US Market Wrap

19th July 2024: SPX posts biggest weekly decline since mid-April while CrowdStrike outages hits sentiment

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up
- **REAR VIEW**: Global tech outage due to Crowdstrike (CRWD); Biden faces more calls to step-aside; Soft UK and Canada retail sales; Soft Japan CPI; NFLX and AXP sold post-earnings; Elliott takes stake in SBUX
- **COMING UP**: **Data:** Chinese LPR, German Retail Sales. **Events:** ECB Survey of Monetary Analysts. **Earnings:** Verizon
- **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 LPR, BoC and CBRT; Reviewing ECB, PBoC MLF, SARB. To download the report, please click here.

MARKET WRAP

The equity slide continued on Friday with a global IT outage sparked by a CrowdStrike (CRWD) update weighing on sentiment while Biden's re-election chances continue to dwindle. T-notes also continued to slide with the 10yr yield matching Monday's peak at 4.25%. The upside in yields and risk off trade supported the buck which weighed on activity currencies, although the Yen was flat. Crude prices tumbled throughout the session as the risk environment and dollar strength weighed. Stock weakness was broad based with the majority of sectors closing in the red, aside from the haven sectors Health Care and Utilities. Tech, Energy and Financials saw the greatest losses. Communication only saw marginal losses despite the weakness in Netflix (NFLX) post earnings. Out of the mega caps, Apple (AAPL), Meta (META) and Google (GOOGL) were flat but Microsoft (MSFT) was hit by outages sparked by CRWD. Amazon (AMZN) only saw slight losses. Meanwhile, the chip rout also continued with NVDA falling another 2.5% with SOXX -3%.

FIXED INCOME

T-NOTE (U4) FUTURES SETTLED 12+ TICKS LOWER AT 110-26+

T-notes pared from CrowdStrike outage induced highs as Biden faces more calls to step aside ahead of supply next week and as Fed enter the blackout period. At settlement, 2s +4.8bps at 4.509%, 3s +5.6bps at 4.285%, 5s +6.3bps at 4.167%, 7s +6.0bps at 4.186%, 10s +5.5bps at 4.243%, 20s +4.9bps at 4.558%, 30s +4.7bps at 4.453%

INFLATION BREAKEVENS: 5yr BEI -0.9bps at 2.197%, 10yr BEI +3.9bps at 2.298%, 30yr BEI +0.7bps at 2.296%.

THE DAY: T-notes saw further selling pressure on Friday with a Trump re-election looking more and more likely as calls for Biden to step aside increase. The Sep'24 UST contract went as low as 110.25+ vs. the multi-month peak printed on Wednesday at 111.15, while the 10yr yield hit a peak of 4.25%, matching the peak seen on Monday 15th July. Note, T-notes caught a bid in the European morning to an intraday peak of 111-07+ with sentiment hit after a global IT outage due to issues at CrowdStrike, but once US arrived, selling pressures resumed. There was a lack of tier 1 data and only a couple of Fed Speakers, although Bostic did not comment on monetary policy while Williams had nothing new to say with the Fed going into the Blackout period ahead of the 31st July meeting. The Fed is widely expected to stand pat at that meeting and there will be no set of accompanying forecasts, although Barkin told us on Wednesday he is sure the Fed will debate whether it is still appropriate to describe inflation as elevated in July. All eyes turn to the September meeting where the Fed is widely expected to cut rates, with money markets fully pricing in this outcome. Given the amount of data due between now and September it remains to be seen how much policymakers can add to the debate, but it will be interesting to see at that meeting whether the median dot plot shifts to see two rate cuts this year. Money markets are currently fully pricing in two rate cuts this year, with a c. 50% probability of a third. Inflation and labour market data between now and then will be key, the Fed have been very vocal in noting that risks to both sides of the mandate are in better balance now, therefore if the labour market continues to show signs of slowing, the Fed will be more persuaded to cut rates, particularly if inflation continues to ease too.

STIRS:

- Market Implied Fed Rate Cut Pricing: September 25bps (prev. 26bps D/D), November 40bps (prev. 41bps), December 63bps (prev. 64bps).
- NY Fed RRP op demand at USD 380bln (prev. 392bln) across counterparties 67 (prev. 66)
- SOFR at 5.34% (prev. 5.35%), volumes at USD 2.014tln (prev. 2.025tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 83bln (prev. 80bln).

CRUDE

WTI (Q4) SETTLED USD 2.69 LOWER AT 80.13/BBL; BRENT (U4) SETTLED 2.48 LOWER AT 82.63/BBL

The crude complex ended the day, and the week, in the red as the Dollar strength weighed after newsflow was dominated by the Crowdstrike update issue, in which major oil/gas trading desks were also affected. Nonetheless, WTI and Brent saw continued weakness throughout the US session to settle at session troughs. Despite the notable losses, energy specific and geopolitical newsflow was sparse with the highlight arguably coming via Sky News Arabia who reported that the IDF said “in the coming days, we will discuss options for offensive responses to those who threaten Israel's security". In addition, Israeli media reported that there was at least one explosion hit in Tel Aviv, while Yemen's Houthis said they will reveal details about a military operation that targeted Tel Aviv. Lastly, Baker Hughes Rig Count added rigs for the second time in three weeks; Oil -1 at 477, Natgas +3 at 103, Total +2 at 586.

EQUITIES

CLOSES: SPX -0.71% at 5,505, NDX -0.93% at 19,523, DJIA -0.93% at 40,288, RUT -0.63% at 2,184

SECTORS: Energy -1.29%, Technology -1.27%, Financials -1.00%, Materials -0.87%, Consumer Discretionary -0.80%, Industrials -0.60%, Consumer Staples -0.38%, Communication Services -0.19%, Real Estate -0.12%, Utilities +0.11%, Health +0.5%.

