US Market Wrap

3rd October 2023: Stocks and bonds tumble after surge in job openings precedes suspected Yen intervention

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW**: Shock rise in JOLTS job openings; Touted Yen intervention; Mester said Fed will likely need to hike rates once more; Bostic touts late 2024 cut; Dismal IBD/TIPP optimism index; Swiss inflation continues to ease; RBA hold rates, as expected; Discussions ongoing to restart Iraqi oil flows through the Turkish pipeline; BA lays out record 737 production for July '25; NFLX plans to raise prices; AMZN & MSFT under UK regulator scrutiny.
- **COMING UP**: **Data**: Japanese, Italian, French, German, EZ, UK, US Services and Composite PMIs, EZ Producer Prices, Retail Sales, US MBA, ADP, ISM, Durable Goods **Events**: RBNZ Policy Announcement, NBP Policy Announcement, OPEC+ JMMC **Speakers**: ECB's Lagarde, de Guindos, Panetta; Fed's Schmid, Bowman & Goolsbee **Supply**: UK & Germany.

MARKET WRAP

Stocks and bonds were sold through the session amid the alarming spike in the August job openings figures, raising fears of a retightening of the labour market. That data came just before the first (suspected) Yen intervention since October last year that saw USD/JPY plunge near 300 pips within a few minutes after the cross breached 150 to the upside. Whilst big tech held relatively outperformed on Monday, it was an underperformer on Tuesday, with NDX seeing the greatest losses among the main stock indices. The DXY was flat, where despite the underperformance vs Yen, it enjoyed a bid on the favourable rate differentials vs other pairs with the curve seeing more chunky bear-steepening. Fed's Mester gave some hawkish comments, noting her preference for another hike, whilst Bostic reiterated his calls for no more hikes whilst also saying he sees the next Fed move as a cut in late 2024 - both of those officials return to the voting board in 2024. Meanwhile, oil prices saw their first gain since last Wednesday, despite the broader Dollar bid/risk off, after initially hitting three-week lows in the APAC session.

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MESTER (2024 voter) noted that the monetary policy path depends on how the economy performs and the Fed will likely need to hike rates one more time this year, implying she is one of the 12 dots forecasting another hike. Mester said the economy is on a good path amid the ongoing rebalancing of supply and demand, the job market is strong but it is slowing and coming to better balance. Inflation is too high but she sees welcome signs of progress lowering price pressures, and she also sees some signs wage pressures are easing. Mester added the Fed will need to keep rates high to ensure a return to 2% inflation, noting the economy has grown more strongly than expected and that risks to inflation are tilted towards the upside. On Credit conditions, she stated they have tightened in line with monetary policy. Mester spoke again later in the session where she reiterated she is likely to favour a hike at the next meeting if current economic situation holds and long-term yield rise will affect monetary policy outlook and higher long-term rates will moderate growth.

BOSTIC (2024 voter) noted the Fed is in restrictive territory and that is helping inflation fall, however the Fed still has a ways to go to get inflation back to target. Bostic said the question now is how fast the economy will slow, but the economy is getting back into balance. The economy has been incredibly resilient, but the "fervor" of spending and investment has decreased. The Fed should "let the world move and be patient", as long as inflation continues to slow. As long as expectations do not spike, the Fed can afford to be patient, stressing there is no urgency for the Fed to do anything more. Bostic said he is not in a hurry to hike again, but he also is not in a hurry to cut and send a premature signal of policy easing, suggesting the Fed should be on hold for a long time. On the labour market he said it is getting easier to hire, while on changing the inflation target, Bostic said there could be reasons to reconsider the 2% inflation target, but that would be an exercise that comes after reaching it. When speaking later, Bostic said he sees the next move as a single 25bps rate cut towards the end of next year.

