

### Risk off with Dollar, Treasuries, and Oil bid while Stocks sold after Iran attacks Israel

- **SNAPSHOT:** Equities down, Treasuries up, Crude up, Dollar up
- **REAR VIEW:** Iran attacks Israel, and Israel says response will be "harsh"; US helps Israel shoot down missiles; JOLTS rises above forecast range; ISM Mfg. PMI falls short with soft prices paid; Atlanta Fed GDPnow (Q3) revised down; US Construction Spending unexpectedly declines; EZ Flash CPI in line with expectations, European PMIs mainly above consensus; SNB Chair cannot rule out negative rates at the moment; Stronger-than-expected Aussie Retail Sales; Barclays hints at weak iPhone 16 demand.
- **COMING UP:** **Data:** Australian Manufacturing Index, EZ Unemployment Rate, ADP National Employment. **Holiday:** Chinese Mainland China (Golden Week). **Events:** NBP Policy Announcement; OPEC+ JMMC Meeting; US VP Debate. **Speakers:** ECB's de Guindos, Lane, Elderson, Schnabel; Fed's Hammack, Musalem, Bowman, Barkin. **Supply:** Australia, UK, Germany. **Earnings:** Conagra, Levis.

### MARKET WRAP

Broad risk-off trade was seen on Tuesday after a significant escalation of Middle Eastern tensions, which saw Iran launch an attack on Israel in what was 'double the size' of the April attack and said they targeted three Israeli military bases. The moves on Tuesday began alongside the cash equity open after Axios' Ravid reported that "US has indications that Iran intends to carry out a ballistic missile attack against Israel in the immediate future", and then extended to extremes once the attack was carried out. In terms of the move, Treasuries, Dollar, and Gold saw a notable bid on flight-to-quality, while stocks sold off as did activity currencies against the Dollar. Moreover, and as expected, the crude complex saw significant strength. Do note, that the moves did pare slightly after Israel lifted restrictions on their population and signalled the end of the Iranian missile attacks. Following the strikes, the IDF said they will respond at the right time and place, and the attack was serious and will have consequences. In addition, the US said it helped Israel defend itself and shoot down missiles, it fully supports Israel's right to defend itself, and Defense Secretary Austin spoke with Israel's Gallant and discussed 'severe consequences' for Iran in the event Iran chooses to launch a direct military attack against Israel. Elsewhere, in what was a day dominated by geopolitics, US data was mixed as there was above-forecast JOLTS, while ISM Mfg. was unchanged, short of the expected bounce, while prices paid were soft. In wake of the data, the latest Atlanta FedGDP Now Model for Q3 fell to 2.5% from 3.1%. For the record, sectors were predominantly lower and hit by risk-off as Tech was the clear laggard and Energy the clear gainer.

### US

**ISM MANUFACTURING:** ISM Manufacturing PMI for September was 47.2, unchanged from the prior, but beneath the expected 47.5. Looking at the sub-components, prices paid encouragingly decline to a 9-month low of 48.3 (prev. 54.0, exp. 53.5), even beneath the bottom end of the forecast range, 52.0. New orders and production rose to 46.1 (prev. 44.6) and 49.8 (prev. 44.8), respectively, while employment dipped to 43.9 from 46.0. Inventories tumbled to 43.9 (prev. 50.3), with Oxford Economics noting the decline may in part reflect the rush to bring in goods ahead of the port strike, which appeared to be frontloaded in August and was more subdued in September. Backlog of orders, new export orders, and imports all fell further beneath 50. Overall, Oxford adds, "The high level of interest rates and uncertainty over the outcome of the presidential election continue to weigh on the manufacturing sector." However, the consultancy adds, "With the Fed set to deliver at least 100bps in rate cuts this year, investment in capital and inventory should boost production, while support from the IRA and CHIPS act remains in place".

**JOLTS:** Headline JOLTS was hotter than expected, rising to 8.04m in August, above the 7.66m forecast and up from the prior 7.711m. It also came in just above the highest forecast of 8.00m. The BLS noted that in August, hires changed little at 5.3m, while total separations were also little changed at 5.0m. Within separations, quits (3.1m) continued to trend down and layoffs and discharges (1.6m) changed little. The Quits rate, however, fell to 1.9% from 2.0%, while the vacancy rate moved higher to 4.8% from 4.6%. Analysts at Oxford Economics highlight that the decline in the quits rate is consistent with other data showing workers view the labour market less favourable, and it is at a level consistent with wage growth at or slowing to a pace consistent with the Fed's 2% target. Overall, this report will unlikely sway Fed thinking, Powell suggested on Monday that providing the economy evolves as expected, there will be two 25bps rate cuts by year-end. Attention will turn to the September NFP report to help determine the Fed's upcoming easing pace, where Bostic himself suggested a print sub 100k would warrant a closer examination on the labour market.

