

### Dollar bid, Bonds sold, and Stocks flat as participants await the pivotal Fed

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** WSJ's Timiraos' Fed Preview highlights the tough decision the Fed has to make between 25 and 50bps cut; Retail Sales and Industrial/Mfg Production surpass expectations; Very weak US 20yr auction; Atlanta Fed GDPnow (Q3) revised up; Thousands of Hezbollah pagers explode, citing Israel as responsible; Israeli didn't inform Biden admin ahead of its intelligence operation; Cooler-than-expected Canadian CPI; Germany's ZEW economic sentiment slumps.
- **COMING UP: Data:** Japanese Machinery Orders, Exports/Imports, UK CPI, Services, EZ HICP (Final), US Building Permits, GDP Production. **Events:** FOMC Policy Announcement; BCB Policy Announcement; BoC Minutes. **Speakers:** Fed Chair Powell. **Supply:** Australia, UK, Germany. **Earnings:** General Mills

### MARKET WRAP

US indices closed more-or-less flat on Tuesday with the small-cap Russell 2000 (+0.7%) outperforming, while the Dollar saw gains, to the detriment of G10 peers, after US retail sales headline M/M surpassed expectations. Treasuries are lower across the curve, with the greatest weakness seen in the short as T-Notes come well off earlier highs induced by a piece from WSJ's Timiraos implying that 50bps is still on the table. However, it was later tempered by US data and Fed pricing coming slightly back, with now a circa 60% chance of a larger 25bps cut tomorrow, as opposed to 67% chance post-Timiraos article. In terms of US data, US retail sales were mixed, but as mentioned headline M/M surpassed expectations, while industrial production and manufacturing output both surpassed Wall St. consensus with the latest Atlanta Fed GDPnow Q3 model revised up to 3.0% from 2.5%. US sectors were mixed with Health and Consumer Staples lagging while Energy sits atop of the pile. The latter was buoyed by strength in the crude complex amid escalating geopolitical updates after thousands of Hezbollah pager devices exploded. Looking ahead, all attention is on the FOMC on Wednesday (preview below), whereby desks are split between a 25bps or 50bps cut, with attention thereafter on the SEPs, accompanying statement, and then Chair Powell's presser.

### US

**RETAIL SALES:** Overall, the Retail Sales report was mixed. The headline beat expectations, rising 0.1% vs exp. -0.2% with the prior revised up to 1.1% from 1.0% initially. The core, ex-autos, rose by 0.1%, missing the 0.2% forecast and down from the prior 0.4%. The super core, ex gas and autos rose 0.2%, down from the prior 0.4%. The control metric, a good gauge of consumer spending in GDP, rose by 0.3%, in line with expectations while the prior (July) was revised up by 0.1% to 0.4%, which bodes well for Q3 Consumer Spending. In relation to tomorrow's Fed decision, ING writes "We fully buy into the argument for the Fed moving policy back to neutral swiftly and expect Fed Chair Jerome Powell to push the case for a 50bp cut tomorrow. However, the issue is whether the other FOMC members are as certain. An economy growing at 2.5-3% with low unemployment, inflation above target and equities at all-time highs suggests there will be large pockets of resistance, which makes the outcome tomorrow a coin toss".

**INDUSTRIAL PRODUCTION/MANUFACTURING:** Industrial production rose 0.8% in August, above the expected 0.2% and the prior, revised lower, -0.9%. In addition, manufacturing output and capacity utilisation also exceeded Wall St. consensus as they printed +0.9% (exp. +0.3%, prev. -0.7%) and 78.0% (exp. 77.9%, prev. 77.4%), respectively. On the data set, Pantheon Macroeconomics notes, the notable beat for both production and manufacturing output was essentially matched by big downward revisions to earlier months, leaving the level of industrial and manufacturing activity roughly as expected. On the data, the consultancy adds that a lot of the volatility was due to large swings in the auto sector, with the 9.8% rebound in auto output last month almost exactly reversing the 8.9% plunge in July. Overall, Pantheon suspects this reflects the timing and extent of auto manufacturers' annual shutdowns for retooling, which usually take place in the early summer.

**NAHB HOUSING MARKET INDEX:** Rose in September to 41 from the prior 39, exceeding analysts' expectations of 40, ending the series of four consecutive monthly declines. Inside of the report, all three HMI indices were up in September; current sales condition rose to 45 (prev. 44), sales expectations in the next six months increased to 53 (prev. 49), indicating sales expectations shifted from poor to good, while traffic of prospective buyers saw a 2-point rise to 27. On the move higher, Oxford Economics notes lower mortgage rates helped boost the NAHB index of homebuilder sentiment, with builders optimistic about the outlook for home sales for the first time since May. Going forward, Oxford believes improving homebuilder sentiment should support a modest recovery in housing starts in Q4, and that the still-subdued homebuilder sentiment is consistent with their forecast for single-family starts to remain under pressure in Q3 before beginning a modest recovery in Q4, which should gain some steam in 2025 in response to further declines in mortgage rates.

