US Market Wrap

6th October 2023: Stocks and bonds recover from NFP lows, eyes turn to CPI next week

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar down
- **REAR VIEW**: Hot NFP headline, but wages ease and unemployment above expectations; Mester says it is consistent with existing views; UAW and D3 make progress; XOM to buy PXD; Russia expands prohibitive export duty on more fuels
- **WEEK AHEAD**: Highlights include FOMC minutes, ECB minutes, US & China CPI and UK GDP. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing FOMC minutes, ECB minutes; Reviewing RBA, RBNZ, BoJ SoO, RBI, Riksbank minutes. To download the report, please click here.

MARKET WRAP

It was a choppy day in response to the highest NFP print since January where the hot headline initially saw a strong bout of selling in bond and equity futures while the dollar index hit highs just shy of 107. The bond sell off across the curve saw the 30yr bond yield briefly rise above 5% and the ES fell sub 4250. There was a slight hawkish adjustment to money market pricing, with a 30% probability of a hike priced for November (prev. 25% pre-data) with a c. 50% probability of a hike seen by year-end. With money markets still not fully convinced another hike is needed, perhaps on some of the more dovish aspects of the report (softer wages, above consensus unemployment), stocks reversed and closed well in the black while the Dollar was sold and Treasuries eventually settled off lows with short-covering also likely a factor. Attention turns to the US CPI data next week for a further insight to the Fed's reaction function alongside plenty of Fed speakers and consumer inflation expectation figures. Elsewhere, Crude prices settled in the green but still marked their largest weekly loss since mid-March. Meanwhile, on the UAW, talks are making progress with no further strike expansion currently planned after progress was made with the Detroit Three (F, STLA, GM) today, but talks are still ongoing.

US

NFP: The headline NFP employment number was hot. The economy added 336k jobs in September, rising from the prior 227k, which was revised up from 187k and well above expectations of 170k, and even the top forecast of 256k. The unemployment rate remained at 3.8% however despite an expected tick down to 3.7%. Wages rose 0.2% M/M again in September, beneath the 0.3% expectation while Y/Y wages rose 4.2%, easing from the 4.3% prior and expectation. Although unemployment was above the consensus and wages were softer, the huge NFP headline is hard to ignore and is consistent with a tight labour market as signalled by the stubbornly low jobless claims data seen in September. Although there is still more data due before the November FOMC (CPI and PPI are due next week, PCE due at the end of the month), it does boost the likelihood of Fed action, although given Fed Chair Powell's proceed carefully message, they may opt to wait until December when even more data is available. In the immediacy, money markets are pricing a 30% probability of a hike in November with c. 50% probability of a hike by year-end or in January. The data resumed the bond selling with the 30yr yield briefly rising above 5%, which may even do some of the job for the Fed. Daly on Thursday noted the recent tightening of financial conditions is likely to be the equivalent of a 25bp hike alone. Therefore, although the jobs market is not easing as much as the Fed would like to see, the tightening of financial conditions may keep them on the sidelines for now, but of course, still being data dependent. Eyes now on CPI next Thursday.

FED: **Mester (2024 voter)**, in wake of the September NFP, said the job market is very strong and the latest report is consistent with the existing view of the job market, its a strong market but it is getting less tight. She acknowledged the report showed tempering wage growth, adding the Fed is seeing progress on inflation but it is still too high. On rates, she towed the line the Fed is either at or very near the peak of rates, but the main question now is how long do the Fed need to keep rates high for, as they need to keep policy restrictive for long enough to hit the inflation goal. Mester wants to see inflation back to 2% by the end of 2025, noting the economy has been very resilient, and economic growth is strikingly strong. Mester added the Fed will calibrate monetary policy to achieve job and inflation goals. Looking ahead, Mester also suggested the Fed will make a decision on further hikes at the next Fed meeting.

