US Market Wrap

22nd September 2023: Stocks fail to hold onto initial gains but bonds rise on PMI data

- **SNAPSHOT**: Equities down, Treasuries up, Crude flat/up, Dollar up.
- **REAR VIEW**: Mixed Global Flash PMIs, US manufacturing beat but services missed, French missed, German modestly beat, EZ mixed, UK only saw manufacturing beat; BoJ keep policy settings unchanged; CVX strike actions called off; AMZN to brings ads to Prime Video; UK CMA looks set to approve MSFT/ATVI deal; UAW to announce new strikes against GM & STLA, but not F; Hawkish Bowman remarks; Collins optimistic inflation can fall with only a modest rise in unemployment.
- **WEEK AHEAD**: Highlights include US PCE, EZ Flash CPI, China Caixin PMI, and Banxico rate decision. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing Banxico; Reviewing Fed, BoE, SNB, BoJ, Riksbank and Norges Bank. To download the report, please click here.

MARKET WRAP

Stocks were choppy on Friday after two days of weakness post FOMC with initial upside led by the Nasdaq, albeit stocks ultimately closed marginally lower, adding to the weakness seen post FOMC. Stocks initially were bid, however, supported by the BoJ overnight which left policy settings unchanged as expected, again disappointing those looking for that hawkish shift. Elsewhere, there was progress on US/China relations, where the two have started working groups on economic and financial issues. There was also a positive development in the UAW strikes, where progress has been made with Ford (F), and the UAW announced it will not be expanding Ford strikes after the deadline tonight, albeit they will be expanded for General Motors (GM) and Stellantis (STLA). There were several Fed speakers on Friday, but the highlight was Governor Bowman who implied she was the top dot at the Fed saying more rate hikes are likely needed. The PMI data was mixed, manufacturing beat, while services missed, seeing the composite sitting around 50, indicating stagnation in the economy. Stocks sold off hard into the close but bonds held on to their bid with yields lower across the curve by 3-6bps after the PMI data, but Bowman did cap the T-notes bid. In FX, the Yen was the laggard post BoJ while the Antipodeans outperformed on less gloom in China that manifested in a revival in commodity prices not to mention the resolution of dispute between LNG unions and workers.

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FED'S BOWMAN (Voter): Further interest rate increases are likely appropriate with inflation still too high. Fed policy will need to be held at a restrictive level for some time, and to return inflation to 2% in a timely way. Bowman noted the continued risk of further increases in energy prices could reverse some of the recent progress on lowering inflation. She added the economy is still growing at a solid pace with robust consumer spending and solid job gains. Bank lending standards have tightened but no sign of a sharp contraction of credit that would significantly slow the economy. She expects progress on inflation is likely to be slow under current conditions suggesting the need for even tighter policy. Bowman noted it is imperative that bankers provide feedback on recent plans to toughen bank rules. Overall, a hawkish set of remarks from Bowman, and the plural use of "further interest rate increases", indicates she sees a terminal rate beyond the 2023 median dot of 5.50-5.75%. Note, there was only one Dot above that rate in the September SEPs, which was a 6.00-6.25% forecast for 2024, which most likely is Bowman given no other Dots saw more than one more hike in the forecast period.

FED'S COLLINS (non-voter): Is "optimistic" inflation can fall with only a "modest" rise in unemployment and she believes that path has widened. Collins noted current policymaking requires "considerable" patience to get the right signal from the data. Inflation remains too high despite "encouraging" news from recent readings. Important aspects of inflation, like core services excluding shelter, have not yet shown "sustained" improvement. She supports "attentiveness" to inflation risks, adding that continued above-trend economic activity means it is "too soon to be confident" inflation is beaten. Cash levels are returning to "pre-pandemic norms," while household and business spending is expected to become more sensitive to high-interest rates.

FED'S DALY (non-voter): The Fed stood pat this week on rates in recognition that they are closer to its destination, noting they are holding rates steady to collect information to see if more is necessary, adding the Fed needs to go at a slower pace. She did stress that holding rates this week doesn't predict what the Fed will do next. She noted they have had a good set of data in the last few months, inflation is coming down and the labour market is gradually adjusting, while part of the improvement in inflation has come from the supply side. However, Daly is not ready to declare victory and she will not be satisfied until she is confident inflation is on a path back to stability. She said the Fed want to bring inflation to 2% as gently as we can, noting patience is a prudent strategy. On the US economy, she said it has a lot of momentum, and where the post-COVID momentum of the US consumer is the most surprising thing. She added that banks are tightening credit, which is what we want them to do, to get the drop in inflation required. People are more bullish on retail real estate than she had thought. She is watching the "sticky" non-housing services inflation and the rise in energy prices. It's unlikely we'll be at 2% inflation in 2024 (Fed median 2024 Core PCE dot at 2.6%). She stressed she is completely unwilling to entertain increasing the 2% inflation target. We shouldn't rule out risks, but the economy is proving the risk of stagflation to be less important. Seeing firms' expected wage growth moderate. Will be watching if energy price increases push up short-run inflation expectations. Right now, has no indication inflation expectations are rising. Credit card debt and delinquencies are beginning to rise, but still at very low levels vs. the past.

