US Market Wrap

21st September 2023: Stock and bond slump deepens after stagflationary data and BoE rate pause

- **SNAPSHOT**: Equities down, Treasuries down, Crude flat, Dollar flat.
- **REAR VIEW**: Jobless claims fall to lowest since January; Philly Fed dips while prices paid rise; Existing home sales fall; BoE and SNB leave rates unchanged; Norges and Riksbank hike 25bps as expected; Riksbank to hedge FX reserves; CBRT hikes 500bps; SARB leaves rates unchanged; CSCO to acquire SPLK; GOOGL denies it is ditching AVGO; FDX benefits from cost cuts.
- **COMING UP**: **Data**: Australian, Japanese, French, German, EU, UK & US PMI (Flash), Canadian Retail Sales, Japanese CPI & UK CBI Trends **Events**: BoJ Policy Announcement **Speakers**: ECB's de Guindos, Fed's Daly, Cook, Kashkari; Riksbank's Thedeen.

MARKET WRAP

Stocks were sold gradually Thursday and closed at lows, with the BoE's rate pause the highlight as participants continued to digest the Fed pause and hawkish Dot Plot. A rise in the Philly Fed survey's prices paid component, and the fall in initial jobless claims to January lows, does little to quash inflation concerns and gives weight to hawkish rate paths. Existing home sales fell slightly in August, despite expectations for a slight rise. Meanwhile, there's no resolution so far ahead of the UAW union's extended strike deadline on Friday, while a government shutdown also remains on the cards. In stocks, FedEx (FDX) was an outperformer amid a solid profit print and guidance after implementing aggressive cost-cutting measures. Cisco (CSCO) announced it is to acquire Splunk (SPLK) for USD 28bln. Elsewhere, there was a plethora of other central bank decisions, with SNB leaving rates unchanged against expectations for a hike, the Riksbank hiking 25bps as expected but also announcing FX sales, the Norges Bank hiking 25bps as expected but adding hawkish guidance, the CBRT hiking 500bps as expected, and the SARB keeping rates unchanged as expected. The Dollar was ultimately flat, paring broadly from its post-jobless claims peak into the US close, while Sterling and Swissy underperformed after both central banks left their rates unchanged against calls for hikes. Treasuries saw massive bear-steepening, with 2s10s showing its largest one-day steepening since March, although Yen still sits significantly firmer ahead of the BoJ decision Friday. Oil prices were little changed after staging a recovery during the NY session amid the Dollar's pullback.

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JOBLESS CLAIMS: Weekly Initial Jobless Claims fell to 201k from 221k, the lowest since the end of January, and against expectations for a rise to 225k, highlighting a lack of incremental progress in loosening the labour market. Fed Chair Powell on Wednesday highlighted that the labour market remains out of balance still, but noted it had been making progress. Looking within, the fall in claims was all due to seasonal factors, where the non-seasonally adjusted claims were flat at 175.6k. For the NSA figures at the state level, the biggest gainers were New York (+1.5k), Georgia (+1.4k), and South Carolina (+1.0k), while the biggest declines were Indiana (-2.7k) and California (-1.2k). Meanwhile, Continued Jobless Claims for the week prior fell to 1.662mln from 1.683mln, against expectations for a rise to 1.695mln. Overall, the data is yet to exhibit the much-forecasted deterioration in the labour market that had been expected going into the end of the year, although it's still fairly premature for those forecasts needing to be adjusted.

PHILLY FED: The September Philly Fed manufacturing headline index tumbled to -13.5 from +12.0, beneath expectations for a smaller drop to -0.7, but within ranges seen in recent months. One has to take numbers with a pinch of salt given the erratic nature of the series, not to mention the spike in the Empire survey last week, albeit the Philly Fed details were not great. New Orders, a proxy for future activity, dipped to -10.2 from +16.0, while Prices Paid saw an uncomfortable rise, as far as inflation concerns go, to +25.7 from +20.8. The Employment sub-index rose marginally to -5.7 from -6.0. Pantheon Macroeconomic writes, "The message now is that manufacturing activity likely has stabilized - ignoring the potential impact of the auto strike - but we see no signs yet of a robust recovery. Nor do we expect to, given the Fed's rate hikes, tighter credit conditions, and sluggish growth in export markets."

