US Market Wrap

27th September 2023: Yields and Dollar surge to fresh YTD highs into month/quarter-end

- **SNAPSHOT**: Equities flat/up, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Durable goods beat, but with downward revisions; Kashkari warns of more hikes and higher neutral rate; EIA crude stocks draw, products build; McCarthy tells GOP he will not allow a vote on the Senate stopgap bill; US steps up probe on CS and UBS; FTC continue challenging MSFT/ATVI deal in house.
- **COMING UP**: **Data**: German & Spanish CPI, EU Sentiment, US GDP (Final), US IJC **Events**: ECB's Economic Bulletin, Banxico Policy Announcement **Speakers**: Fed’s Powell, Goolsbee, Cook & Barkin **Supply**: Japan, Italy & US **Earnings**: Nike, Carmax & Accenture.

MARKET WRAP

Stocks were little changed to firmer Wednesday where heavy selling pared into the close after the bond sell-off lost momentum. SPX was flat, there was modest gains in the NDX, and solid gains in the small-cap Russell 2k. Durable Goods Orders came in above expectations, although there was yet another set of downward revisions keeping the overall trend subdued. Fed's Kashkari (voter, hawk) gave some more interviews on CNN and CNBC in the morning, where he was a bit more forthright in the need/potential for more hikes, and also noted the neutral rate could be higher. That was perhaps a factor in Treasuries seeing pronounced bear-flattening, seeing the overnight recovery squashed with force; a solid 5yr auction was little help too. The climb in yields was also getting pinned on oil prices surging back to fresh YTD peaks in the absence of fresh energy catalysts and despite the initial broader risk aversion; inventory data was mixed. The DXY climbed to new YTD peaks of 106.84, driven by risk aversion and higher US yields. But also, sell-side analysts have been forecasting some chunky month-end demand for the greenback, so we could be seeing some of that. Month-end flows could also be a factor in broader market activity today, and heading into the end of the week. Meanwhile, House Speaker McCarthy said he will not allow a vote on the Senate passed stopgap bill, and instead will put a new stopgap bill to vote on Friday in the house, but that will likely be dead on arrival in the Senate.

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DURABLE GOODS: US Durable Goods Orders rose 0.2% in August, despite expectations for a 0.5% decline, although the prior was revised down to -5.6% from -5.2%. The core metrics saw ex-transport rise 0.4% (exp. 0.1%), accelerating from the prior 0.1% (revised down from 0.4%). Ex-defense fell by 0.7%, adding to the steep 6.0% decline last month, which was revised lower from the initial -5.5%. Meanwhile, the super core metric, nondefense capital goods ex-aircraft, rose 0.9%, well above the expected unchanged print, reversing from the downwardly revised -0.4% (initially +0.1%). Overall, a decent report led by the super core measures, showing signs of growth outside the volatile aircraft and defence components, however, the downward revisions do offset some of the strength. Furthermore, looking at the trend, Oxford Economics notes underlying capital goods orders suggest business equipment investment lost momentum in Q3 and expects a further slowdown ahead as tighter monetary policy feeds through more fully.

FED: **Kashkari (voter, hawk)** spoke multiple times on Wednesday, as in his first interview he noted there is a risk interest rates might have to go higher. For reference, on Tuesday the known hawk said there is a 40% probability of a scenario where the Fed will have to raise rates significantly higher to beat inflation. Later on Wednesday, via a CNBC interview, the Minneapolis President reiterated he does not know if Fed policy is restrictive enough and the data says the Fed is not as restrictive as it appears, and that data will tell the Fed if more hikes are required. On the neutral rate, Kashkari said it is possible it may have moved up, while also noting that consumer spending has remained robust. Finally, via a Fox Business Interview, he said he is open to the possibility the Fed may need more than one extra hike.

