

Stocks chop, Bonds bid & Crude slumps amid risk-off trade as traders await Presidential debate and CPI

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW:** Disappointing ALLY & JPM updates, with the latter noting current NII & expenses estimates are too optimistic; Very strong US 3yr auction; NFIB Business Optimism falls; OPEC MOMR sees demand growth for 2024 revised down; US issues fresh Iran & Russia-related sanctions; Strong UK Jobs data; AAPL loses fight against EUR 13bln tax order to Ireland; BoJ sources see little need to hike next week.
- **COMING UP: Data:** UK GDP Estimate, Services, US CPI. **Speakers:** BoJ's Nakagawa. **Supply:** Australia, UK, Germany, US. **Earnings:** Inditex

MARKET WRAP

US indices (NDX +0.9%, SPX +0.5%, RUT -0.8%) rebounded from the initial Financial induced losses they saw in choppy trade. It was a day catalysed by a slew of headlines, but no tier 1 US data as participants await the US Presidential debate tonight and US CPI on Wednesday. Nonetheless, the downbeat updates from Ally Financial (ALLY) (-17.6%) and JPMorgan (JPM) (-5.2%) just after the cash open sparked risk-off trade and clear flight-to-quality, as the Dollar pared losses and Treasuries saw upside and the crude complex plunged, hitting levels not seen in years with Brent even dipping beneath USD 70/bbl, which significantly weighed on commodity FX. Elsewhere for the crude complex, in the September MOMR, OPEC+ revised down its demand growth for 2024 by 80k BPD. Back to sectors, they were largely in the green aside from Energy and Financials, which saw notable weakness on the aforementioned themes, although there was a slightly more upbeat update from Bank of America (BAC). The Dollar was flat on the day and within tight ranges, while safe-haven FX (JPY and CHF) outperformed amid haven appeal and also lower UST yields. Note, there was a stellar US 3yr auction but had little sway on T-Notes, ahead of the 10yr and 30yr later in the week, but possibly helped T-Notes keep the bid. Lastly, and as widely expected, Fed's Vice Chair for Supervision Barr said Basel and GSIB surcharge re-proposals would together increase capital for GSIBS by 9% and the original plan had raised their capital by 19%.

FIXED INCOME**T-NOTE (U4) SETTLED 13 TICKS HIGHER AT 115-14+**

T-Notes bull steepen ahead of the Presidential debate overnight, and US CPI on Wednesday, as the day witnessed a very strong 3yr auction, disappointing financial updates, and tumbling crude. At settlement, 2s -5.8bps at 3.609%, 3s -6.5bps at 3.469%, 5s -5.7bps at 3.430%, 7s -5.5bps at 3.526%, 10s -5.3bps at 3.646%, 20s -4.5bps at 4.031%, 30s -4.0bps at 3.959%

INFLATION BREAKEVENS: 5yr BEI -2.3bps at 2.011%, 10yr BEI -2.1bps at 2.020%, 30yr BEI -1.9bps at 2.059%.

THE DAY: T-Notes gradually sold off overnight and into the European session, amid thin macro updates, although out of the UK the employment data was noticeable. That said, similar to Monday, buying in the space picked up as US traders joined their desks, with gains accelerating post-US cash open after a slew of downbeat financial updates. Highlighting this, downside arose in the equity space after JPMorgan's (JPM) President said current estimates for NII and expenses are too optimistic and expenses could inch up higher. In addition, Financial woes stemmed from Ally Financials' (ALLY) CEO issue worrying remarks, specifically, credit challenges have intensified due to high inflation and weakening employment and in July and August, saw delinquencies up about 20bps vs. expectations. As a result, cross-asset saw risk-off trade, swiftly pervading into an already falling crude complex, thus, exacerbating deflationary/recessionary fears. As such, the flight to quality trade was brought to life, seeing treasuries benefitting across the curve, as the curve from the 3yr to 30yr hit the lowest yields YTD. For the 3-year note, modest upside followed a very strong 3yr note auction, posting a markedly greater stop-through than the prior auction (more details below). Looking ahead, the key risk events for the US include the presidential debate overnight, CPI and 10yr (Wed), PPI and 30yr (Thu), and UoM (Fri).

3YR: Overall a very strong 3yr note auction, highlighted by the stop-through of 1.7bps which compares to the prior 0.2bps stop-through and the six auction average 0.1bps tail. Bid-to-cover at 2.66x was also above recent averages (prev. 2.55x, avg. 2.56x) indicating strong demand, and was further illustrated with indirects taking 78.2% of the auction, vs. the prior 64.4% and the six-auction avg. 64.7%. Directors took 11.3% (prev. 20.3%, avg. 18.8%), leaving dealers with 10.5% (prev. 15.4%, avg. 16.4%). Looking ahead, we will wait and see if the 10 and 30yr perform just as well.

