



US Market Wrap

7th July 2024: Dovish NFP report sees stocks and bonds bid

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar down
- **REAR VIEW:** NFP beats, but with chunky downward revisions, unemployment rate rises, wages inline; Fed MPR echoes Powell; Weak Canada jobs report; Labour win UK election; IFOP sees RN strength ease; German coalition agrees on 2025 draft budget; Israel/Hamas talks to resume next week, gaps remain.
- **WEEK AHEAD:** Highlights include US CPI, Powell testimony, BoJ bond meeting, RBNZ and US earnings. [To download the report, please click here](#)
- **CENTRAL BANK WEEKLY:** Previewing Fed Chair Powell testimony, RBNZ, BoJ bond meeting; Reviewing minutes from the FOMC and RBA. [To download the report, please click here.](#)

MARKET WRAP

The main focus was the US nonfarm payrolls report. The headline came in above expectations at 206k (exp. 190k), although the prior saw a chunky revision lower to 218k from 272k, while the two-month net revisions were -111k from -15k. Meanwhile, the Unemployment Rate surprised to the upside at 4.1% (exp. 4.0%, prev. 4.0%), rising above the Fed's median 2024 projection of 4.0%. Earnings were in line with expectations. The chunky downward revisions and rising unemployment rate sparked a dovish reaction with both stocks and bonds firmer on the session while the buck was hit. Stocks ground higher throughout the session with equity performance led by gains in Communication names with notable upside in Meta (META) and Google (GOOGL) supporting the sector. T-notes saw two-way price action to the NFP report, initially selling off on the headline beat, but once the details were digested it spiked higher before paring marginally. Nonetheless, T-notes ground higher throughout the rest of the session into settlement with the curve bull steepening. Money markets now fully price in two Fed rate cuts by year-end, with an 80% probability of the first move occurring in September. The Dollar was hit with the dovish data and lower yields weighing on the buck while both cyclical and haven currencies prospered. Elsewhere, focus was on elections with a Labour landslide in the UK seeing the party take an absolute majority as expected. Across the channel, French polls continue to show a hung parliament, but an IFOP poll today saw the RN at 170-210 seats, down from the prior day's polling for 210-240 seats, which supported French assets.

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JOBS REPORT: Headline NFP eased in June to 206k from a heavily revised down 218k (initially 272k), while the unemployment rate ticked up to 4.1% from 4.0%, despite expectations for this to be left unchanged. The 4.1% is also above the Fed's median 2024 projection, and it also came alongside an uptick in the participation rate to 62.6% from 62.5%. Oxford Economics suggests that the increase was led by prime-age workers, whose unemployment rate rose to the highest level since November 2021. Wages meanwhile were inline with expectations at 0.29% (exp. 0.30%), ticking down from the 0.4% prior, while Y/Y eased to 3.86% from 4.1%, in line with the 3.9% forecast. Although the headline beat, the chunky revision lower offset the beat and shows that job growth is continuing to cool within the US while participants will be cognizant of revisions lower to the June report in the next report; the latest two-month net revisions were -111k vs last months -15k. With wages easing in line with expectations, chunky downward revisions, and a rising unemployment rate, the report was a net dovish one. The general tone of analysts is that this report keeps the door open for a September rate cut, but of course data between now and then will also help shape expectations. Markets currently price in a c. 80% probability of a September rate cut and are now fully pricing in two rate cuts in 2024 vs the Fed's median view of just one rate cut. It is also worth noting that with the Fed's acknowledgement of further inflation progress, and Powell's commentary that the disinflation process has begun, while also noting that risks to the dual mandate have come into better balance, the labour market will be of increased attention in regards to the Fed's reaction function. Nonetheless, Powell has said it would take an unexpected weakening in the labour market, which he defined as more than just a couple of tenths higher in the unemployment rate, for the Fed to react.

FED MONETARY POLICY REPORT noted modest further progress seen on inflation this year, but still need 'greater confidence' before moving to rate cuts, echoing the recent messaging from Fed officials. The report further states that labour supply and demand resembles period right before the pandemic and when the labour market was relatively tight but not overheated. On housing-related inflation, it expects inflation pressures to gradually decline. Meanwhile, on the



job market it notes despite improvements, there are still significant disparities. Lastly, and on the financial system, the report notes it remains 'sound and resilient' though parts of banks' CRE portfolios are 'facing stress', before adding that financial conditions appear somewhat restrictive on balance and bank lending pace 'somewhat tepid'.

FED'S WILLIAMS (Voter) stated there is still a way to go to reach the 2% inflation target on a sustained basis. Williams further added they have seen significant progress in bringing inflation back to the 2% target, and the Fed is committed to getting the job done. In some later remarks, the NY Fed President added the US economy is doing remarkably well and some valuations are definitely stretched.

FED'S GOOLSBEE (non-voter) spoke overnight on Wednesday, and he stated getting inflation back to 2% will take time and there is still a lot of data to be had on the economy, while he warns against prolonged high interest rates.

