newsquawk

US Market Wrap

26th September 2023: Dollar hits YTD peaks as stocks and bonds trade heavy ahead of month-end

- **SNAPSHOT**: Equities down, Treasuries flat/down, Crude up, Dollar up.
- **REAR VIEW**: Japanese FX jawboning; US new home sales and consumer confidence short of expectations; Kashkari sees 40% chance of more hikes; Mixed 2yr auction; US FTC to sue AMZN; Germany cuts planned Q4 Federal debt issuance by EUR 31bln; Woeful UNFI guidance; EU will reportedly probe TSLA over China exports.
- **COMING UP**: **Data**: Australian CPI & German Gfk Consumer Sentiment **Events**: CNB Policy Announcement **Supply**: UK, Germany & US **Earnings**: Micron.

MARKET WRAP

Stocks were sold through the session on Tuesday as Bonds failed to hold a recovery attempt in lack of major catalysts. It's worth noting we are entering month-end so rebalancing flows are likely factors affecting tape action currently. The US highlights were the fall in US consumer confidence and new home sales, which ultimately failed to stop Treasuries from unwinding all of the recovery they made in the European morning, which was initially aided by Germany slashing its Q4 issuance plans. Fed's Kashkari (voter, hawk) spoke, saying he puts a 60% probability of a soft landing and a 40% probability on a scenario where Fed will have to raise rates significantly higher to beat inflation. The DXY hit fresh YTD peaks at 106.26, with Sterling and activity currencies in general feeling the brunt in the broader risk-off tone; note that sell-side analysts have been touting strong Dollar buying signals for month-end. USD/JPY was little changed, with the Yen supported by comments from Finance Minister Suzuki who said he is closely watching FX moves with a great sense of urgency. Elsewhere, a dip overnight in oil prices to two-week lows failed to hold and contracts reversed higher in the US session ahead of inventory data in the absence of fresh energy catalysts.

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CONSUMER CONFIDENCE: US Consumer Confidence fell for the second consecutive month to 103.0 from 108.7 (upwardly revised from 106.1) and beneath the expected 105.5. Present Situation Index marginally rose to 147.1 (prev. 146.7), while the Expectations Index declined further to 73.7 (prev. 83.3), falling back below 80 - the level that historically signals a recession within the next year. On the labour market, jobs ‘hard-to-get’ printed 13.6% (prev. 13.2%), while jobs ‘plentiful’ rose to 40.9% (prev. 39.9%). Inflation expectations for the 12 months ahead were unchanged at 5.7% in September. The report notes, “Write-in responses showed that consumers continued to be preoccupied with rising prices in general, and for groceries and gasoline in particular.” The report further adds, “Consumers also expressed concerns about the political situation and higher interest rates. The decline in consumer confidence was evident across all age groups, and notably among consumers with household incomes of $50,000 or more.”

NEW HOME SALES: New Home Sales fell 8.7% to 675k from 739k (upwardly revised from 714k), shy of the consensus 700k. Looking at the internals, median new home price fell 1.4% M/M to USD 430k, with Y/Y prices declining 2.3%. Supply of homes for sale increased 1.2% M/M to 436k units in August, with the available inventory translating into 7.8 months of supply down from 7.0 months in June and above the supply of six months considered the sign of a balanced housing market. On this, Oxford Economics notes, "with the supply of existing homes for sale scarce, new homes continue to account for an historically elevated share – 31%– of single-family homes for sale, although that's below the record-high share of 35% in early 2022." While looking ahead, Oxford Economics expects the headline to weaken further over the balance of this year and to slip below 600k in Q4 as demand is weighed down by both higher rates and a softer labour market. Despite saying this, the consultancy adds there may be a small upside risk, assuming mortgage rates don't rise much further from current levels. In addition, OxEco adds, home builders, seeing an absence of existing homes for sale, are again scaling up their use of incentives, including price cuts and mortgage rate reductions to move their supply.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 2 TICKS LOWER AT 108-03+

Treasuries were ultimately a touch weaker after a recovery attempt was squashed as US trade got underway ahead of supply. At settlement, 2s -0.6bps at 5.125%, 3s -0.6bps at 4.830%, 5s -0.4bps at 4.616%, 7s +0.2bps at 4.613%, 10s +1.0bps at 4.552%, 20s +2.4bps at 4.871%, 30s +3.2bps at 4.691%.

INFLATION BREAKEVENS: 5yr BEI -3.4bps at 2.336%, 10yr BEI -3.3bps at 2.329%, 30yr BEI -1.2bps at 2.379%

THE DAY: Treasuries extended their heavy sell-off from Monday into the Tokyo morning on Tuesday, where T-Notes hit session lows of 108-00+, which held from there. A meaningful recovery began during the European morning. Accentuating the move was a EUR 31bln cut to Germany's Q4 issuance, alongside a well-received German Bobl auction. At the same time, given the moves on Monday, the recovery was somewhat expected/natural, with the long end leading the bounce. Some notable blocks include a 7.8k T-Note buy shortly followed by a 3k T-Bond buy at the NY handover.

