newsquawk

US Market Wrap

29th July 2024: Stocks mixed and bonds flatten ahead of key risk events

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar up
- **REAR VIEW**: Mixed BoJ sources; McDonald's earnings miss estimates; Treasury lowers financing estimates, as expected; Israel-Hezbollah tensions rise; UK budget due October 30th; Morgan Stanley name TSLA top pick
- **COMING UP**: **Data:** Japanese Unemployment Rate, Australian Retail Trade, Spanish GDP, German CPI, Italian GDP, EZ Economic Sentiment, US JOLTs. **Supply:** UK, Italy. **Earnings:** Airbus, Scor, L'Oreal, Teleperformance, Fresenius Medical Care, Covestro, Diageo, Sage, St James's Place, Croda, BP, Rio Tinto, Grifols, Leonardo, Intesa Sanpaolo, Merck, Paypal, Pfizer, Procter & Gamble, AMD, Microsoft, Mondelez, Starbucks

MARKET WRAP

Stocks saw mild gains with outperformance in the Nasdaq as gains in Consumer Discretionary and Communication names, like AMZN, TSLA, META, GOOGL, supported the move higher. It appeared to be an unwind of the short NQ/long RTY trade with the Russell notably underperforming on Monday. Similar in the treasury space, recent steepening was unwound with the curve flattening ahead of key risk events, including BoJ, FOMC, ISM Manufacturing PMI, NFP, key tech earnings, as well as Quarterly Refunding. There was a lack of tier 1 data today although the refinancing estimates ahead of the QRA saw the treasury lower its estimated financing needs as expected, although it was on the lower end of forecasts, while the Q4 estimates were within the forecast range. Crude chopped to geopolitics but was ultimately settled in the red despite futures gapping higher on the open in response to the Hezbollah strike on Israel's Golan heights, although the West is pursuing the Israeli response not to lead to an escalated war.

FIXED INCOME

T-notes bull flatten after recent steepening as attention turns to a plethora of key risk events, including Fed, BoJ, Quarterly Refunding, BoE, ISM Manufacturing PMI, and NFP. At settlement, 2s -0.2bps at 4.387%, 3s -0.7bps at 4.196%, 5s -1.9bps at 4.063%, 7s -3.0bps at 4.094%, 10s -3.1bps at 4.169%, 20s -2.8bps at 4.515%, 30s -3.5bps at 4.422%

INFLATION BREAKEVENS: 5yr BEI -0.5bps at 2.283%, 10yr BEI -0.5bps at 2.249%, 30yr BEI -0.4bps at 2.254%.

THE DAY: T-notes caught a bid overnight but extended further once European trade got underway to see T-notes peak at 111-16+ once US trade started. The bid started to fade however, with T-notes falling to c. 111-08 in what seemed to be weighted on by corporate supply announcements, including Chubb, Honeywell, and Moody's, while Netflix filed a debt shelf. The curve also flattened on Monday, with potential profit taking from steepeners taking place ahead of key risk events this week, including BoJ, FOMC, and NFP. While attention turned to the Treasury refunding estimates ahead of the Quarterly Refunding due Wednesday, the Treasury announced lower financing estimates for Q3 and Q4 as expected, citing the slower Fed asset runoff. The Treasury expects to borrow USD 740bln in Q3 (vs. 847bln in the last estimate), which was beneath both JPMorgan's and Wrightson's estimates of USD 809bln and 760bln, respectively. The larger drop saw a slight uptick in T-note futures post-settlement. Please click here for the quarterly refunding preview.

STIRS:

- Market Implied Fed Rate Cut Pricing: September 28bps (prev. 28bps D/D), November 44bps (prev. 44bps), December 67bps (prev. 68bps).
- US sold USD 84bln in 3mth bills at a high rate of 5.145%; B/C 3.01x; Sold USD 77bln of 6mth bills at a high rate of 4.930%; B/C 2.95x.
- NY Fed RRP op demand at USD 382bln (prev. 377bln) across 70 counterparties (prev. 69)
- SOFR at 5.35% (prev. 5.34%), volumes at USD 2.129tln (prev. 2.083tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 85bln (prev. 88bln).

CRUDE

WTI (U4) SETTLES USD 1.35 LOWER AT 75.81/BBL; BRENT (U4) SETTLES USD 1.35 LOWER AT 79.78/BBL

The crude complex was choppy to start the week but eventually settled with losses, and at lows, as possible Dollar strength/risk aversion outweighed the initial geopolitical risk premium. On the day, WTI and Brent gapped higher at the open, and printed highs of USD 77.69/bbl and 81.74/bbl, respectively, after early gains were facilitated by the Middle East with attention on Israel's response to the Golan Heights attack, with many fearing an all-out war with Lebanon. Nonetheless, these gains were soon trimmed in conjunction with a negative tilt in risk which also saw the Dollar index rise to session highs. Elsewhere, energy-specific newsflow was light, ahead of the risks key risk events with the OPEC+ JMMC slated for August 1st, but no recommendation is expected to be presented. For the record, US DoE finalized the purchase of 4.65mln bbls of crude for the SPR, with Exxon (XOM) to supply 3.9mln bbls and Macquarie Commodities trading are to supply the rest. Average purchase price for the oil was c. USD 76.92/bbl and it is to keep buying oil for SPR into next year.

EQUITIES

CLOSES: SPX +0.1% at 5,464, NDQ +0.2%, DJIA -0.1% at 40,540, RUT -1.1% at 2,235

SECTORS: Energy -0.87%, Technology -0.33%, Financials -0.21%, Industrials -0.16%, Consumer Staples +0.07%, Health +0.09%, Materials +0.17%, Utilities +0.44%, Real Estate +0.62%, Communication Services +0.87%, Consumer Discretionary +1.42%.