FIXED INCOME

T-NOTE FUTURES (U4) SETTLE 18 TICKS HIGHER AT 110-19+

T-Notes bull steepen after net dovish jobs report with strong downward revisions and rising unemployment rate offsetting NFP beat. At settlement, 2s -8.9bps at 4.604%, 3s -8.7bps at 4.391%, 5s -8.7bps at 4.223%, 7s -8.5bps at 4.228%, 10s -7.1bps at 4.276%, 20s -4.8bps at 4.578%, 30s -4.8bps at 4.472%.

INFLATION BREAKEVENS: 5yr BEI -0.7bps at 2.240%, 10yr BEI +0.0bps at 2.277%, 30yr BEI +0.3bps at 2.307%.

THE DAY: T-notes saw marginal upside overnight and throughout the European morning with attention turning to the US NFP. The data itself saw a knee-jerk reaction lower in T-notes on the NFP headline beat. The move swiftly pared however to see T-notes rally to fresh session highs as the rest of the data was digested. A chunky revision lower to 218k from 272k, coupled with a surprise uptick in the unemployment rate, sparked a dovish market reaction. T-notes hit a high of 110-16+ before paring a touch but T-notes then grinded higher into settlement. The data keeps the door open to a September rate cut with money markets assigning a c. 80% probability of a 25bp cut in September, but two 25bp rate cuts are now fully priced by year-end, despite the Fed's median projection for one 2024 rate cut. The Fed also released its Monetary Policy Report ahead of Powell's testimonies next week to the Senate (Tues.) and House (Wed.). It was largely in fitting with Powell's recent remarks, particularly around inflation progress but stressing greater confidence is still needed.

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.

STIRS:

- Market Implied Fed Rate Cut Pricing: September 20bps (prev. 20bps D/D), November 31bps (prev. 29bps), December 51bps (prev. 48bps).
- NY Fed RRP op demand at USD 391bln (prev. 426bln) across 68 counterparties (prev. 70).
- SOFR at 5.33% (prev. 5.35%), volumes at USD 2.007tln (prev. 2.110tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 88bln (prev. 85bln).

CRUDE

WTI (Q4) SETTLES USD 0.72 LOWER AT 83.16/BBL; BRENT (U4) SETTLES USD 0.89 LOWER AT 86.54/BBL

The crude complex was choppy on Friday, albeit settled in the red, but still managed to end the week with notable gains. Initially, WTI and Brent saw gains to reach multi-month peaks of USD 84.52/bbl and 87.95/bbl, respectively, as investors eyed strong summer fuel demand and potential supply disruptions. Nonetheless, after Europe shut up shop for the week energy saw downside, to pare gains, potentially position squaring and/or profit taking. Meanwhile, both Hess (HES) and Murphy Oil (MUR) announced there has been no impact to production from Hurricane Beryl, which was also downgraded to a tropical storm. In geopolitics, there are reportedly some obstacles to the Israel-Hamas deal at the same time as intensified fighting is reported in the West Bank, and against the backdrop of rising tipping-point tensions between Israel and Lebanon, as Hezbollah's leader and a Hamas delegation are meeting. Negotiations are set to continue next week with gaps still remaining. On the latest Baker Hughes Rig Count, oil was unchanged at 479, with Natgas up 4 at 101, leaving the total also rising 4 to 581. Looking to next week, attention is on Fed Chair Powell's testimony, US inflation data, and the beginning of US earnings.

EQUITIES



CLOSES: SPX +0.55% at 5,567, NDX +1.02% at 20,392, DJI +0.17% at 39,376, RUT -0.49% at 2,027.

SECTORS: Energy -1.52%, Industrials -0.4%, Financials -0.28%, Materials +0.13%, Utilities +0.19%, Real Estate +0.32%, Technology +0.49%, Health +0.72%, Consumer Discretionary +0.85%, Consumer Staples +1.21%, Communication Services +2.74%.

EUROPEAN CLOSES: DAX: flat at 18,461, CAC 40: -0.26% at 7,676, PSI: flat at 6,679, FTSE 100: -0.45% at 8,204, IBEX 35: -0.39% at 11,024, FTSE MIB: -0.35% at 33,988, SMI: -0.43% at 12,017, Euro Stoxx 50: -0.19% at 4,978.