S&P GLOBAL PMI: The September Flash S&P Global PMI survey for the US saw Manufacturing beat at 48.9 (exp. 48.0, prev. 47.9), while the Services PMI missed at 50.2 (exp. 50.6, prev. 50.5). Manufacturing remains in contractionary territory, albeit the slowdown so far in September was not as deep as August's while Services continue to expand albeit very, very marginally, and is flirting with contractionary territory. That left the composite at 50.1, largely unchanged from the prior 50.2, indicating stagnation once again. The report noted, "The service sector lost further momentum, with the contraction in new orders gaining speed". On employment, "Subdued demand did not translate into overall job losses in September as a greater ability to find and retain employees led to a quicker rise in employment growth. That said, the boost to hiring from rising candidate availability may not be sustained amid evidence of burgeoning spare capacity and dwindling backlogs which have previously supported workloads." For inflation, S&P Global highlighted that “Inflationary pressures remained marked, as costs rose at a faster pace again. Higher fuel costs following recent increases in oil prices, alongside greater wage bills, pushed operating expenses up. Weak demand nonetheless placed a barrier to firms’ ability to pass on greater costs to clients, with prices charged inflation unchanged on the month.”

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 8+ TICKS HIGHER AT 108-22

Treasuries pared some of the week's losses Friday with mixed PMI data catalysing the move. At settlement, 2s -2.5bps at 5.123%, 3s -3.9bps at 4.816%, 5s -4.5bps at 4.571%, 7s -4.3bps at 4.533%, 10s -4.0bps at 4.440%, 20s -4.0 bps at 4.710%, 30s -2.9bps at 4.524%

INFLATION BREAKEVENS: 5yr BEI -0.5bps at 2.409%, 10yr BEI -0.3bps at 2.377%, 30yr BEI -0.0bps at 2.380%.

THE DAY: T-Notes remained suppressed after Thursday's heavy sell-off during the APAC Friday session, with T-Notes marking a base of 108-09 (vs Thursday's low of 108-08). Better buying surfaced at the London handover, with contracts peaking at 108-19+ on the heels of weaker-than-expected UK retail sales and French PMIs. But contracts began paring lower again into the NY handover after the German PMIs came in above expectations; note Gilts outperformed with the soft UK retail sales compounded by a multi-year low in the composite UK PMI.

T-Notes broke through their earlier peaks in the wake of the US Flash PMI data, where despite the stronger-than-expected manufacturing component, the fall in the services was a concern. The upside was aided by two block 5yr fut buys right after the data. T-Notes hit highs of 108-26+ before Fed's Bowman (voter) said she sees the need for more than one rate hike, which tempered the Treasury bid.

STIRS:

- SR3U3 +0.0bps at 94.570, Z3 +0.0bps at 94.525, H4 +1.5bps at 94.780, M4 +1.5bps at 95.035, U4 +3.0bps at 95.350, Z4 +4.5bps at 95.640, H5 +5.0bps at 95.845, M5 +5.5bps at 95.970, U5 +5.0bps at 96.030, Z5 +5.5bps at 96.065, U6 +6.0bps at 96.125, U7 +5.0bps at 96.070.
- SOFR flat at 5.30% as of Sep 22nd, volumes rise to USD 1.522tln from 1.492tln.
- NY Fed RRP op demand at USD 1.428tln (prev. 1.454tln) across 96 counterparties (prev. 99)
- EFFR flat at 5.33% as of Sep 22nd, volumes fall to USD 87bln from 89bln.

CRUDE

WTI (X3) SETTLED USD 0.40 HIGHER AT 90.03/BBL; BRENT (X3) SETTLED USD 0.03 LOWER AT 93.27/BBL

The crude complex settled marginally firmer after a choppy day, but ended a three-week green streak as markets weighed supply concerns from Russia's fuel export ban against demand issues from further future rate hikes. Further on the former, the Kremlin said the fuel export ban will last for as long as necessary to ensure stability of the fuel market. On the day, WTI and Brent saw highs of USD 91.33/bbl and 94.64/bbl, respectively, just before the cash open but sold off since to print lows of 89.31/bbl and 92.80/bbl in the US afternoon. Oil specific newsflow was light on Friday with the highlight being mixed Flash PMIs, although HSBC did join its peers in raising its Brent forecasts; expects oil demand to remain tight on prolonged extension of Saudi voluntary cuts, assumes the cuts will stay in place until 2024 and added record Chinese oil demand should continue to support prices in the near-term.

