

17th July 2024: Tech rout hits stocks while haven FX rally hits the buck

- **SNAPSHOT:** Equities down, Treasuries flat/up, Crude up, Dollar down
- **REAR VIEW:** Hawkish Trump China tariff commentary; US warns of stricter trade rules in China chip crackdown; Strong US IP; Housing Starts and Building Permits beat; Fed's Waller leans hawkish, but keeps door open for September; Williams echoes Powell; Avg US 20yr auction; EIA surprise crude stock draw, products build; Hot UK CPI; Soft ASML Q3 outlook; Potential Yen intervention
- **COMING UP:** **Data:** Japanese Exports, Australian Employment, UK Employment, US IJC, Philly Fed. **Events:** ECB & SARB Policy Announcement. **Speakers:** ECB President Lagarde; Fed's Logan, Daly; Bowman. **Supply:** Japan, Spain, France, US. **Earnings:** Volvo AB, IDS, Ubisoft, Abbott Labs, Blackstone, TSMC, Intuitive, Netflix.

MARKET WRAP

Stocks tumbled on Wednesday with tech and semis leading the weakness on Bloomberg reports that the US warned allies of stricter trade rules in a China chip crackdown, while ASML (ASML NA) provided weak Q3 guidance. US Presidential Candidate Trump's warning on China tariffs (between 60-100%) also hit sentiment. Trump also suggested that Taiwan should pay for defense, which hit TSMC (TSM) shares. Although indices saw steep losses, it was highly concentrated in Tech, Communication, and Consumer Discretionary, while Consumer Staples, Energy, and Financials saw decent gains. Although sectors were mixed, the equal-weight S&P and Russell2k both saw losses. Elsewhere, T-notes were sold overnight and throughout Europe and at the start of the US session amid the Trump commentary, hot UK CPI, and beats on US Housing and IP data, while Waller had a slightly hawkish tone. Nonetheless, the sharp losses in stocks saw T-notes pare from lows to see Treasuries close marginally in the green with an average 20yr bond auction looked through. In FX, the DXY tumbled to the lowest level since March as haven outperformance pressured the greenback. The Yen was the clear outperformer, but CHF also performed well as equities slid but Reuters suggested that some Yen strength was also attributed to potential intervention while desks were also citing an unwind of carry trades. Oil prices surged to a softer buck and heightened geopolitics while crude stocks saw a chunky draw, but it was offset by product builds.

FED

FED'S WILLIAMS: The NY Fed President said in a WSJ interview that the Fed is closer but not ready to cut; noting that a rate cut will be appropriate in the coming months but more data will help provide confidence on inflation. Williams did acknowledge they are seeing broad-based declines in inflation. He pushed back against concerns that bringing inflation back to 2% would be more difficult than it had been so far. Williams added that even if the Fed starts to lower rates, they will remain at a setting that restrains economic activity. He echoed Powell in noting the last three months of data are getting the Fed closer to the disinflationary trends the Fed is looking for, and that the current rate stance is appropriate to achieve goals. He also noted the labour market is not weak.

FED'S WALLER: The time to cut policy rates is getting close based on the analysis of potential scenarios; his second ("probably more likely") scenario is uneven inflation data ahead that still shows progress but makes a cut in the near future more uncertain. The Fed Governor's optimistic scenario is more good inflation data, which could mean an interest rate cut in the not-too-distant future, while his third scenario, but with low probability, is a significant resurgence in inflation in H2. Currently, Waller sees more upside risk to unemployment than has been seen for a long time but notes that current data is consistent with a 'soft landing' and even less of a trade-off in terms of unemployment. Waller noted the recent inflation data makes him more confident that the Fed will achieve its inflation goal, but on monthly PCE inflation, he needs to see a bit more evidence that this will be sustained. In the Q&A, Waller noted the exact timing of the rate cut does not matter a lot, but the key to easing is when conditions justify it. He added the Fed has done its job with high rates, and it is an open question about the timing of a rate cut. On the labour market, Waller said it is in a sweet spot with firms having the workers they want.

FED'S BARKIN: Regarding the July meeting, Barkin said he is sure the Fed will debate whether it is still appropriate to describe inflation as elevated. He noted that no one 25bp cut matters one way or the other, the issue is when to change the narrative. Barkin has been encouraged that disinflation is broadening and he hopes it continues, but he is still looking for a bit more evidence that disinflation will be sustained. He is looking for low inflation to sustain and broaden, while also noting that the labour market remains quite healthy. He said it is remarkable how strong consumer spending has remained and he is reluctant to let staff go, noting some sectors are still short on labour supply. On the labour market, he described it as "tight but not crazy tight", noting there are tensions between tight US labour markets, the availability of labour and the desire of firms to shift supply chains. Barkin is watching unemployment carefully, and he remains open to the concept that policy is not as restrictive as thought. However, he did acknowledge it is possible that the monetary policy impacts are slower to have an effect than previously.

