

### 5th August 2024: Stocks and Dollar sink amid heightened hard-landing fears

- **SNAPSHOT:** Equities down, Treasuries mixed, Crude up, Dollar down
- **REAR VIEW:** ISM Services PMI tops expected, with strong internals; BRK pares AAPL stake; NVDA AI chips delayed due to design flaws; GOOGL loses DOJ antitrust suit over search; Iran's retaliatory strikes may happen as early as Monday or Tuesday; China Caxin Services PMI surpasses consensus; Goolsbee refuses to discuss emergency rate cuts
- **COMING UP: Data:** German Industrial Orders, EZ Retail Sales, Canadian Trade Balance. **Event:** RBA Policy Announcement. **Speakers:** RBA's Bullock. **Supply:** Japan, UK, Germany & US. **Earnings:** Bayer, Caterpillar, Uber, SuperMicro.
- **WEEK AHEAD:** Highlights include PMI, RBA, BoJ SoO, BoC Minutes, and Chinese inflation. [To download the full report, please click here.](#)
- **CENTRAL BANK WEEKLY:** Previewing RBA, BoC Minutes; Reviewing BoJ, Fed, and BoE. [To download the full report, please click here.](#)

## MARKET WRAP

US indices (SPX -3%, NDX -3%, RUT -3.3%, DJIA -2.6%) continued to plunge lower on Monday, continuing on from Fridays' NFP-induced weakness amid fears regarding US growth and a possible recession. Whilst risk averse sentiment and flight-to-quality was somewhat present to start the week, relevant indices settled well off extremes, highlighted by the US 10yr yield lower by roughly 4bps and at roughly 3.75%, vs. an earlier low of 3.6670%. In addition, the Dollar Index was lower and around 102.70 at pixel time (Mon low 102.15), with USD/JPY trading between 141.70-146.56, and currently around 144, indicating the size of the moves. WTI and Brent continued its sell off, albeit settling well off worst levels, as the aforementioned global risk-averse sentiment outweighed heightened Middle East tensions, with focus on Iran's soon coming response to Israel. Elsewhere, Bitcoin plunged beneath 50k, while the VIX soared to 65. The aforementioned moves reversed off peaks after a better-than-expected ISM Services report, whereby the headline rose back above 50, as did business activity, which also saw Fed pricing 'ease' back to Friday's levels, as it its peak money market priced in 130bps by year-end and 52bps in September. Sectors all closed in the red, with Technology lagging and weighed on by weakness in MAG7 names. On the Fed footing, Goolsbee (2025 Voter) acknowledged he was forbidden to talk about the prospect of emergency cuts, when he was questioned, (implied pricing for a 25bp move in the next week at 60% in the European morning) but made clear that everything is always on the table.

## US

**FED'S GOOLSBEE (2025 voter)** spoke on CNBC, whereby he noted the Fed has been in a restrictive position, and you only want to be that restrictive if there is a fear of overheating. On the economy, he noted data does not look like the economy is overheating, and if the economy deteriorates, the Fed will fix it. The Chicago Fed President added the economy is restrictive in real terms, and at the highest in many decades, and you only want to be there for as long as you have to. If we are not overheating, should not tighten restrictiveness in real terms. Regarding the stock market, Goolsbee stated that if the stock market moves gives the Fed indication over a longer arc that we are looking at deceleration in growth, the Fed should react to that. Further on the Fed, when asked about an emergency rate cut, he stated he is forbidden to talk about such things, and everything is always on the table including raises and cuts. Goolsbee reiterated the Fed will not overreact to one month's data. Finally, and on the labour market, Goolsbee noted the jobs number on Friday was weaker than expected but not looking yet like a recession, must be a little careful in over-concluding about the jobs report, but he did acknowledge the Fed has to pay attention to weakness in the job market.

**ISM MANUFACTURING PMI:** ISM Manufacturing PMI rose back into the expansionary territory at 51.4, above the expected 51.0, and the prior 48.8. Within the report, business activity jumped to 54.5 (exp. 51.5, prev. 49.6), while employment and prices paid lifted to 51.1 (prev. 46.1) and 57.0 (prev. 56.3), respectively. Elsewhere, new orders, backlog of orders, and imports all lifted back above 50, while supplier deliveries fell back into contractionary territory. The report notes, "The past relationship between the Services PMI and the overall economy indicates that the Services PMI for July corresponds to a 0.8-percentage point increase in real GDP on an annualized basis." On ISM Services, Oxford Economics notes the uptick will do little to reverse market jitters of a recession in the wake of Friday's employment report, but it aligns with their view of an economy in transition rather than one on the brink of collapse. Looking to the September 18th FOMC meeting, OxEco adds expectations for aggressive rate cuts in September are overdone, and they expect the Fed to move forward with a 25bps cut. Further, on the dataset, Oxford adds, as with last month's decline, it would caution against an overreaction to a single month of data and instead focus on trend, and the six-month moving average remains well above the level that would be consistent with a recession.

