

24th July 2024: Stocks crash as mega cap earnings disappoint

- **SNAPSHOT:** Equities lower, Treasuries steepen, Crude up, Dollar flat.
- **REAR VIEW:** US Flash Mfg. PMI surprisingly moves into contractionary territory; GOOGL's YouTube revenue falls short; TSLA EPS misses with margins pressured; Average US 5-yr auction; EIA saw bigger draws than expected in crude and gasoline; New Home Sales for June unexpectedly falls; Dovish BoC cut; Mixed Europe Flash PMI's; BoJ sources note the banks weigh rate hike next week
- **COMING UP: Data:** French Business Climate Manufacturing, German Ifo, US Durable Goods, GDP Advance (Q2), PCE Prices Advance (Q2), US IJC. **Speakers:** ECB President Lagarde. **Supply:** Italy & US. **Earnings:** BE Semiconductor, Roche, Julius Baer, Nestle, Lonza, Sanofi, STMicroelectronics, Hermes, Vivendi, Vinci, EssilorLuxottica, Stellantis, TotalEnergies, Dassault Systemes, IG, Anglo American, Lloyds, AstraZeneca, ITV, Vodafone, Unilever, AbbVie, Willis Towers

MARKET WRAP

Stocks tumbled on Wednesday to see SPX and NDX close lower by 2.3% and 3.7%, respectively. The weakness was primarily observed in the large caps with Tech, Consumer Discretionary and Communication Services tumbling c. 4% with Google (GOOGL) and Tesla (TSLA) earnings hitting sentiment ahead of other Mag 7 reports in the upcoming weeks. The risk-off trade saw traditional haven stocks outperform, with Utilities and Healthcare notching gains, while Energy also saw slight gains as crude prices pared some of the recent weakness. Also hitting sentiment was a surprise contraction print in the US manufacturing PMI, printing beneath all analyst forecasts, although the services PMI beat. Eurozone PMIs were soft. The risk-off trade saw traditional haven FX with JPY and CHF notching up notable gains, while the Yen was also buoyed by reports the BoJ are to consider a rate hike next week. Gold however failed to benefit from haven demand. Antipodes underperformed given their cyclical nature while the CAD saw weakness with USD/CAD rising above 1.3800 in the wake of the 25bps rate cut from the BoC, while Macklem signalled more cuts are coming.

GLOBAL

NEW HOME SALES: US New Home Sales fell to 617k in June, a 0.6% drop from the upwardly revised May figure of 621k (prev. 619k). The headline remains well below April's YTD high of 698k, albeit the M/M change was less severe than the 11.3% drop in May. New Home Supply rose to 9.3 months from May's 9.1 months, while the median June sale price fell 0.1% to 417.3k from 417.6k. On the headline, Pantheon Macroeconomics attributes the reversal of the spring bounce, partially to the sharp 40bp rise in mortgage rates in April, which has since steadily unwound. Looking ahead, the desk notes that this effect will likely fade as mortgage rates drop across the remainder of the year and into 2025, releasing some of the pent-up supply of existing homes. PM wrote that "new home sales are likely to fall as the broader market recovers unless the rebound in mortgage demand is so big that it offsets homebuilders' loss of market share", the desk believes this is unlikely, as they believe that the unemployment rate is likely to rise across the rest of this year and 2025.

US FLASH PMIS: The S&P Global Flash PMI day for June was mixed, with Services rising to a 28-month high of 56.0 (exp. 55.0, prev. 55.3), and Manufacturing falling to a 7-month low, and back into contractionary territory, of 49.5 (exp. 51.7, prev. 51.6), leaving Composite rising to 55.0 from 54.8. The report highlighted that the flash PMI data signals a 'Goldilocks' scenario at the start of Q3, with the economy growing at a robust pace while inflation moderates. On prices, the report added, "The rate of increase of average prices charged for goods and services has meanwhile slowed further, dropping to a level consistent with the Fed's 2% target." On inflation, the July survey saw input costs rise at an increased rate, linked to rising raw material, shipping and labour costs. On growth, it highlighted that the data is "indicative of GDP rising at an annualized rate of 2.5% after a 2.0% gain was signaled for Q2." It is worth noting the drop in the manufacturing component was larger than the most pessimistic analyst forecast, with the report noting the downside was led by falls in new orders, production and inventories, with inventories dropping especially sharply. A reduced rate of employment also dragged on the headline. The S&P Global Chief Business Economist Williamson said that "From the output perspective, growth has become worryingly skewed, with manufacturing slipping back into contraction as the service sector gains further strength. Some of the production decline was linked to staff shortages, so could prove temporary – something which is supported by the sector reporting improved confidence about future growth prospects. However, both manufacturers and service providers are reporting heightened uncertainty around the election, which is dampening investment and hiring".

