US Market Wrap

5th October 2023: Treasury recovery continues ahead of NFP despite low jobless claims

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar down
- **REAR VIEW**: Jobless claims stubbornly hot; Challenger Layoffs fall; Daly says recent yield rise reduces need for more hikes; GM has 20mln vehicles with dangerous airbags; NVO weight loss drug to cause bowel issues; Foxconn expects Q4 to grow significantly vs Q3.
- **COMING UP**: **Data**: German Industrial Orders, French Trade Balance, Italian Retail Sales, US NFP & Canadian Employment **Events**: RBI Policy Announcement **Speakers**: Fed's Waller.

MARKET WRAP

Stocks were little changed in choppy trade Thursday, falling at the cash open in NY before recovering through the session, while the recovery in Treasuries continues in a largely quiet newsflow session ahead of Friday's employment report. There were several Fed speakers with Daly (2024 voter) the highlight, essentially saying the rise in long-term yields has removed the need in her view to hike again. Energy remains a key focus, with oil prices continuing to fall, albeit slower than Wednesday, a big factor in the recent trace back lower in Treasury yields. The bond recovery hit a snag after initial jobless claims saw just a small rise off very low levels, which, combined with the surge in JOLTS job openings earlier this week, is amplifying concerns over a retightening labour market. The Dollar was generally sold, with particular outperformance in activity currencies, cemented by the broader risk recovery into the close.

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DALY (2024 voter) gave extensive comments in an Economic Club of NY appearance. The key takeaway appears to be her increasing confidence in the lack of need for further hikes, citing the recent backup higher in yields (tightening financial conditions) removing the need to do more on hikes; she believes the recent move higher in yields equates to about one rate hike, whilst also saying she doesn't believe the sell-off in bonds so far has been disorderly. Daly said the moment calls for optionality on policy, and the Fed doesn't have to rush for any decisions. She believes the Fed can hold rates steady if labour and prices keep cooling. The San Fran Fed President said we do not know if the neutral rate has risen, and that we shouldn't assume we are now in a higher rate environment. She warned that we are going to start seeing more dispersion in the Dot Plot. Finally, and in an implicit nod to potential 2024 cuts, Daly said if inflation comes down more than projected, the Fed would need to calibrate policy to match that.

BARKIN & GOOLSBEE: Richmond Fed's Barkin (2024 voter), at a conference, gave some general remarks, noting yields have come up amid fiscal issuance and strong data. He said rates feel high right now, but are not over the long term. Meanwhile, Chicago Fed's Goolsbee (2023 voter), in an Odd Lots interview, said he does not see the rise in long-term yields as imperilling a soft landing.

JOBLESS CLAIMS: The initial jobless claims data rose marginally to 207k from 205k in the week ending September 30th, beneath the expectations of 210k. This marks another consecutive week with the claims hovering around the 200k level, showing that although during signs of a slowing labour market, it is not being met with widespread layoffs. This was confirmed in the September Challenger Layoffs data, which fell to 47.5k from 75k in September. The 4 week claims average fell 2.5k to 208.75k, while continued claims for the week ending September 23rd was at 1.664mln from 1.670 mln, beneath expectations of 1.675mln. Note, for initial claims, the seasonal factors had expected a decrease of 3,903 form the prior week, with the unadjusted figure at 172,775. Note, in terms of Fed implications, Oxford Economics write "The claims data on their own will not shift the Fed's views, but we expect officials will need to see further softening in the September employment report due out tomorrow and beyond to prevent them raising rates one more time this year."

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 SETTLE 6+ TICKS HIGHER AT 107-10

Treasuries extended their recovery Thursday ahead of payrolls, with the long end underperforming. At settlement, 2s -2.8bps at 5.023%, 3s -3.4bps at 4.823%, 5s -3.9bps at 4.682%, 7s -3.2bps at 4.726%, 10s -1.9bps at 4.717%, 20s +0.0bps at 5.071%, 30s +0.7bps at 4.885%.

INFLATION BREAKEVENS: 5yr BEI -2.8bps at 2.277%, 10yr BEI -2.7bps at 2.312%, 30yr BEI -2.6bps at 2.413%.

THE DAY: T-Notes sustained their bid to interim highs of 107-09 in the APAC Thursday morning after Wednesday's short-covering, with dealers noting good buying flows across the cash curve from real and fast money. There was a bout of mild selling in the London morning, where T-Notes troughed at 106-31+ before recovering again into the NY handover with newsflow on the light side, although the continued downside in oil was helping the bid.

T-Notes stretched out a new high (107-10) before the weekly jobless claims data. There was a smaller rise than expected in the claims figures, leading to an acute bout of selling in USTs, taking T-notes to session lows of 106-28+, which swiftly unwound with shorts looking to take advantage of dips to cover into Friday's payrolls. Before long, T-Notes went on to print session highs of 107-12+ later in the NY morning. Contracts hovered near highs into the settlement, with Fed's Daly (2024 voter) keeping USTs supported after saying the backup in yields recently has removed the need for another hike.

