US Market Wrap - 13th September 2024

Stocks and Bonds up while traders boost 50bps bets

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW**: JPM reiterates 50bps Fed rate cut, while GS stays with 25bps; Prelim Sept. UoM tops consensus with 1yr inflation expectations lowest since Dec '20; BA faces US factory worker strike & Moody's may cut shares to junk; ORCL raises longer-term guidance on Ai-driven terms.
- **WEEK AHEAD**: Highlights include FOMC, BoJ, BoE, US & UK Retail Sales, UK, Canada & Japan CPI, Australian jobs and New Zealand GDP. To download the report please click here.
- **CENTRAL BANK WEEKLY**: Previewing FOMC, BoE, BoJ, PBoC, Norges, BCB, SARB, CBRT; Reviewing ECB. To download the report, please click here.

MARKET WRAP

Stocks were bid throughout the session with outperformance in the small caps Russell 2k while all sectors closed green with Utilities, Communication and Materials leading, but Health Care, Real Estate and Financials lagged. T-Notes bull steepened as traders increased bets for a 50bp rate cut at next week's Fed meeting with money markets (via refinitiv) pricing the decision at a near coin toss. The bets were piled on from Thursday in wake of the WSJ article citing a former Powell advisor who said 50bps is on the table while former NY Fed President Dudley overnight said he favours 50bps. The FT Fed preview also said 50bps was an option next week. Elsewhere, data was encouraging with import/export prices declining while UoM Consumer Sentiment beat, with upside seen in both current conditions and forward looking expectations. Inflation expectations saw the 1yr ease to the lowest since December 2020, although the 5yr ticked up to 3.1% from 3.0%. The Dollar was flat but Yen and Swissy were clear outperformers with US yields selling off on dovish rate expectations from the Fed, which also buoyed LatAm FX, such as BRL and MXN. Gold continued to push to fresh all time highs while crude prices failed to hold onto their morning bid, settling in the red. Looking ahead, there is plenty of key risk events next week, namely the FOMC Rate Decision and updated SEPs, but also we see the BoE, BoJ and Norges Bank rate decisions, US and UK Retail Sales, inflation reports from Japan, Canada and UK, Aussie jobs, New Zealand GDP, China activity data and PBoC LPR.

US

IMPORT/EXPORT PRICES: Overall, a softer pricing report. Import prices in August declined 0.3%, deeper than the exp. -0.2% and prior +0.1%. Regarding imports, it was the largest monthly drop since December 2023, with lower fuel and non fuel prices contributing to the decline. Import fuel prices fell 3.0% (prev. +1.1%), also notching the largest decline since December 2023 with lower prices for petroleum and natural gas contributing. Excluding fuel, prices fell by 0.1% (prev. +0.1%), with lower prices is nonfuel industrial supplies and materials, adding that consumer goods; and foods, feeds, and beverages more than offset higher capital goods prices. Looking ahead, Oxford Economics writes that a combination of weaker oil prices and falling prices at China's factory gates will keep a lid on import prices in the near term. The desk also suggests this report is "yet another signal to the Fed that inflation pressures are abating and supports a series of rate cuts beginning next week". Export Prices fell by 0.7%, deeper than the expected -0.1%, while the prior was revised down to 0.5% from 0.7%. The drop in export prices was led by lower nonagricultural and agricultural exports, the price index for agricultural exports declined 2.0% for the second consecutive month, while nonagricultural export prices decreased 0.6% (prev. +0.8%).

UOM: Headline UoM Consumer Sentiment beat in the prelim September reading, rising to 69.0 from 67.9, above the 68.5 forecast. Both the current conditions and forward-looking expectations rose and above expectations to 62.9 (exp. 61.5, prev. 61.3) and 73.0 (exp. 71.0, prev. 72.1), respectively. Within the report, it notes the gain was led by an improvement in buying conditions for durables, driven by more favourable prices as perceived by consumers. Year-ahead expectations for personal finances and the economy both improved as well, despite a modest weakening in views of labour markets. In terms of inflation expectations, 1yr ahead fell to 2.7% (prev. 2.8%) the lowest since Dec 20220, while the longer term 5-10yr ticked up to 3.1% from 3.0%.

