US Market Wrap

19th September 2023: Stocks and Bonds slide after hot Canada CPI on eve of FOMC

- **SNAPSHOT**: Equities down, Treasuries down, Crude flat, Dollar flat.
- **REAR VIEW**: Hot Canada CPI; Housing Starts miss, Building Permits Beat; AMZN to hire 250k seasonal workers; Norway's Gassco says Troll Gas capacity is to be halted on Wed; Salzgitter gives weak guidance; Disney plans big parks spending.
- **COMING UP**: **Data**: Chinese LPR, UK CPI & US MBA **Events**: Fed & BCB Policy Announcement & BoC Minutes **Speakers**: Fed’s Powell; ECB’s Panetta, Schnabel & Elderson.

MARKET WRAP

Stocks were sold Tuesday, albeit closing well off worst levels, with the hot Canadian CPI data serving as a warning shot to inflation optimism. The data highlight in the US was the fall in the housing starts for August, although that was driven by the volatile multi-family sector and the impact of Hurricane Hillary. However, the simultaneously released, gasoline-driven increase in the Canadian CPI figures weighed on Treasuries in what had otherwise been quiet pre-FOMC trade. Elsewhere, the UAW union has set a Friday 12pm ET deadline for a deal with automakers before expanding the strike. A government shutdown remains on the cards with Republicans failing to agree a bill amongst themselves, let alone a deal Dems would approve of. Disney (DIS) was a standout underperformer after it announced a USD 60bln spending spree for its Parks business. Cross-asset, Treasuries were sold ahead of the FOMC, aided by the hot CAD CPI data and failing to benefit from a strong 20yr auction; the belly was weakest. The DXY was little changed with activity currencies seeing mild outperformance (CAD, AUD, NZD). Oil prices marked their fourth consecutive gain, with WTI and Brent hitting new YTD peaks amid the momentum with the tightening energy supply outlook front of mind.

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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.

HOUSING STARTS/PERMITS: US Housing Starts in August were at 1.283mln, beneath the expected 1.44mln, and down 11.3% from the downwardly revised prior 1.447mln. The fall was led by multi-family starts, which fell 26.3%, vs. the 4.3% fall in single-family starts. Economists have been flagging the potential for starts to be weighed on by the multi-family sector, where a combination of more plentiful supply and tighter lending standards are expected to serve as headwinds, whereas single-family starts are expected to hold up better given a lack of home inventory. The August starts appear to be reflective of these factors, however, Oxford Economics flags that a large driver of the fall was in the West, likely reflective of Hurricane Hilary, taking some of the sting out of the numbers. Meanwhile, Building Permits rose 6.9% to 1.543mln, above both expected and prior 1.443mln. The majority of the rise was driven by a 14.8% increase in the multi-family sector, vs. just a 2% increase in the single-family sector, which overall is suggestive of some recovery in the starts figures going forward.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLE 12+ TICKS LOWER AT 109-04

Treasuries were sold ahead of FOMC, aided by hot CAD CPI and failing to benefit from a strong 20yr auction; the belly was weakest. 2s +4.1bps at 5.105%, 3s +5.4bps at 4.792%, 5s +5.3bps at 4.515%, 7s +5.4bps at 4.463%, 10s +4.2bps at 4.361%, 20s +3.3bps at 4.613%, 30s +2.8bps at 4.424%.

INFLATION BREAKEVENS: 5yr BEI +0.8bps at 2.435%, 10yr BEI +0.7bps at 2.374%, 30yr BEI -0.1bps at 2.355%.

THE DAY: Treasuries saw thin trade during the APAC session and European morning. T-Notes marked a peak of 109-20 in the Asia session and a bout of mild selling at the London handover saw interim lows of 109-14, with cash yields flat across the curve entering the NY handover.

The fall in US housing starts/permits data was overlooked amid the simultaneously released Canadian CPI data, which saw a gasoline-driven spike, which was enough to ignite a wave of Treasury selling to lows of 109-05 in T-Notes. But the selling couldn't sustain for long, and two block buys of 5yr futs helped contracts recover to resistance at 109-14 later in the NY morning. The strong 20yr auction later on didn't lead to any follow-through and instead, T-Notes trundled lower into the close to stretch out a fresh low of 109-03+ at the time of settlement.

