

18th July 2024: Stocks dive and Dollar flies as Biden's re-election chance dies

- **SNAPSHOT:** Equities down, Treasuries down, Crude flat, Dollar up
- **REAR VIEW:** Biden re-election chances dwindle; ECB unchanged, but September is "wide open"; TSM raises guidance; Initial jobless claims above expectations; Strong Philly Fed; Punchy Houthi rhetoric; OpenAI has talked to AVGO about developing new AI chip.
- **COMING UP: Data:** UK GfK Consumer Confidence, Japanese CPI, German Producer Prices, UK Retail Sales, Canadian Producer Prices, Retail Sales **Speakers:** Fed's Williams, Bostic **Supply:** Australia **Earnings:** American Express, SLB, Travelers.

MARKET WRAP

Stocks initially nosedived on Wednesday, before paring into close, as the losses added to the recent pressure although losses were more broad-based today with Health Care, Consumer Discretionary and Financials posting large declines while only Energy closed green. Stocks started to tumble after the US equity open alongside reports that several top Democrats said the rising pressure of party congressional leaders and close friends will persuade US President Biden to drop out of the race, potentially as soon as this weekend. At the same time, reports that the Houthi leader was threatening an expanded escalation in the Indian Ocean and Mediterranean, also issuing new threats against Saudi Arabia, only further hit sentiment. The latter article also helped support crude prices off lows, but the rising buck saw crude prices settle unchanged, while futures saw further selling post-settlement. T-Notes caught a bid after initial jobless claims rose by more than expected but gains were short-lived with T-Notes settling lower across the curve with Biden's re-election chances diminishing as attention turns to supply next week. Elsewhere, the ECB itself was a non-event, but Bloomberg sources suggested officials are considering if only one more cut is feasible in 2024, although Reuters sources said that ECB hawks are still open to a September rate cut. Both sources, however, spoke on the ECB's desire to keep options open for September, after over-committing in June. The Philly Fed business index surged by more than expected and topped the most optimistic forecast due to a surge in New Orders and Shipments. Fed speak saw Goolsbee reiterate remarks from Monday, while Logan spoke on the discount Window. Attention turns to Fed's Williams on Friday ahead of the blackout period.

GLOBAL

ECB: As expected, the ECB opted to stand pat on rates following the 25bps reduction in June. In the accompanying policy statement, the Governing Council reaffirmed that it will keep policy rates sufficiently restrictive for as long as necessary to achieve its goals. Furthermore, policymakers will continue to maintain a data-dependent approach and not pre-commit to a specific policy path. At the follow-up press conference, President Lagarde said incoming data points to the economy growing in Q2, though likely slower than Q1. On the inflation front, this is expected to fluctuate around current levels for the remainder of the year before declining towards the target over H2-2025 owing to weaker unit labour costs and other factors. In the Q&A segment, Lagarde noted that the discussion on the Governing Council was very much a case of "on the one hand" and "on the other hand", with the ultimate policy decision being a unanimous one. Lagarde was also keen to stress that the ECB is data-dependent but not specific data point-dependent. Regarding the path ahead, Lagarde kept her cards close to her chest, suggesting that the September meeting is "wide open". In terms of market pricing, a September rate cut is priced at around 68% with 44bps of easing seen by year-end. Overall, the ECB will see where the data guides them ahead of the September meeting with ING making the point that given that the Eurozone is not in recession, this is not a typical rate-cutting cycle, and therefore the ECB will not be on autopilot. Sources in the wake of the meeting were mixed, Bloomberg reported that ECB officials are considering if only one more cut is feasible in 2024, and added that with inflation pressures still lingering, officials are becoming less confident that a path for two further reductions is realistic. BBG sources further added they do not want investors to assume that a move in September is a done deal. Nonetheless, Reuters sources suggested that ECB hawks are open to a September rate cut, provided upcoming data confirm disinflation is underway. Both Reuters and Bloomberg sources mentioned that after the ECB's strong commitment in June to lower rates, the ECB wants to refrain from committing to a September move, stating that all options are on the table for that meeting.