EXISTING HOME SALES: Existing home sales fell 0.7% M/M in August to 4.04mln from the prior 4.07mln, against the consensus pick up to 4.10mln. The report highlights that among the four major US regions, sales improved in the Midwest, were unchanged in the Northeast, and slipped in the South and West. Meanwhile, all four regions recorded Y/Y sales declines. The National Association of Realtors Chief Economist added, "Home sales have been stable for several months, neither rising nor falling in any meaningful way". Looking ahead, the NAR notes, "Mortgage rate changes will have a big impact over the short run, while job gains will have a steady, positive impact over the long run." The existing home price rose 3.9% Y/Y to USD 407.1k, with all four US regions posting price increases. Total inventory at the end of August fell 0.9% M/M to 1.1mln, or -14.1% Y/Y. Unsold inventory is at 3.3mth supply, unchanged from July.

CENTRAL BANKS

BOE REVIEW: Heading into this week, 64/65 surveyed economists by Reuters expected the BoE to hike the Bank Rate by 25bps to 5.5%. However, this overwhelming consensus was derailed by 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%). As such, markets shifted expectations in a more dovish direction to a near coin-flip at one stage heading into the announcement. In the end, the MPC opted to stand pat with the Bank rate held at 5.25% via a 5-4 vote and the majority consisting of Bailey, Broadbent, Dhingra, Ramsden and Pill. The unchanged camp justified their vote on the basis that "there were signs that the labour market was loosening", whilst those in the hike camp consisted of Cunliffe, Greene, Haskel and Mann amid the judgement "..overall there was evidence of more persistent inflationary pressures". Despite today's decision, the MPC opted to keep some optionality over further moves by reaffirming that "further tightening would be needed if evidence of more persistent inflation pressures is seen". Furthermore, the statement reiterated that "policy will need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target". In terms of the economic outlook, "CPI inflation is expected to fall significantly further in the near term, reflecting lower annual energy inflation". However, services inflation is projected to remain elevated in the near term, with some potential month-to-month volatility. On the growth front, "Bank staff now expect GDP to rise only slightly in 2023 Q3. Underlying growth in the second half of 2023 is also likely to be weaker than expected". Alongside the rate decision, the MPC opted to reduce the stock of gilts by GBP 100bln (exp. ~80bln) in the 12-months starting October. Overall, as noted by ING, there is only "one set of inflation and wage data before November's meeting, so there's not a huge amount for the Bank to go on". As such, "If there's enough in the recent data to convince the Bank to pause this month, then we suspect the same will be true in November". After the decision, BoE Governor Bailey, in several journalist interviews, noted the job is not done yet but he is not going to predict what the next move will be. He did add that the MPC has not had any discussion about cutting the bank rate. However, he did note that some on the MPC say more hikes are needed to curb prices. Bailey expects the next noticeable drop in UK inflation will be in the October data (released in November).

SNB REVIEW: Elected to defy the majority of desk views and circa. 65% market pricing by leaving its policy rate at 1.75% vs. expectations for a 25bp hike; though some respondents and the remaining 35% of the market looked for such an outcome. The hold was justified by the observation that the significant tightening of monetary policy in recent quarters is countering remaining inflation pressures. But, interestingly, the accompanying inflation forecasts were largely unchanged across 2024 and CPI does not return to the 0.0-2.0% target band until Q1-2025. It remains to be seen if further tightening will take place at the December gathering when the assessment will undoubtedly, barring any other unforeseen events, focus on what impact the recent energy upside and the June rental reference rate increase has had on prices; on the latter, the rental increase is not observable within inflation data until the November report due on December 4th before the following week's policy announcement. A view echoed by Chairman Jordan subsequently who said they will decide "in December" if further action is merited. Finally, the SNB reiterated its language around the CHF and intervention stating that it remains willing to be active in the foreign exchange market as necessary and the focus is on selling foreign currency. Interestingly, in the Q&A section Jordan described the Franc as having had a "nominal overvaluation", a line which drew attention as the SNB has steered clear of currency descriptions in recent gatherings. However, this assessment is not particularly surprising given the CHFs YTD performance.

