



US Market Wrap

10th July 2024: Stock rally advances as eyes turn to CPI

- **SNAPSHOT:** Equities up, Treasuries flat, Crude up, Dollar flat.
- **REAR VIEW:** Powell sticks to script again; Biden faces more Democrat scrutiny; Crude and Gasoline stocks draw by more than forecast; Hawkish BoE Pill and Mann; RBNZ leaves rates on hold as expected; Cool China inflation; Strong TSM sales; GOOGL abandons HUBS takeover; AAPL to boost iPhone shipments.
- **COMING UP: Data:** UK GDP, US CPI, IJC, **Speakers:** Fed's Bostic, Musalem, **Supply:** Japan, UK, US, Italy, **Earnings:** PepsiCo, Delta Airlines.

MARKET WRAP

Stocks pushed to fresh record highs again on Wednesday with outperformance in Tech leading the gains. Semis were buoyed by strong TSMC (TSM) sales numbers while Apple (AAPL) caught a bid on reports it is to boost its iPhone 16 shipments. Fed Chair Powell largely stuck to the script again on Wednesday, stressing the Fed needs more good data to be convinced that inflation is returning to target in a sustainable way, while he also repeated that risks to both sides of the mandate have come back into better balance. He also acknowledged the neutral rate has likely moved up a little bit. T-notes were little changed but with a flatter bias. Early trade tracked EGBs higher before paring from peaks into settlement amid Aramco issuance ahead of the 10yr auction. The auction was ultimately stronger than recent averages, but not quite as strong as the stellar June offering. Any upside in T-notes after the auction was pared as eyes turn to CPI on Thursday. Oil prices were bid on Middle East escalation fears and a chunky crude and gasoline stock draw on the weekly DoE inventory report, but distillates saw a notable build. The Dollar was flat with FX focus on the NZD, which underperformed after a dovish RBNZ while GBP outperformed after hawkish commentary from Pill and Mann, adding to the tone of a hawkish Haskel on Monday.

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POWELL: Fed Chair Powell largely echoed what was said to the Senate on Tuesday. Nonetheless, on the balance sheet runoff, Powell said they have made a lot of progress but there is still a ways to go. He noted it's hard to be precise on the stopping point as the Fed wants a bit of a buffer, noting going slower could allow them to go further. He repeated that the Fed does not want to wait until inflation gets all the way to 2% to ease policy, stressing again Fed wants to have greater confidence, which means more good inflation readings. He did admit he has some confidence in inflation coming down, but he is not yet prepared to say he is sufficiently confident in it returning to target sustainably. The Fed Chair also stressed again that he now sees risks on both sides of the mandate, stressing they have a dual mandate, not just an inflation one. On the neutral rate, Fed Chair Powell said that policy is restrictive, but not intensively restrictive, which suggests the neutral rate is a little higher than before, noting the Fed is unlikely to go back to very low rates of the pre-crisis period. On Basel 3, he said the re-proposal could go out for comment in the fall.

CPI PREVIEW: The consensus looks for US CPI to rise 0.1% M/M in June (range of forecasts 0.0-0.2%; prev. 0.0%), while the core rate of CPI is seen rising 0.2% M/M (range: 0.1-0.3%), matching the May reading. The Y/Y expectations are for the headline pace to ease to 3.1% (range: 3.0-3.3%) from 3.3% in May, while the core Y/Y is expected to maintain the May pace of 3.4%, with forecasts ranging between 3.3-3.5%. [Please click here to download the full Newsquawk preview.](#)

FIXED INCOME

T-NOTE FUTURES (U4) SETTLED 3 TICKS HIGHER AT 110-16

T-Notes tracked EGBs higher before paring to unchanged with alongside Aramco issuance & Powell sticking to the script while the brief upside after a strong 10-year auction was faded ahead of CPI. At settlement, 2s +0.0bps at 4.628%, 3s -0.6bps at 4.393%, 5s -1.1bps at 4.237%, 7s -1.2bps at 4.242%, 10s -2.0bps at 4.280%, 20s -2.2bps at 4.576%, 30s -2.5bps at 4.470%

INFLATION BREAKEVENS: 5yr BEI +0.2bps at 2.234%, 10yr BEI +0.6bps at 2.275%, 30yr BEI +0.6bps at 2.295%.



THE DAY: T-notes started the day on the upside tracking European bonds higher with little fresh news although another relief rally post-French election may be supportive. T-notes peaked at 110-20 before gradually paring throughout the session with Aramco issuance weighing (duration heavy) while Fed Chair Powell stuck to the script, but he did acknowledge the neutral rate had drifted higher. There was little data out of the US with eyes turning to CPI on Thursday, but oil prices were supported by bullish inventory data which perhaps kept the pressure on T-notes. Meanwhile, the latest Atlanta Fed GDPNow estimate was raised to 2.0% from 1.5% although the upside revision was in response to the latest NFP data, but the Atlanta Fed only posted the updated model today hotter than expected wholesale sales data. On the US election, US President Biden's future as Democratic Presidential Nominee is under question again after Pelosi failed to publicly endorse him, noting it is up to him to decide. Also, a senior Biden team will be briefing senators on Thursday. On supply, the 10yr auction was strong, but not quite as strong as the June offering. T-notes saw brief upside in response to the auction, but the move swiftly faded with T-notes back to the unchanged mark at settlement. All eyes turn to US CPI on Thursday.

