newsquawk

US Market Wrap - 27th September 2024

Bonds and oil bid as Middle East tensions ramp up, while NVDA weighs on Tech

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude up, Dollar down
- **REAR VIEW**: Large Israel attack on Hezbollah HQ in Beirut, with conflicting reports on fate of Chief Nasrallah; Softer-than-expected US PCE report; Atlanta Fed GDPNow (Q3) revised up; Fed's Muslaem voices gradual approach to cutting; Mixed EZ Sentiment; Soft French and Spanish CPI; China urges local Cos. to stay away from NVDA AI chips; Hawkish candidate Ishiba to become the next Japanese PM
- **COMING UP**: **Data:** Japanese Industrial Prelim, Retail Sales, Chinese NBS PMI, Chinese Caixin PMI, German Import Prices, Retail Sales, UK GDP, German State/Nationwide CPI, Italian CPI, Chicago PMI. **Holiday:** Canadian National Day of Truth and Reconciliation. **Speakers:** ECB President Lagarde; Fed Chair Powell, Bowman, BoE's Greene. **Supply**: Japan. **Earnings:** Carnival.
- **WEEK AHEAD:** Highlights include US NFP, ISMs, EZ CPI, Japan Tankan & OPEC+ JMMC. To download the report, please click here
- **CENTRAL BANK WEEKLY:** Previewing Riksbank minutes; Reviewing PBoC, RBA, Riksbank, SNB and Banxico. To download the report, please click here.

MARKET WRAP

US indices ended the day mixed (SPX -0.1%, DJIA +0.3%, RUT +0.7%) with the tech-heavy Nasdaq 100 (-0.5%) underperforming, and weighed on by Nvidia (NVDA) (-2.1%) after China urged local companies to stay away from its AI chips. Sectors closed predominantly in the green, with Energy outperforming while Tech and and Materials were the only ones in the red with the former the distinct laggard on the aforementioned Nvidia news. Energy was supported by the crude complex which saw some gains, and is hovering around session highs at pixel time, after Israel bombed Hezbollah's HQ in Beirut. In wake of the attack, there have been conflicting reports about the health of Hezbollah's Chief Nasrallah and while some reports have suggested he has been killed, nothing has been confirmed. As such, bonds also caught a bid on the heightened geopolitics but the FX space was largely unmoved. The Dollar saw slight losses while the Yen was the clear G10 gainer to end the week after hawkish candidate Ishiba won the Japanese LDP leadership race to become the next Japanese PM. On the data footing, the highlight was US PCE (Aug) data, whereby it was largely softer than expected, highlighted by the headline M/M & Y/Y, core PCE M/M, and consumption all 0.1% beneath consensus, but it did little to Fed money market pricing. Final UoM for September was revised higher, as was current conditions and forward-looking expectations, while inflation expectations were left unrevised for the 1yr and 5yr at 2.7% and 3.1%, respectively.

US

MICHIGAN: UoM headline for September was revised up to 70.1 from 69.0, above the expected 69.3. Current conditions and forward-looking expectations were both revised higher to 63.3 (prev. 62.9) and 74.4 (prev. 43.0), respectively. On inflation, 1- and 5-year expectations were left unchanged at 1.7%, and 3.1%, respectively. The report notes that while sentiment remains below its historical average in part due to frustration over high prices, consumers are fully aware that inflation has continued to slow. Moreover, sentiment appears to be building some momentum as consumers' expectations for the economy brighten. The report adds, at the same time, many consumers continue to report that their expectations hinge on the results of the upcoming election. Relative to August, consumers across political parties are increasingly expecting a Harris presidency, though about two-thirds of Republicans still expect Trump to win.