20YR AUCTION: A strong USD 13bln 20yr bond reopening which saw a high yield of 4.592%, with the c. 10bp pick-up in yield vs last month seeing a 0.3bp stop through the WI, vs. August's 0.9bp tail and the six-auction avg. 0.2bp stop through. The auction was covered 2.74x, above the prior (2.56x) and average (2.64x). Dealers (forced surplus buyers) were left with a small 9.3% (vs. avg. 10.7%), where Directs saw an increase in participation (25.4% from 20.2%) and Indirects saw a decrease (65.4% from 68.4%).

STIRS:

- SR3U3 +0.5bps at 94.61, Z3 flat at 94.535, H4 -2bps at 94.615, M4 -4.5bps at 94.805, U4 -6.5bps at 95.08, Z4 -7.5bps at 95.40, H5 -8bps at 95.685, M5 -8.5bps at 95.885, U5 -8.5bps at 96.00, U6 -6.5bps at 96.165, U7 -5bps at 96.175.
- SOFR flat at 5.31% as of Sep 18th, volumes fall to USD 1.565tln from 1.586tln.
- NY Fed RRP op demand at USD 1.453tln (prev. 1.453tln) across 96 counterparties (prev. 96).
- EFFR flat at 5.33% as of Sep 18th, volumes fall to USD 94bln from 96bln.
- US sold USD 60bln of 42-day CMBs at 5.285%, covered 3.10x.
- 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 21st and 17-week bills on Sep 20th; all to settle on Sep 26th.

CRUDE

WTI (X3) SETTLED USD 0.10 LOWER AT 90.48/BBL; BRENT (X3) SETTLED USD 0.09 LOWER AT 94.34/BBL

Another day of new YTD peaks for oil prices as the momentum shows no respite, with tight supply front of mind. The fourth consecutive gain for oil prices saw WTI and Brent hit new peaks of USD 93.74/bbl and 95.96/bbl, respectively, before paring into the settlement. Reuters reported Tuesday that the surge in the crude benchmarks - in part driven by Saudi production cuts - has seen the shut-off of arbitrage routes of US oil from the US to Europe and Asia, with Asia refiners said to be turning to the Middle East instead. Separate Reuters reports note Russia is mulling imposing much higher export duties on all types of oil products from October 1st until June next year to combat fuel shortages. In the near term, traders look to the weekly US energy inventory data with the private release due later Tuesday ahead of the official EIA figures on Wednesday. Current expectations (bbls): Crude -2.2mln, Gasoline +0.3mln, Distillate +0.2mln.

EQUITIES

CLOSES: SPX -0.22% at 4,444, NDX -0.22% at 15,191, DJIA -0.31% at 34,518, RUT -0.42% at 1,827

SECTORS: Energy -0.83%, Consumer Discretionary -0.65%, Real Estate -0.56%, Utilities -0.55%, Industrials -0.46%, Consumer Staples -0.25%, Financials -0.11%, Materials -0.1%, Technology -0.08%, Communication Services +0.01%, Health +0.1%.

EUROPEAN CLOSES: DAX -0.40% at 15,664, FTSE 100 +0.09% at 7,660, CAC 40 +0.08% at 7,282, Euro Stoxx 50 -0.08% at 4,242, IBEX 35 +0.40% at 9,520, FTSE MIB +0.60% at 28,757, SMI -0.20% at 11,068, PSI +0.45% at 6,154.

STOCK SPECIFICS: **Instacart (CART)** opened at USD 42/shr, above the IPO price of USD 30/shr, but ultimately closed at USD 33/shr, another sign of strong demand for IPOs, albeit perhaps not as strong as demand for the ARM IPO. Meanwhile, Bloomberg reported CVC is looking to prepare for a potential IPO as soon as November. The NYC casino race could be upended by a Las Vegas bookie scandal, according to NY Post citing sources, who note **MGM's (MGM)** odds are particularly at risk after the surprise exit from the Resort World Las Vegas President, Scott Sibella, due to a company policy violation. **Disney (DIS)** is developing plans to accelerate and expand investments into Disney Parks, Experiences, and Products segment; plans to expand investment in the segment over the course of a decade to about USD 60bln. **Microsoft (MSFT)** lifted its quarterly dividend to USD 0.75/shr (prev. 0.68/shr). **Airbnb (ABNB)** listings reportedly fell over 75% in New York City after the City's crackdown on ABNB, according to NY Post, who note it is likely to provide a boost to the hotel industry in the city. **United States Steel (X)** sees Q3 adj. EPS between USD 1.10-1.15 (exp. 0.91), reflecting the impact of the UAW union strike. Elsewhere, CNBC's Faber said there is a fairly robust auction for US Steel, with up to four possible bidders. **Autozone (AZO)** earnings beat on EPS and revenue although US SSS fell short of expectations. **Target Corp. (TGT)** intends to hire almost 100k seasonal team members this holiday season, the same as 2022 and 2021. **Amazon (AMZN)** is to hire 250k employees for the holiday season, up strongly from 150k last year, and announced it is investing USD 1.3bln this year towards pay rises. A US judge said **DoorDash (DASH), Grubhub, and Uber Eats (UBER)** can sue New York City over law capping commissions, which they claim is unconstitutional, according to a court ruling. **Pinterest (PINS)** saw upside after its investor day, where it spoke up its CAGR for revenue, seeing mid-high teen growth. US lawmakers reportedly planned to meet with a semiconductor industry group to express concerns over US investment in China's chip industry, according to Reuters citing sources.