## FIXED INCOME

### T-NOTES (U4) SETTLED 2 TICKS LOWER AT 114-02+

**Treasuries were eventually mixed across the curve, settling well off the earlier highs amid continued US growth and recession fears.** At settlement, 2s +2.1bps at 3.893%, 3s +2.4bps at 3.721%, 5s +0.7bps at 3.625%, 7s -0.5bps at 3.670%, 10s -1.9bps at 3.777%, 20s 2.9bps at 4.158%, 30s -4.8bps at 4.063%.

**INFLATION BREAKEVENS:** 5yr BEI +1.0bps at 2.063%, 10yr BEI +1.3bps at 2.069%, 30yr BEI +1.8bps at 2.110%.

### THE DAY:

- Overnight and through the duration of the European morning Treasuries continued where they left off on Friday, with significant gains amid continued fears US-growth fears and a possible recession, after the dismal US jobs report. Moreover, this initial action was an extension of the pronounced APAC bid as the region reacted to and extended upon the post-NFP risk sell-off, as T-Notes hit a peak of 115-03+. As such, money market pricing for Fed cutting rates ramped even more significantly, with 130bps by year-end and 52bps in September at its peak, but it has since pared back to Friday levels, after the US ISM Services PMI. On the data, T-Notes saw a marked reversal after the above expected data, which also saw a particularly strong employment reading and a rise in prices paid.
- Since then, T-Notes pared to a low of 113-24+, and settled around the 114 level. Speaking from the Fed, Goolsbee (2025 Voter)

acknowledged he was forbidden to talk about the prospect of emergency cuts, when he was questioned, (implied pricing for a 25bp move in the next week at 60% in the European morning) but made clear that everything is always on the table. Note, US 2s/10s yield curve un-inverted for the first time since July 2022, but has since inverted back. Looking ahead, 3,10, and 30yr auctions are this week with a lack of other tier 1 US data, but focus will continue to be set around market participants risk sentiment and lingering concerns around US growth.

#### STIRS:

- **Market Implied Fed Rate Cut Pricing: September 46bps (prev. 43bps D/D), November 86bps (prev. 86bps), December 117bps (prev. 117bps).**
- US sold USD 82bln in 3-mnth bills at 5.075%, covered 2.62x; sold USD 76bln in 6-mnth bills at 4.700%, covered 2.67x.
- NY Fed RRP op demand at USD 316bln (prev. 339bln) across 63 counterparties (prev. 63).
- SOFR at 5.35% (prev. 5.35%), volumes at USD 2.077tln (prev. 2.211tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 89bln (prev. 83bln).

## CRUDE

**WTI (U4) SETTLED USD 0.58 LOWER AT 72.94/BBL; BRENT (V4) SETTLED USD 0.51 LOWER AT 76.30/BBL**

The crude complex continued its sell off on Monday, albeit settling well off worst levels, as global risk-averse sentiment outweighed heightened Middle East tensions. WTI and Brent tumbled through the European morning to hit lows of USD 71.67/bbl and 75.05/bbl, respectively, amid continued significant growth concerns from Friday out of the US sparked massive risk-off trade. However, as risk sentiment somewhat improved through the US afternoon, although still massively downbeat, the crude complex came off troughs to peak at USD 74.46/bbl and 77.74/bbl. As such, little focus was on energy-specific newsflow as recessionary fears took the stage, with energy losses somewhat cushioned by the ever-growing geopolitical risk as many fear that Iran and Lebanon's response to the Israeli assassinations may spark a wider conflict. On the data footing, Chinese Services PMI topped. Elsewhere, Libya's El Sharara oil field (300k BPD) reportedly fully halted production. Looking ahead, attention will continue to focus on US growth concerns and global sentiment, but of course, geopolitical risk continues to be on the radar.