BOC REVIEW: The Bank of Canada cut rates by 25bps taking its policy rate to 4.50%, as was expected by the majority of analysts although some had been looking for the BoC to keep rates on hold. Within the statement, the BoC noted that risks to the inflation outlook are balanced, whilst removing language that referred to the BoC being more concerned about upside risks. However, it noted that it is assessing opposing forces on inflation, with ongoing excess supply lowering inflationary pressures, although shelter and some other services inflation is holding inflation up. Looking ahead, the BoC said decisions will be guided by incoming information and their assessment of their implications for the inflation outlook. The MPR saw the BoC revise down its Q2 24 CPI forecast to 2.7% from 2.9%, with Q3 CPI seen at 2.3%. The BoC doesn't see CPI returning to the midpoint of their target range until 2026 however, with 2025 CPI projections raised to 2.4% from 2.2% in April. Its estimate of the nominal natural rate was unchanged vs April at 2.25-3.25%, while it estimates the output gap between -0.75% and -1.75%, vs the April projection of -0.5% and -1.5%. BoC Governor Macklem noted there was a clear consensus to cut rates by 25bps, and that if inflation continues to ease broadly in line with their forecast, it is reasonable to expect further rate cuts, although the timing will depend on how the BoC see these "opposing forces" playing out. Overall, it was a dovish rate decision, cutting by 25bps again, with the Governor signalling more cuts are coming while the statement removed language the BoC is concerned about upside risks to inflation, while Macklem highlighted an increase in weight to the downside risks. Forecasts were more mixed in the MPR, but the BoC lowered its Q2 CPI forecast with Q3 CPI seen at 2.3%. Looking ahead, data will dictate rate decisions from the BoC, but money markets are currently pricing in a c. 50% probability of another cut in September. With 42bps being priced in by year-end, fully pricing in at least one more rate cut this year, with a decent probability of another. Analysts at RBC are of the view there will be two additional rate cuts this year, leaving the overnight rate to a "still restrictive" 4% by the end of 2024. With rates ending the year at 4%, it leaves rates above the BoC's estimate of the neutral rate, which has remained between 2.25-3.25% for the past two quarters.

FIXED INCOME

T-NOTE FUTURES (U4) SETTLED 6+ TICKS LOWER AT 110-21+

Treasuries continue to steepen with soft US data adding to signs of a cooling economy. At settlement, 2s -2.1bps at 4.425%, 3s -0.7bps at 4.256%, 5s +1.6bps at 4.166%, 7s +3.3bps at 4.209%, 10s +4.7bps at 4.286%, 20s +6.7bps at 4.631%, 30s +7.4bps at 4.544%.

INFLATION BREAKEVENS: 5yr BEI +12.5bps at 2.304%, 10yr BEI -0.1bps at 2.274%, 30yr BEI +0.3bps at 2.281%.

THE DAY: T-Notes continued to steepen with the 2s10s inversion rising to -13bps, the least inverted the curve has been since October 2023. The steepening accelerated after the S&P Global Manufacturing PMI fell by more than all forecasts into contractionary territory, adding to concerns the economy is slowing, and also increasing rate cut bets with now 66bps of easing priced through year-end, vs 62bps on Tuesday. Also supporting the short end was the dovish BoC rate decision, which cut by 25bps, and removed language about concerns to upside risks on inflation, and signalled more cuts are coming. Attention turned to the 5yr auction after the stellar 2yr reception on Tuesday, albeit the 5yr supply saw a chunky tail, but the internals were in line with averages.