EUROPEAN CLOSES: DAX: -0.49% at 18,327, FTSE 100: flat at 8,292, CAC 40: -0.98% at 7,444, Euro Stoxx 50: -1.00% at 4,814, AEX: -0.28% at 904, IBEX 35: -0.43% at 11,118, FTSE MIB: -0.51% at 33,641, SMI: -0.30% at 12,204, PSI: +0.44% at 6,699.

EARNINGS

- **McDonalds (MCD)** - Shares rose despite missing estimates although it noted its well-received USD 5 meal deal, which has gained positive traction, is yet to be felt. However, it does see negative Q3 comp trends across all segments.
- **ON Semiconductor (ON)** - Beat on the top and bottom line, with Q3 guidance in line with expectations.

STOCK SPECIFICS

- **Abbott Laboratories (ABT)** - Ordered to pay almost USD 500mln after a jury found that the Co. failed to warn about the risk of a bowel disease associated with its Similac formula for premature infants.
- **Bristol-Myers Squibb (BMY)** - Downgraded at Barclays; said it may have rallied too far despite little movement in its underlying fundamentals.
- **Apple (AAPL)** - Pushed back the release of its new AI features in its upcoming iPhone and iPad updates, to October from September.
- **TSMC (TSM)** - 3nm production lines are full through 2025 due to strong orders and price hikes on advanced processes could be double-digit percentage next year, CTEE reports.
- **Tesla (TSLA)** - Morgan Stanley adds the Co. to its 'Top Pick' list in US autos, replacing Ford Motor (F).
- **Boeing (BA)** - Former Rockwell Collins CEO Ortberg has emerged as a serious contender under consideration by Boeing as its next chief executive.
- **Alphabet (GOOGL)** - Upgraded at Phillip Securities on attractive valuation.
- **Alibaba (BABA)** – Plans to boost service fees for merchants.
- Berkshire Hathaway may have sold more **Apple (AAPL)** stock, according to Barrons.
- **NuScale (SMR)** - Shares dump over 10% after the US SEC is conducting an “active and ongoing” investigation into the Co. in response to an open records request obtained by Hunterbrook Media; NuScale responded saying it is 'unware' of any SEC investigation, according to Bloomberg.
- **JM Smucker (SJM)** - Exploring a sale of Voortman Bakery in a deal that could value the brand at USD 350mln, according to Reuters citing sources.

US FX WRAP

The **Dollar** is firmer against most of its peers, as the focus lies on key risk events later in the week. The DXY rose to 104.559, but pared back to c. 104.50 ahead of APAC trade with the index remaining stuck in the 104 region for the eighth consecutive session. US data releases for the session were light, though the Dallas Fed Mfg Bus Index (Jul) fell to -17.5 (prev. -15.1). Nevertheless, the US docket for the remainder of the week is plentiful, namely, FOMC (Wed), ISM Mfg PMI July (Wed), and NFP (Fri); the immediate vicinity (Tue) will see JOLTs (Jun) and Consumer Confidence (Jul).

The **Euro** weakened the most against the buck relative to its G10FX peers, with little macro newsflow in the space, albeit, plenty of data releases lie ahead, namely a deluge of GDP Q2 reports (France, Germany, Italy, EZ) on Tuesday, as well as German CPI (Tues) and France, EZ, and Italy, all on Wednesday. EUR/USD troughed at 1.0804, breaking below last week's low and the 200DMA of 1.0819, with EUR/USD trading sideways throughout the rest of the session.

Activity and **Haven** currencies all were lower against the greenback, on dollar strength. **GBP** and the **Aussie** outperform, albeit, flat vs the buck, meanwhile, the **Kiwi** and **Franc** underperformed. Updates in the spaces were thin, except for the **Yen**, where WSJ reported Boj sources: "Some policymakers believe rate increases would have positive effects on consumption as the major cause of weak spending is the JPY depreciation; others doubt how much a small rate hike could help the JPY recovery"; USD/JPY hovers around 154. Going forward, attention is particularly on the upcoming Central Banks Meetings, namely the BoJ, and Fed on Wednesday, which are both expected to maintain rates, although some forecast a BoJ hike. The BoE is due on Thursday, with markets pricing a c. 60% probability of cutting rates by 25bps. Elsewhere, **Franc** watchers await Swiss CPI on Friday, although Tuesday sees the Swiss KOF Indicator (Jul), which is expected to fall M/M, after posting its highest figure since February 2022 in June.

Scandis diverged, with the **NOK** the sole outperformer in the G10 space against the greenback, with only modesta upside. Whereas, the **SEK** was a touch weaker after GDP Q/Q Prelim (Q2) fell by a bigger margin than expected, driven by weak figures seen in April. As a result, NOK/SEK saw sizable gains ahead of Swedish Sentiment and Confidence reports (Jul) on Tuesday.

USD/CNH crept higher to 7.2738, after a Reuters poll on Monday, revealed China's factory activity likely shrank for a third month in July. On Tuesday, China will see FDI for June, which has experienced a severe decline, starting in 2022; which sat at -28.2% in May.

EMFX: The **Real** was one of few in the space stronger against the Dollar on Monday, before the BCB's Interest Rate decision (Wed), which is expected by many to hold the Selic rate at 10.5%. **CLP** suffered ahead of its Interest Rate decision (Tue), where rates are expected to cut rates by 25bps to 5.5%.