GOVERNMENT SHUTDOWN: If Congress fails to agree on a continuing resolution (CR) by October 1st, the government will enter a shutdown, disrupting government services with hundreds of thousands of federal workers furloughed without pay while US economic data releases will also be delayed, potentially impacting the Fed. The US Senate voted to clear a procedural hurdle of the Senate bipartisan bill to avoid a government shut down and House Speaker McCarthy said the House will consider a separate stopgap bill with border provision on Friday. The house also started the debate on the bill to fund parts of the federal government, and House Speaker McCarthy wants to pass these four appropriation bills before the stopgap bill, but these are seen as dead on arrival in the Senate and White House on disagreements regarding border security and spending cuts. The stopgap bill would keep the government open for 45 days, taking it to mid-November. However, some Republicans are against it and have vowed to vote against it as it does not include steep spending cuts, and it includes Ukraine aid. Republican House Speaker McCarthy has now said he will not allow a vote on the Senate stopgap bill. McCarthy now has to find a way for his GOP majority to vote for a stopgap bill, or rely on democratic votes. If he gets a stopgap bill the Republican house can vote for, it will be sent back to the Democratic majority Senate, and will likely not pass as it will include spending cuts, border security measures and no aid for Ukraine. Whereas if he opts to bring Democrats on board, it will put his job at risk from the right flank Republicans. He does believe however if he can pass the four appropriation bills beforehand, it will give him a better negotiating hand in talks with congressional Democrats. Note, Capitol Insights' Greg Valliere puts the odds of a shutdown at 75%. For the full Newsquawk Primer, please click here.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLE 17 TICKS LOWER AT 107-18+

Treasuries bear-flattened Wednesday as an overnight recovery is once again squashed with force; solid 5yr auction little was little help. At settlement, 2s +5.4bps at 5.131%, 3s +4.9bps at 4.891%, 5s +5.4bps at 4.679%, 7s +6.0bps at 4.680%, 10s +4.9bps at 4.608%, 20s +4.6bps at 4.921%, 30s +2.6bps at 4.722%.

INFLATION BREAKEVENS: 5yr BEI +5.1bps at 2.375%, 10yr BEI +3.4bps at 2.354%, 30yr BEI +1.7bps at 2.392%.

THE DAY: T-Notes drifted higher at the globex reopen to interim highs of 108-12+ in the APAC session on Wednesday. There was a slew of blocked ZF/ZB curve flatteners (likely unwinds of steepeners) during APAC trade, but otherwise, activity was light. A renewed bid in the European morning saw T-Notes go on to print new peaks of 108-15 (vs Tuesday's 108-17 peak), aided by well-received German and UK debt auctions.

There was little immediate reaction to the release of the US durable goods orders with the above forecast figures overshadowed by yet more downward revisions. Instead, T-Notes went on to print session peaks of 108-17 as the dust settled but swiftly rejected a move beyond the figure (which was a double top with Tuesday), with bears very much in control of the flow (again) alongside oil prices breaking out to the upside (again). Fed's Kashkari (2023 voter, hawk) also gave fresh hawkish remarks across CNN and CNBC interviews in the NY morning, noting that it's possible the neutral rate has moved higher whilst also alluding to more hikes being needed. Before long, T-Notes were making new lows beneath Tuesday's 108-00+ trough, with the front and belly leading the losses this time, as opposed to the bear-steepening seen earlier this week. The strong 5yr auction (details below) wasn't strong enough to stop the rot, where the selling momentum showed no signs of slowing in wake of. T-Notes finally bottomed at 107-15+ before settlement, with the cash 10yr yield making a new cycle peak of 4.642%.

5YR AUCTION: A strong USD 49bln 5yr auction from the Treasury, where the ascent on Wednesday to fresh cycle peaks in yields has been accompanied by a strong demand reception at the primary offering. The 4.659% high yield, the highest since 2007 and a pick-up in yield vs August's 4.40% stop, marked a 1.2bp stop-through the WI, better than last month's 0.1bp tail and the six-auction average 0.3bp stop-through. The bid/cover was the only asterisk on the auction, with the 2.52x covered beneath the average 2.87x and prior 2.54, perhaps reflective of the increase in auction sizes. Dealers (forced surplus buyers) were left with 11.2% (prev. 13.8%/avg. 12.6%), with Indirects stepping up to 71.1% from 67.9%, indicative of strong end-user demand, while Directs saw a mild decline from last month (17.6% vs prior 18.3%).

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

STIRS:

- SR3Z3 -3bps at 94.515, H4 -5bps at 94.74, M4 -6bps at 94.99, U4 -6.5bps at 95.285, Z4 -7.5bps at 95.555, H5 -8.5bps at 95.745, M5 -8.5bps at 95.86, U5 -8bps at 95.920, Z5 -8bps at 95.945, Z6 -8.5bps at 95.95.
- SOFR flat at 5.31% as of Sep 26th, volumes rise to USD 1.561tln from 1.524tln.
- NY Fed RRP op demand at USD 1.443tln (prev. 1.438tln) across 100 counterparties (prev. 97).
- EFFR flat at 5.33% as of Sep 26th, volumes rise to USD 96bln from 93bln.
- US sold USD 24bln in 2yr FRNs (reopening): High discount margin 0.180% (prev. 0.165%).