### FIXED INCOME

#### T-NOTE (Z4) FUTURES SETTLED 13 TICKS HIGHER AT 114-22

**T-Notes rally across the curve as Iran strikes Israel while above-forecast JOLTS were offset by soft ISM Prices Paid, and geopolitical tensions.** At settlement, 2s -3.6bps at 3.615%, 3s -4.5bps at 3.522%, 5s -6.0bps at 3.517%, 7s -6.3bps at 3.607%, 10s -6.1bps at 3.741%, 20s -5.0bps at 4.141%, 30s -5.2bps at 4.081%

**INFLATION BREAKEVENS:** 5yr BEI +1.0bps at 2.232%, 10yr BEI +0.6bps at 2.185%, 30yr BEI +0.2bps at 2.195%.

**THE DAY:** T-Notes caught a haven bid throughout the session in response to Iran's attack on Israel. T-Notes rallied on the initial news that Iran was planning a response, with highs of 115-00+ seen as the attack took place, although do note after Israeli lifted restrictions on Israelis after the end of Iranian missile attacks Tsys came off peaks. There was a knee jerk reaction lower to the US data which saw JOLTS above expectations although this was offset by a notable drop in the US ISM Manufacturing PMI Prices Paid component which fell into contractionary territory, falling beneath all analyst expectations. Elsewhere in the report, the headline ISM Manufacturing PMI was unchanged, missing the expected rise to 47.5 from 47.2, while the employment component slipped further into contractionary territory to 43.9 from 46.0. Overall, the data did little to shift Fed expectations with attention turning to the key September NFP report on Friday. Alongside the NFP report, given the escalation seen in the Middle East, any response from Israel to Iran, and any US involvement will be key.

#### STIRS:

- **Market Implied Fed Rate Cut Pricing: November 35bps (prev. 34bps D/D), December 71bps (prev. 69bps), January 102bps (prev. 100bps).**

- NY Fed RRP op demand at USD 375bln (prev. 466bln) across 58 counterparties (prev. 69).
- SOFR at 4.96% (prev. 4.84%), volumes at USD 2.523tln (prev. 2.077tln).
- EFR at 4.83% (prev. 4.83%), volumes at USD 73bln (prev. 94bln).

## CRUDE

**WTI (X4) SETTLED USD 1.66 HIGHER AT 69.83/BBL; BRENT (Z4) SETTLED USD 1.86 HIGHER AT 73.56**

The crude complex was notably firmer on Tuesday and saw a significant bid on escalating Middle Eastern tensions, whereby Iran launched an attack on Israel. The strength in WTI and Brent began alongside the cash equity open after Axios' Barak Ravid reported that "The US has indications that Iran intends to carry out a ballistic missile attack against Israel in the immediate future". Following this, WTI and Brent continued to grind higher, and extended to peaks of USD 71.94/bbl and 75.45/bbl, respectively, after Iran attacked Israel. On the attack, Iran launched a significant number of ballistic missiles at Israel, but Israel did manage to shoot down many of them, with conflicting reports from either side of the exact quantity that landed. Following the barrage, Israeli official said the response towards Iran "will be harsh", via Kann News' Amichai Stein, while the White House said US President Biden directed the US military to aid Israel's defense against Iranian attacks and shoot down missiles targeting Israel. However, after the Israeli Home Front Command lifted restrictions on Israeli's and signalled the end of the Iranian missile attacks, oil pared some of its strength, albeit still settling notably firmer. Ahead, aside from the ever-important geopolitics, attention is on OPEC JMMC on Wednesday (Newsquawk primer available here) and private inventory data after-hours, where current expectations are (bbbls): Crude -1.3mln, Distillate -1.5mln, Gasoline -0.1mln

## EQUITIES

**CLOSES:** SPX -0.93% at 5,709, NDX -1.43% at 19,773, DJIA -0.41% at 42,157, RUT -1.48% at 2,197

**SECTORS:** Technology -2.66%, Real Estate -0.66%, Financials -0.55%, Consumer Discretionary -0.51%, Health -0.51%, Materials -0.32%, Consumer Staples -0.27%, Industrials -0.01%, Communication Services +0.40%, Utilities +0.81%, Energy +2.23%.

**EUROPEAN CLOSES:** DAX: -0.65% at 19,200, FTSE 100: +0.48% at 8,277, CAC 40: -0.81% at 7,574, Euro Stoxx 50: -0.95% at 4,953, AEX: 0.00% at 910, IBEX 35: -1.72% at 11,674, FTSE MIB: -1.04% at 33,771, SMI: -0.77% at 12,075, PSI: -0.80% at 6,738.

