newsquawk

US Market Wrap - 24th September 2024

Treasuries bid and Dollar sinks on woeful US consumer confidence while China announces stimulus

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down
- **REAR VIEW**: Dismal US Consumer Confidence; Richmond Mfg falls, with internals mixed; Average US 2yr note auction; Raft of China stimulus measures; Fed's Bowman estimates a neutral rate much higher than pre pandemic; Hawkish RBA hold, but dovish Bullock comments; German Ifo disappoints; DoJ sues Visa; Heightened Middle East tensions.
- **COMING UP**: **Data:** Japanese PPI, Australian CPI, US Building Permits. **Events:** Riksbank & CNB Policy Announcement. **Speakers:** BoE's Greene; Riksbank's Thedeen; Fed's Kugler. **Supply:** Australia, UK, Italy, Germany, US. **Earnings:** Micron

MARKET WRAP

US indices saw slight upside on Tuesday (SPX +0.3%, NDX +0.5%, DJIA +0.2%, RUT +0.2%) and managed to reverse the dismal US consumer confidence-induced downside, which also saw Treasuries reverse their initial risk-on losses and spurred the Dollar selling for the duration of the US afternoon. Sectors closed mixed, although Financials was the distinct laggard and weighed on by Visa (V, -5.4%) after being sued by the DoJ for an antitrust matter. Materials outperformed, buoyed by upside in ALB, CLF, and STLD (and many others), after China unveiled a raft of stimulus measures. Briefly recapping, the PBoC cut the RRR and 7-day reverse repo rate, whilst also announcing measures for the property sector and stock market, with the actions likely driven by recent domestic and external factors facing the Chinese economy, although it is yet to be seen if they have any longer lasting effect. In the FX space, the Dollar was heavily sold and was already weaker heading into US consumer confidence, but the disappointing release accentuated the move, seeing all G10 FX peers gain, with Antipodeans outperforming. Safe-havens, CHF and JPY, even pared initial losses to finish firmer. As such, precious metals were bid as was the crude complex, albeit the latter had a myriad of bullish impulses with the most important being the aforementioned China stimulus, although the ever-escalating Middle Eastern tensions cannot be ignored. For the record, there was a pretty average 2yr US action while Richmond Fed manufacturing declined, but services rose. On the Fed footing, 25bps dissenter Bowman echoed a lot of the arguments she made in her speech on Friday, where she said she did not want a 50bps cut to send a message the Fed has declared victory on inflation. Ahead, there is Micron (MU) earnings after-hours on Wednesday, a deluge of Fed speak on Thursday with the highlights being Powell and Williams, ahead of PCE on Friday.

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CONSUMER CONFIDENCE: The headline saw its largest drop since August 2021 as it fell to 98.7 from 105.6 (revised up from 103.3) in September, below the anticipated 104 and also the bottom end of the forecast range, 101. The surprising downturn primarily stemmed from the 10.3 drop in the Present Situation Index to 124.3, although the fall in the Expectations Index weighed on Confidence (fell by 4.6 points to 81.7). The report noted consumer assessments of current business conditions turned negative while views of the current labour market situation softened further. For future conditions, consumers were more pessimistic about the labour market and less positive about business and future income. Chief Economist at The Conference Board Peterson added that "The deterioration across the Index's main components likely reflected consumers concerns about the labor market and reactions to fewer hours, slower payroll increases, fewer job openings". 30.9% of consumers said jobs were "plentiful," (prev. 32.7%) whereas 18.3% of consumers said jobs were "hard to get," up from 16.8% seen in August. The labour market differential between consumers saying jobs are plentiful versus hard to get fell to 12.6 (prev. 15.9). Six-month expectations saw 18.3% of consumers anticipate fewer jobs, up from 17.0%, while 13.0% expected their incomes to decrease (prev. 11.7%). Lastly, on inflation, average 12mth inflation expectations increased to 5.2% (prev. 4.9%).

