US Market Wrap

29th September 2023: SPX marks largest quarterly decline in a year as Treasury bulls struggle

- **SNAPSHOT**: Equities flat/down, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW**: US Core PCE M/M slightly below consensus with the rest in line; Upward revisions to UoM consumer inflation expectations; Williams says Fed is at, or near, peak rate; Mixed European data - Firm UK GDP, soft German retail sales, French CPI, and EU-wide CPI; UAW announce fresh strikes across F and GM; US House rejects GOP stopgap funding bill.
- **WEEK AHEAD**: Highlights include US NFP, RBA, RBNZ, PMI data, BoJ SoO and OPEC+ JMMC. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing RBA, RBNZ, BoJ SoO; Reviewing Banxico. To download the report, please click here.

MARKET WRAP

Stocks were flat to lower (NDX flat, while SPX and RUT lower) to end the week, month, and quarter with initial strength after soft-leaning PCE data reversing through the session in the backdrop of rebalancing flows. Stocks and Treasuries hit their apex in the aftermath of the US Core PCE M/M +0.1% in Aug vs exp. +0.2% - the rest of the metrics were in line - but failed to sustain through the session as futures pared back lower; yields were ultimately just a few bps lower. The Uni of Michigan final consumer sentiment survey was revised higher, while the consumer inflation expectation gauges saw modest upward revisions too. Fed's Williams (voter, dovish) gave a speech with little groundbreaking noted, saying the Fed is at or near the peak rate and it will need a restrictive policy stance for some time to achieve its goals. Meanwhile, newsflow around automaker strikes and a government shutdown was littered throughout the session. As expected, the House rejected the Republican stopgap funding bill to avert a government shutdown, with no resolution in sight ahead of the Oct 1st deadline. While the UAW union confirmed an additional 7,000 Ford (F) and GM (GM) workers went on strike, taking the total to 25k members on strike. Cross-asset, the DXY was little changed with initial weakness faded through the US session. Oil prices were lower amid profit-taking and broader risk aversion into the weekend.

US

PCE: Headline PCE rose 3.5% Y/Y in August, in line with expectations, although it accelerated from the upwardly revised 3.4% (vs initial 3.3%). The M/M headline rose 0.4%, accelerating from the prior 0.2% but beneath the 0.5% expectations. The core metrics saw a 3.9% rise Y/Y, in line with expectations, but the prior was revised up by 0.1% to 4.3%. Personal income was inline at 0.4%, rising from the prior 0.2% pace, while spending rose 0.1%, cooling from the prior 0.6% pace but adj. spending rose 0.4%, in line with expectations, easing from the 0.9% prior. Meanwhile, looking at the Fed-eyed Core services PCE ex-housing, Pantheon Macroeconomics stated it rose 0.1% M/M following the 0.5% jump in July. Overall, prices were in line with expectations with the M/M metrics slightly softer, meanwhile, personal income was also in line while spending had eased, similar to what was seen in the final Q2 GDP report, perhaps showing signs of a slowing consumer appetite which has been propping up the economy in recent months. There was little impact to money market pricing following the data, but it will do little to change the Fed thinking process and more data will be required before making a decision for the November meeting, but the latest dot plots do imply one more rate hike is coming this year, but markets disagree with just 9bps more of tightening priced in by the end of 2023, which suggests a 36% chance of a hike.

MICHIGAN SURVEY: The Uni of Michigan final survey for September saw the headline consumer sentiment survey revised up to 68.1 from 67.7. Current conditions and forward-looking expectations were revised to 71.4 (prev. 69.8) and 66.0 (prev. 66.3), respectively. Inflation expectations were lifted for both metrics, with the 1yr ahead to 3.2% (prev. 3.1%) and the 5yr ahead to 2.8% (prev. 2.7%), and while the latter inched higher it still marks the lowest reading since July 2021. As such, consumers' inflation expectations continue to trend lower despite rising gas prices, which is an encouraging sign for the Fed that higher inflation expectations are not becoming entrenched. Overall, OxEco says, “consumer confidence no longer has a close relationship with actual spending. We would focus more attention on the trends in real incomes and signs that consumers have exhausted their excess savings, both of which we expect to drive a slowdown in consumption (and sentiment) over the next six months.”