## EQUITIES

**CLOSES:** SPX -3% at 5,186, NDX -3% at 17,895, DJIA -2.6% at 38,703, RUT -3.3% at 2,039

**SECTORS:** Technology -3.78%, Communication Services -3.35%, Consumer Discretionary -3.07%, Real Estate -2.95%, Financials -2.9%, Health -2.69%, Utilities -2.69%, Materials -2.28%, Energy -2.01%, Consumer Staples -1.94%, Industrials -1.72%.

**EUROPEAN CLOSES:** DAX: -1.95% at 17,318, FTSE 100: -2.04% at 8,008, CAC 40: -1.42% at 7,149, Euro Stoxx 50: -1.49% at 4,570, AEX: -2.10% at 860, IBEX 35: -2.34% at 10,423, FTSE MIB: -2.27% at 31,294, SMI: -2.63% at 11,563, PSI: -1.87% at 6,468.

#### STOCK SPECIFICS

- **Apple (AAPL)** - Warren Buffett's Berkshire Hathaway (BRK) cut its stake in the Co. by 38% from the previous quarter.
- **Nvidia (NVDA)** - Its upcoming AI chips, which are part of the Blackwell series, will be delayed by over three months due to design flaws, Information reports.
- **Kellanova (K)** - Mars is considering acquiring the Co. for roughly USD 27bln, which could challenge regulatory approval for sector consolidation.
- **Berkshire Hathaway (BRK.B)** - Revenue fell short, but posted strong Q2 earnings thank to insurance strength with its cash stake growing 47% to 277bln, as it sold a net USD 75.5bln of stocks in Q2, the seventh straight quarter that the CO. sold more stocks than it bought.
- **Alphabet (GOOGL)** - Lost DoJ antitrust suit over search, according to Bloomberg.

## US FX WRAP

The **Dollar Index** faced further pressure from Friday's NFP report, as concerns over a recession continue to swell. As such, the flight to haven FX persisted, particularly in the Yen, applying heavy selling pressure on the index, alongside initial notable upside in the Euro and Treasuries. As a result, money markets priced in full 50bps rate cut in the Fed September meeting, ahead of ISM Services PMI, accompanied by participants ramping up their rate cut bets; Bloomberg reports suggested traders put a 60% chance of an emergency 25bps rate cut in the next week; Fed's Goolsbee declined to talk about emergency Fed rate cut when asked. The DXY set a trough at 102.15, bouncing off lows as the session progressed, with the rebound supported by ISM Services PMI coming in above market expectations. Upcoming Buck catalysts are thin, with eyes set on Thursday's Initial Jobless Claims.

The **Euro** benefited considerably from the Dollar weakness, with EUR/USD climbing to highs of 1.1008. European data saw mixed reports on HCOB Final PMI data for July, with beats seen in Germany and EZ, except for EZ Services which was in line with expectations, while Italy and France fell short on forecasts; EZ's Sentix index fell more than expected. HCOB said, "There is still no relief from inflation...We think this points to wage pressure caused by demographic shifts, making it harder for the ECB to hit its 2% inflation target". EUR/USD later trimmed gains, falling back below 1.10 to around 1.0950, though still well in the green ahead of EZ Retail Sales on Tuesday.

The **Yen** and **Franc** reaped the rewards from US recessionary fears, with gains most prominent in the Yen, which saw extreme volatility within the session; USD/JPY opened at 146.36, making lows of 141.70, albeit, trimmed losses by roughly half as the US session was underway. USD/CHF fell to as low of 0.8433 before rebounding to the low end of the 0.85 mark ahead of Tuesday's Swiss Unemployment Rate (Jul).

**Activity currencies** nearly all weakened against the greenback, except for the **CAD** which reverted the earlier weakness it faced; USD/CAD eventually slipped into the red, falling to roughly 1.3810. Meanwhile, **Antipodeans** and the **Pound** faced losses, with the former reducing earlier losses on better-than-expected Chinese Caixin Services PMI; NZD/USD reached lows of 0.5851, before rallying back to 0.5970 region, while AUD/USD set a trough of 0.6350, though nearly erased all loses, as the cross sits near 0.6490 prior to the RBA Cash Rate decision, where the Central Bank is expected to maintain the Cash Rate at 4.35%. Lastly, Cable hovers around 1.2760.

**EMFX** mostly saw downside versus the buck, most prominently in the **MXN** and **TRY**, with the latter extending its ascent into uncharted territory after Turkish CPI (Jul) came in cooler than expected at 3.23% M/M (exp. 3.45%). On the flip side, CEE currencies, specifically, the **HUF** and **PLN** strengthened against the Buck, though performance was mixed against the Euro.

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