US DATA

HOUSING STARTS/BUILDING PERMITS: Housing starts rose 3% in June to 1.353mln, above the expected 1.3mln and the prior, revised higher, 1.314mln, while building permits lifted 3.4% to 1.446mln (exp. 1.395mln, prev. 1.399mln). Within the release, multi-family starts rose to a four-month high of 373k (prev. 312k), and Pantheon Macroeconomics says the pick-up in permits points to scope for a further recovery in starts to around 400k soon. In addition, single-family activity is trending down, with starts falling to an eight-month trough of 980k (prev. 1.02mln), and permits dropped to a 13-month low of 934k (prev. 956k). Pantheon believe this downturn has further to run, given that the inventory of new single-family homes for sale, in relation to current sales. Overall, given the fall in interest rates expected later this year, PM think it likely will be a mixed blessing for the residential construction sector overall, as they believe Fed will be responding to rising unemployment, which will curb the flow of new buyers. Accordingly, the consultancy quips that overall starts will likely remain unchanged near their current level over the next year, despite the emerging recovery in the multi-family sector.

INDUSTRIAL PRODUCTION: US Industrial Production for June rose 0.6% in June, above market expectations of 0.3%, yet fell from the 0.9% seen in May. Manufacturing Output which is 74% of Industrial Production supported the move higher, lifting by 0.4%, higher than the forecasted 0.2% (prev. 0.9%, rev. 1.0%), and Capacity Utilisation also beat expectations at 78.8% (exp. 78.4%, prev. 78.7%, rev. 78.3%). Oxford Economics pointed out that there was a "notable jump in utilities production as heatwaves across the Midwest, Mid-Atlantic, and Northeast boosted electricity demand". The agency noted the June data will require an upgrade to their very near-term forecast for IP, but the

consultancy has reaffirmed its medium-term outlook, whereby industrial activity increases over the rest of the year and into the next; adding "Due to fits and starts during much of H1 2024, industrial output will only rise 0.1% this year but will expand by a swifter 1.8% in 2025".

ECB

ECB PREVIEW: Expectations are unanimous amongst economists that the ECB will stand pat on rates with markets assigning a 92% chance of such an outcome. As such, it looks like the upcoming meeting will largely be a non-event with policymakers set to sit on their hands and see how data plays out between now and September. On which, market pricing currently assigns a roughly 80% chance of a cut with a total of 46bps of easing seen by year-end. [To download the full report, please click here.](#)

FIXED INCOME

T-NOTE (U4) FUTURES SETTLED 3+ TICKS HIGHER AT 111-14

Treasuries saw marginal selling pressure on Trump tariff commentary, hot UK CPI, beats on US housing and IP data, and a marginally hawkish Waller, but pared into settlement as stocks plummeted. 2s -1.1bps at 4.434%, 3s -1.4bps at 4.201%, 5s -1.6bps at 4.074%, 7s -1.7bps at 4.092%, 10s -1.7bps at 4.150%, 20s -0.9bps at 4.467%, 30s -0.8bps at 4.367%

INFLATION BREAKEVENS: 5yr BEI -0.2bps at 2.202%, 10yr BEI -0.7bps at 2.257%, 30yr BEI -0.6bps at 2.280%.

THE DAY: T-notes eventually saw marginal gains with the curve flattening. Nonetheless, Treasuries were sold overnight and in Europe, supported by Trump tariff commentary and a hot UK CPI print. Losses were seen in the wake of the US data and Fed's Waller, with T-note futures printing a low of 111-03+. Housing data was stronger than expected, while IP data also beat. Fed's Waller also had a hawkish leaning tone, where he noted that his most probable outcome, is one where there is uneven inflation data ahead, but still showing progress, although making a cut in the future more uncertain. However, he did echo his colleagues that based on data, the Fed is getting close to cutting rates in the "not too distant future". Nonetheless, the risk-off tone in markets saw these losses pare ahead of the 20yr bond auction which ultimately saw an average reception. T-notes were little phased by the auction and settled at highs, but only marginally firmer on the session.

