

31st July 2024: Stocks and Bonds bid, while Dollar falls as Powell leans dovish

- **SNAPSHOT:** Equities up, Treasuries up, Crude up, Dollar down
- **REAR VIEW:** Powell leans dovish with Sept. cut base case; BoJ hikes rates; Solid AMD report & raises FY chip sales guidance; US exemptions for ASML and Tokyo Electron in new sanctions on exports to Chinese chipmaker; NVDA added to MS top pick list; Iran issues an order for retaliatory attack on Israel; QRA sizes as expected; Larger EIA crude draw than expected; ADP shy of expectations; ECI falls short.
- **COMING UP:** **Data:** Australian, Chinese, EZ, UK, US PMIs, US IJC, ISM Manufacturing. **Events:** BoE & CNB Policy Announcements, OPEC+. **Speakers:** BoE's Bailey & Pill. **Supply:** Spain & France. **Earnings:** ING, ArcelorMittal, Merck, Evonik, Symrise, Hugo Boss, BMW, Rational, Volkswagen, MTU Aero, Vonovia, DHL, Technip Energies, Credit Agricole, Société Generale, Rolls Royce, Smith & Nephew, BAE Systems, Shell, Barclays, Haleon, WPP, Mondi, Next, Ball, Moderna, Amazon.com, Apple, Coinbase, Intel, MicroStrategy, Cigna, Wendy's, Snap Inc.

MARKET WRAP

US indices saw notable strength on Wednesday (SPX +1.6%, RUT +0.5%) led by significant outperformance in the tech-heavy Nasdaq 100 (+3%) amid a myriad of positive semi-conductor news, such as AMD's (AMD +4%) solid report and raising FY chip sales, US exemptions for ASML and Tokyo Electron in its new sanctions on exports to Chinese chipmaker, and Nvidia (NVDA +13%) being added to Morgan Stanley's top pick list. As such, sectors were mainly green, but distinct outperformance in Tech, up almost 4%. Indices saw slight two-way action after the FOMC rate decision, but later extended on notable gains through Powell's dovish presser where he noted there was a real discussion about the case for reducing rates at this meeting; a strong majority supported not moving at this meeting, and September is the base cut for a rate, albeit data dependant. T-Notes saw gains on Wednesday in choppy trade, extending on its bid during Powell's dovish presser. Although the curve saw initial weakness after the FOMC held rates, as expected, potentially in the absence of an explicit signal of a September easing, yet, the Central Bank was never going to tie its hands to that. The crude complex saw notable strength on Wednesday amid heightened Middle East tensions and bullish inventory data. In FX, the Dollar saw losses and the Yen was the distinct outperformer after the BoJ surprise hike overnight - USD/JPY touched a low of 149.61 on Wednesday in wake of the Powell's presser and the following geopolitical reports. After Powell's presser concluded, the New York Times cited Iranian officials, reporting that Iran's supreme leader issued an order for Iran to strike Israel directly, in retaliation for the killing in Tehran of Hamas's leader - this saw some risk-off trade, highlighted by the crude complex (already notably bid) and spot gold spiking to session highs, with RUT paring notable strength, and safe haven FX (JPY and CHF) seeing a bid. Ahead, the risk events come thick and fast with BoE, ISMs, AAPL/AMZN/INTC earnings (Thurs) followed by NFP (Fri).

FED

STATEMENT RECAP: The Fed left rates unchanged at between 5.25-5.50%, but it made tweaks to its statement that appear to leave the door open to a rate cut in September. The Committee is now attentive to risks on both sides of its mandate, a change from the June statement, where it said it was 'highly attentive' to inflation risks. The statement says there has been 'some further progress' towards its inflation goal, whereas in June it said there had been 'modest' progress. And it now says that risks to achieving its employment and inflation goals continue to move into better balance, whereas in June it said it was moving 'towards' better balance. The Fed did however reiterate that it does not expect that it will be appropriate to lower rates until it has gained greater confidence that inflation is moving sustainably towards target, suggesting that the Committee still wants to see favourable data before pivoting to rate cuts.