FIXED INCOME

T-NOTE (Z4) SETTLED 7+ TICKS HIGHER AT 115-13+

T-Notes bull steepen as traders increase bets on 50bp rate cut next week . At settlement, 2s -7.0bps at 3.578%, 3s -4.1bps at 3.436%, 5s 3.8bps at 3.428%, 7s -3.4bps at 3.529%, 10s -2.7bps at 3.653%, 20s -2.1bps at 4.051%, 30s -1.3bps at 3.983%.

INFLATION BREAKEVENS: 5yr BEI +1.8bps at 2.098%, 10yr BEI +1.5bps at 2.076%, 30yr BEI +1.8bps at 2.104%.

THE DAY: T-Notes bull steepened as traders continue to weigh a 50bps rate cut. On Thursday, WSJ's Timiraos noted that a former senior adviser to Powell highlighted that it is a close call between 25 or 50bps, while former NY Fed President Dudley said there is a strong case for a 50bps rate cut. Within the FT Fed Preview, they also noted that 50bps was still on the table. Meanwhile, JPMorgan reiterated its call for the Fed to kick things off with a 50bp rate cut next week, however, Goldman Sachs still sees 25bps Fed easing next week and for each remaining 2024 meeting. The commentary has seen money markets start to price in either a 25 or 50bp rate move as a near coin flip. The dovishness saw T-Notes bull steepen with 2s10s +4bps on the day with some of the Fed Funds move supported by chunky block trades throughout the session ahead of next week's rate decision. Elsewhere, on prices the US import/export prices declined in August, another welcome sign for the Fed. Meanwhile, the UoM September Consumer Sentiment rose by more than expected with an increase in both forward-looking expectations and current conditions. Meanwhile, the 1yr inflation expectations dipped further to 2.7% from 2.8%, marking the lowest print since December 2020. The 5yr, however, ticked up to 3.1% from 3.0%.

STIRS

- **Market Implied Fed Rate Cut Pricing: September 37bps (prev. 33bps D/D), November 76bps (prev. 71bps), December 117bps (prev. 110bps).**
- NY Fed RRP Op demand at USD 285bln (prev. 294bln) across 62 counterparties (prev. 58)
- SOFR at 5.33% (prev. 5.32%), volumes at USD 2.087tln (prev. 2.308tln).

- EFFR at 5.33% (prev. 5.33%), volumes at USD 111bln (prev. 105bln).

CRUDE

WTI (V4) SETTLED USD 0.32 LOWER AT 68.65/BBL; BRENT (X4) SETTLED USD 0.36 LOWER AT 71.61/BBL

The crude complex ended the day with slight losses and sold off throughout the US afternoon, albeit on seemingly no headline catalyst but potentially de-risking into the weekend. Highlighting this, WTI and Brent saw gains throughout the US morning to peak at USD 70.32/bbl and 73.24/bbl, respectively, and they were facilitated by the broader risk-on sentiment coupled with the shut-ins amid Hurricane Francine. However, and as mentioned, the strength did not manage to hold through the day as it was one-way selling into settlement, albeit settling marginally off the troughs of 68.47/bbl and 71.46/bbl. On Francine, which is now a post-tropical cyclone, the latest update from BSEE suggested 42% of oil production at the US Gulf of Mexico was shut, unchanged from Thursday. Elsewhere, in the weekly Baker Hughes Rig Count oil rose 5 to 488, NatGas lifted 3 to 97, leaving the total up 8 at 590. Looking ahead, the key risk event is the FOMC next Wednesday whereby Refinitiv money market pricing currently has it as 50-50 whether the central bank cut by 25bps or the larger 50bps.

EQUITIES

CLOSES: SPX +0.54% at 5,626, NDX +0.47% at 19,515, DJIA +0.72% at 41,394, RUT +2.49% at 2,182.

SECTORS: Utilities +1.41%, Communication Services +1.02%, Industrials +0.98%, Materials +0.89%, Consumer Staples +0.61%, Real Estate +0.59%, Consumer Discretionary +0.51%, Technology +0.42%, Energy +0.42%, Financials +0.34%, Health +0.19%.

EUROPEAN CLOSES: DAX: +0.92% at 18,689, FTSE 100: +0.39% at 8,273, CAC 40: +0.41% at 7,465, Euro Stoxx 50: +0.61% at 4,843, AEX: +0.71% at 900, IBEX 35: +1.23% at 11,540, FTSE MIB: +0.34% at 33,568, SMI: +0.46% at 12,045, PSI: +0.68% at 6,839.