JOBLESS CLAIMS: Initial Jobless Claims for the week coinciding with the usual survey period for the BLS NFP report, rose to 243k from the prior 223k, and above the forecasted 230k. The 4wk average rose to 234.75k from 233.75k. The unadjusted data totalled 279k, rising 36k from the prior week, while the seasonal factors had only expected an increase of c. 14k. Continued Claims, for the preceding week, rose 1.867mln above the 1.855mln forecast, while the prior was revised down to 1.847mln from 1.852mln. Analysts at Oxford Economics highlight that rising claims is notable, as seasonal factors added a downward bias to the headline figure, but a sharp rise in claims in Texas related to Hurricane Beryl also pushed claims up. OxEco also noted that they "think the rise so far is consistent with a cooling labor market that is characterized more by a slower pace of hiring rather than by higher layoffs." The consultancy adds that their estimate of the unemployment rate based on claims data suggests it will stay above 4%.

PHILLY FED: Philly Fed in July rose to 13.9 from 1.3, well above the expected 2.9, and the upper bound of the forecast range of 11.0. New orders and shipments both soared to 20.7 (prev. -2.2) and 27.8 (prev. -7.2), printing their highest readings since March 2022 and May 2022, respectively. Employment jumped to 15.2 from -2.5, its highest reading since October 2022. The inflation gauge of prices paid, and capex dipped to 19.8 (prev. 22.5) and 7.4 (prev. 12.1), respectively. The 6m index encouragingly soared to 38.7 from 13.8, and most future activity indicators rose, suggesting more widespread expectations for overall growth over the next six months. Pantheon Macroeconomics notes, that the average of the ISM-comparable components leapt to 12.6, from -5.5, its highest level in over two years. That said, the Philly Fed survey covers just one small region of the US, and has a small sample. In other news, PM notes that the rise in prices received, took it to its highest level since early 2023, but with the equivalent component in the Empire State manufacturing index falling back this month and weaker growth in consumer demand reducing firms' pricing power, Pantheon are not worried about this, for now.

GOOLSBEE (2025 voter) largely reiterated what he said on Monday via the WSJ, as he said the Fed has had multiple months of better inflation data but the inflation fight is not done, but he feels a lot better about prices. On the labour market, Goolsbee said it has been cooling to a better balance and in real-rate terms, the Fed has tightened substantially.

FIXED INCOME

T-NOTE (U4) FUTURES SETTLED 7 TICKS LOWER AT 111-07

T-Notes fade rising jobless claims bid as Biden's re-election chances diminish while attention turns to supply next week . At settlement, 2s +4.0bps at 4.469%, 3s +4.1bps at 4.236%, 5s +4.4bps at 4.114%, 7s +4.6bps at 4.134%, 10s +5.0bps at 4.196%, 20s +5.5bps at 4.515%, 30s +5.5bps at 4.413%

INFLATION BREAKEVENS: 5yr BEI +0.4bps at 2.210%, 10yr BEI -0.2bps at 2.262%, 30yr BEI +0.2bps at 2.288%.

THE DAY: T-Notes pushed lower overnight and into the European morning to hit a low of 111-05+, and then meandered around these levels until the US data. This saw jobless claims rise above expectations, giving a boost to Treasuries with the 10yr T-note futures hitting a peak of 111-13+. Nonetheless, the gains were shortlived with a hot Philly Fed limiting the upside. The ECB rate decision and press conference were largely as expected, but ECB sources via Bloomberg stated that officials are considering if only one more cut is feasible in 2024, noting officials are becoming less confident that a path for two further cuts is realistic with inflation pressures still lingering. However, Reuters sources suggested that ECB hawks are open to a September rate cut if data confirms disinflation is underway. Elsewhere, there has been further pushback on US President Biden, with former President Obama (Biden was VP to Obama) even telling allies the current President needs to seriously consider his viability. Sources close to Biden also said the end is near, and it is a matter of when, not if he drops out of the race. T-Notes meandered into the settlement with little sustained reaction seen in the wake of the 10-year TIPS auction, which saw demand stronger than the prior but worse than recent averages. Attention turns to supply next week, where the US is to sell USD 69bln in 2yr notes on July 23rd, USD 70bln in 5yr notes on July 24th and USD 44bln in 7yr notes on July 25th; all to settle July 31st. Is to also sell USD 30bln in 2yr FRN's on July 24th; to settle on July 31st.