CRUDE

WTI (X3) SETTLES USD 3.29 HIGHER AT 93.68/BBL; BRENT (X3) SETTLES USD 2.59 HIGHER AT 96.55/BBL

Oil prices surged back to fresh YTD peaks on Wednesday amid mixed inventory data and in the face of a surging Dollar and broader risk aversion. WTI and Brent futures rose gradually, peaking at USD 94.04/bbl and 97.06 /bbl, respectively, in the US session. The weekly US EIA inventory data was mixed with crude stocks drawing 2.2mln bbls while the products saw a net build of 1.4mln bbls. Meanwhile, Russia's Deputy PM Novak was reported to have said to President Putin on Wednesday about the need for additional domestic fuel market measures, including restricting grey fuel export and raising the fuel export duty for resellers. Putin said that changes to oil taxation were also an option. Otherwise, there wasn't too much in the way of fresh energy catalysts, with price action itself the story as the bull market treads on in the face of broader market pressure.

EQUITIES

CLOSES: SPX +0.02% at 4,275, NDX +0.24% at 14,580, DJI -0.20% at 35,550, RUT +0.98% at 1,779.

SECTORS: Energy +2.51%, Industrials +0.76%, Communication Services +0.54%, Technology +0.17%, Materials +0.02%, Financials -0.2%, Consumer Discretionary -0.38%, Health -0.49%, Consumer Staples -0.77%, Real Estate -0.82%, Utilities -1.93%.

EUROPEAN CLOSES: DAX -0.25% at 15,217, FTSE 100 -0.43% at 7,593, CAC 40 -0.05% at 7,070, Euro Stoxx 50 +0.06% at 4,131, IBEX 35 -0.37% at 9,331, FTSE MIB -0.31% at 28,012, SMI -0.65% at 10,882.

STOCK SPECIFICS: **Cleveland-Cliffs (CLF)** raised current spot market base prices for all carbon hot rolled, cold rolled and coated steel products, effective immediately. **Costco (COST)** earnings beat, and membership fees topped the consensus, but total and US comp. sales fell slightly short. Moreover, average transactions fell 3.9% worldwide, 4.5% in the US due to weak big-ticket discretionary demand and gas price deflation. Barron's suggested that Wall Street had been hoping that COST would give an update on a potential increase in membership fees, which many see as a long-overdue move. **Cloudflare (NET)** collaborated with **Microsoft (MSFT)** to enable AI models to run anywhere. UBS initiated coverage of **ChargePoint (CHPT)** with a 'Buy' rating; said that the recent stock performance creates an attractive risk-reward. TD Cowen initiated coverage of **Levi Strauss (LEVI)** with at an 'Outperform' rating; said Levi's is in the "early innings of a favorable denim cycle." **Paychex (PAYX)** marginally beat on profit with revenue inline. **MillerKnoll (MLKN)** beat on profit and revenue alongside raising FY guidance amid upbeat commentary. **NextEra (NEE)** is selling its Florida City Gas unit to **Chesapeake Utilities (CPK)** for USD 923mln. NEE reiterated its FY23 adj. EPS view between USD 2.98-3.13 (exp. 3.12). Of note for media names, such as **Paramount (PARA), Comcast (CMCSA), Warner Bros. Discovery (WBD)**: Hollywood writers are ending their five-month strike. Union leaders approved a new contract with studios, allowing writers to work again while members vote on it. **Pros Holdings (PRO)** is reportedly working with Qatalyst Partners to explore a sale, according to Reuters sources. The FTC are to continue challenging the **Microsoft (MSFT)** and **Activision (ATVI)** deal in the House, according to Bloomberg. **ASML (ASML)** is likely to cut EUV equipment shipment forecasts significantly for 2024 by about 20–30%, according to TF International Securities. **Bank of America (BAC)** CEO Moynihan, speaking at economic club of New York, said commercial customers' credit is still strong and customers aren't using credit available. He added consumer spending growth has slowed down from a year ago, and watch the ratings agencies as the impact of potential government shutdown depends on length. Emirates Airlines President says it is aircraft talks with **Airbus (AIR FP)** and **Boeing (BA)**. **Microsoft's (MSFT)** CTO said supply of **Nvidia's (NVDA)** GPUs is improving, according to CNBC citing comments from an industry event. The UAW Union set to announce new **automaker (GM, F, STLA)** strike targets Friday at 10:00EDT barring serious progress in talks, where worked would walk off jobs at additional facilities, according to Reuters sources. **Meta (META)** CEO Zuckerberg announced the Quest 3 Mixed Reality device from USD 499 for the 128GB version and USD 649.99 for the 512GB version.

