



US Market Wrap

25th September 2023: Yields hit highs not seen since '07, supporting the Dollar

- **SNAPSHOT:** Equities up, Treasuries down, Crude flat, Dollar up.
- **REAR VIEW:** Fed's Goolsbee says will play it by ear on further hikes; Better than expected German Ifo; ECB insider puts probability of another hike at 50%; BoJ Governor Ueda maintains dovish commentary; Evergrande misses bond payments; F says there are still gaps in UAW talks; Hollywood writers reach tentative agreement.
- **COMING UP: Data:** Japanese Services PPI, US Build Permits & New Home Sales **Events:** NBH Policy Announcement **Speakers:** ECB's Lane & Fed's Bowman **Supply:** Japan, Italy, UK, Germany & US **Earnings:** Costco.
- **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

US stocks were marginally firmer Monday in the face of massive Treasury bear-steepening momentum in a lack of clear catalysts. The Dollar surged as a result. Long-end yields climbed through the session, taking the whole curve above 4.50% after the 10yr hit fresh cycle peaks of 4.55%; 30yr yield spiked 15bps. The moves began in the APAC Monday session, in lack of an obvious catalyst, and the momentum carried on from there. The US session had little new to report on aside from declines in tier 2 data points: the Chicago Fed's national activity index and Dallas Fed's manufacturing survey. Fed's Goolsbee (voter) gave some evergreen comments on CNBC, noting he would play it by ear on the need for another hike but that the debate will shift from how high rates will go to how long. There was greater attention on the weak China sentiment amid an Evergrande unit missing payments on an offshore bond. The Yuan weakened and domestic stocks were sold. The Euro was sold despite a hot-leaning Ifo survey, with several ECB speakers out warning of the risks of overdoing it on rate hikes.

GLOBAL

EVERGRANDE (3333 HK) cancelled its creditor meeting set for early this week and announced it is scrapping its USD 35bn debt restructuring plan, while it noted that it is necessary to re-assess the terms of the proposed restructuring. Evergrande also stated that it is unable to issue new debt under the present circumstances citing an investigation into its subsidiary Hengda Real Estate. Following this, in the US session, Bloomberg reported the co. missed interest payments on CNY bond issued in 2020 and the Evergrande unit missed payments on a CNY 4bn onshore bond.

FED: Goolsbee (voter) said the bigger risk is if inflation stays too high, but believes the Fed are getting inflation down to target but they cannot change the target until it is reached. Goolsbee added the current path is unusual for [inflation] to fall like it is without unemployment rising. On rates, the Chicago Fed President noted at some point the question shifts from how high rates need to be to how long they will stay there for. Moreover, the Fed will play it by ear whether rates need to move higher, and it feels like rates will have to stay higher for longer than markets had expected [referencing the 2024 Dot Plot]. Meanwhile, Goolsbee said concerns over yield curve inversion do not account for the possible differences in a post-pandemic economy.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLE 16+ TICKS LOWER AT 108-05+

Treasury bear-steepening momentum continues at full force in the absence of fresh catalysts. At settlement, 2s +0.2bps at 5.125%, 3s +1.7bps at 4.833%, 5s +4.9bps at 4.620%, 7s +7.8bps at 4.611%, 10s +10.4bps at 4.544%, 20s +14.1bps at 4.848%, 30s +14.1bps at 4.663%.

INFLATION BRAKEEVENS: 5yr BEI -2.8bps at 2.379%, 10yr BEI -1.0bps at 2.366%, 30yr BEI +1.3bps at 2.394%.



THE DAY: T-Notes opened at their session peaks of 108-25+ at the globex open before selling kicked in as Asia trade got underway Monday, with the front end holding up much better as bear steepeners prospered. There was no obvious catalyst for the selling, with desks instead pointing to some of the hawkish elements of Fed Speak last week in efforts to pin narrative to price action. There was more govvie selling as Europe returned from the weekend and a hot-leaning (vs expectation) German Ifo survey only emboldened the moves.

T-Notes made interim lows of 108-06 in the NY morning, failing to recover past 108-14 for the rest of the session; the cash 10yr yield rising to new cycle peaks of 4.55% means the whole curve now sits above 4.50%. While the T-Note made a partial recovery off lows, Ultra Bonds continued to trade heavily, and the sellers held out to see new lows were printed in T-Notes just before settlement at 108-04. There were little major catalyst to alter trade in the US session, with a dip in the Dallas Fed mfg. survey the "highlight"; the Chicago Fed's national activity index also fell. Instead, many point to continued selling momentum in the aftermath of last week's FOMC. Note also the Yom Kippur holiday which may have reduced liquidity.