NORGES BANK REVIEW: As expected, Norges Bank hiked by 25bp to 4.25%. In addition to this, the accompanying verbal guidance points to one more policy hike which is "most probably" to be delivered in December. In-fitting, the repo path was lifted to a Q1-2024/Q2-2024 peak of 4.44% (exp. ~4.35%, prev. ~4.20%); alterations which imply a rate peak at 4.50% compared to the 4.25% desks were expecting pre-release. Though most expected the Norges Bank to ascribe further probability to additional tightening. On the NOK, there were some outside expectations for the path to be lifted much more significantly to imply a peak near 4.75% given currency pressures, but interestingly the statement regards the Krone as being "somewhat" stronger than projected in June. Overall, the decision to hike was as expected and while the statement/path and market reaction took a hawkish slant it is becoming clear that barring an economic shock occurring the Norges Bank is near the level it will ultimately hold rates at for a prolonged period of time i.e. a higher for longer approach.

RIKSBANK REVIEW: The 25bp hike to 4.00% was as-expected, but the accompanying policy rate forecasts only infer around a 40% chance of a hike as of Q3-2024 from current levels, and as such a marked initial dovish reaction was seen. Additionally, pressure perhaps stemmed from the lack of any measures to address the SEK's pronounced weakness from a monetary perspective, given EUR/SEK was printing all-time lows in the sessions before the announcement. However, around five minutes after the monetary policy release the Riksbank unveiled that it is going to be hedging FX reserves by selling USDs and EURs from September 25th for four-six months. A move that is designed to limit the Bank's financial losses if the SEK appreciates and is not being undertaken for monetary purposes. Following the announcement, marked SEK appreciation occurred with the initial dovish move entirely unwound and resulted in EUR /SEK falling to an 11.7582 trough. Note, the Riksbank also announced that it will now hold eight meetings a year and every other gathering will have an MPR/new forecasts.

BCB REVIEW: Brazil Central Bank cut the Selic rate by 50bps to 12.75%, as expected, while committee members unanimously anticipate a further reduction of the same magnitude in the next meetings. The statement noted that this pace of rate cuts is appropriate to keep monetary policy contractionary for the process of disinflation and that the total magnitude of the easing cycle will depend on inflation dynamics, expectations and projections, output gap and balance of risks. However, the BCB did stress the need to keep contractionary monetary policy until disinflation consolidates and inflation expectations anchor around its targets. It also returned fire to the government, highlighting the importance of hitting fiscal targets to anchor inflation expectations. The BCB noted economic activity is more resilient than previously expected but they still expect an economic slowdown in the coming quarters. It also stated that measures of underlying inflation have recently fallen but remain above the inflation target. Given the guidance from the BCB, analysts at Rabobank expect them to cut by 50bp at the next two meetings, and suggest the Copom will cut the Selic rate to 11.75% by year-end and to 9.25% by the end of 2024.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLE 25+ TICKS LOWER AT 108-13+

Treasuries saw massive post-FOMC bear-steepening, accentuated by the BoE pausing and a tumble in jobless claims. At settlement, 2s +2.8bps at 5.148%, 3s +5.7bps at 4.855%, 5s +10.3bps at 4.616%, 7s +12.4bps at 4.576%, 10s +13.3bps at 4.480%, 20s +16.2bps at 4.751%, 30s +15.3bps at 4.553%.

INFLATION BREAKEVENS: 5yr BEI +0.5bps at 2.417%, 10yr BEI +1.3bps at 2.374%, 30yr BEI +2.2bps at 2.367%.

THE DAY: Treasuries continued their post-FOMC decline into the APAC Thursday session, where T-Notes found interim support at 108-16 in the Tokyo morning. Citi's rates desk noted that amid the leak lower its desk saw net better buying into the dip (real$ mostly in intermediates) before cash activity died out into the APAC afternoon. T-Notes gently recovered to resistance at 108-24 early in the European session before some long-end weighted selling kicked in again, steepening the curve.

After the BoE left rates unchanged, the govvie selling picked up momentum, and T-Notes went on to print session of 108-08 after the 08:30ET US data, with a rise in Philly Fed prices paid and the lowest initial jobless claims print since January. The selling failed to sustain from there, and T-Notes recovered to highs of 108-17 in the NY afternoon before settlement. However, the curve remained sharply steeper on the session, with 2s10s up 10bps at time of writing, its largest one-day steepening since March.

