



US Market Wrap

16th July 2024: Stocks extend on gains as RUT outperforms again, as hot Retail Sales reaction reverses

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW:** Hot US Retail Sales, particularly in Retail Control; Fed's Kugler toes her usual neutral tone; Soft Canada CPI; German ZEW Economic Sentiment falls more than expected; Strong BAC earnings, but SCHW disappoints.
- **COMING UP: Data:** UK CPI, PPI, EZ HICP (F), US Industrial Production, Building Permits. **Speakers:** Fed's Barkin, Waller. **Supply:** Australia, UK, Germany & US. **Earnings:** ASML, Johnson & Johnson, Elevance Health, US Bancorp, United Airlines

MARKET WRAP

US indices saw broad-based gains on Tuesday (SPX +0.6%, DJIA +1.9%) although the Nasdaq 100 (flat) underperformed and was weighed on by Nvidia (-1.6%) weakness, while the Russell 2000 (+3.5%) continued its surge higher, which also saw the regional banking ETF KRE (+4.6%) record strong gains. On the day, US retail sales came in hotter than expected, and the Control print soared 0.9% (exp. 0.2%, prev. 0.4%), and also above the most optimistic analyst forecast of 0.5% - the strong Control number will likely have a positive impact on Q2 GDP. In the wake of the data, the Dollar saw notable strength and Treasuries saw weakness, although both pared their respective moves through the US afternoon. Spot gold printed a fresh record high of around USD 2469/oz, and the crude complex was lower, albeit settling off lows, as it was weighed on by post-retail sales Dollar strength and ongoing China problems. Elsewhere, Canadian CPI was cooler-than-expected ahead of BoC next week, while import prices were flat in June, above forecasts, but export prices fell deeper than expected. On the Fed footing, Kugler (voter) toed a neutral line, with attention turning to Waller (Wed) and Williams (Fri). Sectors were largely in the green with only Technology and Communications in the red, while Industrials and Materials were the clear outperformers. In terms of notable earnings, Bank of America (+5.4%) beat on EPS and revenue and expects NII to rise in Q3 & Q4, while Charles Schwab (-10.2%) bank deposits and net interest revenue declined. Looking ahead, Barkin, Waller, IP, and 20yr bond auction are on Wednesday.

US

RETAIL SALES: Retail Sales came in hotter than expected with the headline print at 0.0%, above the -0.3% forecast while ex-autos metric rose by 0.4%, above the exp. 0.0%, accelerating from the upwardly revised 0.1% print in May. The ex-gas/autos metric rose by 0.8%, accelerating from the prior 0.3% (revised up from 0.1%). The Retail Control print soared 0.9%, above the 0.2% forecast and 0.4% prior, and also above the most optimistic analyst forecast of 0.5% - the strong Control number will likely have a positive impact on Q2 GDP. Looking into the report, the Nonstore Retailers monthly sales rose 1.9%, while Building Materials and supplies rose by 1.4%. On the downside, Motor Vehicle tumbled 2.0% while gasoline stations fell 3.0% M/M. Analysts at Pantheon Macroeconomics highlight that the real consumption data in the national accounts are derived partly from the auto, control and food services of this report. Pantheon adds that "The net upward revision to retail sales today suggests that the estimate of three-month-on-three-month annualized growth in real consumption in May will be revised up to 1.8%, from 1.5%, all else equal". Pantheon suggests that with the combination of the retail sales data, and their forecasts for the services components, they suspect real consumption rose 0.2% in June, and at a Q/Q annualised rate of 2.1% in Q2, above the 1.5% rate in Q1.

IMPORT/EXPORT PRICES: Import prices were flat in June, above the -0.1% forecast while the prior was revised up to -0.2% from -0.4%. Import fuel prices fell 1.0% (prev. +0.4%), the first 1mth drop since December 2023 with lower prices for both petroleum and nat gas leading the decline. Ex-fuel, prices for nonfuel imports rose 0.2% (prev. -0.3%); higher prices for nonfuel industrial supplies and materials; foods, feeds and beverages; and automotive vehicles more than offset lower prices for consumer goods. Export prices fell 0.5%, deeper than the expected decline of 0.1%. The prior was revised down to -0.7% from -0.6%. The drop in June export prices was due to lower prices for nonagricultural exports in both months, more than offsetting higher agricultural prices. Analysts at Oxford Economics highlight that a strong dollar and deflationary pressures from China factories should ensure subdued import price gains in the coming months. The



desk notes that although the link between import prices and consumer prices is not one for one, this report "should help instill further confidence inflationary pressures in the broader economy are not accelerating and allow the Federal Reserve to begin cutting rates in September."

