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US Market Wrap - 2nd October 2024

Stocks flat while bonds take hit on hot ADP

- **SNAPSHOT:** Equities flat, Treasuries down, Crude up, Dollar up
- **REAR VIEW:** ADP Employment surpasses high end of expectations; Japan PM Ishiba puts down expectations of a nearby rate hike, BoJ's Ueda remarks align; EIA surprise crude builds; Fed's Barkin 2024 rate outlook in line with median; EZ Unemployment Rate unchanged as expected; ECB's de Guindos and Vasle leave options open for October; OPEC+ JMMC+ to make no recommendations on oil output policy as expected; TSLA Q3 deliveries fall short; NKE withdraws guidance.
- **COMING UP:** **Data:** Australian, Japanese, EZ, US Services/Composite PMIs (Final), Swiss CPI, EZ Producer Prices, US Challenger Layoffs, IJC, Durable Goods (R), Factory Orders, ISM Services PMI. **Events:** BoE Decision Maker Panel (Sept). **Speakers:** Fed's Bostic; Schmid. **Supply:** Japan, Spain, France, US. **Earnings:** Constellation Brands, Tesco.

MARKET WRAP

Stocks ultimately closed flat on Wednesday with slight outperformance in the Nasdaq. The majority of sectors closed in the red, with energy and Tech the only sectors closing in the green. Tech was supported by upside in NVDA after prior day weakness, helped by positive commentary from JPM, noting the Blackwell production shipment ramp is on track to fire in Q4 with a strong demand outlook for FY25. The energy sector also outperformed on account of higher crude prices as geopolitical tensions remain high, with participants eyeing the Israeli response to Iran, and any fallout thereafter. Nonetheless, crude prices settled well off their earlier peaks after the US inventory data showed a larger build than expected, although upside in futures resumed post-settlement. T-notes were lower across the curve after the ADP National Employment print rose above all analyst forecasts, which also gave a further boost to the buck. The Yen was the clear FX laggard after Japanese PM Ishiba took a dovish stance on rates, noting Japan is not in the environment for an additional rate hike. Meanwhile, BoJ Governor Ueda reiterated the market is not stable, also implying it is not the time to hike. Note, there were several Fed speakers on Wednesday, albeit only Barkin spoke on monetary policy, where he also signalled two 25bp rate cuts through year-end but warned the last mile of inflation may still take longer than expected, and he is worried price pressures could get stuck next year.

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ADP: The September ADP print was hotter than all analyst forecasts, rising by 143k, above the 120k consensus, and just above the most optimistic 143k forecast, accelerating from the prior (revised up) 103k. The report highlighted that "Job creation showed a widespread rebound after a five-month slowdown. Only one sector, information, lost jobs. Manufacturing added jobs for the first time since April." On wages, the median change in annual pay for job stayers eased to 4.7% from 4.8% Y/Y, while job changes eased to 6.6% from 7.3%. The ADP Chief Economist, Nela Richardson, added that "Stronger hiring didn't require stronger pay growth last month. Typically, workers who change jobs see faster pay growth. But that premium over job-stayers shrank to 1.9 percent, matching a low we last saw in January." The strong labour market data comes ahead of the BLS NFP report on Friday, however Pantheon Macroeconomics "caution against placing much weight on ADP's initial estimate of private payroll growth, as it has been a poor guide since its methodology was overhauled two years ago"

FED'S BARKIN: The 50bp cut in September was warranted because rates were out of sync with the decline in inflation and the unemployment rate is near its sustainable level. Barkin added the Fed cannot declare the inflation battle is over, and he expects a little further drop in core PCE until next year. The Richmond Fed President remarked, that the 50bps of cuts shown as the median Fed policy projection for the rest of 2024 would also take a little bit of the edge off rates. He is watching closely how lower interest rates influence home and auto sales to see if demand risks outrunning supply. While a "low hiring, low firing" labour market could persist, demand for workers could also move higher if demand grows. Barkin declared that the recent labour action and geopolitical conflict are also among inflation risks and that the pace and extent of the rate-reduction cycle require the Fed to be attentive to how the economy and inflation evolve. Barkin also said the US debt level is a source of concern over long-term rates. On the 2024 policy path, he sees two 25bps cuts this year as a "reasonable path" if the economy evolves as expected, seeing unemployment and inflation to remain roughly stable for the rest of the year. Concerning inflation, he thinks the "last mile" of inflation still may take longer than expected and is worried price pressures could get "stuck" next year.

