impact of higher energy prices that were widely anticipated. On the flip-side, retail sales exceeded expectations across the board, jobless claims rose less than forecast, NY Fed manufacturing improved much more than hoped for and import and export prices were above consensus (latter especially). Note, IP would have added to the list, but a downward revision to the prior month effectively offset the beat and headline PPI was also impacted by the aforementioned rise in energy. Nevertheless, the Greenback maintained upward momentum on the premise of relative economic outperformance ahead of the FOMC and the perception that the Fed can co-pilot a soft landing even if it keeps options open for a last hike via this month's SEP dot plots following a skip in September.

AUD/CNY-CNH: Although the Aussie lost correlation with the Yuan from time to time, its connection was more constant through the commodity channel and the rally in iron or particularly. Hence, Aud/Usd established a solid base above 0.6400 between 0.6380-0.6473 parameters regardless of the Buck's broader strength that saw the index reach 105.430 from Monday's 104.410 w-t-d low for context. Moreover, jobs data was supportive despite the fact that the big beat was mainly due to a seasonally-related jump in part-time employment, as the unemployment rate held steady in the face of higher participation. Back to China, and the PBoC unleashed more stimulus via RRR and 14-day reverse repo rate reductions (25 bp and 20 bp respectively), while keeping midpoint fixings heavily depressed and intervening via state banks (scrutinising bulk buying of Usd in clips of 50 mn and above before giving approval and asking some to hold off on immediate Usd purchases in the interbank market to square FX positions until net exposure hits a certain level). Ultimately, the Cny and Cnh hit best levels in response to Chinese activity data coming in better than forecast and offering encouragement that the official 2023 GDP target could be attained.

JPY: At the other end of the major spectrum, the Yen suffered more heavy losses and was seemingly wrong-footed by a Yomiuri interview with BoJ Governor Ueda alluding to an exit from NIRP by the end of 2023. In short, he was quoted as saying that there may be enough data to consider a move out of negative rates, but subsequent reports suggest his comments may have been misinterpreted. Indeed, the Nikkei contended that there is a sense at the BoJ that a December hike is too soon and politically difficult, with January apparently more realistic. Usd/Jpy gradually rebounded from circa 145.92 to the brink of 148.00, irrespective of any jawboning from Japanese officials and bouts of trade either side of 147.00 (from a psychological stand and with a Fib nearby) in the interim.

CHF/CAD/NZD/GBP: All weaker vs their US counterpart as the week draws to a close, as the Franc sank from just over 0.8900 to 0.8977 awaiting the SNB next week with little impetus via a rise in weekly Swiss sight deposits after a run of withdrawals or softer producer and import prices, while the Loonie actually netted gains over the course of the week within a 1.3639-1.3494 range on the crest of crude and largely shrugged aside mixed Canadian data in the guise of wholesale trade and manufacturing sales. Elsewhere, the Kiwi was ruffled by a deterioration in NZ's fiscal outlook according to a pre-election budget update and Sterling was undone by some disappointing or below consensus UK macro releases, including labour metrics beyond headline average earnings and monthly GDP to the extent that hawkish remarks from BoE's Mann and overtones from MPC appointee Breeden failed to prop up the Pound. Nzd/Usd struggled to stay afloat of 0.5900 and Cable recoiled from 1.2547 to 1.2386 following the loss of 200 DMA support that had been holding since March.

SCANDI/EM: Cooler than expected Swedish inflation readings kept the Sek under pressure and the Nok failed to get as much fuel from high-flying Brent after a downbeat Norges Bank Regional Network survey, on balance, but the Rub was boosted by oil and the CBR hiking rates by 100 bp and retaining hawkish guidance. Meanwhile, the RBI and CBRT maintained defence of the Inr and Try, latter by implementing a reserve requirement on FX-protected Lira deposits, the Brl got therapy via firmer than forecast Brazilian retail sales and the Pln received some respite when a Polish official claimed that the post-NBP slide has simply gone too far.

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