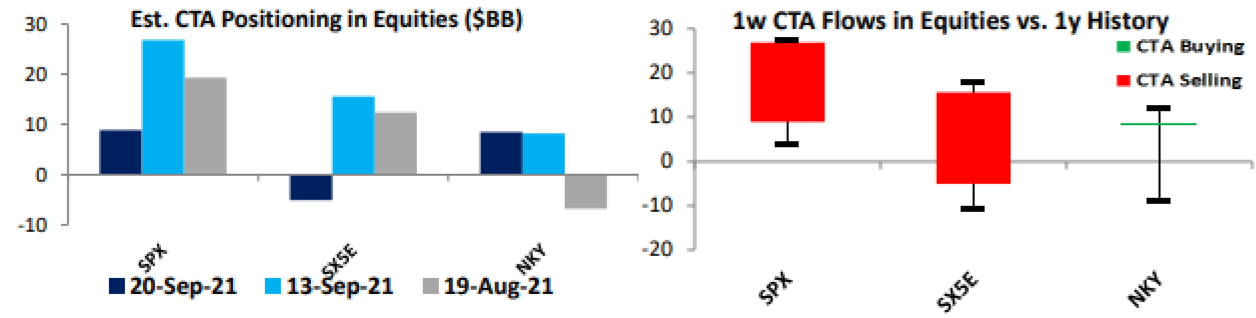
Market Commentary and a not a product of Research. Intended for Institutional use.

We covered a decent amount of ground during the intraday update (see **here** if you missed the first cut), and truthfully I do not think a lot changed by the end of the session, other than a somewhat reassuring late-day bounce in risk. Some commentary focused on the sizeable turnover in ES1s during the last thirty minutes (>300k), but I was actually surprised that the entire session only saw 2.61mm contracts change hands, which was in fact lower than some of the sessions seen in late Feb and early March. Nonetheless, the excess volume would have been more than enough to account for the aforementioned systematic selling, thus with the next sell trigger still 2.5% below current spot, I personally believe the technical pressure is largely complete for the time being, absent further exogenous shocks from Asia and/or central banks. You can find a full CTA/systematic update in our regular weekly publication **here**.

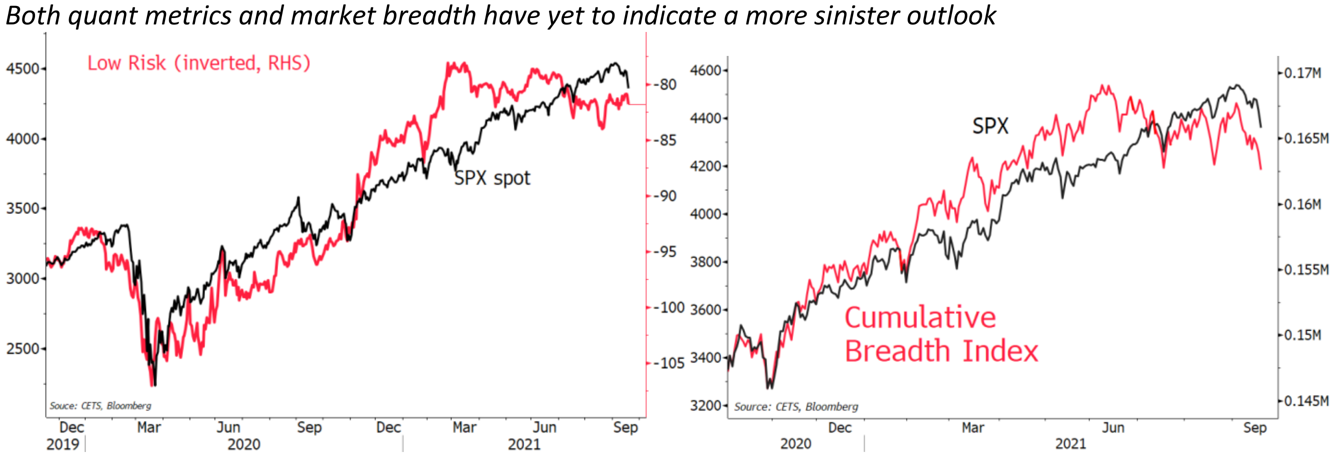
US and EU equities have seen sizeable selling since Friday



