

Stocks chop on quad-witching while dovish Waller lifts bonds

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude down, Dollar flat
- **REAR VIEW:** Dovish Waller, Bowman explains her dissent; BoJ holds rates and Ueda signals BoJ in no rush to hike again; Strong UK and Canadian Retail Sales; Hawkish BoE Mann; AAPL fund rebalancing; QCOM approached INTC about a takeover; GOOGL faces EU ultimatum on search dominance; FDX earnings miss.
- **COMING UP:** **Data:** Australian, EZ, UK, US PMIs (Flash). **Speakers:** ECB's Elderson, Cipollone; Fed's Bostic, Kashkari, Goolsbee. **Supply:** EU. **Earnings:** Darktrace.
- **WEEK AHEAD:** Highlights include US PCE, Global PMIs, RBA, SNB, Australian and Tokyo CPI. [To download the report, please click here.](#)
- **CENTRAL BANK WEEKLY:** Previewing RBA, SNB, Riksbank and Banxico; Reviewing FOMC, BoE, BoJ, PBoC LPR, Norges Bank, SARB and CBRT. [To download the report, please click here.](#)

MARKET WRAP

Stocks were choppy on quad witching but ultimately closed mixed with the Dow outperforming, printing another record closing high while the S&P and Nasdaq finished slightly red, but the Russell plummeted. Sectors were predominantly lower, with Industrial, Materials and Tech lagging. Apple (AAPL) rallied for the majority of the session on account of funds rebalancing AAPL weights given Warren Buffet's recent share sales. However, the upside throughout the day was pared in the final minutes of trade in rebalancing influenced trade. Elsewhere in the tech space, WSJ reported that Qualcomm (QCOM) approached Intel (INTC) with a takeover offer in recent days. Sectors that outperformed were Utilities, which soared c. 2.6% to a record closing high after a three-day losing streak, with upside supported by Constellation Energy (CEG) surging 22% after it announced it will restart the Three Mile nuclear plant, intending to sell the power to Microsoft (MSFT). Communications and Consumer Staples were the only other sectors to close green. T-notes were choppy with weakness in the European morning seen in wake of hot UK Retail Sales and hawkish commentary from BoE's Mann. However, Fed Governor Waller's CNBC appearance explaining his reasons for a 50bp rate cut (inflation falling faster than anticipated) saw the selling pressure reverse with the curve bull steepening by the end of the day. Bowman also explained her dissent, she saw a risk that a larger cut would signal that the Fed's fight against inflation could be interpreted as a premature declaration of victory. The dovish Waller commentary took the buck off its earlier highs while the Yen lagged in wake of the BoJ and commentary from Governor Ueda who signalled they are in no rush to hike rates. GBP outperformed on the aforementioned retail sales and Mann updates. Crude prices were choppy but ultimately settled lower on the day with participants likely taking risk off the table ahead of the weekend, but settled firmer on the week on heightened geopolitical tensions.

FED

BOWMAN: Fed Governor Bowman, the sole voter for a smaller 25bp rate cut, explained her dissent on Friday. She sees a risk that the FOMC's larger policy action could be interpreted as a premature declaration of victory on inflation when they have not yet achieved that goal. Bowman believes a more measured pace towards a more neutral policy stance will ensure further progress is made in returning inflation to the 2% goal. She added that this would avoid unnecessarily stoking demand. She added the economy remains strong and the labour market remains near full employment, but she respects and appreciates that colleagues preferred to go with a larger reduction, and remains committed to working with them to ensure policy is appropriately positioned to achieve its dual mandate goals.