5YR: The US Treasury sold USD 70bln of 5yr notes at a high yield of 4.121%, tailing by 1.1bps vs the prior 0.4bps stop through, with the chunky tail larger than the 0.5bp six auction average heading into the auction. The internals however were not as concerning, with the Bid-to-Cover rising to 2.40x from the prior 2.35x, above the average, while dealers took a lower-than-average take down at 14%. There was a slight drop in indirect demand, but it remained above averages and direct demand offset this drop. Although a large tail, other metrics were in line or slightly better than recent averages, but nonetheless, the reception was still not as strong as what was seen in the stellar 2yr auction on Tuesday.

THIS WEEK'S SUPPLY: US to sell USD 44bln in 7yr notes on July 25th; to settle July 31st.

STIRS:

- **Market Implied Fed Rate Cut Pricing: September 27bps (prev. 25bps D/D), November 43bps (prev. 40bps), December 66bps (prev. 62bps).**
- NY FED RRP op demand at 399bln (prev. 390bln) across 75 counterparties (prev. 64)
- SOFR at 5.34% (prev. 5.33%), volumes at USD 2.011tn (prev. 2.120tn).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 85bln (prev. 84bln).

CRUDE

WTI (U4) SETTLED USD 0.63 HIGHER AT 77.59/BBL; BRENT (U4) SETTLED USD 0.70 HIGHER AT 81.71/BBL

The crude complex was firmer on Thursday, and ended its 4-day losing streak, as it was supported by large draws in the EIA data, as the backdrop of weak Chinese demand took a backseat. On the former, crude and gasoline both saw greater draws than expected, while distillates saw an unexpected draw. As a result, WTI and Brent saw gains in wake of the release to intra-day highs of USD 78.19/bbl and 82.23/bbl, respectively, against earlier troughs of 76.98 and 80.93. Elsewhere, the energy ministry said Russia reportedly exceeded OPEC+ quota in June, but volume of production has been declining since April, and the country will fulfill requirements on oil production in July. The OPEC Secretariat received the compensation plans from Russia, as well as Iraq and Kazakhstan. Iraq overproduced by 1.184mln BPD between January and June 2024, Kazakhstan by 620k BPD and Russia by 480k BPD. On the geopolitical footing, Axios reported that Israel delayed the departure of its delegation to the Gaza ceasefire talks to next week. Looking ahead, US Q2 GDP advance (Thurs) and core PCE (Fri) are the highlights for the rest of the week.

EQUITIES

CLOSES: SPX -2.3% at 5,427, NDX -3.7% at 19,032, DJIA -1.3% at 39,854, RUT -2.1% at 2,195

SECTORS: Technology -4.14%, Consumer Discretionary -3.89%, Communication Services -3.76%, Industrials -2.17%, Real Estate -1.34%, Materials -1.26%, Financials -1.19%, Consumer Staples flat, Energy +0.22%, Health +0.81%, Utilities +1.16%.

EUROPEAN CLOSES: DAX: -0.95% at 18,381, FTSE 100: -0.17% at 8,154, CAC 40: -1.12% at 7,514, Euro Stoxx 50: -1.10% at 4,863, AEX: -1.26% at 903, IBEX 35: flat at 11,210, FTSE MIB: -0.48% at 34,472, SMI: -0.66% at 12,197, PSI: +0.65% at 6,899.

EARNINGS

- **Alphabet (GOOG)** - Reported solid Q2 results, but saw weakness perhaps due to YouTube ad revenue falling short and more spending to build out its cloud infrastructure to meet the demand for AI services.
- **Tesla (TSLA)** - Missed on adj. EPS, with margins seeing some pressure. Revenue was negatively impacted by a decline in S3XY vehicle deliveries.
- **Visa (V)** - Payment volume disappointed, offsetting adj. EPS and revenue surpassing expectations.
- **Roper Technologies (ROP)** - Fell marginally short on the top line, with next quarter and FY EPS view short.
- **Texas Instruments (TXN)** - Profit topped, with activist investor Elliott commending the Co. post-results.
- **Chubb (CB)** - Higher than expected Core EPS, Net Premiums written and earned.
- **Capital One (COF)** - Disappointed on revenue and NIM, with provision for credit losses much higher than expected.
- **AT&T (T)** - Subscriber numbers impressed, and FCF was higher than expected.
- **Old Dominion Freight Line (ODFL)** - Beat on EPS.
- **Lamb Weston (LW)** - Dismal report with all major metrics missing as it cited a global slowdown in restaurant traffic. Lowered FY sales view.

