

Stocks tumble in tech led weakness on return from Labor Day

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar up
- **REAR VIEW:** ISM Mfg rebounds less than expected, Prices Paid unexpectedly rise, Employment also gains; RCM Economic Optimism hits a 17mth high; Record amount of corporate issuance; Libya's oil feud looks set to subside; BoJ says they would continue to hike if economy/prices perform as expected; Soft Swiss CPI
- **COMING UP:** **Data:** Australian, Japanese, EZ, UK PMIs (F), Australian GDP, US International Trade, US Durable Goods, JOLTS Job Openings. **Events:** BoC & NBP Policy Announcement. **Speakers:** ECB's Elderson; BoC Governor Macklem & Rogers. **Supply:** Germany. **Earnings:** Direct Line, Barratt Developments, Dollar Tree, Hewlett Packard, Hormel Foods

MARKET WRAP

Stocks were slammed on return from the Labor Day weekend with the Nasdaq underperforming amid a slump in the tech sector which saw losses of c. 4.5%. The Tech weakness was led by downside in chips with AI-darling Nvidia (NVDA) falling 9.5% in the first trading session of September, which typically is the worst month for stocks. Energy and Communication names also underperformed, while the defensive sectors, Consumer Staples, Real Estate, and Utilities outperformed. T-notes were bid across the curve in risk-off trade with peaks seen after the US ISM Manufacturing PMI and Construction Spending headline missed estimates. However, T-notes pared from peaks with the ISM Prices Paid and Employment components rising, with prices above expectations. T-notes initially sold off on a record amount of corporate issuance, however a rally then ensued with IFR citing dip buyers at the CME open while CTAs covered shorts and leveraged funds were linked to chunky purchases of futures. The lower oil prices also likely supported the move higher, with oil prices slumping on Bloomberg reports that a Libyan Central Banker expected a deal leading to an oil restart to happen "soon", while elsewhere there were reports of several refineries coming back online. In FX, havens outperformed with the Yen as the clear leader, supported by documents submitted by BoJ's Governor Ueda to a government panel, which revealed that the BoJ would continue to hike if the economy/prices performed as expected. The Dollar saw mild gains but cyclical currencies lagged as stocks tumbled, with the Antipodes taking the largest hit with AUD traders turning their attention to GDP data overnight.

US

ISM MANUFACTURING PMI: ISM Manufacturing PMI for August rose to 47.2 from 46.8, but was shy of the expected 47.5, which the report notes corresponds to a change of +1.3% in real GDP on an annualized basis. With the current focus of the Fed and market participants on the labour market, the employment sub-index (ahead of payrolls on Friday) rebounded to 46.0 from 43.4, which Oxford Economics write likely reflected a drop back in temporary layoffs following summer auto sector retooling in July. Prices paid rose to 54.0 (exp. 52.5, prev. 52.9), outside of the upper bound of the forecast range, while new orders dipped to 44.6 from 47.4. Inventories rose back above 50 from 44.5, while backlog of orders and imports lifted, but export orders declined. On the dataset, Oxford Economics note that the near-term outlook for the manufacturing sector remains tepid as businesses face a demand environment made less certain due to the upcoming presidential election. Additionally, the consultancy adds, the details do not point to a wider downturn on the horizon, and they expect lower rates and boosts from the IRA and CHIPs act to support future production.

RCM ECONOMIC OPTIMISM: The RCM/TIPP Economic Optimism Index hit a 17-month high at 46.1, rising from August's 44.5. Optimism among investors rose to 52.9 from 52.4, while non-investor optimism rose to 42.5 from 40.7. Looking ahead, the six-month economic outlook improved to 44.8 from 43.4, while the Personal Financial Outlook rose to 53.2 from 51.8. Its third component, confidence in Federal Economic Policies, measures the views on the effectiveness of government policies, which rose to 40.2 from 38.3 - which has been sub-50 for 37 consecutive months, as has the six-month economic outlook. Note, that a reading above 50.0 signals optimism, and below 50.0 indicates pessimism. 50 is neutral.