WALLER: Fed Governor Waller explained his reasoning for voting for 50bps in September, acknowledging how his speech before the blackout left the door open to 25 or 50, but the August inflation data is what shifted him to vote for a 50bp reduction. The Fed Governor acknowledged that core inflation is running beneath the Fed's target, and added that the August inflation numbers suggest core PCE rose 0.14%, and if you annualize the last four months, that leaves inflation running at less than 1.8% - beneath the Fed's 2% target. When asked about the pace of rate cuts, Waller said there are several scenarios that will determine the pace, stressing the Fed are data dependent - echoing Powell. Waller can imagine going 25bps at the next meeting or two if the data comes in fine, but if the labour market worsens and inflation data softens even quicker, the Fed could do more. However, he also said the Fed could pause, depending on the data, stressing the Fed is completely data dependent at this point. He would support aggressive rate cuts if the data comes in soft, and he is fine moving in 50bps increments if inflation is soft to get to where they want to go. He also noted the Fed is not falling behind the curve, and when asked about risks ahead, stressed again that inflation is running softer than he thought and he is more concerned now about inflation running softer than he was in July, adding it is potentially on a lower path than what the Fed was expecting. He said it could reverse again, but he is much more confident that inflation is on the right path, but they cannot let it get too low. Overall, a dovish speech from Governor Waller who left the door open to the pace of rate cuts, but he stressed several times concerns about inflation being too soft, suggesting he is worried of an overshoot of their inflation target. Waller is also open to 50bps reductions again if it is needed, but if the data is fine then he could see 25bps in November and December.

BOJ

REVIEW: BoJ kept its short-term policy rate unchanged at 0.25%, as expected with the decision made by a unanimous vote. BoJ also stated that inflation is likely to be at a level generally consistent with BoJ's price target in the second half of its 3-year projection period through fiscal 2026 and it sees medium and long-term inflation expectations increasing. Furthermore, it sees exchange rate trends as having a greater influence on prices and said Japan's economy is likely to achieve growth above potential but also stated that they must be vigilant to the impact of financial and FX market moves on Japan's economy and prices. Governor Ueda's post-meeting presser was more interesting in which he struck a clear dovish and cautious tone. In this press conference, Ueda put significant weight on overseas economies, particularly the US following the Fed's 50bps rate cut. One of Ueda's most notable comments was that upside price risks have decreased given recent FX moves, and risks of an inflation overshoot have somewhat diminished. Furthermore, Ueda kept referring to markets as unstable. As a reminder, on August 7th Deputy Governor Uchida said the BoJ will not hike rates when markets are unstable. As such, Governor Ueda referring to markets as being unstable in the post-meeting press conference, alongside the decrease in upside price risk, has been taken as a "slowing" of hiking plans.

FIXED INCOME

T-NOTE (Z4) SETTLED 3+ TICKS HIGHER AT 114-27

T-Notes bull steepen after Fed Governor Waller explains his reasons for voting 50bps. At settlement, 2s -3.0bps at 3.574%, 3s -2.8bps at 3.464%, 5s -2.3bps at 3.482%, 7s -2.1bps at 3.595%, 10s -1.6bps at 3.724%, 20s -2.2bps at 4.110%, 30s -0.6bps at 4.068%

INFLATION BREAKEVENS: 5yr BEI -0.7bps at 2.184%, 10yr BEI -1.2bps at 2.142%, 30yr BEI -1.4bps at 2.155%.

THE DAY: T-notes sold off in the European morning to hit lows just before the US afternoon of 114-17 ahead of Fed Governor Waller's appearance on CNBC. The European weakness tracked gilts lower after hotter-than-expected UK Retail Sales while BoE's Mann (Hawk) said she agrees with those who think inflation could stay above target for an extended period of time. The highlight of the day was a dovish speech from Fed Governor Waller. He explained his reasoning for voting for the 50bp rate cut on Wednesday, noting how the inflation data seen during the blackout period is what persuaded him, noting that inflation is falling faster than expected. He also left the door open on guidance, suggesting he would be happy with 50bps again if inflation eased even quicker or the labour market deteriorated, but he did stress data dependence noting if the data is fine he would be happy with two 25bp rate cuts through the end of 2024. The move saw T-notes pare a lot of the earlier losses to test the morning highs of 115-00 but peaked at 114-29. Governor Bowman also spoke, explaining her dissent who had a different take to Waller, noting that the inflation target has not yet been achieved and she sees a risk the Fed's larger policy action could be interpreted as a premature declaration of victory on inflation. Attention next week turns to US PCE, a plethora of Fed Speakers and supply.

