US Market Wrap

20th September 2023: Stocks and bonds dip after hawkish Fed Dots

- **SNAPSHOT**: Equities down, Treasuries flatten, Crude down, Dollar up.
- **REAR VIEW**: Fed leaves rates unchanged, provides hawkish Dot Plot; Powell says Fed will proceed carefully, but rate cuts are not any time soon; Cool UK CPI ahead of BoE; EIA crude stock draw in line; BA raises long term China demand forecasts; GM and UAW still far apart, but talks continue.
- **COMING UP**: **Data**: US IJC, Existing Home Sales & EZ Consumer Confidence (Flash) **Events**: BoE, SNB, Riksbank, Norges Bank, CBRT & SARB Policy Announcement **Speakers**: ECB's Lagarde & Schnabel; Riksbank's Thedeen **Supply**: Spain, France & US.

MARKET WRAP

Stocks were rising heading into the FOMC rate decision before swiftly paring and more after the hawkish dot plots pushed back any thoughts of near-term rate cuts. The move had pared slightly at the start of Fed Chair Powell's press conference where he said they are in a position to proceed carefully. However, this was short-lived after Powell, in fitting with the dot plots, pushed back on any chance of any rate cuts soon and noted many Fed officials see another hike this year. Indices closed at lows. Elsewhere, UK CPI was the pre-FOMC highlight, with the figures coming in all beneath expectations, reducing the likelihood of a hike at Thursday's BoE meeting to a coin toss. German PPI also fell further into deflation. On automaker strikes, Bloomberg reports General Motors (GM) and the UAW union are continuing talks, but the two sides are far apart ahead of the Friday deadline to prevent larger strikes. At the same time, Canada's Unifor union reached a tentative labour deal with Ford (F), averting a strike. Similar to stocks, Treasuries had risen into the Fed before reversing lower on the hawkish Fed aspects with the curve seeing pronounced flattening into APAC trade. Oil prices were choppy, paring overnight losses through the US session with draws seen across crude and the products in the weekly inventory data before selling off post-Fed towards the morning lows. In FX, the Dollar surged post-Fed, weighing on the Yen and Euro while GBP returned to test the post-CPI lows ahead of the BoE rate decision. There is a plethora of central bank activity on Thursday, including BoE, SNB, Riksbank and Norges Bank, as well as the CBRT. The BCB rate decision is also due later on Wednesday.

CENTRAL BANKS

FED: The Fed left rates unchanged at 5.25-5.50% as expected in a unanimous decision, while upgrading its language on economic growth, noting economic activity has been expanding at a "solid" pace (previously moderate), while it downgraded some language on the labour market, acknowledging job gains have slowed in recent months but remain strong (previously been robust), while maintaining its view inflation is elevated and the unemployment rate remains low. The forecasts saw upward revisions to 2023 and 2024 real GDP, while the unemployment rate was revised lower for 2023, 2024 and 2025. Headline PCE inflation saw a slight revision higher for 2023 to 3.3% while 2024 was unchanged at 2.5%, but 2025 was revised marginally up to 2.2% from 2.1%. Core inflation saw a revision lower for 2023, was unchanged for 2024 at 2.6% but 2025 was revised slightly up to 2.3% from 2.2%. Meanwhile, the Dots were hawkish across the forecast horizon, emphasising the Fed are in no rush to discuss rate cuts at this time. The 2023 dot of 5.6% is unchanged from June, giving the Fed the option to hike later in the year if needed. Meanwhile, the 2024 dot saw a notable revision higher to 5.1% from 4.6% previously, indicating just 50bps of cuts from the implied terminal rate vs 100bps implied in June. The 2025 dot was revised up to 3.9% from 3.4%, and the initial 2026 dot is seen at 2.9%. The longer run dot is still seen at 2.5%, although the central tendency and range saw a higher top band, with the central tendency at 2.5-3.3% (prev. 2.5-2.8%), with the full range between 2.4-3.8% (prev. 2.4-3.6%), with more on the Fed coming round to the notion of a higher neutral rate.

