



US Market Wrap

4th October 2023: Stocks and bonds regain composure as crude tumbles and dollar falters

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW:** Soft ADP; Mixed ISM Services; Japanese officials reiterated "no comment" on FX intervention; EIA crude draw offset but large gasoline build; INTC to spin out programmable chip unit; AAPL downgraded at KeyBanc.
- **COMING UP: Data:** Australian Trade Balance, German Trade Balance, EZ, German, French, Italian, UK, US & Canadian Construction PMI, US IJCs & Challenger Layoffs **Events:** BoE's Monthly Decision Maker Panel Data **Speakers:** Fed's Mester, Barkin, Daly; ECB's Lane & de Guindos **Supply:** Spain, France & US **Earnings:** Lamb Weston, Conagra Brands, Constellation Brands.

MARKET WRAP

Equity futures rose on Wednesday and the Dollar sold off, both spurred by the move lower in UST yields once US players arrived, particularly supporting large-cap tech stocks. The move in yields accentuated after a much cooler than expected ADP payrolls report with eyes turning to the NFP report on Friday, albeit if history is anything to go by, ADP is not the best indicator for the NFP. Also supporting the move higher in Treasuries was the collapse in crude prices, seeing WTI and Brent fall roughly USD 5/bbl, weighing on petro currencies like CAD, NOK and COP. The Yen was flat vs. the softer Dollar while Japanese officials still replied with "no comment" when quizzed on potential intervention from Tuesday, but Reuters reported BoJ data suggests there was likely no forex intervention. Aside from ADP, the ISM Services PMI was in line with expectations on the headline, but employment and new orders slowed and prices remained elevated, while business activity accelerated.

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ADP: ADP National Employment fell to 89k from 180k, and beneath expectations of 153k ahead of NFP on Friday, although the link is somewhat tenuous. Meanwhile, median change in annual for job-stayers and job-changers dipped to 5.9% (prev. 6.2%) and 9.0% (prev. 10.2%), respectively. Highlighting the obscurity to predict NFP, Pantheon Macroeconomics chime, "The September print is the lowest since January 2021, but there is zero statistical justification for changing our 175K private payroll forecast for Friday. ADP might be right, but that is not knowable in advance, and it could just as easily be very wrong." Pantheon concludes, "In any event, the biggest identifiable source of upside risk for Friday's headline print is state and local government education jobs, where the seasonal patterns look extremely favorable."

ISM SERVICES: ISM Services fell to 53.6, in line with the expected, from 54.5. Looking at the internal indices, New Orders and Employment dipped to 51.8 (prev. 57.5) and 53.4 (prev. 54.7), respectively, while Prices Paid remained unchanged at 58.9 and Business Activity lifted to 58.8 (prev. 57.3). On the report, The ISM Services Chair Nieves noted, "There has been a slight pullback in the rate of growth for the services sector, which is attributed to slower rates of growth in the New Orders and Employment indexes. The majority of respondents remain positive about business conditions; moreover, some respondents indicated concern about potential headwinds." Overall, Oxford Economics expects a further slowdown ahead as the fundamentals that have boosted services this year fade. Furthermore, slowing income growth in a softening labour market coupled with dwindling excess savings, tighter lending standards, and elevated interest rates will curb consumption growth. Concluding, while the headline remains in expansionary territory, and respondents to the survey remained generally upbeat about business conditions, Oxford stated "Should headwinds take longer to materialize, the resilience of the services sector would add upside risks to our forecast for Q4."

NFP PREVIEW: The headline NFP is expected to rise by 170k from August's 187k, with forecasts ranging between 90-256k. The unemployment rate is seen easing to 3.7% from 3.8%, but the consensus ranges from 3.4% to 3.9%. The wage data is seen rising 0.3% M/M from 0.2%, while the Y/Y print is expected to remain steady at 4.3%. Regarding Fed implications, the Median 2023 dot plot implies there is one more hike expected this year, but ultimately the data will be the deciding factor. The upcoming NFP release, and the September CPI and PCE reports are all due before the Fed's November meeting and will be taken in totality for whether the FOMC decides to lift the Federal Funds Rate, which would take it to the implied terminal level. However, markets are leaning towards an unchanged decision for November



with just a 22% probability of a hike, nonetheless, a hot jobs report could see those odds increase and vice versa. Looking ahead to December, just 10bps of tightening is priced in currently, which implies a 40% probability of another 25bp hike by year-end, showing the market believes the Fed may be at terminal rate already. To download the full Newsquawk preview, [please click here](#).

