



US Market Wrap

27th June 2024: Dollar slides & stocks little changed as traders brace for PCE

- **SNAPSHOT:** Equities flat, Treasuries up, Crude up, Dollar down.
- **REAR VIEW:** Continued claims notably rose; Overall soft Durable Goods; Pending Homes Sales surprisingly falls; Final US Q1 GDP revised higher; Solid 7yr auction; Fed's Bostic alters tune with rate cut outlook in line with Fed's Median; Bowman reiterates hawkish self; MU slide in wake of earnings; WBA dumps on poor outlook.
- **COMING UP: Data:** Japanese Tokyo CPI, Unemployment Rate, UK GDP (Q1), German Import Prices, Retail Sales, French, Spain, Italian CPI, German Unemployment Rate, US PCE, Canadian GDP, **Speakers:** Fed's Barkin, Bowman.

MARKET WRAP

US indices ended the day with upside bias (SPX flat, DJIA flat, NDX +0.2%) with outperformance in the small-cap Russell 2000 (+0.9%), as participants all await the pivotal core PCE on Friday. In terms of data on Thursday, durable goods was soft overall, despite the headline rising 0.1% (exp. -0.1%), as the prior saw a notable revision lower to 0.2% from 0.6%. Initial jobless claims ticked lower, but continued claims, for the one that coincides with the BLS survey period, notably rose to the highest level since November 2021. Meanwhile, pending home sales surprisingly fell with Q1 final GDP revised marginally higher. The Dollar was lower, albeit off session lows at the time of writing, as the Index's move above 106 was short-lived as US yields weighed as T-Notes caught a rally on soft Durable Goods and rising Continued Claims ahead of PCE, whereby T-Notes, were little moved after the 7yr auction was met with solid demand. As such, JPY was flat with USD/JPY hovering around 160.75 into the close. Bowman and Bostic hit the wires, with the latter changing his usual hawkish tone, noting inflation is moving in the right direction, a rate cut likely in Q4, and has pencilled in four 25bps cuts for 2025, in fitting with the Fed's median from the most recent FOMC. For the record, sectors were mixed with Real Estate, Consumer Discretionary, and Communication Services outperformed with Consumer Discretionary and Materials the laggards. Micron (MU) (-7%) closed lower as its inline guidance, FCF figures, and FY25 FCF underwhelmed, although the sell-side was not as nearly as negative with Citi even stating it would buy the weakness. Ahead, all attention is on the aforementioned PCE, with Biden/Trump debate overnight.

US DATA

Q1 GDP: The final revision to Q1 GDP was revised slightly higher to 1.4% from 1.3%, with expectations for it to be left unrevised. The breakdown saw GDP sales revised up to 1.8% from 1.7%, in line with expectations, with the deflator unchanged at 3.1%. Consumer Spending was revised down to 1.5% while PCE Prices and core were revised fractionally higher to 3.4%, and 3.7%, respectively. It is worth stressing that this data is for Q1 '24 and thus quite stale especially given there is May's Core PCE on Friday, which will offer a more timely update on the inflation picture. Following the data, Atlanta Fed GDPnow tracker for Q2 was revised lower to 2.7% from 3.0%. Overall, Oxford Economics notes, growth during H1 is a little disappointing but it does not signal a notable rise in the chances of a recession or that the expansion is further vulnerable. Oxford concludes, "since the economy is inherently seasonal, GDP is seasonally adjusted, although it is not perfect. The revisions to the PCE deflator will not alter the Federal Reserve's calculus."

JOBLESS CLAIMS: The Initial Jobless Claims data eased slightly to 233k from 239k, beneath the expected 236k, but still remains elevated compared to just a month ago. The 4wk average saw an increase to 236k from 233k. Meanwhile, the unadjusted data totalled 224k, down 3.5k from the prior week, while seasonal factors had expected an increase of 2.1 k W/W. The continued claims, for the preceding week, the one that coincides with the BLS survey period, rose to 1.839 mln from 1.821mln, above the 1.824mln forecast, the highest level since November 2021. Looking ahead, analysts at Pantheon Macroeconomics write that a "wide range of leading indicators, such as WARN notices and Challenger layoff announcements, imply that initial claims will continue to rise over the summer, though the data often bounce around in July with the timing of auto plant shutdowns."

