



US Market Wrap

12th July 2024: Stocks bid and Dollar sold with PPI in the rear view ahead of Powell

- **SNAPSHOT:** Equities up, Treasuries up/flat, Crude down, Dollar down
- **REAR VIEW:** Hot PPI, but soft PCE components; Prelim UoM misses across the board, with inflation expectations lower; JPM earnings beat but little more cautious on IB outlook; WFC miss on NII and NIM; C missed on IB and FICC revenue; Cool Swedish CPI
- **COMING UP: Data:** Chinese Retail Sales, GDP, Industrial Production, EZ Industrial Production, US NY Fed Manufacturing, Canadian Wholesale Trade, **Speakers:** Fed Chair Powell, Daly, **Supply:** Australia, **Earnings:** BlackRock, Goldman Sachs.
- **WEEK AHEAD:** US & UK Retail Sales, Japan, NZ, UK and Canada inflation, and the ECB Policy Announcement. [To download the report, please click here.](#)
- **CENTRAL BANK WEEKLY:** Previewing PBoC MLF, SARB, ECB; Reviewing Fed Chair Powell, RBNZ and the BoJ Bond Meeting. [To download the report, please click here.](#)

MARKET WRAP

US indices (SPX +0.6%, NDX +0.6%, DJIA +0.6%) ended the day firmer, with outperformance in the small-cap Russell 2000 (+1.1%) which closed out the week with strong gains, although the SPX and NDX saw weakness into the close to settle off best levels. In the wake of the US PPI report, which was hot overall, there was a broad-based hawkish reaction, although this swiftly pared as participants digested the details of the report. Highlighting this, analysts at Bank of America stated that overall, the components of the PPI report that affect the PCE report, were softer. As such, so far analyst forecasts for Core PCE M/M are ranging between 0.15-0.20%. Elsewhere on the data footing, prelim UoM for July was weak with headline sentiment falling to the lowest level since November 2023, in addition to both conditions and expectations short of consensus, while both the 1yr and 5yr ahead dipped to 2.9% from 3.0%. The Dollar was eventually weaker, despite strength on the aforementioned PPI report, and printed a low of 104.04, keeping its head above the round 104. Yen was one of the G10 performers with possible intervention once again touted as USD/JPY hit a low of 157.39 against a peak of 159.44. The crude complex ended the day with marginal losses as they saw the first week of losses in four, and T-Notes were sold on hot PPI but pared as PCE components were soft. For the record, US earnings season begun on Friday with highlights from JPMorgan (JPM) (-1.2%), who are a little bit more cautious on IB outlook, Wells Fargo (WFC) (-6%) NII and NIM coming in light, and Citi (C) (-1.8%) missing on IB and FICC sales and trading revenue. Looking ahead, participants await Fed Chair Powell at the Economic Club of Washington DC (Mon), Retail Sales (Tues), Waller (Wed), Williams (Fri), and a slew of earnings (all week).

US

PPI: Headline PPI M/M came in at 0.2%, hotter than the expected 0.1%, while the prior was revised up to 0.0% from -0.2%. The Y/Y also came in hot at 2.6%, above the 2.3% forecast, with the prior also seeing a revision higher from 2.2% to 2.4%. Core was also higher than expected on both fronts, with the M/M at 0.4% (exp. 0.2%, rev. 0.3%); Y/Y at 3% above the expected 2.5%, with revision upwards to the prior (prev. 2.3%, rev. 2.6%). Lastly, Supercore Y/Y again saw revisions upwards, printing 3.1% for June (prev. 3.2%, rev. 3.3%). Although the data overall was hot, analysts at Bank of America note that overall, the components of the PPI report that affect the PCE report, were softer. So far analyst forecasts for Core PCE M/M are ranging between 0.15-0.20%.

UOM: The Prelim July University of Michigan survey was weak with headline sentiment falling to the lowest level since November 2023 at 66.0 from 68.2 in June, beneath the 68.5 consensus. The downside was met with a drop in both current conditions, falling to 64.1 from 65.9 (exp. 66.3), with the forward looking expectations dipping to 67.2 from 69.6, despite expectations for a rise to 69.8. The report notes that "Nearly half of consumers still object to the impact of high prices, even as they expect inflation to continue moderating in the years ahead. With the upcoming election, consumers perceived substantial uncertainty in the trajectory of the economy, though there is little evidence that the first presidential debate altered their economic views". Meanwhile, year-ahead inflation expectations fell for the second consecutive month to 2.9% from 3% in June. The 5yr ahead forecasts also came in at 2.9%, down from 3.0% previously.



FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 1 TICK HIGHER AT 111-06

T-Notes sold on hot PPI but pared as PCE components were soft. At settlement, 2s -4.7bps at 4.460%, 3s -3.5bps at 4.234%, 5s -1.4bps at 4.109%, 7s -0.9bps at 4.130%, 10s -0.6bps at 4.187%, 20s -0.1bps at 4.501%, 30s -0.2bps at 4.402%.