EUROPEAN CLOSES: DAX: -1.03% at 18,166, FTSE 100: -0.60% at 8,156, CAC 40: -0.69% at 7,535, Euro Stoxx 50: -0.91% at 4,826, AEX: -0.95% at 907, IBEX 35: -0.54% at 11,088, FTSE MIB: -0.91% at 34,216, SMI: -0.63% at 12,171, PSI: +0.20% at 6,803.

STOCK SPECIFICS:

- **CrowdStrike (CRWD)** - Faced with a major outage after its latest update, whereby the CEO said the defect is related to window hosts, not Mac and Linux, and is not a security incident or cyberattack. CEO said later, the issue has been resolved. Outage caused issues in **(MSFT)** cloud services facing outages, Airline names **(UAL, DAL)** having to pause flights, and people's payments with **Visa (V)** not processing.
- **Eli Lilly (LLY)** - Weight loss drug tirezapatide received China approval, according to Reuters.
- **Hawaiian Electric (HE)** - Has agreed, along with others, to pay more than USD 4bln to resolve hundreds of lawsuits over the wildfires in Maui last year, below the estimated USD 5.5bln in damages caused by the blaze.
- **Plug Power (PLUG)** - Announced a USD 200mln common stock offering.
- **Instructure Holdings (INST)** - KKR reported as the front-runner for Instructure, according to Bloomberg; KKR noted to discuss an offer of around USD 24/shr.
- **Hims & Hers Health (HIMS)** - FTC has opened an investigation into the company.
- **Starbucks (SBUX)** - Shares jump on activist Elliot taking a big stake in the Co., according to WSJ; the exact size of the position and demands of Elliot, could not be learned.
- FTC probes **Hess (HES)** and **Occidental (OXY)** executives over OPEC communications
- **Tesla (TSLA)** - Reportedly halted some of its production lines due to the **Microsoft (MSFT) / Crowdstrike (CRWD)** outage, according to Business Insider; adds TSLA staff are yet to be told when to return to work. CEO Musk tweeted, Via X, "We just deleted Crowdstrike from all our systems, so no rollouts at all". TSLA also raised prices by USD 2,000 for several vehicles.

EARNINGS:

- **Netflix (NFLX)** - Beat on EPS and revenue, and raised its FY24 revenue growth guidance.
- **American Express (AXP)**- Missed on revenue.
- **Commerca (CMA)** - Missed on NIM, and sees FY24 NII down 14% Y/Y, and Q3 NII down 2-3% Q/Q.
- **Intuitive Surgical (ISRG)** - Surpassed expectations on the top and bottom line. CEO said there were no changes to Co's international growth outlook but sees lower growth in North America vs original guidance.
- **PPG Industries (PPG)** - Top line fell short with Q3 guidance weak and cut its FY24 outlook.
- **SLB (SLB)** - Exceeded Adj. EPS and revenue expectations, and approved a cash dividend of USD 0.275/shr.
- **Travelers Companies (TRV)** - Beat on Core EPS, though did miss on revenue.

US FX WRAP

The Dollar continued to extend on Thursday's gains, with the dollar index nearing printing a high of 104.42, as risk-off sentiment persisted amid a global IT issue sparked by an update issue at CrowdStrike and also a growing number of Democratic Representatives and Senators calling on President Biden to quit the race. With a Trump Presidency looking more and more likely, this also weighed on T-notes and the upside in yields supported the buck. Elsewhere, the US newsflow was lacking, with no data releases and little Fedspeak, as Bostic did not discuss his rate or economic outlook, and Williams added little new. Attention next week turns to Core PCE data as well as Q2 advance GDP. Of note, the Fed blackout starts on Saturday.

G10FX mainly weakened on the firmer greenback, while the **Yen** only saw marginal weakness despite Japanese CPI coming in a touch softer than expected. The cross hovered around 157.4 although USD/JPY remains susceptible to further dovish catalysts from the US or conversely hawkish actions within Japan. **Antipodeans** were among the worst performers in the space, with the Kiwi enduring the greater pain as the cyclical currencies succumbed to the risk off tone; AUD/USD fell sub 0.6700, and NZD/USD almost broke below 0.6000. **EUR** was slightly weaker vs the dollar, accompanied by multiple ECB'S speakers in the session. Despite the Euro downside, ECB's Villeroy turned more on the neutral side compared to recent dovish commentary, saying " expectations of two more rate cuts are reasonable", meanwhile, Simkus reiterated his neutral tendencies, agreeing with the market view of two cuts or more in 2024.

CAD and **GBP** marched to the downside in response to their respective Retail Sales reports, of which both came in considerably weaker than expected. Canada's May came in beneath the lower end of forecasts, but both currencies were also weighed on by the dollar strength and risk off trade. Cable fell to lows of 1.2902, and USD/CAD ends the week firmer, after 5 weeks of downside, at c. 1.3730. With regards to policy path expectations, BoC pricing remains unchanged heading into the BoC rate decision next Wednesday, where the BoC pricing puts an approx 92% chance of the Central Bank cutting from 4.75% to 4.5%, with 22/30 economists expecting a 25bp cut, but eight forecast a hold.

EMFX largely incurred as a result of the risk-off mood and flocking to the Dollar, although, COP saw notable outperformance against latam peers. **MXN** continued to weaken, due to growing fears of a Trump re-election, USD/MXN climbed back above the 18 handle. Elsewhere, **USD/TRY** fell below 33.00, ahead of the CBRT rate decision next week, where they are expected to maintain the one-week repo auction rate at 50% for the fourth consecutive week. Lastly, the **Rand** continued its weakness seen on Thursday, after the SARB held rates at 8.25%, and revised down its CPI projections for 2024 and 2025.

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