### STOCK SPECIFICS:

- **Apple (AAPL):** Barclays said Apple cutting iPhone 16 builds is likely indicative of weaker demand and the firm checks indicate that orders have been cut for December quarter iPhones at a key Taiwanese supplier.
- **Boeing (BA):** Reportedly considering raising at least USD 10bln via the sale of new stock, to replenish cash reserves which have been depleted by strike action.
- **CVS Health (CVS):** Undertaking a strategic review that may include breaking up the Co., with no immediate decisions expected. WSJ reports.
- **Pinterest (PINS):** Goldman adds Pinterest to its America's Conviction Buy List while removing Amazon (AMZN) and Guidewire (GWRE).
- **Alphabet (GOOG):** Initiated with a Buy at Pivotal Research with a USD 215 PT, saying it has an attractive valuation in any realistic scenario.
- **HP (HPQ):** Downgraded at Citi citing a more cautious view of the PC recovery in H2 2024. Going forward, Citi expects headwinds to persist in "aggressive" hardware pricing and says continued Chinese macro weakness is likely to limit positive estimate revisions ahead.
- **Ford (F):** Upgraded at Goldman Sachs; believes margin opportunity is driven by Cos. more profitable commercial business (Ford Pro), with mid-teens EBIT margins, growing software and services mix, and the mgmt. cost actions in internal combustion vehicles and EVs can help to offset industry headwinds.
- **Paychex (PAYX):** Beat on profit, revenue was in line with expectations, and guidance was maintained.
- **McCormick (MKC):** Adj. EPS and revenue beat, while FY EPS guidance was raised.
- **Nvidia (NVDA):** Halting development of GB200 NVL36-2 (dual-rack 72 GPUs version); long-term AI and Nvidia trends remaining positive, but frequent product plan changes likely softening short-term trading sentiment, according to Ming-Chi Kuo.
- **Google (GOOGL)** reportedly searching for its footing in Smart Glasses as Meta (META) gains ground, according to The Information.
- **Apple (AAPL):** Readies new iPhone SE and iPads for release in early 2025, Bloomberg reports

## US FX WRAP

The Dollar started the day extending on the hawkish-leaning Powell gains seen on Monday, in which the Fed Chair hinted at the potential step down from a 50bps cut to a 25bps reduction next month. With that said, the upside was furthered after geopolitics reached new highs as Iran attacked Israel with ballistic missiles. The news spurred a broad risk-off reaction, as the buck took advantage of the downside in activity currencies. Separately on data, Atlanta Fed GDPnow (Q3) was revised down to 2.5% (prev. 3.1%), ISM Mfg PMI unexpectedly remained flat at 47.2. Prices paid was below both the expected and consensus range, and conversely, JOLTS came above analysts forecasts, as well as the range. Nevertheless, geopolitics offset any implications from the US data, until reports indicated the Home Front Command lifted restrictions on Israelis at the end of Iranian missile attacks, and as such, the greenback retreated from its session highs of 101.39. Looking ahead, attention will be closely fixed on the Israeli response to said attacks, and on the US footing, ADP National Employment before Friday's NFP, and Fed's Musalem, Hammack, and Barkin.

**EUR/USD** fell for its third day in a row, despite European PMIs almost exclusively printing above expectations, while EZ Flash CPI data was as expected. Nevertheless, the Euro suffered on heightened Middle-East tensions, as the pair fell to a low of 1.1046. On Wednesday for the Euro is ECB's Lane, Elderson, Schnabel, and EZ Unemployment Rate.

**G10FX** was almost entirely in the red, as the previously mentioned geopolitics, sent the space lower. The downside was most noticeable in the Euro, GBP, and Kiwi, while the CAD was the sole FX to strengthen, supported by a surging crude complex, with USD/CAD finishing around session lows of 1.3483. On the Aussie, weakness was much less than its Kiwi neighbour, as stronger-than-anticipated Retail Sales left AUD/USD well off its session lows of 0.6857.

The Yen and Franc were among the better performers on Tuesday, as the currencies were flattish against the Buck. Regarding Switzerland, Mfg. PMI surprisingly rose, for its third consecutive month, helped by improvements in new orders, delivery times, and employment. Meanwhile, the newly appointed SNB Chairman, Schlegel, said Swiss inflation was only driven by services and the reason for last week's interest rate cut was inflationary pressures. But the main remark of importance was he said they cannot rule out negative rates at the moment. For reference, the current Target Rate is at 1%, and the money markets fully price in one 25bps rate cut by year-end, and a further 25 by June 2025. Elsewhere, Gold benefited on the risk-averse theme, rallying by around USD 30/oz on the day.

**EMFX** broadly saw losses as the Buck bid weighed on the space, except for the MXN which started to gain amid Claudia Sheinbaum being sworn in as Mexico's President, with one her first remarks concerning state-owned Pemex, where she noted the production is targeted at 1.8mln bpd. Looking ahead, Sheinbaum's government will present its first budget before November, which is expected to be highly scrutinised for hints on whether the new PM will make good on commitments to reduce the fiscal deficit to 3.5% of GDP from 5.9%.

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