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FED: **Williams (voter, dovish)**, in a speech, said the Fed is at or near the terminal rate and it will need restrictive policy stance for some time to achieve its goals. On inflation, he sees it falling to 3.25% this year and 2% in 2025, noting there are ample signs that inflation pressures are waning, but reiterated it is still too high and price stability is essential for the economy. Moreover, the New York Fed President added the future is uncertain and echoed the bank's data dependence mode, noting it will still take a while for full monetary policy tightening to affect the economy. Meanwhile, Williams expects unemployment to rise just over 4% in 2024 and GDP should moderate next year to c. 1.25%.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 6+ TICKS HIGHER AT 108-02

Treasuries were ultimately just mildly firmer Friday after post-PCE peaks were faded into the weekend. At settlement, 2s -2.1bps at 5.050%, 3s -2.5bps at 4.808%, 5s -3.2bps at 4.611%, 7s -2.9bps at 4.617%, 10s -2.0bps at 4.577%, 20s -0.7bps at 4.920%, 30s -1.2bps at 4.717%.

INFLATION BREAKEVENS: 5yr BEI -4bps at 2.353%, 10yr BEI -3.5bps at 2.347%, 30yr BEI -2.8bps at 2.400%.

THE DAY: Treasuries drifted slightly lower into the APAC morning on Friday in initially light trade, with China closed for Golden Week and much of East Asia out as well. T-Notes troughed at 107-26 before recovering into the London handover where activity picked up, where EGBs were once again leading the charge, in part catch-up trade to the late Thursday UST rally. Data was mixed in Europe with UK GDP coming in firm, while German retail sales and French CPI were soft, the EU-wide CPI flash figures also printed beneath expectations, with T-Notes hitting interim highs of 108-08+ afterwards.

T-Notes made new highs after the PCE data, with the core M/M printing slightly below expected and the rest in line. The tumble in oil prices at the time added to the fixed income bid too. T-Notes peaked at 108-13 not long after the PCE data, with the upward revisions to the Uni of Michigan survey consumer inflation expectations capping further upside. Better selling emerged as Europe closed up shop for the week with 108 serving as support ahead of the settlement.

STIRS:

- SR3Z3 flat at 94.55, H4 +1.5bps at 94.82, M4 +2bps at 95.09, U4 +3bps at 95.415, Z4 +3.5bps at 95.695, H5 +5bps at 95.89, M5 +6bps at 96.00, U5 +6.5bps at 96.05, Z5 +6.5bps at 96.065, Z6 +6bps at 96.04, Z7 +4.5bps at 95.88.
- SOFR falls to 5.31% as of Sep 28th from 5.32%, volumes surge back up to USD 1.535tln from 1.388tln; follows the 2bp rise in on Sep 27th with a record one-day fall in volumes.
- NY Fed RRP op demand at USD 1.558tln (prev. 1.453tln) across 107 counterparties (prev. 97).
- EFFR flat at 5.33% as of Sep 28th, volumes rise to USD 104bln from 99bln.

CRUDE

WTI (X3) SETTLED USD 0.92 LOWER AT 90.79/BBL, BRENT (Z3) SETTLED USD 0.90 HIGHER AT 92.20/BBL

Oil prices were lower Friday amid profit-taking and broader risk aversion into the weekend. Price action wasn't tied to any specific energy newsflow, regardless, Russia and its export bans on products remain in focus, with Reuters reporting that Russia's seaborne crude exports and transits from its western ports (Primorsk, Ust-Luga, and Novorossisk) will rise in October to above 2.3mln BPD from 2.1mln BPD in September, with refinery runs down amid domestic refinery maintenance and the ban on product exports. On which, schedules for Russia's October exports have seen diesel exports tumble to near zero amid the ban. Deputy PM Novak has also said Russia may introduce quotas on overseas fuel exports when the complete export ban imposed last week concludes. Elsewhere, the Baker Hughes US rig count in the latest week saw oil rigs down 5 at 502 and nat gas down 2 at 116, leaving the total down 7 at 623. Next week sees the JMMC meeting, which is not expected to deliver any surprises and is being framed by energy journalists as a “routine” meeting. Reuters sources reported late Friday that the OPEC+ ministerial panel is unlikely to recommend output policy change at the Oct 4th meeting.

EQUITIES

CLOSES: SPX -0.27% at 4,288, NDX +0.08% at 14,715, DJI -0.47% at 33,507, RUT -0.51% at 1,785.

