

22nd July 2024: Stocks rally ahead of key earnings and data

- **SNAPSHOT:** Equities up, Treasuries down, Crude down, Dollar up.
- **REAR VIEW:** President Biden drops out of election race; BoJ sources note officials see weak consumption complicating its rate decision; PBoC surprisingly cut the RRR, LPR, and SLF in a bid to inject stimulus; NVDA develops AI chip for China market; CRWD continues to slide and downgraded at multiple brokers, in response to Friday's incident; VZ misses on revenue.
- **COMING UP: Data:** EU Consumer Confidence, US Richmond Fed Index **Events:** CBRT & NBH Policy Announcement **Speakers:** ECB's Lane **Supply:** Australia, UK, Germany, US **Earnings:** Alphabet, Tesla, Visa, Coca-Cola, GE Aerospace, General Motors, Philip Morris International, Spotify.
- **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, SARF. [To download the report, please click here.](#)
- **WEEKLY US EARNINGS ESTIMATES:** [TUES] UPS, DHR, GE, KO, PM, CMCSA, LMT, GOOGL, TXN, V, TSLA, CB; [WED] TMO, T, BSX, NEE, IBM, NOW, KLAC; [THURS] HON, RTX, ABBV, UNP; [FRI] MMM. [To download the report, please click here.](#)

MARKET WRAP

Stocks pared some of the prior week's losses with gains led by the Nasdaq and Russell, although gains were broad-based with the vast majority of sectors in the green while the equal-weight S&P also surged. The equity upside was largely led by gains in the large-cap sectors, with Tech notching near 2% gains while Communication and Consumer Discretionary also outperformed. Semis performed well too with NVDA upside leading the chip space after reports the chip behemoth is working on a version of its new flagship AI chips for the Chinese market that would be compatible with US export controls. Elsewhere focus was on the US election after President Biden dropped out of the Presidential race over the weekend with VP Harris now the front-runner for the top job although participants are still digesting whether it is too late or not to boost the Dems chance vs Trump. T-Notes ultimately sold off across the curve with midday selling pressures seemingly attributed to technical moves or rate-locking deal flow. In FX, the Dollar saw marginal gains as yields propped up the buck while the Yen was off highs on Bloomberg source reports that the BoJ is said to see weak consumption complicating its rate decision, with some wanting more time to see the data, although others see risks it could miss the chance to lift rates. Elsewhere, the Yuan was mildly softer against the Greenback but China-exposed currencies (AUD and NZD) were the clear laggards with the market disappointed by stimulative measures from China while the surprise PBoC rate cuts were also deemed as not enough. Crude prices slid throughout the session on the back of poor China demand prospects, although crude prices were off lows once Europe shut up shop. Attention turns to heavy cap earnings this week with TSLA and GOOGL the highlights ahead of US GDP and Core PCE data later in the week, while Treasury traders will also be eyeing 2-, 5-, and 7-yr supply.

GLOBAL

US ELECTION - President Biden dropped out of the 2024 Presidential race and endorsed his VP Kamala Harris as the Democratic Presidential candidate. Prediction markets are assigning an approx 80% probability that Harris' wins the nomination and also signalling that the Democrats' chances of winning the White House have increased a little, while House and Senate probabilities have little changed. Dems will formally nominate their candidate at the Democrat National Convention, which runs between August 19-22; The Hill reports that to win the nomination, a candidate must secure 1,986 delegates at the convention, out of the total of c.4,000 delegates. As of Sunday evening, 531 delegates had already endorsed Harris. In terms of her potential impact on markets, Reuters suggests that Harris has been friendly to Big Tech, and she has received support and donations from major tech figures. On regulation, as California Attorney General, Harris sued eBay over anticompetitive practices, and pressured Houzz to hire a chief privacy officer. On AI, Harris has warned about the "existential" threat to humanity, and has urged tech leaders to remember their "moral" duties to mitigate AI risks; she supported a Biden executive order for stronger consumer protections against AI-related dangers. On energy and climate policy, Harris shares similar climate and energy positions with Biden, prioritising clean energy and environmental justice. She had a reputation for being tough on big oil during her tenure as California's District Attorney and Attorney General.

