newsquawk

US Market Wrap - 18th September 2024

Stocks and bonds chop as Fed kicks off with 50bp rate cut but keeps future options open

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up
- **REAR VIEW**: Fed cuts by 50bps, dot plot signals a further 50bp of easing in 2024, Powell says they will decide meeting by meeting, and to not look at today and think this is the new pace; US Building Permits rise more than expected; Larger crude draws than expected in EIA; Hotter-than-expected UK CPI; Hand-held radios explode in Lebanon.
- **COMING UP**: **Data:** Australian employment, US Philly Fed Index. **Events:** BoE, Norges, SARB, CBRT Policy Announcement; BoE Agents summary of business conditions (Q3). **Speakers:** ECB's Schnabel; Norges Bache Bache; BoC's Vincent. **Supply:** Spain, France, US. **Earnings:** Ocado, Next, Kingfisher, Lennar

MARKET WRAP

Stocks and bonds were choppy in response to the FOMC. The 50bp rate cut and dot plots implying a further 50bp of cuts in 2024 sparked a typical dovish reaction with stocks, bonds and gold rallying while the Dollar was slammed. However, assets were off extremes heading into the presser before things turned more hawkish with stocks, bonds and gold finishing the US session in the red, while the Dollar reversed higher. The turnaround in the presser was seen after Powell kept future options open noting that decisions will be made in a meeting-by-meeting approach, while also suggesting to not take today's move and think of it as the new pace. He also did little to signal concern on the economy, and spent a lot of the presser talking up the state of the economy, while adding that today's 50bp move was a sign of the Fed's commitment to not get behind the curve. He also said that he thinks the neutral rate is higher than it was (see below for a full summary of the FOMC and Press Conference). Elsewhere, sectors were predominantly lower with underperformance in Utilities, Tech and Consumer Staples, while Energy, Communication and Industrials underperformed, with only Energy closing green. Oil prices were choppy in response to bullish inventory data and ongoing Middle East geopolitics, as well as the Fed policy announcement. In FX, GBP outperformed after CPI data was largely as expected but saw marginally hotter than expected core and services Y/Y figures ahead of the BoE decision on Thursday, which is expected to maintain policy in a 7-2 vote split. The Yen was volatile to the FOMC, with strength seen on the rate cut before completely paring and more after the aforementioned presser.

US

FOMC POLICY ANNOUNCEMENT: The FOMC cut rates by 50bps, taking the target for the federal funds rate to 4.75-5.00%, more in fitting with money market pricing before the release rather than the analyst consensus of 25bps. There was one dissenter; Governor Bowman opted to vote for a smaller 25bp rate reduction. Within its projections, the 2024 rate forecast was revised down to 4.4% from 5.1%, which implies a further 50bps of easing from current levels. The projections showed that nine of the 19 policymakers see the policy rate above the median forecast for 2024, nine at the median, while one sees it below that. The statement saw some changes: it noted inflation has made further progress but remains somewhat elevated, and it added it has gained greater confidence inflation is moving sustainably towards 2%, and judges risks to achieving its goals are roughly in balance. However, it left its guidance unchanged, noting that "the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks," but it said that it is strongly committed to "supporting maximum employment" and returning inflation to its 2% objective (previously it only referenced inflation). Further out, the FOMC's median projections see the 2025 rate at 3.4% (prev. 4.1%), and end-2026 dot at 2.9% (prev. 3.1%), where it also sees the neutral rate (2.9% vs prev. 2.8%). Money markets are still pricing in a risk of another 50bp rate cut with 74bps priced through year-end to 4.00% (prev. 4.2% pre-meeting). However, looking ahead to 2025, rates are seen bottoming at 2.8% in October 2025, with the volume of rate cuts that markets are pricing unchanged from before the announcement. Elsewhere in the SEPs, the unemployment rate was revised up throughout the forecast horizon, but the longer run was unchanged at 4.2%; PCE and Core PCE were revised down for 2024 and 2026, while growth saw a revision lower in 2024 but was unchanged throughout the forecast horizon. [For the full SEPs, please click here.]

