

US Market Wrap

July 28th: Powell not concerned by Delta, keeps tapering in play

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude up, Dollar down.
- **REAR VIEW:** Fed notes economy has made progress towards goals, but not fully recovered; Powell reassures dovishness in presser; Senate filter out BIF differences, will vote Wednesday; Strong tech earnings, soft AAPL guidance; China regulators soothe stock rout
- **COMING UP: Data:** German Unemployment & CPI (Prelim.), EZ Economic Sentiment & Consumer Confidence (Final), US Initial/Continuing Jobless Claims **Event:** ECB Minutes (Strategic Review) **Supply:** US **Earnings:** Airbus, EDF, Nestle, Telefonica, Volkswagen; Lloyds, Anglo American, Diageo, Schroders; Amazon, Merck, Mastercard.
- **US WEEKLY EARNINGS ESTIMATES:** Peak earnings season with QCOM, FB, PYPL, MRK, MA, CVX, PG, XOM, ABBV. To download the report, please [click here](#).

MARKET WRAP

Risk-sensitive stocks made a comeback on Wednesday, while the FOMC was largely a non-event. The Treasury curve is little changed at pixel time after paring earlier losses into the close. The RUT and NDX outperformed the SPX and DJIA, in contrast to Tuesday's action, where defensives underperformed Wednesday. The Tech sector was flat; strong gains in AMD post-earnings were offset by lacklustre performances from AAPL, MSFT, and GOOG despite the behemoths all posting solid beats on top- and bottom-line, with analysts pointing to near-term positioning headwinds as they trip from their record highs. China-related stocks were outperformers as selling pressures subside, at least for the time being, with reports that China regulators held meetings with banks to ease the sell-off supportive. On infrastructure, the bipartisan group has come to an agreement and the Senate will hold a procedural vote later on Wednesday to proceed with the bill. At the FOMC, Powell made no suggestion that the Delta variant was creating any meaningful woes to achieving "substantial further progress", with the Fed Chair laying out the path to tapering, but didn't provide specifics on when.

GLOBAL

FED: The FOMC left rates unchanged, as expected, and there weren't many wholesale changes to the statement. However, there were two new additions: the Fed now acknowledges that the "economy has made progress toward these goals, and the Committee will continue to assess progress in coming meetings" but the Fed does not appear to think that the 'substantial further progress' threshold has been met, noting that "the sectors most adversely affected by the pandemic have shown improvement but have not fully recovered". The recent delta concerns by market participants do not seem to be reflected in any statement language change, and therefore, this should support the expectation that the Fed will likely make an explicit 'taper is coming' signal at the Jackson Hole Symposium at the end of August, followed by an announcement in Q4 (September is clearly in play), before implementing the scaling back of asset purchases early 2022. On the health crisis, the Fed removed the line that sectors affected by the pandemic "remain weak but have shown improvement" replacing that with "sectors most affected by the pandemic have shown improvement but have not fully recovered" which suggests that the recent delta variant fears have not forced the Fed to revise its outlook for growth lower just yet. Elsewhere, the Fed finally launched its standing repo facility, as has been heavily alluded to, but likely will not be used until money market rates begin rising towards the top-end of the Federal Funds target range - the Fed is facing the opposite problem currently with the surge in the Reverse Repo Facility demand.

POWELL PRESSER: TAPER: The Fed chair was asked if the statement tweaks were part of the advance notice on taper, but repeated that we have not reached substantial further progress. On the rate of asset purchases, Powell suggested that the current pace of purchases remains appropriate until 'substantial further progress' has been met, repeating that the timing of the taper will depend on incoming data, and reiterated that the Fed will provide advance notice before any change. Later, Powell said that the Fed has not made any decision about the timing of the taper but did note he expects further progress to be made. The Fed chair did however offer some insight into the configuration of how the taper will be carried out, stating that it was likely that both MBS and Treasury purchases will be tapered at the same time (some were calling for MBS to be tapered more quickly on account of the 'heat' in the housing market).