FIXED INCOME**T-NOTE FUTURES (Z4) SETTLED 14 TICKS LOWER AT 114-00**

T-notes rally across the curve despite record corporate issuance with peaks seen after the headline ISM Manufacturing PMI and Construction Spending missed estimates. At settlement, 2s -4.5bps at 3.882%, 3s -5.3bps at 3.740%, 5s -6.4bps at 3.651%, 7s -7.2bps at 3.737%, 10s -7.0bps at 3.841%, 20s -7.9bps at 4.210%, 30s -6.9bps at 4.127%.

INFLATION BREAKEVENS: 5yr BEI -4.7bps at 2.123%, 10yr BEI -4.0bps at 2.112%, 30yr BEI -2.6bps at 2.142%.

THE DAY: T-notes bull flattened on Tuesday with cash trade resuming after the long Labour Day weekend. Futures saw a slight move lower in the US morning amid a record amount of corporate issuance in the US high-grade market. However, the downside was shortlived with notable upside seen thereafter. IFR highlighted the deal dip was bought with buyers lined up at the CME open and CTAs covered shorts across the curve, the desk also added that leverage funds were also buying and linked to some chunky purchases of Treasury futures. It is worth noting that weak oil prices also supported the move higher ahead of the ISM Manufacturing PMI. The ISM headline rose from the prior but fell short of expectations, which saw T-notes knee-jerk higher to peak at highs of 114-07+. Note, US Construction Spending for July also missed estimates. The moves then faded however with attention turning to the Employment and Prices Paid components. Employment ticked up to 46 from 43.4, which remains in contractionary territory, but saw an improvement from the July report ahead of the August NFP due Friday. Meanwhile, Prices Paid rose to 54.0 from 52.9, despite expectations for a slowdown to 52.5, and even above the hottest forecast of 52.8. Note, in the wake of the data, the Atlanta Fed GDPNow tracker was revised down to 2.0% from 2.5%. T-notes eventually dipped back beneath 114-00, meandering just beneath it into settlement, before settling at the round level.

STIRS:

- **Market Implied Fed Rate Cut Pricing: September 34bps (prev. 33bps D/D), November 67bps (prev. 66bps), December 101bps (prev. 100bps)**

- NY Fed RRP op demand at USD 349bln (prev. 433bln) across 69 counterparties (prev. 72)
- US sold USD 77bln of 3-month bills at a high rate of 4.970%, covered 2.62x; sold USD 71bln of 6-month at a high rate of 4.645%, covered 3.08x
- US sold USD 47bln in 1yr bills at a high rate of 4.150%; B/C 3.00x
- US sold USD 65bln in 42-day CMBs at a high rate of 5.120%, B/C 3.01x
- US to sell USD 80bln in 4wk bills (prev. 85bln) and to sell USD 80bln in 8wk bills (prev. 80bln) on September 5th, to sell USD 60bln in 17wk bills (prev. 60bln) on September 4th; all to settle September 10th
- SOFR at 5.32% (prev. 5.33%), volumes at USD 2.011tln (prev. 2.088tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 89bln (prev. 97bln).