CHEVRON: Australian unions agreed to endorse recommendations made by the industrial umpire to end the dispute with Chevron (CVX) and agreed to call off strikes at Chevron facilities. Chevron Australia spokesperson said unions have advised the Co. and the Fair Work Commission that industrial action has been suspended.

EQUITIES

CLOSES: SPX -0.23% at 4,320, NDX +0.05% at 14,701, DJIA -0.31% at 33,963, RUT -0.30% at 1,776.

SECTORS: Consumer Discretionary -0.87%, Financials -0.75%, Real Estate -0.72%, Consumer Staples -0.47%, Industrials -0.34%, Health -0.2%, Utilities -0.16%, Materials -0.13%, Communication Services -0.09%, Energy +0.15%, Technology +0.26%.

EUROPEAN CLOSES: DAX -0.09% at 15,557, FTSE 100 +0.07% at 7,683, CAC 40 -0.40% at 7,184, Euro Stoxx 50 -0.12% at 4,207, IBEX 35 -0.49% at 9,502, FTSE MIB -0.46% at 28,575, SMI -0.67% at 11,011.

STOCK SPECIFICS: **Amazon (AMZN)** Prime Video, starting in 2024, will include adverts and while it is not making changes to the current price, it will offer a new ad-free option for an additional USD 2.99 per month in the US. UK CMA regulator said the sale of **Activision's (ATVI)** cloud gaming rights to Ubisoft (UBI FP) has made significant progress in resolving previous concerns and is now seeking input on potential solutions before making a final decision on the **Microsoft (MSFT)** deal. Said that while some limited concerns remain with the new deal, Microsoft has proposed remedies that the CMA believes can effectively address these issues. **Apple (AAPL)** is expected to sell more high-end iPhone 15 Pro and Pro Max models in India, increasing its market share from 5% to 7% in H2 '23. Meanwhile, according to TF International Securities analyst Ming Chi Kuo, Q4 ’23 iPhone revenue and profit will likely be better than expected and easily achieve Y/Y growth based on results of an early iPhone 15 sales survey. **AstraZeneca (AZN)** reported positive results for its drug Dato-DXd in a trial for treating a common type of breast cancer. **Seagen (SGEN)** reported positive topline results from a clinical trial of treatment for patients with previously untreated bladder cancer. The results showed the treatment improved both overall survival and progression-free survival, compared with chemotherapy. **Wayfair (W)** was upgraded at Bernstein citing improving revenue growth and margin commentary. **Charter Communications (CHTR)** was upgraded at Wells Fargo; said its mobile roll-to-pay offering and rural growth should contribute to accelerating EBITDA and free cash flows. Of note for US-listed Chinese names such as, **JD (JD), PDD (PDD) and Alibaba (BABA)**: China is considering relaxing rules that cap foreign ownership in domestic publicly traded companies.

UAW: **Detroit Three automakers (STLA, GM, F)** and the union representing the companies' US hourly workers entered the final hours to reach new labor agreements before the current coordinated strike expands to include more plants. UAW President Shawn Fain warned that more of the union's 146,000 members will join them if new deals are not reached before 12:00EDT/1700BST on Friday. Automakers have proposed 20% raises over 4-1/2 years, while the UAW is seeking 40%. The latest news, according to a Reuters source, UAW will announce it has made real progress with **Ford (F)** in labour talks and will not expand strikes vs. the company. Although, it is set to announce significant new strikes against **Stellantis (STLAM IM)** and **General Motors (GM)**. Following this news, GM stated Friday’s strike escalation by the UAW's top leadership is unnecessary and have presented five separate economic proposals to the UAW. Meanwhile, STLA reported it has still not received a response to Thursday's offer, which includes current full time hourly employees earning between USD 80,000-96,000 a year by the end of the contract, a long-term solution for Belvidere, and a significant product allocation that allows for workforce stability through the end of the contract.

