

2nd August 2024: Stocks and Dollar sink while Treasuries soar in the face of US growth fears

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar down.
- **REAR VIEW:** Soft US jobs report, accompanied by unemployment unexpectedly rising & wages falling; Barkin said 114k is still a 'reasonable' number; Banks revise Fed calls, with JPM seeing 50bps cuts in Sept. & Nov.; Goolsbee says Fed doesn't want to overreact to one month's data; Dismal INTC report; AMZN revenue missed with poor Q3 guidance.
- **COMING UP: Data:** Chinese Caixin Services PMI, EZ/UK/US Final Composite/Services Final PMIs, ISM Services PMI. **Event:** BoJ Minutes. **Speakers:** Fed's Daly. **Earnings:** Infineon
- **WEEK AHEAD:** Highlights include ISM Services PMI, RBA, BoJ SoO, BoC Minutes, and Chinese inflation. [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.](#)

MARKET WRAP

US indices sold off on Friday (SPX -1.8%, NDX -2.4%, DJIA -1.5%, RUT -3.5%) as the soft US jobs report added to fears surrounding US growth, which sparked significant risk off trade and flight to safety. Recapping the data, the headline plunged to 114k (exp. 175k) from June's, revised lower, 179k, while the unemployment rate ticked up to 4.3% (exp. 4.1%) from 4.1%, and wages for both M/M and Y/Y came in light. In reaction to the metrics, there was a huge Treasury rally, highlighted by the 2yr yield knee jerking lower by over 20bps, while stocks, Dollar, and oil dumped, with haven FX particularly bid, indicated by USD/JPY hitting a low of 146.42. Moreover, there was aggressive Fed money repricing, with 117bps of cuts now priced in by year-end, vs. 88bps pre-data, with both Citi and JPMorgan calling for 50bps cuts in both the September and November FOMC meeting. Following the data Fed's Goolsbee (2025 voter) and Barkin (2024 voter) were on the wires, whereby the latter said that 114,000 jobs is still a "reasonable" number, and Fed officials will see August job numbers before they vote on interest rates again at their next meeting. Prior to the data, there was already risk off sentiment given the disappointing ISM Mfg. PMI on Thursday, followed by the dismal tech earnings after-hours. As such, sectors are exclusively in the red (aside from Consumer Staples) with Communications the distinct laggard (-5%) and hit by Amazon (AMZN, -9%) who missed on revenue and gave poor guidance. There is broad-based weakness in Tech, with Intel's (INTC, -26%) dismal report weighing. For the record, the VIX is at 24 and rose roughly 29%, albeit off its intra-day peak of 29.66. Lastly, as mentioned, WTI and Brent was hit on the flight to safety and saw losses of USD 2.30/bbl and on 73/bbl and 77/bbl handles, respectively, but heading into the weekend desks are wary of geopolitical risks given Israel awaits a response from Iran and Lebanon following the assassination of a Hezbollah commander and the Hamas leader earlier in the week. However, many expect any notable action to be after the Hamas leader's mourning period which looks to end on Saturday.

US DATA

NFP: US jobs report for July was very soft, and sparked massive risk off sentiment, huge dovish Fed money-market repricing, alongside banks such as JPMorgan and Goldman Sachs revising their Fed forecasts, with the latter seeing 50bps cuts in September and November. Overall, the data added to fears regarding US growth and followed in the footsteps of the poor ISM Manufacturing PMI on Thursday, which of course came after Fed Chair Powell said in his presser on Wednesday that upside risks to inflation have decreased, and downside risks to employment mandate are real now. Regarding the data, the headline fell to 114k from 179k, beneath the expected 175k, with BLS noting Hurricane Beryl had no discernible impact for the July data, and response rates were within normal ranges. Unemployment unexpectedly rose to 4.3% from 4.1% (exp. 4.1%), invoking the Sahm rule, which historically indicates the economy is in recession, but that is not the case now. Average workweek hours dipped to 34.2hrs from 34.3hrs and participation rate ticked higher to 62.7% from 62.6%. Average earnings for both M/M and Y/Y declined to 0.2% (exp. & prev. 0.3%) and 3.6% (exp. 3.7%, prev. 3.8%), respectively. Oxford Economics notes, there was a sharp increase in the number of workers on temporary layoff, which may be hurricane-related. Overall, the July jobs report showed a labor market losing and all but ensures a rate cut for September but the debate is to what degree. Goldman Sachs sees 25bps in September, followed by the same degree in Nov. and Dec, while JPM sees 50bps in both Sept. and Sept. In terms of money market pricing, 115bps of cuts are priced in by year-end vs. 88bps pre-data.