CRUDE

WTI (V4) SETTLED USD 3.21 LOWER AT 70.34/BBL; BRENT (X4) SETTLED USD 3.77 LOWER AT USD 73.75/BBL

The crude complex saw significant pressure on Tuesday driven by a slew of bearish catalysts, such as Libya headlines and refineries coming back online. WTI and Brent saw weakness throughout the European morning and continued in the US session to settle at lows, amid a handful of refineries coming back online in various nations, and progress on talks around Libya's central bank. On the latter, initial reports noted that UN hosts talks in Tripoli aimed at resolving Libya's central bank crisis and key understandings were reached, but the complex came under much more marked pressure after Bloomberg reported that a Libyan Central Banker anticipates a deal leading to an oil restart to happen 'soon'. Regarding the pipelines, Orlen's (PKN WP) UniPetrol intends to resume full operations at the Litvinov refinery (120k BPD) at the start of next week, and Tengiz oil field (540k BPD) maintenance has now concluded. In terms of levels, as mentioned WTI and Brent settled at troughs and both front-month futures breached beneath the February lows. For the week ahead, labour market data is the key which concludes with US payrolls report on Friday, which will seemingly decide the Fed's move at its September gathering. Note, private inventory data has been delayed by a day given the US Labor Day holiday on Monday.

EQUITIES

CLOSES: SPX -2.12% AT 5,529, NDX -3.15% at 18,959, DJIA -1.51% at 40,937, RUT -3.09% at 2,149

SECTORS: Technology -4.43%, Energy -2.41%, Communication Services -2.34%, Materials -2.29%, Industrials -2.27%, Consumer Discretionary -1.39%, Financials -0.71%, Health -0.21%, Utilities -0.13%, Real Estate +0.27%, Consumer Staples +0.76%.

EUROPEAN CLOSES: DAX: -0.92% at 18,756, FTSE 100: -0.78% at 8,298, CAC 40: -0.93% at 7,575, Euro Stoxx 50: -1.21% at 4,913, AEX: -1.29% at 909, IBEX 35: -1.02% at 11,279, FTSE MIB: -1.33% at 33,863, SMI: -0.95% at 12,333, PSI: -0.99% at 6,707

STOCK SPECIFICS

- **United Steel (X):** Democratic candidate Harris opposed the sale of US Steel to Japan's Nippon Steel.
- **Walt Disney (DIS):** Failed to reach a new distribution deal with AT&T's DirecTV, resulting in over 11mln DirecTV subscribers losing access to ESPN, ABS, and other Disney networks.
- **Super Micro Computer (SMCI):** Said on Friday it filed a non-timely 10-k with the US SEC and doesn't anticipate the form will contain any material changes to results for FY and the quarter ending June 2024.
- **Apple (AAPL):** Plans to use OLED displays in all iPhone models sold, starting in 2025, switching from lower-priced iPhone SE models to OLED screens from LCDs, Nikkei reports.
- **Goldman Sachs (GS):** To lay off over 1,300 employees, or 3-4% of its workforce, as part of its annual review to remove low performers, WSJ reports.
- **Boeing (BA):** Downgraded to Underweight from Equal Weight at Wells Fargo, with the firm seeing growing production cash flow running into a new aircraft investment cycle, thus, capping FCF a few years out. Wells Fargo added Boeing carries USD 45bln net debt on its balance sheet, and paying this down would consume all of its cash through 2030.
- **Southwest Airlines (LUV):** Elliott Investment Management now owns 10% of Southwest Airlines' stock.
- **Acadia Healthcare (ACHC):** A NYT investigation found the company has been detaining patients against their will to maximize insurance payouts.
- **Intel (INTC):** CEO Gelsinger to present cost-cutting plan.
- **Tesla (TSLA):** Said to plan a six-seat variant of its Model Y electric vehicle; which will start production in China from late 2025.
- **Alphabet (GOOGL):** Morgan Stanley cut PT to USD 190 from USD 205.
- **Disney (DIS):** Sees almost USD 4.5bln in 2024 streaming ad revenue, according to The Information. While, **Netflix (NFLX)** is expected to generate in excess of half a billion dollars in ad revenue, which is well behind other companies with more of a history in advertising.

