



US Market Wrap

18th September 2023: Markets chop in the calm before the central bank storm

- **SNAPSHOT:** Equities mixed, Treasuries mixed, Crude up, Dollar flat/down.
- **REAR VIEW:** NAHB misses; ECB to discuss how to tackle excess liquidity in October; ECB's Kazmir keeps door open to more hikes; AAPL iPhone sees good demand reception; Steel Dynamics and Swiss Steel give cautious updates; UAW strikes continue; government shutdown back on the radar.
- **COMING UP: Data:** EZ CPI (Final) & Canadian CPI **Events:** RBA Minutes **Speakers:** ECB's Elderson **Supply:** UK & US
- **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 little changed in choppy trade Monday with an extension of losses from Friday seen in the European morning before reversing higher in the US session, only to pare back to flat again into the close. Catalysts were light with many looking to Wednesday's FOMC, although the overhang of options expiry last Friday remains a technical factor to consider - a disappointing NAHB housing market index print was the data "highlight". Apple (AAPL) was a key tailwind for indices, with Sell Side commentary about signs of a strong demand reception for the new iPhones being cited. Automakers were pressured with no end in sight between the Detroit Three and the UAW union, while Tesla (TSLA) was sold amid some forecast cuts at Goldman Sachs. Government shutdown is back on the radar, with US House Speaker McCarthy set to bring the latest stopgap spending measure to the House floor this Thursday. Cross-asset, Treasuries were mixed, with the curve flattening in light trade ahead of the FOMC and bond auction. Oil prices were firmer in choppy trade, albeit off best levels, whilst roughly tracking stocks in the absence of material energy updates. The Dollar was choppy and ultimately little changed, with no standout moves. The Euro was a slight outperformer, coming amid EUR/USD attempting to reclaim 1.07 amid Reuters reports the ECB wants to make money market tweaks to address excess reserves in the banking system.

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FED PREVIEW: The FOMC is expected to hold rates between 5.25-5.50% on Wednesday, according to both the market consensus and money market pricing. Traders will be looking to the updated economic projections to see whether the central bank is still working on the assumption that it will hike interest rates once more in 2023, in line with its previous SEP, or whether it now sees rates as having reached terminal. Markets are currently suggesting that the Federal Funds Rate has already reached terminal, though it has assigned around 50/50 chances that we could see another hike this year. Looking ahead, markets are pricing rate cuts next year, with the first fully discounted cut seen in July 2024. Fed officials have been dismissing any talk of rate cuts, and have suggested that rates could be held at terminal levels for an extended amount of time as the Fed continues to try and bring price growth back in line with its target. [Please click here for the full Newsquawk Fed Preview.](#)

NAHB: The NAHB Housing Market Index (HMI) for September was weaker than expected, falling to 45 from 50, despite an expectation for it to be left unchanged and also beneath the most pessimistic view of 47. All three components of the HMI, current single-family sales, six-month expectations of single-family sales and traffic of prospective buyers, declined in September, from 57 to 51, from 55 to 49, and from 35 to 30, respectively. Oxford Economics highlights the headline index has fallen 11 points since July as mortgage rates continue to steadily climb above 7%. OxEco adds, "A lack of existing inventory is still supporting new home sales and starts, but that is now being overwhelmed by the overall hit to housing demand from elevated interest rates. We expect a deterioration in labor market conditions over coming months will add to the headwinds."

FIXED INCOME



T-NOTE (U3) FUTURES SETTLE FLAT AT 109-16+

Treasuries were mixed on Monday, with the curve flattening in light trade ahead of FOMC and bond auction. At settlement, 2s +2.9bps at 5.062%, 3s +2.3bps at 4.738%, 5s +0.9bps at 4.462%, 7s +0.0bps at 4.409%, 10s -0.3bps at 4.319%, 20s -1.4bps at 4.578%, 30s -1.6bps at 4.395%.

INFLATION BREAKEVENS: 5yr BEI +1.5bps at 2.428%, 10yr BEI +1.4bps at 2.368%, 30yr BEI +1bp at 2.358%.

THE DAY: T-Notes traded lower during APAC and Europe, albeit in tight ranges, with catalysts on the light side ahead of the FOMC on Wednesday. Citi's rates desk noted during the overnight session, "flows were muted with Japan out. In duration, our London desk saw modest selling in 2yrs alongside continued steepening curve interest."

