

Stocks chop and Bonds flatten after hawkish Powell on Month/Quarter-end

- **SNAPSHOT:** Equities up, Treasuries down, Crude flat, Dollar up
- **REAR VIEW:** Powell downplays the need for another 50bp rate cut; Bostic sees a further 25bps of easing by year-end; Israel prepares for a ground incursion into Lebanon; Disappointing China PMIs; Cooler-than-expected German CPI; UK GDP falls short of expectations; Diversions from NVDA chips in China continue; EU autos cut guidance.
- **COMING UP:** **Data:** Australian, Japanese, EZ, US, Canadian Manufacturing PMIs, Japanese Unemployment Rate, Tankan Survey, Australian Retail Sales, EZ HICP, US ISM Manufacturing PMI, JOLTS Job Openings. **Holiday:** Chinese Mainland China and Hong Kong Market Holiday (Golden Week). **Events:** BoJ SOO; Riksbank Minutes. **Speakers:** ECB's de Guindos, Rehn, Schnabel; BoE's Pill; Fed's Bostic, Cook, Barkin. **Supply:** UK, Germany. **Earnings:** Paychex, Nike, Lamb Weston, Greggs
- **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

Stocks ultimately closed slightly firmer on month/quarter end with the SPX leading the gains. The majority of sectors closed green with outperformance in Energy, Communication Services, and Real Estate, while Materials, Consumer Discretionary and Staples underperformed. The highlight of the session was Fed Chair Powell, who hinted at a return to 25bp rate cuts after the 50bp move in September. The Fed Chair said the Fed is not in a rush to cut rates quickly, adding that if the economy evolves as expected, that would mean two rate cuts by year-end for a total of 50bps, implying 25bp in November and December. The downplaying of another 50bp cut saw Stocks and Bonds tumble while the Dollar rallied. T-notes settled around lows but stocks managed to claw back the Powell-induced weakness, likely on month-quarter end rebalancing ahead of the close. In FX, the Dollar was bid post-Powell, taking cyclical currencies (NZD, AUD, GBP) off their highs while the Yen and Swissy saw further weakness. Meanwhile, the Euro was softer vs the Dollar after a cool German inflation report ahead of the EZ CPI on Tuesday, adding to the string of soft inflation reports out of Spain and France on Friday. Crude prices ultimately settled flat despite geopolitical escalation with a ground invasion from Israel into Lebanon seemingly imminent while it was confirmed over the weekend that Hezbollah leader Nasrallah was killed in the recent strikes. However, despite geopolitical escalation Libyan oil is expected to come back online, offsetting some of the geopolitical risk premium Crude, while Russia's Deputy PM Novak suggested that Middle Eastern geopolitical risk is already priced in.

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POWELL: Fed Chair Powell largely reiterated his remarks from the September FOMC Press Conference in prepared remarks to the NABE. However, in his interview, he stated that the Fed is not in a rush to cut rates quickly and that if the economy evolves as expected, that would mean two more cuts this year, for a total of 50bps - implying a 25bp rate cut in September and December, leaning back against expectations for another 50bp rate cut. Elsewhere, Powell said that revisions of GDI removed a downside risk that the Fed was considering. He added that upward revisions of Personal Income also removed a possible downside risk, while the savings rate revisions suggest spending can continue at a healthy level. The Fed Chair said he is watching productivity closely, but it is too early to say if the recent improvements will be sustained. On the labour market, he said the level of job creation may not be quite at the point to keep the unemployment rate level in light of rising supply. He also repeated that the labour market is still solid, but it "really has cooled", and he does not think the labour market needs to cool further to lower inflation.