NAHB: NAHB housing market index for July fell to 42.0 from the expected, and prior, 43.0. Current single-family home sales and index of prospective buyers ticked lower to 47 (prev. 48) and 27 (prev. 28), respectively, while home sales over the next six months marginally lifted to 48 from 47 in June. On the data set, despite expectations that mortgage rates will decline later in 2024, homebuilders were slightly more negative. Oxford Economics notes, that while housing starts have softened, the signal from the NAHB's homebuilder sentiment index has been overly weak in the last several months, and as such Oxford looks for a modest and gradual recovery in housing starts in H2 2024. Moreover, and as the consultancy notes, the dip in homebuilder assessment reflected a deterioration in builders' assessment of buyer traffic and current home sales. Homebuilders continue to use incentives such as price cuts to encourage sales with mortgage rates still close to 7%, and ahead the use of incentives will provide a cushion for new home sales.

FIXED INCOME

T-NOTE (U4) FUTURES SETTLED 11 TICKS HIGHER AT 110-10+

Treasuries saw gains on Tuesday, reversing majority of Retail Sales induced weakness. 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 +0.0bps at 4.502%, 30s -0.4bps at 4.400%.

INFLATION BREAKEVENS: 5yr BEI -2.4bps at 2.161%, 10yr BEI -1.4bps at 2.236%, 30yr BEI -0.7bps at 2.273%.

THE DAY: T-Notes saw gradual strength throughout the European morning, potentially driven by lower oil prices and a slight unwinding of the Trump-steepener, to hit a peak of 111-12+ ahead of US Retail Sales. The gains significantly pared after a strong retail sales report, which saw T-Notes slump to a low of 111-00+. Regarding the data, it came in firmer than expected with the Control, which is a good gauge of consumer spending in GDP, seeing a particularly strong print. Nonetheless, after European players left the day T-Notes clawed back a vast majority of the losses, to settle firmer across the curve, and back towards earlier peaks. Looking ahead, there is the US Fed's Waller (Wed), 20yr auction (Wed), Philly Fed, Jobless Claims, and ECB (Thurs).

STIRS:

- Market Implied Fed Rate Cut Pricing: September 26bps (prev. 27bps D/D), November 43bps (prev. 44bps), December 65bps (prev. 66bps).
- NY Fed RRP op demand at USD (prev. 413bln) across counterparties (prev. 65).
- USD sells USD 70bln 42-day CMBS at a high rate of 5.265%; B/C 2.92x.
- US to sell USD 90bln in 4wk bills and USD 85bln in 8wk bills on July 18th, is to sell USD 60bln in 17wk bills on July 17th; all to settle July 23rd
- SOFR at 5.34% (prev. 5.34%), volumes at USD 2.175tln (prev. 1.900tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 88bln (prev. 88bln).

CRUDE

WTI (Q4) SETTLED USD 1.15 LOWER AT 80.76/BBL; BRENT (U4) SETTLED USD 1.12 LOWER AT 83.73/BBL

The crude complex was lower on Tuesday, albeit settling off lows, as it was weighed on by post-retail sales Dollar strength and ongoing China problems. As such, WTI and Brent sold off throughout the European morning to hit troughs of USD 80.22/bbl and 83.30/bbl, respectively, but pared some of the weakness through the US session. Whilst the Greenback strength initially weighed, so did the continuing woes around Chinese demand in the wake of several downbeat data releases, including GDP, Retail Sales, Inflation, and Imports. On the geopolitical footing, there was little by way of new updates out of Israel/Hamas, and likewise with Ukraine/Russia. Elsewhere, Indian oil refiner Nayara Energy is planning to shut a delayed coker and some other units at its refinery in Vadinar (400k BPD) for maintenance for about three weeks from end-August or early September, according to Reuters citing sources. Looking ahead, private inventory data is after-hours where expectations currently are (bbls): Crude +1mln, Distillate -0.5mln, Gasoline -1.7mln.

EQUITIES

CLOSES: SPX +0.64% at 5,667, NDX flat at 20,399, DJI +1.85% at 40,954, RUT +3.5% at 2,264.



SECTORS: Communication Services -0.64%, Technology -0.38%, Energy +0.35%, Utilities +0.77%, Consumer Staples +0.95%, Real Estate +1.03%, Financials +1.22%, Health +1.45%, Consumer Discretionary +1.51%, Materials +1.96%, Industrials +2.54%.

EUROPEAN CLOSES: DAX: -0.35% at 18,525, FTSE 100: -0.22% at 8,165, CAC 40: -1.87% at 7,580, Euro Stoxx 50: -0.67% at 4,950, IBEX 35: -0.47% at 11,091, FTSE MIB: flat at 34,369, SMI: flat at 12,268, PSI: -0.53% at 6,776.

EARNINGS:

- **Bank of America (BAC)** - Beat on top and bottom line and CFO expects NII to rise in Q3 and Q4.
- **UnitedHealth (UNH)** - Adj. EPS and revenue beat, and reaffirmed FY EPS view with the midpoint above market forecasts.
- **Morgan Stanley (MS)** - Missed on wealth management revenue and AUM; though, did beat on EPS, revenue, and other key metrics. CEO says dividends are highest priority in use of capital; not thinking about acquisitions in the short term
- **Charles Schwab (SCHW)** - Bank deposits and net interest revenue fell.