NEXT WEEK'S AUCTIONS: US to sell USD 46bln of 3yr notes on Oct 10th, USD 35bln of 10yr notes on Oct 11th, and USD 20bln of 30yr bonds on Oct 12th; all to settle Oct 16th.

STIRS:

- SR3Z3 +1bp at 94.57, H4 +2bps at 94.69, M4 +3.5bps at 94.90, U4 +4bps at 95.16, Z4 +4bps at 95.445, H5 +4bps at 95.70, M5 +4bps at 95.86, U5 +4.5bps at 95.935, Z5 +4.5bps at 95.955, Z6 +4.5bps at 95.91, Z7 +3.5bps at 95.75.
- SOFR falls back to 5.32% as of Oct 4th from 5.33%, volumes fall to USD 1.436tln from 1.498tln.
- NY Fed RRP op demand plunges to USD 1.265tln from 1.342tln, partly due to a chunky settlement, across 98 counterparties (prev. 96).
- EFFR flat at 5.33% as of Oct 4th, volumes rise to USD 103bln from 94bln.
- US sold USD 91bln of 1-month bills at 5.310%, covered 2.95x; sold USD 81bln of 2-month bills at 5.355%, covered 2.46x.
- US increases 6-, 13-, and 26-week bill sizes by USD 5bln, 2bln, and 2bln, respectively, to USD 70bln, 73bln, and USD 66bln, respectively; all sold on Oct 10th; all to settle on Oct 12th.

CRUDE

WTI (X3) SETTLED USD 1.91 LOWER AT 82.31/BBL; BRENT (Z3) SETTLED USD 1.74 LOWER AT 84.07/BBL

Oil prices extended their decline/reversion on Thursday, albeit at a slower pace than Wednesday, in lack of an obvious catalyst with desks pointing to overarching "demand fears". WTI and Brent futures troughed at USD 82.24/bbl and 83.84/bbl, respectively, with contracts choppy through the NY session. The pullback comes after weeks of incessant gains, so the recent sell-off appears overdue and is about finding a technical base, much rather than anything fundamental in recent sessions. In the energy space today, as expected, the Iraq-Turkey pipeline was confirmed to be back in operation. Saudi Aramco released its November OSPs, raising its premiums to Arab Light for Asia and Europe, whilst keeping its US premium flat. Russian President Putin gave extensive remarks, where he touched on the Nord Stream 2 pipeline, saying that one of the lines was not damaged from the explosions last year and that Russia could start gas supply via the pipeline.

EQUITIES

CLOSES: SPX -0.13% at 4,258, NDX -0.36% at 14,723, DJI -0.03% at 33,119, RUT +0.14% at 1,731

SECTORS: Consumer Staples -2.06%, Materials -1.26%, Industrials -0.64%, Energy -0.59%, Consumer Discretionary -0.57%, Utilities -0.55%, Communication Services -0.12%, Technology +0.25%, Financials +0.38%, Health +0.5%, Real Estate +0.67%.

EUROPEAN CLOSES: DAX -0.20% at 15,070, FTSE 100 +0.53% at 7,452, CAC 40 +0.02% at 6,998, Euro Stoxx 50 0.00% at 4,100, IBEX 35 +0.60% at 9,158, FTSE MIB +0.20% at 27,491, SMI +0.25% at 10,784, PSI +0.67% at 5,863.

STOCK SPECIFICS: **Rivian (RIVN)** plans to sell USD 1.5bln in convertible green bonds due 2030. **Clorox (CLX)** pre-announced woeful Q1 results and slashed guidance after its cyberattack. Highlighting this, Q1 adj. EPS is seen between USD -0.40 to 0.00 (exp. 1.36), and said revenue was expected to decrease by between 28-23% Y/Y. **Disney (DIS)** is offering discounts on children's tickets at its US theme parks in early 2024, aiming to boost attendance amid lower numbers and rising costs. **Lamb Weston (LW)** beat on profit and revenue; raised earnings target for the year to reflect performance in the quarter, as well as the current solid demand and pricing environment. **Conagra Brands (CAG)** missed on revenue and re-affirmed FY24 guidance. Sees low single-digit decline in Q2 organic net sales as volume declines improve as inflation-driven pricing actions from FY23 are wrapped. **Apple (AAPL)** supplier Foxconn said Q4 was expected to grow significantly compared to Q3. The new product launch in September led to a strong revenue growth compared to prev. quarter, but the revenue experienced a decline YoY due to a high base. There was a positive Piper Sandler note on **Pinterest (PINS)**; said it was more confident in PINS advertising product improvements after observing positive results in September. **SP Plus (SP)** is to be acquired by Metropolis Technologies for USD 54/shr in cash or USD 1.5bln. Note, SP closed Wednesday at USD 35.41/shr. **AMD (AMD)** had its price target lowered to USD 125 (prev. 170) at Baird. **General Motors (GM)** announced it provided a counter offer for labour contract to UAW union, its sixth proposal since talks began, and Bloomberg reported it made progress on retirement benefits. **Teck Resources (TECK)** CEO Price told the FT that the sale of its steelmaking coal arm is proceeding as planned despite doubts over the reported bid of Indian group **JSW Steel (JSTL IS)**; would like to put a deal to shareholders before the end of the year.