NEXT WEEK SUPPLY: US to sell USD 69bln of 2yr notes on September 24th, USD 70bln of 5yr notes on September 25th and USD 44bln of 7yr notes on September 26th; all to settle September 30th; as expected. US to sell USD 28bln of reopened 2yr FRNs on September 25th, to settle September 27th.

STIRS:

- **Market Implied Fed Rate Cut Pricing: November 38bps (prev. 36bps D/D), December 75bps (prev. 73bps), January 109bps (prev. 107bps).**
- NY Fed RRP OP demand at USD 339bln (prev. 312bln) across 65 bidders (prev. 52).
- SOFR at 4.82% (prev. 5.33%), volumes at USD 2.378tln (prev. 2.194tln).
- EFR at 4.83% (prev. 5.33%), volumes at USD 90bln (prev. 102bln).

CRUDE

WTI (X4) SETTLED USD 0.16 LOWER AT 71.00/BBL; BRENT (X4) SETTLED USD 0.39 LOWER AT 74.49/BBL

The crude complex ended lower on the day, although ended the week notably in the green amid heightened Middle East tensions. The latest escalation on Friday was that the Israeli military carried out a "targeted strike" in Beirut, Lebanon, whereby it reportedly killed top Hezbollah military chief, Ibrahim Aqil. In addition, Israeli officials noted they are in a new phase of the war against Hezbollah and important developments will occur these days on the northern front. Nonetheless, WTI and Brent were slightly downbeat on Friday largely due to the more downbeat risk sentiment on top of the Chinese demand woes. Looking ahead, the weekend brings geopolitical risks so participants will likely want to de-risk into that as geopolitical tensions continue to ramp up - perhaps an explainer for the pre-settlement selling. For the record, Baker Hughes saw oil rigs unchanged at 488, while natgas rigs fell by one to 96, with the total -2 at 588. WTI and Brent traded between USD 70.37-71.45/bbl and 74.00-75.00 ranges, respectively.

EQUITIES

CLOSES: SPX -0.19% at 5,703, NDX -0.24% at 19,791, DJIA +0.09% at 42,063, RUT -1.10% at 2,228

SECTORS: Industrials -0.69%, Materials -0.64%, Technology -0.50%, Health -0.34%, Energy -0.33%, Financials -0.29%, Real Estate -0.16%, Consumer Discretionary -0.01%, Consumer Staples +0.41%, Communication Services +0.45%, Utilities +2.69%.

EUROPEAN CLOSES: DAX: -1.43% at 18,731, FTSE 100: -1.19% at 8,230, CAC 40: -1.51% at 7,500, Euro Stoxx 50: -1.43% at 4,873, AEX: -1.20% at 898, IBEX 35: -0.21% at 11,753, FTSE MIB: -0.83% at 33,762, SMI: -1.09% at 11,933, PSI: -0.06% at 6,716.

STOCK SPECIFICS

- **Qualcomm (QCOM)** - Approached **Intel (INTC)** about a takeover in recent days, via WSJ. A deal is far from certain, the sources cautioned. To get the deal done, Qualcomm could intend to sell assets or parts of Intel to other buyers.
- **FedEx (FDX):** Missed on profit and revenue, and downwardly revised the top-end of its guidance range, warnings on macro trends.
- **Lennar (LEN):** Despite beating on adj. EPS and revenue, gross margin pressure pricing softness weigh.
- **Bank of America (BAC):** Berkshire sold 22.27mln BAC shares between September 17-19th.
- **Constellation Energy (CEG):** Announced it will restart the Three Mile Island nuclear plant, intending to sell the power to Microsoft (MSFT).
- **ASML (ASML):** Downgraded to 'Equal Weight' from 'Overweight' at Morgan Stanley, citing weak Intel capacity, slowing DRAM cycle in 2025, and ongoing uncertainties surrounding China demand.
- **Aptiv (APT):** Upgraded to 'Overweight' from 'Equal Weight' at Wells Fargo on a much-improved valuation behind the decision.
- **PepsiCo (PEP):** Downgraded to 'Equal Weight' from 'Overweight' at Morgan Stanley, noting lingering organic sales growth, EPS risks, and market share losses.
- **Intuit (INTU):** Spruce Point announces it has a short position on the stock.
- US FTC sues units of **CVS (CVS)**, **Cigna (CI)**, and **UnitedHealth (UNH)** for allegedly artificially inflating insulin prices; FTC case does not name insulin drugmakers **Eli Lilly (LLY)**, **Novo Nordisk (NOVO DC)**, **Sanofi (SAN FP)**, but reserves right to sue later.
- **Google (GOOGL)** - Reportedly faces EU ultimatum in a fresh attack on search dominance, according to Bloomberg. Regulators are set to issue the warning under the Digital Markets Act and Google risks hefty fines if it fails to address the EU's concerns.

