US Market Wrap - 23rd September 2024

Stocks and bonds chop to global PMI data

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude down, Dollar flat.
- **REAR VIEW**: Dismal EZ PMI data; Mixed US PMIs, Mfg. misses, Services beat; Middle East tensions continue to escalate; Dovish Goolsbee; Bostic supported 50bps cut as a compromise; Kashkari expects smaller steps going forward for the Fed; BA raises IAM labour negotiations offer; QCOM approached INTC in recent days while Apollo proposed a multibillion-dollar investment; JPM reiterates MU 'Overweight' rating.
- **COMING UP**: **Data**: Japanese PMI, German Ifo, US Richmond Fed Index **Events**: RBA, NBH Policy Announcements **Speakers**: BoJ's Ueda; RBA's Bullock; Fed's Bowman; BoC's Macklem **Supply**: UK, Germany, US **Earnings**: Autozone.
- **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

Equity futures were choppy but ultimately closed with marginal gains in the SPX, NDX and DJIA, although RUT finished in the red. Sectors closed predominantly with gains but Health Care, Communication and Tech saw mild losses, while Financials were flat. The highlights of the session were the S&P Global Flash PMI data for September which saw a poor release out of Europe while the US print was mixed with manufacturing missing, and services beating but with some attention on inflationary commentary within the report. The US data saw two-way price action in T-Notes but they ultimately settled flat ahead of supply this week, as well as a plethora of Fed speak on Thursday and US PCE on Friday. In FX, the Dollar saw marginal gains, primarily supported by the weaker Euro after the aforementioned PMI data while antipodes outperformed. Crude prices ultimately settled lower on disappointing PMI data despite ongoing geopolitical escalation between Lebanon and Israel.

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KASHKARI: Over two speeches on Monday, Kashkari noted that the balance of risks have shifted towards risk of further labour market weakening and higher unemployment. He said a 50bps rate cut was the right decision and reflects progress on inflation and softening of the labour market. He also told CNBC that he would not have argued against 25bps, noting that both 25 or 50bps would have been reasonable, and he thinks that 50bps was a judgement call, with the Fed policy still in a net-tight position. Kashkari's dot plot is in line with the median, seeing the policy rate at 4.4% at end-2024, and 3.4% at end-2025. When asked about neutral, he said there is a lot of uncertainty about where the Fed will cut to, but he is pencilling in a higher neutral rate than before the pandemic. He stressed it is still too soon to declare victory on inflation, but the disinflationary process appears to be on track. The Fed rate path will depend on the totality of incoming data. He acknowledged that policy remains tight, though it is uncertain on how tight it is, noting that signals on strength of the economy are confusing with GDP and consumer spending surprisingly resilient. However, there is little evidence that recessionary forces are building, or that inflation could surprise to the upside. Kashkari said he would love to get back to a 3.5% unemployment rate, noting how the labour market has not been driving inflation, and it is a lousy forecaster of inflation.

BOSTIC: The Atlanta Fed President said that the economy is normalising more quickly than previously thought, so monetary policy needs to as well. Bostic supported the 50bps cut as a compromise between remaining uncertainty around inflation and risks to the job market. He also noted that the economy is effectively near conditions that would be considered normal, stressing a half point cut does not lock in a cadence for future rate cuts. On the mandate, Bostic said the Fed is now facing two "largely balanced" risks (vs Fed statement of "roughly in balance"). On the economy, he said that recent data shows him convincingly that the US is on a sustainable path to price stability, noting how price increases have narrowed and become concentrated in housing. He added the low recent levels of some recent inflation indicators portends well, noting how business leaders say pricing power has all but evaporated. On employment, he said the labour market is weakening, but it is not weak. Businesses are becoming more careful in hiring, but they are not considering layoffs. Bostic warned that risks to the labour market have increased, with the possibility of broad weakness higher than a year ago. On rates, he said the disagreement over the neutral rate is inconsequential when rates are this high. In the Q&A, Bostic added the recent dots show a "fair amount" of dispersion in opinion at the Fed, noting the range of views over the path forward and debate over neutral is robust. Bostic added that the Fed is not in a mad dash to neutral and he is in favour of not rushing to judgment or assuming the job is done on inflation. Bostic feels neutral is in the 3-3.25% range (above the median Fed dot plot of 2.9%). Bostic also stated that he previously had been concerned that rate cuts would unleash pent-up demand, but that may be substantially less than thought, note how levels of excess cash has diminished for many households, but some still have cash on hand and that could fuel demand. He expects choppiness on inflation going forward, and he will wait and see what is needed on rates, but if the labour market deteriorates, that is a reason for a faster pace to neutral, but that is not the baseline.

