



US Market Wrap

9th July 2024: SPX records yet another ATH while Powell largely sticks to the script ahead of CPI

- **SNAPSHOT:** Equities flat, Treasuries down, Crude down, Dollar up.
- **REAR VIEW:** Fed Chair Powell largely sticks to script in testimony; Strong US 3yr auction; Progress in Cairo hostage deal talks; Powell said strongly held view of board that bank regulators should seek additional feedback on efforts to hike bank capital; ORCL talks with xAI break down
- **COMING UP: Data:** Chinese CPI & M2, Norwegian CPI, **Events:** BoJ Bond Meeting (2/2); RBNZ Policy Announcement, **Speakers:** Fed's Powell, Goolsbee; BoE's Pill, **Supply:** Germany, US

MARKET WRAP

US indices (SPX +0.1%, NDX +0.1%, DJIA -0.1%) were ultimately little changed on Tuesday, although the small-cap Russell 2000 (-0.5%) was the underperformer. Sectors were mixed with Materials and Energy the laggards, as the former was weighed on by slight losses in WTI and Brent amid progress in Cairo hostage deal talks. Financials was the distinct outperformed, seemingly buoyed by banks who saw notable upside amid Chair Powell testifying, saying it is a strongly held view of the Fed board that bank regulators should seek additional feedback on their efforts to hike bank capital, a move that the banking industry has been pushing for. Elsewhere, Powell largely stuck to the script, repeating that more good data would strengthen the Fed's confidence on inflation and that elevated inflation is not the only risk the Fed faces. Nonetheless, despite an initial dovish reaction to Chair Powell's text release, it soon faded and T-Notes were hit on the Chair's testimony but were off lows as Europe left while the US 3yr auction was well received. The Dollar eked marginal gains, albeit in very thin ranges, with the Yen the G10 underperformer and the cross back above 161 and reaching a peak of 161.51. Precious metals (XAU, XAG) were mildly divergent, as spot silver was flat and spot gold saw slight gains and pared some of the extensive losses seen on Monday.

FED

Chair Powell largely stuck to the script at the Senate testimony, repeating that more good data would strengthen the Fed's confidence on inflation and that elevated inflation is not the only risk the Fed faces. Powell noted that labour market conditions have cooled considerably, and the labour market is fully back in balance now. Powell did not give any signal about future policy moves, but he repeated the Fed will carefully assess incoming data, the balance of risks, and the appropriate policy path in rate adjustments. On inflation, Powell echoed the statement, noting they have made considerable progress towards the 2% inflation goal and recent monthly readings show 'modest further progress'. He also stressed rate cuts are not appropriate until the Fed gains greater confidence inflation is returning to target but they will continue to make decisions on a meeting-by-meeting basis. On growth, Powell said it appears to have moderated in H1 24 but the US economy has been exceptional when compared to global peers. He noted there are significant housing issues in the nation, and although wage increases are still very high, they are coming down to more sustainable levels. Given it was the testimony about the Monetary Policy Report, Powell was testifying on behalf of the Fed as a whole, and not giving his own views. But one nuance is that last week he spoke on how the disinflationary trend is resuming and they are back on the disinflationary path, albeit he did not mention this at the testimony. Nonetheless, nothing has changed the narrative since last week, aside from perhaps a cooler jobs market (but that would support the disinflation argument), so we suspect Powell still holds this view, but perhaps some hawks on the FOMC need more convincing. US CPI data will be key on Thursday.

Note, that **banks saw notable upside as Chair Powell spoke, he said it is a strongly held view of the Fed board that bank regulators should seek additional feedback on their efforts to hike bank capital, a move that the banking industry has been pushing for.** Powell said the FDIC and OCC made progress on the proposal, but soliciting more feedback has not been endorsed by the other agencies yet. The Fed Chair did suggest the process "will take some time", and Reuters suggests a lengthy delay to finalize the rules could imperil the current effort, where a Trump victory in November could see him install new regulators who are not supportive of the project.

