newsquawk

US Market Wrap

24th August 2023: Stocks and bonds fall after dip in Jobless Claims ahead of Powell

- **SNAPSHOT**: Equities down, Treasuries down, Crude flat/up, Dollar up.
- **REAR VIEW**: Harker leant dovish; Collins towed a neutral stance noting the Fed may be at, or near, a point they can hold; Durable goods tumbles, but not as bad as it looks; Initial jobless claims dip beneath expectations; Blowout NVDA earnings; CBRT unexpectedly hike rates by 750bps; BA 737 delivery goal in doubt over defect involving SPR.
- **COMING UP**: **Data**: Tokyo CPI, German Ifo, US UoM Survey **Speakers**: Fed's Powell, Mester, Harker, Goolsbee & ECB's Lagarde

MARKET WRAP

Stocks were sold throughout the session with the initial NVDA-induced rally overnight fizzling out, with the stock closing more or less flat despite the exceptional earnings, perhaps on a sell-the-fact type play. The losses were led by the Nasdaq with the large-cap names and sectors underperforming with the Tech sector -2% with all other sectors also in the red, but with relative outperformance in Financials, Real Estate and Materials. The highlights on Thursday saw the latest Initial Jobless Claims fall further from recent peaks, signalling a still-tight labour market that helped push Treasury yields to highs - which in turn led to a rather grim open. Meanwhile, Durable Goods were worse than expected, but given the huge jump in the prior month in the volatile aircraft sector many were expecting this to be the case. Elsewhere, with the first day of Jackson Hole underway, Fed speak was mixed, where Harker repeated his dovish tone saying the Fed has probably done enough, while Collins took a more neutral tone, saying we may be at or near the peak of rates. Both regional Fed Presidents shared the view that rates will need to be kept at restrictive levels for some time however, with neither committing to a specific time frame for Fed rate cuts. The lack of clarity on rate cuts from the Fed speakers and the hot jobless claims data saw markets unwind some of the probability for rate cuts in 2024, with money markets now pricing in a c. 56% probability of the first cut in May vs the 88% probability on Wednesday. Attention now turns to Fed Chair Powell on Friday.

CENTRAL BANKS

HARKER (2023 voter, dove) leant dovish, once again, repeating that we have probably done enough, but noting they should keep rates at restrictive levels for a while, noting he is hearing from contacts that time is needed to deal with past rate hikes. Harker said the Fed should let the restrictive policy stance play out, which should lower inflation, and at this point, he sees the Fed holding steady for the year, but next year will be data-driven and he cannot predict when the Fed will cut rates. On yields, Harker said he is not concerned about the rise in market yields, but he is watching it. On the economy, Harker said he is seeing an uptick in labour productivity while he expects the unemployment rate to rise to 4% or just above that. Harker wants to see a softening in the labour market, notably within services. He also stated there is a tightening of credit conditions and that low-income consumers are slowing down. Meanwhile, it is unclear how much a Chinese slowdown will impact the US economy.

COLLINS (2025 voter, neutral) towed a more neutral stance, noting the Fed may be at, or near, the point where they can hold, saying they may need to implement additional increments. She also towed the same line as Harker that the policy rate will have to be held at the peak rate for a substantial period of time. She did not want to prejudge a set path for rates but noted it is too premature to give a signal or timing about Fed rate cuts. She did state she is hopeful, and realistic, that the Fed can return inflation to target in a reasonable amount of time. On the economy, she stated housing is a big challenge for the economy and she has not seen as much progress as she would have like to of seen in the core services ex housing inflation.

FED CHAIR POWELL & ECB PRESIDENT LAGARDE JACKSON HOLE PREVIEW

US

DURABLE GOODS: Durable Goods tumbled 5.2% in July after the 4.6% surge in June, deeper than the expected decline of 4% and seeing the first decline after four consecutive monthly increases. Ex-transport, new orders rose 0.5%, while ex-defence, new orders decreased 5.4% - implying a lot of the downside was led by the transport sector, with nondefense aircraft and parts new orders falling 43.6% M/M, albeit it follows the 71.1% increase in June, while New Orders in Defense Aircraft and parts fell 10.9% after a 2.0% gain. Given the large jump in June was due to the rise of aircraft orders following the Paris Aircraft show, a reversal was likely (expectations were for a chunky decline), but even then it was still a deeper decline than expected. Regarding the effect on GDP, Pantheon Macroeconomics point out the key number is the core capital goods orders, nondefense capital goods orders ex-aircraft, as it is a direct input into equipment investment of GDP. The core number rose 0.1%, in line with expectations and matching the prior pace. Pantheon note this is in line with the trend, "but the steep downward revisions to the prior data bring them closer in line with capital spending intentions in the survey data".