GOOLSBEE: Fed's Goolsbee stated that many additional rate cuts will likely be needed over the next year, stressing the need for rates to be lowered "significantly". He was comfortable with the Fed's 50bps rate cut, noting how it shows the Fed is focused on risks to employment, not just inflation. Goolsbee acknowledged that inflation is well down from its peaks and the labour market is at full employment, stating how the Fed cannot be behind the curve if the Fed is to reach a soft landing. He said that until the recent rate cut, falling inflation meant the Fed was tightening policy, and a 50bps rate cut made sense as the Fed shifts back to normal mode. On the neutral rate, he said rates are still hundreds of basis points above neutral, but if conditions continue like this, there are lots of cuts to come over the next 12 months. He noted how the Golden path is in the books and inflation came down without a recession last year, although a 0.7% increase in the unemployment rate is usually a warning sign of a recession, adding the rise in delinquencies is also a warning sign. The Chicago Fed President added that directionally, unemployment is increasing, but the level is still low. GDP growth, consumer spending and wage growth has been strong, but they are currently in a little bit of a cautionary period. Goolsbee is monitoring office building vacancy rates, and making sure banks provision for any CRE losses.

PMIs: S&P Global Manufacturing Flash PMI for September unexpectedly fell to 47.0 from 47.9 (exp. 48.5), while Services declined less than forecast to 55.4 (exp. 55.2, prev. 55.7), which meant Composite marginally dipped to 54.4 from 54.6. Chris Williamson, Chief Business Economist at S&P Global Market Intelligence said, “The early survey indicators for September point to an economy that continues to grow at a solid pace, albeit with a weakened manufacturing sector and intensifying political uncertainty acting as substantial headwinds.” He further adds, the sustained robust expansion of output signalled by the PMI in September is consistent with a healthy annualized rate of GDP growth of 2.2% in Q3, but there are some warning lights flashing, notably in terms of the dependence on the service sector for growth, as manufacturing remained in decline, and the worrying drop in business confidence. Lastly, on prices, Williamson adds "Prices charged for goods and services are both rising at the fastest rates for six months, with input costs in the services sector rising at the fastest rate for a year."

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLED 2+ TICKS LOWER AT 114-25+

T-Notes sold off on PMI services beat but pared as oil prices took a hit . At settlement, 2s +0.6bps at 3.580%, 3s +1.3bps at 3.478%, 5s +1.7bps at 3.501%, 7s +1.8bps at 3.616%, 10s +1.5bps at 3.743%, 20s +1.4bps at 4.127%, 30s +1.5bps at 4.087%.

INFLATION BREAKEVENS: 5yr BEI +0.4bps at 2.191%, 10yr BEI +1.1bps at 2.159%, 30yr BEI +2.0bps at 2.179%.

THE DAY: T-Notes meandered overnight before being bid in the European session after disappointing EZ PMI data saw T-Notes hit a peak of 114-26+ before selling ignited on corporate deals ahead of Fed-speak and PMI data. The only voting member of the FOMC to speak on Monday was Bostic, who supported the 50bp move as a compromise between remaining uncertainty around inflation and risks to the job market. However, he said that the half-point cut does not lock in a cadence for future rate cuts, while he later added that he sees neutral at 3.00-3.25% (above the Fed median of 2.9%). Elsewhere, Kashkari and Goolsbee spoke, where the former said his dot plots aligned with the median, although he said he would not have argued against a 25bp move either 25 or 50bps would have been reasonable. Goolsbee noted that many additional rate cuts are likely needed over the next year, adding rates need to be lowered significantly and he was comfortable with the 50bps rate cut. There was little reaction to the Fed speakers but S&P Global PMI data saw two-way price action. Initially, the fall in the manufacturing print saw T-Notes spike higher before paring on the services beat and commentary within the composite report. The report acknowledged how prices charged for goods and services are both rising at the fastest rates for six months, with input costs in the services sector - a major component of which is wages and salaries- rising at the fastest rate for a year. T-Notes notes printed a low of 114-11+ in the wake of the data before then paring throughout the afternoon to test the earlier peaks.