LABOUR MARKET: Powell reinforced the message that substantial further progress has not yet been made, stating that the labour market still has a "ways to go" while pandemic factors appear to be weighing on employment growth, but should wane in the "coming months". Powell said there was still "some ground to cover" on substantial further progress. Powell is hopeful that the Fed can make good progress towards full employment over the next couple of years (note: this is consistent with the Fed's recent forecasts which pencil in an unemployment rate of 3.5% in 2023). But said it should

not take long to reach a strong labour market. **INFLATION:** Powell continues to frame inflation as transitory, and will remain elevated in the coming months before moderating, but added that inflation could turn out to be higher, more persistent than expected. Powell provided the usual caveats that the Fed would use tools to guide inflation lower if there was an extended period of high inflation. **PANDEMIC:** Powell also said that continued progress on vaccinations would help support the return to more normal economic conditions. On the delta strain, Powell noted that there has been fewer implications from each wave and didn't tout much concerns on the economic front from the Delta variant, as some analysts had warned Powell might beforehand. **RATES:** On rates, Powell suggested that the Fed is still a ways away from considering lifting rates. There was a small hint on sequencing, with the Fed chair suggesting that ideally the central bank would not raise rates before the taper has concluded.

INFRASTRUCTURE: Both GOP and Democratic Senators stated a Bipartisan Infrastructure (BIF) agreement has been reached with all the major issues solved with the bill set to face a procedural vote on Wednesday night. To pass, it will require 60 votes, therefore it will need 10 GOPs and all 50 democratic senators to vote for it. NBC highlight the BIF deal includes USD 550bln in new spending on infrastructure projects, according to sources, adding spending will amount to USD 1trln when factoring in other, expected funding for transportation projects. Senator Warner stated electric car charging station funds are in the deal. Note, US President Biden has reportedly signed off on the deal, according to Democratic Senator Sinema. On the USD 3.5trln budget, Sinema told local press in Arizona, she does not support the USD 3.5trln budget, although she supports its goals, she does not support a bill that costs USD 3.5trln. AZ Central stated her reservations with the bill, along with Moderate Democratic Senator Manchin, suggest Democrats will not have the votes to pass the more expansive plan and will force Dems to scale back the bill.

INFRA DETAILS: White House stated the Bipartisan Infrastructure plan includes: (USD): 550bln in new federal investment. 40bln of new funding for bridge repair, replacement, and rehabilitation. 17.5bln for major projects that are too large or complex for traditional funding programs. 110bln of new funds for roads, bridges, and major projects. 39bln of new investment to modernize transit and improve accessibility for the elderly and people with disabilities. 65bln investment for broadband. 21bln in environmental remediation. 73bln for clean energy transmission. 55bln for clean drinking water. WaPo reported the BIF is expected to be paid for by (USD): 200bln repurposed COVID aid (but is waiting for reassurance after Dems pushed back on this number), 50bln recouped UI fraud, 49bln Medicare Part D rebate rule, 56bln in dynamic scoring, 20bln in spectrum sales 13bln in superfund fees and 6bln in petroleum reserve sales, according to sources.

CANADA CPI: Canadian CPI fell a little short of expectations in June, with the headline rate rising 0.3% M/M (exp. +0.4%), and the annual rate easing to 3.1% Y/Y (from 3.6%). Capital Economics said that the rise in price pressures was only marginal in June, but as firms' selling price expectations continue to rise, it expects inflation to rebound back toward 4% later in the summer. The details showed shelter prices put in another strong performance, while recreation and education picked up as re-openings occurred. However, food prices declined, as did clothing and footwear prices, with the latter possibly reflecting discounting. "With the gain in prices in June driven primarily by a handful of components, an average of the three core inflation measures dropped back to 2.2%, from 2.3%," CapEco writes, "that will boost the BoC's confidence that the current elevated level of inflation is mainly due to transitory factors although, with firms' selling price expectations continuing to surge in recent months, we continue to think that inflation will rise back toward 4% later this summer, before it declines to less than 2% in 2022."

FIXED INCOME

T-NOTE (U1) FUTURES SETTLE 6+ TICKS LOWER AT 134-08

Treasuries sold off by a few bps from the belly out on Wednesday with Fed's Powell not letting the Delta variant impede the tapering path. By settlement, 2s +0.8bps at 0.211%, 3s +2.4bps at 0.386%, 5s +3.0bps at 0.740%, 7s +2.8bps at 1.020%, 10s +2.7bps at 1.261%, 20s +2.7bps at 1.831%, 30s +2.2bps at 1.911%; TYU1 volumes were average at best, and well below an average FOMC day. 5yr TIPS -2.4bps at -1.889%, 10yr TIPS -5.6bps at -1.105%, 30yr TIPS +3.2bps at -0.332%. SOFR and EFRF unchanged at 5bps and 10bps, respectively.

