

Stocks and bonds bid as traders boost rate cut bets after weak ADP

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar mixed, Gold up
- **REAR VIEW:** US government shutdown takes effect, WH says layoffs are imminent; US ADP unexpectedly turns negative, prior revised to negative; ISM Mfg rises marginally above expectations; Trump to meet with Xi in four weeks, Soybeans will be a major topic; EU reportedly to raise import tariffs on foreign steel, expected at 50%; Mixed Japanese Tankan survey; RBI maintains Repo Rate as expected; EIA crude stocks post bigger-than-expected build; NKE beats on EPS & rev.
- **COMING UP: Data:** Australian Goods/Services Imports (Aug), Swiss CPI (Sep), EZ Unemployment (Aug), US Challenger Layoffs (Sep). **Shutdown:** Due to the US shutdown, as it stands, the following data will not be released - Weekly Claims, Factory Orders (Aug), Durable Goods Rev. (Aug). **Speakers:** BoJ's Uchida; Fed's Logan; ECB's de Guindos; BoC's Mendes. **Supply:** Spain, France, UK.

MARKET WRAP

Stocks added to recent gains despite overnight weakness following the government shutdown. Outperformance was in the Nasdaq while sectors were more mixed. Health Care was the clear laggard as the sector continues to benefit from Trump's clarification on the sector, with the latest agreement with Pfizer (PFE) showing the administration is not going to be as aggressive against pharmaceutical companies as initially thought, particularly after Trump's triple-digit tariff threat. On the flip side, materials underperformed with weakness in some chemical names like LYB and FMC, weighing. T-notes bull steepened in response to the soft ADP data, which bolstered Fed rate cut bets with markets now fully pricing in a 25bp rate cut in October. Upside was also seen ahead of the data on the government shutdown, which supported havens in general, particularly the Yen and Gold, albeit gold prices fell off its best levels on likely profit taking, with the data having little impact on the yellow metal. Elsewhere, the ISM Manufacturing PMI was largely in line with expectations, remaining in contractionary territory, but internals were more mixed. In FX, the Dollar Index was lower while the Yen outperformed, but the Swiss Franc lagged. Crude prices were lower, likely weighed on by Saudi Aramco's surprise LPG price cut, which could help bolster its sales amid increasing competition. Note, on Thursday, the weekly jobless claims data will not be released due to the government shutdown. Attention will turn to speeches from BoJ's Ueda overnight, Treasury Secretary Bessent in the morning, and Fed's Logan later on.

US

ADP: The ADP Private Payrolls report, which has extra focus this month due to the government shutdown, was overall very weak. Private employers cut 32k jobs in September, well below the consensus of +50k and the most pessimistic forecast of +23k, while the prior was revised down to -3k from +54k. It also announced it conducted its annual preliminary rebenchmarking of the report in September based on the FY 24 QCEW results, which led to a reduction of 43k jobs in September vs the pre-benchmarked data. On wages, the median change in annual pay for job stayers rose to 4.5% from 4.4%, while for job changers it fell to 6.6% from 7.1%. ADP's Richardson says that "Despite the strong economic growth we saw in the second quarter, this month's release further validates what we've been seeing in the labor market, that U.S. employers have been cautious with hiring."

ISM MANUFACTURING PMI: The headline ISM Manufacturing PMI rose to 49.1 from 48.7, a touch above the 49.0 forecast, but remained in contractionary territory for the seventh consecutive month. Within the report, New Orders fell to 48.9 from 51.4, while the Backlog of Orders Index rose to 46.2 from 44.7. The Supplier Deliveries index rose to 52.6 from 51.3, indicating slower deliveries than in August. The Prices Paid component eased to 61.9 from 63.7, beneath the 63.2 forecast. Oxford Economics highlights that this may suggest the peak impact from tariffs on prices may have passed, but sectoral tariffs could send this higher again. Employment rose to 45.3 from 43.8. Summarising the report, ISM's Spence says, "In September, U.S. manufacturing activity contracted at a slightly slower rate, with production growth the biggest factor in the 0.4-percentage point gain of the Manufacturing PMI". However, the combined drops in the New Orders and Inventories indexes (4.2 points) exceeded the increase in the Production Index (3.2), rendering the Manufacturing PMI improvement negligible. Last month's increase in new orders seems to have flowed through to production, but does not appear to be sustainable given the subsequent drop in new orders in September. On tariffs, some respondents said that profits are down and tariffs are being shouldered by all companies in their space (transportation and equipment). A respondent in the chemical products business said tariffs are still causing issues with imported goods into the US, not only on cost concerns but also on documentation issues. A respondent in miscellaneous manufacturing said that "Steel tariffs are killing us." Overall, Oxford Economics writes that lower interest rates, reduced political uncertainty and a fiscal boost from the One Big Beautiful Bill will take time to filter through the manufacturing sector.