DURABLE GOODS: Overall, the data was soft, although the headline rose 0.1%, above the -0.1% forecast, the prior saw a notable revision lower to 0.2% from 0.6%. Ex transport disappointed, falling 0.1% (exp. +0.1%), while ex defense dipped 0.2%, with the prior revised to -0.5% from 0.0%. The nondefense capital goods ex aircraft tumbled by 0.6%, worse than the most pessimistic analyst forecast, with the consensus looking for a 0.1% gain, while the prior saw a slight



revision higher to 0.3% from 0.2%. The soft tone of data suggests that the economy is slowing somewhat and may have implications for GDP, with the nondefense capital goods ex air shipments also declining (which feeds directly into the GDP report itself). The core capital goods shipments fell by 0.52%, although Pantheon suggested in real terms it dipped by 0.7% given the small rise in PPI private capital equipment. The consultancy finds it hard "to envisage a meaningful recovery in equipment investment anytime soon, given that long-term rates remain very high and credit conditions are tight, especially for smaller companies."

PENDING HOME SALES: Pending homes sales in May surprisingly fell 2.1%, against the expected rise of 2.5%, and as such dropped to a record low in May as high home prices and mortgage rates above 7% left buyers on the sidelines. Moreover, the decline the headline indicates another soft reading for existing home sales in June. Further ahead, Oxford Economics expects lower mortgage rates to support a rebound in pending and existing home sales in H2 '24, and while the inventory of existing homes remains tight, supply has increased recently, which should dampen price growth and improve affordability at the margin.

FED

BOSTIC (2024 Voter, Neutral (prev. hawkish)) stated that inflation is moving in the right direction and reiterated he sees a rate cut as likely in Q4. However, further out Bostic revealed that he pencilled in four 25bps cuts for 2025, which suggests that he is in line with Fed Median for one cut in 2024, and then four 25bp cuts in 2025. Meanwhile, Bostic noted that the Fed is on a "long term arc" and that he wants to be absolutely certain inflation will return to 2% before an initial cut which should be seen as the first in a series. He stated that inflation remains the "chief concern", adding that businesses see no "cliff" ahead for the jobs market. Although, he did note the labour market is "loosening but not loose". He believes the Fed can attain the 2% inflation with a job market that remains "tight" by historical standards. On the economy, Bostic said that service businesses report that pricing power is eroding. He noted that housing costs are a "frontline" conversation, and he remains confident shelter inflation will get back in line. Bostic also stated that GDP and the jobs market point to an orderly deceleration in activity which will balance supply/demand and lower inflation.

BOWMAN (voter) her hawkish stance in her latest speech, as she noted the Fed is not at a point yet where it can consider a rate cut, and she is still willing to raise rates again if inflation doesn't ease and upside risks to inflation persists, albeit all comments she has already made earlier in the week. Bowman further added if inflation moves toward 2% an eventual rate cut is on the table. On banks, the known hawk said she is concerned by the decline in the number of US banks and the lack of new bank creation will create financial issues.

FIXED INCOME

T-NOTE FUTURES (U4) SETTLED 6 TICKS HIGHER AT 110-08

T-Notes caught a rally on soft Durable Goods and rising Continued Claims ahead of Core PCE. At settlement, 2s -3.1bps at 4.718%, 3s -3.0bps at 4.499%, 5s -3.3bps at 4.304%, 7s -3.0bps at 4.290%, 10s -2.4bps at 4.292%, 20s -1.8bps at 4.538%, 30s -1.7bps at 4.430%

INFLATION BREAKEVENS: 5yr BEI +0.8bps at 2.247%, 10yr BEI +0.2bps at 2.273%, 30yr BEI -0.3bps at 2.288%.