RICHMOND FED: Richmond Fed composite manufacturing index fell to -21 (prev. -19) in September. Of its three component indexes, shipments and employment decreased to -18 (prev. -15) and -22 (prev. -15), respectively, while new orders increased to -23 from -26. On the inflationary footing, prices paid rose to 3.36 from 2.45, but prices received dipped to 1.57 from 1.87, with the forward-looking expectations showing the opposite (paid falling, received rising). Within the release, firms grew more optimistic about local business conditions, as the index lifted to -18 from -24, but the index for future local business conditions notably declined into negative territory, -18 from 7. The report adds, that the future indices for shipments and new orders both decreased but remained in positive territory, suggesting that firms continued to expect improvements in these areas over the next six months. The vendor lead time index remained at -4 in September. On balance, firms continued to report declining backlogs in September as that index remained negative.

BOWMAN: Fed Governor Bowman (hawk, dissented to the FOMC's 50bp rate cut) echoed a lot of the arguments she made in her speech explaining her dissent on Friday, where she said she did not want a 50bps cut to send a message the Fed has declared victory on inflation. Today she repeated core inflation is still uncomfortably above the 2% target with upside risks, taking an opposite view to Governor Waller who voted for a 50bps rate cut noting inflation has fallen faster than anticipated and on a four-month annualized basis, Core PCE is tracking beneath the Fed's target at 1.8%. Bowman also added that her estimate of the neutral rate is much higher than before the pandemic, and that policy is not as restrictive as it may seem. Note, the most hawkish dot plot for the longer run fed funds rate is at 3.750% vs the median of 2.9%. Bowman noted that upside risks to inflation are still prominent, including supply chain fragility, fiscal policy and mismatch of housing supply and demand. She noted that though the labour market has shown signs of cooling, wage growth, spending and GDP are not consistent with a material economic weakening and there are still more jobs than available workers. The Governor noted that the climb in unemployment is largely due to slowed hiring and improving supply, adding there is considerable pent-up demand and available cash ready to be used as interest rates fall, which is a risk to meeting the inflation goal.

FIXED INCOME

**T-NOTE FUTURES (Z4) SETTLED 2+ TICKS HIGHER at 114-27 **

T-Notes pare overnight risk-on induced weakness after dismal US Consumer Confidence. At settlement, 2s -3.4bps at 3.542%, 3s -2.6bps at 3.446%, 5s -2.1bps at 3.475%, 7s -1.5bps at 3.596%, 10s -0.4bps at 3.734%, 20s +0.8bps at 4.131%, 30s +0.8bps at 4.090%.

INFLATION BREAKEVENS: 5yr BEI +2.9bps at 2.223%, 10yr BEI +1.6bps at 2.177%, 30yr BEI +0.9bps at 2.189%

THE DAY: T-Notes sold off overnight and in the European morning during risk-on trade in the wake of mass China stimulus measures, which saw T-Notes print a low, as US trade got underway, of 114-09+. The move then started to gradually reverse but accelerated in the wake of a dismal US Consumer Confidence report. The headline slipped to 98.7 from the prior 105.6, shy of the expected 104 and beneath the lowest analyst estimate of 101.0. Richmond Fed data, released at the same time as Consumer Confidence, declined M/M in manufacturing shipments and the composite index, but services saw a rise, albeit remained in negative territory. The upside in wake of the data pared all the overnight downside to an initial intra-day peak of 114-26+ ahead of the 2yr auction, which was ultimately average, although eventually hit a later top of 114-29 as it inched higher into settlement. Elsewhere, Fed Governor Bowman was on the wires once again explaining her dissent, noting how Core PCE has not yet returned to target, at odds with dovish remarks from Governor Waller on Friday who suggested inflation is falling faster than anticipated with Core PCE beneath target on a 4mth annualized basis.

2YR:

Overall it was a mixed 2yr auction, as it came in on-the-screws against the prior 0.6bps stop-through and the six-auction average of a 0.3bps stop-through. Bid-to-cover was 2.59x, shy of the both the previous, 2.68x, and the average, 2.66x. Regarding the breakdown, dealers took 12.8% of the auction (prev. 11.9%, avg. 13.2%), while directs and indirects took 19.6% (prev. 19.1%, avg. 19.9%) and 67.6% (prev. 69.0%, avg. 66.8%), respectively.