US FX WRAP

The buck was sold modestly overnight, weighed on by Yen strength (more detail below), rather than currency-specific drivers, but as Yen strength faded, and turned into weakness, the dollar caught a bid, extending into the US session. That said, once Waller appeared on CNBC, dollar weakness followed, sending the dollar index, into flattish territory, whereby the Governor noted that Core PCE is running below their target, inflation is softening much faster than he thought it was going to, and if data comes in on inflation, he is fine with moving in 50s to get

to where they want to go. Other Fed's saw Fed's Bowman issue her reasoning for dissenting, namely, a risk that the FOMC's larger policy action could be interpreted as a premature declaration of victory on inflation, as she believes they have not yet achieved the inflation goal. Meanwhile, Fed's Harker (2026 Voter) said he sees risks to inflation and employment as balanced. Heading into next week, key risk events include Durable Goods Orders, GDP Growth Rate Q/Q Final (Q2), and Fed's Chair Powell on Thursday, and Core PCE on Friday.

G10 FX saw mixed price action, with outperformance seen in the Pound, as it continues to be the best-performing currency in the space, helped by stronger-than-expected Retail Sales numbers than anticipated and hawkish Mann commentary. Cable set another yearly high at 1.3340, finishing the day firmly above the 1.33 mark. Across the Atlantic, the CAD was flat on the day, despite Retail Sales for July coming in above expectations, as recent dovish remarks from Boc's Macklem, labour market woes, and a softer crude complex continue to drag on the currency. Beyond the Pacific, Antipodes like the CAD and Euro finished flat on the day, with NZD/USD stuck on the 0.62 level and AUD/USD at 0.68. The Euro spent the day meandering, showing little reaction to the EZ Consumer Confidence Flash for September improving more than was forecasted, finishing the session at around 1.1160.

Haven FX underperformed their G10 counterparts, particularly in the Yen. USD/JPY was jerky at first to the BoJ's decision to keep its short-term policy rate at 0.25% as unanimously forecast. The accompanying statement gave no hints towards future policy, noting the economy is recovering moderately albeit with some weaknesses and inflation expectations are heightening moderately. Nonetheless, downside arrived from the Yen in response to remarks from BoJ's Governor Ueda in the post-meeting press conference, whereby the impression given was the Bank was in no rush to hike rates further, highlighted by his reiteration that markets remain unstable (prev. said wouldn't hike if unstable), overseas economies pose uncertainties, "so it's not that we're getting confident and raising rates immediately", and upside price risks have decreased given recent FX moves, as witnessed in August's cooler-than-expected National CPI Y/Y figure. USD/JPY ended the session back above the 143 handle, albeit off its session high of 144.49, whereas USD/CHF trades around 0.85.

The Yuan reached highs versus the buck not seen since May 2023, with the USD/CNH falling to as low as 7.0389 after the PBoC decided to maintain their 1yr and 5yr Loan prime Rates, while FDI (YTD, Aug) was -31.5% (prev. -29.6%).

EMFX underperformance was most visible in the BRL, despite the 25bps hike by the BCB seen earlier in the week, as a fiscal reports weighed on the Real, specifically, Brazil's government is working with the scenario of a new budget freeze of BRL 5bln for 2024, according to GloboNews. Additionally, the report noted, "This is not a budget cut. However, the details of this new freeze may be postponed to the weekend and only released on Monday 23rd.". Meanwhile, upside was seen in the INR, PLN, and HUF, with the HUF now in focus ahead of the NBH rate decision on Tuesday, where a Reuters poll indicated all 16 economists surveyed expected a cut of 25bps to 6.25%.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

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