newsquawk
US Market Wrap

17th July 2024: Stocks mixed and treasuries flatten after GDP beats ahead of PCE

- **SNAPSHOT**: Equities mixed, Treasuries flatten, Crude up, Dollar flat
- **REAR VIEW**: Q2 GDP and Core PCE above expectations; Jobless Claims beneath consensus; Durable Good tumble, ex-aircraft beats; PBoC surprise MLF cut; Weak German IFO; OpenAI launch "SearchGPT" to challenge Google; Airlines rise after earnings; Strong 7yr auction.
- **COMING UP**: **Data:** Japanese Tokyo CPI, German Import Prices, Spanish Retail Sales, Italian Business Manufacturing Confidence, US PCE. **Events:** ECB SCE. **Supply:** Japan. **Earnings:** Holcim, Capgemini, Air Liquide, Mercedes-Benz, Wacker Chemie, BASF, NatWest, 3M, Aon, Bristol-Myers.

MARKET WRAP

Stocks were mixed after the bloodbath on Wednesday with SPX closing red while the Russell notably outperformed. Nasdaq was the clear laggard with some of the tech woes still lingering with Google (GOOGL) extending lower, particularly after a report that OpenAI is to introduce "SearchGPT". Treasuries were bid throughout the overnight and European morning, supported by a surprise PBoC MLF cut and weak German IFO data, although hot US data saw T-notes pare off highs with the short end seeing the greatest impact, leaving the curve flatter on the day; paring some of the steepening on Wednesday. US data saw GDP and Core PCE for Q2 hotter than expected with eyes turning to the June PCE on Friday. Elsewhere, initial jobless claims were slightly beneath expectations but continued claims fell beneath all analyst forecasts. Durable goods tumbled, primarily a function of soft Boeing performance with the ex-transport metric beating the consensus. In FX, the Dollar was ultimately flat but Yen was very volatile, with USD/JPY hitting a low of 151.95 before paring all the way to 154.00 later in the session although CHF managed to hold its bid. Antipodes and the Pound underperformed. Crude prices ultimately settled in the green while gold and silver tumbled.

US DATA

DURABLE GOODS: The headline figure plunged 6.6% in June (exp. +0.3%, prev. +0.1%), much deeper than the lower bound of the forecast range of -4.0%. Ex-defense tumbled -7% (prev. 0.0%), while Ex-Transport rose 0.5% (exp. 0.2%, prev. -0.1%) and nondefense capital goods ex-aircraft jumped 1% (exp. +0.2%, prev. -0.9%), above the upper bound of the forecast range. The headline saw the largest M/M decline since April 2020, and was weighed on by transportation orders which dived 20.5%. Desks note net orders of civilian aircraft were minus USD 8.8bln, vs. + USD 108bln in May, which almost certainly reflects a huge number of cancellations for Boeing aircrafts. Overall, Oxford Economics notes, Core orders, which are a better gauge of future capital spending by companies, performed better than even their above-consensus forecast, reinforcing its sanguine outlook for equipment spending in H2 2024.

INITIAL JOBLESS CLAIMS: (w/e 20th July) Fell to 235k, from a revised higher, 245k, and was beneath the expected 238k, while the 4wk average was more-or-less unchanged at 235.5k (prev. 235.25k). Continued jobless claims, for the week that coincides with the US jobs report, dipped to 1.851mln from, and also the expected, 1.860mln. Note, seasonal factors expected a decrease of 45,991 from the previous week. On the data set, Pantheon Macroeconomics note the numbers are nearly impossible to read right now, given they are distorted by the impact of Hurricane Beryl, the shifting timing of scheduled summer shutdowns at auto plants, and the fading of the boost to claims in New York after the end of the school year. Nonetheless, the consultancy adds, “looking through the fog, we suspect that the underlying uptrend in claims that became clear a few months ago is ongoing, given that high rates and slowing consumer demand seem to be prompting a bigger number of layoffs”.