THIS WEEK SUPPLY:

US to sell 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 40bps (prev. 38bps D/D), December 80bps (prev. 76bps), January 114bps (prev. 110bps).**
- US is to sell USD 90bln of 4-wk bills and USD 85bln of 8-wk bills on September 26th; to sell USD 62bln of 17-wk bills on September 25th; all to settle October 1st.
- US sold USD 60bln in 42day CMBs at a high rate of 4.620%, B/C 3.26x
- NY Fed RRP Op demand at USD 389bln (prev. 380bln) across 65 counterparties (prev. 71).
- SOFR at 4.83% (prev. 4.83%), volumes at USD 2.198tln (prev. 2.147tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 95bln (prev. 93bln).

CRUDE

WTI (X4) SETTLED USD 1.19 HIGHER AT 71.56/BBL; BRENT (X4) SETTLED USD 1.27 HIGHER AT USD 75.17/BBL

The crude complex saw solid gains on Tuesday, albeit settling off highs, on a myriad of bullish updates. Oil was bid overnight and stemmed from China unveiling its latest stimulus efforts, offsetting some of the demand woes, although desks are still waiting to see how this translates into the economy. Thereafter, the ongoing Middle Eastern tensions continue to escalate with updates once again coming from both Israel and Lebanon. In terms of what they've said, an Israeli Chief of Staff said they will increase the frequency of attacks on Hezbollah, while Axios sources reported that Hezbollah urged Iran in recent days to launch an attack against Israel as fighting between the Lebanese militant group and the Israeli military dramatically escalated, but Iran has so far refrained. Elsewhere, it is worth being cognizant on the developing tropical storms and hurricanes in the Gulf of Mexico, as some reports indicate Shell and BP have curtailed some production. In addition, BSEE said 16% of oil production and 11% of gas production at US Gulf of Mexico shut in response to tropical storm Helene. Moreover, the Dollar weakness also supported the complex. Looking ahead, attention is on private inventory data after-hours (expectations below) ahead of the weekly data on Wednesday, while a deluge of Fed speak on Thursday and PCE on Friday are the macro highlights. Current expectations (bbls): Crude -1.4mln, Distillate -1.6mln, Gasoline -0.02mln. For the record, WTI and Brent traded between USD 70.44-72.40/bbl and 73.95-75.87/bbl, respectively.

EQUITIES

CLOSES: SPX +0.25% at 5,733, NDX +0.47% at 19,945, DJIA +0.2% at 42,208, RUT +0.17% at 2,224

SECTORS: Financials -0.92%, Utilities -0.76%, Consumer Staples -0.38%, Energy -0.29%, Health -0.22%, Real Estate -0.07%, Communication Services +0.40%, Industrials +0.70%, Consumer Discretionary +0.76%, Technology +0.79%, Materials +1.35%.

EUROPEAN CLOSES: DAX: +0.75% at 18,988, FTSE 100: +0.28% at 8,283, CAC 40: +1.28% at 7,604, Euro Stoxx 50: +1.09% at 4,939, AEX: +0.41% at 907, IBEX 35: +0.33% at 11,837, FTSE MIB: +0.60% at 33,881, SMI: +0.51% at 12,027, PSI: +0.40% at 6,764

STOCK SPECIFICS

- **AutoZone (AZO):** Missed on EPS, revenue, SSS, and Gross Margin.
- **Chevron (CVX), Hess (HES):** FTC is expected to approve Chevron's USD 53bln acquisition of Hess this week.
- **Visa (V):** Sued by the DoJ over an antitrust matter. Source reports prior to the cash open noted the DoJ it was due to V illegally monopolising the US debit card market.
- **Liberty Broadband (LBRDA):** Proposed an all-stock merger with Charter Communications (CHTR).
- **Walmart (WMT):** Upgraded at Truist; said the combination of accelerating share gains, the "scarcity value of an offensive and defensive mega-cap" and a structurally more profitable Co. "should command a far higher-than-historical valuation".
- **Starbucks (SBUX):** Downgraded at Jefferies; expects FY25 guidance to be reset to low-single-digit earnings growth and sees ongoing negative SSS weighing on the stock multiple. Sees a 20% potential downside in the shares.
- **Deere & Co. (DE):** Republican Presidential candidate Trump threatened to impose a 200% tariff if the Co. moves production to Mexico.
- **Salesforce (CRM):** Upgraded at Piper Sandler; cites a favourable risk-reward given the potential for FCF/shr to double by FY29.
- **Intel (INTC):** Announced next-gen AI solutions with the launch of Xeon 6 and Gaudi 3.
- **Global Payments (GPN):** Said 2025 will be a 'transition year', with better metrics in 2026 and 2027.
- **Nvidia (NVDA):** CEO Jensen Huang has concluded his sale of six million shares for USD 713mln; "He's Done - for Now.", according to Barron's.
- **US Steel (X):** Republican presidential candidate Trump said he would stop the US Steel (X) sale to Nippon Steel (NPSCY).