FED's LOGAN (2026 voter): Reiterated her known hawkish stance, saying that the Fed will be cautious in any further reductions. The Dallas Fed President said financial conditions are a tailwind now, and this is evidence that policy is only modestly restrictive. She added that it is not clear how much further the Fed can cut before hitting neutral. The Dallas Fed President said the US may need further labour market slack to reach the inflation target of 2%. On inflation, said expectations cannot be taken for granted, and excluding tariff impacts, inflation may be as high as 2.4%, driven by non-housing services.

FIXED INCOME

T-NOTE FUTURES (Z5) SETTLED 11 TICKS HIGHER AT 112-27

T-notes bull steepen as the government enters shutdown and ADP paints another bleak picture of the labour market. At settlement, 2-year -6.1bps at 3.543%, 3-year -5.7bps at 3.556%, 5-year -5.4bps at 3.680%, 7-year -5.0bps at 3.876%, 10-year -4.4bps at 4.106%, 20-year -2.9bps at 4.679%, 30-year -1.9bps at 4.714%.

INFLATION BREAKEVENS: 1-year BEI +1.1bps at 3.220%, 3-year BEI -3.0bps at 2.678%, 5-year BEI -1.9bps at 2.429%, 10-year BEI -1.6bps at 2.336%, 30-year BEI -0.8bps at 2.243%.

THE DAY: T-notes were higher across the curve in a steeper fashion, primarily led by a woeful ADP report and government shutdown. T-notes hit session highs in the wake of the soft ADP jobs report, which is taking more focus this month amid the government shutdown and lack of official data from the BLS. The report saw private businesses cut 32k jobs, with the prior revised down to -3k from 54k, all well below analyst expectations. The weak jobs data saw rate cut bets boosted with a 25bps cut now fully priced for the October 29th Fed decision. Meanwhile, through the end of 2026, markets are pricing in a rate of 2.96%, below the Fed's neutral rate estimate of 3.0%. Elsewhere, the ISM Manufacturing PMI data saw little reaction with the headline largely in line with expectations, while employment ticked up and prices paid eased. A lot of focus remains on the government shutdown, but so far the market is largely looking through it, albeit there are concerns on data quality if the shutdown is extended, as the BLS have stopped data acquisition activities in the meantime.

SUPPLY

- US sold 67bln of 17-week bills at a high rate of 3.785%, B/C 3.32x
- US to sell USD 90bln of 8-week bills (prev. 85bln) and USD 105bln of 4-week bills (prev. 100bln) on October 2nd; all to settle on October 7th

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: Oct 25bps (prev. 24bps), Dec 47bps (prev. 44bps), January 59bps (prev. 54bps).**
- NY Fed RRP op demand at USD (prev. 49bln) across counterparties (prev. 28)
- EFR at 4.09% (prev. 4.09%), volumes at USD 92bln (prev. 89bln) on September 30th.
- SOFR at 4.24% (prev. 4.13%), volumes at USD 3.148tn (prev. 2.893tn) on September 30th.

BLOCK TRADES

- 08:18EDT/13:18BST: 5.0k 2-Year T-Note Futures (ZTZ5) at 104-095
- 07:20EDT/12:20BST: 3.0k 10-Year T-Note Futures (ZNZ5) at 112-190
- 07:20EDT/12:20BST: 4.8k 5-Year T-Note Futures (ZTZ5) at 109-082

CRUDE

WTI (X5) SETTLED USD 0.59 LOWER AT 61.78/BBL; BRENT (X5) SETTLED USD 0.68 LOWER AT USD 65.35/BBL

The crude complex was lower and likely weighed on by Saudi Aramco's surprise LPG price cut. In the EZ morning benchmarks were initially contained, but saw some pressure, and although no clear headline driver, some touted the news that Saudi Aramco cut prices for LPG to the lowest since August '23, in a move that could help bolster sales amid rising competition with rivals. Vortexa writes, "A Saudi contract price that's USD 50/T lower than anticipated signals a "supply battle" between the Middle East and the US". Ahead of OPEC 8 on Sunday, the JMMC meeting ended, and no recommendations were given re. November production policy. Kpler's base case is for a 137k BPD production increase. In the weekly EIA data, where fleeting downside was seen, crude saw a larger build than anticipated, against the surprise draw in the private figures. Distillates saw an unexpected build and Gasoline noticed a greater than forecast build, which were both in-fitting with the private data. Overall, crude production was up 4k to 13505mln. Elsewhere, newsflow was light on Wednesday as the US Government went into shutdown which will prevent the release of some key US data via jobless claims (Thurs) and NFP (Fri). For the record, WTI traded between USD 61.40-62.89/bbl and Brent USD 65.05-66.57/bbl.

