



US Market Wrap

28th June 2024: Stocks and Bonds whipsaw to US data on month/quarter end

- **SNAPSHOT:** Equities down, Treasuries down, Crude down, Dollar flat.
- **REAR VIEW:** PCE in line on all fronts; Personal Income beats, Spending falls short; Final UoM revised higher, inflation expectations revised lower; Chicago PMI beats; Daly says Fed still has work to do; Japan to replace top currency diplomat; NKE's worst day in over 20 years on weak guidance.
- **WEEK AHEAD:** Highlights include French & UK elections, US ISM & NFP, EZ CPI, Minutes from RBA and FOMC. [To download the report, please click here](#)
- **CENTRAL BANK WEEKLY:** Previewing Minutes from FOMC and RBA; Reviewing Riksbank, CBRT and Banxico. [To download the report, please click here](#)

MARKET WRAP

Stocks saw two way price action on Friday, which coincides with month and quarter-end but ultimately closed in the red. Brief upside was seen in wake of the US PCE data, which ultimately was in line with expectations across the board, but Core PCE, when rounded to 2dp, showed a 0.08% M/M gain, which was on the softer side of expectations. The reaction was typically dovish with Bonds also rising to session highs. However, both the stock and bond upside had pared in wake of a much hotter than expected Chicago PMI print while the Final UoM survey for June was revised up, although inflation expectations were revised down. The composition of stocks was negative, with the majority of sectors in the red, led by weakness in Communication Services, Consumer Discretionary and Utilities, while Real Estate, Energy and Financials were green. Consumer Discretionary was weighed on by a dismal Nike (NKE) update, which tumbled 20% after missing on revenue and providing weak guidance. T-notes continued to slide throughout to see 10yr yields peak at 4.36% with EGB pressure ahead of the French election on Sunday also supporting the move lower in T-notes to see yields bear steepen on the day. The Dollar index was flat by the end of trade, as was the Yen, despite initial strength on the announcement that top currency diplomat Kanda is set to be replaced while Tokyo CPI also came in hotter than expected overnight. AUD outperformed in FX with momentum continuing from the hot inflation earlier in the week, keeping bets the RBA could hike again alive. Next week, attention turns to French elections on Sunday, ISM Manufacturing PMI on Monday, Fed Chair Powell and JOLTS on Tuesday, ISM Services PMI and FOMC Minutes on Wednesday, the UK Election on Thursday and US NFP on Friday.

US DATA

PCE: Overall, the PCE data was in line with expectations. Core PCE rose by 0.1% M/M, easing from 0.3% (revised up from 0.2%), with the Y/Y easing to 2.6% from 2.8%. The headline number was unchanged M/M, down from 0.3% prior, with the Y/Y at 2.6%, down from 2.7%. It is worth noting that the unrounded Core PCE number was 0.0828%, on the lower side of analyst estimates that were predicting between 0.08-0.13% after the CPI and PPI data was released. This brought the 3m annualised rate to 2.7% from 3.5%, whilst the 6mth annualised rate remained unchanged at 3.2%. Meanwhile, CapEco highlighted that the core services ex housing (supercore) rose by 0.09%. Looking ahead, CapEco suggests there is a good chance Core PCE will fall to 2.5% in June, but unfavourable base effects make a further decline in H2 of this year unlikely. Nonetheless, the desk suggests the 2.8% Fed median view is too pessimistic. Elsewhere in the report, Personal income rose by 0.5%, above the 0.4% forecast and up from the prior 0.3%, while adj. consumption rose by 0.2%, beneath the 0.3% forecast, but up from the downwardly revised 0.1%. Real consumption rose by 0.3%, paring the prior -0.1% print. CapEco note the weakness of discretionary services spending is a big concern, while adding that Q2 consumption growth is tracking at 1.6%, bringing down their Q2 GDP growth estimate to 1.8%. Nonetheless, slowing growth and easing price pressures will be a welcome sign for the Fed, money markets are pricing in 72% probability of the first cut occurring in September, with a good chance of two rate cuts by year-end, despite the median Fed dot plot for just one rate cut.