OPS & SALES: US sold USD 28bln of 2yr FRN's at 2.9bps, covered 3.04x. US sold USD 30bln of 119-day CMBs at 5bps, covered 3.5x. NY Fed accepts USD 965.2bln in its RRP operation across 74 bidders (prev. USD 927.4bln across 71 bidders).

THE DAY: T-Notes rose modestly overnight in a lacklustre risk tone APAC session, although the China stock woes were not as pronounced as prior sessions. Prices then began paring back as Europe arrived, finding some additional, mild selling as US players arrived later on to see T-Notes print a pre-FOMC low of 134-06. A shaky NY cash equity open saw yields pare back lower to take T-Notes only modestly cheaper on the session and the cash curve only a few bps steeper into the Fed policy decision. There was little noticeable reaction to the statement release, which did note progress has been made on the Fed's goals. There weren't too many surprises in Powell's presser/Q&A either, with the Fed Chair not willing to sound any alarm bells on the economic consequences of the Delta variant just yet, saying he expects further progress to be made. Treasuries tracked sideways into the futures settlement, with the potential scenario of a dovish

Fed shift knocked off. Participants now look to Thursday's 7yr auction, with the event risk of the FOMC in the rear window.

CRUDE

WTI (U1) SETTLES USD 0.74 HIGHER AT 72.39/BBL; BRENT (U1) SETTLES USD 0.26 HIGHER AT 74.74/BBL

Crude futures were choppy on Wednesday where bullish inventory data worked against a mixed risk tone. There were only some mild tailwinds late Tuesday after draws across the board in the private inventory print. The EIA figures on Wednesday were similarly bullish but also lacked much meaningful follow-through for the benchmarks: Crude -4.089M vs. Exp. -2.928M; Cushing w/e -1.268M; Gasoline -2.253M vs. Exp. -0.916M; Dist. -3.088M vs. Exp. -0.435M; Crude Production 11.2M BPD (Prev. 11.4M); Refining Util -0.300% vs. Exp. 0.4%. Other newsflow for the complex has remained light, although the Iranian nuclear deal is back in the spotlight after reports incoming hardline President Raisi is to take office on August 5th; later Axios reports noted that the US warned Iran's new government it won't get a better nuclear deal. Markets are focusing on COVID-19 and international travel developments to gauge upcoming demand, although desks maintain their view of a deficit in the summer followed by a demand lull in H1-2022 – with prior sources via Energy Intel suggesting that OPEC+ may pause the monthly production hikes to accommodate this.

EQUITIES

CLOSES: SPX -0.02% at 4,400, NDX +0.41% at 15,018, DJIA -0.36% at 34,931, RUT +1.51% at 2,224

SECTORS: Consumer Staples -0.87%, Utilities -0.69%, Real Estate -0.63%, Industrials -0.29%, Consumer Discretionary -0.23%, Financials -0.21%, Technology -0.1%, Materials +0.25%, Health Care +0.38%, Communication Services +0.75%, Energy +0.97%

EUROPEAN CLOSES: Euro Stoxx 50 +0.95% at 4,103; FTSE 100 +0.34% at 7,020; DAX +0.35% at 15,574; CAC 40 +1.12% at 6,605; IBEX 35 +0.43% at 8,737; FTSE MIB +0.59% at 25,236; SMI +0.33% at 12,060