JOBLESS CLAIMS: Initial Jobless Claims came in at 230k in the week ending 19th August, missing the estimate for an unchanged print at 240k. Meanwhile, the continued claims came in at 1.702mln (prev. 1.711mln, exp. 1.708mln). For initial claims, the seasonal factors had expected a decrease of 7,430 from the prior week, and the unadjusted number totalled 198,357. Overall, the data does not do much to change the overall narrative of the Fed, especially with a CPI and NFP report still due before the September FOMC, where we will get updated dot plots. However, it does little to show evidence of a labour market slowdown and the latest Fed minutes noted that participants still saw below-trend growth and a softer labour market as necessary to restoring economic balance, and this data, according to Oxford Economics, is still signalling a pretty tight labour market. The 4wk average did rise marginally this week, but the data over the last three weeks has been trending down after unexpectedly rising to 250k a few weeks back.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 10 TICKS LOWER AT 109-19

Treasury yields were firmer across the curve with a flatter bias after the lower-than-expected jobless claims. At settlement, 2s +5.8bps at 5.010%, 3s +4.5bps at 4.690%, 5s +3.6bps at 4.397%, 7s +3.7bps at 4.342%, 10s +3.1bps at 4.229%, 20s +1.8bps at 4.497%, 30s +1.3bps at 4.297%

INFLATION BREAKEVENS: 5yr BEI -1.5bps at 2.364%, 10yr BEI -1.3bps at 2.344%, 30yr BEI -1.4bps at 2.332%.

THE DAY: T-Notes saw marginal selling pressure overnight before paring in the European morning tracking the Bund higher. T-Notes then swiftly fell from highs before paring the move but then started to tread lower throughout the majority of the session. T-Notes hit lows, on peak volume, of the day around the US data with the lower-than-expected jobless claims enough to accelerate the losses in futures, hitting a low of 109-17. The move had then pared over the next hour before once again resuming selling into settlement. With the first day of Jackson Hole underway, we saw commentary from both Fed's Harker and Collins, where Harker repeated his view that the Fed "has probably done enough", while Collins said we are near that point, but additional hikes may be likely. Both regional Fed Presidents did not want to commit specifically when rate cuts would occur, but noted that policy will have to remain restrictive for some time. Attention now turns to Fed Chair Powell on Friday for his views and to see if he tows the Harker line of "probably done enough" (dovish), the Collins line of "may be at or near that point" (neutral), or Bowman's view (in early August) that additional hikes will "likely be needed" (hawkish) - but given we still have a CPI and NFP report before September, he may not want to commit to anything just yet.

SUPPLY: US announced it is to sell USD 45bln of 2yr-notes on August 28th, USD 46bln of 5yr-notes on August 28th, and USD 36bln of 7yr-notes on August 29th; all to settle on August 31st. Meanwhile, in TIPS, US sold USD 8bln in 30yr TIPS which tailed by 2bps but B/C improved, dealer take down fell from the last auction with direct demand improving but indirect demand was unchanged from the last Feb 30yr TIP auction.

STIRS:

- SR3U3 -2.3bps at 94.565, Z3 -4.0bps at 94.555, H4 -8.0bps at 94.715, M4 -9.5bps at 95.005, U4 -10.0bps at 95.360, Z4 -8.0bps at 95.690H5 -5.0bps at 95.935, M5 -3.0bps at 96.090, U5 -2.5bps at 96.160, U6 -2.5bps at 96.255, U7 -1.5bps at 96.255.
- US to sell USD 62bln of 26-week bills and USD 69bln of 13-week bills on August 28th to settle on August 31st
- US sells USD 81bln of 4-week bills at 5.285%, covered 2.89x; sells USD 71bln of 8-week bills at 5.290%, covered 2.82x
- NY Fed RRP op demand at USD 1.732tln (prev. 1.817tln) across 96 counterparties (prev. 96)
- SOFR flat at 5.30% as of Aug 23rd, volumes fall to USD 1.27bln from 1.307tln
- EFFR flat at 5.33% as of Aug 23rd, volumes rise to USD 105bln from 101bln.