THIS WEEK'S AUCTIONS: US to sell USD 48bln of 2yr notes on Sep 26th, USD 49bln of 5yr notes on Sep 27th, and USD 37bln of 7yr notes on Sep 28th; all to settle on October 2nd.

STIRS:

- SR3Z3 +0.0bps at 94.535, H4 +1.0bps at 94.790, M4 +0.5bps at 95.045, U4 +0.0bps at 95.355, Z4 -0.5bps at 95.635, H5 -1.0bps at 95.835, M5 -2.0bps at 95.950, U5 -3.0bps at 96.005, Z5 -4.0bps at 96.030, Z6 -8.0bps at 96.040, Z7 -12.0bps at 95.910.
- SOFR flat at 5.30% as of Sep 22nd, volumes fall to USD 1.511tn from 1.522tn.
- NY Fed RRP op demand at USD 1.437tn (prev. 1.428tn) across 99 counterparties (prev. 96).
- EFFR flat at 5.33% as of Sep 22nd, volumes rise to USD 94bln from 87bln.
- US sold USD 72bln of 3-month bills at 5.330%, covered 2.77x; sold USD 64bln of 6-month bills at 5.315%, covered 2.91x.

CRUDE

WTI (X3) SETTLED USD 0.35 LOWER AT 89.68/BBL; BRENT (X3) SETTLED USD 0.02 HIGHER AT 93.29/BBL

Oil prices were little changed Monday after recovering off lows seen in the NY morning, battling off headwinds from a firmer Dollar. WTI and Brent futures hit troughs of USD 89.03/bbl and 92.54/bbl, respectively, in the NY morning, around the time the Dollar strength hit its apex, before recovering into the afternoon. In energy newsflow, Russia exempted some of its products from its export bans, albeit the key gasoline and high-quality diesel ban implemented last Thursday remains in place. In Venezuela, Reuters reported Chevron (CVX) is preparing a new oil drilling push to boost its output to 200k BPD in early 2024. There was a slew of industry and analyst commentary with Continental's CEO warning on Bloomberg TV that a lack of exploration will drive up prices to between USD 120-150/bbl, while JPMorgan's strats suggest Brent could surge to as high as USD 150/bbl.

EQUITIES

CLOSES: SPX +0.40% at 4,337, NDX +0.46% at 14,769, DJIA +0.13% at 34,007, RUT +0.44% at 1,784.

SECTORS: Energy +1.28%, Materials +0.8%, Consumer Discretionary +0.67%, Health +0.54%, Technology +0.47%, Industrials +0.46%, Communication Services +0.38%, Financials +0.15%, Real Estate -0.17%, Utilities -0.2%, Consumer Staples -0.43%.

EUROPEAN CLOSES: DAX -0.98% at 15,405, FTSE 100 -0.78% at 7,623, CAC 40 -0.85% at 7,123, Euro Stoxx 50 -0.99% at 4,165, IBEX 35 -1.22% at 9,386, FTSE MIB -0.68% at 28,382, SMI +0.00% at 11,014.

STOCK SPECIFICS: **Ford (F)** said there are still significant gaps to close on key economic issues with the UAW. **Amazon (AMZN)** is to invest as much as USD 4bln in AI startup Anthropic. **Booking's (BKNG)** bid for Etraveli Group has been blocked by EU antitrust regulators, but BKNG later said it would challenge the EU antitrust veto. **Apple (AAPL)** plans to scale up production in India by over five-fold to around USD 40bln in the next four/five years. In other news, Morgan Stanley said iPhone 15 lead times are ahead of iPhone 14 cycle and are at record highs; is "encouraged by these early data points". Added the next two weeks will be critical in determining the directionality of the cycle and December quarter iPhone builds and revenue. Bloomberg reported that **Nio (NIO)** is considering raising USD 3bln from investors, but a Nio spokesperson later said that the information is false. **Berkshire Hathaway (BRK.B)** sold 4.8mln shares of HP Inc worth roughly USD 130mln in recent days. **Nike (NKE)** was downgraded at Jefferies; cited wholesale



pressures and macro headwinds in China. **Dow (DOW)** and **Microsoft (MSFT)** were upgraded at JPMorgan and Guggenheim, respectively. Of note for media names, such as **Warner Bros. Discovery (WBD)**, **Paramount (PARA)**, **Netflix (NFLX)**, amongst others. Hollywood writers reached a tentative agreement to end a historic screenwriters strike after nearly five months. Green Equity Investors, an arm of investment firm Leonard Green and Partners, revealed a 5% stake in **Williams-Sonoma (WSM)**. **Chinese-listed ADRs (LI, NIO, PDD, JD)** saw weakness as sentiment surrounding China's economy worsened amid further Evergrande woes (further details above). **Broadcom (AVGO)** announced a court issued an injunction requiring **Netflix (NFLX)** to cease and desist all further infringement in Germany.

