US Market Wrap

28th September 2023: Stocks advance as Treasuries hit highs in choppy month-end trade

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Goolsbee and Barkin undecided on next meeting; Soft German CPI; Final Q2 GDP unrevised, but consumer spending saw notable revision lower; Jobless Claims continue to hover around 200k; Pending home sales tumble; Weaker-than-average US 7yr auction; Hawkish Banxico hold; NVDA French offices raided; MU profit guide light; WDAY cut medium-term subscription revenue growth rate view; UAW ease pay rise demand to 30% from 40%
- **COMING UP**: **Data**: Tokyo CPI, Japanese Unemployment Rate & Retail Sales, German Retail Sales & Unemployment Rate, UK GDP, French, Italian & EZ CPI, US PCE, Chicago PMI, UoM Sentiment **Speakers**: Fed's Barkin, Williams; ECB's Lagarde **Earnings**: Carnival Corp.

MARKET WRAP

Stocks were higher on Thursday with outperformance seen in the Nasdaq which tested 14,950 with Communication names leading the upside, while Tech and Consumer Discretionary still saw decent gains along with the majority of sectors, aside from Utilities which saw hefty downside. Energy was also a laggard, although the sector was flat, but there was pronounced weakness in crude prices, albeit still elevated in the grand scheme of things. The Treasury curve bull steepened paring some of the recent weakness in bonds. Economic data was mixed with jobless claims holding around 200k once again, showing signs the cooling labour market is not being accompanied by job cuts. The final revision to Q2 GDP was unrevised at 2.1%, but consumer spending saw a notable revision lower, but given it is Q2 data it is seen as stale, with eyes looking to the US PCE report on Friday for a more timely update on PCE prices and the consumer. Fed's Goolsbee and Barkin have not decided what to do at the next Fed meeting, while Cook and Powell did not comment on monetary policy. The slide in UST yields weighed on the Dollar to see it underperform while the upside in stocks supported the Aussie but the Loonie failed to benefit given the fall in crude prices.

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GDP: The final Q2 headline GDP was left unrevised at 2.1%, in line with expectations, the Sales metric was revised down to 2.1% from 2.2% while the deflator was revised down to 1.7% from 2.0%, despite both being expected to be left unchanged. The consumer spending however saw a notable revision lower to 0.8% from 1.7%, particularly of note given the strong shape of the consumer has been propping the economy up. The PCE data was unrevised at 2.5% for Q2. Although consumer spending saw a steep revision lower, the report notes that this was partly offset by upward revisions to nonresidential fixed investment, exports, and inventory investment. Meanwhile, imports, which are a subtraction in the calculation of GDP, were revised down. Given it is Q2 data, it is seen as rather stale and already follows some large revisions in the 2nd release, but we will get the August PCE and Consumer Spending report on Friday for a more timely picture of the state of the consumer and inflation.

JOBLESS CLAIMS: Initial jobless claims were at 204k in the week ending 23rd September, a similar level to the prior 202k and beneath expectations of 215k, while the last two weeks of c. 200k prints, is a sign to Oxford Economics that while labour market conditions are cooling, it is still characterised by very few layoffs. The continued claims data, for the week ending 16th September (which coincides with the BLS survey period) was in line at 1.67mln, up slightly from the prior 1.658mln. On initial claims, the non seasonally adjusted claims were unchanged at 175k, and seasonal factors had expected a decrease of 3.8k from the prior week. Looking ahead, Oxford Economics "expect some increase in layoffs later in the year as the economy slows but look for job losses to be modest despite our forecast for two quarters of negative growth."

PENDING HOME SALES: Pending home sales fell 7.1% (exp. -0.8%, prev. +0.5%) to 71.8 (prev. 77.3), reaching a fresh cycle low in August, with Pantheon Macroeconomics adding “mortgage applications signal they will sink even lower in September”. PM further noted, “the ongoing back-up in Treasury yields drove the rate on a 30-year conventional mortgage to 7.41% last week, around 110bp above the recent low in the spring, squeezing out any remaining discretionary demand.” Moreover, while the Fed has been slow to acknowledge this renewed deterioration, Bowman said at the end of last week that the “housing sector appears to be continuing to rebound”. However, PM concluded, “it isn’t, and it won’t until mortgage rates fall considerably.”