US FX WRAP

The Dollar Index resumed last week's theme of strength on Tuesday, although, gains were modest relative to those witnessed last week. Moves in the dollar were choppy, but once ISM Mfg's expected rebound in August came in beneath expectations, gains followed. While a soft ISM Mfg print isn't typically suggestive of a stronger buck, the report saw the Employment component rise from prior, as well as the Prices Paid component rise higher than expected, despite expectations of a reading reinforcing subsiding inflation, and as such, supporting the case for a higher dollar. Other US releases in the session included July Construction Spending, falling 0.3% (exp. -0.1%), while the RCM/TIPP Economic Optimism Index (Sept) rose to a 17-month high of 46.1 (prev. 44.5). Note, the Atlanta Fed GDPNow tracker for Q3 was revised lower to 2% (prev. 2.5%) in the wake of the ISM and Construction Spending data. Looking ahead, catalysts for the week remain plentiful, with JOLTs, Factory Orders, and Fed's Beige Book on Wednesday. ADP, Challenger Layoffs and ISM Services PMI on Thursday, ahead of NFP on Friday.

G10FX price action was skewed towards the downside versus the buck, led by Antipodes, while Havens outperformed, particularly in the Yen. Direct newsflow in the space was centred around the dollar and Havens, yet, the subdued risk tone exhibited in APAC trade, which resulted in a sell-off in the metals space weighed on the currencies. In addition, the risk-off sentiment seen in the US equity space added stress towards activity currencies, which lagged in the G10 complex. AUD/USD finished near session lows of 0.6708 ahead of Australian GDP (Q2) and Final Judo PMIs on Wednesday, which will also see the CAD in focus, where the BoC is expected to cut rates by 25bps to 4.25%. Attention will also be on BoC's Governor Macklem and Deputy Gov Rogers's text release after the decision for guidance concerning the future policy path. As a reminder, BoC pricing sees a full 25bps rate cut in the October and December meeting, totalling 3 further rate cuts by year-end, including September.

The Euro saw weakness against the greenback, amid a lack of Euro-specific drivers as the US ISM report took influence over the cross, erasing an earlier rebound in the pair. As such, ECB speak took the spotlight in the space, specifically, ECB's Simkus saying he sees quite a

clear case for a September rate cut, but for cutting in October or by more than 25bps, he finds it unlikely. For ECB's Nagel, he said the great wave of inflation is over, but will not commit in advance on whether he will vote for an interest rate cut in September. Wednesday will see the return of data in Europe, that is, Final PMIs for EZ, France, Italy, and Germany, EZ PPI, and a speech from ECB's Elderson.

Haven FX outperformed their major FX peers against the buck on Wednesday, helped by falling US Treasury yields and risk-off trade with equities slumping, with the upside most visible in the Yen. Yen's strength was also bolstered by BoJ's Ueda submitting documents to a government panel which noted the BoJ would continue to hike if the economy/prices performed as expected. Despite strengthening earlier on amid strong Swiss GDP numbers, the Franc pared gains, as softer-than-expected Swiss CPI weighed on the FX. Analysts said the release does not change the narrative for a further SNB rate cut in September, but will possibly provide the Central Bank with more confidence in inflation, (currently 1.1% Y/Y well below the Q3 forecast of 1.5%) and may lead to the SNB allowing the CHF to weaken. In terms of prices, USD/JPY trades off session lows of 145.15, USD/CHF ended its 4-day rally, falling modestly to the low end of the 0.85 handle, while the Euro succumbed to haven pressure, as EUR/CHF nears troughs of 0.9373.

EMFX was broadly weaker on the day vs the buck, with CLP getting hit the most ahead of the Chilean Interest rate decision (expected to cut by 25bps to 5.5%), while its Latam peers closely follow in the red, just to a lesser extent. The Brazilian Real initially saw gains on Brazil's Q2 GDP prints, which both noticeably beat, albeit, the US data constrained the currency, resulting in BRL sliding into the red on the day. Across the Atlantic, PLN, HUF, and CZK saw broad-based losses with the latter affected by Czechia's Gross Wages cooling faster than anticipated.

Copyright © 2024 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

Copyright © {{ copyright-year }} Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com