THE DAY: T-Notes added to Wednesday's selling pressure overnight before meandering throughout the European session as eyes turned to US data. The final GDP data was revised up, as was Core PCE prices, but given it was for Q1 it garnered little attention. The focus instead was on the rise in continued jobless claims and downbeat durable goods. The upside in continued claims coincides with the BLS NFP survey window and adds to concerns around the slowdown in the labour market. Meanwhile, although the durable goods headline beat, there were chunky revisions lower with disappointing core metrics. The data saw T-Notes rise back above 110 after dipping beneath the round level overnight. T-Notes went on to peak at 110-11+ as the downbeat durables and rising continued claims supported the move. T-Notes had pared off their peaks heading into the 7yr auction, which ultimately came in stronger than recent averages which helped maintain the Treasury bid. Aside from data and the auction, Fed's Bostic was on the wires where he revealed his rate path for 2024 and 2025 is in line with the Fed median; he sees one cut in Q4 24, followed by four further cuts in 2025. All eyes turn to US PCE on Friday.

7YR: Overall, the 7yr note auction was met with solid demand. The USD 44bln supply was sold with a high yield of 4.276%, stopping through the when issued by 0.3bps, a strong improvement from last month's tail of 1.3bps and better than the six auction average of a 0.5bps tail. The Bid-to-Cover came in at 2.58x, above the prior 2.43x and average of 2.53x, while the breakdown was also encouraging. Both direct and indirect demand improved above averages, seeing dealers (forced surplus buyers) take just 11.9% of the auction, down from May's 17% and beneath the 15% average.



STIRS:

- Market Implied Fed Rate Cut Pricing: September 18bps (prev. 17bps D/D), November 26bps (prev. 25bps), December 47bps (prev. 44bps).
- NY Fed RRP op demand at USD 532bln (prev. 490bln) across 75 counterparties (prev. 87).
- US sold USD 80bln in 4wk bills at a high rate of 5.270%, B/C 2.55x; Sold USD 75bln in 8wk bills at a high rate of 6.260%, B/C 2.84x.
- SOFR at 5.34% (prev. 5.33%), volumes at USD 1.897tln (prev. 1.968tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 82bln (prev. 85bln).

CRUDE

WTI (Q4) SETTLED 0.84 HIGHER AT 81.74/BBL; BRENT (U4) SETTLED USD 0.79 HIGHER AT 85.26/BBL

The crude complex was firmer on Thursday as it benefitted from the Dollar weakness amid light energy-specific newsflow, as participants await PCE. As such, WTI and Brent crept higher throughout the European session to hit peaks of USD 82.04/bbl and 85.58/bbl, respectively, before paring off highs through the US afternoon, albeit still settling well in the green. Geopolitical updates were light, with the latest update coming via Israel's PM Netanyahu who, according to Bloomberg, has indicated he foresees a prolonged battle ahead in the efforts to eliminate Hamas. Separately, according to the FT, US, Israel and Ukraine are in talks to supply Kyiv with up to eight Patriot air defence systems, dramatically improving its ability to counter Russian air strikes. Elsewhere, and this time on LNG, Russia's Novatek is to start the delivery of equipment for the next phase of Arctic LNG-2 facilities in late July, while BBG reported that Russia is showing signs of building LNG shadow fleet amid sanctions. Looking ahead, participants await core PCE on Friday as well as the weekly Baker Hughes rig count.

EQUITIES

CLOSES: SPX flat at 5,483, NDX +0.19% at 19,789, DJI flat at 39,164, RUT +1.0% at 2,038.

SECTORS: Consumer Staples -0.5%, Materials -0.32%, Financials -0.25%, Health -0.17%, Industrials flat, Technology flat, Utilities +0.14%, Energy +0.25%, Communication Services +0.77%, Consumer Discretionary +0.9%, Real Estate +0.93%.