FIXED INCOME

T-NOTE (Z3) FUTURES SETTLE 15 TICKS LOWER AT 106-27

Treasuries were sold Friday but closed off worst levels as shorts covered in the aftermath of the hot NFP report. At settlement, 2s +5.4bps at 5.079%, 3s +5.8bps at 4.881%, 5s +6.6bps at 4.750%, 7s +7.1bps at 4.797%, 10s +6.8bps at 4.784%, 20s +6.5bps at 5.139%, 30s +5.6bps at 4.943%.

INFLATION BREAKEVENS: 5yr BEI +0.5bps at 2.276%, 10yr BEI +0.9bps at 2.314%, 30yr BEI +0.6bps at 2.412%.

THE DAY: Treasuries were choppy in tight ranges during APAC trade Friday, with T-Notes within a band of 107-06+/107-10, failing to clip Thursday's 107-12+ peak. Japanese wages came in soft, tempering hawkish sentiment around the BoJ. While RBI left rates unchanged, a comment about mulling OMO sales saw IGBs offered. T-Notes broke to fresh lows of 107-02 in the London morning, with German factory orders coming in hot.

On the release of the above forecast NFP report, T-Notes fell from 107-03 to 106-19 in an immediate reaction before extending to lows of 106-06+, with belly leading the sell-off before the long-end played catch up. The cash 10yr yield stretched out a new peak of 4.887%, whilst the T-Note managed to hold above its Wednesday trough of 106-03+. While at the long end, the cash 30yr yield hit a new peak of 5.05%. However, as the dust settled, those yield levels enticed buying appetite, and contracts pared losses through the rest of the NY morning. A combination of profitable short-covering and further reassessments of the internals in the data - particularly the soft average hourly earnings and most of the jobs added being in lower-paying roles - played their part.

Looking to next week, with cash bonds closed on Monday (Columbus Day), it's just futures trade until Tuesday in an action-packed week of auctions, CPI (Thurs), PPI (Weds), FOMC minutes (Weds), lots of Fed Speak, and consumer inflation expectation gauges from both the NY Fed SCE (Tues) and Michigan survey (Fri).

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 -3.5bps at 94.535, H4 -6.5bps at 94.625, M4 -7.5bps at 94.825, U4 -7bps at 95.09, Z4 -6.5bps at 95.385, H5 -6bps at 95.64, M5 -6bps at 95.80, U5 -6.5bps at 95.87, Z5 -6bps at 95.895, Z6 -6bps at 95.85, Z7 -5.5bps at 95.695.
- SOFR flat at 5.32% as of Oct 5th, volumes rise to USD 1.520tln from 1.436tln.
- Fed Funds futures imply a 30% chance of a Nov hike now vs 25% before NFP.
- NY Fed RRP op demand at USD 1.283tln (prev. 1.265tln) across 95 counterparties (prev. 98).
- EFFR flat at 5.33% as of Oct 5th, volumes fall to USD 102bln from 103bln.

CRUDE

WTI (X3) SETTLES USD 0.48 HIGHER AT 82.79/BBL; BRENT (Z3) SETTLES USD 0.51 HIGHER AT 84.58/BBL

Oil prices saw modest strength amid the solid September US jobs report, but still mark their largest weekly loss since mid-March. Prices were choppy Friday, with WTI and Brent seeing kneejerk losses to session lows of USD 81.50/bbl and 83.44/bbl, respectively, after the hot US payrolls report saw a broader risk-off/hawkish reaction, with the Dollar spiking. However, the bearish momentum couldn't last, and shorts began to cover before long as traders weighed up the stronger Dollar vs the solid demand signal from the data.

RUSSIA: Russia lifted the ban on pipeline diesel exports on Friday via ports that had been implemented since Sep 21st, whilst maintaining the ban on gasoline exports. But at the same time, Russia hiked the fuel export duty for resellers to RUB 50k/T from 20k/T, whilst reinstalling subsidies for oil refineries.

AMERICAS: In the US, the weekly Baker Hughes rig count saw oil rigs -5 at 497 and nat gas +2 at 118. In Canada, Trans Mountain announced line fill on the pipeline expansion (expected to triple capacity to 890k BPD between the Pacific coast and Alberta) is expected to begin early next year with commercial operations set to begin near the end of Q1.