FED

After the soft US jobs report, **Barkin (2024 voter)**, in an interview to NY Times, said that 114,000 jobs is still a "reasonable" number, even if it marks a slowdown, and looking ahead he said Fed officials will see August job numbers before they vote on interest rates again at their next meeting. On the possibility of a large half-point Fed rate cut, Barkin said "More significant reductions typically would be associated with an economy that feels like it's deteriorating rapidly. And again, 114,000 jobs, while not as good as we've been running, on a long-term basis, is a reasonable number."

Goolsbee (2025 voter), in a BBG interview, said he has been saying for a long time they'd never want to overreact to one month's data, and added if they stay restrictive for too long, they have to think about the employment mandate. The Chicago Fed President added, if unemployment is going to go up higher than 4.1%, that's the kind of thing the fed has to respond to. He later added, the Fed want the labour market to get into good balance, and does not want to commit to future rate path. Goolsbee said he is not a secret that fed policymakers expect multiple cuts over the next year.

Following the soft US jobs report, there has been an aggressive repricing in money markets, which now see 117bps of rate cuts by year end, and 43bps in September. From banks, BofA Global Research expects the Fed to start cutting rates in Sept. (prev. Dec.) with 25bps, and also sees a cut in Dec. GS expects the Fed to dispatch an initial string of consecutive 25bps cuts in Sept., Nov., and Dec. (prev. cuts every other meeting), while both Citi and JPM see the central bank cutting 50bps in Sept. and Oct.

FIXED INCOME

T-NOTES (U4) SETTLED USD 1 POINT AND 13 TICKS HIGHER AT 114-04+

Treasuries saw significant strength to end the week after a soft US jobs report added to US growth fears. At settlement, 2s -28.1bps at 3.884%, 3s -26.1bps at 3.711%, 5s -21.7bps at 3.629%, 7s -20.2bps at 3.684%, 10s -17.4bps at 3.804%, 20s -15.1bps at 4.192%, 30s -15.6bps at 4.114%.

INFLATION BREAKEVENS: 5yr BEI -18.0bps at 2.033%, 10yr BEI -14.8bps at 2.035%, 30yr BEI -11.5bps at 2.074%.

THE DAY:

T-Notes ground higher throughout the European morning, as they extended on the bid seen after a disappointing ISM Manufacturing PMI report. However, it all appeared to be calm before the post-NFP storm. Briefly recapping the data, the headline fell much more than expected, while unemployment rate unexpectedly ticked higher, and earnings dipped. Following this, there was significant risk-off sentiment and massive Fed repricing, which saw T-Note soar from 112-28 to 114-08 in an immediate reaction. As such, it sent the US yield curve from 2s through 10s convincingly below the 4.00% mark, with the 2yr yield knee jerking lower by over 20bp to a 3.89% base before slipping marginally further thereafter. Following this, Fed pricing moved very aggressively with 116bps of cuts now priced in by year-end, vs. 88bp pre-data. Following the data, a range of banks altered their calls, with JPMorgan now seeing a 50bps Fed rate cut in both September and November, while Goldman expects the Fed to dispatch an initial string of consecutive 25bps cuts in September, November, and December (prev. cuts every other meeting)

In the evening, Fed's Barkin (2024 voter), in an interview to NY Times, said that 114,000 jobs is still a "reasonable" number, even if it marks a slowdown, and Fed officials will see August job numbers before they vote on interest rates again at their next meeting. Goolsbee (2025 voter) said he has been saying for a long time they'd never want to overreact to one month's data, and the through-line of the data doesn't changed based on one month's number. Goolsbee added, it is not a secret that Fed policymakers expect multiple cuts over the next year.