THIS 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. 38bps D/D), December 76bps (prev. 75bps), January 110bps (prev. 109bps).**
- US sold USD 77bln in 3mth bills at high rate of 4.54%, B/C 2.84x; sold USD 71bln in 6mth bills at high rate of 4.270%, B/C 3.42x
- NY Fed RRP Op demand at USD 380bln (prev. 339bln) across 71 counterparties (prev. 65)
- SOFR at 4.83% (prev. 4.82%), volumes at USD 2.147tln (prev. 2.378tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 93bln (prev. 90bln).

CRUDE

WTI (X4) SETTLED USD 0.63 LOWER AT 70.37/BBL; BRENT (X4) SETTLED USD 0.59 LOWER AT 73.90/BBL

The crude complex was choppy to start the week, but eventually lower, amid disappointing PMI data offsetting the heightened geopolitical risk. On the day, WTI and Brent saw upside in the APAC session but this was swiftly pared amid risk aversion in the European morning due to the slew of dismal flash PMI data from the region. Thereafter, WTI and Brent ground higher to session peaks of USD 71.81/bbl and 75.17/bbl, respectively, before selling off through the US late morning/afternoon, although not seemingly driven by a specific headline. As alluded to above, Middle Eastern tensions continue to escalate as Israel continues bombarding Hezbollah targets in Lebanon, with tensions in the region ever closer to an expanded war, and with no signs of abating. Moreover, there has been extensive speech from all sides today, and Hezbollah leader Ali Karaki was reportedly injured during the targeting in Beirut, but did not die, according to Al-Arabiya citing sources. Elsewhere, and on the supply footing, NHC says John continues to rapidly strengthen and is forecast to become a major hurricane, damaging Hurricane-force winds and a dangerous storm surge, with life-threatening flash flooding expected in portions of Southern Mexico. As such, Chevron (CVX) and Shell (SHEL LN) evacuated non-essential personnel from their Gulf of Mexico platforms.

EQUITIES

CLOSES: SPX +0.29% at 5,718, NDX +0.31% at 19,852, DJIA +0.15% at 42,125, RUT -0.34% at 2,220.

SECTORS: Energy +1.31%, Consumer Discretionary +1.3%, Real Estate +1.13%, Utilities +0.97%, Materials +0.87%, Industrials +0.66%, Consumer Staples +0.57%, Financials +0.1%, Technology -0.08%, Communication Services -0.15%, Health -0.25%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.29% at 4,886, DAX +0.58% at 18,857, CAC 40 +0.10% at 7,519, FTSE 100 +0.36% at 8,263, SMI +0.26% at 11,965, FTSE MIB -0.24% at 33,790, IBEX 35 +0.38% at 11,836, PSI +0.31% at 6,765, AEX +0.66% at 904

STOCK SPECIFICS:

- **Intel (INTC):** Approached by Qualcomm in recent days regarding a potential takeover, FT reported (in fitting with WSJ on Friday). Separately, Apollo has proposed a multibillion-dollar investment in Intel, possibly up to USD 5bln.
- **Apple (AAPL):** Constructive mention in Barron's; said new iPhone launches typically see a slight decline in share prices on announcement and launch days, followed by underperformance in the subsequent week; however, consumer enthusiasm tends to outpace market expectations.
- **Microchip Technology (MCHP):** Downgraded at Truist, alongside the firm downgrading the semiconductor industry, citing industry revenue growth has peaked and is entering a "slow fade".
- **Micron Technology (MU):** JPMorgan reiterated its Overweight rating ahead of earnings this Wednesday; and anticipates results and forward guidance "in-line with recently lowered consensus estimates," bolstered by strong AI demand.
- **General Motors (GM):** Downgraded at Bernstein; said that continued inventory build in the US will lead to pricing headwinds next year, a delayed ramp on EVs and Cruise pushes losses into next year, and headwinds in GM's international businesses are increasing.
- **Palantir (PLTR):** Downgraded at Raymond James on an elevated valuation following recent outperformance.
- **Constellation Energy (CEG):** PT raised at Wells Fargo, KeyBanc, and Morgan Stanley, with MS noting the deal proves out the value

of nuclear power for hyperscalers with higher prices possible for future deals.

