

26th July 2024: Stocks end the week on a high as a pivotal week awaits

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW:** Core PCE hotter than expected, with headline as expected; UoM final headline and 5yr inflation revised higher, with 1yr unchanged; Japan's MoF wants BoJ to cut bond purchases; Stellar 3M results; Cooler than forecasted Tokyo CPI.
- **COMING UP: Data:** Swedish GDP, Retail Sales, US Dallas Fed Manufacturing Business Index. **Speakers:** UK Chancellor Reeves. **Supply:** Australia. **Earnings:** Poste Italiane, Pearson, Entain, Heineken, Philips, McDonald's.
- **WEEK AHEAD:** Highlights include FOMC, BoJ, BoE, NFP, ISM Mfg. PMI and OPEC+ JMMC. [To download the report, please click here.](#)
- **CENTRAL BANK WEEKLY:** Previewing FOMC, BoJ, BoE, BCB; Reviewing BoC, PBoC, CBRT. [To download the report, please click here.](#)
- **WEEKLY US EARNINGS ESTIMATES:** Earnings continue to come thick and fast, with mega-cap highlights including MSFT, META, AMZN, INTC, AAPL. [To download the report, please click here.](#)

MARKET WRAP

US indices finished the week in the green (SPX +1.1%, NDX +1%, RUT +1.7%, DJIA +1.6%), while Treasuries were bid across the curve despite initial two-way action on US PCE, but eventually saw strength in wake of US PCE. The data itself saw core slightly above consensus, with headline in line, but it did little to change the Fed narrative. For the record, Final UoM for July saw the headline revised slightly higher to 66.4 from 66.0, with conditions and expectations revised lower and higher, respectively. 1yr ahead was left unchanged at 2.9%, with the longer-term 5yr ticking up to 3.0% from 2.9%. Sectors were exclusively in the green with Industrials outperforming and buoyed by 3M (MMM) (+23%) earnings impressing. WTI and Brent ended the day, and week, with losses as focus continues to be on sluggish China demand. In FX, the Dollar was flat and largely sideways in thin ranges as the aforementioned PCE data had little bearing on the Greenback. The Yen initially saw notable upside, ahead of the BoJ next week, whereby Bloomberg sources noted that the MoF reportedly wants to BoJ to cut bond purchases gradually, but it pared somewhat throughout the day. Looking ahead, next week is a huge risk week with the BoJ, FOMC, Quarterly Refunding, BoE, ISM Manufacturing PMI all scheduled, in addition to mega-cap earnings from the likes of AAPL, AMZN, INTC, MSFT, and META. On the Fed, it is widely expected to leave rates on hold, but we will be looking to see how they frame the recent cooling economic data and see if they open the door to a widely expected cut in September, although Powell will likely stress data dependence.

US DATA

PCE: Core PCE in June rose by 0.2% M/M, above the prior revised 0.13% and forecast of 0.1%. When unrounded, PCE rose by 0.18%, so only marginally above expectations. The Y/Y print rose by 2.6%, matching the prior month pace but above the 2.5% forecast. The annualised metrics saw the 3mth tick down to 2.3% from 2.9%, 6mth rise to 3.4% from 3.3%. Headline numbers were in line with expectations, rising 0.1% M/M and 2.5% Y/Y. The data does little to change the narrative for the Fed with analysts and money markets looking for the first rate cut to occur in September, with plenty of data due between now and then. Nonetheless, the July meeting next week will be viewed to see the Fed's view on recent inflation developments and whether they explicitly commit to a September move. The Fed's closely watched core services ex-housing measure rose just 0.18% M/M, in line with the prior 0.17%. Analysts at Pantheon Macroeconomics note that "The underlying drivers of core inflation - wage growth, margins, supply chains, rents, oil prices and food prices - are all now under control, and will continue to feed into lower core inflation across the remainder of this year and into 2025." Elsewhere, real consumption rose 0.2%, easing a touch from the prior 0.4%, while the adjusted metric rose 0.3%, in line with forecasts. Personal income rose by 0.2%, beneath the 0.4% forecast while the prior was revised down to 0.4% from 0.5%. Pantheon highlights the drop in Personal Income was due to the drop in the wages and salaries component, while the drop in consumption was softer than they expected based on the Q2 GDP report and the June retail sales report.

UOM: The Final UoM Consumer Sentiment Survey in July saw headline sentiment revised up to 66.4 from 66.0, despite expectations for this to be left unchanged. The upside was led by a rise in forward looking expectations to 68.8 from 67.2, although current conditions slipped to 62.7 from 64.1. The report highlights that sentiment has lifted 33% above the June 2022 historic low, but it remains guarded as high prices continue to drag down attitudes, particularly for those with lower incomes. It also adds that labour market expectations remain relatively stable, providing continued support to consumer spending. However, continued election uncertainty is likely to generate volatility in economic attitudes in the months ahead. Inflation expectations saw the 1yr unchanged from the prelim print of 2.9% while the 5yr saw a slight revision up to 3.0% from 2.9%, albeit unchanged from June's reading.