10YR: Overall the 10yr auction was a strong one vs averages, but not quite as strong as the stellar auction seen in June. The USD 39bln supply of 10yr notes was sold with a high yield of 4.276%, stopping through the When Issued by 1bp, not quite as strong as the 2bp stop through previously, but better than the average tail of 0.4bps. The Bid-to-Cover slipped to 2.58x from 2.67x, but remained above the 2.52x average. Indirect bidders took a step back, taking 67.6% of the auction, down from the 74.6% in June but in line with the six auction average. Although Indirect demand was not as strong, the direct bidders took an above-average 20.86%, rising from the prior 13.8%. Dealers were left with a similar chunk of the supply, taking 11.6% again, beneath the 16% average.

STIRS:

- Market Implied Fed Rate Cut Pricing: September 20bps (prev. 19bps D/D), November 31bps (prev. 30bps), December 51bps (prev. 50bps).
- NY Fed RRP op demand at USD 423bln (prev. 415bln) across 73 counterparties (prev. 72)
- US sold USD 60bln in 17wk bills at a high rate of 5.195%, B/C 3.16x
- SOFR at 5.34% (prev. 5.32%), volumes at USD 1.913tln (prev. 2.090tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 84bln (prev. 80ln).

CRUDE

WTI (Q4) SETTLED USD 0.69 HIGHER AT 82.10/BBL; BRENT (U4) SETTLED USD 0.42 HIGHER AT USD 85.08/BBL

Crude prices moved higher throughout the European and US sessions to settle just off session highs in response to geopolitics and US inventory data. On geopolitics, a security source for Al Arabiya stated three additional teams of the Israeli ground forces are reportedly ready in the Northern Command and they expect difficult fighting days on the Lebanon and Syrian front. The report sparked an upside in Crude in the European morning on fears of an escalation between Israel against Syria and Lebanon. It is also worth noting that Al Arabiya also reported "Israel spotted thousands of militia members affiliated with Iran in the territory of Syria". Meanwhile, the weekly inventory data from the US DoE saw crude stocks draw by 3.4mln bbls, deeper than the expected 1.3mln draw and the private inventory draw of 1.9mln. Gasoline also saw a larger draw than expected at 2mln bbls vs exp. draw of 600k, albeit not as deep as the 3mln bbl draw in the API report. Distillates however saw a much larger build than expected. Elsewhere, the latest OPEC MOMR left 2024 and 2025 world oil demand forecasts were left unchanged at 2.2mln BPD and 1.8mln BPD respectively. Within the report, it noted, according to secondary sources, that total OPEC-12 crude oil production averaged 26.57mln BPD in June 2024, 80k BPD lower, M/M. Crude oil output increased mainly in Libya, Venezuela, and Iran, while production in Saudi Arabia, Iraq, and the UAE decreased.

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: +0.99% at 18,418, CAC 40: +0.86% at 7,574, PSI: +1.37% at 6,742, FTSE 100: +0.66% at 8,194, IBEX 35: 1.59% at 11,072, FTSE MIB: +1.3% at 34,306, SMI: +0.89% at 12,145, Euro Stoxx 50: +1.11% at 4,958, AEX: +0.96% at 940.

STOCK SPECIFICS:



- **Honeywell (HON)** - Confirmed reports it has agreed to a USD 1.8bln deal for **Air Products's (APD)** LNG business, via WSJ citing sources
- **TSMC (TSM)** - Reported June sales of USD 6.42bln above expectations of 5.73bln and Q2 also beat.
- **Microsoft (MSFT), Apple (AAPL)** - Microsoft has given up its seat as an observer on the board of Open AI and Apple will not take up a similar position, FT reports.
- **Novo Nordisk (NVO), Eli Lilly (LLY)** - Only 1/4 US patients prescribed Novo Nordisk's Wegovy or Ozempic for weight loss were still taking the drug two years later, according to an analysis cited by Reuters.
- **Cummins (CMI)** - Increases its quarterly dividend by 8.3%.
- **Chipotle (CMG)** - Announced retirement of CFO Jack Hartung in 2025.
- **LegalZoom (LZ)** - Missed its Q2 revenue view, and cut its FY 24 revenue view well below expectations, Meanwhile, CEO Dan Wernikoff is to depart.
- **Intuit (INTU)** - To cut 10% of its workforce, impacting 1800 staff, via CNBC.
- **Visa (V) and Mastercard (MA)** - Downgraded at BofA on limited valuation upside.
- **Apple (AAPL)** - Aims to ship 10% more new iPhones in 2024 after a bumpy 2023, Bloomberg reports. Moreover, Apple Intelligence AI features are expected to boost iPhone demand, AAPL looks to ship 90mln iPhone 16 units in the latter half of the year.
- **Marsh McLennan (MMC)** - Raised its quarterly dividend 15% to USD 0.815/shr (prev. 0.710/shr)
- **Healthcare names** - FTC to sue Unitedhealth (UNH) Opturm, Cigna Group's(CI) express scripts and CVS Health's (CVS) caremark over insulin prices, according to WSJ.
- **Hubspot (HUBS) - Alphabet (GOOGL)** is said to have shelved its interest in the Co. according to Bloomberg.
- **Tesla (TSLA)** - Raised prices of Model 3 in some European countries because of EU tariffs on China-made EVs