INFLATION BREAKEVENS: 5yr BEI -2.6bps at 2.159%, 10yr BEI -1.4bps at 2.236%, 30yr BEI -0.6bps at 2.273%.

THE DAY: The Treasury curve steepened on Friday with initial PPI losses faded. After the cool CPI on Thursday, Treasury traders awaited the PPI data for a further look into the pricing environment. Despite a cool CPI, PPI data overall came in hotter than expectations, taking T-Notes to session lows of 110-25+. The move was short lived, however, and T-Notes then pushed higher to eventually climb above pre-announcement levels to a peak of 111-06+. The reversal came as many analysts started to point out that although the prints were hot, the components that are relevant for the Core PCE data, were actually softer in June than in May. Current analyst expectations are ranging for a Core PCE M/M of between 0.15-0.20%, a level that will likely be welcomed by the Fed for their preferred measure of inflation. There was little reaction to the UoM consumer sentiment survey, which was worse than expected while both inflation expectations declined to 2.9% from 3.0% previously. T-Notes then meandered, holding above 111-00 into settlement.

STIRS

- Market Implied Fed Rate Cut Pricing: September 25bps (prev. 25bps D/D), November 41bps (prev. 39bps), December 62bps (prev. 61bps).
- NY Fed RRP op demand at USD 407bln (prev. 404bln) across counterparties 73 (prev. 72).
- SOFR at 5.34% (prev. 5.34%), volumes at USD 1.920tln (prev. 1.949tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 90bln (prev. 88bln).

CRUDE

WTI (Q4) SETTLED USD 0.41 LOWER AT 82.21/BBL; BRENT (U4) SETTLED USD 0.37 LOWER AT USD 85.03/BBL

The crude complex ended the day with marginal losses as they saw the first week of losses in four. Through the European morning, WTI and Brent extended on Thursday's modest gains (and APAC upside) which were supported by a softer Dollar following the US CPI metrics, to hit highs of USD 83.74/bbl and 86.35/bbl, respectively. However, in the US session the complexes pared all gains, and more, to settle at lows albeit on no headline driver and Dollar weakness as some desks cited potential profit-taking. Note, there was little move seen to the hotter-than-expected PPI metric. Elsewhere, energy-specific newsflow has been sparse but tensions in the Middle East remain high, with an Israel-Hamas deal yet to be agreed on whilst Israel and Lebanon continue hostilities. Although, Asharq News citing Biden said "there are complex points in the negotiations, but Israel and Hamas now agree to the comprehensive action plan that it presented 6 weeks ago". Lastly, Baker Hughes Rig Count (w/e 12th July) saw Oil fall 1 to 478, Natgas decline 1 to 100, leaving the Total dipping 1 to 584.

EQUITIES

CLOSES: SPX +0.55% at 5,615 NDX +0.59% at 20,331, DJI +0.62% at 40,001, RUT +1.09% at 2,148.

SECTORS: Communication Services -0.75%, Energy +0.22%, Financials +0.22%, Consumer Staples +0.42%, Industrials +0.53%, Health +0.59%, Real Estate +0.69%, Utilities +0.73%, Technology +0.92%, Materials +0.93%, Consumer Discretionary +0.96%.

EUROPEAN CLOSES: DAX: +1.27% at 18,769, FTSE 100: +0.36% at 8,253, CAC 40: +1.27% at 7,724, Euro Stoxx 50: +1.38% at 5,045, IBEX 35: +0.72% at 11,251, FTSE MIB: +0.76% at 34,581, SMI: +0.95% at 12,372, PSI: +0.14% at 6,812.

STOCK SPECIFICS:

- **JPMorgan (JPM)** - Beat on EPS, revenue, and NII with other metrics beating market expectations. In post-earnings commentary, CFO said he is a little more cautious about debt capital markets and IB outlook.



- **Wells Fargo (WFC)** - NII and NIM disappointed forecasts, with FY NII guidance marginally lower than expected. CFO expects FY NII decline to be in the upper half of the forecast range. CFO said revenue-related expenses drove costs higher and an growth 'weaker than we thought'
- **Citigroup (C)** - Beat on EPS and revenue, although missed on Investment Banking and FICC sales & trading revenue. Said over the medium term the bank expects net interest income growth; remain confident that the bank will meet medium term ROTCE target
- **Bank of New York Mellon Corp (BK)** - Surpassed top and bottom line expectations.
- **AT&T (T)** - Disclosed a massive hack of call data for most mobile users; does not believe the hack is reasonably likely to materially impact the Co's financial condition or results of operations.
- **Fastenal (FAST)** - EPS was in line with expectations, beat on revenue, and saw 'growth with larger customers' in Q2.
- **Tesla (TSLA)** - Downgraded at Citi, noting it's increasingly difficult to justify the valuation. Furthermore, Unveiled its Model 3 Long-Range RWD (rear-wheel-drive) in the US, priced at USD 42k.
- **Teck Resources (TECK)** - Rio Tinto (RIO) is said to have held talks with bankers to 'wargame' a potential USD 32bln offer for the Co., via Sky News.
- **Arbor Realty (ABR)** - Reportedly probed by DoJ over lending practices and loan book, according to Bloomberg.
- **Vertiv Holdings (VRT)** - Hedgeye names the Co. a new best short idea with 33% downside.