FIXED INCOME

T-NOTE (U4) SETTLED 13 TICKS HIGHER AT 111-06+

T-Notes caught a bid after PCE ahead of key risk week. At settlement, 2s -5.1bps at 4.392%, 3s -5.9bps at 4.204%, 5s -6.3bps at 4.082%, 7s -6.2bps at 4.122%, 10s -5.8bps at 4.198%, 20s -5.2bps at 4.540%, 30s -4.6bps at 4.454%.

INFLATION BREAKEVENS: 5yr BEI -0.9bps at 2.292%, 10yr BEI -1.3bps at 2.257%, 30yr BEI -1.1bps at 2.260%.

THE DAY: T-Notes meandered overnight with little reaction seen to the cooler than expected July Tokyo CPI, although Bloomberg source reports in the European morning that Japan's Ministry of Finance wants the BoJ to cut bond purchases gradually, took JGBs higher, with T-Notes following suit. Nonetheless, this pared heading into the PCE data. The data itself saw core slightly above consensus but it did little to change the Fed narrative and as such saw two-way price action with T-Notes knee jerking to session lows of 110-23+, before swiftly moving higher. T-Notes peaked just ahead of the Final UoM data for July, and topped out at 111-08+, while a slight UoM headline sentiment beat and slight upside in 5yr inflation expectations capped the bid, with T-Notes paring thereafter. There was little else of note that moved T-notes, although an interview with ECB's Schnabel via Faz was published, where she stressed services inflation is showing that the last mile of the inflation fight is especially difficult, and that a first rate cut does not automatically lead to a series. Next week is a huge risk week with the BoJ, FOMC, Quarterly Refunding, BoE and ISM Manufacturing PMI all scheduled. Attention on the BoJ will lie on whether they opt to lift rates, and also its plans on JGB purchases. The Fed is widely expected to leave rates on hold, but we will be looking to see how they frame the recent

cooling economic data and see if they open the door to a widely expected cut in September, although Powell will likely stress data dependence. The ISM Manufacturing PMI will tell us more about that sector of the economy with the latest S&P Global Manufacturing PMI dipping into contractionary territory, while the Quarterly Refunding is expected to see little fireworks, although potential updates on the debt ceiling and an updated buyback schedule will be eyed.

STIRS:

- **Market Implied Fed Rate Cut Pricing: September 28bps (prev. 28bps D/D), November 44bps (prev. 45bps), December 68bps (prev. 67bps).**
- NY Fed RRP on demand at USD 382tln (prev. 377tln) across 70 counterparties (prev. 69).
- SOFR at 5.35% (prev. 5.34%), volumes at USD 2.129tln (prev. 2.083tln).
- EFRF at 5.33% (prev. 5.33%), volumes at USD 88tln (prev. 86tln).

CRUDE

WTI (U4) SETTLED USD 1.12 LOWER AT 77.16/BBL; BRENT (U4) SETTLED USD 1.24 LOWER AT 81.13/BBL

The crude complex ended the day, and the week, in the red as China demand woes continue to weigh absent of any fresh catalyst. Nonetheless, WTI and Brent began to see losses through the European session but picked up after US players entered for the day to troughs of USD 76.19/bbl and 80.33/bbl, respectively, after the cash open before paring into the close. On the day, macro newsflow in Europe was light and US PCE did little to spur any action in oil, as geopolitics remains an uncertainty - the latest reports suggested Israel is seeking changes to a plan for a Gaza truce and the release of hostages by Hamas which complicates a final deal. Elsewhere, traders at Pemex reportedly told suppliers that it planned to significantly cut imports of diesel and gasoline, while Russia's Lukoil ramped up oil exports via sea ports by 680k tonnes in July amid Druzhba supply suspension; Rosneft and Gazpromneft add additional 300k tonnes of Urals oil to Russian Baltic loading plan for July. Lastly, Baker Hughes rig count saw oil up 5 at 482, with Nat gas down 2 at 101, leaving the total +3 at 589.

EQUITIES

CLOSES: SPX +1.1% at 5,459, NDX +1% at 19,024, DJIA +1.6% at 40,589, RUT +1.7% at 2,260

SECTORS: Energy +0.36%, Health +0.57%, Consumer Staples +0.89%, Communication Services +0.91%, Utilities +0.99%, Technology +1.09%, Consumer Discretionary +1.17%, Financials +1.49%, Real Estate +1.67%, Materials +1.68%, Industrials +1.72%.