UOM (FINAL): The Final University of Michigan Consumer Sentiment survey for June saw revisions higher across the board, with the headline lifting to 68.2 from 65.6, above the expected 65.8. Current conditions and forward-looking expectations were revised to 65.9 (prev. 62.5) and 69.6 (prev. 67.6), respectively. On the inflationary footing, 1yr came in notably lower than the prior at 3.0% from 3.3%, while the longer-term 5-10yr also ticked lower to 3.0% (prev. 3.1%). On the release, Oxford Economics notes, despite the upward revision, the sentiment index remains depressed



compared to its long-run average, as high prices, elevated interest rates, and softening in the labour market are all weighing on consumers' minds and making them more worried about their future financial conditions.

FED

BARKIN (2024 voter) said he will proceed deliberately on policy, and believes lags are still playing out and policy tightening will eventually slow the economy further. Barkin further added he is open to the idea that hikes are not constraining the economy as much as thought, given the remarkable strength. In later comments, the Richmond Fed President added real time consumer demand indicators like credit card spending still seem to be solid, but not frothy, and on the outlook for a rate cut, does not think forward guidance is particularly helpful right now.

DALY (2024 voter) speaking on CNBC post-PCE data, noted inflation data shows it is cooling and policy is working as expected, and while the Fed is not done yet, PCE data is 'good news'. On policy, Daly reiterated data dependence, and largely reiterated her remarks regarding inflation, stating if it stays sticky or comes down slowly, rates would need to be higher for longer, or if inflation comes down or labour market falters, the Fed can adjust policy.

FIXED INCOME

T-NOTE FUTURES (U4) SETTLE 8+ TICKS LOWER AT 109-31+ T-notes catch a bid on inline PCE but fades on hot Chicago PMI and rising UoM whilst EGB downside ahead of French elections also weighed. 2s +0.4bps at 4.720%, 3s +1.6bps at 4.512%, 5s +2.8bps at 4.329%, 7s +4.3bps at 4.323%, 10s +5.3bps at 4.341%, 20s +6.9bps at 4.605%, 30s +7.5bps at 4.502%.

INFLATION BREAKEVENS: 5yr BEI +2.5bps at 2.266%, 10yr BEI +1.7bps at 2.285%, 30yr BEI +1.0bps at 2.293%.

THE DAY: T-notes sold off overnight after a hotter than expected June Tokyo CPI, which can be used as a gauge for the national print in Japan. There was a gradual reversal ahead of the PCE data which ultimately was inline with expectations, but if you wanted to cherry pick, when rounded to 3dp the actual Core PCE M/M print was 0.08%, on the lower end of forecasts. The data saw T-notes hit session highs of 110-14 before paring in wake of a very hot Chicago PMI print, as well as an improvement in the Final UoM survey for June (albeit inflation expectations eased). The downside continued with weakness in EGBs adding to the pressure with French election risk over the weekend with T-notes hitting a low of 109-28+ before paring somewhat into settlement. Attention next week turns to US NFP on Friday (after the French election on Sunday), but note there will likely be light trade earlier in the week on account of US Independence Day. Bear in mind, FOMC Minutes and UK election are to take place on the 3rd and 4th July, respectively.

STIRS:

- Market Implied Fed Rate Cut Pricing: September 18bps (prev. 18bps D/D), November 26bps (prev. 26bps), December 45bps (prev. 47bps).
- NY Fed RRP op demand at USD 665bln (prev. 532bln) across counterparties 93 (prev. 75).
- SOFR at 5.34% (prev. 5.34%), volumes at USD 1.888tln (prev. 1.897tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 83bln (prev. 82bln).