**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) FUTURES SETTLED 6 TICKS LOWER AT 115-12

**T-Notes bear flatten in response to strong US economic data ahead of Fed with markets torn between 25 or 50bp.** At settlement, 2s +3.3bps at 3.588%, 3s +3.3bps at 3.448%, 5s +2.6bps at 3.431%, 7s +2.2bps at 3.524%, 10s +1.9bps at 3.640%, 20s +2.0bps at 4.023%, 30s +1.6bps at 3.953%

**INFLATION BREAKEVENS:** 5yr BEI +2.7bps at 2.125%, 10yr BEI +2.5bps at 2.109%, 30yr BEI +1.9bps at 2.129%.

**THE DAY:** T-Notes were initially bid at the start of the session with WSJ's Timiraos' Fed Preview highlighting the tough decision the Fed has to make between 25 and 50bps on Wednesday, which saw money markets price in 50bps with a 67% probability. However, odds have since pared back to the c. 60% mark (similar to Thursday evening). T-Notes peaked at 115-21+ in a knee-jerk response to the US Retail Sales report, which was ultimately in line with expectations before better selling was seen. T-Notes ground lower throughout the rest of the session, aided by hotter than expected Industrial Production and Business Inventory data, which led to a chunky upward revision to the Atlanta Fed Q3 GDPNow tracker to 3.0% from 2.5% ahead of the 20yr bond auction, which was ultimately very weak (more below). All eyes turn to the FOMC Rate decision and SEPs on Wednesday, with plenty of uncertainty in the market on whether the Fed will decide to cut by 25bps or opt for a larger 50bp move.

**20YR:** Overall, it was a very weak US 20yr auction whereby the High Yield tailed the WI by 2bps in contrast to the prior auction stopping through 0.1bps, and the six-auction average a stop through of 1.3bps. Bid-to-Cover was 2.51, also less than the prior, 2.54x, and the average, 2.68x. Looking at the takedown, Dealers, the forced buyers, took 18.6% much greater than the prior and avg. of 9.7% and 8.7%, respectively. Directs took 18.3% (prev. 19.3%, avg. 17.1%) while Indirects took 65.1% (prev. 71.0%, avg. 74.2%).

#### STIRS:

**Market Implied Fed Rate Cut Pricing: September 41bps (prev. 40bps D/D), November 78bps (prev. 77bps), December 117bps (prev. 119bps).** \* US is to sell USD 60bln of 17-week bills on September 18th; to sell USD 80bln of 4-wk bills and USD 80bln of 8-wk bills on September 19th; all to settle on Sept 24 \* US sold USD 60bln of 42-day CMBs at 4.920%, covered 2.66x. \* NY Fed RRP on demand at USD 256bln (prev. 239bln) across 55 counterparties (prev. 44). \* SOFR at 5.38% (prev. 5.33%), volumes at USD 2.212tn (prev. 2.232tn).EFFR at 5.33% (prev. 5.33%), volumes at USD 96bln (prev. 105bln).

## CRUDE

**WTI (X4) SETTLED USD 0.94 HIGHER AT 69.96/BBL; BRENT (X4) SETTLED USD 0.95 HIGHER AT 73.70/BBL**

**The crude complex was bid on Tuesday and was driven higher by escalating geopolitical updates, which outweighed broader Dollar strength.** Overnight and through the European morning WTI and Brent were trundling largely sideways but began to see upside after initial Lebanese source reports surfaced that Israel managed to penetrate and blow up telecommunications devices used by Hezbollah operatives, and as such members were injured in Beirut after a security breach of wireless devices, which ended up being a couple of thousands. In turn, it came out that Hezbollah's pager devices had seemingly been tampered which caused the battery to overheat and explode. Although Israel has made no confirmation of this, an Axios source piece noted Israeli didn't inform the Biden administration ahead of its intelligence operation that included exploding thousands of Hezbollah members' pagers devices, and Israeli officials said they are aware that a major escalation on the northern border is possible after the attack and said IDF are on high alert for a possible response by Hezbollah. As such, participants will be on the lookout for a response from Israel. WTI and Brent hit highs of USD 70.65/bbl and 74.28/bbl, respectively, with participants now awaiting the private inventory data after-hours (expectations below) and the eagerly anticipated FOMC meeting on Wednesday. Current expectations: Crude -0.5mln, Distillate +0.6mln, Gasoline +0.2mln.

## EQUITIES

**CLOSES:** SPX +0.03% at 5,635, NDX +0.05% at 19,432, DJIA -0.04% at 41,606, RUT +0.74% at 2,205

**SECTORS:** Health -1.01%, Consumer Staples -0.93%, Real Estate -0.84%, Technology -0.09%, Utilities -0.08%, Materials +0.16%, Communication Services +0.41%, Financials +0.51%, Industrials +0.52%, Consumer Discretionary +0.62%, Energy +1.41%.