BOSTIC: In an exclusive Reuters interview, Atlanta Fed President Bostic said that he is open to another 50bp rate cut if the labour market shows an unexpected weakness. His baseline case is for an 'orderly' easing with inflation expected to continue slowing and the job market to hold up. He does not want to get overconfident on inflation given core PCE remains at 2.7%. However, the recent data does show that disinflation is still on track. Bostic added he will be watching upcoming jobs data closely, noting if employment growth slows much below 100,000 jobs, it would warrant closer questioning of what is happening, but he added that business contacts continue to note they do not expect layoffs. Regarding the Dot Plots, Bostic stated he pencilled in just a single further 25bp rate cut this year, beyond the 50bps in September. Meanwhile, his baseline outlook through the end of 2025 would see a policy rate between 3.00-3.25% (vs Fed median of 3.4%), a level that he believes would have a neutral impact on the economy (vs Fed median of 2.9%).

GOOLSBEE: In an interview with FBN, the Chicago Fed President said the Fed is cutting rates because the economy has normalised. He noted the job market is in a steady state and sustainable. Goolsbee sees 'cautionary' indicators on the job market, stressing the Fed cannot wait for the job market to weaken before acting. He noted the most important thing about rate cuts is the process of easing, and there will be a lot of rate cuts. Goolsbee acknowledged that inflation is coming close to their target, while the case for cutting rates has been clear and has nothing to do with politics. Goolsbee also said he was worried about the possible continued port shutdown

FIXED INCOME

T-NOTE (Z4) FUTURES SETTLED 14+ TICKS LOWER AT 114-09

T-notes bear flatten after Powell leans back against another 50bp rate cut in 2024. At settlement, 2s +8.8bps at 3.651%, 3s +8.6bps at 3.566%, 5s +7.3bps at 3.576%, 7s +6.1bps at 3.666%, 10s +4.9bps at 3.798%, 20s +4.2bps at 4.188%, 30s +3.2bps at 4.130%.

INFLATION BREAKEVENS: 5yr BEI +2.2bps at 2.218%, 10yr BEI +2.6bps at 2.177%, 30yr BEI +1.8bps at 2.189%.

THE DAY: T-notes meandered around highs overnight before selling occurred in the European session and the early part of the US, paring back some of the post-PCE and geopolitical risk premium seen on Friday. The focus this week is on the US labour market with the September NFP report due Friday, after the ADP and Challenger Layoffs data on Wednesday and Thursday, respectively. Elsewhere, the US ISM Manufacturing and Services PMI will also be eyed. The highlight of the day however was Fed Chair Powell, who leant back against

another 50bp rate cut from the Fed, noting the Fed is not in a rush to cut rates quickly, and that if the economy evolves as expected, that would mean two more cuts this year for a total of 50bps - implying a 25bp rate cut in November and another in December. The commentary saw T-notes hit lows with the 2s10s hitting the flattest level in 10 days while 10yr T-notes took out the earlier lows to print 114-07+, before paring marginally into settlement once Powell had concluded his interview.

STIRS:

- **Market Implied Fed Rate Cut Pricing: November 34bps (prev. 38bps D/D), December 69bps (prev. 76bps), January 100bps (prev. 110bps).**
- NY Fed RRP op demand at USD 466bln (prev. 437bln) across 69 counterparties (prev. 59).
- SOFR at 4.84% (prev. 4.83%), volumes at USD 2.077tln (prev. 2.329tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 94bln (prev. 100bln).

CRUDE

WTI (X4) SETTLED USD 0.01 LOWER AT 68.17/BBL; BRENT (Z4) SETTLED USD 0.21 LOWER AT 71.77/BBL

The crude complex was choppy in response to Geopolitics, OPEC+ reports and Fed Chair Powell, but ultimately settled flat. In the Middle East, Israel informed Washington it is planning a limited ground operation in Lebanon. The WaPo article added the invasion could start imminently [was posted at 15:28BST] and that Israel's planned campaign would be smaller than its last war against Hezbollah in 2006 and would focus on clearing out militant infrastructure along the border. Prior to the latest ever-heightening geopolitical rhetoric, the initial gains came in wake of the latest Chinese stimulus efforts in addition to Israel's assassination of Hassan Nasrallah, the long-standing leader of Hezbollah, which was confirmed over the weekend after the attack on Friday. On the geopolitical risks, Russian Deputy PM Novak said that Middle East risks are already priced in, and global oil prices will not fluctuate significantly. On OPEC, Novak stated that Russia doesn't rule out extending OPEC+ agreement beyond 2025 if the market situation requires it.