CRUDE

WTI (Q4) SETTLES USD 0.20 LOWER AT 81.54/BBL; BRENT (U4) SETTLES USD 0.26 LOWER AT 85.00/BBL

The crude complex was choppy on Friday, ending the day in the roughly flat, and the week slightly in negative territory. Throughout the whole day, from the European morning to settlement energy was choppy, with no move seemingly driven by a headline, but potentially month/quarter end flows and positioning. As such, WTI and Brent reversed from highs of USD 82.72/bbl and 86.18/bbl, respectively, to lows of 80.97/bbl and 84.52/bbl in the US afternoon. As mentioned, oil specific headlines were light to conclude the week, with in line US PCE taking the headlines, although Baker Hughes saw oil rigs -6, with natgas -1, leaving the total -7 at 581, the lowest since December 2021. Elsewhere, Russia is reportedly to continue gasoline exports in July, according to Reuters sources.

EQUITIES

CLOSES: SPX -0.41% at 5,461, NDX -0.54% at 19,683, DJI flat at 39,124, RUT +0.46% at 2,048.



SECTORS: Communication Services -1.63%, Consumer Discretionary -1.36%, Utilities -1.08%, Technology -0.43%, Consumer Staples -0.46%, Materials flat, Health flat, Industrials flat, Financials +0.38%, Energy +0.42%, Real Estate +0.62%.

EUROPEAN CLOSES: DAX: +0.13% at 18,234, CAC 40: -0.68% at 7,479, PSI: -0.65% at 6,480, FTSE 100: -0.19% at 8,164, IBEX 35: flat at 10,944, FTSE MIB: flat at 33,154, SMI: -0.15% at 11,986, Euro Stoxx 50: -0.20% at 4,893.

STOCK SPECIFICS:

- **Nike (NKE)** - Said next quarterly sales will fall 10%, warned of China weakness, in addition to revenue falling short of expectations. In commentary, the CFO expects headwinds to have a more pronounced impact in fiscal 2025.
- **Kura Sushi (KRUS)** - Q3 results missed, and its FY outlook disappointed expectations.
- **Apple (AAPL)** - iPhone shipments jumped 40% in China for May after steep discounts, Bloomberg reported. UK CMA said it has extended its analysis and review of Apple's App Store investigation from June to August 2024.
- **Infinera (INFN), Nokia (NOK)** - Nokia will acquire Infinera in a deal with an enterprise value of USD 2.3bln.
- **Walgreens Boots Alliance (WBA)** - Plans to cut a significant amount of Boots stores in the UK and US, and as such sees cumulative pre-tax charges to GAAP financial results for transformational cost management programme to be between USD 4.1-4.4bln.
- **Moderna (MRNA)** - EMA's CHMP recommended the granting of market authorisation in the EU for mRESVIA, an mRNA respiratory virus vaccine.
- **Chubb (CB), Travelers (TRV)** - Both downgraded at William Blair; said rising claims and losses were impacting the casualty insurance sector.
- **Guardant Health (GH)** - Upgraded to Buy at Guggenheim.
- **Lockheed Martin (LMT)** - Awarded a ~ USD 1.5bln Navy contract for logistics support of F-35 Lightning II aircraft.
- **Chevron (CVX)** - US Supreme Court overturned the Chevron ruling, framed as a blow to agency power; overturning the precedent that called for judges to give deference to agencies interpretation of laws they administer.
- **Amazon's (AMZN)** - Bargain store would reportedly use the same trade loophole as Temu and SheIn, AMZN plans to send packages under US tariff exemption and says it will be up to 45% cheaper than the existing service, according to The Information.
- **Infosys (INFY)** - McCamish says LockBit stole data of 6mln people, according to BleepingComputer.
- **Cassava Sciences (SAVA)** - Tumbled with several halts after DoJ announced "Professor Charged for Operating Multimillion-Dollar Grant Fraud Scheme". The Professor in question was the co-developer of Cassava's potential Alzheimer's drug.
- **Johnson & Johnson (JNJ)** - Reported positive results from the Nipocalimab phase 3 vivacity-mg3 study in patients with generalized myasthenia gravis (GMG); critical secondary endpoints also met.
- **HubSpot (HUBN)** - Announced it is investigating customer account hacks, according to Techcrunch.