STIRS:

- Market Implied Fed Rate Cut Pricing: September 25bps (prev. 26bps D/D), November 42bps (prev. 43bps), December 64bps (prev. 65bps).
- NY Fed RRP op demand at USD 399bln (prev. 410bln) across counterparties 69 (prev. 67)
- US sold USD 60bln of 17-week bills at a high rate of 5.135%; B/C 3.12x.
- SOFR at 5.35% (prev. 5.34%), volumes at USD 2.061tn (prev. 2.175tn).EFFR at 5.33% (prev. 5.33%), volumes at USD 85bln (prev. 88bln).

CRUDE

WTI (Q4) SETTLED USD 2.09 HIGHER AT 82.85/BBL; BRENT (U4) SETTLES USD 1.35 HIGHER AT 85.08/BBL

The crude complex was firmer on Wednesday, and seemingly supported by the weaker Dollar and the heightened geopolitical landscape in the Middle East, and after Presidential candidate Trump flagged a hawkish policy towards China. Through the day, WTI and Brent saw lows in the European morning of USD 80.45/bbl and 83.43/bbl, respectively, but pared throughout the US session and extended on gains to settle around highs. The contracts continued to track higher after the weekly EIA data, whereby there was a surprise crude draw, in fitting with the private inventory metrics on Tuesday, but was offset by large, unexpected, builds in Gasoline and Distillates. On the geopolitical footing, tensions with Israel and Lebanon continue to rise, with over 80 rockets fired from Lebanon on Tuesday, with the group's chief suggesting new areas will be targeted if Israel continues to hit civilians. On the hostage/ceasefire talks, the Israeli Defence Minister told his US counterpart that the military operations in Gaza have made conditions required to reach a hostage deal, and the Times of Israel recently reported that the Israeli delegation has arrived in Cairo for fresh hostage-ceasefire talks. Looking ahead, attention continues to reside around geopolitics and any further China updates.

BANK COMMENTARY: JPMorgan estimates that the equilibrium price of WTI oil at around USD 70/bbl; believes that even at USD 60/bbl, WTI prices are too low to incentivize production, potentially leading to a spike to USD 100/bbl in the following year.

EQUITIES

CLOSES: SPX -1.39% at 5,588, NDX -2.94% at 19,799, DJIA +0.59% at 41,198, RUT -1.06% at 2,240

SECTORS: Technology -3.72%, Communication Services -2.09%, Consumer Discretionary -1.8%, Industrials -1.3%, Materials -0.2%, Utilities flat, Health +0.48%, Real Estate +0.8%, Financials +0.85%, Energy +1.08%, Consumer Staples +1.43%.

EUROPEAN CLOSES: DAX: -0.40% at 18,444, FTSE 100: +0.28% at 8,187, CAC 40: -0.12% at 7,571, Euro Stoxx 50: -1.12% at 4,892, IBEX 35: +0.13% at 11,105, FTSE MIB: flat at 34,380, SMI: +0.56% at 12,330, PSI: -0.15% at 6,766, AEX: -1.81% at 917.

EARNINGS:

- **Interactive Brokers Group (IBKR)** - Missed on revenue and net interest income.
- **US Bancorp (USB)** - Surpassed EPS, revenue, and NII FTE.
- **ASML (ASML)** - Q3 revenue outlook was light.
- **Elevance Health (ELV)** - Missed on revenue with FY EPS guidance shy of consensus.
- **Johnson & Johnson (JNJ)** - EPS and revenue beat, but lowered FY profit guidance.

STOCK SPECIFICS:

- **Eli Lilly (LLY), Novo Nordisk (NVO) - Roche (RHHBY)** announced results from two arms of the CT-996 trial, its oral once-a-day GLP-1 drug.
- **Five Below (FIVE)** - Announced CEO transition and gave poor sales and EPS guidance.
- **Semiconductor names** - Presidential candidate Trump told BBG, that Taiwan should pay the US for its defence as it does not give the country anything. Elsewhere, BBG reported that the Biden admin is contemplating stiffer trade restrictions over concern that US Cos. are giving China too much access to domestic semiconductor technology. Note, **Intel (INTC)** whos' Foundry unit is a large TSM competitor, outperformed, as did **Global Foundries (GFS)**.

