# US Market Wrap

## 3rd July 2024: Downbeat data drives stocks higher while yields dive

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: US ISM Services PMI tumbles; Jobless Claims above expected; ADP misses; WH refutes reports Biden is considering stepping down from Presidential race; Huge EIA crude stock draw; FOMC Minutes offers little new.
- **COMING UP**: **Data**: Australian Exports/Imports, German Industrial Orders, Swiss CPI **Events**: UK Election (exit poll 22:00BST), BoE DMP **Speakers**: ECB's Lane & Cipollone **Supply**: Japan, Spain & France.
- **INDEPENDENCE DAY**: The desk will close at 19:30BST/14:30 EDT on Wednesday July 3rd, and at 18:00BST/13:00EDT on Thursday July 4th. APAC service will resume at 22:00BST/17:00EDT on Wednesday and at 21:45BST/16:45EDT on Thursday for UK election coverage. For the full notice, please click here

## MARKET WRAP

On the shortened holiday trading day the S&P and Nasdaq 100 managed to close at record highs while yields and the Dollar tumbled. The primary drivers of price action was a slew of soft economic data. The highlight was the woeful ISM Services PMI which saw the headline fall back into contractionary territory, printing the lowest level in four years, amid a slump in business activity and new orders, while both prices and employment dipped too. This sparked the majority of the moves on Wednesday but rising jobless claims and an ADP miss also contributed. T-Notes rallied with the 10yr yield falling to a low of 4.34% in response to the dovish data while the Dollar slumped with the DXY finding support at 105.00 from a peak of 105.80 pre-data. Stocks were a bit more choppy around the data, but once the dust settled and yields remained lower, indices advanced higher into the close led by pronounced upside in the tech stocks while Tesla (TSLA) added to its recent rally. Health Care was the underperforming sector led by downside in Eli Lilly (LLY) on reports of a serious eye condition related to weight loss drugs. Crude prices were choppy with larger-than-expected crude stock draws initially resulting in upside before swiftly paring but it ultimately pared those losses finishing the session with strong gains. The FOMC Minutes, released after the market close, revealed little new about the Fed's policy path.

## US

**ISM SERVICES**: US ISM Services PMI was woeful, as the headline tumbled to a four year low of 48.8 (exp. 52.5, prev. 53.8), with New Orders and Business Activity also diving into contractionary territory to 47.3 (prev. 54.1) and 49.6 (prev. 61.2), respectively. Note, New Orders subsided beneath 50 for only the second time since May 2020. Elsewhere, employment dipped to 46.1 from 47.1, while the inflationary gauge of prices paid printed 56.3 (prev. 58.1), indicating a slightly faster slowdown in the labour market but slower price growth. Supplier deliveries slightly fell, while inventories and backlog of new orders both fell beneath 50. Within the report, it notes, “Survey respondents report that in general, business is flat or lower, and although inflation is easing, some commodities have significantly higher costs. Panellists indicate that slower supplier delivery performance is due primarily to transportation challenges, not increases in demand.” Overall, ING states, broad-based weakness in ISM services coupled with an upward trend in jobless claims suggests that the pieces are falling into place regarding a September interest rate cut from the Fed. While the Fed is signalling one cut this year, ING continue to see the risk of three rate cuts in 2024.

**JOBLESS CLAIMS**: Initial Jobless Claims (w/e June 29th) rose to 238k from 234k, marginally above the 235k forecast, with the 4wk average rising to 238.5k from 236.25k. The unadjusted data saw claims rise to 238k, +13k W/W, while the seasonal factors had expected an increase of about 8.5k. The Continued Claims data, for the preceding week, saw a notable jump to 1.858mln from 1.832mln, above the consensus 1.840mln, and above the highest analyst forecast of 1.845mln. It is worth noting that neither of these prints coincide with the usual survey window for the NFP report due Friday. Analysts at Pantheon Macroeconomics note that "Looking ahead, initial claims usually are choppy in July as a result of the timing of auto plant shutdowns, which vary every year. Nevertheless, most leading indicators suggest that claims will continue to trend up".