US FX WRAP

DXY advances north of 106 to fresh YTD highs as yields surge again

The Dollar Index continued its advance above 106 on Wednesday and all the way to a peak of 106.84, supported by the surging UST yields which saw the 10yr yield hit a new 4.64% peak. Every new high marks a fresh YTD peak now ahead of the psychological 107 and then 107.19, the 4th December 2022 high. On the day, Fed's Kashkari (voter, hawk) spoke several times, warning there is a risk interest rates might have to go higher and he is open to the possibility the Fed may need more than one hike; also noted the possibility of a higher neutral rate. The durable goods data was strong on the headline, and was buoyed by the super core metric, albeit the upside was offset by downward revisions following a weak July report, with the overall trend still subdued. Meanwhile, a government shutdown remains a real possibility with McCarthy refusing to put the Senate-passed stop-gap bill to the floor, while any Republican stop-gap bill will likely face resistance by Democratic senators, please click here for the full Newsquawk Primer.

The Euro was weaker on Wednesday amid the Dollar strength and despite big moves higher in EGB yields too. Analysts at ING suggest that if the US 10yr yield hits 5%, something it views as no longer a remote possibility, it would bring EUR/USD to the 1.02 area, although notes their medium-term baseline remains bullish for EUR/USD. ING adds that the rewidening of USD-EUR short-term rate differentials in the past few months has been another driver of EUR/USD appreciation but notes "that such re-widening has been entirely driven by rising US swap rates, and not by a decline in EUR rates". However, the economics team expect a sizable re-rating in the US activity outlook by Q1 next year and thus sit on the more dovish end of the spectrum when it comes to Fed expectations, expecting a dovish repricing to drive a Dollar decline in 2024. Elsewhere, on Thursday Reuters sources revealed the Italian GDP forecasts, where it cut its 2024 GDP forecast to 1.2% from 1.5%; hiked the 2024 budget deficit-GDP target to 4.3% from 3.7% and cut the 2024 debt-GDP target to 140.1% from 141.4%. Something to watch ahead of the BTP reopen on Thursday.

The Yen was also victim to the firmer US yields and broader Dollar bid with USD/JPY hitting a high of 149.72, another fresh high for the cross as the dollar advances with many cautious of a move above 150.00 which may spark either verbal or formal FX intervention from Japan.

The Franc was weaker vs the USD and EUR with some weakness seen after remarks from SNB Chair Jordan, albeit he only said the central bank should stick to its mandate rather than anything too incremental.

Gold prices were also lower, falling beneath the USD 1,900/oz level to lows of 1872, levels not seen since March as yields rally with strong momentum.

Cyclical currencies were predominantly lower but the CAD was saved by a huge jump in crude prices. AUD hit the lowest level since November at 0.6332 due to the Dollar strength and downbeat risk tone while Australian CPI accelerated as expected. NZD was weaker but it held resistance at 0.5900. GBP was only marginally weaker vs the Dollar but advanced vs the Euro. CAD saw mild gains, being supported by the surge in crude prices to fresh YTD peaks but USD/CAD failed to breach much below 1.3500.

EMFX was predominantly weaker. MXN, BRL, COP and CLP all saw pronounced weakness on the risk off trade and higher Dollar. In Brazil, BCB Chief Neto called on the need for tight policy despite inflation easing, but the BCB have already guided us to 50bp cuts at the next few meetings, the question is when does the cutting stop so that policy remains tight, if it still needs to be tight by then. His comments were not enough to stop the BRL weakness with BRL rising back above 5.00 for the first time since August. MXN traders attention will be turning to the Banxico rate decision on Thursday, with eyes on any potential guidance change to signal upcoming rate cuts with rates expected to be left unchanged for a fourth meeting in a row. COP failed to find a benefit from the jump in crude while CLP was hit on lower copper prices with the Codelco chairman noting the recovery in copper output is expected in 2024.