US Market Wrap - 11th September 2024

Stocks rip, Treasuries dip, and Crude rebounds in eventual risk-on trade

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar flat
- **REAR VIEW**: Mixed US CPI, Core M/M hotter, headline Y/Y cooler, rest as expected; Polls & odds indicate Harris came out on top in the Presidential debate; Strong US 10yr auction; Oil & natgas production halted on Hurricane Francine; Smaller EIA crude build than expected, but contrast from private inventory draw; US govt weighs exports of NVDA chips to Saudi Arabia; MS downgraded at Goldman
- **COMING UP**: **Data:** Swedish CPI, Spanish HICP (F), US IJC, PPI (F). **Events:** ECB Policy Announcement; Norges Bank Regional Network (Q3); IEA OMR. **Speakers:** ECB's Lagarde; BoJ's Tamura. **Supply:** Japan, Italy, US. **Earnings:** Lennar, Adobe, Kroger.

MARKET WRAP

US indices (SPX +1.1%, NDX +2.2%, RUT +0.3%) eventually saw strength on Wednesday, in a reversal of post-CPI moves, with the tech-heavy NDX outperforming and buoyed by strength in mega-cap names such as Nvidia (NVDA) (+8%). Nonetheless, sectors were mixed with Tech sitting atop the pile with Consumer Staples and Energy lagging, despite the resurgence in the crude complex amid the turnaround in risk sentiment and potential production shut-in on the Gulf of Mexico due to Hurricane Francine. It was a choppy day overall and started with the Dollar seeing weakness in the wake of the US Presidential debate whereby the majority, highlighted by betting markets and a CNN poll, suggested Harris won vs. Trump and she is largely seen as USD-negative (relative to Trump). Thereafter the next big risk event was US CPI, which overall was mixed, but was largely dominated by hotter-than-expected core CPI M/M, although it was largely due to upward surprises in shelter and transport services, which are not expected to be ongoing concerns. In wake of the data, which significantly backs the case for a 25bps cut by the Fed next (highlighted by Citi adjusting its call to 25bps from 50bps) we saw Dollar and Treasury strength, accompanied by stock weakness which soon led to a clear flight-to-quality trade. However, through the US afternoon, and on no clear headline driver, the moves reversed and noticed risk-on trade supporting US indices, highlighted by them settling at highs. Elsewhere, there was a very strong US 10yr auction, albeit garnering little reaction, while the US government is reportedly considering allowing Nvidia (NVDA) to export advanced chips to Saudi Arabia. Goldman Sachs CEO was also on the wires, whereby Solomon was speaking on Fed expectations, and he noted he sees two, maybe three rate cuts as they move through the fall, and his best guess for the September rate cut meeting is 25bps, but thinks there's a case to be made for 50.

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CPI: Core CPI M/M was hotter than expected, as it came in at 0.3% (exp. & prev. 0.2%), with the unrounded figure at 0.281%, as it reflected upward surprises in shelter and transport services. Core Y/Y was inline at 3.2% (exp. & prev. 3.2%), as was headline M/M at 0.2% (exp. & prev. 0.2%), and unrounded at 0.187%. Headline CPI Y/Y was slightly softer than anticipated and printed 2.5% (exp. 2.6%, prev. 2.9%). On the data set, Pantheon Macroeconomics notes that the fundamental story of sustained disinflation remains unaltered by this inflation report, as the pick-up in the core index was driven by components that have a much smaller weight in the core PCE deflator, the Fed's preferred inflation gauge, or which are sourced from the PPI. Overall, Oxford Economics states that in their view inflation still has a little way to go before hitting 2% and that labour market conditions are unlikely to weaken substantially from here, and argues for a gradual pace of rate cuts relative to previous easing cycles. As such, its long-held view is that the Fed will cut rates by 25bps in September and once per quarter thereafter.

FIXED INCOME

T-NOTE (U4) SETTLED 4 TICKS LOWER AT 115-10+

T-Notes curve flattened as the hotter core CPI M/M print offsets upside on Harris's perceived win in Tuesday's Presidential debate and a very strong 10yr auction. At settlement, 2s +3.9bps at 3.648%, 3s +2.9bps at 3.469%, 5s +2.4bps at 3.452%, 7s +2.1bps at 3.545%, 10s +1.3bps at 3.657%, 20s +1.4bps at 4.040%, 30s +1.3bps at 3.967%.