FED: **Goolsbee (voter)** spoke heavily on Thursday, and noted some analysis shows inflation reaching target soon, 'without further policy tightening' and only a modest slowdown in growth. Further on inflation, Goolsbee noted long-run inflation expectations are 'well-anchored,' and can help lower inflation with 'less economic pain' than previously. Later on, the Chicago President added if the Fed sees a lack of progress on the price side it will have to raise restraint, whilst at the next meeting said he has not decided. Furthermore, Goolsbee added he is still trying to process why long-end interest rates are increasing, and if long rates continue increasing, the Fed will have to take account of that as a form of tightening. However, he did add he has been pleasantly surprised that monetary tightening did not cause broader financial stability problems. **Barkin (2024 voter)** noted that in the event of a government shutdown, credit card spending data is good alternative data, while he noted recent data on consumer spending is stronger than expected and solid. Barkin noted it makes sense that lower and middle income spending is adjusting to a slower pace. Growth still seems solid in the economy but it will moderate from earlier in the year. On policy, said it is too soon to say what is next and too early to say whether another hike is needed, stressing the economy will drive what the Fed decides on policy. Barkin added it is very hard to imagine inflation easing a lot while growth is very strong but he does not see trauma coming in the labour market, and acknowledged the last five months of inflation data have been encouraging.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 9 TICKS HIGHER AT 107-27+

Treasuries initially stretch to new yield highs amid mixed US data before reversing to session lows; 7yr auction was weaker-than-average. At settlement, 2s -7.7bps at 5.064%, 3s -7.8bps at 4.828%, 5s -7.4bps at 4.632%, 7s -5.8 bps at 4.643%, 10s -4.5bps at 4.581%, 20s -2.4bps at 4.908%, 30s -2.4bps at 4.709%.

INFLATION BREAKEVENS: 5yr BEI +3.1bps at 2.406%, 10yr BEI +4.1bps at 2.390%, 30yr BEI +4.7bps at 2.438%.

THE DAY: T-Notes were sideways during APAC trade on Thursday, with 107-19 marking a base ahead of Wednesday's session low at 107-15+. Contracts made a mild recovery attempt at the London handover, peaking at 107-27 amid the fall in state-level German CPI data before better selling resumed and with the long end leading. EGBs were particularly heavy, but that was part catch up to USTs from late Wednesday, with some added BTP pressure on the latest Italian government debt/GDP forecasts. T-Notes gradually sold off through the European morning, having recently printed session lows of 107-14 at the NY handover. A mild bounce off lows was seen on the release of the German nationwide CPI data falling more than expected (4.5% from 6.1% vs exp. 4.6%).

The immediate reaction to the 08:30ET data slate - which saw downwardly revised Q2 consumer spending but fresh multi-month lows in jobless claims - was two-way, with T-Notes bouncing to interim highs of 107-25 before reversing to fresh lows of 107-07. However, T-Notes saw gradual upside once Europe left for the day in lack of a fundamental catalyst to settle at marginal fresh highs with the soft 7yr auction having little impact on price action.

7YR AUCTION: A step back in indirect demand resulted in a weaker than average 7yr note auction, the 0.3bp tail was not as strong as the 2bp stop-through and average of on the screws. The Bid-to-Cover was also lower than both the prior and six auction averages, while the forced buyers, Dealers, took an above-average 14.6% of the auction. Directs, however, did increase their take to 19.9%, above the prior and average but the step back from Indirect bidders to just 65.5% from 75.3% left for a rather mundane auction.

STIRS:

- SR3Z3 +3.0bps at 94.550, H4 +7.0bps at 94.810, M4 +9.0bps at 95.080, U4 +11.0bps at 95.395, Z4 +11.5bps at 95.670, H5 +10.0bps at 95.850, M5 +8.5bps at 95.950, U5 +7.5bps at 95.995, Z5 +6.5bps at 96.010, Z6 +3.5bps at 95.990.
- SOFR rises to 5.32% as of Sep 27th from 5.31%, highest on record, with volumes falling to USD 1.388tln from 1.561tln, the largest one-day decline on record.
- NY Fed RRP op demand at USD 1.453tln (prev. 1.443tln) across 97 counterparties (prev. 100).
- EFFR flat at 5.33% as of Sep 27th, volumes rise to USD 99bln from 96bln.
- US increases 6-, 13-, 26-, and 52-week bill sizes by USD 5bln, 2bln, 2bln, and 2bln, respectively, to USD 65bln, 71bln, 64bln, and USD 44bln, respectively; 13- and 26-week sold on Oct 2nd, 6-week and 52-week sold on Oct 3rd; all to settle on Oct 5th.