- **Nvidia (NVDA):** DigiTimes reports speculation is rising in China about Nvidia potentially discounting its H20 chips as the US prepares for its annual export control review.
- **Regeneron (REGN):** Judge reportedly denies the motion for Regeneron injunction in a patent case with Amgen (AMGN).
- **Boeing (BA):** On IAM labour negotiations, increased general wage to 30% and raises Cos. match on Boeing 401k to 100% of first 8% of play, plus continuing automatic 4% Co. contribution.

US FX WRAP

The Dollar was flat to start the week, as it pared its initial EUR-weakness induced upside, as focus resided around Fed speak and S&P Global flash PMIs. Recapping, we heard from Kashkari, Bostic, and Goolsbee, whereby the latter noted that many additional rate cuts are likely needed over the next year and rates need to be lowered "significantly". Meanwhile, Kashkari sees the end-2024 Fed policy rate at 4.4% and the end-2025 at 3.4%, which is the same as the median of Fed policymakers, and Bostic said that the economy is normalising more quickly than previously thought, so monetary policy needs to as well. On the data footing, the Dollar saw some fleeting strength in the wake of S&P Global Flash PMIs for September, where Mfg. surprisingly declined, while Services fell less than expected, meaning Composite marginally dipped to 54.4 from 54.6. Looking ahead, PCE on Friday is the data highlight as well as a slew of Fed speak with Powell and Williams on Thursday the highlights.

EUR was the clear G10 laggard on Monday, and the only one to see losses against the Buck amid dismal EZ PMI data. As such, a deluge of EZ-wide PMI data underscored the region's soft growth outlook as the boost from the French Olympics proved to be short-lived. EUR/USD hit a high of 1.1167 in the APAC session but fell to a trough of 1.1084, with eyes on last week's low at 1.1068.

Activity currencies all saw gains to varying degrees against the Greenback, with Antipodeans outperforming and the Pound noticing the least gains. There was further PMI data out of Australia and the UK, where the former's numbers all declined, and the latter's all came in beneath analyst expectations. Elsewhere, currency-specific newsflow was light as traders await the RBA overnight where the central bank is expected to keep rates unchanged at 4.35%. Cable traded between 1.3249-1.3359, while AUD/USD and NZD/USD saw highs of 0.6853 and 0.6279, respectively, against lows of 0.6801 and 0.6225.

Safe-havens noticed slight strength with the Swissy outperforming the Yen, although the JPY managed to claw back initial losses seen as the ongoing divergence between the BoJ and the Fed remains in focus. Ahead, there is Japanese PMI data overnight but potentially more focus will be BoJ Governor Ueda speaking Tuesday morning (06:05BST/01:05EDT) as last time he spoke he gave a clear dovish spin. Ueda said markets remain unstable, and as a reminder on August 7th Deputy Governor Uchida said the BoJ will not hike rates when markets are unstable.

EMFX was mixed. Yuan and MXN were flat, TRY and BRL saw weakness, with the ZAR outperforming and buoyed by gains in spot gold. For the Real, Brazil economists see the year-end 2024 Selic interest rate at 11.50% (prev. 11.25%) and year-end 2025 at 10.50% (prev. 10.50%), while Brazil Deputy Finance Minister Durigan said their plan is to maintain the fiscal target and meet it. Lastly, Mexican data was mixed as retail sales were slightly worse than expected, but IGAE economic activity was much better than forecasted for July. Note, Banxico rate decision is on Thursday whereby the majority of analysts/desks expect the central bank to cut by 25bps to 10.50%.