THIS WEEK (US items bolded):

FRI: **Fed's Jackson Hole Symposium (24-26th Aug), Uni of Michigan Final (Aug)**, Japan's Tokyo CPI (Aug), German Ifo Survey (Aug), German GDP Detailed (Q2).

CRUDE

WTI (V3) SETTLED USD 0.16 HIGHER AT 79.05/BBL; BRENT (V3) SETTLED USD 0.15 HIGHER AT 83.36/BBL

The crude complex was choppy, but eventually settled marginally in the green, despite downbeat risk sentiment with stocks sold and the dollar bid in light of a lack of oil-specific newsflow. In the European morning crude benchmarks spent the first half of the session under modest pressure, but they lifted into positive territory after the Chevron vote headlines (more details below). WTI and Brent hovered around highs of USD 79.28/bbl and 83.62/bbl, respectively, heading into the US data, but then saw downside after Durable Goods tumbled and jobless claims came in beneath expectations. The complex soon pared the moves as stocks saw upticks after the open but as stocks came off, and drove lower, oil continued its ascent higher although failed to breach the earlier highs. As such, WTI and Brent grinding higher through the US afternoon may be a technical play, as opposed to anything fundamental in very quiet trade as market participants now await Fed Chair Powell at Jackson Hole on Friday.

STRIKES: Woodside Energy (WDS) said it continues to engage actively and constructively in the bargaining process with unions over Australian LNG facilities and substantial progress was made in talks and parties reached an in-principle agreement on a number of issues, while it added that it has not received any notices of protected industrial action. Furthermore, the Australian union said members at Woodside's LNG facilities will meet on Thursday to discuss an in-principle agreement reached by their negotiating team and that Woodside made their members a strong offer without industrial action being taken. Separately, workers at Chevron's (CVX) Australian LNG facilities voted to allow unions to call strikes if needed, according to the union cited by Reuters; over 99% of the 433 workers that voted were in favour of taking action.

EQUITIES

CLOSES: SPX -1.35% at 4,376, NDX -2.19% at 14,816, DJIA -1.08% at 34,099, RUT -1.27% at 1,846.

SECTORS: Technology -2.15%, Communication Services -2.04%, Consumer Discretionary -2.01%, Industrials -1.22%, Health -0.78%, Consumer Staples -0.77%, Energy -0.73%, Utilities -0.63%, Materials -0.43%, Real Estate -0.42%, Financials -0.25%.

EUROPEAN CLOSES: DAX -0.68% at 15,621, FTSE 100 +0.18% at 7,334, CAC 40 -0.44% at 7,214, Euro Stoxx 50 -0.81% at 4,233, IBEX 35 +0.10% at 9,325, FTSE MIB -0.57% at 28,072, SMI 0.00% at 10,974.

STOCK SPECIFICS: **Boeing (BA)** found a problem with its 737 MAX involving supplier **Spirit AeroSystem (SPR)**; will delay deliveries and might affect Boeing's target of 400 plane deliveries this year. **T-Mobile (TMUS)** announced it is planning to reduce the size of its workforce by just under 7% and estimated it will incur a pre-tax charge of around USD 450mln in Q3; reiterated FY guidance. **United Airlines (UAL)** said it is gearing up for a record-breaking Labor Day holiday with nearly 2.8mln customers expected to fly. Bookings for international travel +34% vs 2019 and +29% Y/Y. **Dropbox (DBX)** to announce new cloud storage plan fees later on Thursday, and will end unlimited cloud document storage for customers.