STOCK SPECIFICS:

- **Rio Tinto (RIO)** - Pilbara iron ore output fell 2% Y/Y; expectations for 2024 alumina production were lowered.
- **Match (MTCH)** - Starboard acquires a large stake in the Co.; calls for Match to fix its margins or pursue a sale.
- **Trump Media & Technology Group (DJT)** - After its surge on Monday, the Co. announced it is to sell 37.97mln shares of common stock for holders.
- **TotalEnergies ADR (TTE)** - Notes its Q2 downstream results will reflect a decrease in refining margins in Europe and the Middle East.
- **Reddit (RDDT)** - Downgraded at Loop on early investors could take advantage of the Cos. strong performance to liquidate their positions.
- **Blackstone (BX), CVC (CVC)** - Weigh bids for **Carlyle's (CG)** Standardaero which could fetch USD 10bln or more in sale or IPO, via Bloomberg.
- **Taboola (TLBA)** - To sell ads for **Apple (AAPL)**, via Axios.

US FX WRAP

The Dollar Index finished the session flat despite experiencing upside in response to strong US Retail Sales, reaching highs of 104.51, yet the index ultimately pared gains later on. Headline Retail Sales M/M was unchanged at 0.0%, vs. the market forecasts of a 0.3% drop; the prior saw an upward revision. Core retail sales (ex-autos) and Retail Control (ex-autos/Autos/Building Materials/Food Service) printed gains over the month, considerably beating market expectations, with the latter likely having a positive impact on Q2 GDP. Elsewhere in the data world for June, Import Prices M/M were flat, slightly above forecasts, and the prior too saw an upward revision, albeit still negative. Export Prices M/M dropped well below expectations, as well as the prior experiencing a downward revision. The US calendar for Wednesday consists of Fed's Barkin (2024 Voter), Waller (Voter), and Industrial Production (Jun).

EUR/USD was flat despite the ZEW Economic Sentiment Index (Jul) declining more than was expected, printing its first fall in a year from 47.5 to 41.8 (exp. 42.3), though Current Conditions did rise more than expected to -68.9 (exp. -74.5), albeit remains deeply in negative territory. Elsewhere, fresh EZ fundamentals are scarce until Thursday's ECB announcement, albeit, Eurozone Final CPI data for June is released on Wednesday; EUR/USD hovers around 1.09. Elsewhere, the ECB Bank Lending Survey revealed credit standards were broadly unchanged at tight levels in Q2 2024.

Activity currencies were mixed, with Antipodeans again underperforming in the space, with the NZD/USD making fresh monthly lows. Antipodean continues to experience downside post-Chinese data seen over the weekend (weak Retail Sales and GDP), with losses furthered by the hot US data; AUD/USD fell from 0.6759 to 0.6729, and NZD/USD fell from 0.6076 to 0.6043.

Attention was centered on the **CAD**, with USD/CAD flat at approximately 1.3675, despite Canada reporting softer-than-expected CPI for June; Headline rose 2.7% Y/Y (exp. 2.8%), and for M/M it fell 0.1% (exp. 0.0%). The soft data comes before the BoC meeting next Wednesday, with BoC pricing forecasting a roughly 92% chance of a 25bps rate cut. Rabobank sees USD/CAD 1.35 as the floor and does not expect the level to be tested, with the Research Agency expecting the BoC to pause in the upcoming meeting, noting the soft CPI data wasn't the outcome the BoC was wishing for, but "will provide some solace given inflationary pressures have been picking up over recent months". Elsewhere, Cable chopped either side of 1.2950 ahead of Wednesday's UK CPI and PPI.



Gold made a new ATH, surpassing the highs seen in May at USD 2,450/oz, reaching highs of USD 2,465/oz. This move builds on momentum within the commodity as XAU sees gains for its 4th consecutive week.

Yen and the **Franc** diverge, with CHF the clear outperformer in the G10 FX space versus the dollar, with the Yen giving back recent strength after experiencing significant upside after last week's soft US CPI, dovish Powell, and Japanese intervention; with the BoJ accounts pointing towards JPY 2.1tn of intervention on July 12th, Bloomberg reports. USD /CHF nears 0.8935 whereas USD/JPY climbs to 158.40.

EMFX: PLN's recent strength over the past few weeks gets put into question, as EUR/PLN rallies after Polish Net Inflation (Jun) came in at 3.6%, cooler than the expected 3.7% (prev. 3.8%), this precedes Polish PPI on Friday, which fell previously in May by 7%. BRL strengthens against the greenback, following remarks from President Lula in an interview, saying that he needs to be convinced of the necessity to cut between BRL 15-20bn from this year's budget. EUR/CZK pares earlier strength in the week ahead of Wednesday's Czech PPI for June (M/M exp. -0.3% prev. -1.2%, Y/Y exp. 1.1%, prev. 1.0%); USD/ZAR falls to 18.05, with the Rand benefiting off the aforementioned gold strength before SA Retail Sales (Wed) (exp. 0.7%, prev. 0.6%).

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