US GDP: The Advance GDP print for Q2 rose 2.8%, accelerating from the prior 1.4%, and above the 2.0% consensus, towards the higher end of analyst forecasts of 1.1-3.4%. The print was more closely aligned to the Atlanta Fed GDPNow tracking estimate for Q2, which was tracking growth of 2.6%. Elsewhere in the report, the GDP sales rose 2.0%, above the prior 1.8% and exp. 1.9%. The Deflator rose 2.3%, down from the 3.1% prior and beneath the 2.6% forecast. The increase in real GDP primarily reflected increases in consumer spending, private inventory investment, and nonresidential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased. Consumer spending rose by 2.3% in the advance estimate, above the prior 1.5%. Looking ahead, ING write that consumer spending is set to slow further in H2 while the investment climate will also be more challenging with firms looking more cautious at the outlook. The pricing data saw Core PCE for Q2 rise 2.9%, above the 2.7% forecast but down from the prior 3.7%. ING notes that this implies the June PCE rose at 0.28% M/M (vs current expectations of 0.1%), the desk "suspect it will also involve upward revisions to the previous couple of months – originally reported as 0.26% and 0.08% MoM – but would still generate numbers consistent with delivering 2% year-on-year inflation over time." The Fed eyed measures of PCE Service prices ex-energy and housing easing to 3.3% from 5.1%, while PCE, ex food, energy and housing eased to 2.5% from 3.3%.

FIXED INCOME

T-NOTE FUTURES (U4) SETTLE 4 TICKS HIGHER AT 110-25+

Treasuries flatten with yields off morning lows after hot Q2 GDP and Core PCE. At settlement, 2s +2.7bps at 4.443%, 3s +1.3bps at 4.263%, 5s -0.7bps at 4.145%, 7s -2.2bps at 4.184%, 10s -3.0bps at 4.256%, 20s -4.2bps at 4.592%, 30s -4.9bps at 4.500%

INFLATION BREAKEVENS:5yr BEI +0.2bps at 2.298%, 10yr BEI -0.2bps at 2.266%, 30yr BEI -0.6bps at 2.268%.

THE DAY: T-notes were bid overnight and into the European morning with a surprise MLF rate cut from the PBoC overnight and soft German IFO data gradually supporting Treasuries to see the 10yr note peak just before the US data at 111-08+. The hotter-than-expected GDP and Core PCE data for Q2 saw the earlier upside swiftly pare, falling to 110-24 before paring back above 111-00. US Q2 GDP rose by 2.8%, above expectations but more aligned with the Atlanta Fed GDPNow estimate of 2.6%, while Core PCE rose 2.9%, above the 2.7% forecast, desks note this implies a higher than forecast PCE number for June, but it is more likely to be seen in revisions higher to the prior months data, as opposed to the fresh June numbers. T-notes dipped beneath 110-00 once again ahead of the 7yr auction, which ultimately came in very strong but it did little to support the Treasury space, with T-notes selling off into settlement, settling sub 111-00.

7YR: The 7yr note auction was strong, stopping through the when issued by 0.4bps, greater than the prior stop through of 0.3bps and vs a six auction average of 0.0bps. The Bid-to-Cover was also strong at 2.64x, above the prior 2.58x and average 2.54x. The internals were also strong despite a step back from direct bidders to 16.76% from 18.5%, a touch beneath the 17.5% average. This pullback was more than offset by a jump in indirect demand (74.38%, vs prior 69.7% and avg. 68.3%), leaving dealers with just 8.87% of the auction, beneath both the prior 11.9% and average 14.2%.

STIRS:

- **Market Implied Fed Rate Cut Pricing: September 28bps (prev. 27bps D/D), November 45bps (prev. 43bps), December 67bps (prev. 66bps).**
- NY Fed RRP op demand at 377bln (prev. 399bln) across 69 counterparties (prev. 75)
- US to sell USD 76bln 13-week bills and USD 70bln 26-week bills on July 29th, to settle August 1st
- SOFR at (prev. 5.34%), volumes at USD (prev. 2.011tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 86bln (prev. 85bln).