US PCE: Core PCE rose 0.13% in August, in line with the 0.15% forecast and prior 0.16%. The Y/Y print rose by 2.2%, accelerating from the prior 2.6% pace, but in line with the 2.7% forecast. On an annualised basis, the 6month rate fell to 2.4%, the lowest since December, with the 3mth rate at 2.1%. The headline PCE rose 0.09% (exp. 0.1%, prev. 0.16%), with the Y/Y rising 2.2%, beneath the 2.3% forecast and falling from the prior 2.5%. Although Core Y/Y accelerated, it was in line with forecasts but does show the Fed still has some work to do to get inflation down to target. Nonetheless, the headline of 2.2% and annualised metrics are all welcome signs with minimal m/m inflation seen. Governor Waller had suggested that Core PCE M/M was going to come in at 0.14%, while Kugler expected Y/Y core at 2.7%, suggesting the data is in line with the Fed's forecasts, and the latest median summary of economic projections see Core PCE at 2.6% by year-end, with the headline at 2.3%. Meanwhile, Oxford Economics suggest consumer prices are on track to hit the 2% target in September, adding the key drivers of inflation suggest underlying price pressures will continue to fade over the coming months. The desk adds that "With few signs layoffs are rising, we anticipate consumer spending will continue at a solid pace over the coming year. Amid fading inflation, the Fed will still move rates closer to a neutral setting, but the resilience of the economy points to a more gradual pace of rate cuts ahead." Elsewhere in the report, Consumption rose 0.2%, beneath the 0.3% forecast and down from the 0.5% prior, while income rose 0.2%, beneath the 0.4% forecast and 0.3% prior. Real consumption rose just 0.1%, down from the prior 0.4%, and Oxford Economics suggests that the modest increase leaves consumption growth on track for growth of 3% annualised in Q3; the latest Atlanta Fed GDP Now estimate is tracking growth at 3.1% vs the 3.0% in Q2.

MUSALEM (2025 VOTER) in an FT interview said the Fed should lower interest rates 'gradually'. He added the US economy could react "very vigorously" to looser financial conditions, stoking demand, and prolonging the Fed's mission to beat inflation back to 2%. The 2025 voter added, "For me, it's about easing off the brake at this state. It's about making policy gradually less restrictive". On the labour market, said mass lay-offs did not appear "imminent". Looking ahead, Musalem added he is "attuned to the fact that the economy could weaken more than I currently expect [and] the labour market could weaken more than I currently expect", and "If that were the case, then a faster pace of rate reductions might be appropriate." On the economy, said risks of it weakening or heating up too quickly were now balanced, and the next rate decision would depend on data at the time. Regarding future cuts, Musalem said he sees more than one additional 25bps cut for rest of 2024. On the last meeting where the Fed cut by 50bps, he pushed back on the idea it was a 'catch-up cut' and said inflation had fallen far faster than he had expected and it was appropiate to begin with a strong and clear message to the economy that we're starting from a position of strength

FIXED INCOME

T-NOTE (Z4) FUTURES SETTLED 10+ TICKS HIGHER AT 114-23+

T-Notes chop to soft PCE, upward UoM revisions, but settle at highs amid escalating geopolitics. At settlement, 2s -6.0bps at 3.563%, 3s -5.8bps at 3.483%, 5s -5.2bps at 3.505%, 7s -5.0bps at 3.606%, 10s -4.0bps at 3.749%, 20s -2.8bps at 4.148%, 30s -2.5bps at 4.098%.

INFLATION BREAKEVENS: 5yr BEI -1.1bps at 2.193%, 10yr BEI -1.6bps at 2.148%, 30yr BEI -1.9bps at 2.168%

THE DAY: T-Notes were sideways overnight with upside in the European morning following cooler-than-expected French and Spanish inflation reports ahead of the flash EZ CPI next week. T-Notes had pared some of the morning move ahead of US PCE data, but a net cooler report than expected saw T-Notes print intra-day highs of 114-21+. Money market pricing was little changed in response to the PCE, but a 50bp rate cut is still priced for either the November or December meeting with 75bps of easing seen through the year, more dovish than the median Fed dot plot for 50bps; it is currently 50/50 for a 50bp or 25bp move in November. T-Notes sold off in wake of the revision higher to UoM Consumer Sentiment while the Atlanta Fed GDPNow tracker was also revised up to 3.1% from 2.9%, slightly ahead of the robust 3.0% growth seen in Q2. Nonetheless, T-Notes turned around once again and eked out fresh session highs after Israel attacked the Hezbollah HQ, targeting Hezbollah Leader Nasrallah, which conflicting reports about the safety of the leader.