In Libya, oil officials reportedly expect halted output to commence on Tuesday, although Libya's eastern-based parliament approved a new central bank governor last week, so the resumption of oil flows was to be expected.

Note, Fed Chair Powell hit risk assets and boosted the Dollar after he leant back against another 50bp rate cut from the Fed. The Fed Chair said that the Fed is not in a hurry to cut rates quickly and that if the economy evolves as expected, that would mean two more cuts this year for a total of 50bps.

Looking ahead, in addition to the weekly data, participants will be eyeing the OPEC+ JMMC on Wednesday, as well as the pivotal US jobs report on Friday. For the record, WTI and Brent saw highs of USD 69.32/bbl and 72.79/bbl, respectively, against earlier lows of 67.57 and 71.03/bbl.

EQUITIES

CLOSES: SPX +0.42% at 5,762, NDX +0.26% at 20,061, DJIA +0.04% at 42,330, RUT +0.24% at 2,230

SECTORS: Materials -0.60%, Consumer Discretionary -0.28%, Consumer Staples +0.09%, Financials +0.32%, Utilities +0.42%, Industrials +0.48%, Technology +0.58%, Health +0.61%, Real Estate +0.76%, Communication Services +0.79%, Energy +0.83%.

EUROPEAN CLOSES: DAX: -0.68% at 19,342, FTSE 100: -1.01% at 8,237, CAC 40: -2.00% at 7,636, Euro Stoxx 50: -1.31% at 5,001, AEX: -0.80% at 910, IBEX 35: -0.76% at 11,877, FTSE MIB: -1.73% at 34,125, SMI: -0.52% at 12,171, PSI: -0.23% at 6,793.

STOCK SPECIFICS:

- **Nvidia (NVDA):** Huawei has begun testing its Ascend 910C AI chip with Chinese clients as firms seek alternatives to Nvidia's products following US sanctions, SMCP reports. Follows reports from BBG on Friday that Beijing is intensifying pressure on Chinese cos. to opt for domestically produced AI chips instead of Nvidia's.
- **Auto space (GM, F):** Pressured by European autos, **Volkswagen (VWAGY)**, **Stellantis (STLA)**, and **Aston Martin (ARGGY)**, cutting guidance.
- **CVS Health (CVS):** Activist investor Glenview Capital Management plans to meet CVS Health executives to propose operational improvements, WSJ reports.
- **Nio (NIO):** To receive a cash injection of RMB 13.3bln for its Nio China, with strategic investors providing RMB 3.3bln, while Nio will provide the rest.
- **JPMorgan (JPM):** Downgraded to 'Equal Weight' from 'Overweight' at Morgan Stanley; said there is more room for positive NIM surprises elsewhere in their coverage, as well as in 2025 when compared to the majority of the coverage, especially as mgmt. has constantly reminded the St. that they are asset-sensitive and over-earning on NII.
- **Walt Disney (DIS):** Upgraded at Seaport Global Securities, with the firm expecting a better macroeconomic outlook going forward.
- **Boeing (BA):** Boeing's largest union reported talks have broken down, with no progress on pensions or wage issues, extending a two-week strike that has halted key factories near Seattle, Bloomberg reports.
- **SuperMicro (SMCI):** As a reminder, it will commence a 10-for-1 stock split after the stock market closes on Monday and begin trading on a post-split basis Oct. 1.
- **Port Strikes:** Thousands of longshoremen across East Coast ports are poised to strike on Tuesday, potentially freezing commercial shipping and disrupting supply chains, WaPo reports. The strike could cost the US economy USD 1bln daily. Negotiations with port operators have stalled over wage demands and automation concerns.
- **Carnival Corp (CCL) Q3 2024 (USD):** Adj. EPS 1.27 (exp. 1.16), Revenue 7.90bln (exp. 7.83bln); passengers carried 3.9mln (exp. 4.03mln). Adj. EBITDA 2.82bln (exp. 2.67bln); Adj. net income 1.75bln (exp. 1.6bln) Passenger Cruise Days 28.1mln (exp. 27.99mln); Occupancy 112% (exp. 111%). Cumulative advanced booked positions for FY25 is above 2024 record with prices ahead of prior year.