EUROPEAN CLOSES: DAX: +0.28% at 18,205, CAC 40: -1.03% at 7,531, PSI: -0.36% at 6,523, FTSE 100: -0.55% at 8,180, IBEX 35: -0.72% at 10,952, FTSE MIB: -1.06% at 33,187, SMI: flat at 12,018, Euro Stoxx 50: -0.27% at 4,903.

STOCK SPECIFICS:

- **Micron (MU)** - Guidance seen as underwhelming despite being in line with expectations, FCF came in less-than-expected and increased its CapEx for FY25 from 24. Note, EPS and revenue beat.
- **Walgreen Boots Alliance (WBA)** - Missed on EPS, cut FY24 EPS view as it expects recent headwinds to persist into FY24, and plans major US store closures.
- **Levi Strauss (LEVI)** - Missed on revenue and reaffirmed FY adj. EPS view with midpoint below expectations.
- **McCormick & Company (MKC)** - Beat on top and bottom line alongside reaffirming FY EPS guidance.
- **International Paper (IP), Suzano (SUZ)** - Suzano ended acquisition talks with International Paper, citing the latter's lack of engagement with its offer of USD 15bln in an all-cash deal.
- **BANKS** - All banks passed the Fed stress tests, although Goldman Sachs (GS) was lower as it has the second-worst credit card portfolio.
- **US Bancorp (USB)** - Downgraded at Goldman Sachs, as it said the bank could face pressure due to stiffer capital requirements from stress tests.
- **Hims & Hers Health (HIMS)** - HunterBrook posted a cautious report on the Co., as it sells a GLP-1 injection that's not FDA approved, from a shady supplier and won't make you talk to a doctor to get it.
- **Altimune (ALT)** - New weight drug pemvidutide could be "better" than Novo Nordisk's (NOVOB DC) Ozempic, according to NY Post.
- **Amazon (AMZN)** - Said that Microsoft's (MSFT) Xbox game pass ultimate members can access & play cloud-enabled games directly via the Xbox app on select Fire TV devices.
- **Rivian (RIVN)** - CFO said co. has under contract over USD 200mln of regulatory credit sales for 2024, which gives confidence in a meaningful profit opportunity.
- **Canadian National (CNI)** - A freight train was derailed in Matteson Thursday morning and residents have been ordered to evacuate the area. However, it was later reported evacuation order lifted after freight train derailed in Matteson



- **Penn Entertainment (PENN)** - Is unlikely to bow to activist pressure to sell at such an early stage of executing on what it expects to be a game-changing online sports betting partnership with ESPN, according to Dealreporter.

US FX WRAP

The Dollar hovered around the 106 level throughout the European session, before falling in response to US data, with the DXY troughing at 105.70, though losses since have slightly pared, albeit still beneath 106.00. US data was mixed, with a surprise upward revision to GDP Q/Q, 1.4% (exp. 1.3%, prev. 1.3%), while Durable Goods was overall soft, despite the headline rising 0.1% (exp. -0.1%). Initial Jobless Claims fell more than expected to 233k (prev. 239k, exp. 236k), below its 4-week Average of 236k, and continued claims, for the one that coincides with the BLS survey period, rose to 1.839mln from 1.821mln, above the 1.824mln forecast, the highest level since November 2021. Concerning Fed speak, Bowman largely reiterated her earlier hawkish remarks in the week, noting the "Fed is not at a point where it can consider a rate cut". Attention in the near term looks towards the Biden/Trump debate, which is set to start at 21:00EDT/02:00BST, with ING baseline assumption regarding the Buck, as follows, "Trump is the most dollar-positive candidate due to protectionism pledges, geopolitical stance, and plans for lower taxes". For upcoming data, markets await the anticipated May's Core PCE.