CRUDE

WTI (X3) SETTLED USD 1.97 LOWER AT 91.71/BBL; BRENT (Z3) SETTLED USD 1.26 LOWER AT 93.10/BBL

Oil prices pared through the session on Thursday from fresh YTD peaks as the market stopped for pause despite the pullback lower in the Dollar. WTI and Brent futures extended their Wednesday rip to hit new peaks of USD 95.03/bbl and 97.69/bbl, respectively, in the APAC session before gradually paring from there. Russia was in focus, with Energy Minister Shulginov saying that the ban on fuel exports would remain in place until the domestic market stabilises. The Kremlin also said Thursday that it had not discussed with OPEC+ a possible oil supply increase to compensate for its fuel exports ban. Furthermore, Reuters reported that Russia is selling oil to India at close to USD 80 /bbl now, USD 20 above the Western price cap after rising above it back in July. Elsewhere, Shell (SHEL LN) is likely to restart the unit at the Pernis refinery (400k BPD), which was shut due to a leak, by September 25th, Reuters reports. Looking ahead, the US Interior Department is to release 5yr offshore oil drilling plan on Friday.

EQUITIES

CLOSES: SPX +0.59% at 4,299, NDX +0.84% at 14,702, DJI +0.35% at 33,666, RUT +0.87% at 1,794.

SECTORS: Communication Services +1.16%, Materials +1.04%, Consumer Discretionary +0.97%, Real Estate +0.85%, Technology +0.69%, Financials +0.69%, Health +0.48%, Industrials +0.43%, Consumer Staples +0.25%, Energy +0.01%, Utilities -2.19%.

EUROPEAN CLOSES: DAX +0.70% at 15,323, FTSE 100 +0.11% at 7,601, CAC 40 +0.63% at 7,116, Euro Stoxx 50 +0.76% at 4,162, IBEX 35 +1.02% at 9,426, FTSE MIB +0.54% at 28,163, SMI +0.35% at 10,920.

STOCK SPECIFICS: **Micron (MU)** next quarter profit guide was light. However, revenue view topped expectations and earnings beat. **Workday (WDAY)** cut its medium-term subscription revenue growth rate view. Berkshire Hathaway sold a further 4.61mln shares of **HP Inc (HPQ)**, adding to the share sales seen on Monday and in mid-September. **Accenture PLC (ACN)** revenue missed, with FY guidance light for both profit and revenue growth view. Although, EPS beat and it boosted its quarterly dividend by 15%. **CarMax (KMX)** missed on profit and fell Y/Y on weakening demand for used cars. Highlighting this, KMX added it bought 14.9% fewer vehicles from consumers and dealers Y/Y as steep market depreciation hurt volume. **Jefferies (JEF)** earnings missed, with combined IB and capital markets revenue also short of expectations. In commentary, exec said it was increasingly optimistic that they have come off the bottom of the cycle, and momentum in IB will continue. **Lululemon (LULU)** is teaming up with **Peloton (PTON)** on a five-year deal. **GameStop (GME)** Board elected Ryan Cohen as President and CEO, effective immediately. **AGCO (AGCO)** is to buy **Trimble (TRMB)** assets for USD 2bln to boost farming tech. **Jabil (JBL)** beat on core EPS, but revenue fell short. Looking ahead, next quarter's profit view beat but revenue was light. **Chico's (CHS)** is to be acquired by Sycamore Partners for USD 7.60/shr in cash or USD 1bln. Note, CHS closed Wednesday at USD 4.61/shr. **Stratasys (SSYS)** is to explore strategic alternatives and terminate merger deal with **Desktop Metal (DM)**. **Nvidia's (NVDA)** French offices were reportedly raided in a cloud-computing competition inquiry, according to WSJ, the first significant regulatory scrutiny the co. has faced since its rise to be the paramount supplier of AI chips.

UAW: UAW union said it could strike at additional Detroit Three (STLA, F, GM) automotive facilities on Friday if there is no serious progress in labour negotiations, according to Reuters sources. Later reports suggested UAW is targeting a 30% pay increase in contract discussions with US automakers vs. the initially sought 40%. Following this, UAW noted it submitted a counter-proposal to STLA on Thursday.