WEEKLY FX WRAP

Diverse course of policy action from a feast of Central Banks

USD/JPY: Currency markets were braced for an abundance of September policy meetings, but not fully prepared for the decisions that were taken by several Central Banks starting with a more hawkish hold from the Fed than many were expecting and culminating in no change by the still ultra-accommodative BoJ. Consequently, Usd/Jpy rebounded towards the upper end of a 148.45-147.33 range with scope to extend higher and keep the DXY on track to continue its winning streak. To recap, the FOMC matched expectations that were heavily skewed in favour of a rate hike skip, but the new dot plots continued to point to another 25 bp tightening move before year end and the trajectory for 2024 was elevated to 5.1% from 4.6%. Hence, higher for longer will likely translate to 50 bp easing over the course of next year rather than 100 bp and Fed Chair Powell did not push back against this updated guidance during the press conference. In fact, he reinforced the message by reiterating that a majority of policymakers believe it is more likely than not another rate hike will be appropriate and cited stronger than anticipated economic activity as the main reason for needing to do more. This helped the Buck bounce firmly and broadly with the index up from 104.660 weekly low to close on a high of 105.440 and technically bullish beyond Fib resistance. However, the tide turned on Thursday and approaching the end of a very volatile session littered with other Central Bank rate decisions as Yen shorts scrambled for cover on the premise that the BoJ might spring a hawkish surprise. In the event, ultra-easy policy was maintained and Governor Ueda gave no hint whatsoever of a shift in stance anytime soon.

CHF/GBP: Somewhat fitting that the Franc and Pound flagged on Friday given that the SNB and BoE both defied consensus, albeit far from unanimous, for ¼ point rate increases by ‘pausing’ instead. Moreover, while the accompanying statements retained optionality to hike later if required, there was justification for assuming cycle completion in the case of the former as the SNB’s revised forecasts were based on 1.75% for the entire horizon. Meanwhile, the MPC vote went down to the wire, though UK data supported the argument for ending the consecutive tightening run and cooler than forecast CPI especially, if not exclusively. Indeed, retail sales missed the mark and a deeper contraction in the services PMI weighed on the composite reading irrespective of an improvement in manufacturing (latter still sub-50 nevertheless). Usd/Chf jumped from 0.8933 to 0.9078 at extremes and Cable reversed from 1.2424 to 1.2234 before deriving some traction from 1.1 bn option expiries at 1.2250.

EUR: The Euro lost more ground to the Greenback between 1.0736-1.0615 parameters even though some ECB officials refused to concede that rates have reached terminal level. On the flip-side, Eurozone HICP was tweaked down in the final release and flash consumer confidence was weaker than expected, while French PMIs were dire and only partly offset by better than feared German prints that propped up the pan EZ numbers. Eur/Usd lost grip of the 1.0700 handle having peaked around 1.0736 and only really retained 1.0600+ status with the assistance of a chart prop (Fib retracement) and psychological support allied to the DXY waning at 105.780.

NZD/AUD/CAD: At the other end of the major spectrum, the Kiwi, Aussie and Loonie to a lesser extent all displayed resilience vs the Buck. Nzd/Usd enjoyed a late flourish to post a new apex within 0.5988-0.5895 extremes and perhaps on reflection of NZ GDP data that was considerably better than expected for Q2 and upgraded to show no recession in the previous quarter. Across the Tasmin, RBA minutes were hawkish leaning and two out of three prelim PMIs beat consensus as the services and composite headlines rebounded above 50.0, but the Aussie was underpinned by less gloom in China that manifested in a revival in commodity prices not to mention the resolution of dispute between LNG unions and workers. Aud/Usd pivoted 0.6450 for the most part having faded just beneath a solid double top (circa 0.6522 vs 0.6511 at best) and finding decent underlying bids under 0.6400. Elsewhere, hotter than forecast Canadian inflation metrics and buoyant crude bolstered the Loonie along with BoC minutes and commentary highlighting that rates may not be sufficiently restrictive yet. Usd/Cad recoiled from 1.3528 to 1.3383 before stalling when a Fib was probed a fraction below 1.3400, but not convincingly breached.

SCANDI/EM: The Nok and Sek were choppy in the run up to and after respective Central Bank meetings that saw the Norges Bank and Riksbank deliver like-for-like 25 bp hikes, as flagged, but the former signalling intent to go one step further, probably in December. Conversely, the latter merely kept the door ajar verbally as the repo path implied a peak very close to the new 4% rate, and the focus swiftly shifted to hedging against 25% of its FX reserves via the sale of Usd and Eur from next Monday for the duration of 12 months. In China, the PBoC persisted with intervention by midpoint fixes, and at times very skewed against spot and what was deemed neutral, while in India the RBI got a huge helping hand in its efforts to shore up the Inr when JPM confirmed that Indian debt will be included in its bond index from late June 2024. In Turkey, the Try was not impressed with the CBRT ‘only’ meeting expectations for a 500 bp rate increase, but in Brazil the Brl took a 50 bp ease in the Selic rate and guidance for more of the same from the BCB largely in stride. Similarly, the Zar continued its corrective recovery regardless of a steady SARB, but with backing from Gold forming a solid base above Usd 1900/oz, and the Mxn also made technical advances fuelled by lofty WTI.

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