JOLTS: JOLTS job openings spiked higher to 9.61mln in August from 8.92mln (upwardly revised from the initial 8.827 mln), and against expectations for a fall to 8.8mln, in a sign of a retightening labour market ahead of payrolls on Friday, albeit for September, while quits rate dipped to 2.3% (prev. 2.4%). Oxford Economics quips, "While the value of the JOLTS data has been called into question, the Fed continues to monitor it as a gauge of labor market conditions and on the surface, it's telling us that labor market conditions remain tight." Although, the central bank will not make policy decisions based on one JOLTS report, Oxford adds, "it does keep the risks tilted toward another rate hike." Elsewhere, the consultancy notes other aspects of the report were more benign, as the job openings-to-unemployed ratio ticked lower due the increase in unemployment in the household survey in August, and the hiring rate held steady. The quits rate, which is a good leading indicator of wage pressures, held steady and suggests that wage growth will continue to moderate.

IBD/TIPP: IBD/TIPP Economic Optimism index plunged to 36.3 from 43.2, the lowest since August 2011, and has resided in negative territory for 26 consecutive months. The 6-month economic outlook index cratered 9.6 points to 28.7, a record low since the IBD/TIPP Poll began in early 2001. Meanwhile, financial outlook and confidence on current federal policies dropped to 46.8 (prev. 52.8) and 33.5 (38.6), respectively. Furthermore, the report adds every component on the Economic Optimism Index, Presidential Leadership Index and National Outlook Index dropped by double-digit percentages.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 22 TICKS LOWER AT 106-20+

Treasuries bear-steepened Tuesday after a shock rise in JOLTS job openings in the backdrop of suspected Yen intervention and rising oil prices. At settlement, 2s +3.2bps at 5.144%, 3s +5.8bps at 4.947%, 5s +7.5bps at 4.792%, 7s +9.6bps at 4.824%, 10s +11.2bps at 4.796%, 20s +12.5bps at 5.128%, 30s +13.8bps at 4.934%.

INFLATION BREAKEVENS: 5yr BEI -1.5bps at 2.332%, 10yr BEI flat at 2.355%, 30yr BEI +2.4bps at 2.436%.

THE DAY: T-Notes broke to new lows of 107-06 in the APAC morning on Tuesday on the back of remarks from Fed's Mester (2024 voter), who said rates likely need to be hiked again. That level held until the NY handover, with the RBA providing little surprises, leaving rates unchanged and maintaining its hawkish guidance. There was a feeble recovery to 107-14 in the London morning that swiftly unwound, and contracts went on to make new interim troughs at 106-30+ at the NY handover.

There was another recovery attempt ahead of the US JOLTS data, which peaked at 107-09+. The surprise spike higher to the August JOLTS job openings alongside upward revisions to the prior saw kneejerk downside for USTs amid the sign of a retightening labour market ahead of the September payrolls report on Friday. That was soon followed by the suspected BoJ intervention in Yen, and before long, T-Notes were once again making fresh lows, with the long end of the curve leading the losses, accentuated by strong upside in oil. T-Notes settled at lows as the downside continued through the afternoon alongside stocks, with a late 12.3k ZF/2.8k UB block steepener adding pressure.

STIRS:

- SR3Z3 -1bp at 94.51, H4 flat at 94.76, M4 -0.5bps at 95.01, U4 -1.5bps at 95.30, Z4 -3.5bps at 95.56, H5 -5.5bps at 95.73, M5 -7bps at 95.815, U5 -8.5bps at 95.845, Z5 -9.5bps at 95.845, Z6 -12bps at 95.785, Z7 -12bps at 95.615.
- SOFR rises to 5.32% as of Oct 2nd from 5.31%, volumes fall to USD 1.513tln from 1.537tln.
- NY Fed RRP op demand at USD 1.348tln (prev. 1.366tln) across 97 counterparties (prev. 99).
- EFFR flat at 5.33% as of Oct 2nd, volumes rise to USD 89bln from 86bln.
- US sold USD 65bln of 42-day CMBs at 5.330%, covered 2.46x; sold USD 47bln of 1yr bills at 5.185%, covered 3.21x.
- US raises 4-, 8-, and 17-week bills sizes by USD 5bln, 5bln, and 2bln, respectively, to USD 90bln, 80bln, and 54bln; 4- and 8-week sold on Oct 5th, 17-week on Oct 4th; all to settle on Oct 10th.