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLED 8+ TICKS LOWER AT 114-13+

T-notes pared some of the prior day geopolitical rally after hot ADP as eyes turn to NFP on Friday. At settlement, 2s +1.8bps at 3.639%, 3s +2.4bps at 3.550%, 5s +3.2bps at 3.553%, 7s +3.5bps at 3.645%, 10s +4.2bps at 3.785%, 20s +4.8bps at 4.190%, 30s +4.9bps at 4.130%.

INFLATION BREAKAENS: 5yr BEI +3.1bps at 2.262%, 10yr BEI +2.3bps at 2.208%, 30yr BEI +2.5bps at 2.222%.

THE DAY: T-notes meandered overnight but saw some gradual selling in the European morning before pushing to lows after the latest ADP National Employment report. The data came in at 143k, above the 120k consensus and the top-end forecast of 140k. T-notes reacted hawkishly to the data with lows seen thereafter of 114-07. Although it is a sign of increasing job growth, analysts do caution against directly comparing the data for the BLS NFP report on Friday. T-notes gradually pared throughout the rest of the session, to see the curve bear steepening at settlement. Geopolitics remains in the limelight with participants awaiting Israel's response, and then any escalation thereafter, although all eyes remain fixated on Friday's NFP report which is expected to show 140k jobs added to the economy in September, a similar pace to August's 143k. There were several scheduled Fed speakers on Wednesday, although only Barkin touched on monetary policy. It was the first time we've heard from Barkin on policy since the September FOMC, and he toed a very neutral line, noting the 50bp cut was warranted as rates were out of sync with the decline in inflation while the unemployment rate was near its sustainable level, while he added the recent labour action (port strike threats) and geopolitical conflicts are factors among inflation risks.

STIRS:

- **Market Implied Fed Rate Cut Pricing: November 34bps (prev. 35bps D/D), December 70bps (prev. 71bps), January 100bps**

(prev. 102bps).

- NY Fed RRP op demand at USD 383bln (prev. 375bln) across 67 counterparties (prev. 58)
- US sold USD 64bln in 4mth bills at a high rate of 4.410%, B/C 3.37x
- SOFR at 5.05% (prev. 4.84%), volumes at USD 2.395tln (prev. 2.523tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 85bln (prev. 73bln).

CRUDE

WTI (X4) SETTLED USD 0.27 HIGHER AT 70.10/BBL; BRENT (Z4) SETTLED USD 0.34 HIGHER AT 73.90/BBL

The crude complex was firmer for the duration of the session amid geopolitical risk premium, but settled at lows after surprise EIA builds. On the day, oil extended higher throughout the EZ session and US morning on the ever-heightening Middle Eastern tensions after Iran bombed Israel on Tuesday, with continued rhetoric from both sides whereby Times of Israel citing a source reported that "Israel's response to Iran's missile attack will aim to cause "significant financial damage" and "The feeling is that the response 'must be significant, and it must come soon". As such, market participants will continue to be very cognizant of the Israeli response and next possible escalations. However, oil came off highs in wake of the weekly EIA data whereby crude saw a surprise build of 3.889mln (exp. -1.25mln, private -1.5mln), and crude production rose 100k BPD to 13.3mln. Distillates saw a slightly smaller draw than expected, while Gasoline saw a greater build. Note, WTI and Brent saw highs of USD 72.49/bbl and 76.14/bbl, against lows of 69.87 and 73.59/bbl.

OPEC: OPEC+ JMMC+ to make no recommendations on oil output policy, as expected. Following this, Russian Deputy PM Novak stated OPEC+ is to begin oil production increases from 1st December, as decided and further decisions will be market dependent. Novak sees a high increase in oil demand for the year and is optimistic about global oil consumption demand. On the Middle East escalation, stated oil prices have increased but the conflict has already been factored in. Prior to the OPEC+ JMMC, Saudi Energy Minister reportedly warned of USD 50/bbl oil as OPEC+ members flout production curbs, according to WSJ sources; interpreted as a threat Saudi is willing to launch a price war to keep market share if other countries do not abide. However, OPEC denied this report, claiming it is "wholly inaccurate and misleading".

EQUITIES

CLOSES: SPX +0.01% at 5,710, NDX +0.15% at 19,803, DJIA +0.09% at 41,197, RUT -0.09% at 2,195

SECTORS: Consumer Discretionary -0.78%, Consumer Staples -0.78%, Communication Services -0.44%, Real Estate -0.37%, Materials -0.33%, Health -0.21%, Industrials -0.19%, Utilities +0.05%, Financials +0.10%, Technology +0.59%, Energy +1.12%.