STOCK SPECIFICS

- **Apple (AAPL)** - Spanish competition watchdog investigates Apple for possible anti-competitive practices about the distribution of applications across its devices. Meanwhile, Maps on the Web launches in Beta mode, allowing users around the world to access Maps directly from their browser.
- **Bausch Health (BHC)** - Shares tanked over 20%, with many attributing the move to a report from Reorg.com, about the potential for the Co. to consider a Chapter 11 bankruptcy filing to help delever its balance sheet. Later on, shares bounced before halting on pending news, which saw the Co. say they have not been involved in talks with creditors. That said, once unhalted, shares resumed trading lower, and eventually closer ~23% in the red.
- **Microsoft (MSFT)** - Introducing Bing generative search. Elsewhere, there is no sign Microsoft plans to limit **CrowdStrike (CRWD)** access to Windows operating system, according to Reuters citing a source familiar with the matter.
- **Kering (PPRUY)** - H1 and Q2 revenue came in beneath expectations, as did H1 recurring operating income. Moreover, Q2 Gucci generated sales worsened more than expected, and the CFO said Gucci is dealing with lower store traffic, notably in Asia, and permanent collection is suffering more.

US FX WRAP

The Dollar was flat on Thursday, and was weighed on the notable Yen strength, but this was offset by weakness in all G10 currencies (ex CHF) amid notable risk off sentiment after disappointing mega-cap earnings from Alphabet and Tesla followed by US Mfg. Flash PMI unexpectedly falling into contractionary territory. Nonetheless, the Dollar Index printed a daily trough of 104.120 in wake of US flash PMIs, which were ultimately mixed as Manufacturing unexpectedly fell beneath 50, while Services rose to a 28-month high leaving the Composite edging higher. Looking ahead, all attention is on US Q2 Advance GDP (Thurs) and Core PCE (Fri).

Havens, JPY and CHF, were the notable beneficiaries against the Dollar on Wednesday as risk-sensitive assets were slammed. The Yen outperformed the Swissy, albeit both saw strong gains, with the former also buoyed by BoJ source reports which noted the central bank is to weigh a rate hike next week and have a detailed plan to halve bond buying in the coming years. As such, USD/JPY continued on its recent trend and hit a low of 153.12, and given the cross was at 161.75 on July 11th, technicians are wary of flagging potential levels.

GBP, EUR, CAD, AUD, and NZD all saw weakness against the Dollar, with Antipodeans once again underperforming, amid a deluge of factors such as sluggish China demand and the aforementioned risk-off sentiment. For the Euro, there was a deluge of flash PMI data, whereby EZ PMIs fell short of expectations with German manufacturing a particular soft point, while out of the UK a mixed set of numbers was seen with internal commentary weighing in on both the dovish and hawkish side of things for the BoE, though with the underlying skew perhaps slightly more to the hawkish side. As the BoE heads into the quiet period, money market pricing is 50/50 for whether the Bank cuts or holds on August 1st.

For the **Loonie**, it what was a dovish decision, the BoC cut rates by 25bps to 4.50%, as expected, and within the statement the Bank noted that risks to the inflation outlook are balanced, whilst removing language that referred to the BoC being more concerned about upside risks. In its latest MPR, 2024 CPI was left unrevised with 2025 raised, with both 2024 and 2025 growth cut. USD/CAD eventually hit a high of 1.3814, with attention on the YTD peak of 1.3846.

EMFX was largely weaker vs. the Greenback, with the **ZAR**, flat, outperforming but weakness seen in **BRL, MXN, COP, and CLP** amid the broad-based risk-off sentiment and commodity weakness. On the data footing, Mexican inflation data was mixed with headline inflation M/M and Y/Y hotter than expected, while Core M/M was marginally cooler and Y/Y in line. Looking ahead, South African PPI and Brazilian inflation are the highlights on Thursday.

Copyright © 2024 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

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