T-Notes hit session lows of 109-08 in the NY morning, coming amid a busy corporate Dollar debt deal pipeline, including a 60yr tenor from Enbridge, but failed to extend and better buying surfaced into the afternoon with the curve flattening. The weak NAHB housing market index aided the bid, which saw T-Notes go on to print a session high of 109-19 before settling flat on the session. There was little else to dig into on Monday with attention instead on Wednesday's FOMC, albeit we get US housing starts and the 20yr bond auction reopening both on Tuesday before then.

THIS 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 -0.5bps at 94.6025, Z3 -1.5bps at 94.535, H4 -2bps at 94.63, M4 -2bps at 94.85, U4 -4.5bps at 95.14, Z4 -5bps at 95.47, H5 -4bps at 95.765, M5 -3bps at 95.97, U5 -2bps at 96.085, U6 -0.5bps at 96.23, U7 +0.5bps at 96.22.
- SOFR rises to 5.31% as of Sep 15th (prev. 5.30%), volumes rise to USD 1.586tln from 1.436tln.
- NY Fed RRP op demand at USD 1.453tln (prev. 1.401tln) across 96 counterparties (prev. 96).
- EFFR flat at 5.33% as of Sep 15th, volumes rise to USD 96bln from 92bln.
- US sold USD 70bln of 3-month bills at 5.315%, covered 2.86x; sold USD 63bln of 6-month bills at 5.300%, covered 3.05x.

CRUDE

WTI (V3) SETTLED USD 0.71 HIGHER AT 91.48/BBL; BRENT (X3) SETTLED USD 0.50 HIGHER AT 94.43/BBL

Oil prices firmer in choppy trade on Monday, initially bid amid the softer Dollar and stock recovery in the absence of material energy updates before paring into the settlement. WTI and Brent futures hit new peaks of USD 92.33/bbl and 94.95/bbl, respectively in the NY session, with desks pointing to ongoing bullish themes: Saudi/Russia production cuts and a recovering Chinese economy. However, prices saw a significant paring ahead of the futures settlement in the absence of any particular catalyst. Meanwhile, we got some rhetoric from the World Petroleum Congress, with Saudi Aramco CEO gloating that forecasts of peak oil demand are "wilting under scrutiny", adding that he sees world oil demand rising to a record 103-104mln BPD in H2. In a Bloomberg interview, Chevron (CVX) CEO said he expects oil to go to USD 100/bbl and sees oil demand steadily increasing.

EQUITIES

CLOSES: SPX +0.07% at 4,454, NDX +0.15% at 15,225, DJI +0.02% at 34,624, RUT -0.69% at 1,834

SECTORS: Energy +0.68%, Technology +0.47%, Financials +0.31%, Communication Services +0.27%, Industrials +0.11%, Consumer Staples +0.08%, Utilities -0.05%, Health -0.18%, Materials -0.43%, Real Estate -0.81%, Consumer Discretionary -1.01%.

EUROPEAN CLOSES: DAX -1.05% at 15,727, FTSE 100 -0.76% at 7,652, CAC 40 -1.39% at 7,276, Euro Stoxx 50 -1.13% at 4,246, AEX -0.76% at 735, IBEX 35 -0.71% at 9,482, FTSE MIB -1.07% at 28,585, SMI -0.96% at 11,090, PSI -1.24% at 6,126.

STOCK SPECIFICS: Clorox (CLX) believes recent cyber attack will be material on Q1 results. Steel Dynamics (STLD) guided Q3 23 adj. EPS to between USD 3.46-3.50/shr (exp. 3.61); Said that Q3 2023 profitability from the company's steel operations is expected to be significantly lower than Q2 results based on metal spread contraction as lower realized flat rolled steel pricing more than offset lower scrap costs. Apple Inc. (AAPL) iPhone 15 Pro and Pro Max



models sold out within a minute of becoming available on Alibaba (9988 HK) e-commerce marketplace platform Tmall on Friday, according to Global Times. Bloomberg also reported AAPL's 2023 product line-up is just good enough to hold the Co. over until bigger advancements show up next year. Noting, AAPL is poised for growth this holiday season, marking what could be its first sales increase in four quarters, but suggesting that is more because of an improved supply chain and a favourable Y/Y comparison. Note Wedbush was also out noting strong reception observed for its new iPhones.