STIRS:

- SR3U3 flat at 94.5675, Z3 flat at 94.525, H4 +0.5bps at 94.765, M4 -1.5bps at 95.025, U4 -5.5bps at 95.325, Z4 -8bps at 95.60, H5 -9.5bps at 95.80, M5 -9.5bps at 95.92, U5 -9.5bps at 95.985, U6 -13.5bps at 96.07, U7 -15.5 bps at 96.025.
- SOFR falls to 5.30% as of Sep 20th from 5.31%, volumes fall to USD 1.492tln from 1.562tln.
- NY Fed RRP op demand at USD 1.454tln (prev. 1.487tln) across 99 counterparties (prev. 96).
- EFFR flat at 5.33% as of Sep 20th, volumes fall to USD 89bln from 90bln.
- US sold USD 81bln in 4-week bills at 5.28%, covered 2.80x; sold USD 70bln of 8-week bills at 5.30%, covered 2.58x.

CRUDE

WTI (X3) SETTLES USD 0.03 LOWER AT 89.63/BBL; BRENT (X3) SETTLES USD 0.23 LOWER AT 93.30/BBL

Oil prices were little changed Thursday after staging a recovery during the NY session as the Dollar pared from highs. WTI and Brent futures had been sold through the APAC session on the heels of the hawkish FOMC, with losses sustaining into the European morning to find session lows of USD 88.37/bbl and 92.20/bbl, respectively. And in what is becoming somewhat of a theme lately for oil, the US' arrival was accompanied by a strong bid that went on to see highs printed for WTI and Brent at USD 90.98/bbl and 94.60/bbl, only to pare somewhat again into the NY afternoon/futures settlement. There was a lack of market-moving energy updates on Thursday, but of note, Russia confirmed it would impose a ban on gasoline diesel exports from September 21st amid its domestic fuel shortage. Meanwhile, Reuters reports that Shell (SHEL LN) will likely restart the unit which was shut due to a leak at the Pernis refinery (400k BPD) in the Netherlands, Europe's largest, by September 25th.

EQUITIES

CLOSES: SPX -1.64% at 4,330, NDX -1.84% at 14,694, DJI -1.08% at 34,070, RUT -1.56% at 1,782.

SECTORS: Real Estate -3.48%, Consumer Discretionary -2.88%, Materials -2.05%, Industrials -1.63%, Financials -1.62%, Communication Services -1.55%, Technology -1.52%, Energy -1.39%, Consumer Staples -1.31%, Utilities -1.08%, Health -0.92%.

EUROPEAN CLOSES: DAX -1.33% at 15,571, FTSE 100 -0.69% at 7,678, CAC 40 -1.59% at 7,213, Euro Stoxx 50 -1.45% at 4,213, AEX -0.89% at 731, IBEX 35 -1.00% at 9,548, FTSE MIB -1.78% at 28,708, SMI -0.62% at 11,084, PSI -0.41% at 6,163.

STOCK SPECIFICS: **Cisco Systems (CSCO)** announced it is to acquire **Splunk (SPLK)**; the proposed deal is for USD 157/shr in cash, representing c. USD 28bln in equity value. **Google (GOOGL)** denied reports in The Information that executives have extensively discussed dropping **Broadcom (AVGO)** as a supplier of AI chips as early as 2027. **FedEx (FDX)** saw a strong beat on EPS but revenue missed expectations, it also lifted the bottom end of its profit guidance and raised its FY24 revenue growth view. **Amazon (AMZN)** decided not to charge a 2% fee to sellers who ship their own products, a move that might help it avoid antitrust issues, according to Reuters. **General Motors (GM)** is to lay off 2000 workers in Kansas due to a ripple effect from the UAW strike, according to FT. **Crowdstrike (CRWD)** raised its margin targets to be achieved within 3-5 years. **Exxon Mobil Corp. (XOM)** expects its motor fuels and chemicals to reach USD 16bln in earnings by 2027, up USD 4bln from current levels as demand continues to rise. **KB Home (KBH)** earnings beat on EPS, revenue, and deliveries but net orders missed expectations. It did lift its FY23 housing revenue outlook to about USD 6.31bln (prev. saw 5.8-6.2bln). **US Steel (X)** is reportedly having a disagreement with rival company **Cleveland-Cliffs (CLF)** over a confidentiality agreement, according to Reuters. US Steel wants Cleveland-Cliffs to sign a standstill agreement to prevent them from challenging US Steel's board while exploring a potential purchase of the Co. Microsoft (MSFT) announced co-pilot, which will hit Windows on September 26th and will work across apps and devices, it also announced the Studio 2 laptop with **Intel's (INTC)** 13th gen chip with a **Nvidia (NVDA)** GPU, reported The Verge. **Affirm (AFRM)** is exploring subscriptions to guarantee 0% APR on purchases; the service would also boost rates on savings accounts, according to Bloomberg. **Blackstone (BX)** and Permira are reportedly said to be weighing a bid for **eBay (EBAY)** backed Adevinta, according to Bloomberg. Bear Cave released a negative **Coca-Cola (KO)** report.