STIRS:

- **Market Implied Fed Rate Cut Pricing: November 38bps (prev. 38bps D/D), December 76bps (prev. 74bps), January 110bps (prev. 105bps).**
- NY Fed RRP Op demand at USD 437bln (prev. 525bln) across 59 counterparties (prev. 70).
- SOFR at 4.83% (prev. 4.84%), volumes at USD 2.329tln (prev. 2.133tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 100bln (prev. 103bln).

CRUDE

WTI (X4) SETTLED USD 0.51 HIGHER AT 68.18/BBL; BRENT (X4) SETTLED USD 0.38 HIGHER AT USD 71.98/BBL

The crude complex was choppy on Friday but ended the day with slight gains amid massive Israel strikes in Beirut targeting the Hezbollah chief. Israel launched its reportedly biggest attack on Beirut's southern suburbs since the start of the conflict, and the strikes targeted areas where Hezbollah's top officials usually are, and since there have been many conflicting reports on the conditions of Hezbollah chief Nasrallah. Tehran is checking Nasrallah's status after the attack, while the most recent is from Walla News' Elster citing an Israeli official saying there are "positive indications" that Nasrallah was in the place which was bombed in Beirut. Since the attacks, Iran's embassy in Beirut said Israeli strike represents 'dangerous game changing escalation' and is a 'crime' that deserves 'appropriate punishment'. Prior to the strikes, WTI and Brent saw some initial strength following a firm APAC performance amidst the tense geopolitical landscape before paring through the European afternoon. Elsewhere, Hurricane Helene made landfall along the Florida coast on Thursday night as a category 4 storm, although these risks seem to be easing as Chevron said they have begun to redeploy personnel and restore production at our Chevron-operated platforms. For the record, the weekly Baker Hughes rig count saw oil down 4 at 484, nat gas up 3 at 99, leaving the total down 1 at 587.

EQUITIES

CLOSES: SPX -0.13% at 5,738, NDX -0.53% at 20,009, DJIA +0.33% at 42,313, RUT +0.67% at 2,225

SECTORS: Technology -0.96%, Materials -0.23%, Consumer Discretionary -0.08%, Health -0.04%, Consumer Staples -0.01%, Industrials +0.15%, Real Estate +0.19%, Financials +0.34%, Communication Services +0.49%, Utilities +1.01%, Energy +2.11%.

EUROPEAN CLOSES: DAX: +1.26% at 19,481, FTSE 100: +0.43% at 8,321, CAC 40: +0.64% at 7,792, Euro Stoxx 50: +0.71% at 5,069, AEX: +0.63% at 917, IBEX 35: +0.12% at 11,968, FTSE MIB: +0.92% at 34,727, SMI: +0.34% at 12,239, PSI: +0.54% at 6,808.

STOCK SPECIFICS:

- **Bristol-Myers Squibb (BMY):** FDA approved its Cobenfy capsules for the treatment of schizophrenia in adults.
- **Novo Nordisk (NVO):** Expects slightly disappointing Q3 sales growth of 21%, which is 5% below St. estimates, although does add any weakness is a good buying opportunity.
- **Costco (COST):** Missed on revenue, weighed on by cautious consumer spending on pricier items.
- **Cassava Sciences (SAVA):** To pay over USD 40mln to settle SEC charges for misleading claims about a Phase 2 clinical trial for an Alzheimer's treatment.
- **HP (HPQ):** Downgraded at BofA; believes EPS growth will come purely from share buybacks, given the Co. has been "over-earning in printing", thus, lower print margins should offset any potential upside from PCs.
- **Wynn Resorts (WYNN):** Upgraded at Morgan Stanley; citing "near low" valuation, "underappreciated" growth opportunity in the UAE, and optionality around Macau provide a favourable risk/reward and re-rating potential.
- **Dollar General (DG):** Downgraded at Citi; said Walmart's market share gains will continue to pressure Dollar General, making a recovery very tough.
- **Honeywell (HON)** - Raised dividend to USD 4.52/shr; quarterly raised to USD 1.13/shr.
- **Apple (AAPL):** Irish Finance Minister on Apple back taxes said that roughly EUR 8bln will be received by Irish exchequer by 2024, remaining EUR 6.1bln to be received in 2025.
- **Nvidia (NVDA)** - China urges local companies to stay away from Nvidia's AI chips, ramping up pressure on companies to use domestic products; Nvidia can only sell slower AI chips to China due to US curbs, Bloomberg reports.