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLED 15 TICKS HIGHER AT 107-03+

Treasuries recover after 30yr clips 5%, accentuated by soft ADP and mixed ISM Services ahead of NFP. At settlement, 2s -10.4bps at 5.044%, 3s -10.1bps at 4.851%, 5s -8.8bps at 4.715%, 7s -8.3bps at 4.751%, 10s -7.3bps at 4.729%, 20s -7.3bps at 5.061%, 30s -6.9bps at 4.868%

INFLATION BREAKEVENS: 5yr BEI -3.3bps at 2.299%, 10yr BEI -2.3bps at 2.339%, 30yr BEI -1.4bps at 2.442%.

THE DAY: A strong bout of selling was seen in the APAC morning on Wednesday, again led by the long end. Aside from momentum, there were little obvious catalysts, with the RBNZ unchanged, as expected, while Japanese officials were coy on whether they intervened in the Yen on Tuesday. T-Notes hit new troughs of 106-03+ at the London handover before dip buying surfaced, with the 30yr yield clipping 5%. That extended into the NY handover with T-Notes flipping into the black.

The soft ADP employment figure (89k vs exp. 153k) saw a kneejerk to fresh highs of 107-01 in T-Notes, but further buying appetite was limited at the time, with contracts just managing to edge out to peaks of 107-02+ as the dust settled. The in-line ISM Services PMI, with a stubbornly high prices paid component, saw T-Notes sold to interim lows of 106-21+, but shorts began covering into the European close with half-an-eye to Friday's NFP. And before long, T-Notes made new highs of 107-04+ going into the NY afternoon.

STIRS:

- SR3Z3 +5.5bps at 94.570, H4 +11.0bps at 94.865, M4 +12.0bps at 95.120, U4 +12.0bps at 95.405, Z4 +11.5bps at 95.660, H5 +10.0bps at 95.820, M5 +8.5bps at 95.890, U5 +7.5bps at 95.910, Z5 +7.0bps at 95.905, Z6 +6.5bps at 95.840, Z7 +5.5bps at 95.660.
- SOFR rises (again) to 5.33% as of Oct 3rd from 5.32%, volumes fall to USD 1.498tln from 1.513tln.
- NY Fed RRP op demand at USD 1.342tln (prev. 1.348tln) across 96 counterparties (prev. 97).
- EFFR flat at 5.33% as of Oct 3rd, volumes rise to USD 94bln from 89bln.
- US sold USD 54bln of 17-week bills at 5.35%, covered 2.96x.

CRUDE

WTI (X3) SETTLED USD 5.01 LOWER AT 84.22/BBL; BRENT (Z3) SETTLED USD 5.11 LOWER AT 85.81/BBL

Oil prices entered freefall Wednesday after Tuesday's bounce proved a head-fake, with Brent losing USD 90/bbl and WTI losing USD 85/bbl. The downside was gradual, rather than a function of any specific news, and gained momentum in the European session. WTI and Brent contracts troughed at USD 84.16/bbl and 85.75/bbl in the NY afternoon, despite the strong Dollar selling. The EIA inventory data was mixed with a 2.2mbl bbl crude stock draw offset by a net 5.2mbl bbl build in the products. Meanwhile, the OPEC+ JMMC meeting affirmed no change to the group's output policy, as heavily touted. At the same time, Saudi confirmed it would continue its voluntary 1mbl BPD supply cut until the end of 2023, while Russia said it would continue its 300k BPD export cut until the end of the year too, but would review its voluntary 500k BPD output cut in November. Elsewhere, Russia is ready to partially lift its ban on diesel exports in the coming days, Kommersant sources reported. Deputy PM Novak was on wires talking up the success of the policy domestically in lowering prices, whilst saying Saudi and Russian output action have helped balance the global oil market. He also warned that OPEC+ may tweak its policies if needed.

EQUITIES

CLOSES: SPX +0.81% at 4,263, NDX +1.45% at 14,776, DJIA +0.39% at 33,129, RUT +0.11% at 1,729.

SECTORS: Consumer Discretionary +1.97%, Communication Services +1.28%, Technology +1.25%, Materials +1.19%, Real Estate +1.13%, Financials +0.83%, Consumer Staples +0.73%, Health +0.45%, Industrials +0.38%, Utilities -0.09%, Energy -3.36%.