US FX WRAP

The dollar index traded within a very tight range with traders waiting for US CPI on Thursday. Fed Chair Powell largely echoed remarks from the Senate testimony on Tuesday, while noting today he has some confidence inflation is coming down, but he is not quite comfortable yet in being convinced it is coming down sustainably. The DXY hovers slightly above the 105 handle as eyes turn to US CPI; expectations are as follows: Headline M/M at 0.1%, Y/Y at 3.1%; Core M/M at 0.2%, and Y/Y at 3.4%. Elsewhere, US Initial Jobless Claims for the week are expected at 236k.

The Euro is a touch firmer against the greenback, with EUR/USD trading above the 1.08 level. Data in the region was thin, though, Italian Industrial Output M/M in May rebounded from a 1% decline in April, rising 0.5% (exp. 0.1%). There were no ECB remarks in the session, and as a reminder, the ECB blackout starts tomorrow ahead of the ECB rate decision next Thursday, where the Central Bank is expected to maintain its interest rate at 4.25%. In terms of probabilities of future rate policy paths, money markets fully price another 25bps rate cut in October, but with a 75% chance of a 25bps rate cut in September, and a total of 41bps of rate cuts by year-end. With regards to the near term, German Final Inflation data for June is on Thursday.

Cyclical currency's performance diverged considerably against the buck in Wednesday's session. Volatility was concentrated in the Pound and Kiwi, with the former outperforming in the G10FX space, climbing above the 1.28 level to a peak of 1.2846, nearing June highs of 1.2860. Cable's strength was mostly fuelled by a hawkish skew in BoE's Pill's remarks earlier in the day. Pill's remarks potentially imply that he was one of the "some members" from June's meeting who thought "...more evidence of diminishing inflation persistence was needed before reducing the degree of monetary policy restrictiveness". Mann also was typically hawkish later on. Meanwhile, the Kiwi dumped from 0.6130 pre-RBNZ to lows of 0.6048. The RBNZ kept its OCR at 5.5% as expected and maintained rhetoric that the Committee agreed the OCR will need to remain restrictive but added that the extent of this restraint will be tempered over time consistent with the expected decline in inflation pressures, which was a dovish leaning tilt from the central bank. Money markets price around a 37% chance for a 25bps cut at the next meeting in August. The Aussie was flat and the CAD was slightly stronger.

EUR/NOK surged amid softer-than-expected Core Inflation data from Norway with the Y/Y at 3.4% in June below forecasts of 3.6% (prev. 4.1%). Note, the Norges Bank maintained its policy settings in June but lifted their repo forecasts to remove any chance of a 2024 cut. EUR/NOK started the session at 11.46, finishing the session near highs of 11.62. The Viking cross neared parity (0.99983) when it peaked earlier in the session, but ultimately pared to the 0.98 level.

USD/JPY continued its rally from yesterday, going well above 161, nearing a high of 161.80. Japanese PPI for June Y/Y was in line at 2.9%, its highest level since August 2023, while the M/M came in softer-than-expected at 0.2% (exp. 0.4%). Japan watchers await Machinery Orders for May on Thursday, with the M/M expected to shift pack into the positive territory at 0.8%, although US CPI will take the highlight.



The Yuan was flat against the greenback following soft Chinese CPI data, Y/Y was 0.2% (exp. 0.4%) and the M/M showed a second consecutive month of deflation, -0.2% (exp. -0.1%). Moreover, PPI Y/Y was as expected at -0.8%, marking the smallest decline since January 2023.

EMFX: BRL was stronger vs the Dollar although the Brazilian IPCA Inflation Index rose by less than expected, M/M was 0.21% (exp. 0.32%) and Y/Y was 4.23% (exp. 4.35%). Despite BRL strength on the reopening, the cross has since pared most of its weakness ahead of Retail Sales on Thursday. USD/CLP fell over 1.8% after a local central bank poll showed the Chile Central Bank is likely to cut by 25 bps in July, indicating a further slowdown in the path of cuts the bank is expected to carry out, slowing to 25 bps from 100bps initially. MXN extends into its seventh day of consecutive gains ahead of Banxico's Minutes on Thursday. USD/ZAR is flat ahead despite gains in gold prices.

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