STIRS

- **Market Implied Fed Rate Cut Pricing: September 33bps (prev. 32bps D/D), November 73bps (prev. 72bps), December 114bps (prev. 111bps).**
- US sold USD 60bln of 42-day CMBs at 4.980%, covered 2.97x.
- US to sell USD 60bln of 17-week bills on September 11th; to sell USD 80bln of 4-week bills and USD 80bln of 8-week bills on September 12th; all to settle on September 17th.
- NY Fed RRP op demand at USD 281bln (prev. 292bln) across 60 counterparties (prev. 57).
- SOFR at 5.34% (prev. 5.34%), volumes at USD 2.094tln (prev. 2.119tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 95bln (prev. 100bln).

CRUDE**WTI (V4) SETTLED USD 2.96 LOWER AT 65.75/BBL; BRENT (Z4) SETTLED USD 2.65 LOWER AT 69.19/BBL**

The crude complex tumbled lower on Tuesday, as WTI and Brent hit multi-year lows on seemingly a couple of bearish themes, as opposed to one specific driver. Overnight oil was largely sideways and was choppy through the European morning, but selling really got

underway after the US cash equity open. There was not a specific single headline driver for the initial downside, with many theories present, but many cited cautious trading after the negative updates from Ally Financial (ALLY) and JPMorgan (JPM), which seemingly coincided with the beginning of energy weakness and as the Dollar pared losses. As such, once the selling began in WTI and Brent from ~ USD 68.80/bbl and 71.80/bbl it did not stop, as it fell to troughs of 65.27/bbl and 68.68/bbl, with Brent breaching beneath USD 70/bbl for the first time since Dec '21. Moreover, there is also likely a technical angle amid the heaving selling, with levels not seen in a while so it is hard to say which levels could potentially offer support to the downside. In addition, some desks cited OPEC+ revising down its demand growth for 2024 by 80k BPD, in the September MOMR, but it is worth noting the complex did not see downside for roughly 1 hour or more after the release crossed wires. Also, there was the EIA STEO which sees 2024 world oil demand of 103.1mln BPD (prev. 102.9mln BPD M/M) and 2024 US oil demand of 20.3mln BPD (prev. 20.5mln BPD). Looking ahead, private inventory is after-hours (expectations below) ahead of the US Presidential Election debate and US CPI on Wednesday. Current expectations are (bbls): Crude +1mln, Distillate +0.3mln, Gasoline -0.1mln.

SUPPLY: From a supply perspective, eyes are on Tropical Storm Francine, which is expected to strengthen into a hurricane today before making landfall tomorrow - prompting some port and platform closures. Highlighting this, via Reuters citing sources, Exxon Mobil (XOM) Baton Rouge Louisiana refinery (540k BPD) reducing production ahead of the storm, but Shell (SHEL LN) plans to run Norco Louisiana refinery at full capacity. Elsewhere, Russia's Yaroslavl oil refinery (300k BPD) shut its FCC unit for 2-week unplanned maintenance, according to Reuters citing sources.

EQUITIES

CLOSES: SPX +0.45% at 5,496, NDX +0.90% at 18,829, DJIA -0.23% at 40,737, RUT -0.83% at 2,097

SECTORS: Energy -1.92%, Financials -0.98%, Consumer Staples flat, Materials +0.07%, Communication Services +0.10%, Industrials +0.18%, Utilities +0.44%, Health +0.45%, Technology +1.23%, Consumer Discretionary +1.39%, Real Estate +1.77%.

EUROPEAN CLOSES: DAX: -0.89% at 18,279, FTSE 100: -0.78% at 8,206, CAC 40: -0.24% at 7,408, Euro Stoxx 50: -0.70% at 4,745, AEX: -0.73% at 882, IBEX 35: -0.61% at 11,204, FTSE MIB: -1.12% at 33,213, SMI: -0.09% at 11,970, PSI: -1.01% at 6,706.

STOCK SPECIFICS

- **Oracle (ORCL):** Beat on the top and bottom line, driven by cloud expansion. Next quarter EPS guidance in line, while it reiterated FY25 revenue growth outlook and sees FY25 CapEx to be double what it was in FY24.
- **Tesla (TSLA):** EU will lower proposed tariffs on Tesla's EVs from China, with the rate falling to 7.8% from 9%.
- **Apple (AAPL):** Lost its fight against a EUR 13bln tax order to Ireland and expects to record a one-time tax charge in Q4 of up to ~USD 10bln.
- **TSMC (TSM):** August revenue growth of 33% Y/Y, below analysts' expectations of growth of 37% Y/Y.
- **HP Enterprise (HPE):** Offers 27mln shares of convertible preferred stock, totalling USD 1.35bln, to fund its acquisition of Juniper Networks. Also, files for seven-part note offering.
- **Alibaba (BABA):** Included on China's mainland stock exchanges after the Co. upgraded its Hong Kong listing to primary status last month.
- **UnitedHealth (UNH):** Said it will remove **AbbVie's (ABBV)** Humira from some US drug reimbursement lists next year.
- **Palantir (PLTR):** Chairman Peter Thiel to sell up to USD 1bln of stock, via Barron's.
- **Teva (TEVA):** Reportedly set to be fined by EU antitrust regulators in coming weeks for disparaging rival multiple sclerosis medicine, according to Reuters citing sources.