Tesla (TSLA) and Saudi Arabia are reportedly in early talks for a vehicle factory, according to WSJ sources. However, CEO Musk later denied the reports. Separately, Goldman Sachs downgraded its forecasts for Tesla due to its recent price cuts. California sued **Exxon (XOM), Chevron (CVX), Shell (SHEL LN) and other major oil companies (BP, COP)**, accusing them of downplaying the risks posed by fossil fuels. Amazon.com Inc. (AMZN) announced Prime Big Deal Days taking place October 10th at 03:00EDT/08:00BST through October 11th. Separately, Business Insider reported Amazon is considering a new subscription plan for its healthcare and grocery services, as well as a potential One Medical integration with Prime. **Disney (DIS)** Chief Information Officer Diane Jurgens is the latest executive to leave the company, WSJ reported. Elsewhere, Disney held preliminary talks with potential buyers for its India streaming and television business, including with Reliance Industries, according to Bloomberg sources. **Micron (MU)** was upgraded to Buy from Hold at Deutsche Bank while **PayPal (PYPL)** was downgraded to Market Perform from Outperform at MoffettNathanson. **Microsoft (MSFT)** Product Chief Panos Panay is said to be leaving the Co. and will be joining Amazon, inheriting the devices role held by David Limp, according to Bloomberg. **Unity Software (U)** initially raised its prices which sparked a lot of backlash from game developers, leading Unity to ultimately backtrack on the pricing plan and it will limit fees to 4% of game revenue for customers making over USD 1mln, reported Bloomberg. **Moderna (MRNA), BioNTech (BNTX), Novavax (VNAX) and Pfizer (PFE)** were hit after Pfizer CFO said the Co. expects 24% of the US population recommended to take the COVID booster will go ahead with it.

UAW: General Motors (GM) said it expects to run out of parts at the Kansas plant as soon as next week because of the Missouri plant strike. Meanwhile, CNBC reported that **Stellantis' (STLA)** latest offer to the UAW, made before the deadline at the end of last week, could lead to the closure of 18 facilities. Note, the United Auto Workers (UAW) strike against GM, **Ford (F)**, and Stellantis is on its fourth day with no immediate resolution on the horizon, Reuters reported.

US FX WRAP

Dollar flat ahead of central bank bonanza

The Dollar was ultimately flat on Monday but the DXY did briefly fall beneath the Friday low of 105.08 to test 105 to the downside which proved resilient, seeing the DXY bounce off the level in otherwise quiet trade ahead of a plethora of central bank activity this week, including the Fed on Wednesday (Newsquawk preview here). On data, the NAHB Housing Market Index fell despite an expected unchanged print as higher mortgage rates continue to bite, affecting both current and future outlook on the housing market.

The Euro was marginally stronger vs the Dollar, with EUR/USD attempting to breach back above 1.07 but was unsuccessful and traded within parameters of 1.0656 to 1.0698. There had been some ECB sources focusing on liquidity measures, which noted policymakers want to start discussing how to tackle the multi-trillion pool of excess liquidity around banks, with the debate likely to start at the October meeting and lifting reserve requirements is a possible first move. On monetary policy, ECB's Kazmir did not rule out further rate hikes, but Villeroy said the ECB will maintain rates at 4% as needed.

The Yen was flat vs the Dollar, trading between 147.57 and 147.87 while yields in the US flattened seeing long-end yields fall but short-end yields rise. Attention turns to the BoJ on Friday where it is expected to refrain from any policy changes at its two-day policy meeting next week with the central bank forecast to keep the Bank Rate at -0.10% and maintain the current parameters of its QQE with YCC.

Activity currencies saw the Aussie flat vs the buck while the Kiwi outperformed, with AUD/NZD trading on either side of 1.09 with eyes turning to the RBA Minutes on Tuesday. Sterling was weaker vs the buck and the Euro with Cable falling beneath 1.24 with all eyes turning to UK inflation data on Wednesday ahead of the BoE on Thursday. Loonie saw strength vs the Dollar with oil prices rising, albeit in choppy trade. Meanwhile, Canadian grocers will help the government in stabilizing food prices, but the Canadian Innovation Minister stated talks were "difficult".

Scandis were mixed, the NOK saw weakness vs the Dollar despite gains in Brent crude while SEK outperformed with eyes on both rate decisions later in the week.

EMFX was mixed. In LatAm, BRL and COP saw strength vs the buck while MXN was softer, CLP was flat. In Brazil, the economy ministry raised its 2023 GDP forecast while left the 2024 view unchanged, it left the 2023 inflation forecast unchanged but did lift the 2024 forecast to 3.4% from 3.3% with eyes turning to the BCB rate decision on Wednesday.



MXN weakness pares some of the strength in the peso seen last week, while COP was buoyed by gains in oil. CLP was flat despite the weakness in copper prices. Elsewhere, ZAR was flat vs the Dollar while TRY weakened and the Rouble strengthened.

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