**ADP NATIONAL EMPLOYMENT**: ADP national employment rose 150k in June from the prior, revised higher, 157k and beneath the expected 160k. Looking within in the report, median change in annual pay saw job-stayers printed 4.9% Y/Y (prev. 5.0%), while job-changers was 7.7% Y/Y (prev. 7.8%). Leisure/hospitality dominated the jobs creation, with a chunky 63k, followed by Construction, 27k, and Professional/Business services, 25k. As such, ADP Chief Economist Nela Richardson stated, “Job growth has been solid, but not broad-based. Had it not been for a rebound in hiring in

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leisure and hospitality, June would have been a downbeat month." This comes ahead of the US payrolls report on Friday, whereby analysts current estimate 190k nonfarm payroll additions, while average hourly earnings are expected to decline to 3.9% Y/Y in June vs 4.1% in May.

**CHALLENGER LAYOFFS**: Challenger layoffs fell to 48.786k in June, from 63.816k in May, which is the highest total for June since 2020. Andrew Challenger, Senior VP and workplace expert for Challenger, Gray & Christmas, noted "June is typically a low month for job cut announcements, as most companies are midyear or at the end of their fiscal years. The months following fiscal year ends tend to have a spike in cuts, as those plans are implemented". Regarding the cuts, Consumer Products Manufacturers led all cuts in June with 5,311, followed by Technology. When asked why companies are cutting, they cite "Cost-Cutting", closely followed by "Market/Economic Conditions". Looking ahead, on hiring plans in 2024, employers announced plans to hire 19,087 workers, the second-highest monthly total so far this year, for a total of 69,920. This is the lowest YTD total for announced hiring plans since 2016.

**INTERNATIONAL TRADE**: The US Goods and Services Deficit was USD 75.1bln in May, wider than the USD 74.5bln deficit in May, but narrower than the street forecast for a deficit of USD 76.2bln. Imports declined by 0.3% to USD 336.7 bln, while exports declined by 0.7% to USD 261.7bln. There was an increase in the goods deficit of USD 0.9bln to USD 100.2bln and an increase in the services surplus of USD 0.3bln to USD 25.1bln. Analysts at Oxford Economics note that the widening of the trade deficit was not as large as implied by the advanced trade report, but net trade is still on track for a 0.7% drag on Q2 real GDP growth.

**FOMC MINUTES REVIEW**: In the latest FOMC Minutes, for the meeting on June 12th, offered little new into the future policy path, but nonetheless they did note most participants saw the current policy stance as restrictive, and several participants said if inflation were to persist at elevated level or rise further, funds rate might need to be raised. In addition, they did note a number of participants said policy should stand ready to respond to unexpected economic weakness. On the inflationary footing, it notes May's CPI reading, which was released on the day of the meeting, was seen by participants as providing additional evidence of progress toward inflation goal. Moreover, regarding "disinflation" after Chair Powell used in at Sintra this week, the Minutes stated participants observed that longer-term inflation expectations had remained well anchored and viewed this anchoring as underpinning the disinflation process. Further, participants affirmed that additional favorable data were required to give them greater confidence that inflation was moving sustainably toward 2 percent. In wake of the release, Fed whisperer and WSJ's Timiraos posted "While there isn't an obvious signal about the policy path in the FOMC minutes, the discussion about inflation and labor market developments offers little to suggest fear of overheating or policy being too loose".

## FIXED INCOME

**T-NOTE (U4) FUTURES SETTLED 18+ TICKS HIGHER AT 110-01+**

**T-Notes rallied across the curve after soft ADP, rising jobless claims and a dismal ISM Services PMI**. At settlement, 2s -3.9bps at 4.700%, 3s -6.4bps at 4.487%, 5s -7.8bps at 4.318%, 7s -8.5bps at 4.318%, 10s -8.3bps at 4.353%, 20s -8.8bps at 4.629%, 30s -8.6bps at 4.523%.