- **Morgan Stanley (MS)** – Downgraded at Oppenheimer.
- **VF Corp (VFC)** - EssilorLuxottica said it agreed to acquire the Supreme brand for USD 1.5bln in cash.
- **Google (GOOGL), Microsoft (MSFT)** – Cos. help Chinese firms skirt ban on Nvidia (NVDA) chips, according to The Information.
- **Morgan Stanley (MS)** - Taps Mo Assomull to co-head Investment Banking, according to Bloomberg. * **Lamb Weston (LW)** - FY adj. EPS view USD 5.50-5.65 (exp. 5.55), revenue view 6.54-6.6bln (exp. 6.56bln), according to Reuters. Note, earnings not due until 24th July.

US FX WRAP

The Dollar index fell below 104 to its lowest level since March 21st, amid a combination of carry trades unraveling and strength in haven peers which offset the recent upside in the buck supported by increasing odds that President Candidate Trump is to win the election. A Trump Presidency would likely result in higher tariffs, lower taxes, and inflation pressures. In the data space, Industrial Production (M/M, Jun) was stronger than expected, helped by a bigger uptick than forecasted in Manufacturing Output. It is worth noting, that the index did see some slight incremental gains earlier on in the session, off the back of the Fed's Williams saying "the Fed is closer but not ready to cut," which as WSJ Timiraros points out suggests a rate cut is unlikely at the July meeting even if one or two officials push for it. Meanwhile, the buck had no sustained reaction to Waller saying his most likely scenario is uneven inflation data ahead, though still showing progress, but it would make a cut in the near future more uncertain. Money markets still forecast the first full 25bps cut in September and 64 bps of cuts by year-end. The calendar for Thursday will see Philly Fed Business Index (Jul) and Initial Jobless Claims (exp. 230k, prev. 222k), and Fed's Logan (2026 Voter, Hawk), Daly (2024 Voter, Dovish), and Bowman (Voter, Hawk).

EUR/USD broke above 1.09 to test 1.0950 as the buck sold off. The uptick in the Euro precedes the ECB's rate decision on Thursday, where the Central Bank is expected to hold the Deposit Rate at 3.75%, with the first full 25bps rate cut expected in October, with a 94% chance of 2 rate cuts by year-end.

The Pound extended into a five-day rally, surpassing the 1.30 handle, reaching highs of 1.3044, though pound gains had pared to the round 1.30 handle. The move follows stickier-than-expected UK Inflation, with Services CPI Y/Y remaining unchanged at 5.7%, above the expected 5.6% and markedly above the BoE forecast of 5.1%; M/M rose 0.6% (exp. 0.4%, prev. 0.6%). Headline CPI was hot too, at 2.0% (exp. 1.9%, prev. 2.0%). BoE pricing still prices the full first cut in November, though odds of a September cut reduced from approx. 88% to 80%. Elsewhere, Headline PPI Input Y/Y surprisingly fell by 0.4% (exp. 1.2%), and Output fell short at 1.4% (exp. 1.8%). Thursday will reveal the Employment Change for May and average earnings data.

Antipodeans diverged, with the Kiwi putting the brakes on weakness at the start of the week despite softer CPI for Q2; Q/Q rose 0.4% (exp. 0.5%, prev. 0.6%), with the Y/Y rising 3.3%, below the expected 3.4% (prev. 4.0%). Note the data initially sparked NZD weakness, but the Q2 CPI Non-Tradables rose 5.4% Y/Y, which supported the currency. NZD/USD rose from lows of 0.6041 to peaks just shy of 0.6100. The Aussie lagged in the major currencies space and was slightly weaker versus the buck, trickling slightly lower to 0.6727 ahead of Australia Employment (Jun) on Thursday.

Haven currencies, Yen and Franc, led the gains in the G10FX space. The flock to havens was buoyed by the risk-off tone in markets where Trump's protectionism comments against China, while Bloomberg reported that the Biden admin is contemplating stiffer trade restrictions over concerns that US companies are giving China too much access to domestic semiconductor technology. USD/JPY fell from 158.61 to 156.07, while USD/CHF fell from 0.8945 to 0.8828. Note, some desks are attributing today's aggressive price action to a reassessment of the JPY's role as a funding currency while Reuters reports suggested that intervention could be playing a role. Despite the haven demand, gold prices failed to benefit and pared from recent record highs.

EMFX: BRL was weaker despite the IGP-10 Inflation Index rising 0.8%, more than the expected 0.7% seeing a 10 bps upward revision to the prior 0.6%. USD/ZAR climbed to roughly 18.18, disregarding the stronger-than-expected SA Retail Sales Y/Y (May) of 0.8% (exp. 0.7%); attention turns to SARB on Thursday, where the central bank is expected to maintain its Repo Rate at 8.25%.

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