

Stocks mixed and Dollar bid as middle east tensions escalate

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude down, Dollar up.
- **REAR VIEW:** Israel prepares for possible ground entry to Lebanon; New home sales better than feared; Average US 5yr auction; Riksbank cuts by 25bps, as expected; F & GM downgraded at Morgan Stanley.
- **COMING UP:** Data: German GfK Consumer Sentiment, US Durable Goods, GDP Final (Q2), Core PCE (Q2), IJC **Events:** SNB & Banxico Policy Announcement **Speakers:** SNB's Jordan; ECB's Elderson, Lagarde, de Guindos, Schnabel; Fed's Powell, Williams, Collins, Kugler, Bowman, Barr, Kashkari, Cook **Supply:** Japan, US **Earnings:** JD Sports, H&M, Costco, Jabil.

MARKET WRAP

Stocks ultimately closed mixed but with a downside bias. The Russell underperformed while Nasdaq closed marginally green but SPX and DJIA were red. Sectors were predominantly red with Energy, Health Care and Materials lagging, while Utilities and Tech were the only sectors in the green with upside in Nvidia (NVDA) supporting the move while for communications, Meta (META) was bid after its Meta Connect day where it announced a slew of AI updates. In FX, the Dollar saw strong outperformance led by an escalation of Middle East geopolitics with NZD hit the most after recent gains but AUD and JPY were the next worst hit in the G10 space. The Yen was weighed on by firmer UST yields, with T-Note futures hit by chunky corporate supply, namely the USD 6.5bln from Oracle's (ORCL) 4-parter, while there was likely some dealer concession for the 5-year supply, which ultimately came in mixed with little reaction. Crude prices were lower on hopes of Libya's resumption of exports after reports that rival factions resumed talks with the oil blockade nearing its 2nd month, meanwhile, it also announced that proceedings were in place to name a new central bank governor. The heightened Middle East geopolitics had little impact on oil with Libya updates dominating, while bullish inventory data only saw a minor reaction. Attention on Thursday turns to US GDP (Final estimate, Q2), plus a plethora of Fed speak and the 7yr auction.

US

NEW HOME SALES: New home sales fell 4.7% in August to 716k from 739k, but above the expected 700k, whereby new home supply was 7.8 months' worth (prev. 7.3 months' worth). Overall, Oxford Economics notes that plentiful supply and homebuilder incentives have weighed on new home prices, which have trended lower over the last year. However, as the consultancy adds, builders are scaling back their use of price cuts as mortgage rates decline, which should limit any further declines in new home prices and should support modest growth in new home sales over the rest of 2024 and in 2025.

FIXED INCOME

T-NOTE (Z4) FUTURES SETTLED 9+ TICKS LOWER AT 114-17+

T-Notes were sold on chunky corporate supply into the 5yr auction ahead of GDP and plethora of Fed speak on Thursday . At settlement, 2s +3.3bps at 3.553%, 3s +3.4bps at 3.485%, 5s +4.1bps at 3.520%, 7s +4.3bps at 3.642%, 10s +4.7bps at 3.783%, 20s +5.2bps at 4.181%, 30s +4.7bps at 4.136%.

INFLATION BREAKEVENS: 5yr BEI -0.4bps at 2.212%, 10yr BEI -0.4bps at 2.168%, 30yr BEI -0.0bps at 2.184%

THE DAY: T-Notes meandered overnight before gradually selling off in the European morning with corporate supply, particularly Oracle's (ORCL) USD 6.25bln 4-parter weighing while there was likely dealer concession taking place ahead of the 5-year auction later in the session, which came in mixed with the auction yielding on the screws, similar to the 2yr on Tuesday. Elsewhere, T-Notes did little to benefit from the escalating geopolitics with Israel talking of a ground invasion into Lebanon although the West are putting together a ceasefire proposal. Attention on Thursday turns to US Final Q2 GDP, as well as a plethora of Fed speakers to digest more views on the FOMC after last week's 50bps rate cut and summary of economic projections.