FINANCIALS

- **JPMorgan (JPM):** President said it will be a solid quarter in investment banking; fees could increase by 15% in the current quarter. The President added, Q3 markets revenue is expected to be flat to up around 2% Y/Y, market expectation around NII has been very high, expenses could inch up higher, and current NII and expense estimates are too optimistic.
- **Ally Financial (ALLY):** CEO said credit challenges have intensified due to high inflation and weakening employment; Retail auto credit challenges evident in increased delinquencies and non-performing loans. In July and August, saw delinquencies up about 20bps vs. expectations and saw net-charge offs about 10bps vs. expectations.
- **Bank of America (BAC):** CEO Moynihan said credit quality is fine and seeing stability in loan balances for small businesses. Q3 trading revenue expected to climb low single digits in Q3. Loan demand is 'okay' and 'not falling', while consumer deposits 'fairly stable' and 'solid'. Can continue stock buybacks.
- **Goldman Sachs (GS):** CEO expects a 10% drop in Q3 trading revenue due to challenging macro conditions in August.
- **Wells Fargo (WFC):** CFO said no changes have been made to the NII forecast and overall deposits are performing well.
- **Bank names:** Fed's Vice Chair for Supervision Barr confirms regulators will cut the proposed capital increase for major banks from 19% to 9%.

US FX WRAP

The Dollar was more-or-flat on Tuesday, and within tight ranges, but pared some of its losses after some downbeat commentary from financial names Ally Financial and JPMorgan. Nonetheless, there were no tier 1 data releases and of course, the Fed is in blackout ahead of the FOMC meeting next week, so risk events come via the Presidential debate tonight and thereafter US CPI on Wednesday.

Safe-havens, JPY and CHF, were the G10 outperformers against the Buck and saw gains with USD/JPY and USD/CHF hitting strongest levels of 142.21 and 0.8457, respectively, as they seemingly benefitted from risk-off trade and falling US Treasury yield after the bank updates. On risk-off, although US stocks pared all losses, oil and bonds are seeing notable weakness and strength, respectively, on the potential US economic fears. Elsewhere, according to Bloomberg sources, BoJ reportedly sees little need to hike interest rate next week and officials are not ruling out another hike later this year or in early 2025 contingent on the economy and market.

CAD was the clear laggard and weighed on by steep selling in the crude complex, while BoC Governor Macklem spoke heavily. Recapping some of his remarks, Macklem noted trade disruptions may mean larger deviations in inflation from BoC's 2% target, while bigger cuts are possible if the economy and CPI are weaker. Furthermore, Macklem added anything that disturbed the Canada-US trade relationship could have a very significant effect on the Canadian economy, and "if we saw a big change in layoffs that would be a cause for concern".

GBP, AUD, and NZD were mixed. The latter saw slight gains while its Antipodean counterpart and the Pound were flat. Starting with the Sterling, it saw some mild support post-UK jobs data which showed a decline in the unemployment rate and a sharp jump in employment, which saw odds of an unchanged rate by the BoE rise to 78% from 73%. For Cable, the pair briefly moved back above its 21DMA at 1.3080 but failed to sustain a move above 1.31 after topping out at 1.3107. Thereafter, the Pound saw weakness on the aforementioned themes above to hit a trough of 1.3050, but at pixel time sits somewhere in the middle of the day's range. AUD/USD and NZD/USD were in narrow parameters between 0.6642-76 and 0.6133-65, respectively, with Australian confidence data disappointing overnight while Chinese trade

metrics were encouraging.

EUR was flat in light newsflow for the single-currency as participants await the ECB rate decision on Thursday. By way of expectations, the ECB is expected to resume its rate-cutting cycle after pausing in July. Such an outcome is virtually fully priced in by markets, and therefore attention will turn on what clues (if any) Lagarde provides on future easing plans. Note, that a recent Reuters report suggested that policymakers are torn over how they weigh gloomy growth prospects against concerns over lingering inflation.

EMFX was almost exclusively weaker against the Buck, with BRL and MXN leading the losses, with CLP also weaker amid the tumbling commodity prices. On data, South African manufacturing production surpassed expectations in July for both M/M and Y/Y, while the Brazilian inflation index was cooler than expected for both metrics, with the M/M surprisingly declining, albeit only just.

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