US FX WRAP

The Dollar trended higher throughout the day, but caught a strong bid after Fed's Chair Powell's hawkish remarks at the NABE conference. The Fed Chair said that the Fed is not in a hurry to cut rates quickly, and if the economy evolves as expected, that would mean two more cuts this year for a total of 50bps - implying 25bps in both November and December, downplaying the need for another 50bp cut. Money markets moved hawkishly, with 69bps of rate cuts now priced in by year-end (was 73 pre-Powell). Yields also surged in the wake of the commentary, specifically in the short end. Besides Powell, Fed's Bostic (2024 Voter) said he is open to another 50bp rate cut if the labour market shows unexpected weakness, and sees the year-end rate at 4.5-4.75%, above the Fed median of 4.25-4.50%. That said on the EFR for the end of 2025, he was more dovish than the median, seeing it at 3-3.25% (median of 3.4%), a level that he sees as neutral, vs the Fed median of

2.9%. Elsewhere, on data Chicago's PMI unexpectedly rose to 46.6, its third consecutive increase. Despite the Dollar Index finishing around its session highs of 100.92, the buck is poised for its third straight month of losses, not seen since 2022. Key risk events on Tuesday include ISM Mfg PMI, JOLTs, Construction Spending, and Fed's Bostic and Barkin ahead of NFP on Friday.

The Euro crept higher earlier into the European session, although it failed to hold above 1.12 with German inflation printing cooler than expected, adding to the recent raft of softer inflation prints in Europe (Spain, France) ahead of the Eurozone print on Tuesday, which ECB's President Lagarde said today that it's likely to come in below the baseline. On ECB pricing, that now fully prices a 25bps rate cut at the October meeting (was 22bps pre-German CPI). Weakness markedly ramped up after Powell's Hawkish remarks hit the wires, cementing the Euro's intraday downside. Attention on Tuesday turns to the aforementioned CPI data, and remarks from ECB's de Guindo, and Rehn.

G10 FX performance was varied at month end, with outperformance led by the Kiwi and Aussie, while the rest of the space saw losses, most pronounced in Havens which slumped, burdened by higher US yields. Currency-specific updates were fairly light, with macro updates contained towards the UK, namely GDP for Q2 coming in lower than expected on quarterly and yearly prints. Although, Cable initially shrugged off concerns of a slower growth than anticipated with the pair set to post its third straight month of gains, a feat not seen since the rebound of the 2022 lows. As was the case for the Euro, Powell's remarks spurred large weakness in the space, sending USD/JPY well above the 143 mark, almost erasing the rally in Antipodes, and outweighing the Pound's earlier resilience.

USD/CNH finished notably higher after China PMI figures largely disappointed overnight, except for the NBS Mfg which came in above the expected, albeit was still sub 50. Regarding the rest of the PMI results (NBS non-mfg, Caixin Svs and Mfg) they all fell short of market expectations, with the Caixin Mfg dipping into contractionary territory, its lowest level since July 2023. Within the report, Business Sentiment fell to its second-lowest level ever, new orders hit a 2yr low, foreign sales saw a sharp drop, and employment shrank. Nonetheless, the Yuan ends the month well in the green, as the pair hovers above its YTD low of 6.9692.

EMFX weakened versus the greenback, apart from CLP, and ILS which modestly strengthened, the former helped by stronger Mfg Output than expected. Meanwhile, the COP slipped into negative performance the month after the Columbia Central Bank cut the interest rate by 50bps to 10.25%, with decisions backed by a majority of seven board members. Elsewhere, USD/PHP ended the session flat, amid the Philippines Central Bank Governor believing there is scope for them to cut 50bps in one go, but is still looking at 25bps cuts in each policy meeting.

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