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: Intel (INTC) is to spin out its Programmable Solutions Group as a standalone business, and plans to hold an IPO over the next two to three years. CEO said Intel had a strong quarter, and reiterated that revenue was above the midpoint of guidance. Apple (AAPL) was downgraded at KeyBanc citing shares' high valuation and an expectation for soft growth in the US. Exxon Mobil (XOM) is to sell its majority stake in the Italy LNG terminal to BlackRock (BLK). Lithium Americas (LAC) completed its reorganisation into two separate companies: Lithium Argentina and Lithium Americas. RPM (RPM) surpassed Wall St. expectations on the top and bottom line. Baked FY24 sales growth mid-single digits and sees Q2 sales growth low-single digits. Cal-Maine Foods (CALM) missed on the top and bottom line. Exec said it faces ongoing challenges related to the threat of HPAI and inflationary headwinds. Insulet's (PODD) CFO Wayne McMillan will resign on October 20th and will become CFO of 3M's (MMM) Health Care business, which 3M intends to spin off as a separate company. Fluor (FLR) was upgraded at UBS; said it is bullish due to progress on legacy projects and said it is on the brink of a company turning point. Truist downgraded the solar panel installers, Sunrun (RUN) and Sunnova (NOVA); said higher-for-longer interest rates could hit solar energy stocks. Spruce Point issued a strong sell report on Rollins (ROL); sees 30-40% downside risk to its share price.

US FX WRAP

The Dollar sold off on Wednesday with DXY falling back below 107.00 to lows of 106.50 in wake of a big miss in the ADP private payroll report with eyes to challenger layoffs on Thursday ahead of the Nonfarm Payrolls release on Friday, the [Newsquawk Nonfarm Payrolls preview is available here](#). The dollar then pared off its lows gradually before the ISM Services data which was in line with expectations at 53.6, with prices paid also unchanged and a surprise gain in business activity. However, new orders tumbled and employment eased but both remained in expansionary territory, just at a slower pace than August. The data, alongside a beat in factory orders, saw the DXY test 107 once again but ultimately rejected the level, hovering around 106.75 heading into APAC trade. On the session, the Greenback was lower with a reversal of some of the yield surge seen recently keeping the buck down.

The Euro saw gains vs. the Buck and was among the outperforming currencies, taking EUR/USD back above 1.05 with the move lower in UST yields supporting. EUR/USD hit a high of 1.0532 but eventually pared to the 1.05 level throughout the US afternoon. Elsewhere, the EU Final September PMI data was revised marginally higher for the Services and composite while EU producer prices data for August were in line with expectations but retail sales disappointed. Meanwhile, ECB's Lagarde repeated that rates are sufficiently restrictive, Centeno noted inflation in the Euro area is falling faster than it was rising and that we can expect the rate cycle has been completed by now. De Guindos said there is a substantial share of tightening still in the pipeline but underlying price pressures remain strong, noting the ECB will continue to follow a data dependent approach.

The Yen was flat vs. the Buck and traded either side of 149.00, a level it hovers around at pixel time. There still has not been any official confirmation or denial about Tuesday's sharp move in the Yen, with BoJ governor Ueda having "no comment" on the matter. However, BoJ data suggest that there was likely no forex intervention on Tuesday, as the current account balance was projected to be within market estimates, according to Reuters. However the piece did add, bank transactions for currency intervention take effect two business days later, meaning any intervention on Tuesday would show up in the BOJ's current account balance projection for Thursday. Nonetheless, the sharp move on Tuesday from USD/JPY rising above 150 appears to be a line in the sand and participants will be sceptical of any moves above that, perhaps keeping a cap on USD/JPY for now, while the move lower in UST yields today has supported the Yen.

Cyclical currencies were more mixed. GBP outperformed with Cable testing the 10dma of 1.2177 at best levels while AUD also saw decent gains, with AUD/USD rising above 0.6300 while AUD/NZD briefly rose above 1.0700 with participants digesting the RBA and RBNZ rate decisions this week. Both left rates unchanged as expected with the RBA maintaining language that they are prepared to do more if needed but the RBNZ sounded a bit more cautious on growth risks. CAD was the FX laggard, however, with the decimation of oil prices hitting the crude exporting currency, even against the softer dollar. USD/CAD rose to highs of 1.3779 as oil prices slumped throughout the session to see the largest one-day drop since September 2022 with eyes turning to the Canadian jobs report on Friday, alongside the NFP report in the US.

EMFX was mixed. LatAm's predominantly saw gains against the Dollar but the COP saw notable weakness on the crude slump. Elsewhere, the ZAR was mildly softer vs. the Greenback amid weaker gold prices while the TRY failed to benefit from the lower oil prices.



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