**EUROPEAN CLOSES:** DAX: +0.52% at 18,731, FTSE 100: +0.38% at 8,310, CAC 40: +0.51% at 7,487, Euro Stoxx 50: +0.67% at 4,860, AEX: +0.51% at 900, IBEX 35: +1.06% at 11,703, FTSE MIB: +0.63% at 33,780, SMI: +0.30% at 12,041, PSI: +0.41% at 6,818.

#### STOCK SPECIFICS:

- **Intel (INTC):** Expanding its strategic collaboration with AWS (AMZN) by co-investing in custom chip designs. Separately, plans to establish Intel Foundry as an independent subsidiary.
- **Microsoft (MSFT):** Raised quarterly dividend +10% to USD 0.83/shr alongside a new USD 60bln share repurchase programme.
- **Apple (AAPL):** iPhone 16 is already selling at a discount in China, of up to 11% on Apple's latest smartphones, as AI delay cools demand, according to SCMP.
- **Nucor (NUE):** Next quarter adj. EPS guidance fell short of the Wall St. consensus.
- **Shopify (SHOP):** Upgraded at Redburn; said Co. should continue gaining market share as the US social e-commerce market appears poised for explosive growth over the next few years.
- **Dell Technologies (DELL):** Mizuho Securities initiated coverage with an 'Outperform' rating; cites Dell as a market leader with a robust supply chain and is gaining share in AI servers.
- **SolarEdge Technologies (SEDG):** Downgraded at Jefferies on "significant headlines" in Europe from "persistently high" inventory levels and Chinese competitions, as well as "stiff competition" in the US.
- **Mobileye Global (MBLY):** NYT reports that the sale of Intel's (INTC) stake in Mobileye is not part of the Cos. plan and Intel is not dealing with any activist shareholders' pressure right now.
- **JPMorgan (JPM):** Reportedly in talks with Apple (AAPL) to take over Credit Card from Goldman Sachs (GS), according to WSJ

## US FX WRAP

**The Dollar** saw muted trade overnight and into the European session, but once the hotter-than-expected US Retail Sales M/M for August were realised, strength arrived for the dollar with gradual upside ensuing for rest of the day. Outside of Retail Sales, US releases were on the strong side, helping the Buck extend on its gains, as Industrial Production rose more than expected, printing at the high end of analysts' expectations, while Manufacturing Output increased more than anticipated in August. Later on, Atlanta Fed GDPnow (Q3) was revised upwards to 3% (prev. 2.5%), cementing the Dollar's intraday gains. Attention now turns towards Wednesday, for the much-awaited Fed rate decision, accompanying statement, and SEPs, in addition to Powell's Press Conference that will follow. In terms of money markets, they continue to favour a 50bps rate cut, with a 65% likelihood.

**The Euro** posted only modest losses against the Dollar despite Germany's ZEW Economic Sentiment falling abruptly to 3.6 (exp. 17, prev. 19.2), its lowest figure since October 2023. The release also saw Current Conditions follow suit, falling more than expected to -84.5 (exp. -80, prev. -77.3). Adding to the report, the ZEW President said "The hope for a swift improvement in the economic situation is visible fading. The number of optimists and pessimists is now evenly balanced". The disappointing data saw EUR/USD pull back slightly from highs, but nothing

too notable with the EUR mainly falling foul to the broader Buck strength. Regarding ECB speak, Simkus noted the likelihood of an October rate cut is very small.

**Activity currencies** were mixed on Tuesday as Dollar strength failed to pervade through the space. Namely, the Aussie outperformed and marginally in the green, CAD was flat, while the Kiwi and Pound lagged in the red. Newsflow was centred around the Loonie, as August CPI's Y/Y figure was cooler than expected, 2% (exp. 2.1%), and the Core Measures Average CPI fell to 2.23% (prev. 2.43%). Initial upside was seen in USD/CAD after the release, but gains failed to hold as a firmer crude complex offset such a move, resulting in USD/CAD hovering just above its 200 DMA (1.3585). For cable, it erased a large portion of its outperformance on Monday ahead of UK CPI, and PPI, as it now sits just off session lows at c. 1.3160.

**The Yen and Franc** weakened against the greenback, albeit to varying degrees, with the JPY the clear G10 underperformer as dollar strength and rising US yields assumed control in the space. Focus now lies on Wednesday's Fed policy announcement, which should further outline the policy differentials between the Central Banks, more so if money markets end up being correct on a 50bps rate cut move. For FX movements, USD/JPY snapped its 5-day losing streak, climbing just above the 142 handle, while USD/CHF sits off session highs at around 0.8466.

**EMFX** saw mixed price action on Tuesday, with COP, BRL, and MXN gaining, while the HUF and PLN underperformed. For the Brazilian Real, gains ran contrary to the cooler-than-expected inflation data and the stronger buck, as perhaps increased bets on a 50bps move in the Fed decision tomorrow, added buyers. USD/BRL now experiences its fourth straight day of losses before Wednesday's Brazilian Selic rate decisions, where the BCB is expected to hike by 25bps to 10.75% (prev. 10.5%).

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