EQUITIES

CLOSES: SPX +0.37% at 6,711, NDX +0.49% at 24,801, DJI +0.09% at 46,441, RUT +0.24% at 2,442

SECTORS: Health +3.01%, Utilities +0.92%, Technology +0.71%, Consumer Discretionary +0.69%, Real Estate -0.06%, Energy -0.04%, Consumer Staples -0.23%, Industrials -0.32%, Communication Services -0.81%, Financials -0.92%, Materials -1.17%

EUROPEAN CLOSES: Euro Stoxx 50 +0.99% at 5,585, Dax 40 +1.13% at 24,149, FTSE 100 +1.03% at 9,446, CAC 40 +0.90% at 7,967, FTSE MIB +0.83% at 43,080, IBEX 35 +0.54% at 15,558, PSI +1.05% at 8,041, SMI +2.02% at 12,354, AEX +0.57% at 948

STOCK SPECIFICS:

- US Energy Sec Wright said the Government will take a 5% stake in **Lithium Americas (LAC)** and separate 5% in its Thacker Pass project in Nevada.
- BlackRock's GIP nears a USD 38bln takeover of **AES (AES)**, including debt.
- **Qualcomm (QCOM)** won its licensing dispute with **ARM (ARM)**.
- Samsung and SK Hynix to supply memory chips to OpenAI's Stargate project. Of note for Micron (MU).
- **Reddit (RDDT)** - Downside attributed to ChatGPT massively reducing Reddit citations, and the traffic is now even close to early-year levels.
- BTIG corrected a recent report that overstated August's weighted average 30+ day delinquencies. BTIG sees **Upstart's**

(UPST) at 6.2%, against the initial reporting of 11.2%.

- **Doximity (DOCS)** and **Marvell (MRVL)** downgraded at Goldman Sachs and TD Cowen, respectively.
- **Sunrun (RUN)** upgraded at Jefferies to 'Buy' from 'Hold'.
- **Alphabet's (GOOG)** Google has cut staff in its Cloud unit, Business Insider reports; Staff working on user experience projects were primarily affected.
- **Intel (INTC)** - Reportedly in early talks to add **AMD (AMD)** as a foundry customer, according to Semafor.
- US President Trump is delaying pharma tariffs to negotiate drug prices, Politico reports.

EARNINGS:

- **Nike (NKE):** EPS & revenue beat.
- **Cal-Maine Foods (CALM):** Top and bottom line missed expectations.
- **Conagra Brands (CAG):** Q1 adj. EPS and FY adj. EPS guidance topped expectations.

FX

The Dollar saw mixed performance against peers on Wednesday as performance diverged amidst the US government shutdown coming into effect and a surprise negative ADP reading. DXY came under pressure in the few hours that followed the government shutdown, with JPY safe-haven status outweighing that of USD, with US equity futures also seeing pressure. US equities recovered throughout the day while choppy trade followed for the Dollar, facing a second wave of pressure after the ADP report printed -32k (exp. 50k, prev. 54k, rev. -3K), marking the third negative ADP reading seen this year. Fed pricing reacted on the dovish side, now fully pricing a 25bps rate cut at the Fed's October meeting. Separately, ISM's Manufacturing Survey was more or less in line, headline printed 49.1 (exp. 49), prices paid fell beneath expectations, and employment saw a M/M increase; USD saw a muted reaction on ISM. At the Fed, Logan (2026 voter, hawk) said the US may need further labour market slack to reach the inflation target of 2%. Into overnight trade, DXY sits at ~ 97.71 within an intraday range of 97.459-97.885.

JPY, NZD, GBP, NOK, and SEK took advantage of the US government shutdown, with JPY and NOK leading the gains. In Japan, the Tankan Survey was mixed. Large manufacturers' sentiment improved slightly to 14 but still missed expectations, while non-manufacturers held firm at 34. The standout was capex, with big firms planning a strong 12.5% increase, well above forecasts, highlighting continued investment appetite; a small dip in the yen was seen with BoJ rate hike pricing unchanged, leaving the October meeting finely balanced. JPY's safe-haven appeal now leaves USD/JPY at ~147.10 from earlier 148.22 highs.

EUR was little changed vs USD, with EZ inflation data having little follow-through into the currency pair. HICP Y/Y was 2.2% with the move above the 2% mark expected to be a temporary one, while supercore HICP stood at 2.3% and services ticked higher to 3.2% from 3.1%. Meanwhile, EZ manufacturing PMI was revised higher to 49.8 (prev. 49.5). The data is unlikely to change the ECB's policy trajectory, whereby ~2bps of easing is priced by year-end.

CAD and CHF underperformed in the G10 space despite a lack of fundamentals/newsflow behind the move. BoC Minutes were a non-event where members, ahead of the Sept rate decision (cut by 25bps as expected), expected they could present a baseline projection for growth, inflation in the October Monetary Policy Report.

EMFX: The RBI maintained its Repo Rate at 5.50% as expected, in a unanimous decision. The Central Bank kept its "neutral" policy stance while lowering its 2026 CPI forecast to 2.6% (prev. 3.1%); INR saw a muted reaction. In Chile, economic activity growth was 0.5% Y/Y in August, beneath the expected 2%. The disappointing Imacec figures follow Chile experiencing its worst mining industry accident, with output at Codelco's El Teniente mine halted for over a week.

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