PBoC: China's central bank unexpectedly cut its LPR rates for the first time since February; its 1yr Loan Prime Rate was reduced to 3.35% (it was expected to hold it at 3.45%), while its 5yr Loan Prime Rate was cut to 3.85% (it was expected to remain at 3.95%); the 7-day reverse repo rate was also lowered by 10bps to 1.7%. The PBoC will also lower collateral requirements for the Medium-term Lending Facility Loans from July, helping to increase the size of tradable bonds in the market and to alleviate pressure on supply and demand of bonds in the market. Today's moves came despite the PBoC leaving its MLF rates unchanged earlier in the month; analysts noted that the PBoC Governor recently suggested that the 7-day RRP rate would gradually become its main policy rate. Pantheon Macroeconomics said "the token rate cut, which we expected to happen in August, has now been brought forward and will only support the economy at the margin," adding that "we think lower rates will provide a limited boost to growth, particularly in the property sector and consumption." In later APAC trading, the PBoC also announced it would cut its Standing Lending Facility (SLF) rate by 10bps across all maturities; the tool is used to provide short-term liquidity to commercial banks, with overnight and 7-day rates available, serving as the ceiling for the interest rate corridor.

FIXED INCOME

T-NOTE FUTURES (U4) SETTLED 3+ TICKS LOWER AT 110-23

T-Notes fade overnight post PBoC bid ahead of supply and key US data, while traders digest whether Harris is in a better spot to beat Trump than Biden. At settlement, 2s +1.4bps at 4.521%, 3s +1.4bps at 4.296%, 5s +1.4bps at 4.177%, 7s +1.6bps at 4.199%, 10s +1.7bps at 4.256%, 20s +2.0bps at 4.576%, 30s +2.7bps at 4.477%.

INFLATION BREAKEVENS: 5yr BEI -0.3bps at 2.194%, 10yr BEI -0.4bps at 2.292%, 30yr BEI -0.1bps at 2.297%

THE DAY: T-Notes saw highs overnight in the wake of the surprise PBoC cut but upside pared throughout the European morning before

selling off in US trade, with the market seemingly unimpressed by the PBoC efforts. T-Notes were ultimately lower across the curve on Monday in a steeper fashion with traders digesting whether Harris is in any better position than Biden to beat Trump after Biden dropped out of the race over the weekend. There was a notable sell-off in the late US morning/early afternoon which may have been technically driven ahead of supply this week, although IFR suggest the long-end selling was potentially deal-related, a rate lock hedge for the USD 12bln OXY/CrownRock deal which is said to close by late July/early August. Alongside supply this week, attention turns to Core PCE (Fri) and Q2 Advance GDP (Thurs) with the Fed in the blackout period ahead of the 31st July FOMC.

THIS WEEK'S SUPPLY: US 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 24bps (prev. 25bps D/D), November 38bps (prev. 40bps), December 60bps (prev. 63bps).
- NY Fed RRP op demand at USD 396bln (prev. 380bln) across counterparties 77 (prev. 67).
- US sold USD 80bln of 3-month bills at 5.190%, covered 3.08x; sold USD 74bln of 6-month bills at 4.990%, covered 2.85x.
- SOFR at 5.34% (prev. 5.34%), volumes at USD 1.992tln (prev. 2.014tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 79bln (prev. 83bln).

CRUDE

WTI (U4) SETTLED USD 0.24 LOWER AT 78.40/BBL; BRENT (U4) SETTLED USD 0.23 LOWER AT 82.40/BBL

The crude complex continued on its downward trajectory on Monday as concerns around China continue to linger. On the day, WTI and Brent trundled lower throughout the European morning to hit troughs of USD 77.55/bbl and 81.60/bbl, respectively, before paring some of the move through the US afternoon, albeit still settling softer. In terms of catalysts, energy-specific newsflow was light but sentiment still seemingly seems around concerns of Chinese demand following a string of downbeat data and a somewhat underwhelming CCP Third Plenum. However, overnight China conducted surprise rate cuts overnight to the RRR, LPR, and SLF in a bid to inject stimulus, although markets are seemingly overlooking these efforts. On the geopolitical footing, over the weekend tensions mounted between Israel and neighbouring countries after the former struck Yemen in wake of last week's attack on the Israeli capital. Looking ahead, participants await pivotal US data this week ahead of the Fed rate decision next week.

EQUITIES

CLOSES: SPX +1.08% at 5,664, NDX +1.54% at 19,822, DJI +0.32% at 40,415, RUT +1.69% at 2,221.