POWELL PRESSER: Powell's prepared remarks were largely familiar rhetoric, although he repeated the phrase from Jackson Hole that the Fed can "proceed carefully", with policy "restrictive". Powell noted growth in real GDP has come in above expectations, with consumer spending particularly robust and activity in the housing market having picked up. Powell reiterated that the labour market remains tight, but it continues to come into better balance. Powell said nominal wage growth has shown some signs of easing. Warned that inflation remains well above the goal of 2% with a long way to go to return to target, but has moderated somewhat, with inflation expectations appearing well-anchored. In his Q&A, Powell said the fact the Fed decided to keep policy rates where they are does not mean it has decided it has, or has not, reached the stance of policy it is seeking. Crucially, he said the majority of policymakers believe it is more likely than not another rate hike will be appropriate, as the Dots suggest but markets and analysts are hesitant to believe (there is an implied 30% chance of a hike at the Nov FOMC according to market pricing). Powell said he was not making a decision about whether rates are "sufficiently restrictive", needing to see more progress and more data before the Fed will be ready to reach that conclusion. When asked about the hike in the 2024 Dot, he leaned on the line that he would not want to say SEPs are a plan, whilst also highlighting that economic activity has been stronger than expected. On whether stronger growth could see the Fed hike again, he said the question that the FOMC will consider is "is the heat that you see in GDP, is it really a threat to our ability to get back to 2% inflation?". On cuts, Powell said he was not willing to talk about when they would occur, just that the time will come at some point. And on the neutral rate, Powell said it's certainly plausible that the neutral rate has shifted higher in the short term, and that's part of the explanation for why the economy has been more resilient than expected - he didn't get into the weeds of whether the longer-term neutral rate had risen, as some of his colleagues have indicated in the Dots.

BOE PREVIEW: Following UK CPI metrics, markets now assign a circa 53% chance of a 25bps hike vs. 47% unchanged. The shift in pricing from around 80% for a move at the start of the week comes in the wake of the August CPI report which saw headline Y/Y CPI fall to 6.7% from 6.8% (vs. exp. 7.0%), core CPI drop to 6.2% from 6.9% (vs. exp. 6.8%) and the all services print decline to 6.8% from 7.4% (vs. MPC exp. 7.2%). The data has thrown a spanner in the works for estimating what the vote split on the MPC will be, and therefore volatility for the GBP is likely upon the decision. Beyond the immediate announcement, focus will be on what guidance the MPC provides about any potential further tightening or whether it judges that terminal has now been reached. To download the report, please click here.

SNB PREVIEW: The SNB is expected to hike by 25bp to 2.00%, according to 30/37 respondents in a poll conducted by Reuters, and with the remainder looking for an unchanged verdict. Market pricing currently ascribes around a 65% probability to a hike, but it is worth caveating that pricing was in favour of an unchanged outcome before the September ECB. Current inflation and growth data err in favour of those expecting the SNB to leave rates unchanged. However, factors which could result in a resurgence of inflationary pressures as the SNB forecast in June are present and expected to impact in the months ahead, which the Bank believes will push headline YY CPI back above the 0.0-2.0% target from Q1-2024. September's rate decision aside, the SNB may not provide explicit guidance that the policy rate is at the current cycle peak in order to preserve CHF appreciation and given potential inflationary factors ahead. Finally, the SNB has continued to be very active in the FX space as evidenced via available reserve data, and while an alteration to currency language is possible it is on balance unlikely at this gathering given the above inflation-related factors. To download the report, please click here.