PRESS CONFERENCE: Fed Chair Powell used the press conference to stress that the Fed is not on a pre-set path and that decisions will be taken on a meeting-by-meeting basis (something he stressed several times), noting the Fed can go quicker or slower, or even pause if it is appropriate - maintaining maximal optionality in their guidance. However, he did also add that no one should think that this is the new pace. He also toed his usual line on SEP meetings that projections are not a plan or decision and also highlighted that the range of views in the SEPs are varied. When asked about why the Fed moved by 50bps, he said there has been a lot of data, including in the blackout period, but he highlighted how the BLS labour market revisions show that payrolls may be revised down - he later stated the Fed will mentally tend to adjust payroll numbers based on the QCEW. He also stated that downside risks to employment have increased. Elsewhere, he did not seem too concerned about the economy, noting that retail sales data and Q2 GDP indicate the economy is growing at a solid pace, which will also support the labour market. He also noted how they are not seeing rising claims or layoffs, but they are not waiting for that to happen, the time to support the labour market is when it is strong. Powell said the unemployment rate is still at a healthy level, participation is at a good level, quits have come back down to normal levels, and vacancies are still at a pretty strong level. Wage increases are still a bit above being consistent with 2% inflation. On inflation, Powell said they will ultimately get down to 2% inflation. When asked if 50 means the Fed are behind the curve, Powell stressed the Fed does not think this is the case, noting they have been patient where other central banks have already started to cut. He said they are moving at a pace that they think is appropriate, but no one should look at today and think this is the new pace. On the Neutral Rate, Powell said it feels that the neutral rate is probably significantly higher than it was pre-pandemic, adding the Fed is recalibrating their policy over time to be more neutral. On the balance sheet, Powell said the Fed is not planning to stop the run-off any time soon, noting that both balance sheet and policy rate moves are a form of normalisation.

BUILDING PERMITS/HOUSING STARTS: Building Permits, which are more forward looking, rose by 4.9% M/M to 1.475mln above the 1.41mln forecast and prior 1.406mln. Housing Starts rose by 9.6% M/M in August to 1.356mln, above the 1.31mln, rising from the prior 1.237mln. Note, Building Permits were -6.5% Y/Y and Housing Starts were +3.9% Y/Y. Regarding permits, single-family authorisations rose 2.8% M/M to 967k, while authorisations of units in buildings with five units or more were at a rate of 451k in August. Single-family housing starts rose 15.8% to 992k. The August rate for units in buildings with five units or more was 333k. Despite the rebound in the data, Pantheon Macroeconomics highlights that single family activity is unlikely to recover much further, 75% of the rebound in total housing starts was due to the unwinding of a sharp weather-related drop in the South in July. The desk notes the 2.8% increase in single family building permits is probably a better guide to the underlying trend in the sector as it is more stable and less influenced by weather. Pantheon highlight the recent decline in long-term interest rates is likely supporting single-family permits but warn a renewed dip in single family construction activity is likely over the next few months as home builders have responded too aggressively to the upturn in new home sales in 2023, and are now left with an excessive level of inventory. Pantheon also adds that "Lower mortgage rates will help boost demand for new homes at the margin, but this probably will be partly offset by a hit to demand from the softening labor market."

FIXED INCOME

T-NOTE (Z4) SETTLED 9+ TICKS LOWER AT 115-02+

T-Notes were lower on Wednesday, as they were initially bid on 50bps cut by the Federal Reserve, but later pared on Powell stressing a meeting-by-meeting approach and to not think this is the new pace. At settlement, 2s +1.9bps at 3.611%, 3s +3.2bps at 3.483%, 5s +4.3bps at 3.476%, 7s +5.2bps at 3.578%, 10s +5.8bps at 3.700%, 20s +6.8bps at 4.092%, 30s +7.4bps at 4.027%.

INFLATION BREAKEVENS: 5yr BEI +2.2bps at 2.143%, 10yr BEI +1.6bps at 2.121%, 30yr BEI +1.3bps at 2.139%

THE DAY: Treasuries were weaker across the curve, and were at lows, going into the Federal Reserve meeting as markets marginally pared back on dovish Fed pricing into the policy announcement after former Fed's Bullard and Mester said they would vote for 25bps. However, after the Fed cuts rate by the larger 50bps magnitude, T-Notes rallied to peaks of 115-10 as participants digested the magnitude of the cut, accompanying SEPs and statements. In terms of the SEPs, the Federal Funds Rate is seen at 4.4% by year-end which indicates a further 50bps of cuts this year. Heading into Chair Powell's presser, Treasuries were still at highs, on account of the larger magnitude cut, but throughout his conference Tsys sold off as he noted the Fed is not on a pre-set course and will go meeting-by-meeting on decisions while adding that no one should look at today and think this is the new place. He also gave no warning signals on the economy, talking up the strength of the labour market, retail sales and GDP, also adding that they are not yet declaring victory on inflation. The Fed Chair was cognisant of "artificially high" payrolls however after the recent BLS revisions, and did note there are downside risks to the labour market. He also noted that the neutral rate is higher than it was pre-pandemic.