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SECTORS: Consumer Discretionary +0.53%, Technology +0.39%, Real Estate +0.35%, Utilities +0.21%, Materials -0.22%, Consumer Staples -0.25%, Industrials -0.59%, Communication Services -0.73%, Health -0.77%, Financials -0.88%, Energy -1.97%.

EUROPEAN CLOSES: DAX +0.41% at 15,387, FTSE 100 +0.08% at 7,608, CAC 40 +0.37% at 7,142, Euro Stoxx 50 +0.28% at 4,173, IBEX 35 +0.01% at 9,428, FTSE MIB +0.28% at 28,243, SMI +0.36% at 10,957.

STOCK SPECIFICS: **Nike (NKE)** posted a mixed report; profit and gross margin beat, while revenue missed, and re-affirmed FY guidance. Exec said it had navigated through an unprecedented environment, and growth has outpaced the overall industry. **Apple (AAPL)** staff met with China officials in recent months on foreign app rules, according to WSJ. **Bumble (BMBL)** was upgraded at Loop Capital; said the stock is “de-risked” and its strong cash balance and FCF generation will help protect its balance sheet. According to several Wall St. analysts, **Tesla (TSLA)** may miss estimates for Q3 deliveries due to planned factory shutdowns and soft demand that led the automaker to boost discounts. Highlighting this, Piper Sandler cut Tesla's Q3 deliveries forecast to 445k (prev. 515k) but said the move is "not bearish." **Brinker (EAT)** was upgraded to Buy from Hold at Stifel; said Co.'s strategic playbook appears similar to those of Olive Garden, Popeyes and KFC, which all saw successful turnarounds. **Ball (BALL)** was upgraded at Jefferies. **Blue Apron (APRN)** is to be acquired by Wonder Group for USD 13/shr in cash. Note, APRN closed Thursday at USD 5.49/shr. **3D Systems (DDD)** issued a statement on **Stratasys' (SSYS)** pursuit of strategic alternatives; offer to expire on October 5th and has commenced a process to explore strategic alternatives. **Skyworks (SWKS)** PA shipments will likely grow significantly by 30–40% Q/Q in Q4 ‘23, according to TF International Security analyst Ming Chi Kuo. **Carnival (CCL)** earnings beat with performance driven by strength in demand, but guidance disappointed. As such, investors will not be big fans of the Q4 outlook as fuel prices weigh - also see non-fuel costs at the high-end of previous guidance - but CCL are managing these expense challenges relatively well, due to very strong demand. **Carlyle Group (CG)** is in talks for an over USD 7bln stake in **Medtronic's (MDT)** patient monitoring and respiratory intervention units, according to Reuters sources. **Walgreens (WBA)** is reportedly considering former Cigna (CI) exec Wentworth for its CEO role; no decision has yet been made.

UAW: The UAW uniion confirmed it is calling on a further 7,000 **Ford (F) and GM (GM)** workers to strike, which will include the Chicago Ford plant and the GM Lansing Plant although there are no further strikes at Stellantis (STLAM IM /STLAP FP) following significant progress. As of now, the union has 25k members on strike. In response, GM said it still has not received a comprehensive counteroffer to its latest proposal made on Sep. 21st, and it continues to stand ready and willing to negotiate in good faith to reach an agreement. Ford said UAW is holding up the deal primarily over battery plants, and there is "still time to reach an agreement and avert disaster", but not much time given the fragile supply base. On the offer, it includes a 20%+ wage boost (UAW looking for 30%) and restored COLA (cost of living allowances). Ford did add they are making significant progress on pay and benefits and are “close". However, Ford said 2,400 supplier workers have been laid off so far and 300-500k supplier workers could be laid off in total due to the strikes. UAW responded saying it rejects Ford's suggestion it is holding contract negotiations hostage and there are serious disagreements remaining on core issues. In contrast to the others, STLA noted it made progress in discussions but gaps remain.