FIXED INCOME



T-NOTE FUTURES (U4) SETTLED 6+ TICKS LOWER AT 110-13

T-Notes were hit on Fed Chair Powell testimony but off lows as Europe left while the 3yr auction was well received. At settlement, 2s +1.0bps at 4.629%, 3s +1.6bps at 4.413%, 5s +2.3bps at 4.248%, 7s +3.0bps at 4.255%, 10s +3.3bps at 4.302%, 20s +3.5bps at 4.599%, 30s +3.7bps at 4.495%.

INFLATION BREAKEVENS: 5yr BEI -0.3bps at 2.232%, 10yr BEI -0.3bps at 2.267%, 30yr BEI -0.7bps at 2.290%.

THE DAY: T-Notes saw gradual selling pressures throughout the APAC session and European morning but the downside accelerated once Powell got underway. Fed Chair Powell largely stuck to the script although his remarks at Sintra about disinflation were not repeated - perhaps as that is his own view, rather than that of the whole Fed. Powell repeated that the Fed does not have the confidence to cut rates, but acknowledged elevated inflation is not the only risk the Fed faces, adding the labour market is fully back in balance now and it has cooled considerably. T-Notes gradually sold off throughout the speech, where he gave little clues to future policy action, to see them hit a low of 110-07 before paring somewhat as Europe shut up shop for the day and as attention turned to the auction, which ultimately, was strong. Attention turns to Fed Chair Powell, again, on Wednesday, but it is likely to be a copy and paste of what was said on Tuesday, as well as the 10yr auction, while Thursday sees US CPI and the 30yr bond auction.

3YR: The US sold USD 58bln of 3yr notes at a high yield of 4.399%, stopping through the 4.407% WI by 0.8bps, an improvement on the prior tail of 1.1bps and the six auction average of a stop through of 0.1bps. The Bid-to-Cover was also strong at 2.67x, vs. the prior 2.43x and above the six auction average of 2.57x. The strong demand was led by an increase in direct demand to 21.3% from 15.9% (above the 17.8% average), while indirect was relatively unchanged at c. 64%, a touch beneath averages. The strong direct demand and relatively unchanged indirect demand saw dealers take home a smaller chunk than average at 14.8%, well beneath the prior 20%.

STIRS:

- Market Implied Fed Rate Cut Pricing: September 19bps (prev. 20bps D/D), November 30bps (prev. 31bps), December 50bps (prev. 50bps).
- NY Fed RRP op demand at USD 423bln (prev. 415bln) across 73 counterparties (prev. 72)
- US sold USD 49bln in 1yr bills at 4.775%, covered 2.85x; Sold USD 70bln of 42-day CMBs at 5.270%, covered 2.92x.
- US to sell USD 90bln in 4wk bills (prev. 85bln) and USD 85bln in 8wk bills on July 11th (prev. 80bln), to sell USD 60bln in 17wk bills (prev. 60bln) on July 10th; all to settle July 16th
- SOFR at 5.32% (prev. 5.32%), volumes at USD 2.090tln (prev. 2.126tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 80bln (prev. 89ln).

CRUDE

WTI (Q4) SETTLED USD 0.92 LOWER AT 81.41/BBL; BRENT SETTLES (U4) SETTLED USD 1.09 LOWER AT USD 84.66/BBL

The crude complex was lower on Tuesday and seemingly aided by progress in Cairo hostage deal talks. On this, WTI and Brent tumbled to session lows of USD 81.25/bbl and 84.55/bbl, respectively, after Axios reported that progress has been made, although Al Arabiya had earlier reported that there was an agreement on many points that were stuck between Hamas and Israel. Looking ahead, Gaza deal negotiations are to resume in Doha on Wednesday and in Cairo on Thursday, whereby Al Jazeera note that negotiations in Doha will discuss bridging the gaps, especially the ceasefire and the identity of the Palestinian prisoners. Elsewhere, the EIA STEO held its forecast for 2024 world oil demand and sees a 1.10mln BPD Y/Y increase, while it raised its 2025 forecast for world oil demand growth by 300k BPD and now sees a 1.80mln BPD Y/Y increase ([Full EIA STEO here](#)). Meanwhile, Goldman Sachs said the Atlantic hurricane season poses upside risk to refining margins, but is still anticipating a USD 86/bbl average for Brent this quarter. Looking ahead, traders await private inventory data after-hours, where expectations currently are (bbls): Crude -1.3mln, Distillate +0.8mln, Gasoline -0.6mln.