US FX WRAP

Dollar gains continue on higher for longer Fed expectations while Evergrande woes weigh on China exposed currencies

The Dollar continued its trend higher on Monday to see DXY rise above the March peaks of 105.88 and then above 106, for the first time since November 2022. The Dollar strength followed China woes surrounding Evergrande with little US data released other than the National Activity Index which fell to negative territory and the Dallas Fed manufacturing business index that fell further into contractionary territory. Fed Speak saw Goolsbee (voter) on CNBC say he believes the Fed is getting inflation down to target, but will be playing it by ear on further rate hikes, repeating at some point the question shifts from how high rates should go, to how long they will stay there. On flows, as we head into month-end Barclays notes a strong positive Dollar signal for the month and quarter-end rebalancing.

The Euro was weaker due to the Buck's strength and despite a better-than-expected German Ifo report. There were several ECB speakers once again, Villeroy said maintaining current rates will lower inflation, and he sees a risk that the ECB could do too much in the future. De Cos said the ECB must avoid insufficient and excessive tightening, noting if rates are kept at current levels for long enough inflation should return to the 2% target. Lagarde largely repeated what was said at the ECB Press Conference, noting policy rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to target. Schnabel said there is not yet an all-clear for the inflation problem. Meanwhile, an ECB insider via Econostream suggested the probability of another ECB hike may be a bit less than 50%, and any further rate hikes would likely be in December at the earliest. EUR/USD fell from peaks of 1.0655 to lows of 1.0576, returning to levels not seen since March 2023. On techs, EUR/USD fell beneath a fib level at 1.0608 and the psychological 1.0600.

The Yuan was weaker on both onshore and offshore with woes at Evergrande sparking more concerns in China. Evergrande cancelled its creditor meeting set for early this week and scrapped its USD 35bln debt restructuring plan while it also reportedly missed interest payments on the CNY bond issued in 2020.

The Yen was weaker vs the buck but stronger vs the Euro and Swissy with the advance higher in US yields hurting the Yen through rate differentials with yields hitting highs not seen since 2007. USD/JPY traded between 148.26 and 148.97, finding resistance at the round level but still seeing the highest print since October 2022. BoJ Governor Ueda reiterated Monday the dovish message from the BoJ, that it must patiently maintain monetary easing while noting it is important for FX to move stably, reflecting fundamentals. Ueda added the central bank hopes to work closely with the government and scrutinize the impact of FX moves on the economy and prices. However, he did add the BoJ will not directly target FX in guiding monetary policy. On YCC, Ueda said they may end YCC when stable and sustainable achievement of 2% inflation target is foreseen but he does not have a clear image in his mind yet on how to tweak YCC, including the 10yr JGB yield target. In the fiscal space, PM Kishida announced he is to instruct ministers to compile an economic package on Tuesday and is to strengthen tax breaks to boost wage hikes, also noting that excessive forex moves are undesirable.

Cyclical currencies were mixed: AUD and GBP were softer, while NZD and CAD were flat vs the Dollar. The Aussie underperformance was due to the aforementioned China woes while USD/CAD remained sub 1.3500 despite weaker oil prices, perhaps buoyed by hawkish BoC expectations.

Scandis firmed vs the Euro, particularly SEK with the Riksbank starting their FX hedging Monday while the USD 720mln cash injection to SBB may have also helped given it boosts the embattled landlords liquidity. NOK also saw gains vs the Euro.

In **EMFX**, LatAms saw weakness with COP and MXN underperforming, while BRL and COP also saw notable weakness with the broad downside stemming from the China woes given large exposure to the country in LatAm nations while the upside in the buck also weighed, with a higher for longer Fed being priced in, lower US demand is also likely to hit the LatAm nations, while the lower commodity prices (metals and oil) also weighed. Elsewhere, TRY was also weaker but ZAR was flat vs the buck.



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