STIRS:

- **Market Implied Fed Rate Cut Pricing: September 43bps (prev. 31bps D/D), November 86bps (prev. 56bps), December 117bps (prev. 83bps).**
- NY Fed RRP op demand at USD 339bln (prev. 382bln) across 63 counterparties (prev. 70).
- SOFR at 5.35% (prev. 5.38%), volumes at USD 2.211tln (prev. 2.185tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 83bln (prev. 78bln).

CRUDE

WTI (U4) SETTLED USD 2.79 LOWER AT 73.52/BBL; BRENT (V4) SETTLED USD 2.71 LOWER AT 76.81/BBL

The crude complex was hit by a soft US jobs report, which sent energy tumbling and continued to fall throughout the afternoon to settle at lows. Prior to this, WTI and Brent was already weighed on by broader risk aversion, however the disappointing jobs numbers accelerated the weakness as it stoked US growth fears, in the backdrop of Chinese growth fears. In response to the data, notable risk off was seen (Dollar & stocks selling, Treasury & gold buying) with money markets pricing in 116bps of cuts this year, vs. 88bps pre-data. Elsewhere, markets heading into the weekend aware of geopolitical risks given Israel awaits a response from Iran and Lebanon following the assassination of a Hezbollah commander and the Hamas leader earlier in the week, however, many expect any notable action to be after the Hamas leader's mourning period which looks to end on Saturday. For the record, in the weekly Baker Hughes rig count, Oil was unchanged at 482, with Nat gas down 3 at 98, leaving the Total declining 3 to 586.

STOCKS: Chevron (CVX) missed on EPS and revenue alongside discounting the chance to close its Hess Corp (HES) acquisition before mid-2025. For Exxon (XOM), the top and bottom line both surpassed expectations, with the profit beat based on rising oil prices and volume gains from its purchase of Pioneer Natural Resources. Looking ahead, Exxon raised its output target.

EQUITIES

CLOSES: SPX -1.8% at 5,347, NDX -2.4% at 18,441, DJIA -1.5% at 39,737, RUT -3.5% at 2,109

SECTORS: Consumer Discretionary -4.61%, Financials -2.42%, Energy -2.26%, Industrials -2.2%, Technology -1.99%, Communication Services -1.92%, Materials -1.89%, Health -0.21%, Real Estate +0.09%, Utilities +0.14%, Consumer Staples +0.86%.

EUROPEAN CLOSES: DAX: -2.44% at 17,642, FTSE 100: -1.31% at 8,175, CAC 40: -1.61% at 7,252, Euro Stoxx 50: -2.71% at 4,637, AEX: -3.11% at 879, IBEX 35: -1.67% at 10,673, FTSE MIB: -2.55% at 32,019, SMI: -3.73% at 11,857, PSI: -1.06% at 6,591.

EARNINGS:

- **Apple (AAPL)** - Beat on the top and bottom line, exceeding the majority of Q2 metrics, except for falling short on Greater China revenue.
- **Intel (INTC)** - Dismal Q2 report; missed on metrics alongside a poor Q3 outlook. Moreover, suspended its dividend starting in Q4, plans a more than 15% headcount reduction, and sees weaker spending across consumer and enterprise markets in Q3, especially in China.
- **Microchip Technology (MCHP)** - Issued poor next quarter guidance.
- **Cloudflare (NET)** - Raised FY outlook.
- **Amazon (AMZN)** - Missed on the top line and gave poor Q3 guidance. CEO sees lower selling prices now because customers continue to trade down prices when they can.
- **Mercadolibre (MELI)** - Net revenue and income both exceeded market expectations.
- **Booking Holdings (BKNG)** - Next quarter adj. EBITDA was light, although Q2 numbers beat.
- **Doordash (DASH)** - Revenue beat, said consumer demand on the platform is stronger than it's ever been, alongside lifting Q3 marketplace gross order value guidance.
- **Snap (SNAP)** - Gave weak guidance for Q3.
- **Chevron (CVX)** - Missed on Adj. EPS and revenue.

