

### Stocks mixed and Dollar hit as Dudley pushes 50bps

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude up, Dollar down
- **REAR VIEW:** 50bps rate cut bets escalate on Former NY Fed President remarks; NY Fed Mfg unexpectedly surges to highest level since April 2022; AAPL's 16 pro demand lower than expected; Disappointing China activity data; Dovis BoC Macklem comments to FT; Hamas Chief congratulates Houthis on recent operations on Israel; Vista Equity and BX near a deal to buy SMAR
- **COMING UP: Data:** German ZEW Sentiment, US Retail Sales, Canadian CPI, US Industrial Production, Business Inventories, NZ Current Account. **Speakers:** ECB's Elderson; Fed's Logan; BoC's Rogers. **Supply:** UK, US.

### MARKET WRAP

Stocks were mixed on Monday with Tech weakness seeing the Nasdaq close red but the majority of sectors were green with notable outperformance in Financials and Energy. Tech weakness was led by downside in Apple (AAPL) on lower-than-expected pre-order sale analysis. Treasuries ultimately bull flattened in response to a stronger NY Fed Manufacturing Survey reversing the earlier steepening induced by former NY Fed President Dudley who reiterated calls for 50bps, adding "i think they will" when talking about the Fed's upcoming rate decision on Thursday. Money markets now price in a c. 60% probability of a 50bp rate cut on Wednesday vs the 48% probability seen on Friday. The only US data was the NY Fed Manufacturing Survey, which saw a strong beat led by New Orders and Shipments, while prices paid saw little change and employment saw a marginal improvement but remained in contractionary territory. In FX, The Dollar was sold on the dovish pricing while cyclical currencies benefitted, apart from the CAD which was weighed on by dovish Governor Macklem comments to the FT that the BoC could shift cuts to 50bp magnitude should growth disappoint. Crude prices were bid with geopolitical tensions remaining despite downbeat China activity data over the weekend while geopolitical tensions remain heightened into the first anniversary of the Israel-Hamas conflict, with some suggesting Yemeni Houthis could increase their activities.

### US

**NY FED MANUFACTURING:** NY Fed Manufacturing for September was much better than expected as the headline printed +11.5 (prev. -4.7, exp. -4.75), outside the upper bound of the forecast range, -0.6. Looking at the breakdown, new orders jumped to +9.4 from -7.9, prices paid were more-or-less unchanged at 23.2 (prev. 23.4), with employment coming in at -5.7 (prev. -6.7). Shipments and unfilled orders soared to 17.9 (prev. +0.3) and 2.1 (prev. -7.4), respectively. Expectations for six-months ahead also improved to 30.6 from 22.9, as did expectations for new orders and shipments. On the inflationary footing, prices paid rose while expectations for prices received marginally dipped. Overall, Richard Deitz, Economic Research Advisor at the New York Fed, said "NY State manufacturing activity in September grew for the first time in nearly a year, with shipments increasing strongly. However, employment continued to decline modestly. Firms grew more optimistic that conditions would improve in the months ahead, though capital spending plans were weak."

**FED ANNOUNCEMENT PREVIEW:** The Federal Reserve will release its latest rate decision on Wednesday 18th September at 19:00 BST/14:00 EDT, alongside the updated Summary of Economic Projections (SEPs). The focus will lie on the rate decision with market pricing leaning towards 50bps, but the analyst consensus is for 25bps, with recent articles from the WSJ and FT, as well as commentary from former NY Fed President Dudley shifting market pricing since the analyst surveys were released. However, not many analyst desks appear to have revised their calls since these updates, with both JPMorgan and Goldman Sachs retaining their calls (JPM sees a 50bp cut, GS sees a 25bp cut). There will also be attention on the Summary of Economic projections and the statement to gather expectations for the pace of the Fed's easing process, particularly through the year-end. The Bloomberg survey expects the Fed to pencil in the median 2024-end dot at 4.9% (prev. 5.1% in June SEP), while 44% of economists surveyed expect the Fed will tweak the statement to acknowledge the possibility of further adjustments, and 31% expect the Fed would signal the intention to pursue a string of rate cuts and provide guidance on their pace. Attention will then turn to Fed Chair Powell at 19:30 BST/14:30 EDT to explain the Fed's decisions with participants cognisant of any guidance updates from the Chair, and the discussion around 25 or 50bps for September. [To view the full report, please click here.](#)

### FIXED INCOME

#### T-NOTE (Z4) SETTLED 4+ TICKS HIGHER AT 115-18

**T-Notes bull flatten after NY Fed Mfg beat while bets continue to pile on for a 50bps rate cut on Wednesday.** At settlement, 2s -1.0bps at 3.566%, 3s -0.9bps at 3.423%, 5s -1.3bps at 3.411%, 7s -1.5bps at 3.509%, 10s -2.4bps at 3.625%, 20s -3.7bps at 4.006%, 30s -3.8bps at 3.939%.

