newsquawk

US Market Wrap

2nd October 2023: Strong data sees yields and dollar surge, but big tech keeps stocks propped

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Manufacturing PMIs beat; Bowman maintains hawkish tone; Barr echoes Fed Chair Powell; TSLA Q3 delivery/production figures missed estimates; US Government shutdown averted; GM & STLA face hefty US fuel economy fines; Kirkuk-Ceyhan oil pipeline cannot restart yet.
- **COMING UP**: **Data**: US IBD/TIPP & JOLTS, Australian PMI (Final) **Events**: RBA Cash Rate **Speakers**: Fed's Mester, Bostic; ECB's Lane & Valimaki **Supply**: Japan and UK **Earnings**: McCormick & Company.
- **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 ultimately mixed on Monday with the overnight gains from decent China PMI's and the avoidance of a government shutdown predominantly faded. Early in the session the large-cap Tech and Communication names outperformed, keeping the market bid but the underlying tone was rather negative with the majority of sectors in the red. These gains had pared gradually throughout the US afternoon with NQ falling back beneath the 15k handle as yields continued their ascent higher to levels not seen since 2007 in the wake of Congress avoiding a government shutdown and strong US PMI data. Nonetheless, NDX still managed to close in the green while SPX was flat but the cyclical RUT sold off heavily, and the equal-weighted S&P closed lower by over 1%, showing the underlying weakness within the stock market on Monday. Data-wise, US ISM Manufacturing PMI saw a notable beat on expectations while the employment component returned to expansionary territory and prices dipped. Fed's Bowman towed her hawkish line that she is prepared to hike interest rates further if it is required while Barr towed the line of Fed Chair Powell that they can now proceed carefully and that the most important question is not if the Fed have to hike again, but for how long policy needs to stay in restrictive territory. In FX, the Dollar outperformed on the surge in US yields and strong economic data, which weighed on the Euro, Yen, Cyclical and EMFX currencies. Crude prices were also hit on the dollar strength and risk aversion with WTI falling beneath USD 90/bbl to lows of USD 88.46/bbl ahead of the OPEC+ JMMC on Wednesday.

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ISM MANUFACTURING: The US ISM Manufacturing PMI rose to 49.0 from 47.6, and above the expected 47.8. Prices Paid fell to 43.8 (prev. 48.4, exp. 48.6), New Orders rose to 49.2 (prev. 46.8), while Employment jumped back into expansionary territory to 51.2 (prev. 48.5, exp. 48.3). Within the report, of the six biggest manufacturing industries, two (Food, Beverage & Tobacco Products and Petroleum & Coal Products) registered growth in September. Meanwhile, The ISM Chair Fiore added "The past relationship between the Manufacturing PMI and the overall economy indicates that the September reading corresponds to a change of plus-0.1 percent in real GDP on an annualized basis". Further in the report, it stated, "Demand remains soft, but production execution improved M/M as panelists' companies prepared for Q4 and the close of the fiscal year." Overall, Oxford Economics concludes, "While the headline hit its highest level since November 2022, it wasn't enough to snap the 11 consecutive months below the neutral threshold, and we expect continued headwinds will keep this from occurring. However, the improvement in the index over the prior three months improves the odds of a soft landing."

SHUTDOWN: Over the weekend, House Speaker McCarthy came to an 11th-hour deal to keep the government funded until mid-November with the House supporting the bill in a vote of 335-91, with 90 Republicans voting against the bill, and one Democrat, which was later passed by the Senate and signed in by US President Biden. The funding bill did not include huge spending cuts and did not include measures on border security, which has upset McCarthy's right flank, but ultimately secured him the votes from the Democrats. Despite this, the Continuing Resolution did not include funding for Ukraine. Nonetheless, with the bill appeasing Democratic votes, Representative Gaets has filed to see McCarthy ousted as House Speaker. However, Gaetz himself acknowledged this is likely to fail, Punchbowl reported, where Gaetz suggested McCarthy will be saved by the Democrats, but then criticised the House Speaker for remaining in the role given Democrat support.

BOWMAN (voter) repeated her view that it will likely be appropriate to raise rates further and to hold them at restrictive levels for some time. Bowman noted inflation remains too high and she sees a risk that high energy prices could reverse some of the recent progress on lowering inflation. Bowman expects inflation progress to be slow given the current level of monetary policy restraint and she remains willing to support rate increases at a future gathering, if data indicates progress in inflation has stalled/is too slow to return to 2% in a timely way. Regulators seem to be taking a "heavy handed" approach on banking supervision, and should consider if this is appropriate.