INFLATION BREAKEVENS: 5yr BEI +3.7bps at 2.053%, 10yr BEI +1.7bps at 2.042%, 30yr BEI +0.9bps at 2.070%.

THE DAY: Treasuries gradually rose during the APAC and European sessions as traders digested the US Presidential debate, whereby Kamala Harris came out on top, indicated by multiple polls and odds of a USD-negative-Harris presidency (when compared to Trump) ticking higher. Upon the release of US CPI, which saw the core M/M slightly hotter than expected, headline Y/Y a tad cooler, and the remaining figures in line with expectations; Treasuries sold off sharply, particularly at the shorter end of the curve as the likelihood of a 50bps rate cut at next week's Fed meeting dwindled to 15% (prev. 29%). Nonetheless, a risk-off theme unfolded, resulting in downside for equities and crude, albeit, inertia was seen in the dollar. And for that reason, Tuesday's flight to quality trade resumed, with Treasuries benefitting. That said, the risk-off trade was short-lived, as equities and crude caught a bid, and as such, selling pressure reappeared in the space, with T-Notes continuing to trundle lower as the session progressed, albeit off the CPI-induced troughs of 115-02. For the 10yr auction, T-Notes reactions were fairly muted towards the very strong auction, as attention now turns to Thursday's 30yr auction.

10YR: Overall, a very strong 10yr auction, indicated by the stop-through of 1.4bps, which compares to the previous tail of 3.1bps and a six-auction average of a 0.8bps tail. The bid-to-cover reinforced the notion of strong demand, printing 2.64x, above the prior and six-auction average of 2.32x, and 2.48x, respectively. On the breakdown, Dealers took 10.3%, considerably less than the prior 17.9% (avg. 16.3%). Indirects took 76.1% (prev. 66.2%, avg. 66.7%), while direct take-up fell to 13.7% (prev. 16%, avg. 17%)

STIRS

- **Market Implied Fed Rate Cut Pricing: September 28bps (prev. 33bps D/D), November 65bps (prev. 73bps), December 105bps (prev. 114bps).**
- US sold USD 60bln of 17-wk bills at 4.740%, covered 2.74x.
- NY Fed RRP op demand at USD 297bln (prev. 281bln) across 58 counterparties (prev. 60).

- SOFR at 5.33% (prev. 5.34%), volumes at USD 2.161tln (prev. 2.094tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 101bln (prev. 95bln).

CRUDE

WTI (V4) SETTLED USD 1.56 HIGHER AT 67.31/BBL; BRENT (X4) SETTLED USD 1.42 HIGHER AT 70.61/BBL

The crude complex was firmer, albeit in choppy conditions, as a reversal in risk conditions amid the backdrop of Hurricane Francine eventually supported. Through the European morning oil saw gains, as they attempted to reverse Tuesday's heavy selling, against the backdrop of the Hurricane looking to make landfall in the Gulf of Mexico, and as a result, shuttering some production in the region. Highlighting this, BSEE says 39% of oil production in the US Gulf of Mexico shut as Hurricane Francine takes aim at the Louisiana coast. Nonetheless, WTI and Brent saw a slight dip after the firmer-than-expected Core CPI M/M, and later fell to session lows of USD 65.63/bbl and 69.00/bbl, respectively, after the weekly EIA data. The headline was a smaller build than expected, but it stood in contrast to the draw reported by the private inventory data last night. Thereafter, WTI and Brent rebounded to highs of USD 67.97/bbl and 71.09/bbl through the US afternoon in fitting with the rebounding risk sentiment, highlighted by US equities notching up gains, and at highs at pixel time, and Dollar paring strength.

EQUITIES

CLOSES: SPX +1.07% at 5,554, NDX +2.17% at 19,237, DJIA +0.31% at 40,862, RUT +0.31% at 2,104.

SECTORS: Energy -0.93%, Consumer Staples -0.88%, Financials -0.39%, Health -0.25%, Real Estate -0.23%, Industrials +0.21%, Materials +0.27%, Utilities +0.34%, Communication Services +1.03%, Consumer Discretionary +1.32%, Technology +3.25%.