STIRS:

- **Market Implied Fed Rate Cut Pricing: November 33bps (prev. 78bps BEFORE 50bps rate cut), December 71bps (prev. 117bps BEFORE 50bps rate cut), January 103bps (prev. 148 BEFORE 50bp rate cut).**
- NY Fed RRP op demand at USD 410bln (prev. 416bln) across 75 counterparties (prev. 73).
- SOFR at 5.38% (prev. 5.38%), volumes at USD 2.161tln (prev. 2.212tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 103bln (prev. 96bln).

CRUDE

WTI (X4) SETTLED USD 0.08 LOWER AT 69.88/BBL; BRENT (X4) SETTLED USD 0.05 LOWER AT 73.65/BBL

The crude complex was eventually flat, as while it pared some of the pager explosive induced upside on Tuesday, a greater than expected EIA crude draw followed by a 50bps Fed cut sent oil to highs and flat on the day. Overnight and through the European morning WTI and Brent saw weakness after the weekly private inventory data showed a surprise build in crude, accompanied by larger-than-expected builds in Distillates and Gasoline, which saw WTI and Brent printed troughs of USD 68.58/bbl and 72.31/bbl, respectively. Thereafter, there were a couple of bullish oil factors, amid further 'pager-like' blasts in Lebanon with walkie-talkies this time exploding while weekly EIA data saw much greater crude draws than expected, going against the aforementioned private data on Tuesday. Elsewhere, distillates and gasoline saw lesser builds than forecasted, while overall EIA production fell 100k to 13.2mln. However, after the Federal Reserve opted for a larger 50bps rate cut it saw the Dollar sell off to the benefit of oil as it surged to settle at highs.

EQUITIES

CLOSES: SPX -0.29% at 5,618, NDX -0.45% at 19,344, DJIA -0.25% at 41,503, RUT +0.04% at 2,206

SECTORS: Utilities -0.77%, Technology -0.51%, Consumer Staples -0.44%, Materials -0.38%, Real Estate -0.30%, Financials -0.28%, Consumer Discretionary -0.19%, Health -0.16%, Industrials -0.09%, Communication Services +0.02%, Energy +0.25%.

EUROPEAN CLOSES: DAX: -0.03% at 18,720, FTSE 100: -0.68% at 8,254, CAC 40: -0.57% at 7,445, Euro Stoxx 50: -0.50% at 4,836, AEX: -0.85% at 893, IBEX 35: -0.16% at 11,685, FTSE MIB: -0.37% at 33,655, SMI: -0.55% at 11,976, PSI: -0.93% at 6,755.

STOCK SPECIFICS

- **General Mills (GIS):** Q1 profit fell 14% Y/Y due to inflation and pressure on margins and there was also cautious commentary surrounding China and expects FY category dollar growth to be below long-term growth projections. Note, did beat on revenue and EPS for the quarter.
- **Alphabet (GOOG):** Google won a court challenge against a EUR 1.49bln antitrust fine.
- **Meta Platforms (META):** Despite FT reports that it faces a substantial EU fine over allegations it uses its free Marketplace service to undermine competitors, by linking it with Facebook.
- **BlackRock (BLK) Microsoft (MSFT), Nvidia (NVDA):** BLK is partnering with MSFT to launch a USD 30bln AI investment fund to build energy infrastructure and data centres, while NVDA will advise on factory design and integration, FT reports.
- **United Steel (X):** The US Committee on Foreign Investment granted a request to push back a review of Nippon Steel's bid for US Steel until after the November election.
- **ResMed (RMD):** Downgraded at Wolfe Research to 'Underperform' from 'Peer Perform'; expects revenue growth to decelerate in the face of increasing competition from Eli Lilly's GLP-1 medication.
- **Casella Waste Systems (CWST):** Announced plans for roughly USD 450mln offering of Class A common stock.
- **V.F Corp (VFC):** Upgraded at Barclays to 'Overweight' from 'Equal Weight' citing the risk-reward is attractive.
- **Intuitive Machines (LUNR):** Awarded a 10-year NASA contract, valued up to USD 4.82bln, for near space network communication and navigation services.
- **Boeing (BA):** CEO said it is initiating temporary furloughs over the coming days and to impact many US-based execs, managers, and employees; adds it is important they take difficult steps to preserve cash and ensure it can successfully recover. Furloughs will affect tens of thousands of Boeing employees.
- **Sysco (SYY):** CEO Hourican said that traffic in Q4 was down roughly 3% at restaurants, and the for the current quarter, that global industry traffic has "softened a bit" and "It's softer than that minus 3%". CEO added "We said in our conference a couple of weeks ago that July was minus 5%." The CEO later added that, despite this softness, the company has "full confidence" in its 2025 guidance.
- **T-Mobile (TMUS):** Expects to add 12mln mobile broadband customers by 2028; sees USD 38-39bln (exp. 33.83bln) in EBITDA next