T-Notes peaked at 108-17 early in the US session before the recovery lost momentum as cash Treasury trade got underway. The disappointing US consumer confidence data provided only a short period of relief before further downside was seen. T-Notes found support at 108-02+ as Europe began closing shop ahead of the APAC 108-00+ lows, although short-end and long-end contracts stretched out fresh lows ahead of the 2yr auction and with duration weighed particularly by a 5k T-Bond block sale shortly followed by a 12.6k ZF/2.7k UB block steepener. Contracts remained within ranges through the NY afternoon, with little follow-through after the mixed 2yr auction.

2YR AUCTION: A mixed USD 48bln 2yr auction from the Treasury, coming in on the screws at 5.085% (highest auction 2yr yield since 2006 vs Aug's 5.024%), similar to the six-auction average 0.1bp stop-through and slightly worse than the prior 0.4bp stop-through. The bid/cover ratio was 2.73x, down from the prior 2.94x and average 3.13x, and perhaps a reflection of the increase in auction size. However, Dealers (forced surplus buyers) were left with 14%, down slightly from the prior 15% and average 16.7%, on account of the slight rise in Directs participation to 21% from 20%.

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

STIRS:

- SR3Z3 -0.5bps at 94.530, H4 +0.5bps at 94.785, M4 +1.0bps at 95.045, U4 +1.0bps at 95.350, Z4 +1.0bps at 95.635, H5 +1.0bps at 95.835, M5 +0.5bps at 95.950, U5 +0.5bps at 96.005, Z5 +0.5bps at 96.030, Z6 -0.5bps at 96.035, Z7 -0.5bps at 95.910.
- SOFR rises to 5.31% as of Sep 25th from 5.30%, volumes rise to USD 1.524tln from 1.511tln.
- NY Fed RRP op demand at USD 1.438tln (prev. 1.437tln) across 97 counterparties (prev. 99).
- EFFR flat at 5.33% as of Sep 25th, volumes fall to USD 93bln from 94bln.
- US sold USD 60bln of 42-day CMBs at 5.290%, covered 2.89x.
- US raises 4-, 8-, and 17-week bills sizes by USD 5bln, 5bln, and 2bln, respectively, to USD 85bln, 75bln, and 52bln; 4- and 8-week sold on Sep 28th, 17-week on Sep 27th; all to settle on Oct 3rd.

CRUDE

WTI (X3) SETTLED USD 0.71 HIGHER AT 90.39/BBL; BRENT (X3) SETTLED USD 0.67 HIGHER AT 93.96/BBL

Oil prices were firmer Tuesday, reversing initial losses seen out of APAC after the DXY retreated from 10-month highs. WTI and Brent futures had hit two-week lows at USD 88.19/bbl and 91.80/bbl, respectively, early in the European session, coinciding with the Dollar at its strongest levels, before prices gradually recovered then accelerated to the upside in the NY morning. There were little energy catalysts or stories to shape trade, with participants instead looking to the weekly energy inventory data with the private release due later Tuesday ahead of the official EIA figures on Wednesday. Current expectations (bbls): Crude -0.3mln, Gasoline -0.1mln, Distillates -1.3mln.

EQUITIES

CLOSES: SPX -1.47% at 4,273, NDX -1.51% at 14,545, DJIA -1.14% at 33,618, RUT -1.27% at 1,761.

SECTORS: Utilities -3.04%, Consumer Discretionary -2.03%, Real Estate -1.78%, Technology -1.78%, Industrials -1.52%, Materials -1.46%, Financials -1.34%, Communication Services -1.34%, Consumer Staples -0.9%, Health -0.86%, Energy -0.5%.

EUROPEAN CLOSES: DAX -0.97% at 15,255, FTSE 100 +0.02% at 7,625, CAC 40 -0.70% at 7,074, Euro Stoxx 50 -0.93% at 4,128, IBEX 35 -0.20% at 9,366, FTSE MIB -1.00% at 28,098, SMI -0.56% at 10,952.