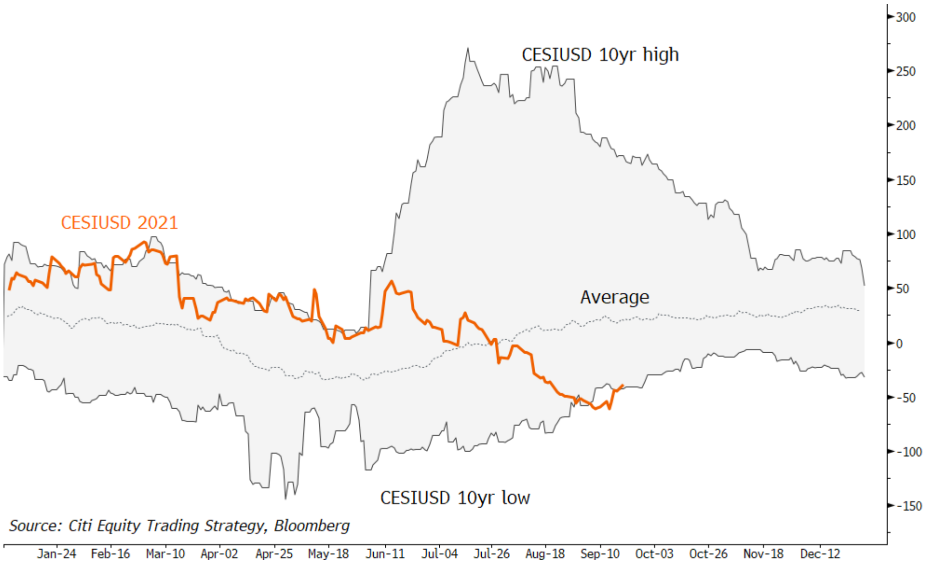
Source: Citi Equity Trading Strategy

I mentioned in the earlier piece how both the systematic flows and indeed the levered ETF rebalancing was dictating risk, but meanwhile below-surface quant factors were behaving in a pretty orderly fashion: Low Risk (CIISLRUT Index) ended the session up 100bps, and only the 9th highest observation so far this year. PriceMo (CIISPMUT Index) tracked sideways, and the rest of the factor did not illustrate meaningful moves in standard deviation terms, even if it appeared that Value (CIISVAUT Index) took a hit with cyclicals at the bottom of the back for the session. But in reality once we beta-adjust the daily sector performance there was nothing really untoward going on: customer flows had a buy skew for most of the day, and towards the close saw decent size monetization of protection and/or covering shorts. Perhaps not the emphatic 'buy the dip' signal but certainly not a signal of panic. Even breadth – the *canary in the coalmine* that I love to reference as a sanity check for broader risk – posted the 4th lowest reading of the year, and yet given the noise around China risks/Evergrande defaults, and the looming Fed announcement, I would argue that breadth could have arguably been a lot worse. Even IWM *only* underperformed by 70bps…

Both quant metrics and market breadth have yet to indicate a more sinister outlook



Tomorrow we have Xi speaking at the UN, although given it a pre-recorded speech it may not assuage investors that much. But then of course we have the Fed meeting on Wednesday where expectations for a hawkish SEP/dot plot may yet be offset by a more dovish tone directly from Powell in the presser. Remember, the technical aspect of risk selling that has driven us down 4.5% from the Sep 3rd highs works in both directions, especially the levered ETF rebalancing that remains extremely high by historic standards. I continue to like the economics around layering into a long risk profile using the ultra-rich skew that offers compelling downside vs upside breakevens for risky (sell put, buy call) or even ratio'd riskies in SPY as we move through the week of CB announcements and data, especially when considering many are turning their bearish narrative to a slowdown in growth trajectory, which is ironically coming at a time when US economic data is beginning to inflect in a more positive trajectory.



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All charts/data sourced from CETS, Bloomberg and Citi, unless otherwise indicated.