POWELL PRESSER RECAP: At his post meeting press conference, Chair Powell revealed that there was a real discussion about the case for reducing rates at this meeting; a strong majority supported not moving (he later "overwhelmingly" policymakers felt it was not the time yet). The Fed Chair noted that the policy rate is clearly restrictive, and it is coming to the point where it will be appropriate to start rate cuts and dial back restriction in order to support the continued progress on the economy. He added that the Fed does not need to be 100% focussed on inflation given upside risks to prices have decreased while downside risks to employment mandate are real now, noting that the chances of a hard landing are now as the economy was neither overheating or sharply weakening. Powell said the Fed is balancing risk of going too soon against going too late, and has a very difficult judgement call on rates. When asked about the prospects of a 50bps rate cut (two 25bps moves rolled into one), Powell said it was not something the Fed was thinking about right now. A theme throughout Powell's Q&A was that he tied any future move on the incoming data. Powell said that the Q2 inflation had added to the Fed's confidence on inflation; on the labour market, Powell said does not think labour market is currently source of inflation pressures, and that is why Fed does not want to see excess cooling in the labour market. Powell was coy on giving any specific nod to rate cuts, noting that it could reduce rates zero times this year, or even several - it all depended on incoming data. The Fed's focus is now shifting more towards its dual mandate, rather than just the inflation side of the equation; while policy was positioned to deal with dual mandate risks, the Fed is attentive to risks on both sides of the mandate. In wake of the statement release, markets reacted in a modest hawkish fashion, but Powell unwound any sniff of hawkishness in his post-meeting press conference, where he essentially said that rate cuts were on the horizon, depending on the incoming data, with the Fed more attentive to risks on both sides of its mandate.

US DATA

ECI: Q2 Employment Costs Index was soft, as it rose 0.9%, shy of the consensus 1.0%, and the prior 1.2%. Within the report, Benefits and Wages slightly cooled to 1.0% (prev. 1.1%) and 0.9% (prev. 1.1%), respectively. Further within the metrics, Capital Economics notes, ECI private wages and salaries, its preferred measure, rose by a 4-year low of 0.84% Q/Q (3.4% annualised) and the annual growth rate slowed more markedly to 4.0% (prev. 4.3%). As such, the consultancy adds, with the Fed assuming that productivity growth can be sustained between 1.5-2.0%, that means even the current annual rate of wage growth is now just about consistent with sustained 2% price inflation. Moreover, CapEco added, if wage growth continued at the 3.4% annualised pace in Q2, the Fed might quickly pivot to worrying about price inflation undershooting the 2% target, particularly when the decline in private quits reported in the June JOLTS data points to a slowdown in ECI private wage growth to nearer 3% by year-end. In Fed Chair Powell's post-FOMC press conference, he noted the reading was a little softer than expected.

PENDING HOME SALES: Pending home sales soared 4.8% in June (exp. +1.5%, prev. -1.9%), outside the upper bound of the forecast range, as it was supported by an increase in the supply of homes for sale and a dip in mortgage rates – sales posted their largest increase since December. Oxford Economics remarked, that the rise in pending home sales points to a modest bump up in existing home sales for July. Looking further ahead, Oxford expect lower mortgage rates and increases in supply to support an improvement in home sales later in the year. Although, homebuying is expected to be unaffordable for most households, limiting the upside for sales.

ADP: ADP National Employment for July fell to 122k from the prior, revised higher, 155k and short of the expected 150k. Within the release, median change in annual pay for job-stayers and job-changers fell to 4.8% (prev. 4.9% Y/Y) and 7.2% (prev. 7.7% Y/Y), respectively, continuing to indicate a further slowdown in wage growth. ADP Chief Economist Richardson said, "with wage growth abating, the labour market is playing along with the Fed's efforts to slow inflation" adding "if inflation goes back up, it won't be because of labor". Of course, this comes ahead of US NFP on Friday, but the link between the two reports, is tenuous, at best.

FIXED INCOME

T-NOTE (U4) FUTURES SETTLED 8+ TICKS HIGHER AT 111-26

T-Notes saw gains on Wednesday in choppy trade, extending on gains after Powell's dovish presser. At settlement, 2s -6.9bps at 4.290%, 3s -7.1bps at 4.099%, 5s -7.9bps at 3.958%, 7s -7.7bps at 3.990%, 10s -6.5bps at 4.076%, 20s -6.4bps at 4.431%, 30s -5.1bps at 4.348%.

INFLATION BREAKEVENS: 5yr BEI -0.9bps at 2.276%, 10yr BEI -1.5bps at 2.235%, 30yr BEI -2.1bps at 2.234%.

THE DAY: The Treasury curve was bid in what was a choppy session amid a myriad of risk events. It began with the BoJ, where the hike and accompanying 'tepid' taper sparked two-way action but ultimately left JGBs at highs, with EGBs and T-Notes following suit, and the latter printing an intra-day high of 111-20.