EUROPEAN CLOSES: DAX: +0.34% at 18,328, FTSE 100: -0.15% at 8,194, CAC 40: -0.14% at 7,397, Euro Stoxx 50: +0.33% at 4,763, AEX: +0.30% at 885, IBEX 35: +0.67% at 11,279, FTSE MIB: -0.12% at 33,174, SMI: -0.28% at 11,932, PSI: +1.10% at 6,780.

STOCK SPECIFICS:

- **Bank of America (BAC):** Berkshire Hathaway sold roughly 5.8mln BAC shares for about USD 228mln between September 6-10th, according to an SEC filing.
- **Morgan Stanley (MS):** Downgraded to Neutral from Buy at Goldman Sachs, citing valuation and less market skew.
- **GameStop (GME):** Unexpectedly reported a sales decline, despite surprisingly printing profit for the quarter.
- **Trump Media & Technology (DJT):** Saw downside after Presidential Candidate Harris odds of winning the election rise following Tuesday's presidential debate. As such, solar names **(FSLR, SEDG, NOVA, RUN)** saw upside.
- **Viking Therapeutics (VKTX):** JPMorgan initiated coverage with an overweight rating, citing the upcoming data readout in November as a positive catalyst.
- **Lithium names strengthen (ALB, ALTM, PLL, LAC, SQM):** China’s CATL says it will adjust production in Yichuan and it has suspended two mines, which has eased oversupply concerns for the material.
- **Roku (ROKU):** Cleveland positive on the stock.
- **Dave & Buster’s (PLAY):** Beat on EPS.
- **American Express (AXP):** CFO said credit has been very strong.
- **Goldman Sachs (GS):** CEO said, "I actually don't think unwinding the credit card business has proven to be messier than we thought" and going to see that there's a material improvement in IB activity.
- **Nvidia (NVDA):** US government is considering allowing Nvidia to export advanced chips to Saudi Arabia, according to Semafor citing sources.

US FX WRAP

The Dollar was flat on Wednesday, but that only tells half the story, as it was initially weighed on by Yen's strength in the backdrop of the Presidential debate. On the latter, the majority, highlighted by betting markets and a CNN poll, suggested Harris won vs Trump and her candidacy is largely seen as USD-negative given expectations of easier Fed policy (compared to Trump). The Index hit a low of 101.260, but thereafter was supported by the US CPI report, where the core M/M metric came in hotter-than-expected and saw the odds of a 50bps cut next week dwindle from around 30% to 15%. This took DXY back above the 101.50 mark and eclipsed Tuesday's 101.76 peak, to a high of 101.81.

JPY saw slight gains against the Buck, but markedly retreated from the cross hitting a YTD low of 140.72 following risk aversion overnight and BoJ's Nakagawa comments. However, the Yen then fell victim to the Dollar in the wake of the US CPI report, and thereafter the improving risk sentiment to sit towards the top of crosses daily range, 142.54, at pixel time.

CAD and **AUD** were the G10 outperformers vs. the Greenback, seeing slight gains, as the former was supported by the rebound in the crude complex given current Hurricane Francine production shut ins. Meanwhile, the Aussie was seemingly buoyed by the turnaround in risk, although that did not extend its Antipodean counterpart. For the record, RBA Assistant Governor Hunter was on the wires overnight and noted Australia's economy is moving through a turning point and that turning points are innately challenging and tough.

EUR was flat, and the cross within very tight parameters (1.1003-54) as participants await the pivotal ECB meeting on Thursday, followed by President Lagarde's press conference. Newsquawk preview available here.

NZD, GBP, and **CHF** all saw losses and were the underperformers. The former was hindered by soft UK data after the UK registered 0 growth in July (exp. 0.2%) with output data also soft across the board. Cable returned to a 1.30 handle, and tested the level to the downside, after topping out at 1.3111.

EMFX largely strengthened against the greenback with LatAm FX outperforming and notching up notable gains amid the rebound in some commodity prices. Although, the MXN has been hit in recent weeks after lawmakers finalised a judicial overhaul, and Macquarie noted that traders are worried about not just lowered foreign investment into Mexico, but damaged commercial relations between the US and Canada that threatens the dissolution of the US-Mexico-Canada free-trade agreement. As such, the Macquarie analyst adds that the day's gains will be a brief pop and the currency's losses sustained thus far will be permanent. On the data footing, both Mexican industrial output and Brazilian service sector growth for July topped expectations for M/M and Y/Y.