BP (BP/ LN): The energy giant saw weakness on Tuesday after it gave its trading update; Q2 upstream production was now expected to be broadly flat and realised refining margins are now seen as significantly lower. BP also expects an adverse impact between USD 0.5-0.7bln and sees Q2 results to include post-tax adverse adj. items to asset impairments and provision in the range of USD 1-2bln.

EQUITIES



CLOSES: SPX +0.07% at 5,577, NDX +0.07% at 20,453, DJI -0.13% at 39,292, RUT -0.45% at 2,029.

SECTORS: Materials -1.01%, Energy -0.93%, Industrials -0.45%, Consumer Staples -0.24%, Communication Services flat, Technology flat, Real Estate flat, Consumer Discretionary +0.26%, Utilities +0.28%, Health +0.43%, Financials +0.65%.

EUROPEAN CLOSES: DAX: -1.34% at 18,224, CAC 40: -1.56% at 7,509, FTSE 100: -0.66% at 8,140, IBEX 35: -1.12% at 10,899, FTSE MIB: -0.53% at 33,864, SMI: flat at 12,043, Euro Stoxx 50: -1.32% at 4,904

STOCK SPECIFICS:

- **TSMC (TSM)** - May revise its 2024 sales growth projection at its upcoming investor conference.
- **Nike (NKE)** - Rehired Veteran of the company Tom Peddle, to improve retail sales, Bloomberg reports.
- **BP (BP)** - Expects Q2 upstream production to be flat and realised refining margins to be significantly lower.
- **Novo Nordisk (NVO)** and **Eli Lilly (LLY)** - Publication of data analysis showed that Eli Lilly's Mounjaro leads to faster and greater weight loss than Novo's Wegovy.
- **Indivior (INDV)** - Cut Q2 and FY24 revenue guidance to reflect continued adverse market dynamics impacting the near term.
- **Bank of America (BAC)** - Upgraded at Piper Sandler, on NII to trough in Q2.
- **Nvidia (NVDA)** - KeyBanc raised PT to USD 180 from USD 130, amid upbeat commentary from the brokerage.
- **Helen of Troy (HELE)** - Q1 non-GAAP EPS and revenue missed, alongside lowering FY25 outlook. Sees Q2 sales down 4-7%.
- **Oracle (ORCL)** - Talks have broken down between the Co, and Elon Musk's xAI regarding their potential USD 10bln deal, according to the Information.
- **Fifth Third Bancorp (FITB)** - Faces CPFB action for illegal activities and it is to pay USD 20mln over wrongful repos and fake accounts.

US FX WRAP

The Dollar Index was firmer, albeit in a contained range on Tuesday, and peaked at 105.20, against an earlier trough of 104.95. The Greenback saw initial downside in response to a text release from Fed Chair Powell, but swiftly pared losses, and more. Powell's testimony to the Senate, was fairly in line with commentary last week, and the Chair gave no signals about the timing of future Fed policy actions. That said, Powell noted "elevated inflation is not the only risk the Fed faces", and also the most recent labour market data has sent a pretty clear signal that the labour market has "cooled considerably". US data saw NFIB Business optimism rise to 91.5 in June (prev. 90.5), its highest figure YTD, with NFIB Chief Economist Dunkelberg noting "no relief inflation is in sight for small business owners as they prepare for the uncertain months ahead". The calendar for Wednesday sees Fed's Powell carry out his semi-annual testimony before the House Finance Committee, Fed's Goolsbee partaking in a "FedListens" event, US Wholesale Sales, and US USD 39bln 10yr note auction.