US FX WRAP

The dollar index spent the APAC and Euro sessions trading lower amid notable Yen strength, while the highlight of the US day was the PCE report which saw cooler-than-expected Personal Income and Consumption, Core PCE M/M, and Headline Y/Y. Despite the initial Dollar downside in reaction to the data, the dollar pared some of move after heightened geopolitical tensions and possible quarterly rebalancing, albeit the Buck later faded back towards the bottom end of the days range (100.150-100.880). Final UoM for September was revised higher than expectations while 1- and 5yr inflation expectations were left unchanged. On Fedspeak, Bowman (Voter, Hawk) says data points to continued economic strength, highlighted by Atlanta FedGDPnow seeing 3.1% growth in Q3 (prev. 2.9%), whereas Musalem (2025 voter) said the Fed should lower interest rates "gradually", mass-layoffs did not appear imminent, and sees more than one additional 25bps cut for the rest of the year. Highlights next week include Fed's Chair Powell, Jolts, ISM Mfg and Svs PMI, and NFP.

The Euro ended the day lower as softer-than-expected CPI metrics (France/Spain) out of the region offset the cooler-than-anticipated components in the US PCE report. ECB pricing on Refinitiv acted dovishly towards the CPI inflation figures, now seeing a circa 93% chance of a 25bps rate cut at the October meeting (prev. approx 80%). EUR/USD initially saw losses upon the CPI numbers, falling to lows of 1.1126, but eventually crept higher into the US session, helped by the previously mentioned US report. Nonetheless, possible gains were unwound, leaving the pair at 1.1165. Back to data, Germany's Unemployment Chg SA was larger than expected, ECB Consumer Expectations Survey (Aug) unveiled the 1yr and 3 yr inflation expectations ticked lower to 2.7% (prev. 2.8%), and 2.3% (prev. 2.4%), respectively. In addition, EZ Sentiment for September was mixed; Industrial and Economic missed, while Services beat. Lastly, Final Consumer Confidence (Sep) remained unchanged at -12.9, as expected.

The Yen and Franc outperformed their G10 peers, helped by lower US yields, geopolitical tensions creeping higher, and mostly for the Yen election news. On the Yen, overnight it initially incurred losses with USD/JPY inching above its 50 DMA (146.17), but losses swiftly turned into gains once it knew Ex-Defense Minister Ishiba (on the hawkish side) is to become the nation's next PM. Upon the news USD/JPY dropped from the 146 handle, to 143 mark in a matter of minutes, extending its move lower over the day, troughing at 142.08. That said, Ishiba noted later on that he will not make any requests to the BoJ regarding monetary policy, although should work closely together, and that Japan will deploy fiscal stimulus. For the Franc, that ended the session at highs with strong gains versus the USD and EUR; EUR/CHF finished around 0.9385, while USD/CHF was at 0.8405.

Antipodes saw slight gains, while EUR, GBP, and CAD weakened. Canadian GDP was slightly higher than was expected, nonetheless, losses followed for the Loonie, with USD/CAD peaking at 1.3526, ending the week well off the lows set on Tuesday which were levels not seen since March. Across the Atlantic, Cable trimmed its weekly gains, but is set to the week at its highest level since June 2022.

EMFX saw mixed price action on the day, outperformance was seen in the BRL, CLP, and ZAR, whereas weakness was more pronounced in the MXN and COP. Brazil reported hotter-than-expected IGP-M Inflation Idx (Sep), a slightly lower Unemployment rate than forecasted and beat on the CAGED Net Payroll Jobs report for August. BCB's Director Guillen noted "We forecast growth to slow down, but there are uncertainties about when they will start", while Chief Campos Neto warned tighter monpol and looser fiscal policy end up generating inefficiency that hinders the monetary policy channel.