EUROPEAN CLOSES: DAX: +0.68% at 18,423, FTSE 100: +1.21% at 8,286, CAC 40: +1.22% at 7,518, Euro Stoxx 50: +1.03% at 4,861, AEX: +0.90% at 907, IBEX 35: +0.18% at 11,166, FTSE MIB: +0.12% at 33,812, SMI: +1.11% at 12,240, PSI: -0.73% at 6,670.

EARNINGS:

- **Bristol-Myers Squibb (BMY)** - Reported strong earnings and raised guidance, as well as Phase 3 trials for cendakimab meeting the endpoint.
- **Centene (CNC)** - Top and bottom line surpassed expectations, alongside raising FY24 revenue view.
- **AON (AON)** - Adj. EPS missed and H1 FCF and cash from operations decreased.
- **3M (MMM)** - Top and bottom line impressed, alongside lifting the lower end of FY adj. EPS guidance.
- **Norfolk Southern (NSC)** - Profit topped consensus.
- **Colgate-Palmolive (C)** - Exceeded adj. EPS and revenue forecasts.
- **Charter Communications (CHTR)** - Multiple metrics were stronger than expected citing revenue growth on increases in residential mobile service, residential Internet, enterprise and other revenues.
- **Coursera (COUR)** - Top and bottom line beat.
- **T. Rowe Price (TROW)** - Missed on EPS and revenue.

STOCK SPECIFICS:

- **CrowdStrike (CRWD)** - CEO said that 97% of Windows sensors are back online after a global outage caused by a faulty software update in their Falcon platform.
- **Teck Resources (TECK)** - Draws M&A attention from biggest miners in rush for copper, according to Bloomberg.
- **Honeywell (HON)** - Reportedly weighing Quantinuum IPO at a USD 10bn valuation, according to Bloomberg; listing in the US could take place as soon as next year.
- **Boeing (BA)** - Told suppliers to disclose all paperwork on titanium bought from China since 2014; and titanium paperwork by August 9th, according to Reuters citing a letter.

US FX WRAP

The **Dollar Index** was flat, trading within an extremely tight range, and largely unreactive to the mixed US PCE data for June, whereby Core M/M and Y/Y came in marginally above expectations, while the headline price index came in line. Elsewhere, Atlanta Fed's Initial GDPNow for Q3 was 2.8%. The Greenback finished the week flat, in what was a muted week, in terms of ranges, as perhaps participants await the deluge of risk events next week. The Fed's interest rate decision is one, and we will be looking to see how they frame the recent cooling economic data and see if they open the door to a widely expected cut in September, although Powell will likely stress data dependence. At the moment, Fed Pricing sees a 95.5% chance they hold next week. The docket for the upcoming week will also see ISM Manufacturing PMI and NFP out of the US, as well as mega-cap earnings.

The **Euro** is slightly firmer vs. the Buck, with the cross hovering near 1.0860. Newsflow in the session was thin, though, Friday did see the ECB's SCE 12-month and 3-year projections unchanged at prior levels. Meanwhile, ECB Schnabel's remarks largely aligned with the Central Bank's narrative, specifically, the speed of ECB rate cuts will depend on data. Although, she stressed services inflation is showing that the last mile of the inflation fight is especially difficult, and that a first rate cut does not automatically lead to a series. Lastly, news for the day saw France and Italy report positive consumer Confidence reports, while Spanish Unemployment fell more than expected.

Activity Currencies were mixed vs. the Greenback, with Antipodeans trying to claw back recent losses, succeeding more so earlier in the session, with gains eventually trimming. USD/CAD was flat, trading inside a tight range on Friday, with eyes on the Sterling ahead of the BoE's rate decision (Thu), where BoE pricing puts an approx. 50/50 chance of a rate cut or hold. Cable finished the session around highs of 1.2875, nevertheless, the pair finished the week in the red for the second consecutive week.

Haven FX diverged once again, with the Franc reversing some of the outperformance it experienced on Thursday, while the **Yen** conversely slightly strengthened; even though cooler Tokyo CPI put pressure on the cross. US Core PCE had no sustained impact on the crosses.

Bloomberg reported that Japan's Ministry of Finance stated he wants the BoJ to cut bond purchases gradually, a view which corresponds to the BoJ source's reports earlier in the week that the BoJ is to have a detailed plan in the upcoming meeting on having bond buying in the coming years. Havens continue their weekly streak of gains, with the USD/JPY dropping below its 200WMA (155.21) to 153.74, its third consecutive week of losses; meanwhile, the **Swissy** incurs a fourth consecutive week of gains.

In **Scandi FX**, Swedish Unemployment Rate SA (Jun) was unchanged, while the Viking cross favoured the **NOK** on Friday, ticking slightly higher, ahead of Swedish GDP and Retail Sales (Mon).

EMFX: COP and **CLP** weakened against the Dollar, with the former weighed on by depleted copper prices. On central bank decisions, the **CBR** raised their Key Rate, as expected, to 18% (prev. 16%), and they added they will consider hikes at upcoming meetings.

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