

Bonds hit and Dollar bid after hot ISM Services PMI ahead of NFP

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** Hot ISM Services PMI, although employment falls & prices paid rises; Initial jobless claims ticks higher; Libya to resume oil production; Israel yet to respond to Iran, but reportedly within days; Dovish BoE Governor Bailey; NVDA CEO said Blackwell demand is 'insane'; LEVI miss on revenue & issue weak guidance.
- **COMING UP:** **Data:** EZ/UK Construction PMIs, Italian Retail Sales, US NFP, Canadian Ivey PMI Holiday; Chinese Mainland Market Holiday (Golden Week) **Speakers:** BoE's Pill; ECB's de Guindos, Elderson; Fed's Williams **Supply:** Australia.

MARKET WRAP

Stocks closed in the red on Thursday with underperformance in the Russell while Nasdaq outperformed, only seeing minor losses, buoyed by gains in Nvidia (NVDA) after optimistic commentary on Blackwell demand from the CEO overnight. The majority of sectors were in the red, with Consumer Discretionary, Materials and Real Estate underperforming. The only sectors to close in the green were Energy, Technology and Communication. Tech was buoyed by NVDA, while Energy was buoyed by a further rally in crude prices as participants await Israel's response. Crude prices hit highs after US President Biden, when asked if he would support Israel striking Iran's oil fields, said "we are discussing that". However, the latest Reuters resources suggest Israel has not yet decided how to respond. T-Notes sold off throughout the session, weighed on by the inflationary impulse of firmer oil prices, while strong ISM Services PMI added to the pressure ahead of NFP on Friday and supply next week. In FX, the Dollar outperformed with DXY breaching 102 while the Pound tumbled after dovish commentary from BoE Governor Bailey, suggesting the BoE can be more aggressive with rate cuts if inflation news continues to be good.

US

ISM SERVICES: The US ISM Services PMI saw a massive beat, as the headline soared to 54.9 from 51.5, above all analyst forecasts, and was led by a surge in New Orders and Business Activity, to 59.4 (prev. 53.0) and 59.9 (prev. 53.3), respectively. Although, the inflationary gauge of Prices Paid lifted to 59.4 from 57.3, and the Employment component slipped into contractionary territory. Inventory sentiment dipped, while Supplier Deliveries rose back above 50, and Imports, Exports, and Backlog of Orders all rose to varying degrees. Overall, Pantheon Macroeconomics said it is hard to know exactly what to make, if anything, of September's surprise upturn in this survey, which took the headline to its highest level in a year and a half. After all, the consultancy adds, few of the survey's major components are reliable guides to the hard data on services activity and employment. On the employment sub-index, which was the only one to fall, Pantheon notes the relationship between this index and growth in private sector payrolls has been poor over the past few years. Although, and by contrast, the survey's prices index is more useful and tends to lead underlying services inflation. The uptick in the prices index takes it to an eight-month high, but taking a longer view, PM states it is still below its long-run average, around 60, and consistent with underlying services inflation returning to around 2% within the next couple quarters.

JOBLESS CLAIMS: Initial Jobless Claims rose to 225k from 219k, above the 220k forecast, while continued claims for the preceding week were little changed at 1.826m, beneath the 1.832m consensus. The 4wk average of initial claims fell to 224.25k from 225k, while the unadjusted numbers totalled 181k, down from the prior 182k. Seasonal factors had expected a decrease of 5.6k. On the headline, Oxford Economics note that jobless claims are not at a level that would signal significant new weakness in the labour market. The desk adds that claims in Washington have climbed over the last two weeks, which OxEco suspects is related to the Boeing strike, adding that the data showed no discernible impact from Hurricane Helene, which along with the port strikes, is expected to push up claims in the weeks ahead.

NFP PREVIEW: The consensus expects that 140k nonfarm payrolls will have been added to the US economy in September, a similar pace to August's 142k. However, analyst forecasts range from 70-220k. The unemployment rate is seen unchanged at 4.2%, beneath the Fed's year-end median projection of 4.4%. Wages are expected to grow 0.3% M/M, cooling from August's 0.4% rate, while the annual measure is seen unchanged at 3.8% Y/Y. Labour market proxies released in the month have been mixed: weekly jobless claims data that coincides with the BLS survey week saw initial claims fall, while continued claims rose. Challenger layoffs eased slightly M/M, while ADP's measure of private payrolls was above expectations. The ISM manufacturing employment component slipped further into contractionary territory, while the services employment entered contractionary territory for the first time since June. The lagging August JOLTS data was above expectations. The September jobs data will help to shape expectations of Fed easing through the end of this year; Chair Powell this week signalled a further 50bps of rate reductions via two 25bps rate cuts in November and December. This guidance and the hot ADP print has seen money market pricing tilt back towards a 25bps move in November, currently pricing a 64% probability of a 25bp cut in November. Nonetheless, if the data were to show a significant weakening (Fed's Bostic said a sub 100k print would warrant closer questioning), expectations for another 50bps move may become reinvigorated. That said, before the Fed's meeting, there is still another jobs report due, which will give policymakers more data to assess in their deliberations. [To download the full Newsquawk preview, please click here.](#)