year.

US FX WRAP

The Dollar had a volatile day, but ultimately, headed lower after the Federal Reserve's decision to cut rates by 50bps, cementing upside for its G10 peers. The size of the move was in line with money market expectations, but not analysts, although the move wasn't unanimous with a 11-1 split, with Bowman favouring a 25bps cut. Changes in the statement noted that inflation has made further progress towards the 2% target but remains somewhat elevated, and added it has gained greater confidence that inflation is moving sustainably toward 2%, and judges risks to achieving its goals are roughly in balance. Upon the Fed's announcement, the Dollar Index set a new YTD lows of 100.21, that said, a bounce emerged once Fed Chair Powell's press conference got underway. The Chair said the Fed is not on a preset course, and they will go meeting-by-meeting on decisions, and that no one should look at today and think this is the new pace. When asked about the opt for a 50bps move, he said there has been a lot of data, including during the blackout. On the economy, Powell noted the economy is strong overall, and expects GDP growth to remain solid, perhaps indicating the 50bps move as a precautionary move pertaining to downside risks in the labour market, as opposed to recessionary fears.

Cyclical Currencies ended the day mixed with the Kiwi and Pound outperforming, although they all gained on the Fed's announcement amid the weaker Dollar, but later pared strength on the rebounding Buck. Concerning currency-specific newsflow, GBP and CAD took the spotlight. Starting with Sterling, strength arose from the hotter-than-expected UK Core and Services CPI Y/Y, and was further boosted by the aforementioned Dollar weakness which saw Cable breach its YTD high of 1.3266. However, lost ground later on, now sitting roughly at 1.32, before the BoE's rate decision on Thursday (expected to hold at 5%). CAD saw slight losses and the relative G10 underperformer as it was initially weighed on by lower oil prices before falling to the whim of the Dollar. BoC minutes were a non-event, with concerns about downside risks linked to the potential further weakening of the economy and labour market.

The Yen and Franc initially took advantage of the 50bps cut by the Fed. That said, gains pared following Powell's presser with USD/JPY reversing its moves from 140.44, to back above the 142 mark. On the data front, Japanese Machinery orders were better than expected and the Trade Balance posted a larger deficit than anticipated. In addition, overnight WSJ sources noted some BoJ policymakers are reportedly worried they not be able to increase interest rates much further as a stronger JPY would result in cheaper imports, slow inflation and impact corporate earnings. USD/CHF lingers around 0.8450, after trading between a 0.8392-8479 range.

Scandi FX price action was mixed, as the NOK was flat while its neighbour, SEK, lost against both the USD and EUR. The day rewarded the NOK when talking about the Viking cross, as NOK/SEK edged higher into the Norges Bank rate decision on Thursday, where the Bank is expected to hold rates at 4.5%.

EMFX almost exclusively strengthened versus the greenback, with MXN as the outlier in the red, albeit losses initially markedly trimmed post-Fed, before once again USD/MXN reversed to peaks as the Dollar saw strength. Top performers included BRL, and the COP, with the former gaining attention ahead of the BCB's Selic rate decision later this evening, in which the Central Bank is expected to hike by 25bps to 10.75%. For USD/ZAR, fresh YTD lows were set as the news out of the US offset the cooler-than-expected CPI figures for August, but the Rand strength was ultimately trimmed. Looking ahead, SARB is expected to cut rates by 25bps to 8.00% on Thursday.