RIKSBANK PREVIEW: Expected to hike by 25bp to 4.00% according to all but one of the 22 respondents surveyed by Reuters, and in-fitting with the guidance from June's gathering for at least one more 2023 hike. A move in September is merited by the ongoing SEK depreciation and the observation that while inflation pressures continue to ease, the absolute figure remains well above target. Thereafter, the June rate path ascribed around a 20% chance of tightening beyond 4.00%, a path that is likely to be adjusted higher and perhaps point to a hike occurring at November's meeting, given the soft SEK. In addition, any further insight on the timing of a first cut will be closely sought. As it stands, the repo path implies rates will be held at the 4.05% peak until at least Q2-2025. Rates aside, the beginning of September saw the June balance sheet adjustment come into effect, whereby sales were increased to SEK 5bln/month (prev. 3.5bln). Given this tweak has only just occurred, it may be premature for the Riksbank to announce a further alteration with desks generally looking to November for any tweak, though September cannot be ruled out. To download the report, please click here.

NORGES BANK PREVIEW: Expected to stick to the guidance provided in August and hike to 4.25%, according to all 30 respondents polled by Reuters. A move which would validate the June MPRs repo path and take the Norges Bank to its forecast peak rate, which is expected to remain in place until at least Q2-2024 with a full 25bp cut not forecast until Q4-2024 at the earliest. A 25bp hike is justified by the high absolute level of inflation relative to the 2.0% target alongside theoretical inflationary and by extension hawkish implications of recent growth data and the Regional Network's near-term view. However, this is balanced by the significant fall in CPI & CPI-ATE, both softer than the Norges Bank forecast at this point, alongside the Regional Network's finding that activity is expected to slow into the winter. Overall, recent developments argue in favour of a 25bp hike being delivered which is likely to be the final, though there is a chance the repo path will be lifted to price some optionality for further tightening given the absolute level of inflation and relative NOK softness. On this, desks vary significantly in their views, the likes of Nordea and SEB expect 4.25% to be the top, but acknowledge hawkish risks to this with market pricing roughly in-line with their view and currently implying a 4.35% peak. However, the likes of UniCredit believe the resilient economy, inflation level and NOK softness argue in favour of hikes in November and December as well, to a 4.75% peak. To download the report, please click here

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLE 3 TICKS HIGHER AT 109-07

Treasuries dive after hawkish Fed Dot Plot offsets big miss in UK CPI. At futures settlement, 2s +1.8bps at 5.127%, 3s +1.4bps at 4.809%, 5s +0.4bps at 4.526%, 7s -0.6bps at 4.463%, 10s -1.2bps at 4.355%, 20s -2.1bps at 4.597%, 30s -2.3bps at 4.405%

INFLATION BREAKEVENS: 5yr BEI -3.2bps at 2.406%, 10yr BEI -2.4bps at 2.353%, 30yr BEI -2.2bps at 2.337%.

THE DAY: Treasuries entered the NY session on the front foot, led by the short end, in sympathy with Gilts after much softer than expected UK CPI data; market pricing for BoE hike on Thursday shifted down to a coin toss as a result. T-Notes had respected their late Tuesday low of 109-03 during the APAC session and accelerated to the upside in wake of the UK data.

The upside carried all the way through into the NY afternoon, with T-Notes peaking at 109-17 just before the FOMC. The 50bp increase in the 2024 Fed Dot saw a kneejerk move lower in Treasuries, taking T-Notes to session lows of 109-01, although contracts recovered into Powell's presser to resistance at 109-13+, aided as Fed Chair Powell began his presser, where he noted the Fed can "proceed carefully", but contracts began drifting lower again into and past settlement, with the Fed Chair reluctant to get into details about the timing of any rate cuts, whilst suggesting many on the Fed are still in favour of another hike.

Looking ahead, Thursday sees Philly Fed, Existing Homes Sales, and Jobless Claims data ahead of the 10yr TIPS auction. While Friday sees Fed's Cook, Daly, and Kashkari all scheduled to speak.