STOCK SPECIFICS

- **Nvidia (NVDA)** - The DoJ is investigating the Co.'s USD 700mln acquisition of startup Run, for potential antitrust violations.
- **Dun & Bradstreet (DNB)** - Exploring sale amid takeover interest, according to Reuters citing sources.
- **Flywire (FLYW)** - Inquiring into a potential sale after attracting takeover interest, according to Reuters citing sources.

US FX WRAP

The **Dollar Index** was markedly weaker, with the flight-to-haven trade ramping up after the US jobs report as Yen and Franc's strength sent the index lower. The Dollar was initially weaker before the US Jobs report, with losses accelerating once it was unveiled the US added way fewer jobs than expected, as well as the Unemployment Rate unexpectedly ticking higher by 0.2%. Fed pricing reacted extremely dovishly to the data, which added to US growth fears, as there is now 117bps of rate cuts by year-end (prev. 88bps). As such, bonds soared, with US 10y yields falling over 16bps, adding further pressure to the Buck. The dovish reaction was highlighted in Investment Bank projections, particularly Goldman Sachs and Citi, who now see a 50bps Fed rate cut in both September and November, alongside BofA and Goldman Sachs seeing additional rate cuts by year-end. Elsewhere, Friday saw Fed's Goolsbee reiterated the Fed's narrative, namely, they'd never want to overreact to one month's data, while Barkin noted the 114k jobs are still a 'reasonable' number, even if it marks a slowdown. Looking ahead, ISM Services PMI (Jul) on Monday acts as the next possible dollar catalyst, with US data release light for the remainder of the week.

The **Euro** was among the best performers against the Greenback, with upside accumulating on the soft NFP report, rather than EZ-specific newflow. EUR/USD surged from just under 1.08 to above the 1.09 handle ahead of EZ HCOB Final PMI (Jul) data on Monday, with EZ newsflow remaining light for the remainder of the week.

Activity currencies all performed to the upside after the Buck, again a result of the diving Buck, as opposed to anything currency specific. **CAD's** gains were very minimal, and potentially weighed on by notable oil weakness. **Pound** saw the greatest strength, with Cable rising to peaks of 1.2839 from 1.2708 ahead of Monday's UK S&P Global PMI (Jul). BoE pricing now sees 46bps of rate cuts by year-end, up from the 40bps seen pre-NFP. Before the data, BoE's Chief Economist Pill attempted to attenuate such dovishness, saying it's a little quick to note inflation is down and still a little way to go on inflation. **Antipodeans** saw decent gains: AUD/USD is back on a 0.65 handle, while the NZD/USD holds around 0.5950.

The **Yen** and **Franc** benefited the most from the aforementioned data, as the flight to safety play persists. USD/JPY fell from its session open of 149.30 to lows of 146.42, while USD/CHF dropped from 0.8736 to 0.8578, with Swiss CPI (Jul) coming in as expected, but garnering little reaction. Conversely, gold experienced downside, falling over USD 30/oz on Friday.

EMFX: BRL saw gains, in a week where BCB held its Selic Rate, as expected, and Industrial Output for June was much better than expected. **COP** and **MXN** both underperformed in the space, with the latter weighed on by a softer-than-expected Jobless Rate, ahead of the Banxico announcement (Thu). For the **Turkish Lira**, weakness was present with USD/TRY hitting all-time highs ahead of Turkey's CPI report (Jul) on Monday.

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