US FX WRAP

The Dollar pared some of its gains this this week, falling from highs of 106.750 to lows of 106.02, finding support at the round 106 handle. The downside in the dollar coincided with a sharp move lower in front-end yields while the risk appetite was strong with stocks higher on all major US indices. Meanwhile, US data saw final revisions to Q2 GDP (stale) but consumer spending saw a notable revision lower with the headline unrevised. Jobless claims remained around the 200k level, showing that the cooling labour market is not being met with pronounced job cuts. Fed Speak saw Goolsbee tow a neutral line, warning of the Fed doing too much but also being prepared to do more if needed.

The Euro rose as the buck fell with EUR/USD rising from lows of 1.0492 to highs of 1.0578 with rate differentials supporting EZ yields much firmer than US yields on Thursday. The move higher in EZ yields came despite a cooler-than-expected German inflation report, with the CPI Y/Y at 4.5% (exp. 4.6%, prev. 6.1%), with the core easing to 4.5% from 5.5%. The M/M was in line with expectations and the prior at 0.3% while the HICP Y/Y of 4.3% was cooler than the 4.5%

consensus and down from the prior 6.4%. M/M was also cooler than expected at 0.2% (exp. 0.3%, prev. 0.4%). Meanwhile, ECB's Nagel noted the ECB may require more hikes if data shows further steps are needed, but he does not yet know where the peak is, his base scenario is that the ECB will end this cycle of rate hikes with a soft landing for the economy.

The Yen firmed with the falling UST yields supporting the currency to see USD/JPY fall from highs of 149.63 to 149.16, but it still remains elevated around YTD peaks with many still focusing on the round 150 level with PCE and Consumer Spending data on Friday the potential next catalyst. If USD/JPY rises above 150, focus will look to the October 2022 intervention level of 150.66, ahead of the 151.94 32-year high.

The Swissy also firmed vs. the Dollar with USD/CHF falling from highs of 0.9216 to lows of 0.9148, also benefiting from the yield moves but EUR/CHF was unchanged on the session.

Gold, however, saw continued weakness despite the weakness in the Dollar and yields seeing the yellow metal hit a six-month low with eyes looking to the PCE data on Friday.

Cyclical currencies saw strong gains with AUD outperforming and rising from lows of 0.6345 to highs of 0.6432, paring the weakness seen in the prior two trading sessions. NZD and GBP also saw decent upside, but the Antipodeans were the clear outperformers both buoyed by risk sentiment. GBP also saw decent gains vs. the Dollar but it was marginally softer vs. the Euro. CAD, however, was the underperformer of the cyclical group as the steep declines in oil prices offset any upside from the lower dollar and higher equities.

EMFX was mixed. LatAm's were generally firmer aside from BRL which was flat, but MXN, COP and CLP all saw gains. COP gains snapped the 5-day streak of losses despite weaker oil prices on Thursday while CLP benefitted from the rally in copper prices. In Brazil, IGP-M inflation index was in line with expectations while the BCB Chief Neto noted the bar for accelerating rate cuts is a little higher, while the central bank also raised its 2023 GDP growth forecast, likely reflecting the recent interest rate cuts, and noted it sees 2024 growth at 1.8%. MXN was also firmer vs. the Dollar, albeit it saw little reaction post-Banxico, which ultimately was a hawkish hold (maintaining guidance and lifting inflation forecasts throughout the horizon, more below). Elsewhere, TRY saw pronounced weakness after the latest minutes, which noted the direct effects of tax hikes have largely played out and the underlying trend in monthly inflation is on course to decline.

BANXICO: Overall a hawkish decision from Banxico, keeping rates unchanged at 11.25% which was in line with all analyst forecasts. However, the decision to maintain guidance ("it considers that it will be necessary to maintain the reference rate at its current level for an extended period") had disappointed some analysts looking for a dovish tweak. A dovish twist to guidance to perhaps signal rate cuts are coming would align Banxico more with other LatAm Central Banks, with both Chile and Brazil in the easing cycle. Banxico also maintains the view that the risks to the inflation forecast are biased to the upside, and it also raised its inflation forecasts throughout the entire forecast horizon as seen in the table above (aside from the near term Q3 '23) - emphasising the Banxico's fight with inflation is not over yet.