STOCK SPECIFICS:

- **Adobe (ADBE):** Beat on profit and revenue, but underwhelming guidance took the front page. In addition, the stock received multiple downgrades.
- **Oracle (ORCL):** Announced AI-driven revenue forecasts above market expectations, with the CEO noting "those numbers should not be a problem" and expects CapEX to double in the current FY25 year.
- **Boeing (BA):** US West Coast factory workers have voted to strike, demanding higher pay. Strike will result in the stoppage of Boeing's best-selling jet, amid ongoing output delays and rising debt. In an MS conference, CFO said 'there was disconnect' with unions on proposals and strike would jeopardise recovery and will impact production and deliveries. Q3 margins are to be negative at the Defense unit. Elsewhere, Moody's said Boeing ratings may be cut to junk, while Fitch noted a prolonged BA strike could pose a downgrade risk as it could have meaningful operational and financial impacts.
- **RH (RH):** EPS and revenue surpassed expectations, with performance expected to continue gaining momentum in H2.
- **Moderna (MRNA):** Downgraded at Oppenheimer, JPMorgan, and Jefferies following its announcement to cut its R&D spending by USD 1.1bln by 2027 on Thursday.
- **AstraZeneca (AZN):** Downgraded at Deutsche Bank, expecting its TROP2 asset datopotamab not to be the next breakthrough in lung cancer.
- **PDD Holdings (PDD) Alibaba (BABA):** US President Biden's administration is to take steps to curb low-value Chinese shipments under USD 800 'de minimis' exemption, according to the White House.
- **US Steel (X):** White House officials signal delay in US Steel takeover decision, according to WaPo.
- **Alphabet (GOOGL):** EU Antitrust officials reportedly are likely to order Google to stop anti-competitive Adtech practices but with no break-up order for now, according to Reuters citing sources.

US FX WRAP

The Dollar was more-or-less flat on Friday and within a thin range, 100.880-101.190, in pretty thin newsflow as all attention is on the FOMC next Wednesday, although dipped beneath that 101 level on the dovish repricing. On this, Refinitiv money market pricing now has the magnitude of the cut (25 or 50bps) as a coin flip and the pricing has turned more dovish in the past day or so after a WSJ Timiraos' article citing a former Fed adviser and comments from former Fed President Dudley got airing. Briefly recapping, Timiraos suggested that it could be a close call between 25 or 50bps and Dudley stated that if he was still on the committee, he would be pushing for a 50bps reduction. There was also an FT preview that noted 50bp is still an option while JPMorgan said they still expect a 50bp cut. Goldman Sachs still see a 25bp move, however. Back to Friday, import/export both declined more than expected while prelim UoM for September was better than expected, with 1yr inflation expectations the lowest since December 2020, but neither generated a market reaction.

JPY and CHF were the clear G10 outperformers against the Buck, with the Yen notching up greater gains in what appeared to be a Fed vs. BoJ play. USD/JPY moved to a trough of 140.29, its lowest level since December 28th 2023, where it bottomed out at 140.24 that day. If this level is breached, focus will be on a test of the psychological 140 level which it has not breached since 28th July 2023. USD/CHF traded between 0.8445-8516 and currently sits in the middle of that range.

EUR, GBP, and CAD were all flat, with the former seeing a slew of ECB speak after the central banks rate decision on Thursday, which was broadly in line. EUR/USD hit a peak of 1.1101, but couldn't sustain any move above the psychological round level, and the strength stemmed from a scaling back of dovish ECB bets as an October cut is now seen as more unlikely post-Lagarde yesterday alongside the aforementioned dovish repricing at the Fed. Cable and USD/CAD were both within narrow parameters in currency-light newsflow, as participants await BoE next week where they are expected to hold on account of stubborn services inflation, solid growth and expanding employment. **Antipodeans** saw weakness on Friday but ended the week with gains vs. the Greenback.

EMFX pairs were broadly firmer, with LatAm's seeing notable strength as they were buoyed by the possibility of a larger Federal Reserve rate cut in addition to a potential hike by the BCB next week, while Brazilian economic activity for July did not decline as much as expected on Friday.