STOCK SPECIFICS: EU will reportedly probe **Tesla (TSLA)** over its China exports. **United Natural Foods (UNFI)** missed on revenue with very poor FY guidance. Highlighting this, EPS is seen at a chunky surprise loss per share while EBITDA was also short of expectations. **Fisker (FSR)** expects to ramp deliveries up to 300 vehicles per day. In addition, BofA reinstated coverage with a 'Buy' rating noting it offers investors “pure-play exposure to the rapidly growing EV market” and that it has a lower-risk business model relative to EV peers. **Liberty Media (LXSMA)** proposes combination with **SiriusXM Holdings (SIRI)**; SIRI acknowledged the receipt of proposal but no decision been made by special committee. **Thor Industries (THO)** beat on the top and bottom line, but FY24 midpoint guidance was light amid cautious commentary about the macro environment. **Cintas (CTAS)** beat on profit with revenue in line in addition to raising Q4 guidance. **Intercept Pharmaceuticals (ICPT)** to be acquired by Alfasigma for USD 19/shr in cash. Note, ICPT closed Monday at USD 10.44/shr. EU antitrust regulators raided **Edward Lifesciences (EW)** facilities in "an EU country" on Sep 19th, according to Reuters sources. EW responded saying it is cooperating and is committed to healthy fair competition and remains confident in its business practices. **DraftKings (DKNG)** was upgraded at JPMorgan. **Immunovant’s (IMVT)** IMVT-1402 shows Phase 1 efficacy; experimental antibody drug showed a reduction in levels of IgG antibodies that cause inflammation and disease. **Willis Towers Watson (WTW)** raised share buyback programme by USD 1bln, in addition to the approx. USD 545mln remaining. US FTC said it is suing **Amazon (AMZN)** for illegally maintaining monopoly power. AMZN replied noting if FTC antitrust suit successful the result "would be fewer products to choose from, higher prices, slower deliveries for consumers"; added lawsuit is wrong on facts and law, and look forward to making that case in court. **Apple (AAPL)** Vision Pro shipment growth may be below market expectations, according to Ming-Chi Kuo

US FX WRAP

The Dollar was firmer on Tuesday, hitting an almost 10-month high of 106.260, despite a lack of fresh stimulus but instead a further souring of risk sentiment. Whilst newsflow was fairly light on the day, the Greenback took a lower-than-forecast Consumer Confidence and New Home Sales largely in stride. On the Fed footing, Kashkari (voter) echoed his usual hawkish tone noting he puts a 40% probability on a scenario where Fed will have to raise rates significantly higher to beat inflation. Furthermore, he added the Fed have made a lot of progress towards 2% inflation goal and puts a 60% probability of a soft landing. In addition, Credit Agricole FX Month-End Rebalancing model suggests mild USD buying across the board with the strongest buy signal in the case of the USD vs the CAD. Amongst all this, attention also resides on a potential Government shutdown (Newsquawk primer here). Looking ahead, Durable Goods (Aug) is the highlight on Wednesday, ahead of Core PCE on Friday.

Activity currencies, CAD, GBP, and Antipodeans, were the G10 underperformers on Tuesday and suffered from the broad Dollar strength and risk-off sentiment, as opposed to much currency specific. Cable hit a low since mid-March of 1.2155, but note the Pound was already lagging before the Dollar regrouped and resumed its upward trajectory due to relatively dovish BoE policy dynamics, so the fact that Cable succumbed to more downside pressure between was hardly a surprise. AUD/USD and NZD/USD hit weakest levels of 0.6388 and 0.5937, respectively, ahead of Australian CPI (Aug) Wednesday. Meanwhile, the Loonie fell victim to the Dollar bid as higher crude prices failed to support the currency.

EUR, CHF, and JPY were also all lower vs. the Dollar, but not to the extent of the aforementioned activity currencies. Firstly the Euro, which looked to be defending 1.06 to the downside, but as 1.7bln option expiry rolled off at the NY cut EUR/USD soon followed to hit a trough of 1.0563. From the ECB, Muller is not expecting additional rate hikes as things stand, while Simkus said policy is currently on track for 2% inflation in 2025, and hawk Holzmann declared it is unclear whether we're at peak rates yet and upside inflation risks are still out there and cannot exclude further rate hikes. The Yen had a choppy session, as it initially recovered from USD/JPY breaching 149.00 after Japanese Finance Minister Suzuki came out jawboning noting they are closely watching FX moves with a great sense of urgency. However, while it came to the Yen’s aid initially it only prolonged the inevitable to see USD/JPY breach 149.00, again, later in the session.

Scandis were mixed. SEK saw gains while the NOK weakened, as the bounce in Brent gave the NOK a fillip, while the SEK outperformed following a short-lived bout of consolidation as tech impulses took another constructive turn amidst Riksbank reserve hedges.

EMFX was almost exclusively weaker against the Dollar, with the Yuan, flat, outperforming. ZAR was undermined by USD strength that tarnished Gold and the HUF was caught out by the NBH cutting the overnight depo rate by 50bps alongside the anticipated 100bps ease in the quick depo rate to remove the corridor. For the BRL, minutes underscored a low probability of an additional intensification in the pace of rate adjustment with the COPOM unanimously expecting cuts of 50bps in the next meetings. Mid-month inflation data rose M/M, but was underneath expectations and the Policy Director Galipolo noted that Brazil’s FX reserves form very relevant protection when compared to peers.