**INFLATION BREAKEVENS**: 5yr BEI -3.5bps at 2.246%, 10yr BEI -2.7bps at 2.276%, 30yr BEI -1.8bps at 2.305%.

**THE DAY**: T-Notes meandered overnight with the majority of the moves seen within the US session. T-Notes started rising in wake of a softer-than-expected ADP report ahead of Friday's NFP, which also saw the median change in annual pay ease for both job stayers and changers. The move continued to advance after more soft data which saw jobless claims come in above expectations, particularly the continued claims. This saw T-Notes peak around 109-22 ahead of the ISM data, up from the lows this morning around 109-12. Nonetheless, T-Notes rallied further after ISM Services PMI, which tumbled beneath all analyst forecasts, falling back into contractionary territory at 48.8, down from the 53.8 prior and shy of the 52.5 forecast. The downside was led by a tumble in business activity and new orders, while employment saw a slight drop and prices paid also eased, but remained in expansionary territory. T-Notes then surged to a peak of 110-04, before paring to c. 110-00 into settlement. It is also worth noting that some reports had suggested President Biden was considering stepping down as the Democratic Presidential nominee, although this has since been denied. Nonetheless, betting markets have VP Kamala Harris as the favourite Democratic nominee. With Trump currently the favourite for the top job, if another candidate goes against him instead of Biden, some of the pricing in of Trump becoming President could begin to pare. The FOMC Minutes were released after the market close on Wednesday, but it gave little indication of the future policy path. Note, markets closed early on Wednesday on account of the July 4th holiday in the US, attention turns to the UK election on Thursday, and the US NFP on Friday.

**NEXT WEEK SUPPLY**: US is to sell USD 58bln of 3yr notes on July 9th, USD 39bln of reopened 10yr notes on July 10th, and USD 22bln of reopened 30yr bonds on July 11th; all to settle on July 15th.

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**STIRS**:

- Market Implied Fed Rate Cut Pricing: September 20bps (prev. 19bps D/D), November 29bps (prev. 27bps), December 48bps (prev. 47bps).
- NY Fed RRP op demand at USD 426bln (prev. 443bln) across 70 counterparties (prev. 78).
- SOFR at 5.35% (prev. 5.40%), volumes at USD 2.110tln (prev. 1.967tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 85bln (prev. 85bln).
- US sold USD 60bln of 17-wk bills at 5.205%, covered 3.15x.
- US to sell USD 76bln of 13-wk bills, USD 70bln of 26-wk on July 8th, and USD 46bln of 52-wk bills on July 9th; all to settle on July 11th.

## CRUDE

**WTI (Q4) SETTLED USD 1.07 HIGHER AT 83.88/BBL**

**The crude complex was choppy on Wednesday, but settled in the green**. On the day, WTI and Brent grinded higher throughout the European morning before hitting highs of USD 83.53/bbl and 86.92/bbl, respectively, after the much larger-than-expected EIA crude draw. Recapping the figures, crude drew 12.157mln (exp. -0.9mln), greater than the private inventory metrics on Tuesday night. Distillates and Gasoline both saw slightly bigger draws, while crude production was unchanged at 13.2mln. However, after the data the energy complex saw a sharp sell off to session low of USD 82.46/bbl and 85.89/bbl with seemingly no clear driver. Elsewhere, there was a deluge of US data which culminated in a very soft ISM Services print, but energy was largely unreactive. On the Hurricane Beryl footing, whilst it is impacting some Caribbean islands, desks remain of the same tone that it will not shut down any major amounts of offshore oil production, and if some shut, it will have a minimal impact on platforms.

## EQUITIES

**CLOSES:** SPX +0.51% at 5,537, NDX +0.87% at 20,187, DJI flat at 39,308, RUT +0.14% at 2,037.

**SECTORS:** Health -0.73%, Consumer Staples -0.12%, Financials -0.11%, Real Estate flat, Communication Services +0.2%, Consumer Discretionary +0.32%, Industrials +0.4%, Energy +0.44%, Utilities +0.63%, Materials +0.81%, Technology +1.48%.