The Euro was the relative outperformer in the G10 space against the Dollar, supported by the aforementioned data, after making a new monthly low yesterday (1.0666). EUR/USD peaked at 1.07264, erasing yesterday's losses although gains have trimmed since. On the data front, Economic Sentiment in the Euro area fell to 95.9, below market expectations of 96.2. Elsewhere, ECB's Kazimir said he "expects a quiet summer on ECB rates" and can expect one more rate cut this year, Kazaks said that market rate bets are a pretty acceptable scenario; money markets price 48bps of rate cuts by year-end. Of note, OAT/Bund spread rose 72.47 to 81.30, just below recent highs ahead of the first round of French elections on June 30th.

Cyclical currencies were contained in Thursday's session vs. the Buck; GBP outperformed in the green, while the CAD, AUD, and NZD were flat. For the latter, New Zealand Business Confidence slumped to 6.1%, its fifth straight month of decline, and its lowest reading since September last year, driven by a fall in Export intentions; NZD/USD headed into the announcement lower, dipping below its 50 DMA (0.60742) and 200DMA (0.6069), though, removed losses post NZ and US data. Cable watchers await UK's Final GDP Q1 print (exp. 0.6%), GBP/USD pushed back above its 50DMA (1.2640), to highs of 1.2670.

Haven currencies watchers were set on the Yen, as markets continued to speculate entry points for the BoJ to intervene. Concerning Japanese commentary, BoJ's Deputy Governor said weak JPY is an upward factor for prices and is closely monitoring in conducting monopol. Elsewhere, Reuters reported the BoJ is reportedly conducting a survey of Japanese government bond players over bond-tapering plans, with some participants who met with the BoJ earlier this month, calling on the bank to trim bond purchases in several stages to enhance market liquidity; as a reminder, the BoJ is to hold a meeting with bond market participants across 9-10th of July. USD/JPY fell to session lows of 160.29, and pared losses post US data. Yen participants look towards Japan's Unemployment rate (exp. 2.6%), Prelim Industrial Output for May (exp. 2.0%), and Tokyo CPI.

Swedish's Krona was considerably weaker against the Euro, EUR/SEK soared above its 21DMA (11.2833), following a slightly more dovish than expected Riksbank on the policy path, now includes the possibility of three cuts in H2 (prev. two); Riksbank maintained rates at 3.75%, as expected.

EMFX: For the BRL watchers, there was a plethora of speakers on Thursday's with President Lula arguably the highlight, whereby he noted there is always room to cut spending, and thinks Brazil's economic situation is favorable to cut rates. As Lula continued, USD/BRL fell possibly driven by comfort gained from Lula noting he is in no rush to name new Central Bank president, providing participants within the space with certainty. USD/MXN was higher ahead of Banxico, which held rates as expected at 11%, the pair showed little reaction to the release. EUR/CZK rose above the 25 level, after the CNB cut its two-week repo rate by 50bps (exp. 25bps) to 4.75% in June, marking the fourth consecutive 50bps cut by the Central Bank. TRY is flat against the Dollar after the CBRT held its one-week repo auction rate at 50% for its third consecutive meeting, in line with expectations.

BANXICO REVIEW: Banxico decided to keep rates on hold 11.00%, as widely expected, although it was not a unanimous decision as Mejia voted in favour of lowering rates by 25bps to 10.75%. Looking ahead, the Board foresees that the inflationary environment may allow for discussing reference rate adjustments, and as such actions will be implemented in such a way that the reference rate remains consistent at all times with the trajectory needed to enable an orderly and sustained convergence of headline inflation to the 3% target during the forecast period. Further still, the Bank forecasts convergence of headline inflation to 3% target in Q4 of 2025. Continuing on the inflationary footing, the board notes the balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside, and the disinflation process is expected to continue. In terms of figures, the 2024 year-end headline inflation forecast



remained at 4.0% (prev. 4.0%), while it revised year-end core inflation forecast slightly higher to 3.9% (prev. 3.8%). Banxico adds, that although the depreciation of the MXN impacts inflation forecast upwards, its effects are partly offset by those associated with the greater weakness exhibited by economic activity. Further still, the balance of risks to the growth of economic activity is biased to the downside.

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