US FX WRAP

The Dollar index extended into its third day of declines, shrugging off the hot US PPI data seen earlier in the session. PPI came in higher than expected on headline M/M, Y/Y, and core M/M, and Y/Y. The releases revealed a chunky upward revision on all fronts (headline, core, and supercore). Although the data overall was hot, analysts at BofA note that overall, the components of the PPI report that affect the PCE report, were softer. So far analyst forecasts for Core PCE M/M are ranging between 0.15-0.20%. The index initially reacted to the upside in response to the print, but strength quickly faded, possibly a result of participants adding more weight to Thursday's cool CPI print, dismissing the impact that a singular hot PPI could have on the growing sentiment the Fed will cut by 25bps in September. Money market still price in the first full 25 bps rate cut in September, and 61.5bps by year end. Elsewhere in the data space, UoM Consumer Sentiment Prelim fell for its fourth straight month to 66, its lowest print since November 2023, below market expectations of 68.5; Conditions and expectations both missed, while 1yr and 5yr inflation came in slightly below the priors of 3.0%, at 2.9% on both fronts. As the session progressed, the index continued to fall, nearing the 104 level, as it traded around session troughs of 104.04. DXY saw its second consecutive week of declines, inching towards breaching lows seen in May, ahead of what is another busy week in the US space: the Fed's favourable tool for inflation, Core PCE on Friday; Fed's Powell to speak on Monday, and US Retail Sales for June.

The Euro saw decent gains against the Dollar amid a session that's had a lack of data behind the moves in the cross. German Wholesale Price for June printed negative on both the M/M and Y/Y at -0.3% (prev. 0.1%) and -0.6% (prev. -0.7%), respectively. Elsewhere, French CPI (EU norm) Final M/M was hotter than thought at 0.2% (exp.0.1%), while Spanish CPI was hotter on all prints, except the Final NSA Y/Y, which was in line. EUR/USD broke the 1.09 barrier, heading for its third straight week of gains, nearing the highs seen in early June at 1.0916. As a reminder, attention is on next week, for the ECB rate decision, with the Central Bank expected to hold rates at 3.75%; Money markets forecast the next full 25bps rate cut in October and 46 bps by year-end.

Cyclical currencies were all in the green vs. the Dollar, except for the CAD which traded flat. Newsflow in the region was quiet, with the focus already set on next week for Canadian CPI (Tues), UK Inflation (Wed), UK and Aussie Unemployment Rate (Thur), and UK Retail Sales (Fri). Cable outperforms in the space, opening at 1.2915 and finishing nearing highs of 1.29910. The Kiwi pushes back above the 0.61 mark, while the Aussie incurs its 5th week of gains.

The Yen was again amongst the best performers in the G10 FX space against the greenback, USD/JPY continued its descent below the 158 level, to troughs of 157.39. The Yen's dominance in the week follows two rounds of possible intervention from the MoF. BoJ data suggested Japan intervened in the FX market on July 11th and may have spent between JPY 3.37-3.57tln. Japan's Top Currency Diplomat Kanda reiterated that he would not say whether Japan intervened in the FX market or not. Rabobank notes, "assuming US data continues to point towards a September Fed rate cut, the MoF's interventions have a chance of persuading speculators against taking out fresh aggressive USD/JPY long positions".

EUR/SEK rallied towards the 11.48 mark, following Swedish CPI coming in cooler on all components. CPI and CPIF both came in lower than expected, reinforcing the view of an August cut. As a reminder, the June meeting saw rates held (as expected) but guidance was subject to a dovish tweak with the Riksbank pointing to two or three H2 cuts (prev. guided two cuts). Within the subsequent minutes, Breman explicitly said that she believes the next cut is likely to occur in August.



USD/CNH was flat following Thursday's volatile session, which saw the cross drop from 7.292 to 7.258. China Imports surprisingly dropped 2.3% Y/Y for June (exp. 2.8%, prev. 1.8%); falling for the time YTD as a result of rigid week domestic demand, ahead of the Third Plenum gathering, a political event that may result in stimulus for the economy. Meanwhile, Exports Y/Y beat market expectations of 8.0%, coming in at 8.6% (prev. 7.6%). Yuan watchers look towards Monday for China Retail Sales, Industrial Output and Production, and the Unemployment Rate Urban Area for June.

EMFX: BRL is slightly firmer after Brazilian Service Sector Growth Y/Y May unexpectedly rose 0.9% (exp. -0.1%, pre. 5.6%), although, the Business Confidence fell for 50.1 from 51.4. USD/MXN falls once again amid strong Industrial Output for May on a month-over-month basis, 0.7% (exp. 0.4%, prev. -0.5%), while the Y/Y was 1.0%, falling short of expectations of 1.2%. PLN experiences a 12th-day rally against the buck ahead of the Polish Final CPI for June on Monday.

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