BARR (voter) said the Fed is at a point where we can 'proceed carefully' on monetary policy. He towed the line that the most important question is not whether an additional rate hike is needed this year, but how long we need to hold rates at a sufficiently restrictive level, which he expects it will take some time. Barr added the full effects of past tightening are yet to come in the months ahead but there has been a lot of progress on inflation. Economic activity has been considerably more resilient than expected and he sees a higher probability than previously for a soft landing. The labour market is tight, but supply and demand are coming into better balance. His baseline projection is for below-potential GDP growth over the next year and further softening of the labour market. In the Q&A, Barr added the amount of credit tightening we are seeing is less than what he feared in March, while noting that goods and housing services inflation is on the right path downward. He also stated that the Fed's balance sheet runoff and interest rate tool do not necessarily create conflict. On financial stability, said that monetary policy is a 'blunt tool' and likely not appropriate to address specific financial stability threats. Targeted supervisory and regulatory action best positioned to address financial stability risks and monetary policymakers best served focusing on macroeconomic objectives.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 23+ TICKS LOWER AT 107-10+

Treasuries sold after shutdown risk averted and ISM mfg. survey adds upside risks to Friday's NFP. At settlement, 2s +6.2bps at 5.108%, 3s +8.4bps at 4.886%, 5s +11.1bps at 4.715%, 7s +11.4bps at 4.727%, 10s +11.2bps at 4.683%, 20s +9.3bps at 5.005%, 30s +8.9bps at 4.798%

INFLATION BREAKEVENS: 5yr BEI -0.4bps at 2.344%, 10yr BEI +0.6bps at 2.349%, 30yr BEI +0.8bps at 2.408%.

THE DAY: The aversion of a US government shutdown was accompanied by Treasury selling to start the week in a holiday-thinned APAC session as month-end flows dissipate. T-Notes gapped lower to open at 107-28 from Friday's 108-01 close. More selling out of the European morning occurred amid PMI data largely firmer than expected in the region except for the final Germany figures, while oil prices were on the front foot at the time.

T-Notes found interim lows of 107-16+ before the US ISM data, whilst along the curve, the belly had been significantly underperforming, with the long end seeing relative outperformance. The rise in the manufacturing survey was composed of a fall in prices paid and jumps in employment and new orders, which saw two-way kneejerk price action before better selling resumed with bear steepeners plied on, seeing the long end greatly reduce its initial outperformance into the NY afternoon. T-Notes printed session lows of 107-07, hovering just above into settlement.

STIRS:

- SR3Z3 -2.5bps at 94.530, H4 -5.0bps at 94.765, M4 -7.5bps at 95.015, U4 -9.5bps at 95.315, Z4 -10.5bps at 95.590, H5 -10.0bps at 95.785, M5 -11.0bps at 95.885, U5 -11.5bps at 95.930, Z5 -12.0bps at 95.940, Z6 -13.0 bps at 95.905, Z7 -14.0bps at 95.740.
- SOFR flat at 5.31% as of Sep 29th, volumes rise to USD 1.537tln from 1.535tln.
- NY Fed RRP op demand at USD 1.366tln (prev. 1.558tln) across 99 counterparties (prev. 107).
- EFFR flat at 5.33% as of Sep 29th, volumes fall to USD 86bln from 104bln.
- US sold USD 76bln of 3-month bills at 5.345%, covered 2.77x; sold USD 69bln of 6-month bills at 5.340%, covered 2.88x.

CRUDE

WTI (X3) SETTLED USD 1.97 LOWER AT 88.82/BBL; BRENT (X3) SETTLED USD 1.49 LOWER AT 90.71/BBL

Oil prices were lower Monday amid a Dollar rip and risk aversion despite strong-leaning ISMs. There had been some mild strength in the European morning, perhaps supported by Iraq, cited by Bloomberg, saying the Kirkuk-Ceyhan oil pipeline cannot restart yet as there are still issues that need to be resolved amid expectations it will restart this week. But better selling commenced as US participants returned, with the Dollar surging, where WTI and Brent futures hit their troughs at, or around settlement, of USD 88.72/bbl and 90.62/bbl, respectively. Energy participants are looking ahead to the OPEC+ JMMC on October 4th, although no new recommendations are expected by the group, as officials have already suggested.

EQUITIES

CLOSES: SPX +0.01% at 4,288, NDX +0.83% at 14,837, DJI -0.22% at 33,433, RUT -1.58% at 1,756.

SECTORS: Utilities -4.72%, Energy -1.91%, Real Estate -1.75%, Materials -1.31%, Industrials -0.91%, Financials -0.84%, Consumer Staples -0.64%, Health -0.11%, Consumer Discretionary +0.29%, Technology +1.33%, Communication Services +1.47%.