5YR: The 5yr supply overall was mixed although the high yield of 3.519% came in on the screws with the WI at 3.519%, vs the prior and six auction average for a 0.3bps tail. The bid-to-cover of 2.38x was slightly below the prior but in line with the average. The breakdown saw primary dealers take just 11.5% of the auction, beneath the prior 13.2% and the average of 14.6%, thanks to a pick up in direct demand to 18.2% from 16.3%, which was also above the average. Indirect demand was more-or-less unchanged at 70.3%, holding above the six-auction average of 68%.

THIS WEEK SUPPLY: US to sell USD 44bln of 7yr notes on September 26th; to settle September 30th.

STIRS:

- **Market Implied Fed Rate Cut Pricing: November 40bps (prev. 40bps D/D), December 78bps (prev. 80bps), January 111bps (prev. 114bps).**
- US sells USD 62bln in 17-wk bills at 4.430%, covered 2.80x.
- NY Fed RRP Op demand at USD 416bln (prev. 389bln) across 72 counterparties (prev. 65)
- SOFR at 4.84% (prev. 4.83%), volumes at USD 2.171tln (prev. 2.198tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 94bln (prev. 95bln).

CRUDE

WTI (X4) SETTLED USD 1.87 LOWER AT 69.69/BBL; BRENT (X4) SETTLED USD 1.71 LOWER AT 73.46/BBL

The crude complex saw losses on Wednesday, with desks attributing it to Libya tensions easing despite the distinct escalation in the Middle East. On the former, via a UN statement cited by Reuters, Libya legislative bodies signed an agreement on procedures, criteria

and timelines for appointing a Central Bank Governor, Deputy and Board of Directors. Earlier, representatives from Libya's eastern and western administrations reportedly agreed to nominate Naji Issa as interim central bank governor. Back to geopolitics, there was a clear escalation on Wednesday whereby the Israeli Army Chief told troops that Israel has been striking all day to both prepare the ground for possible entry into Lebanon and to continue degrading Hezbollah. In the wake of that, there have been numerous headlines from all sides, and also the Israeli Security Cabinet reportedly met today at 18:00BST, but we are yet to see a readout, although Sky News Arabia citing a correspondent said Netanyahu gave the greenlight to discuss with the US side the cessation of attacks with Lebanon to give a chance for negotiations.

Regarding supply, and amid the Hurricanes, Equinor and Chevron have shut in operation in the Gulf of Mexico, while BSEE data shows 29% of oil and 17% of nat gas production at US Gulf of Mexico is shut in response to Hurricane Helene.

EIA: Crude stocks saw a greater draw than expected, in fitting with the private inventory data, while distillates also larger draw than forecast, and gasoline a surprise draw. Refining utilisation declined more than anticipated with production unchanged at 13.2mln.

EQUITIES

CLOSES: SPX -0.19% at 5,722, NDX +0.14% at 19,973, DJIA -0.70% at 41,915, RUT -1.19% at 2,197.

SECTORS: Energy -1.9%, Health -0.94%, Financials -0.6%, Materials -0.6%, Industrials -0.46%, Real Estate -0.4%, Consumer Discretionary -0.38%, Communication Services -0.04%, Consumer Staples -0.03%, Technology +0.5%, Utilities +0.54%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.47% at 4,917, DAX -0.39% at 18,965, CAC 40 -0.50% at 7,596, FTSE 100 -0.17% at 8,319, SMI +0.76% at 12,140, FTSE MIB -0.12% at 33,988, IBEX 35 -0.38% at 11,857, PSI +0.43% at 6,802, AEX -0.12% at 908.