EQUITIES

CLOSES: SPX +1.18% at 4,308, NDX +1.70% at 14,973, DJI +0.87 at 33,408, RUT +0.81% at 1,746

SECTORS: Technology +1.94%, Communication Services +1.82%, Utilities +1.37%, Industrials +1.33%, Health +1.01%, Materials +0.96%, Financials +0.82%, Consumer Discretionary +0.7%, Energy +0.41%, Real Estate +0.34%, Consumer Staples -0.48%.

EUROPEAN CLOSES: DAX +1.09% at 15,234, FTSE 100 +0.56% at 7,493, CAC 40 +0.88% at 7,060, Euro Stoxx 50 +1.10% at 4,145, IBEX 35 +0.84% at 9,235, FTSE MIB +1.13% at 27,801, SMI +0.53% at 10,840.

STOCK SPECIFICS: **ExxonMobil (XOM)** is in advanced talks to acquire **Pioneer Natural Resources (PXD)** for around USD 60bln. **Tesla (TSLA)** reduced the prices of its Model 3 and Model Y cars in the US by 2.7-4.2%; follows previous price cuts this year to stay competitive in the EV market. Prices for the Model 3 have dropped by about 17% since the start of the year. **Levi Strauss (LEVI)** marginally beat on profit but missed on revenue and cut FY23 guidance. **Philips (PHG)** updated on Respironics recall; US FDA said it is still not satisfied with how it has handled a major product recall and should conduct additional risk testing. **Microsoft (MSFT)** eyes closing its **Activision Blizzard (ATVI** deal next week, according to The Verge. **Apellis Pharmaceuticals (APLS)** was upgraded at JPMorgan; said that the success of Syfovre should shift sentiment around Apellis heading into 2024. A court enforced a subpoena seeking documents related to **Starbucks' (SBUX)** response to worker organisation, according to Bloomberg. The New York State Supreme Court ruled in the City's favour to allow the minimum pay rate for app-based restaurant delivery workers performing deliveries for **Uber (UBER), DoorDash (DASH), and Grubhub (GRUB)** to take effect. **Paychex (PAYX)** is targeting upper single-digit revenue growth in the mid-term, targets upper-single to double-digit adj. EPS growth, according to an investor presentation.

UAW: The UAW announced breaking developments have been made and it will not announce additional strikes on **Ford (F)** or **Stellantis (STLA)** and while it considered striking at the **General Motors (GM)** Arlington, Texas plant, it decided against it following progress where GM "leapfrogged" the pack in negotiations. GM and STLA announced that talks are ongoing and gaps still remain, while the President of the UAW said the strikes are working, but they are not there yet. Acknowledging that STLA and F agreed to reinstate cost of living adjustments while GM are not far behind. The UAW President did warn however that if further progress is not made, the time to strike truck plants is going to come really soon.