US FX WRAP

The Dollar traded within a contained range in Friday's session, the DXY hit a peak overnight just above 106 before paring ahead of the US PCE data. The data saw only a slight reaction with Headline and Core PCE M/M and Y/Y were in line with expectations, meanwhile, Personal Income rose slightly above expectations, and Personal Spending came in less than expected. Fed's Daly noted the Fed is not done yet, but the PCE data is good news. Elsewhere in the data space, Chicago PMI beat expectations, while the UoM Consumer Sentiment Final was revised higher, but the 1yr, and 5yr inflation expectations for June were revised down. Ultimately, the DXY volatility following the data releases was minimal, with the session range as follows, 105.745-106.126, thus putting the DXY's three-week rally on pause, with the weekly and intraday performance flat. Heading into next week, dollar watchers eye JOLTs and Fed's Powell on Tuesday, ISM PMI and FOMC Minutes on Wednesday, NFP and the Unemployment rate on Friday.

The Euro was flat against the buck ahead of 1st round of French elections on Sunday (30th June). Like the dollar, the FX's session range was tight, showing little reaction to data within the region. Italian Prelim Y/Y Inflation for June was cooler than expected, while CPI in France was in line. Germany's Unemployment Change was higher than forecasts, while European Consumer 1-yr and 3yr Inflation Expectations in May fell slightly. Heading into the upcoming French elections OAT/BUND spreads widened to highs of 85.20 from the open of 81.10, levels not seen since 2012, albeit narrowed as the session progressed, finishing the session at 80.30. EUR/USD spent the day hovering around the 107 mark; EUR/USD experiences its first weekly gain since May 13th, though it finishes the month in the red, erasing most of May's gains.



Cyclical currencies were mainly in the green against the greenback, with the Pound being the exception, in unchanged territory. The Canadian Dollar was choppy in trade amid in-line GDP M/M for April, in the end, USD/CAD finished slightly lower at 1.3683, though of session lows. UK data saw the Final GDP Q/Q and Y/Y, revised above expectations, that said, Cable finished the week unchanged, ending its three-week decline, ahead of the July 4th election (Next Thursday). The Aussie outperformed in the G10 space, AUD/USD peaked at session highs of 0.6685, finishing the session well in the green before RBA's Minutes next Tuesday.

The Yen once again took the spotlight in the haven FX space, with session lows of 160.26 and highs of 161.283. It was announced that Japan's Ministry of Finance is to replace top currency diplomat Kanda; USD/JPY initially fell 23 pips to 161 from 161.23. Elsewhere, Tokyo Core CPI Y/Y was hotter than forecast, Unemployment Rate was in line, and Prelim Industrial Production M/M beat market expectations, driven by a large rebound in the output of motor vehicles. USD/JPY finished the session flat against the dollar ahead of Japanese Consumer Confidence for June on Monday. USD/CHF is unchanged on the session, as was EUR/CHF with attention on Swiss CPI next week.

EMFX: The Rand rallied hard on Friday, nearly wiping out all of Thursday's losses, which stemmed from local media reports suggesting the Democratic Alliance (DA) and African National Congress (ANC) were in disagreement over cabinet positions. That said, optimism was among investors today, that both parties would reach an agreement, after a DA party source told Reuters on Friday, "The party was still committed to negotiations over cabinet posts"; USD/ZAR sees a 4th consecutive monthly loss. USD/COP fell amid Columbia's Central Bank cutting rates by 50bps to 11.25% as expected; Brazil's Real surged against the dollar, with BCB Director Galipolo noting "they are watching a rapid weakening of the Real". EUR/PLN was flat after Polish CPI Flash Y/Y was lower-than-expected, albeit M/M was in line. USD/CLP dumps post uplifting Copper Production Y/Y and a lower unemployment rate while firmer copper prices also supported.

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