**INFLATION BREAKEVEN:** 5yr BEI +0.7bps at 2.104%, 10yr BEI +0.8bps at 2.085%, 30yr BEI +1.0bps at 2.115%.

**THE DAY:** 10yr treasuries spent most of the day meandering, lacking direction throughout the APAC and European sessions. Despite the thin ranges in the US 10yr, volatility was more present in the shorter end of the curve, as money markets ramped up bets of a 50bps rate cut at Fed's rate decision on Wednesday to 61% from the 48% seen at Friday's close. The aggressive repricing followed remarks from the former NY Fed President Dudley who noted the Fed should go big now, and thinks they will, adding "an aggressive 50-basis-point reduction in interest rates makes sense". As such, the 2s/10s spread continued to disinvert, reaching yearly highs of 10bps. That said, the short end failed to outperform, after the NY Fed Mfg unexpectedly surged in September to 11.5 (exp. -4.75), highlighted by large increases in New Orders and Shipments. By settlement, outperformance was seen in the long-end of the curve, thus sending 2s/10s negative on the day. Highlights for the US week ahead include Retail Sales and 20-yr auction (Tue), FOMC (Wed), Initial Jobless Claims and 10-yr TIPS (Thu).

### STIRS

- **Market Implied Fed Rate Cut Pricing: September 40bps (prev. 37bps D/D), November 77bps (prev. 76bps), December 119bps (prev. 117bps).**
- US sells USD 70bln 6mth bills at 4.410%, B/C 2.98x; Sells USD 76bln in 3mth bills at high rate of 4.650%, B/C 2.61x.
- NY Fed RRP op demand at USD 239bln (prev. 285bln) across 44 counterparties (prev. 62).
- SOFR at 5.33% (prev. 5.33%), volumes at USD 2.232tln (prev. 2.087tln).

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

## CRUDE

**WTI (X4) SETTLED USD 1.44 HIGHER AT USD 70.09/BBL; BRENT (X4) SETTLED USD 1.14 HIGHER AT 72.75/BBL**

The crude complex was firmer to start the week amid the softer Dollar despite downbeat Chinese data over the weekend continuing to highlight concerns on the economy. The Dollar is weaker with all attention on the Federal Reserve rate decision on Wednesday whereby expectations for a larger 50bps have risen. Highlighting this, Refinitiv money markets are currently pricing in a circa 60% chance of a larger cut (50) with more commentary from former NY Fed President Dudley supporting a 50bp move triggering the reaction. Crude-specific newsflow was somewhat light on Monday, but in terms of geopolitics, tensions in the Middle East remain heightened heading into the first anniversary of the Israel-Hamas conflict, with some suggesting Yemeni Houthis could increase their activities. Moreover, Hamas Chief Sinwar congratulated the Houthis on their recent operation against Israel and said they were prepared for a long battle. Also, Israel Radio noted sources close to PM Netanyahu threatened to dismiss the Defence Minister if he continues to oppose expanding military operations in Lebanon, according to Al Jazeera. In terms of prices, WTI saw a high of USD 69.61/bbl and a low of USD 67.70/bbl, while Brent was between a USD 71.52/bbl and USD 73.79/bbl range.

## EQUITIES

**CLOSES:** SPX +0.13% at 5,633, NDX -0.47% at 19,423, DJIA +0.55% at 41,622, RUT +0.31% at 2,189

**SECTORS:** Technology -0.95%, Consumer Discretionary -0.32%, Real Estate +0.21%, Consumer Staples +0.29%, Industrials +0.53%, Health +0.59%, Utilities +0.74%, Communication Services +0.89%, Materials +0.90%, Energy +1.20%, Financials +1.22%.

**EUROPEAN CLOSES:** DAX: -0.38% at 18,629, FTSE 100: +0.06% at 8,278, CAC 40: -0.21% at 7,449, Euro Stoxx 50: -0.32% at 4,828, AEX: -0.43% at 896, IBEX 35: +0.35% at 11,581, FTSE MIB: flat at 33,570, SMI: -0.22% at 12,011, PSI: -0.70% at 6,791.