EARNINGS: Apple (AAPL) beat on EPS and revenue with strong revenue metrics for iPhone, Mac, iPads, Services and Wearables but the guidance disappointed; Guides Q4 revenue growth of double-digits but below the Q3 growth of 36%, expects supply constraint in Q4 to be greater than Q3 and which will primarily impact iPhones and iPads. Google (GOOGL) posted a stellar report with strong EPS and revenue beats; internal revenue metrics were also strong although it did not provide guidance and noted it is too early to tell long-term trends due to rising global COVID cases. Microsoft (MSFT) beat on EPS and revenue with intelligent cloud, personal computing and productivity and business processes revenue all topping expectations. MSFT guided Q1 revenue above expectations but noted chip shortages will have "some" impact in FY 2022 but corporate and consumer PC demand remains strong. Boeing Company (BA) posted a surprise profit with revenue above expectations. Since the FAA's approval to return the 737 MAX to operations in November 2020, Boeing has delivered more than 130 737 MAX aircraft and airlines have returned more than 190 previously grounded airplanes to service. The 737 program is currently producing at a rate of approximately 16 per month and continues to expect to gradually increase production to 31 per month in early 2022 with further gradual increases to correspond with market demand. Visa (V) beat on EPS and revenue with strong internals although it did not provide guidance. AMD (AMD) EPS and revenue beat while it also raised Q3 and revenue guidance. FY revenue is to be driven by all businesses, but Q3 will be driven by data centre and gaming. Pfizer (PFE) beat on EPS and revenue and raised both FY EPS and revenue guidance above expectations. It also raised FY21 vaccine sales guidance to USD 33.5bln from USD 26bln. Bristol Myers (BMY) beat on EPS and revenue and reaffirmed guidance; all key pharma sales were above expectations, but Revlimid was more or less in line. General Dynamics (GD) beat on EPS although revenue fell short of expectations after a miss in Technologies, Marine systems and aerospace. It did however raise FY21 EPS and revenue view above analyst expectations. McDonalds (MCD) had a strong report EPS, revenue and Q2 SSS beat expectations and it raised FY21 revenue growth view to mid-to-high teens (prev. mid-teens). SSS beat globally, although International Developmental & Licensed missed expectations. MCD also expects Q3 comp sales to exceed 2019 levels in all big five markets and noted around 70% of dining rooms in the US are open and expects to reach around 100% by Labor Day (unless there are any resurgences in COVID). The specific earnings figures from after-market Tuesday and pre-open Wednesday can be [found here](#).

STOCK SPECIFICS: The efficacy of the Pfizer (PFE)/BioNTech (BNTX) COVID-19 vaccine reportedly fell to 84% from 96% after six months, according to Stat News, which may boost their argument for vaccine booster shots. Although against severe disease, which includes people with low blood oxygen levels or who are hospitalized, the overall efficacy was 97%. Citizens Financial (CFG) is to acquire Investors Bancorp (ISBC) in a USD 3.5bln deal, including cash and stock. Carnival Corp. (CCL) Ada Cruises sees 10 ships sailing by the end of this year. Wells Fargo (WFC) doubled its quarterly dividend to USD 0.20/shr. GameStop (GME) will join the S&P MidCap 400 index next week. DraftKings (DKNG) announced a deal with Red Sox making it the official Daily Fantasy Sports provider of the franchise. iHeartMedia (IHRT) and NBA announce plans to jointly develop podcasts from league's audio archives. Baxter (BAX) reportedly made a

takeover offer for Hill-Rom Holdings (HRC), WSJ noted that HRC already rejected a USD 144/shr offer. 3D Systems (DDD) announces the sale of its medical simulation business, Simbionix. United Airlines (UAL) to operate over 40 weekly flights as England reopens. Robinhood (HOOD), ahead of its IPO tomorrow, is reportedly in talks to be a market maker, Fox reports, in order to reduce reliance on order flow.

FX WRAP

The buck had all eyes on the Fed, which caught a bid on the statement after it acknowledged the economy had made some progress towards the Fed goals but those sectors hardest hit have not fully recovered, though have shown some improvement. The acknowledgment of progress makes the Jackson Hole Symposium as a live event for a taper signal, which will likely be announced in Q4 (September), ahead of official implementation in the new year. However, during his press conference, Chair Powell reiterated there was still ways to go on the labour market, reiterating that inflation is still seen as transitory. Powell suggested that the Fed is still 'a ways' away from considering lifting rates. The dovish reassurance saw a reversal in price action with DXY falling to negative territory, wiping out any post statement gains. The chopiness in the saw **EUR/USD** either side of 18 post Fed. Elsewhere, **JPY** was weaker amid a rise in US yields while the fall in the dollar supported JPY off lows. **CNH** was firmer from the softer greenback, but also as China state media tried talking up markets following the recent downside, while the government had reportedly convened with banks in a bid to restore market calm after stock rout. **XAU and XAG** were bid from the dollar decline after Powell's reassured dovishness in the press conference. **Cyclical currencies** were firmer from the softer dollar and the rise in equities post Powell, although **NZD** was flat while **AUD and GBP** saw mild gains. **CAD** was a cyclical outperformer after gains in crude, although Canadian CPI was a touch softer than expected, which may support the BoC's transitory view. **EMFX** was generally firmer against the dollar thanks to Powell, while **BRL** was a clear outperformer after its capacity utilisation data hit the highest level in seven years. **MXN** was firmer thanks to gains in oil, while the peso shrugged off a Pemex downgrade further into junk territory.

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