SECTORS: Technology +1.96%, Communication Services +1.2%, Industrials +1.07%, Real Estate +0.98%, Utilities +0.87%, Consumer Discretionary +0.87%, Financials +0.64%, Health +0.57%, Materials +0.34%, Consumer Staples -0.04%, Energy -0.72%.

EUROPEAN CLOSES: DAX: +1.35% at 18,417, FTSE 100: +0.53% at 8,199, CAC 40: +1.16% at 7,622, Euro Stoxx 50: +1.44% at 4,897, AEX: +1.06% at 917, IBEX 35: +0.51% at 11,144, FTSE MIB: +1.17% at 34,615, SMI: +0.95% at 12,287, PSI: +0.85% at 6,860.

STOCK SPECIFICS:

- **Nvidia (NVDA)** - Developing a version of its new "Blackwell" AI chips for the Chinese markets, adhering to US export controls.
- **CrowdStrike (CRWD)** - Downgraded at multiple brokers, in response to Friday's incident.
- **Verizon (VZ)** - Missed on revenue with disappointing growth in FIOS (Fiber Optic Service) subscribers.
- **Iqvia (IQV)** - Beat on top and bottom line, alongside raising FY24 guidance.
- **Bank of America (BAC), Berkshire Hathaway (BRK)** - Berkshire Hathaway sold around 33.9mln shares of BAC for around USD 1.48bln last week.
- **Boeing (BA)** - Won its first contract since guilty plea.
- **Amazon (AMZN)** - Amazon Japan will begin selling prescription drugs online this year in collaboration with drug store chain operator Welcia Holdings, according to Nikkei.
- **Apple (AAPL)** - Wells Fargo raised its PT to USD 275 (prev. 225) ahead of earnings; said it expects Apple Intelligence will drive a "significant upgrade cycle" for the iPhone maker.
- **Abercrombie & Fitch (ANF)** - Upgraded at JPMorgan on continued broad-based demand.
- **Mattel (MAT)** - Spokesperson said it is 'very confident' in its strategy as a standalone company, following conflicting reports of a potential acquisition.
- **AMC Entertainment (AMC)** - To restructure debt load using theatres to support the deal, via Bloomberg. Said it sees strong Y/Y box office growth in H2 24, continuing into 2025 and 2026.
- **Warner Bros. Discovery (WBD)** - Reportedly offers to match Amazon's (AMZN) bid for NBA rights, according to Bloomberg.

US FX WRAP

The Dollar Index was marginally firmer to start the week in what was a quiet start to the week ahead of a deluge of risk events, in the form of US GDP Advance (Thurs) and PCE (Fri). In thin newsflow, the key story out of the US was over the weekend, whereby President Biden dropped out of the race for re-election with VP Harris the clear favourite to be the Democratic nominee. However, little reaction was seen in FX with the Greenback in narrow ranges, highlighted by a high of 104.420 and a low of 104.180.

Antipodeans were the clear G10 underperformers vs the Dollar, with the Aussie continuing its losing streak to see the cross print a trough of 0.6632, while NZD/USD bottomed out at 0.5973, with the two currencies potentially weighed on by the continued lingering concerns around China. On that footing, the Yuan was slightly softer against the Dollar after stimulus efforts by Chinese officials overnight, although the market was seemingly unimpressed with the effort, whereby they conducted surprise rate cuts overnight to the RRR, LPR, and SLF.

JPY and **GBP** outperformed and saw slight gains, as USD/JPY hit a low of 156.29 but currently resides around 157.00, with participants awaiting Tokyo CPI on Friday. Nonetheless, the Yen did see some weakness after Bloomberg sources reported that the BoJ is said to see weak consumption complicating its rate decision, and officials are likely to wait until the last minute to finalize their decision after checking the latest data on markets and economic conditions at the gathering ending on July 31st. **EUR** was flat, while the **CHF** and **CAD** saw marginal weakness with the latter awaiting BoC on Wednesday ([Newsquawk preview here](#)) where the general consensus is for the Central Bank to cut, but some are expecting a hold.

EMFX largely saw gains against the Buck, highlighted by CLP, COP, MXN, and BRL all firmer while the TRY saw losses ahead of its rate

decision later in the week. MXN and BRL recovered some of their recent losses led by Trump's election chances growing, with Brazil President Lula stressing essential fiscal responsibility, while the Treasury Secretary added that expense limits will be strictly observed. On the data footing, Mexican retail sales rose 0.1% in May, against the prior rise of 0.5%, while IGAE economic activity Y/Y surpassed expectations.

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