US FX WRAP

The dollar index was relatively muted overnight despite the stimulus announcements from the PBoC, although once the European session was underway, selling pressure arrived. The downside was then exacerbated after the surprise decline in US Consumer Confidence for September, which incurred its sharpest decline since 2021. The dollar index ended the session near intraday lows of 100.38, finishing in the red versus all its G10 peers. Upcoming catalysts for a Buck rebound is the deluge of Fed speak on Thursday, headlined by Powell and Williams, in addition to Durable Goods (Aug) and Jobless Claims on Thursday, ahead of PCE on Friday.

The Euro gained on Tuesday, as possible downside sparked from the continued disappointing German data (Headline and Current Conditions fell more than expected) was more than offset by the aforementioned US Consumer Confidence report. Back to the German Ifo, the Business Climate Index fell for its six consecutive month to the lowest reading since January this year. Later on, ECB's Nagel noted main factors behind Germany's weak growth in recent years were the energy crisis, weak foreign demand and high inflation. Though Nagel says they assume the German economy will slowly pick up some momentum again. Elsewhere, ECB's Muller said it will be easier to decide on a cut in December, and that it's too early to have a strong view on the October meeting. EUR/USD ended the day at a session peak of 1.1175, with last week's high of 1.1189 now in view.

G10FX were largely in the green versus the buck pre-US data, but, upon release the lagging Havens caught up with their peers, resulting in the entire space strengthening on the day. Newsflow was centred around the Aussie and the Yen. Starting with the Aussie, a two-way trade was seen following the RBA's decision to maintain its Cash Rate at 4.35%, and RBA Governor Bullock noting the board didn't explicitly consider a rate hike at the meeting (prev. did consider a rate rise at the August meeting). Ultimately, AUD/USD ground higher for the remainder of the day after lows of 0.6815 set by dovish Bullock remarks, after initial AUD strength in wake of a hawkish rate decision.

Moving onto the **Yen,** the risk-on sentiment sparked by the China Stimulus update, resulted in subdued trade in the Yen, relative to peers. USD/JPY set highs of 144.68, but the pair swiftly fell, supported by the previously mentioned US data, sending the Yen into positive territory. On newsflow, BoJ's Ueda said he's looking closely at service price moves, it's becoming more clear that the impact of wage rises is heightening, and it's appropriate to increase rates if trend inflation heightens in line with their forecast

The Yuan firmed against the Greenback on Tuesday amid a raft of new Chinese stimulus measures, with USD/CNH hitting its lowest level since May 2023. Briefly recapping, the PBoC cut the RRR and 7-day reverse repo rate, whilst also announcing measures for the property sector and stock market, with the actions likely driven by recent domestic and external factors facing the Chinese economy. However, desks are still waiting to see how this translates into the economy as many measures such as these have been undertaken before, with limited long-lasting impacts. Meanwhile, some desks are surprised at the magnitude announced. For a full Newsquawk analysis piece, please click here.

EMFX for the most part capitalised on Dollar weakness, most visible in the BRL, CLP, and PLN. In terms of currency-specific updates, the Hungarian Central Bank cut rates by 25bps as expected, and in the following press conference NBH's Virag said they will decide on a monthly basis, weighing no change or a smaller rate cut; HUF gained modestly against the Euro. Meanwhile, Mexico's 1st Half-Mth inflation expectations for September were cooler than expected, albeit, Dollar weakness saw MXN snap its four-day losing streak.