CRUDE

WTI (X3) SETTLED USD 0.41 HIGHER AT 89.23/BBL; BRENT (Z3) SETTLED USD 0.21 HIGHER AT 90.92/BBL

Oil prices saw their first gain since last Wednesday after initially hitting three-week lows. WTI and Brent contracts hit troughs of USD 87.76/bbl and 89.50/bbl, respectively, during the APAC morning before recovering through the rest of the session. The recovery was particularly pronounced going into the NY afternoon on the back of the jump in JOLTS job openings and as the Dollar dipped on the spike higher in the Yen (suspected intervention). WTI and Brent peaked at USD 90.27/bbl and 91.56/bbl, respectively ahead of settlement. In the energy sphere, discussions to restart the Iraqi oil flows through the Turkish pipeline are still ongoing, Reuters reported citing an Iraqi official, with further meetings to take place soon. While Bloomberg reported Russia is mulling lifting the diesel export ban for fuel producers. Elsewhere, Nigeria's Oil Minister said the country is looking to ramp up production and can produce up to 2mln BPD without more investments by Q1. Looking ahead, the OPEC+ meeting gets going on Wednesday (no changes expected), while we also look to the US energy inventory data with the private release due later Tuesday ahead of the official EIA figures on Wednesday. Current expectations (bbls): Crude -0.5, Gasoline +0.2mln, Distillates -0.3mln.

EQUITIES

CLOSES: SPX -1.37% at 4,229, NDX -1.83% at 14,565, DJIA -1.29% at 33,002, RUT -1.69% at 1,727.

SECTORS: Consumer Discretionary -2.59%, Real Estate -1.9%, Technology -1.82%, Financials -1.67%, Communication Services -1.4%, Health -0.91%, Industrials -0.74%, Consumer Staples -0.7%, Materials -0.3%, Energy -0.02%, Utilities +1.17%.

EUROPEAN CLOSES: DAX -1.06% at 15,085, FTSE 100 -0.54% at 7,470, CAC 40 -1.01% at 6,997, Euro Stoxx 50 -1.02% at 4,095, IBEX 35 -1.65% at 9,166, FTSE MIB -1.32% at 27,482, SMI -1.00% at 10,755.

STOCK SPECIFICS: UK regulator Ofcom is to reportedly push for a CMA investigation into **Amazon's (AMZN)** and **Microsoft's (MSFT)** dominance of the UK cloud market, with the report due Thursday, according to Reuters sources. **Boeing (BA)** has laid out plans to increase 737 production rate to a record of at least 57 per month in July 2025, and it could increase output to about 42/month in December 2023. **Meta (META)** reportedly explores options to charge EU users for ad-free subscriptions. **Apple (AAPL)** has begun requiring new apps to show proof of a Chinese government licence before their release on its China App Store. **HP Inc. (HPQ)** was double upgraded by BofA as it expects improving fundamentals with FCF hitting a bottom in 2023. In other news, **Google (GOOGL)** is partnering with HP to manufacture Chromebooks in India for the first time. **Point Biopharma (PNT)** is to be acquired by **Eli Lilly (LLY)** for USD 12.50/shr in cash, according to Bloomberg. Note, PNT closed Monday at USD 6.68/shr. **McCormick & Co (MKC)** profit was in line while revenue marginally missed. Looking ahead, reaffirmed FY sales view but raised EPS guide. **Warner Music Group (WMG)** was upgraded at UBS; said it should be a long-term beneficiary of trends in the music industry. **Warby Parker (WRBY)** was upgraded at Evercore; said shares could rally more than 50% as cos. margins and revenue growth reaccelerate. **Airbnb (ABNB)** was downgraded at KeyBanc. **Netflix (NFLX)** reportedly plans to raise prices after the actors strike ends, according to WSJ; price hikes likely to begin in US and Canada. **Disney (DIS)** reportedly weighs launching a new live-sport tier of Disney+ overseas, according to WSJ sources. **Warner Bros. Discovery (WBD)** is to lift its ad-free Discovery+ monthly subscription service to USD 8.99 (prev. USD 6.99); Discovery+ ad-lite will remain at USD 4.99/mnth in the US.