STIRS:

- SR3U3 +1bp at 94.575, Z3 -3.5bps at 94.51, H4 -4bps at 94.76, M4 -3.5bps at 95.035, U4 -1.5bps at 95.375, Z4 flat at 95.675, H5 +1bp at 95.89, M5 +1.5bps at 96.01, U5 +1.5bps at 96.075, U6 +2bps at 96.20, U7 +2.5bps at 96.18.
- SOFR flat at 5.31% as of Sep 20th, volumes fall to USD 1.562tln from 1.565tln.
- NY Fed RRP op demand at USD 1.487tln (prev. 1.453tln) across 96 counterparties (prev. 96).
- US sold USD 50bln of 17-week bills at 5.340%, covered 2.83x.
- EFFR flat at 5.33% as of Sep 20th, volumes fall to USD 90bln from 94bln.

CRUDE

WTI (X3) SETTLES USD 0.82 LOWER AT 89.66/BBL; BRENT (X3) SETTLES USD 0.81 LOWER AT 93.54/BBL

Oil prices were lower, dipping in pre-settlement trade post Fed after initially recovering in the NY session, supported by bullish US inventory data, and a pick-up in cyclical risk appetite seen before the FOMC. WTI and Brent futures hit troughs of USD 89.90/bbl and 92.76/bbl, respectively, in the European morning with a majority of the downside seen during the APAC session. However, prices recovered into the NY afternoon with the Dollar sold ahead of the Fed. However, better selling developed again into the close, in part a function of Dollar strength after the Fed's hawkish Dot Plot but also amid some WSJ reports that Iran has been exporting more oil amid the US' pull back from some sanctions enforcement. Earlier on, the EIA US energy inventory data saw draws across crude stocks (-2.2mln bbls) and the products (net -3.7mln bbls) in the latest week, somewhat helping the recovery. Elsewhere, in the energy space, Reuters reports that Russian oil producers have sent the first cargoes of CPC blend to the UAE, opening up a new route for exports. Goldman Sachs raised its 12-month ahead Brent forecast to USD 100/bbl (prev. USD 93/bbl), said Brent is unlikely to sustainably exceed USD 105/bbl next year or to sustainably drop below USD 80/bbl due to the strong OPEC put. While UBS says strong fundamentals will support USD 90-100/bbl range for Brent in the months ahead.

EQUITIES

CLOSES: SPX -0.94% at 4,402, NDX -1.46% at 14,970, DJI -0.22% at 34,440, RUT -0.9% at 1,810.

SECTORS: Communication Services -1.89%, Technology -1.77%, Consumer Discretionary -1.09%, Materials -1.03%, Energy -0.96%, Financials -0.66%, Industrials -0.39%, Health +0.02%, Utilities +0.1%, Real Estate +0.13%, Consumer Staples +0.15%.

EUROPEAN CLOSES: DAX +0.75% at 15781, FTSE 100 +0.93% at 7731, CAC 40 +0.67% at 7330, Euro Stoxx 50 +0.81% at 4277, IBEX 35 +1.24% at 9645, FTSE MIB +1.64% at 29229, SMI +0.81% at 11158, PSI +0.55% at 6188.