US FX WRAP

DXY hovers around 105 and USD/JPY tests resistance at 148 while EUR/USD loses 1.07 ahead of FOMC

The Dollar was relatively flat on Tuesday ahead of the FOMC on Wednesday, but it did briefly drop beneath 105.00 to lows of 104.81 just as US players arrived before ultimately reversing throughout the rest of the session to reclaim the psychological level as yields picked up. There was more housing data on Tuesday, which saw the housing starts fall from the prior, and deeper than expectations while building permits saw a surprise rise - though analysts are pinning the weakness in starts as a result of Hurricane Hilary.

The Euro was marginally softer vs. the Dollar but it did briefly rise above 1.07 to peaks of 1.0717 as the buck hit its trough but the move was short-lived as the pick up in yields gave a helping hand to the buck. The single currency was also weaker vs. the Pound with EUR/GBP at lows heading into APAC trade as it eyes 0.8600.

The Yen, in similar vein to the Euro, was softer vs the buck due to the rise in UST yields with attention falling on Friday's BoJ announcement after the Fed enters the rear view. Nonetheless, with expectations for the BoJ to maintain policy settings, it is keeping USD/JPY bid with the pair testing 148.00 at one point - a level that will remain highly in focus heading into Wednesday's FOMC. If 148.00 were to blow, technicians are eyeing 149.55 as well as the round 150. Alongside the Fed and BoJ this week, Japanese inflation is also due on Friday.

The Franc was marginally weaker vs. the Dollar and flat vs. the Euro with eyes turning to the SNB rate decision on Thursday, Newsquawk SNB Preview available here.

The Loonie outperformed on Tuesday after hotter than expected headline CPI, rising 4.0% Y/Y (exp. 3.8%, prev. 3.3%), with M/M rising 0.4% (exp. 0.3%, prev. 0.6%). Albeit some of the upside can be attributed to volatile oil prices, the BoC Core measures, which strip out some of the outlying prints, saw an increase to 4.27% from a revised up 4.1%. BoC Deputy Governor Kozicki later spoke on the report, noting volatility in headline inflation is not unusual, but she did exclaim the underlying trend shown by core measures was inconsistent with bringing inflation down to the 2% target, and repeated Governor Macklem that they are prepared to hike again if required. Money markets expect this to be the case, with 28bps of hikes being priced in by March 2024, with no rate cuts priced in throughout 2024.

The Pound was flat vs. the Dollar but managed to eek a gain vs. the Euro with little fresh from the UK ahead of the the key risk events later this week, including UK CPI on Wednesday and the BoE on Thursday.

Antipodeans saw strength vs the Dollar with AUD leading the way. The RBA minutes were released, albeit little reaction was seen at the time. Nonetheless, they noted the RBA discussed keeping rates unchanged or hiking by 25bps (ultimately deciding with the former, as expected), noting the base case for an unchanged print was stronger and recent data had not materially affected the economic outlook. It also reiterated the statement, noting some further tightening may be required should inflation prove more persistent than expected. It also maintained its data-dependent approach. AUD outperformed the Kiwi, while NZD/USD briefly tested support at 0.5900 while AUD/NZD traded between 1.0864 and 1.0894.

Scandis were mixed once again with eyes turning to both the Norges Bank and Riksbank rate decisions, Newsquawk Previews available here and here.

EMFX was mixed. MXN saw strength in encouraging growth prospects, where a preliminary estimate saw growth at 3.4% Y/Y in August. BRL was softer despite better-than-expected July economic activity. CLP was flat and COP was weaker. Elsewhere, the ZAR was bid while TRY was flat and RUB saw weakness.