### STOCK SPECIFICS:

- **Apple (AAPL):** TF Securities analyst Ming-Chi Kuo estimates total sales of about 37mln units for the iPhone 16 on its first weekend, with pro series demand lower than expected.
- **Intel (INTC):** Secured up to USD 3.5bln in federal grants to produce advanced semiconductors for the Pentagon, Bloomberg reports. However, lost out on next-gen Sony PlayStation chip business to **AMD (AMD)** in 2022.
- **Micron Technology (MU):** PT lowered to USD 100 (prev. 140) at Morgan Stanley; continues to see MU as expensive on through-cycle FCF generation and remains well below consensus for CY25 EPS.
- **Upstart (UPST):** Announced a proposed offering of USD 300mln of convertible senior notes, due 2029.
- **Colgate-Palmolive (CL):** Downgraded to 'Underweight' from 'Equal Weight' at Wells Fargo; said it is "on the cusp" of organic sales growth normalising toward peers, market share reversing, and gross margin expansion slowing.
- **Alcoa (AA):** Announced the sale of its 25.1% stake in the Ma'aden mining joint venture for around USD 1.1bln.
- **Bausch + Lomb (BLCO):** Exploring a sale to resolve issues arising from its complex spin-off from Bausch Health (BHC), which faces significant debt, FT reports.
- **Boeing (BA)** - Announced measures to preserve cash during the strike and putting a hiring freeze into effect, according to CNBC. Halting orders for parts of 737, 767, and 777 and said it's suspending non-essential CapEx and facilities spending.
- **Smartsheet (SMAR)** - Vista Equity and Blackstone (BX) reportedly nearing a deal to buy Smartsheet for around USD 56/shr, or nearly USD 8bln, according to Reuters citing sources.

## US FX WRAP

The Dollar was sold on Monday with money markets once again moving more aggressively towards a 50bp rate cut from the Fed on Wednesday. The Former NY Fed President Dudley spoke once again, where he echoed remarks last week that he thinks the Fed will start off the easing cycle with a 50bp rate cut. The buck hit lows in the US morning just before the NY Fed manufacturing data, which helped the buck move off lows after a strong beat on the headline led by new orders and shipments. DXY fell from a peak overnight of 101.01 to a low of 100.58, before paring to c. 100.75 heading into APAC trade.

Euro benefitted from the Dollar weakness with EUR/USD rising from lows of 1.1076 to a peak of 1.1137, a level it resides just beneath heading into APAC trade. Out of Europe, ECB's de Guindos and Kazmir spoke, with de Guindos noting that the ECB wants to keep all options open when it comes to rate decisions, while Kazmir said the ECB will almost surely have to wait until December for the next rate cut, noting it would take a significant shift in the outlook for the ECB to cut in October. Note, that money markets currently assign just a 27% probability of an October cut.

The Yen was ultimately flat vs the Dollar despite early outperformance (note Japan was away overnight for holiday) despite initial strength which saw USD/JPY hit a low of 139.59 in the European morning but the stronger than expected NY Fed Manufacturing report saw the Yen reverse earlier gains to see the cross return north of 140.00 to a peak of 140.90. CHF however managed to hold its gains vs the buck and saw similar gains to the Euro while EUR/CHF was flat.

Cyclical currencies were the outperformers (ex-CAD) with GBP, AUD and NZD leading among G10 FX with the Pound also rising vs the Euro ahead of the BoE rate decision this week, where analysts look for rates to be left unchanged in a 7-2 vote split. Market pricing currently assigns a 36% chance of a cut although this looks too high given the current UK economic backdrop, with pricing appearing to reflect the recent dovish Fed repricing. Cable breached 1.32 for the first time since 6th September; 1.3239 was the high that day, vs 1.3214 today. Antipodeans both firmed despite soft China economic data over the weekend with dollar weakness driving price action while both currencies pared the weakness seen on Friday, also both rising above the 21dmas, (AUD: 0.6733, NZD: 0.6188), albeit the Kiwi failed to hold above the level.

The CAD was a laggard after an FT interview with BoC Governor Macklem signalled the bank could increase the magnitude of rate cuts from 25 to 50bps on account of softening labour market data and falling crude prices which saw USD/CAD hit a session high of 1.3607 from a low of 1.3567, trading either side of the 200dma at 1.3587. The CAD was flat vs the softer buck with the weaker Dollar helping offset losses while gains in crude prices were also supportive.

EMFX was mixed with BRL notching notable gains on dovish Fed pricing ahead of the expected BCB hike on Wednesday while MXN saw losses as the judicial overhaul officially took effect although the local stock market was closed due to its Independence Day. CLP benefitted from rising copper prices with extra support seen on the weaker buck. Elsewhere, ILS was hit after reports suggested Israeli PM Netanyahu is considering firing Defence Minister Gallant.

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