Thereafter, USTs were choppy heading into ADP, followed by Q2 ECI and the Quarterly Refunding Announcement. In wake of ADP, it sparked some modest upside with the annual pay measures coming in cooler than prior for both job-stayers and -changers. Further, the Q2 ECI print was below-expected at 0.9% (exp. 1.0%, prev. 1.2%) and sparked modest upside in T-Notes to another intra-day high. Nonetheless, Treasuries pared modestly from this peak with the slight bearish move on aforementioned metrics potentially could be explained by the reduced estimate sizes on Monday, which possibly presented some downward skew to estimates for unchanged sizes in today's refunding release. Despite that, Treasuries soon resumed the upside heading into the FOMC and accompanying Chair Powell presser.

After the Fed rate decision and accompanying statement, T-Notes saw immediate weakness, potentially on the absence of an explicit signal of a September easing, but the Central Bank was never going to tie its hands to that. However, after the initial weakness, T-Notes saw gains throughout Powell's presser, where stated there was a real discussion about the case for reducing rates at this meeting, and that a September cut is the base case. Note, after settlement Treasuries continued to extend on its bid.

QUARTERLY REFUNDING ANNOUNCEMENT

STIRS:

- **Market Implied Fed Rate Cut Pricing: September 29bps (prev. 28bps D/D), November 46bps (prev. 44bps), December 72bps (prev. 68bps).**
- NY Fed RRP op demand at USD 413bln (prev. 382bln) across 66 counterparties (prev. 70).
- US sells USD 60bln in 17wk bills at 5.090%, covered 3.24x.
- SOFR at 5.33% (prev. 5.33%), volumes at USD 1.978tln (prev. 1.982tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 87bln (prev. 90bln).

CRUDE

WTI (U4) SETTLED USD 3.18 HIGHER AT 77.91/BBL; BRENT (V4) SETTLED USD 2.77 HIGHER AT 80.84/BBL

The crude complex saw notable strength on Wednesday amid heightened Middle East tensions and bullish inventory data. On the former, and briefly recapping, Israel struck targets in the Lebanese and Iranian capitals overnight, which resulted in the death of Hezbollah commander and Hamas leader Ismail Haniyeh. As a result, it increased fears of an expansion of the conflict, particularly amid the Israeli strike on Iranian soil, with others indicating the assassination of the Hamas leader puts the Israel-Hamas ceasefire/hostage deal out of site. Adding to the bullish energy sentiment, the weekly EIA data saw a larger crude draw than expected, albeit not as deep as the private metrics on Tuesday night. Elsewhere, Gasoline saw a larger build than forecast, while Distillates saw a surprise build. Overall, weekly crude production was unchanged but refining utilisation surprisingly declined. On the day, WTI and Brent ground higher throughout the session to settle at peaks, with the FOMC having little effect ahead of the rest of the week's risk events.

EQUITIES

CLOSES: SPX +1.6% at 5,522, NDX +3% at 19,362, DJIA +0.2% at 40, 843, RUT +0.5% at 2,254

SECTORS: Health -0.39%, Real Estate -0.29%, Consumer Staples -0.20%, Financials -0.19%, Energy +0.42%, Materials +1.05%, Industrials +1.13%, Utilities +1.25%, Communication Services +1.29%, Consumer Discretionary +1.79%, Technology +3.95%.

EUROPEAN CLOSES: DAX: +0.48% at 18,500, FTSE 100: +1.13% at 8,368, CAC 40: +0.76% at 7,531, Euro Stoxx 50: +0.70% at 4,875, AEX: +1.39% at 921, IBEX 35: -1.23% at 11,065, FTSE MIB: -0.43% at 33,764, SMI: +0.31% at 12,320, PSI: +1.04% at 6,708.

EARNINGS

- **Microsoft (MSFT)** - Cloud revenue missed and Azure Q1 sales were seen rising 28-29% (exp. +30.5%). Reaffirmed capex outlook whilst it also said it expects H2 Azure growth to accelerate, showing tangible results from the AI spend.
- **AMD (AMD)** - Q2 top and bottom lines beat, and raised FY forecast for AI chip sales. As a result lifted Nvidia +7.5%.
- **Nvidia (NVDA)** - Added to the Top Pick list at Morgan Stanley.
- **Intel (INTC)** - Plans to cut thousands of jobs to reduce costs and fund efforts to recover market share loss, Bloomberg reports.
- **Pinterest (PINS)** - Q3 guidance fell short, though, did beat on Q2 top and bottom lines.
- **T-Mobile US (TMUS)** - Beat on Q2 EPS and revenue.
- **Boeing (BA)** - Named Robert Kelly Ortberg as President and CEO effective August 8th, however, the Co. fell short on Adj. EPS and

revenue for Q2.