FIXED INCOME

T-NOTE (Z4) FUTURES SETTLED 16+ TICKS LOWER AT 113-29

T-Notes sell-off as oil prices rally while ISM Services PMI tops all analyst forecasts. At settlement, 2s +6.8bps at 3.705%, 3s +7.1bps at 3.621%, 5s +7.6bps at 3.629%, 7s +7.1bps at 3.716%, 10s +6.3bps at 3.848%, 20s +5.0bps at 4.241%, 30s +4.8bps at 4.179%.

INFLATION BREAKEVENS: 5yr BEI +1.2bps at 2.273%, 10yr BEI -0.1bps at 2.204%, 30yr BEI -0.6bps at 2.214%.

THE DAY: T-Notes sold off throughout the session, responding to rallying oil prices and a strong US ISM Services PMI ahead of NFP Friday and supply next week. On geopolitics, attention remains on any potential Israeli response to Iran, while US President Biden suggested that an attack on Iranian oil facilities has been discussed with Israel, which sent crude to session highs. Meanwhile, US data saw initial jobless claims rise above forecasts, while continued claims were little changed W/W. The ISM Services PMI, however, saw a huge beat, rising to 54.9 from 51.5, above all analyst forecasts, led by a surge in New Orders and Business Activity while Prices Paid saw an increase although the Employment component slipped into contractionary territory. Elsewhere, former NY Fed President Dudley said he sees a 25bps cut at the

Fed's November meeting, while Chicago Fed President Goolsbee said that new inflation numbers are basically at target and the labour market is at full employment. Attention turns to Friday's NFP report ahead of supply next week, as well as a plethora of Fed speakers.

NEXT WEEK SUPPLY:

- US Treasury to sell USD 58bn of 3yr notes on Oct. 8th, USD 39bn of 10yr notes on Oct 9th, and USD 22bn of 30yr bonds on Oct 10th, all to settle on October 15th, as expected.
- Market Implied Fed Rate Cut Pricing: November 34bps (prev. 34bps D/D), December 68bps (prev. 70bps), January 95bps (prev. 100bps).
- NY Fed RRP Op demand at USD 341bn (prev. 383bn) across 57 counterparties (prev. 67)
- US sold USD 95bn in 4wk bills at a high rate of 4.755%, B/C 2.50x; Sold USD 90bn in 8wk bills at a high rate of 4.655%, B/C 2.72x.
- US to sell USD 81bn in 13wk bills and USD 72bn in 26wk bills on October 7th; to sell USD 80bn in 42-day CMBs on October 8th; to settle October 10th.
- SOFR at 4.92% (prev. 5.05%), volumes at USD 2.426tn (prev. 2.395tn).
- EFR at 4.83% (prev. 4.83%), volumes at USD 81bn (prev. 85bn).

CRUDE

WTI (X4) SETTLED USD 3.61 HIGHER AT 73.71/BBL; BRENT (Z4) SETTLED USD 3.72 HIGHER AT 77.62/BBL

The crude complex continued its recent gains on Thursday, driven by escalating geopolitics in anticipation of Israel's response.

The ongoing, ever-heightening Middle Eastern tensions continued to push the crude complex higher, aided by commentary from US President Biden that the US was "discussing" with Israel the striking of Iranian oil facilities. Nonetheless, some downside was seen after the Libyan oil minister said it is to resume oil production today, with the largest oil field resuming and export operations also set to resume normally. Do note, the resumption of oil production and exports was set to be the next step for Libya after they appointed a new central bank governor - the initial pressure was short-lived. Back to geopolitics, markets, and participants, still await Israel's response which will reportedly be "harsh" and "cruel". Reports on Wednesday suggested Israel could target Iranian infrastructure and oil facilities, while US President Biden said "we are discussing that", when asked if he would support Israel striking Iran's oil fields - which took crude to intra-day highs. In addition, Sky News Arabia citing Israeli media suggested the response will be within a few days. Looking ahead, the US jobs report is the key catalyst on Friday as well as ongoing geopolitics, and the weekly Baker Hughes rig count. For the record, US data on Thursday (jobless claims, ISM Services) had little sway on the crude complex. Regarding levels, WTI and Brent hit highs of USD 73.95/bbl and 77.65/bbl, respectively, against earlier troughs of 70.52 and 74.31.

EQUITIES

CLOSES: SPX -0.17% at 5,700, NDX -0.05% at 19,793, DJIA -0.44% at 42,011, RUT -0.68% at 2,180.