US FX WRAP

Dollar slide continues as yields fall further, supporting Yen; activity currencies outperform

The Dollar sold off on Thursday tracking the move lower in yields again. The move in yields recently has seen Fed speakers suggest it is doing the tightening of financial conditions for them, thus another rate hike may not be as likely, Fed's Daly said the recent move, which has been the equivalent of another rate hike, removes the need for another Fed hike. Elsewhere, data on Thursday saw jobless claims remain stubbornly low at 207k this week, signalling the slowdown in the labour market is not being led by widespread layoffs, something that was also confirmed in the September Challenger Layoffs report. DXY stretched to lows of 106.32 in the NY afternoon from earlier highs of 106.86 with heads turning to Friday's NFP report for direction.

The Euro was propped up once again on the Dollar weakness with EUR/USD bouncing from 1.05 at the lows after testing it several times in the morning. On ECB speak, Chief Economist Lane said that bond market pricing shows the ECB rate gradually going back to 2%; ESTR pricing shows implied rates troughing just 3% by the end of 2024. Elsewhere, de Guindos said the current level of rates will help tame inflation, but noted the ECB is data dependent and it is premature to discuss rate cuts. Kazimir said the September EZ core inflation confirmed ECB expectations, and reiterated he believes the last rate hike was the final one.

The Yen firmed vs the buck with USD/JPY pushing further beneath 149.00 from the reversal in UST yields recently with participants still cognizant of moves above 150.00 on potential Yen intervention following the move earlier in the week. However, there still has been no official confirmation or denial of such an event.

Cyclical currencies were predominantly bid with outperformance in the Antipodeans, buoyed as the initial US stock losses pared into the close. AUD/USD rose above 0.6350 and NZD/USD rose above 0.5950 but the NZD marginally outperformed its counterpart, seeing AUD/NZD falling beneath 1.07 again.

GBP also saw gains on the risk environment while participants eyed remarks from BoE deputy governor Broadbent and the latest BoE Monthly decision maker panel survey of CFOs. Broadbent stated it is an open question on whether rates will increase further, and noted on balance, the UK economy has been less weak than the MPC expected but there are clear signs that rate hikes are having an impact. He also added it may be that the impact of tighter policy is weaker than in the past, or delayed, but he sees inflation returning to target in two years. The latest Decision Maker Panel survey from the BoE saw the one-year ahead CPI inflation expectations rise slightly to 4.9% (prev. 4.8% M/M), but the three-month moving average fell by 0.3% to 5%. The three-year-ahead CPI expectations were flat 3.2% in September. Year-ahead wage growth was unchanged at 5.1% on the three-month moving average basis, but the September print fell 0.2% to 5.2%. ING summarizes the survey that the findings bolster the case for another "on hold" decision for November, but do note policymakers are wary about putting too much emphasis on surveys.

CAD also firmed vs the Dollar, but only marginally and not to the same magnitude as its cyclical peers given further pressure in the crude space seeing USD/CAD approach 1.37 to the downside. The Ivey PMI for September fell to 53.1 from 53.5 with increases in the employment and prices components offset by declines in inventories and supplier deliveries.

Scandis were mixed with the SEK marginally outperforming the Euro while the NOK underperformed. For the SEK, Riksbank's Bremen said monetary policy transmission has followed relatively normal patterns in the current cycle and noted the Riksbank needs to remain in restrictive territory for quite some time and she expects to see clearer signs of a slowdown in the economy going forward than we have seen so far. She is also confident that inflation will return to target in a timely manner. NOK, meanwhile, fell victim to the softer crude prices again.

EMFX was mixed. COP and MXN saw pronounced weakness with the lower crude prices while BRL only saw marginal weakness while CLP outperformed its LatAm peers despite weaker copper prices. The MXN sell off was accompanied by a tumbling Mexican stock market led by sharp declines in its airline operators on changes to tariff regulations, weighing on sentiment in Mexico. In Brazil, BCB Director Galipolo said that discussions have begun about the interest rate differential between the US and Brazil, noting the BCB has room to adjust the monetary policy contraction, while remaining restrictive. Galipolo noted it was important to signal a 50bp rate cut pace as it allows this adjustment and allows us to observe the reaction to the economy. Participants will be watching to see if this pace is adjusted with higher longer term US yields clearly a worry for those at the BCB, although government officials are not concerned about the US yields, who have been pressing the BCB to cut rates. Elsewhere, PLN was flat against the Euro while NBP Governor Glapinkksi noted inflation is falling fast and at the end of the year, CPI will be between 6-7%, which follows the NBP 25bp rate cut on Wednesday, as expected.