WEEKLY FX WRAP

Bumper payroll gains give waning Dollar a boost, but only briefly

USD/JPY/CAD: Seasonal hiring may have inflated the headline NFP number, but the 336k rise compared to 170k consensus came with an additional +119k net two month revision to ensure that it overshadowed an unexpected uptick in the unemployment rate and slightly cooler than forecast average earnings. Hence, the Buck bounced firmly and broadly with the DXY hitting a new intraday high from 106.250 pre-data low before stalling just shy of 107.000, at 106.980 and subsequently retreating sharply to a new w-t-d low beneath the round number below. Indeed, the Greenback remained on track to end a rocky start to September on a soft footing having endured its biggest setback on Tuesday when a spike in JOLTS job openings propelled it to best levels (107.340 in index terms compared to 106.040 base for the week at the time) for what felt like just an instant or a matter of seconds. In short, the data gave the Dollar extra momentum and another fundamental push to breach stiff resistance at 150.00 against the Yen, but was almost immediately swamped by a deluge of offers that could have been option, barrier and Japanese importer-related. However, Usd/Jpy reversed from 150.16 to sub-147.50 and marked out its weekly extremes in a flash, which smacked of actual intervention rather than constant jawboning even though the official line was 'no comment'. Meanwhile, the Loonie tanked alongside crude for the most part and hardly caught a break amidst further weakness in Canadian PMIs and irrespective of hawkish-sounding BoC vibes from External Non-Executive Deputy Governor Vincent who said more frequent and large price increases by firms are intimately linked to stronger than expected inflation, adding that if this behaviour settles into a new normal, it could complicate the return to low, stable and predictable inflation. Usd/Cad rallied from 1.3557 to 1.3785 until an arguably more upbeat LFS compared to BLS report, as the employment change exceeded expectations more than three-fold, albeit mainly due to part-time placements. This helped the Loonie contain declines against the Greenback and rebound from 1.3744 to 1.3684, but persistent pressure on oil prices nudged Usd /Cad back above 1.3700 regardless of the DXY drifting all the way back down to almost flat on Friday as psychological and eye-catching Treasury yields, like 5% in the long bond, enticed cash sellers and dip buyers in futures.

AUD/NZD: Risk aversion and commodity reverberations weighed on the Aussie and Kiwi, but there were elements in the statements accompanying widely anticipated unchanged rate decisions by the RBA and RBNZ that left them depressed as well. Specifically, the RBA noted that recent data is consistent with inflation returning to the 2–3% target range over the forecast period and the RBNZ said acknowledged stronger than forecast GDP growth in the June quarter, but added that demand continues to ease and the economic outlook remains subdued. Aud/Usd declined from 0.6445 to 0.6286 and Nzd/Usd to 0.5872 from 0.6009, though the Aud/Nzd cross veered lower within a 1.0742-1.0657 by virtue of the fact that Australia’s Cash Target Rate is still at 4.1% and will remain at a discount to NZ’s 5.50% OCR even if it rises again. Note also, the Aussie did not get indirect props from the PBoC on a daily basis via ‘manipulated’ fixings during Golden Week in China.

GBP/EUR/CHF: Sterling staged a pretty impressive recovery vs its US counterpart having slipped beneath a key chart prop (Fib) at one point, though largely corrective allied to renewed Buck depreciation, as Cable came back strongly from 1.2038 to top 1.2250. BoE’s Mann maintained her hawkish line, but is now a lone dissenter on the MPC, while Governor Bailey warned that the battle against UK inflation is not won and Broadbent said the question about whether rates go higher is open to debate. Elsewhere, the Euro weathered mixed Eurozone PMIs and data plus ECB rhetoric ranging from GC members believing or hoping policy is sufficiently tight to others keeping the door ajar for one or more increases. Moreover, Eur/Usd tumbled through several technical supports on the way down to 1.0449 before seizing on the Dollar’s more pronounced Dollar demise and getting to within a whisker of 1.0600, Similar story for the Franc that was deflated following softer than consensus Swiss CPI metrics and the latest debt rout, but Usd/Chf reversed from 0.9244 to 0.9074 and circa 100 pips in post-NFP trade.

SCANDI/EM: The Sek and Nok hit buffers after their recent retracement from troughs against the Eur (and Usd), with the former unable to appreciate hawkish-leaning Riksbank minutes or separate commentary in the face of steeper Swedish manufacturing and services PMI contraction, while the latter derailed by Brent deeper dive. The Zar suffered in tandem with Gold, the Mxn in sympathy with WTI, the Try as Turkish inflation ticked up again, the Brl and CNB as BCB and CNB chat focused on policy easing, but the Pln was relieved to an extent that the NBP reverted to a more standard size of rate cut, the Huf has happy to hear talk about the EU releasing funds and the Cnh took positives from several banks revising projections for Chinese 2023 GDP to the official 5% target having cut them not that long ago. The Inr was propped by yet more RBI intervention, as was the Idr, while the Krw was inflated by strong SK inflation and the Finance Minister pledging to buy if required, like the the BoT in reference to the Thb.