SECTORS: Energy +1.58%, Technology +0.60%, Communication Services +0.23%, Utilities -0.02%, Financials -0.45%, Industrials -0.49%, Consumer Staples -0.84%, Health -0.90%, Real Estate -0.98%, Materials -1.15%, Consumer Discretionary -1.27%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.84% at 4,907, DAX -0.90% at 18,964, CAC 40 -1.32% at 7,458, FTSE 100 -0.10% at 8,262, SMI -1.05% at 11,973, FTSE MIB -1.50% at 33,129, IBEX 35 +0.07% at 11,564, PSI -0.73% at 6,646, AEX -0.71% at 908

STOCK SPECIFICS:

- **Nvidia (NVDA):** CEO Huang was speaking on CNBC's Closing Bell: Overtime, and said Blackwell, its next-gen AI graphics processor, is in full production, is as planned, on schedule and demand is insane.
- **Levi Strauss (LEVI):** Revenue missed, issued weak FY guidance, and initiated a formal review of strategic alternatives for Dockers brand.
- **Him's & Hers (HIMS):** US FDA removed Eli Lilly's (LLY) blockbuster weight-loss and diabetes drugs from its shortage list late on Wednesday, likely piling pressure on firms selling cheaper versions known as compounded drugs.
- **Lockheed Martin (LMT):** Raised Q4 dividend and authorised purchase of up to an additional USD 3bn worth of shares under its buyback programme.
- **Bank of America (BAC):** Berkshire sold a further USD 337.9mln worth of BAC shares. Barron's notes that the sale reduces Berkshire's stake to nearly 10%.
- **Wolfspeed (WOLF):** Downgraded at Mizuho.
- **EVgo (EVGO):** US offers EVgo conditional USD 1.05bn loan guarantee for EV chargers and was also upgraded at JPM.
- **Tesla (TSLA):** Discontinued its cheapest electric vehicle. In other news, it recalled 27,185 US vehicles due to delayed rear-view camera images.
- **Live Nation (LYV):** Judge denied request to move antitrust suit to Washington DC
- **Tesla (TSLA):** Chief Information Officer Saldi is said to be leaving the company, according to Bloomberg.

US FX WRAP

The Dollar was firmer on Thursday, rising for its fourth straight day as it continued its week of gains amid the ongoing Middle Eastern tensions, whereby participants are awaiting the 'harsh' and 'cruel' Israeli response. Today, initial jobless claims rose marginally more than expected but the Dollar was unreactive, while the strong ISM Services figure pushed the Dollar Index above 102 to a high of 102.09. Regarding the data set, the headline jumped to 54.9 (exp. 51.7, prev. 51.5), while employment fell to 48.1 from 50.2, back into contractionary territory, and the inflationary gauge of prices paid rose. On the Fed footing, Bostic and Goolsbee said little new, although the latter said the new inflation numbers are at the Fed's target and labour market is at full employment. Looking ahead, all eyes are on the pivotal US jobs report on Friday ([Newsquawk preview available here](#)) and Williams speaking 30 minutes after it.

G10 FX was weaker across the board against the surging Buck, although the Pound did underperform after the dovish comments from BoE Governor Bailey. Recapping, he said the bank could be a "bit more aggressive" in cutting rates provided the news that inflation continues to be good. As such, Cable hit a low of 1.3093 against an earlier high of 1.3274. UK Services PMI also disappointed, as the headline came in at 52.4 below the prior, and expected, 52.8.

Antipodeans were the next worst performers after the Pound, and were weighed on by broader sentiment and the Dollar bid, as opposed to anything currency-specific. AUD/USD printed a low of 0.6831, with 26th September low of 0.6818 the next level to watch to the downside. NZD/USD slipped beneath the 0.63 handle, to a trough of 0.6211 the next downside target coming via the round 0.62 level. For the record, Australian Services PMI was revised fractionally lower overnight.

EUR, JPY, CAD, and CHF were all weaker, as mentioned, but saw losses to varying degrees against the Greenback. In terms of data, Swiss CPI was much cooler than expected which saw EUR/CHF rise above 0.9400, while EZ Services PMIs were largely above St. consensus, although Italy did disappoint. For the Yen, USD/JPY hit a high of 147.24 overnight, but now does sit off worst levels and back beneath the round 147, which comes after the pair saw a marked rally on Wednesday after PM Ishiba downplayed the likelihood of another immediate BoJ rate hike.

EMFX was largely weaker across the board, with only TRY and MXN eking out gains for the stronger Dollar. In terms of EM data, Turkish CPI (Sep) was hotter than forecasts on both M/M and Y/Y metrics, in addition to a slew of commentary from CBRT Governor whereby the key takeaway was arguably them noting September inflation data from the statistical institute was well above its expectations and upward risks to inflation are clear. Ahead, JPM now expects CBRT's first 250bps rate cut in January 2025 (prev. November 2024). Elsewhere, Mexican President Sheinbaum said she will seek a minimum wage increase of around 12% for 2025 while NBP Governor Glapinski said future NBP decisions will depend on CPI outlook and current forecasts show that by the end of the year CPI maybe 4.5-5%.

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