EUROPEAN CLOSES: DAX -0.91% at 15,247, FTSE 100 -1.28% at 7,511, CAC 40 -0.95% at 7,068, Euro Stoxx 50 -0.90% at 4,137, IBEX 35 -1.16% at 9,319, FTSE MIB -1.39% at 27,850, SMI -0.96% at 10,858.

STOCK SPECIFICS: **Tesla (TSLA)** Q3 production and delivery figures missed estimates, with the sequential decline in volumes caused by planned downtimes for factory upgrades, as previously flagged. Looking ahead, the 2023 volume target of around 1.8mln vehicles remains unchanged. Goldman Sachs added **Nvidia (NVDA)** to its Conviction List; said this year's market leader will maintain its position. **FedEx (FDX)** was upgraded at Susquehanna; said the long-term opportunity is greater than the near-term risk. **Apple (AAPL)** is reportedly considering a USD 2bln annual offer for exclusive streaming rights to F1 coverage on Apple TV+, Apple Insider reported. **Arch Resources (ARCH)** lowered FY23 coking coal sales volumes to be between 8.6-8.9mln T (prev. 8.9-9.7mln T). **Sphere Entertainment (SPHR)** opened its Sphere venue in Las Vegas with a show from U2 on Friday night. **Viatris (VTRS)** reached an agreement to divest some of its businesses for a total of up to USD 3.6bln; move is part of its long-term strategy to streamline a focus on three core therapeutic areas. Of note for AI chip names, EU antitrust regulators stated there is no formal investigation into AI chips. Separately, US President Biden admin reportedly warned Beijing to expect updated rules curbing shipments of AI chips and chipmaking tools to China as soon as early October, according to Reuters citing a US official. The report added that upcoming US rules could hit **ASML (ASML)** because its systems contain US parts and components. **Intel's (INTC)** Raptor Lake refresh prices have leaked, and hikes are on the way, according to Digital Trends. **General Motors (GM)** reportedly faces over USD 6bln in US fuel economy fines through 2032; **Stellantis (STLA)** faces USD 3bln in fines, according to a letter seen by Reuters. **Disney+ (DIS)** is to launch a shared account password crackdown in Canada, according to The Hollywood Reporter; new password account sharing rules set to kick off November 1st, 2023 with US subscriber agreements updated later this year.

US FX WRAP

The Dollar rose on Monday with yields surging to highs not seen since 2007. Datawise, the ISM Manufacturing survey beat expectations with a rise in New orders and jump in employment to expansionary territory seeing the headline at 49 from 47.6, just beneath the 50 handle. Prices, however, saw a notable slowdown. Fed speak saw Bowman repeat she is willing to support rate increases at future meetings if data suggests that is required. Barr towed Fed Chair Powell's line that they can proceed carefully, noting the most important question is not if the Fed needs to hike more, but how long should rates stay in sufficiently restrictive territory. Meanwhile, on the fiscal side, Congress came to an agreement over the weekend to avoid a government shutdown, albeit GOP Representative Gaetz has filed a motion to remove House Speaker McCarthy, showing some of the hardline Republicans are very dissatisfied with McCarthy and his appeasements to the Democrats. DXY hit a high of 106.94 on Monday, just shy of the psychological 107.00, a level not seen since November 2022.

The Euro fell victim to the Dollar strength on Monday, despite a similar move higher in EZ yields. EUR/USD hit a low of 1.0489, dipping beneath the psychological 1.05 level from highs of 1.0591. On data, the Final EU Manufacturing PMI data was in line with expectations and unrevised at 43.4 while noting that ex-08 crisis, output prices have never decreased at a pace faster than the current three-month average. The report added it is similar with input prices too, "which fell almost as fast as when oil prices hit rock bottom in the late-90s and during the bursting of the dot-com bubble in 2001." Elsewhere, the EU unemployment rate for August was 6.4%, in line with expectations but the prior was revised up by 0.1% to 6.5%. On ECB speak, de Guindos dismissed talks of rate cuts and warned that getting back to 2% inflation will be difficult with the last mile of disinflation the hardest, via FT.

USD/JPY rose to highs of 149.90 on the UST surge with many eyeing 150 to the upside if yield differentials continue to widen. The weakness came despite jawboning from the Finance and Cabinet ministers, while the latest Tankan survey saw a beat in the big non-manufacturing and manufacturing index, and while the manufacturing outlook was also strong the non-mfg. outlook slightly missed, but rose from the prior. Meanwhile, the latest BoJ Summary of Opinions from the September meeting noted a member stated they need to continue easing patiently and a member said they should maintain easy policy for now but in a future exit, the BoJ must consider what to do with non-JGB asset holdings.