CRUDE

WTI (Q4) SETTLED USD 0.69 HIGHER AT 78.28/BBL; BRENT (U4) SETTLES USD 0.66 HIGHER AT 82.37/BBL

The crude complex was eventually firmer, in what was a choppy session, as it was boosted by a turnaround in risk sentiment offsetting China demand woes. On the day, WTI and Brent hit lows of USD 76.04/bbl and 80.09/bbl, respectively, in the European morning as it was initially on the back foot amid the initial broader risk aversion and in a continuation of the weakness seen in prices on the back of aforementioned sluggish Chinese demand, with prices unfazed by the surprise PBoC MLF rate cut overnight. However, after the US cash equity open and as stocks began to turnaround, as did oil to see WTI and Brent grind higher throughout the duration of the US session to hit highs of USD 78.40 and 82.41/bbl, respectively. Elsewhere, Russian Deputy PM Novak expects JMMC meeting on August 1st to be constructive, also noting Russia aims to fulfil the OPEC+ deal, and will compensate for overproduction (full remarks here). On the geopolitical footing, there was little new with arguably the main takeaway on Wednesday evening whereby a US senior official said Gaza ceasefire negotiations appear to be in their closing stages and negotiators have worked out a pretty detailed text of the arrangements for how a Gaza hostage deal would work. Later sources also suggested that a development in the hostage negotiations is expected after the meeting between Biden and Netanyahu. Looking ahead, attention is all on Core PCE on Friday, as well as the weekly Baker Hughes rig count.

EQUITIES

CLOSES: SPX -0.5% at 5,399, NDX -1.1% at 18,831, DJIA +0.2% 39,953, RUT +1.3% at 2,223

SECTORS: Communication Services -1.86%, Technology -1.14%, Utilities -0.88%, Health -0.57%, Real Estate -0.57%, Consumer Discretionary -0.42%, Consumer Staples flat, Materials +0.26%, Financials +0.28%, Industrials +0.76%, Energy +1.47%.

EUROPEAN CLOSES: DAX: -0.45% at 18,304, FTSE 100: +0.40% at 8,186, CAC 40: -1.15% at 7,427, Euro Stoxx 50: -1.05% at 4,811, AEX: -0.54% at 899, IBEX 35: -0.58% at 11,146, FTSE MIB: -2.03% at 33,771, SMI: -0.75% at 12,112, PSI: -2.61% at 6,719.

EARNINGS

- **IBM (IBM)** - Beat on the software sales and the top and bottom line amid a boost in AI bookings.
- **ServiceNow (NOW)** - Beat on earnings, revenue, and upgraded subscription revenue outlook.
- **ST Microelectronics (STM)** - Cut guidance again amid a slow autos market.
- **New York Community Bancorp (NYCB)** - Provision for credit losses much above expected, with NII and NIM also short. Looking ahead, FY24 core EPS guidance disappointed.
- **RTX (RTX)** - Adj. EPS and revenue surpassed expectations, alongside raising FY guidance.
- **American Airlines (AAL)** - Gave poor next quarter adj. EPS outlook, and cut its FY adj. EPS view. Moreover, revenue was slightly below the consensus as was passenger revenue.
- **Honeywell (HON)** - Cut FY profit guidance.
- **Ford Motor (F)** - Reported a Q2 profit miss as repair costs weighed, though the top line did beat.
- **Edwards Lifesciences (EW)** - Revenue was well short and Q3 outlook underwhelmed.
- **Hasbro (HAS)** - Reported beats on Q2 main metrics.

STOCK SPECIFICS

- **Warner Bros Discovery (WBD)** - The NBA signed new long-term TV contracts, excluding Warner Bros, ending a four-decade partnership with WBD's TNT Sports.
- **Bank of America (BAC)** - Authorised a USD 25bln stock buyback and raised its dividend by 8%.
- **Amazon (AMZN)** - GE Healthcare selects AWS as the strategic cloud provider.
- **Meta (META)** - To be hit with its first EU antitrust fine for linking Marketplace and Facebook, according to sources Decision expected after the August holiday break. Elsewhere, Whatsapp reached 100mln monthly users in the US, noting its daily US audience growing by double digits.
- **Tesla (TSLA)** - CEO Musk said he will discuss a USD 5bln xAI investment with the Tesla board as the EV maker looks to double down efforts to expedite the development of its robotaxi and self-driving products, via Reuters.
- **OpenAI (MSFT)** - To launch "SearchGPT" in a challenge to **Google (GOOGL)**, according to FT; Said they are launching to a small group of users and publishers to get feedback OpenAI says that while this SearchGPT prototype is temporary, they do plan to integrate the best of these features directly into ChatGPT in the future. GOOGL shares fell in response to the news.
- **Occidental Petroleum (OXY)** - Reportedly in advanced talks to sell Brailla Draw assets to Permian Resources (PR) for about USD 1bln, according to Reuters citing sources.
- California top court upholds ballot measure treating **Uber (UBER)** and **Lyft (LYFT)** drivers as independent contractors.
- **Southwest Airlines (LUV)** - Expects Q3 capacity to increase about 2% and Q4 capacity to decrease roughly 4%.
- **Paramount (PARA)** and Skydance USD 8bln merger - Hit with court alliance, according to Bloomberg; with court challenge PARA stockholder says Redstone forcing USD 8bln deal.