EARNINGS: **NVIDIA (NVDA)** posted a blowout report; smashed profit and revenue expectations, raised Q3 revenue guide, and approved a further USD 25bln in share buybacks. Data centre revenue was stellar, and said that cloud provider GPU demand was accelerating, expects supply to increase each quarter through the next year, and demand was tremendous. **Autodesk (ADSK)** beat on profit, raised FY guidance, and offered upbeat commentary. **Dollar Tree (DLTR)** surpassed expectations on the top and bottom line, but Q2 gross margins declined 220bps Y/Y. Q3 EPS view light and said annual outlook reflects continued margin pressures expected to persist through H2. **Splunk (SPLK)** surpassed Wall St. estimates on EPS, revenue, adj. gross margin and cloud ARR. Raised Q3 and FY ARR guidance. **Guess (GES)** topped consensus on EPS and revenue and raised guidance. **Petco (WOOF)** earnings were in line and backed FY23 revenue view, although cut FY23 EPS guide. Sees a shift in consumer spending and pressures on discretionary business. **Snowflake (SNOW)** beat on revenue and profit with Q3 product revenue view seen +28-29% Y/Y. Reiterated FY24 product revenue view.

US FX WRAP

The Dollar was firmer on Thursday and printed a high of 104.000 heading into the close as risk sentiment continued to sour in very light newsflow, after it earlier printed a high of 103.960 in wake of the US data. Nonetheless, the sub-forecast jobless claims gave the Dollar impetus, but its revival was already well underway. The Buck was further boosted by a sharper retreat in USTs from post-PMI peaks than its debt counterparts and only appeared to pull up approaching psychological and technical levels that also aligned with decent option expiries in some major pairings. In terms of levels, the Greenback bounced from 103.270 to the aforementioned high having relapsed from 103.980 to 103.300 yesterday. On the Fed footing, Harker (voter, dove) leant dovish, once again, repeating that we have probably done enough, but noting they should keep rates at restrictive levels for a while, adding he is hearing from contacts that time is needed to deal with past rate hikes. Meanwhile, Collins (2025 voter, neutral) towed a more neutral stance, noting the Fed may be at or near the point where they can hold, saying they may need to implement additional increments. She also towed the same line as Harker that the policy rate will have to be held at the peak rate for a substantial period of time. Looking ahead, all attention will be on Fed Chair Powell speaking at Jackson Hole at 10:05EDT/15:05BST on Friday (Newsquawk preview available here).

GBP, AUD, NZD, and CAD all saw losses to varying degrees against the Buck on the broad risk-off sentiment and Dollar bid, as opposed to anything currency specific. Nonetheless, the Loonie was the 'outperformer', albeit still comfortably in the red, as the crude complex managed to pare losses which supported the CAD. In addition, the Antipodeans were the underperformers and conceded some of its recent gains vs the Buck, to see AUD/USD and NZD/USD trade between 0.6421-88 and 0.5919-81, respectively, and currently reside towards the bottom end of these ranges. For the Pound watchers, Cable sits just above 1.2600 despite printing earlier session highs of 1.2730 and even breached a key technical level of 1.2615 to the downside. Looking to Friday, there is very little on the docket aside from a plethora of central bank speak at Jackson Hole.

EUR, JPY, and CHF all saw losses, but not as deep as the high beta FX currencies, on the known macro sentiments as opposed to headline-driven trade. All three crosses against the Dollar currently sit at session lows with the EUR managing to defend 1.0800, just, the Yen marginally remaining beneath 146.00, and finally USD/CHF sitting around 0.8850. Note, the Euro and Yen may have been propped up by 1bln and 2.1bln option expiry interest at 1.0800 and 146.00, respectively, while the former also had the 200 DMA to lean at 1.0802 as technical support. On Friday, European watchers will be awaiting ECB President Lagarde towards the tail-end of the session in what has been a typical summers holiday week.

EMFX was mixed. MXN and Yuan were flat, CLP and RUB saw gains, while BRL and ZAR underperformed and TRY was the distinct outperformer. The Lira surged circa 6% vs the Buck after the CBRT rate decision, where the central bank surprisingly hiked rates by 750bps to 25%, against expectations of a 200-250bps hike to 19.50-20%. Within the release, it noted monetary tightening will be further strengthened as much as needed in a timely and gradual manner until a significant improvement in the inflation outlook is achieved. For the Mexican Peso watchers, in the latest minutes, Banxico noted holding rates steady till year-end is possible, while the latest half-month inflation figures were broadly in line with expectations.