Furthermore, there was an opinion that there is no need to make additional YCC tweaks as long-term rates are moving fairly stably and it was also stated that they cannot currently determine the timing of the policy tweak as that would depend on economic and price conditions at the time, while a member said it is important to prepare for exit from a risk management perspective as they could have clarity around January-March next year on whether the 2% inflation target can be met in a sustained and stable fashion. Meanwhile, BoJ Governor Ueda said the sustainable and stable achievement of the BoJ's 2% inflation target is not yet in sight and there is still some distance before reaching an exit from easy policy.

CNH was weaker vs. the Dollar but CNY firmed marginally overnight, albeit with China away for the Golden Week holiday, activity is light. Meanwhile, the PMI data over the weekend saw the NB manufacturing PMI rise to 50.2 from 49.7, beating the 50.0 forecast and the non-manufacturing PMI rose to 51.7 from 51.0.

Antipodes were predominantly lower with risk sentiment souring in the afternoon while base metals also saw pressure, seeing the AUD underperform. Note, some of Australia was absent given the Labour Day in its most populous state, New South Wales, ahead of the RBA rate decision during APAC hours. This will be the first meeting under Governor Bullock's tenure with markets expecting the RBA to keep rates unchanged, where the new governor is expected to signal a continuation of policy but participants will be eyeing any deviations in the statement and if the rhetoric supports market pricing for another hike by year-end. For the full Newsquawk Preview, please click here. Across the Tasman, the NZD also saw notable underperformance but NZD was not as soft as the Aussie, seeing AUD/NZD fall sub 1.07 to 1.0695, hovering around 1.07 into APAC trade with the RBNZ rate decision also due later in the week.

GBP was also softer vs. the Dollar but it was flat vs. the Euro with the Dollar driving most of the price action. UK specifically, the September UK Nationwide House Price data declined by 5.3% Y/Y (exp. -5.7%, Prev. -5.3%); with the MM flat vs. expected -0.4% (Prev. -0.8%). Meanwhile, the UK S&P Global/CIPS Manufacturing PMI Final data for September was revised marginally up to 44.3 from 44.2. There were several comments from UK officials too, UK PM Sunak said the government is making good progress on bringing down inflation while UK Chancellor Hunt was reportedly caught in a secret recording suggesting that PM Sunak will call a general election once inflation falls below 3% which gives the strongest hint that the next general election could be held in Autumn next year, according to Sunday Times' Wheeler. Meanwhile, UK Housing Minister Gove said his opinion is wherever they can cut taxes that those cuts should fall on workers and he would like to see the tax burden reduced before the next election, while he added that they first need to be certain that inflation is coming down.

CAD also saw pronounced weakness, with the trifecta of a soured risk appetite, a strong dollar and weak crude prices all weighing on the looney to see USD/CAD rise from lows of 1.3557 to highs of 1.3679.

Scandis were weaker vs. the Euro but SEK underperformed where hawkish-leaning Riksbank minutes were largely overshadowed by a more contractionary Swedish manufacturing PMI that undermined the SEK's technical and reserves hedge related revival. NOK outperformed the SEK, but was still weaker vs. the Euro despite faster growth in Norway's manufacturing sector with the weaker Brent crude prices hitting the currency.

EMFX was predominantly weaker vs. the dominant Dollar. COP and CLP were the laggards but MXN and BRL were still notably softer. In Brazil, BCB Chief Neto was concerned about the move higher in long-term US rates and its potential impact on capital outflows from Brazil. Neto then spoke on the need for caution in monetary policy due to resilient inflation. The underperformance in COP and CLP was commodity-led with weakness in Copper weighing on CLP and weakness in oil weighing on COP. Meanwhile in Chile, data showed economic activity in negative territory, falling 0.9% in August Y/Y, missing the +0.1% forecast. The Peso weakness was predominantly dollar-related and came despite private sector analysts revising up their 2023-end interest rate from Banxico, which now has rates being maintained at 11.25% through year-end, vs. the prior forecast of a 25bp cut to 11.00%. The move has followed last week's Banxico decision which maintained rates, raised inflation forecasts and maintained guidance. Elsewhere, ZAR was also softer with gold prices tumbling while the TRY was a relative outperformer, only marginally softer vs. the Dollar following an upgraded outlook from S&P to stable from negative while it was also perhaps supported by the fall in crude prices given it is a net importer of oil.