WEEKLY FX WRAP

Greenback ends winning September/Q3 with a whimper

USD - If seasonal patterns play out then the last two sessions of the month and quarter could have set the stage for the Dollar to reverse course in Q4, but it retained the bulk of its hefty gains and bullish momentum from a fundamental and technical perspective. In short, the Buck continued to benefit from relatively hawkish Fed policy guidance and US economic outperformance, with the DXY posting a fresh y-t-d peak on Wednesday when Treasury yields were extending towards new multi-year highs and typified by the 10 year benchmark topping out just shy of 4.69% compared to a circa 4.44% low. The index hit 106.840 amidst rebalancing tailwinds ranging from strong to mild according to various bank models before waning on the back of a firm bounce in USTs that helped to reignite broad risk appetite. However, the pullback was shallow, to 105.650 vs Monday’s 105.520 low and the DXY remained within sight of 106.000 to keep it on track for another close above a key chart level (Fib retracement around 105.370). Moreover, the Buck soaked up more institutional sales and paid attention to verbal intervention against the backdrop of mixed macro releases, as consumer confidence deteriorated more than expected, durable goods beat consensus, but came with back month downgrades, the final Q2 deflator and consumer spending were revised lower, weekly claims were below forecast again, pending home sales fell much more than anticipated, core m/m PCE was a tad softer against expectations, Chicago PMI beneath the consensus range and final UoM sentiment upgraded with firmer inflation expectations. Meanwhile, current FOMC voter Kashkari was a frequent speaker and underscored his hawkish leanings by assigning a 40% probability on a scenario where the Fed will have to raise rates ‘significantly’ higher to beat inflation.

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NZD/AUD - There were reasons for the Kiwi and Aussie to end the week on a high, including the aforementioned recovery in risk sentiment that incorporated commodities with the exception of crude oil that pared back from extremely lofty levels. NZ consumer morale ticked up to complement a return to optimism, albeit mild from sub-zero ANZ business confidence, while Australian CPI matched stronger than prior monthly expectations and the Aussie also tracked a decent Yuan revival. Nevertheless, Nzd/Usd outpaced Aud/Usd on the way to setting a new weekly best at 0.6049 from 0.5901 trough and the Aud/Nzd cross remained grounded between 1.0719-1.0815 bounds on the basis that RBNZ rates are considerably higher than the RBA benchmark and look set to be held at the current restrictive 5.5% mark for some time. In contrast, Aud/Usd hit a solid wall at 0.6501 having bounced from its 0.6332 midweek base as it ran into multiple tops spanning the round number through 0.6522.

EUR/CAD - The Euro took mainly softer than forecast Eurozone inflation data in stride, but failed to regain 1.0600+ status vs its US peer sustainably within 1.0489-1.0655 w-t-d extremes in the face of massive 3.7 bn option expiry interest. However, Eur/Usd only held above the 2023 low by a whisker and the technical landscape/structure is likely to stay bearish while the headline pair remains below a key Fib and the ECB retains optionality for further tightening in pursuit of price stability rather than restraint for the sake of the slowing economy. On that note, the BoC may be forced to think twice given stagnation in monthly Canadian GDP and the Loonie lagged on Friday as WTI came off the boil. In fact, Usd/Cad almost covered its weekly range when spiking from 1.3418 towards 1.3542 and a Fib that stalled its advance on Wednesday in similar vein to support offered by the 10 DMA not far from 1.3400.

GBP/CHF/JPY - All narrowly mixed against the Greenback, but this doesn’t even begin to tell the full story as the Pound veered from 1.2111 to 1.2271 with lots of chop and churn around 1.2200, the Franc meandered from 0.9064 to 0.9225 and the Yen slumped to 149.72 from 148.26. In sum, Cable, Usd/Chf and Usd/Jpy were mostly adherent to policy divergence following the surprise, if not outright shock calls from the SNB and BoE to hold rates last Thursday and the BoJ sticking rigidly to ultra-accommodation with additional JGB buying operations to preserve YCC.

SCANDI/EM - A vastly different week for the Sek and largely if not entirely due to corrective price moves prompted by the start of Riksbank reserve hedging, while the Nok rode on the crest of Brent’s wave for a while to fuel its own tech retracement. Elsewhere, the Cny and Cnh had daily support from the PBoC via increasingly suppressed midpoint fixes for the offshore Yuan vs the Buck and bumper liquidity injections until the start of China’s Mid-Autumn Festival and Golden Week holidays, but also dialogue with the US ahead of official PMIs. The Mxn took advantage of WTI’s advances to make a positive chart inflection and was underpinned by Banxico’s hawkish hold, while the Brl took on board a stream of BCB commentary, including latest policy meeting minutes reiterating that the pace of disinflation is encouraging, but not enough to allow bigger rate cuts. The Zar managed to decouple from Gold and rebound, but the Inr required more RBI purchases, like the Try and the Huf was not that impressed with the NBH option to lower the overnight depo rate by 50 bp along with aligning the quick depo rate with benchmark rate that was anticipated.

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