EUROPEAN CLOSES: DAX: -0.33% at 19,149, FTSE 100: +0.17% at 8,291, CAC 40: +0.05% at 7,578, Euro Stoxx 50: +0.14% at 4,961, AEX: +0.74% at 917, IBEX 35: -0.55% at 11,610, FTSE MIB: -0.28% at 33,675, SMI: +0.19% at 12,110, PSI: -0.65% at 6,695

STOCK SPECIFICS:

- **Nike (NKE):** Missed on revenue, withdrew FY25 guidance, and postponed Investor Day due to its CEO transition.
- **Conagra Brands (CAG):** Profit and revenue fell short of St. expectations.
- **Lamb Weston (LW):** Lowered FY25 EPS outlook, plans to close its Washington plant, and temporarily curtail production lines to boost efficiency and cash flow.
- **Humana (HUM):** Announced that 25% of its members enrolled in plans rated 4 stars and above for 2025, down from 94% in 2024.
- **LPL Financial (LPLA):** CEO Arnold was fired for allegedly violating "its commitment to a respectful workplace". Chief Growth Officer, Rich Steinmeier, will take over as interim CEO.
- **Diamondback Energy (FANG):** Upgraded at Barclays; said the Co. has one of the "clearest positive event paths" in the coming quarters as it fully integrates Endeavor.
- **GE Vernova (GEV):** Downgraded at Raymond James; said the AI-fueled rally for the stock feels a bit "overstretched, and the stock could use some consolidation".
- **Tesla (TSLA):** Q3 deliveries shy of expectations.
- **Ciena (CIEN):** Announced a USD 1bln share buyback programme.

US FX WRAP

Dollar strength persisted on Wednesday, with gains mainly stemming from the stronger-than-expected ADP Jobs report which rebounded off a five-month slowdown. The report saw private business in the US adding more jobs than was expected (exceeded forecast range), alongside a slight upward revision to August's report. As such, the dollar incurred an immediate upside which mainly held throughout the day, with dollar sitting around highs of 101.69. Elsewhere, the US VP debate was predominately viewed as a non-event, and on Fedspeak, Barkin (2024 Voter) said the 50bps rate cut in September was warranted because rates were out of sync with the decline in inflation and the unemployment rate is near its sustainable level. Next for the dollar watchers on Thursday are ISM Services PMI, Challenger Layoffs, Initial Jobless Claims, S&P Global Services PMI, Fed's Schmid, Bostic, and Kashkari, ahead of the key NFP report on Friday.

The Euro was largely unresponsive to currency-specific news, perhaps as the EZ Unemployment Rate for August was unchanged at 6.4% as expected. On the US data, however, EUR/USD trended downwards throughout the US session, breaching its 50DMA (1.1040), and troughing at 1.1034 on account of the Dollar strength. ECB's de Guindos noted the fight against inflation is "not totally over", and the ECB need to watch services inflation, adding all options are open for the October rate decision. Similar to that latter de Guindos remark, ECB's Vasle said they cannot exclude or commit to a rate cut in October. Looking ahead to Thursday, there's a myriad of PMI data out of Europe, in addition to, EZ PPI.

G10 FX were almost exclusively in the red, with havens lagging, particularly, the Yen, while Cyclical Currencies for the most part saw modest losses, except for the Aussie, which was flat, as the strong Retail Sales report seen earlier in the week upheld potential downside. Besides the US, EU and Japan, newsflow was fairly thin in the space, as pairs reacted to the US ADP report rather than direct influences. In the immediate vicinity, attention will mainly be concerned on the US data releases on Thursday, as newsflow continues to remain dry elsewhere, bar, UK's S&P Global Services PMI for September (expected unchanged at 52.8); Cable hovers around lows of 1.3246.

The Yen was by far the biggest mover in the G10 space, driven by Japan's PM Ishiba seemingly putting to bed for now, the growing hawkish sentiment surrounding himself, namely, "we are not in the environment for an additional rate hike". USD/JPY initial jolt higher on the move, persisted for the remainder of the day, taking the cross from 144.18 (pre Ishiba) to above the 146 handle. The unlikelihood of imminent rate hikes, was highlighted as well by BoJ's Governor Ueda saying markets remain unstable (previously said they will not hike rates when unstable) and Japan's economy is recovering moderately albeit with some weak signs.

EMFX performance versus the buck was mixed; upside was present in the MXN, COP and ZAR, whereas CLP, ILS, JUF, and PLN weakened. Brazilian Industrial Output data M/M was in line, although the Y/Y figure was slightly short of expectations, nonetheless, USD/BRL fell for a second consecutive day. Meanwhile, the NBP maintained the Base Rate at 5.75% as expected, with the Central Bank saying it may intervene in the FX market. Elsewhere, hawkish-leaning remarks from Banxico's Deputy Governor Heath supported the intraday outperformance in the peso (he noted rates should stay above 6-6.% for as long as possible; note, Heath dissented at the last Banxico meeting, voting to keep rates unchanged).

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