STOCK SPECIFICS

- **Novo Nordisk (NVO), Weight Loss Drugs (LLY)** - Weight-loss jabs including Ozempic and Wegovy are being linked to a rare condition that causes blindness, according to Sky News citing a study.
- **Samsung Electronics (SMSN)** - Forecasts a better-than-expected increase in Q2 profits and sees Q2 profit rising 55.2% Y/Y.
- **Tesla (TSLA)** - Is closer to securing a lower duty on its Chinese-made cars shipped to the EU after inspectors visited its Shanghai factory, Politico reports.
- **Macy's (M)** - Arkhose Management and Brigade Capital Management have increased their buyout offer for Macy's to USD 24.80/shr (prev. bid USD 24/shr)
- **AstraZeneca (AZN)** - Tagrisso with the addition of chemotherapy has been approved in the EU.
- **Nio (NIO)** - CFO Steven Wei Feng resigns, with Stanley Yu Qu to succeed, effective July 5th.
- **Instructure Holdings (INST)** - KKR and Francisco Partners are in the final round of bidding to acquire the Co. for USD 3.4bln.
- **Crypto Names (COIN, MSTR, MARA etc.)** - Crypto-related stocks are seeing weakness after Bitcoin fell to its lowest level since February, with the now defunct Mt. Gox exchange beginning repayments to creditors, as expected.
- **Baxter (BAX)** - Carlyle Group is in exclusive talks to acquire Baxter's kidney care spinoff Vantive for more than USD 4bln, including debt, according to WSJ
- **Intel (INCT)** - Revealed new 4nm flagship GPU made by TSMC, according to Digitimes reports.
- **NCR Voyix (VYX)** - Exploring the sale of its digital banking business, hoping for USD 3bln, according to Reuters citing sources
- **Apple (AAPL)** - Approved Epic Games Sweden marketplace app after Epic Games' antitrust complaint
- **Google (GOOGL)** - Wants to double the number of iPhone (AAPL) searches done outside Safari, according to The Information as Growth in searches done on Google and Chrome stalled last year.

US FX WRAP

The Dollar headed into Friday's Non-farms payroll report slightly weaker against its peers, with the DXY breaking below the 105 level. The DXY saw two way price action on the data but ultimately was lower on the session. There was a choppy reaction due to the headline NFP beat, but overall it was a dovish report. There were huge downward revisions both on prior and on a two-month aggregate basis while the unemployment rate surprised to the upside, 4.1% (exp. 4.0%, prev. 4.0%). That said, the index gradually sold off through much of the session to see DXY finishing the session at lows of c. 104.83. The DXY incurred its 7th consecutive day of losses, as session lows indicate the index has wiped out its last three weeks of gains. Dollar participants will set their gaze on next week's, Fed Chair Powell's Testimony on Monday and speech on Tuesday, the CPI June report on Wednesday, PPI, and UoM Consumer Sentiment on Friday.

The Euro strengthened against the buck, though underperformed relative to its G10FX peers. EU data included surprise declines in German Industrial Output M/M for May, -2.5% (exp. 0.2%, prev. -0.1%), marking the country's steepest decrease since 2022, driven by lower output from machinery equipment and the automotive industry; French Industrial output surprised to the downside as well. Elsewhere, EU Retail Sales Y/Y for May beat expectations, 0.3% (exp. 0.1%), and M/M missed, 0.1% (exp. 0.2%). On the ECB front, Stournaras said they could have one or two more interest rate cuts this year; as a reminder 46bps of cuts are priced in by 2024 year-end. EUR/USD rallied for the fourth consecutive day ahead of France's Second round of parliamentary elections on Sunday; OAT/BUND spread narrowed from 78.20 at the beginning of the week to 68.40. Note, the latest IFOP poll saw the RN's lead narrow somewhat.

Cyclical Currencies had an upside bias against the greenback, with attention in the space surrounding the CAD and GBP. The pound initially led the space in terms of performance, following the Labour Party's UK Election win as expected. Cable showed little reaction to the exit poll results which had been priced in and mulled for some time, nevertheless, the dollar weakness saw Cable finish the session above 1.28. The Kiwi was the outperformer however, pushing above the 0.61 mark. Elsewhere, the Canadian Employment Change in June shocked to the downside at -1.4k



(exp. 22.5k, prev. 26.7k), while the Unemployment rate rose more than expected to 6.4% (exp. 6.3%, prev. 6.2%). USD /CAD lifted from 1.3615 to a peak of 1.3655, albeit losses pared throughout the session as the Dollar was sold. Nonetheless, the CAD was still the clear laggard but USD/CAD remained just above the June lows of 1.3600 with the cross notching four weeks of downside.

Haven FX both saw gains vs the buck on falling US yields. Meanwhile, in Switzerland, Swiss Consumer Confidence rose to -36.6 (prev. -38) above market forecasts of -35, its highest level since February 2023. Meanwhile, SNB's Jordan also reiterated that the Central Bank remains ready for FX intervention. For the Yen, USD/JPY hit highs of 161.39 earlier in the session, however, fell back below the 161 level as the session progressed in wake of the dovish NFP report and downside in US yields. Meanwhile, the upcoming BoJ report reportedly reveals a broadening wage rise trend, according to Reuters sources.

EMFX: CLP underperformed in the space ahead of Monday's Inflation report, despite rising copper prices and positive remarks from Chile's Finance Minister noting the economy should improve in H2. EUR/HUF fell, supported by Hungary Retail Sales Y/Y increasing 3.6% (exp. 3.2%); Hungary on Tuesday will report Headline and Core Inflation Y/Y, with both expected at 4.0% in June. Lastly, COP outperforms against the Buck ahead of Tuesday's Inflation report, marking its 7th consecutive day of gains. BRL saw gains vs the Dollar after a report via Estadao sources said that Brazil President Lula endorses an economic team and calls for focus on measures to comply with the framework in 2024 and 2025.

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