- **GE Healthcare (GEHC)** - Revenue fell short.
- **Cencora (COR)** - Surpassed Adj. EPS and revenue for Q2, and have a positive FY EPS view.
- **Altria Group (MO)** - Missed on Adj. EPS and revenue ex excise taxes.
- **Automatic Data Processing (ADP)** +4% - Exceeded the Adj. EPS and revenue forecasts.

STOCK SPECIFICS

- **Chipmaker names (ASML)** - The US intends to unveil a new rule in August that would expand the US' powers to prevent the foreign exports of Chipmaking equipment from China.
- **Boeing (BA)** - CFO says 737 Max production reached about 25 in June and July; expects cash burn in Q3; Expects cash burn this year to be larger than previously forecast; Doesn't think Kelly's appointment will usher in a large leadership overhaul.

US FX WRAP

The **Dollar Index** was weaker against all of its G10 FX peers, and was already trading lower ahead of the FOMC decision. Upon the Fed's decision to hold the FFR at 5.25-5.50% (as expected), the index spiked higher, however, it swiftly resumed its decline into the red as Chair Powell spoke, nearing earlier session lows of 103.92. Overall, Powell held a dovish tone noting that September is the base case for a rate cut, albeit data dependent, and even said there was a real discussion about the case for reducing rates at the meeting, yet, a strong majority supported not moving. Elsewhere in the US space, ADP National Employment (Jul) added fewer jobs than expected; Employment Costs rose 0.9% (exp. 1.0%), and Chicago PMI for July beat expectations. Buck-specific drivers lie ahead, with the focus now turning to ISM and Initial Jobless Claims on Thursday, NFP report on Friday, and mega-cap earnings in between.

The **Yen** outperformed significantly and saw notable gains against the Buck, following the BoJ unexpectedly hiking interest rates to 0.25% (a 40% chance of a 15bps hike was priced in). The vote to hike was made with a 7-2 vote, whereas the decision on bond buying was made unanimously, with the Central Bank to reduce scheduled monthly bond buying by around JPY 400bln each quarter. BoJ Governor Ueda said the decision to hike this time was made considering the upward risks to prices as being considerably large. Going forward, the Governor said they will continue to lift rates and adjust the degree of easing if the current economic/price outlook is realised, with the main issue on where to stop raising rates, when approaching the neutral rate. USD/JPY was volatile following the decision, immediately dropping 100pips to 151.60 from 152.60, though clawed back losses swiftly after. Nonetheless, weakness resumed in the cross, with USD/JPY falling to lows of 149.60, albeit the pair has bounced back above the 150 handle.

Activity currencies saw gains vs. the Greenback, with outperformance led by the **Kiwi**, albeit with **CAD**, **GBP**, and **AUD** still seeing strength. Starting with the **Aussie**, weakness ensued in response to softer-than-expected RBA CPI Metrics for Q2, though Australian Retail M/M Final was better than forecasts; **AUD/USD** saw lows of 0.6479, bouncing significantly after, particularly post-FOMC meeting, sending the cross into positive territory. Next up, Canadian GDP M/M (May) was 0.2% (exp. 0.1%, prev. 0.3%), that said, there was no sustained reaction observed in the **USD/CAD**; with the cross falling below 1.38. **Kiwi** newsflow was light, as **NZD/USD** surged higher, as the Kiwi looked to reduce the slump it faced earlier in July. Lastly, the **Pound** climbs higher, to roughly 1.2860 ahead of BoE's announcement on Thursday, where BoE pricing puts an approx. 60% chance of a 25bps cut.

The **Euro** saw slight gains on Wednesday, after slightly hotter-than-expected EZ inflation data. EUR/USD continues to sit near the low end of the 1.08 level, with EZ drivers thin for the remainder of the week, with the upcoming US data (ISM, NFP) the likely influences on a move for the pair

The **Yuan** strengthened against the Buck, with USD/CNH falling to 7.226, as the cross looks to incur its first month of notable losses since December 2023. Chinese Manufacturing PMI (Jul) was above expectations, while the non-mfg was as expected; Yuan showed no reaction..

EMFX: The **COP** and **CLP** outperformed in the space. Without sounding like a broken record, the Dollar weakness supported EMs, while for the former the Colombian Central Bank cut its Interest Rate decision by 50bps to 10.75%, as expected. Meanwhile, the **CLP** strength came amid rising copper prices, although, Chilean data was quite poor, with Mfg Output Y/Y (Jun) well under expectations, and Copper Output Y/Y (Jun) turning negative for the month. Lastly, the **Real** weakened against the Buck, with data noting Brazil's Unemployment Rate fell, as anticipated, to 6.9%.

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