STIRS:

Market Implied Fed Rate Cut Pricing: September 26bps (prev. 25bps D/D), November 41bps (prev. 42bps), December 64bps (prev. 64bps). * NY Fed RRP op demand at USD 392bln (prev. 399bln) across counterparties 66 (prev. 69) * US sold USD 85bln at a high rate of 5.260%, B/C 2.68x; sold USD 90bln in 4wk bills at a high rate of 5.27%, B/C 2.59x. * US to sell USD 76bln in 13wk bills on July 22nd, to settle July 25th; US to sell USD 70bln in 26wk bills on July 25th, to settle July 25th. * SOFR at 5.35% (prev. 5.35%), volumes at USD 2.025tln (prev. 2.061tln). * EFFR at 5.33% (prev. 5.33%), volumes at USD 85bln (prev. 88bln).

CRUDE

WTI (Q4) SETTLED USD 0.03 LOWER AT 82.82/BBL; BRENT (U4) SETTLED USD 0.03 HIGHER AT 85.11/BBL

The crude complex was choppy on Thursday and ultimately settled flat, as the strength seemingly aided by heightened geopolitical woes was offset by notable Dollar strength into the close. In the European morning, oil saw initial strength, continuing the upside from Wednesday, but ultimately pared around the time the Chinese Third Plenum communique was released, which was vague on extra stimulus. As such, WTI and Brent hit lows of USD 82.04/bbl and 84.22/bbl, respectively, before once again reversing on concerning Middle Eastern reports, whereby Sky News Arabia reported Houthi leader threatens expanded escalation in Indian Ocean, Mediterranean, and issues new threats against Saudi Arabia. Thereafter, energy ground higher but wasn't able to test the earlier peaks seen in the European morning (83.82/bbl and 85.81bbl), however, as the Dollar bid continued into the energy settlement it saw WTI and Brent pare all gains to settle more-or-less flat. Elsewhere, via Reuters citing three OPEC sources, the OPEC+ JMMC meeting on August 1st is unlikely to adjust oil policy, including the current plan for an output hike from October. Looking ahead, there is a lack of tier 1 US data on Friday, but Fed's Williams is scheduled to speak as well as the weekly Baker Hughes rig count.

EQUITIES

CLOSES: SPX -0.78% at 5,544, NDX -0.48% at 19,705, DJI -1.29% at 40,665, RUT -1.82% at 2,198.

SECTORS: Health -2.29%, Consumer Discretionary -1.28%, Financials -1.28%, Materials -1.02%, Real Estate -0.81%, Industrials -0.73%, Consumer Staples -0.48%, Communication Services -0.29%, Technology -0.23%, Utilities -0.06%, Energy +0.33%.

EUROPEAN CLOSES: DAX: -0.40% at 18,363, FTSE 100: +0.21% at 8,205, CAC 40: +0.21% at 7,587, Euro Stoxx 50: -0.41% at 4,871, AEX: flat at 916, IBEX 35: +0.38% at 11,148, FTSE MIB: +0.43% at 34,529, SMI: -0.70% at 12,244, PSI: +0.34% at 6,789.

EARNINGS

- **United Airlines (UAL)** - Beat on EPS and reaffirmed FY24 profit view. Expects FY earnings to be at the low end of the USD 9-11/shr forecast.
- **TSMC (TSM)** - Topped sales and EPS expectations, alongside raising guidance.
- **Novartis (NVS)** - Net income was below forecasts.
- **Abbott Laboratories (ABT)** - Top and bottom line surpassed expectations, with FY guidance also slightly lifted.
- **Marsh and McLennan (MMC)** - Missed on revenue.
- **Steel Dynamics (STLD)** - EPS and revenue beat.
- **Kinder Morgan (KMI)** - Fell short on adj. EPS and revenue.
- **Blackstone (BX)** - Distributable EPS and revenue missed, though beat slightly on adj. income.
- **Discover Financial Services (DFS)** - Beat on EPS and revenue, and sees strong FY NIM.
- **Domino Pizza (DPZ)** - Mixed earnings, and expects to fall short of its 2024 international net store goal amid challenges.