STOCK SPECIFICS:

- **KB Home (KBH):** Profit, net orders, and margins missed expectations.
- **Cintas (CTAS):** Beat on EPS and revenue with FY profit guidance better than expected.
- **Ford (F), General Motors (GM):** Downgraded at Morgan Stanley, alongside a broader downgrade on the US automotive industry. For the stock downgrades, MS cited expected share loss, price-mix headwinds, and risks poised from China's production.
- **SAP ADR (SAP):** Investigated by the DoJ, alongside others, for potential price-fixing on government contracts, Bloomberg reported.
- **DoorDash (DASH):** Upgraded to 'Overweight' from 'Sector Weight' at KeyBanc; said it gained confidence that the Co. should sustain greater than 15% gross order volume growth and EBITDA of USD 3.5bln by 2026 after its Q3 mobility and delivery survey.
- **Hewlett Packard Enterprise (HPE):** Upgraded to 'Overweight' from 'Equal Weight' at Barclays saying it is the best play as enterprise hardware rebounds.
- **Stitch Fix (SFIX):** Forecasted weaker-than-expected Q1 and FY sales.
- **Amentum (AMTM)** is to join the S&P 500 on September 30th, replacing **Bath & Body (BBWI)**, which will move to the S&P SmallCap 600 on October 1st, replacing **Movado (MOV)**.
- **Boeing (BA):** FAA tells Boeing it will not let them boost 737 MAX production until they make broad improvements, warning it could impact their profitability.
- **Meta (META):** Had its Connect Event whereby it announced the Quest 3s MR headset alongside several AI updates. Zuckerberg showcased the AR glasses and added they've got their smart assistant, Meta AI, running on Orion. Nvidia (NVDA) CEO also made an appearance on a video testing out the glasses.
- **PayPal (PYPL):** Enabling its US merchants to buy, hold, and sell cryptocurrency from their PayPal business account.
- **Lightspeed Commerce (LSPD):** Working with JPMorgan to explore a sale, according to Reuters citing sources.

US FX WRAP

The Dollar was notably firmer on Wednesday and buoyed by haven appeal after significant Middle Eastern escalations after Israeli Army Chief told troops that Israel has been striking all day to both prepare the ground for possible entry, and to continue degrading Hezbollah. Thereafter there was a slew of rhetoric from all sides (Iran, Lebanon, Israel, US) but it is yet to be seen what the next steps are, and Israel had a cabinet meeting this evening, although no readout has been seen yet. Elsewhere, there was no Fed speak or tier 1 data, with only new home sales (Aug) slightly better than expected. However, that is not the case for Thursday as there is a deluge of Fed speak, culminating in appearances from Chair Powell and NY Fed's Williams, in addition to jobless claims and durable goods.

G10 FX saw losses across the board against the surging Buck, on account of the aforementioned geopolitics as opposed to any currency-specific newsflow. Highlighting the extent of the moves, USD/JPY rose from a low of 142.92 to a high of 144.74, while AUD/USD and NZD/USD currently sit at the bottom end of their respective ranges of 0.6820-6908 and 0.6263-6355. Prior to the Middle Eastern induced weakness, the Aussie was already a touch softer in wake of soft inflation metrics overnight which put Y/Y CPI within the RBA's target band on a headline basis (core remains above the top end). Cable fell from a peak of 1.3429 to a trough of 1.3316, while comments from BoE's Greene in the UK morning underlined the cautious stance being taken by the MPC relative to some of its peers within the G10 space.

SEK saw some fleeting weakness against the EUR in wake of the Riksbank's decision to cut rates by 25bps, as expected, whilst signalling that the policy rate could be cut at two remaining meetings this year. Furthermore, the statement noted that a 50bps cut is possible at one of those two meetings, adding that the policy rate is expected to be cut at a clearly faster pace than before. Looking ahead to next year, policymakers suggest that one or two further cuts could be made in H1 2025.

In CEE, the CNB cut rates by 25bps to 4.25%, as expected, but it was not a unanimous decision with 6 voting for the move, but 1 favouring a 50bps move. In the accompanying statement, the central bank assessed risks to meeting the inflation target as being broadly balanced and still see some inflation pressures. Looking ahead, will assess data into the next meeting and easing can be interrupted or stopped at any time.

EMFX was more-or-less exclusively weaker vs. the Greenback as it was hit on the general risk sentiment and Dollar appeal amid the ongoing worries of an escalation of the war in the Middle East. MXN was one of the worst performers and also possibly receiving a double-whammy on continued Trump rallies noting he will impose mass tariffs on the country, and anything imported from them - eyes turn to Banxico on Thursday.