STOCK SPECIFICS: **Boeing Company (BA)** raised its 20yr forecast for new plane deliveries to China due to economic growth and higher demand for domestic travel, according to Reuters. It now predicts that Chinese airlines will require 8,560 new commercial planes by 2042 (prev. saw 8,485). Boeing is optimistic about China's role in the global air travel market, expecting it to make up 20% of the market. **Chevron Corp. (CVX)** announced no agreement has been reached with unions following further consultation sessions held this week with the Fair Work Commission. **Goldman Sachs Group (GS)** is reportedly in advanced talks to sell its speciality lender GreenSky to a group of investment firms, marking a significant move away from the bank's unsuccessful venture into consumer lending, according to WSJ. **JPMorgan Chase & Co. (JPM)** raised its quarterly dividend to USD 1.05/shr (prev. 1.00/shr). UK regulators are likely to decide on the **Microsoft (MSFT)** and **Activision Blizzard (ATVI)** deal next week, according to sources cited by the Verge. **Ford Motor (F)** has reached a tentative deal with the Canadian Union Unifor, avoiding labour strikes, CNBC reported. The agreement covers 5,600 autoworkers, was announced just before the deadline, and awaits member ratification. Meanwhile, Ford said it was developing contingency plans for further work stoppages in the US, including shipping parts that keep Ford vehicles on the road. Meanwhile, Bloomberg reported General Motors (GM) and UAW union talks are continuing, but they are still far apart. **General Mills (GIS)** EPS and revenue were in line with expectations while it also reaffirmed its FY24 outlook. **Philip Morris International (PM)** is considering selling a stake in its pharmaceutical unit Vectura, which it acquired as part of a USD 2bln plan in 2021 to try and move away from cigarettes, WSJ reported. **Textron Inc. (TXT)** and NetJets announced a fleet agreement for the option for NetJets to purchase up to 1500 additional Cessna Citation business jets over the next 15 years. **Coty (COTY)** raised its FY24 outlook, fuelled by momentum in its prestige business. **Dollar General (DG)** was downgraded to Underweight at JPMorgan. Bank of America (BAC) maintained guidance it sees Q3 NII at 14.2bln, in line with expectations, but CFO noted the global investment banking fee pool is down 25%, but says the bank should do better than that. **Amazon (AMZN)** is reportedly scrapping a planned fee on merchants that do not use its shipping services, according to Bloomberg. AMZN, in a devices event, revealed a new Fire TV Soundbar and a USD 600 Eero Max 7 wifi router, while noting nearly 1bln Alexa devices have been purchased to data, and Ring and Blink saw combined sales grow 20% in the past year.

US FX WRAP

Dollar surges on hawkish Fed Dot Plot, more than paring earlier weakness

The Dollar pared its pre-Fed losses with hawkish dot plots sending the Dollar higher with DXY rising from lows of 104.66 to highs of 105.37 after Powell's press conference, particularly rising after he pushed back on the notion of timing of rate cuts and spoke on how the majority at the Fed see another rate hike pencilled in this year,(dot plots implied 12 see one more rate hike, 7 see rates at terminal already) while he also noted the short term neutral rate could be higher than the longer run neutral rate. Powell did however stress several times the Fed are now in a position to "proceed carefully", something not mentioned in July. Treasury yields were mixed with the short end sold and long end holding up relatively better, but yields were well off lows seen before the Fed.

It was a similar story across major FX pairs. **USD/JPY and USD/CHF** had been selling off into the Fed meeting, in fitting with Treasury yields, but a lot of that move had pared post-Fed on the hawkish dot plots, the same was seen in **EUR/USD**. For the Swissy, eyes turn to the SNB rate decision Thursday morning.

Pound was focussed on the softer-than-expected UK CPI data this morning, but with the Dollar sold into the Fed rate decision, Cable had pared its CPI move, albeit once the Dollar caught its post-Fed bid, GBP/USD slumped towards the CPI lows, albeit not breaking the 1.2335 low with the pair trading just above the level going into APAC trade with eyes on the BoE rate decision Thursday.

Other cyclicals, Aussie, Kiwi and Loonie were ultimately flat vs the dollar, paring the pre-Fed strength completely with the return of the buck and downturn of stocks weighing.

Scandis were firmer vs the Euro with SEK outperforming with NOK finding headwinds from lower Brent crude prices ahead of both the Norges Bank and Riksbank rate decisions, also on Thursday.

EMFX was mixed. MXN, CLP and BRL were all flat vs the higher buck with Real traders looking to the BCB rate decision later on Wednesday, where economists look for a 50bp cut to 12.75% from 13.25%. ZAR saw strength with gold prices holding their ground despite the hawkish Fed. COP was a relative outperformer despite lower oil prices on the day, but worth stressing oil prices are still much firmer than a few weeks and months ago. TRY was weaker ahead of the CBRT on Thursday.

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