EUR/USD is a touch weaker amid little data newsflow in the region. Nevertheless, there were several ECB speakers again, where Panetta said the ECB can continue to gradually reduce interest rates without jeopardising the current fall in inflation. He also downplayed concerns over high service prices, stating it was normally that why should fall with a lag to goods prices. Nagel, meanwhile, said the ECB does not lower rates on autopilot, noting they are data dependent and they review their course at every meeting, acknowledging the board remains cautious. The calendar for the region is very light on both the ECB speaker and the data front for the remainder of the week.

Yen underperformed in the G10 FX space, and as such USD/JPY went back above the 161 mark. The BoJ released briefing material from its first meeting with bond market participants, and there was a range of views, with some having a desire to reduce JGB purchases to JPY 0/mth, while others see a reduction to JPY 4tln/mth as desired, from the current JPY 6tln/mth. Some had also suggested it be reduced between JPY 2-3tln, but overall it appears participants are looking for a reduction to JPY 4tln/mth at a minimum, which is a larger reduction than the Bloomberg consensus of JPY 5tln/mth. There was some marginal pressure seen in JGBs at the time of the release, but the Yen was little changed. Participants in the space await Japan's PPI release on early Wednesday, expected at 0.4% M/M, and 2.9% Y/Y.

The Poundsaw marginal weakness against the Buck with attention turning to BoE Chief Economist Pill on Wednesday. BNP Paribas reminds us that the dovish BoE minutes saw money markets price in 16bp of easing, and they expect dovish commentary from Pill to price this event further and suggest the move in FX could be more severe due to positioning with the market long GBP on "stable politics".



XAU was slightly firmer following Monday's sell-off, with it peaking at USD 2,371/oz and troughing at c. USD 2,350/oz. Analysts at Citi said that physical gold demand likely softened in Q2 vs Q1 but off a very strong base. The desk adds underlying consumption growth is still trending positive for the year and could help push H2 spot towards a record USD 2,400-2,600/oz average price range. Citi acknowledged that Chinese retail gold imports and global central bank gold demand eased recently, but ETF inflows have started to manifest, and buying interest there could become more pronounced into quarter-end and year-end.

Antipodeans were both flat against the Greenback, with the focus centered around the Kiwi ahead of the RBNZ rate decision overnight. The bank is expected to keep rates on hold at 5.50%, with attention on the statement for any clues on future policy and if the language supports the current median view by analysts for the bank to maintain rates throughout Q3 and deliver a 25bp cut in Q4. NZD/USD trades roughly at 0.6125. Elsewhere, Australia's NAB business confidence index rose to 4 in June (prev. -2), its highest print since Jan 2023, while Business conditions fell to 4 (prev. 6). In addition, Westpac Consumer Confidence fell 1.1% in July after rising 1.7% in June. Note, analysts at Rabo maintain their call for two more RBA rate hikes in August and November this year, whilst they see two rate cuts from the FOMC, starting in September. The desk maintains its 0.7000 AUD/USD target "and has brought this forward from a 9-month view to a 6-month forecast". The desk "also adjusted their 1 and 3-month targets up slightly" and "see scope for a steeper move in EUR/AUD and hold a 6-month target of 1.51."

USD/MXN fell for the sixth consecutive day, going below the 18 level, falling from 18.01 at the open to 17.9. Inflation came in hotter than expected M/M at 0.38% (exp. 0.24%), accelerating from the prior decline of -0.19%. Y/Y printed 4.98%, also above forecasts and the prior, but the core metrics were a touch softer than expected. It is worth noting that Deputy Governor Heath, on Monday, said that rates should not be reduced again until a clear downward trend in inflation is observed. Analysts at Citi note they like to tactically keep their long USD/MXN vs short USD/BRL as they should see good support around 17.95-18.00, as was seen on Monday.

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