**EUROPEAN CLOSES:** DAX: +1.19% at 18,380, CAC 40: +1.24% at 7,632, PSI: +1.14% at 6,665, FTSE 100: +0.61% at 8,171, IBEX 35: 1.32% at 11,057, FTSE MIB: +1.09% at 33,845, SMI: flat at 12,020, Euro Stoxx 50: 1.25% at 4,968.

**STOCK SPECIFICS**:

- **Nvidia (NVDA) -** Faces possible antitrust investigations in multiple countries, where its AI market dominance may be significantly challenged, according to industry sources cited by DigiTimes.
- **Apple (AAPL) -** Will gain an observer role on OpenAI's board, matching the position of Microsoft, Bloomberg reports.
- **Paramount Global (PARA) -** Skydance reached a preliminary agreement to buy National Amusements (which owns 77% of the voting shares of Paramount) for USD 1.75bln, WSJ reports citing sources. Following this, CNBC citing sources, said Paramount and Skydance deal is expected to be completed by the weekend.
- **Eli Lilly (LLY) -** FDA Tuesday approved Eli Lilly's treatment for early Alzheimer's under the brand name Kisunla.
- **Novo Nordisk (NVO) -** There is a potential link between Novo Nordisk's Ozempic, Wegovy, and a serious eye condition revealed in new study, NYPost said in a post on X.
- **Constellation Brands (STZ) -** Beat on comparable EPS, reaffirmed its FY25 outlook and reported FY comp sales midpoint in line. In addition, exec expects lower volumes and margins in H2.
- **GSK (GSK) -** A Delaware judge has dismissed a request by GSK and other drug makers to end Zantac cancer lawsuits, allowing over 70,000 lawsuits to go ahead.
- **Southwest Airlines (LUV) -** Said it has adopted a rights plan in response to the significant accumulation by Elliot Investment Management.
- **Tesla (TSLA) -** Received EU inspectors last week at its Chinese factories, according to Politico. EU inspection of Tesla China factories could result in Co getting lower duty than an average of 21% on Chinese EV-makers.
- **Meta (META) -** CEO Zuckerberg says Threads has more than 175mln MAUs.

## US FX WRAP

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**The Dollar** was weaker against all of its G10 FX peers, with Yen as the exception. The Dollar Index experienced strength earlier in the session, although, it started to descend into the red, a move started by a lower-than-expected ADP report. The index's decline increased after Initial Jobless Claims came in slightly above expectations. DXY held on to support, for a short period, perhaps due to the release of stronger-expected S&P Global PMI Final data for June. Nevertheless, weakness quickly resumed once ISM reported extremely soft Services PMI, which was both short of expectations, and below the consensus range of forecasts; its lowest figure in 4 years. The Dollar Index fell below its 21DMA (105.341) and 50DMA (105.153), incurring session lows of 105.049. That said, DXY managed to reclaim some of its earlier losses, going back above its 50 DMA, yet, still well in the red.

**Aussie** outperforms in the G10FX space, after stronger-than-expected Retail Sales M/M Final for May and Judo Bank PMI Final for June; AUD/USD peaked at 0.6734. Pound strengthened ahead of the UK General Election on Thursday, predominantly on the aforementioned Greenback weakness; note, that the UK S&P Global PMI Final for June beat expectations.

**EUR/USD** was higher. For the region there was mixed HCOB Services PMI for June in the region: France and EZ Beat, Germany missed, and Italy was in line.

**The Yuan** was flat against the Buck, but do note that overnight there was a miss on Caixin Services PMI for June. The Franc outperforms its haven peer, the Yen, ahead of Swiss Inflation for June on Thursday.

**EUR/SEK** saw weakness despite the tone of Riksbank Minutes being similar to the last meeting, which saw two/three H2-2024 cuts as a possibility.

**In EMFX**, Turkish Inflation was much lower than thought, 1.64% M/M for June (exp. 2.22%), and USD/TRY is flat. BRL saw strong gains against the Greenback on Wednesday, after Finance Minister Haddad stated the BCB directors have the autonomy to act on FX however they see fit. in terms of data, Industrial Production M/M for May fell, yet considerably above market expectations, -0.9% (exp. 1.7%).

## Disclaimer

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