STOCK SPECIFICS

- **Warner Bros Discovery (WBD)** - Seeks to bolster share price, by exercising asset sales, and the splitting of digital/studio units from the legacy TV unit.
- **Beyond Meat (BYND)** - Engages bondholders in restructuring talks, according to the WSJ.
- **Apple (AAPL)** - Although there have been rumours of increased orders for iPhone 16 orders from time to time after WWDC, recent earnings calls from two key Apple suppliers (TSMC and Largan) have hinted that iPhone 16 orders may not have increased, via Ming-Chi Kuo.
- **Tesla (TSLA)** - California sales fell 24% in Q2 2024, according to a CNCDA. California's new light vehicle registration fell by 0.7% YTD vs last year, totaling 892,363.
- **Allegiant (ALGT)** - Suspends quarterly cash dividend citing capital requirements related to fleet.
- **Broadcom (ACGO)** - OpenAI has talked to Broadcom about developing new AI chip, according to The Information; Sam Altman has had talks with TSMC (TSM).
- **Smartsheet (SMAR)** - Reportedly working with Qatalyst Partners to field takeover interest, according to Reuters sources.
- **DaVita (DVA)** - To pay over USD 34mln over illegal kickbacks allegation, via DoJ.

US FX WRAP

The Dollar saw notable gains on Thursday with DXY hitting a high of 104.210 as risk-off sentiment was sparked with Biden's re-election chances diminishing. Several top Democrats told Axios that the rising pressure of party congressional leaders and close friends will persuade Biden to decide to drop out of the presidential race. Meanwhile, Former President Obama also reportedly told allies that Biden needs to re-assess his viability as Dem leader. Also supporting the buck was the Euro weakness after ECB President Lagarde said that September is "wide open". Elsewhere, the Dollar Index saw marginal weakness after initial jobless claims, for the week that coincides with NFP, came in above expectations, although Philly Fed was much better than forecast. Fed speak saw little reaction, but Goolsbee (2025 voter) reiterated his view from Monday and Logan (2026 voter) did not speak on monpol. Looking to Friday, there is a lack of tier 1 data but Williams is scheduled ahead of Fed blackout next week.

G10 FX was largely hit on the surging Buck, while the Euro had the added catalyst of the ECB. On this, the central bank treaded water until a potential September showdown, although the single-currency was hit after the President suggested that the September meeting is "wide open". However, the EUR was saw some marginal and fleeting strength on BBG sources, which noted officials consider if only one more cut is feasible in 2024. However, Reuters sources reported that ECB hawks are open to a September rate cut. EUR/USD resumed its downward path (on aforementioned Dollar strength) to a hit a trough of 1.0896. **JPY** was the G10 underperformer, after its recent strength, as the cross rose to a high of 157.32, while the latest BoJ data did not immediately show evidence of intervention on July 17th, according to Reuters. Overnight Japanese CPI is the highlight.

GBP and AUD were largely unreactive to their respective data points, whereby the UK employment change was marginally higher than expected, with earnings in line ahead of retail sales on Friday. Down under, there was better-than-expected Australian jobs growth, albeit this was accompanied by an unexpected uptick in the unemployment rate. As such, Cable hit a trough of 1.2944 against an earlier peak of 1.3012, while AUD/USD bottomed out at 0.6698, with the pair hovering around 0.6700 ahead of APAC trade.

EMFX saw losses across the board, mainly on a function of risk-off and the broad Dollar strength. MXN and BRL were particularly pressured as the former continues to be hit on the increasing probability of Former President Trump getting back into the White House. For the ZAR, SARB held rates at 8.25%, as expected, and within its forecast, it revised down its CPI projections for both 2024 and 2025. GDP growth was revised lower for this year but revised up for next year. Following the rate decision, the ZAR was weighed on by the South African President noting they will increase funding for land reform, adding they will manage public finances with a view of stabilizing debt. **CLP** was hit by tumbling copper prices. Lastly, for the Brazilian Real, the Finance Ministry lifted its 2024 and 2025 inflation forecasts, while leaving its 2024 GDP view unchanged but cutting its 2025 outlook.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com