US FX WRAP

The Dollar rose to session highs above 107 to 107.340 in wake of the surprise spike in US JOLTS job openings which saw a broad hawkish reaction highlighted by yields advancing further. Meanwhile, IBD/TIPP Economic Optimism index plunged to 36.3 from 43.2, the lowest since August 2011, with the internal indices also all falling with the 6-month economic outlook index printing a record low. Mester (2024 voter) and Bostic (2024 voter) spoke heavily, with the former noting the Fed will likely need to hike rates one more time this year, and the latter noting he sees the next move as a single 25bps rate cut towards the end of next year (although not too surprising given he has pushed back against further hikes for months now). Looking ahead, all attention is on NFP on Friday, but prior to that we get the ADP National Employment and Goolsbee (voter, dove) both on Wednesday.

Yen was the clear outperformer on Tuesday, but that doesn't tell half the story. In wake of the aforementioned JOLTS data, USD/JPY hit a high of 150.16 but roughly 10 minutes later the cross immediately plunged from 150.15 to 147.31 despite a lack of headlines, with intervention of course suspected. Nonetheless, a Senior Japanese MOF official said not long after "no comment" on whether Japan intervened in the FX market when questioned by newswires. USD/JPY recovered above 149 as the dust settled, but that failed to hold into the NY afternoon as yields climbed higher, and the cross currently resides around 148.75, with 148.50 seen as support. All the attention heading into the Wednesday APAC session will be on any official commentary on the moves.

Antipodeans underperformed with the Aussie lagging post the RBA hold and the Kiwi is down in sympathy awaiting RBNZ to follow suit on Wednesday. Going into detail, the RBA left rates unchanged, as expected, and maintained guidance with very little changes within the statement with new Governor Bullock continuing the former Governor Lowe's messaging. Looking ahead, analysts at Oxford Economics expect the RBA will keep rates on hold for the next year with the full impact of rate hikes so far yet to be felt. Elsewhere, Australian building approvals surged in August following the steep decline, rising 7.0% from the prior -7.4%, above the 2.5% consensus. For the Kiwi, attention is on the RBNZ Wednesday where it is expected to keep rates at 5.50% with money markets pricing this in with 90% certainty after last meeting it signalled rate cuts will not happen until at least December 2024. Following this, recent data and rhetoric has supported this view of no near-term policy tweaks. For the full Newsquawk preview, please click here. In terms of levels, AUD/USD and NZD/USD hit lows of 0.6286 and 0.5888, respectively.

EUR and GBP were flat vs. the Buck and both derived impetus from the ongoing rout in EGBs and Gilts to various extent and in relation to bear-steeping in USTs, but they also continued to piggy-back the Yen in absence of anything really Eurozone or UK specific. In addition, there were several ECB speakers. Chief Economist Lane noted the ECB will not make progress to 2% inflation as quickly as it would to 4% and that domestic inflation shows that pressure continues to come from wages. He added they have reached the interest rate level that will help tame inflation, and it is key to maintain this rate for as long as needed, stressing the importance of seeing wage data coming in lower. Meanwhile, ECB's Valimaki (sitting in for ECB's Rehn) said further hikes cannot be ruled out.

CAD and CHF were both slightly lower against the Greenback, with USD/CAD between 1.3665-3735 parameters and USD/CHF 0.9174-9244. For the Swissy, inflation data was cooler than expected at 1.7% Y/Y in September (exp. 1.8%) but it did accelerate a touch from the 1.6% previously. Meanwhile, the Loonie saw BoC External Non-Executive Deputy Governor Vincent speak on inflation, where he warned the more frequent and large price increases by firms are intimately linked to stronger than expected inflation, and if this was to become the new norm, it would make its task of returning to low, stable and predictable inflation more complicated.

EMFX was weaker across the board amid broad risk aversion. CLP was weighed on further by lower copper prices. BRL was hit amid Brazilian industrial output missing expectations, rising 0.4% M/M in August (exp. 0.5%, prev. -0.6%). The RUB rose above 100 for the first time since August but the Kremlin said it is no cause for concern. ZAR fell in tandem with Gold, while Turkish inflation data was cooler than expected in September, rising 4.75% (exp. 4.88%, prev. 9.09% M/M). Moreover, CBRT Governor said that the main trends of inflation started to slow down from September and 2024 will be the year of disinflation. Conversely, the HUF did receive a fillip from more reports that EU is considering unfreezing billions for Hungary as it seeks to secure support for Ukrainian aid and membership discussions.