US FX WRAP

Dollar pares from post-jobless claims peak; Sterling and Swissy underperform after BoE and SNB leave rates unchanged

The Dollar saw ultimately little change Thursday, paring its post-FOMC strength that saw the DXY climax at 105.74 after the tumble in US jobless claims, albeit the index still sits above 105. The pullback comes despite yields firmer across the curve, particularly at the long end. Aside from jobless claims, existing home sales saw a surprise fall, while the Philly Fed mfg. survey index also fell more than expected, with prices paid rising at the same time. There is little US data on Friday although we get at least three Fed speakers with Cook (voter), Daly (non-voter), and Kashkari (voter) all scheduled.

The Euro was flat by the close, trading on either side of 1.0650 on Thursday but it did see a low of 1.0617 during the APAC session, the lowest level seen since March. The APAC low was tested after the hot jobless claims data, but failed to clip it before paring back above 1.0650 to a high of 1.0673. There were several ECB speakers. Nagel said it is not clear if rates have peaked, noting inflation is not falling at a desired rate. Kazaks said rates will need to remain restrictive for a while but he is quite satisfied with where rates stand now. Vujcic said if the outlook holds, ECB will not need any more rate hikes. Stournaras feels rates have peaked, but it is too early to discuss the timing of a cut, albeit it is likely the next move. Elsewhere, EZ consumer confidence fell deeper than expected at -17.8 (exp. -16.5, prev. -16.0).

The Yen strengthened despite the upside in UST yields with all eyes on the BoJ rate decision during APAC trade Friday, click here for the Newsquawk BoJ Preview. Meanwhile, Japan PM Kishida spoke on FX, noting it is important for Forex to move stably, reflecting economic fundamentals.

The Franc was an underperforming currency and was weaker vs both the Dollar and the Euro after the SNB surprised markets with a pause, noting that the tightening so far is countering remaining inflation pressures, albeit it left its inflation forecasts broadly unchanged. Click here for the full Newsquawk SNB review.

The Pound sold off vs both the Euro and Dollar in the wake of the BoE rate decision, which voted to leave rates unchanged, but it was clearly a very close call given the 5-4 vote split, with those voting for unchanged stating "there were signs that the labour market was loosening" while those who wanted to hike said "overall there was evidence of more persistent inflationary pressures". Click here for a full Newsquawk BoE Review. In the wake of the decision Cable fell to lows of 1.2239 also weighed on by the Dollar upside after the jobless claims data, but as the buck pared its gains, Cable returned to c. 1.2300.

The Aussie also saw weakness given the risk-off tone in trading conditions. **Kiwi** was flat vs the Dollar however, perhaps keeping its head above water thanks to the stronger-than-expected GDP data, which helped NZD/USD stay above 0.5900 for the majority of the session, only briefly breaching beneath the round level after the US jobless claims.

Scandis were mixed. **SEK** ultimately saw weakness although the currency was very volatile over the Riksbank rate decision, initially weakening vs the Euro on the lack of guidance for further tightening, however, this swiftly reversed and more after it announced it is to reduce the currency risk in foreign exchange reserves, where it will sell USD 8bln and EUR 2bln for SEK, taking EUR/SEK to lows. The gains in SEK failed to sustain throughout the session, however, gradually reversing thereafter on the downbeat risk tone. Click here for a full Newsquawk Riksbank review. **NOK** was also choppy on account of the Norges Bank and Riksbank rate decisions, not to mention the choppiness in crude and the downbeat risk tone, but ultimately the NOK outperformed the SEK and saw gains vs both the Dollar and Euro. Click here for a full Newsquawk Norges Bank review.

EMFX was mixed, and also subject to several interest rate decisions. The TRY was weaker after the 500bp cut from the CBRT while ZAR was weaker after the SARB left rates unchanged, disappointing those looking for a hike. BRL was weaker after it cut by 50bps, as expected, while also signalling another 50bp cut at the next meeting. MXN, CLP and COP were all also weaker vs the Dollar.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com