US FX WRAP

The **Dollar** mixed against its peers, accompanied by the DXY incurring a tight range and a choppy Thursday session. The DXY saw lows of 104.07 in the European morning when havens were rallying, namely the Yen. US data came in mostly hotter, with a higher-than-expected Q2 GDP led by strong Consumer spending, which accelerated from the prior quarter, indicated by consumption of goods turning positive.

Moreover, Core PCE Prices in Q2 came higher than expected but eased from the prior quarter. Contrary to the resilient GDP numbers, Durable Goods unexpectedly slumped, largely attributed to a fall in transportation equipment. The dollar index trades roughly at 104.3 ahead of Friday's Core PCE Index (exp. 0.1% M/M). Initial Jobless Claims reinforced the tone exhibited in the GDP print by falling more than forecasted, although, the prior did experience a slight upward revision; Continued Jobless Claims fell beneath all analyst forecasts.

GBP, **AUD**, and **NZD** were softer vs the buck, with **Antipodeans** behaving again as the bottom dwellers in the G10 space. The moves involved no fresh newsflow concerning the mentioned currencies, but rather a result of hot US data with the three currencies hitting intraday lows in the wake of the data, before paring somewhat, but GBP returned to the lows in late trade. The data saw the Kiwi dip below the 0.59 mark, though steadily rose back above the level. Data on Friday for activity currencies is lacking, with attention on the BoE rate decision next Thursday, with BoE pricing in a ~ 50/50 scenario of a rate cut or hold.

The **Yen** and **Franc**both initially saw sizeable strength against the dollar, although the havens started to diverge, particularly upon the release of the US data, which saw USD/JPY completely pare its earlier downside, bouncing well off the lows of 151 back up to c. 1540.00. The USD/JPY lows of 151.95 failing to test the 200DMA @ 151.53. Meanwhile, the Franc was considerably more resistant to the data, USD/CHF hovers around 0.88 and is the clear G10 outperformer.

The **Euro** was flat vs the buck. Fresh fundamentals consisted of Germany's headline Ifo which fell more than expected to 87 (exp. 88.9), its third consecutive month of declines; Expectations and Current conditions fell more than forecasted; Ifo President said: "The German economy is stuck in the crisis". Looking ahead, Friday's docket will unveil Spanish Retail Sales and Unemployment Rate, and Italian Mfg Business and Consumer Confidence. With US Core PCE in focus.

USD/CNY saw a volatile session, following the PBoC cutting its 1yr MLF loan rate by 20bps to 2.30% from 2.50%, injecting CNY 200bln. The announcement was unexpected given the PBoC usually announces MLF ops. mid-month and already conducted an operation on 15th July. CapEco also highlighted the rate reduction was double the size of the PBoC's usual adjustments. USD/CNY saw a trough of 7.2118, albeit, clawed back to 7.2450.

Scandis deviated against the Euro and buck, with the NOK outperforming its neighbouring FX, ahead of Norwegian Retail sales on Friday. Whereas the SEK weakened against both the dollar and Euro following a deflationary PPI M/M in June. USD/SEK reached 10.8, prior to Sweden's Unemployment Rate (Fri).

EMFX: USD/BRL saw losses, in fitting with Brazil's ICPA-15 Mid-Month CPI (July) coming in hotter on both bases. The Rand, meanwhile, weakened after the PPI for the month fell short of expectations.