

6th August 2024: Stocks rally after recent bloodbath while bonds take a hit

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar up
- **REAR VIEW:** Hawkish RBA hold; Japanese earnings rise at fastest pace since '97; Stellar German industrial orders; Aramco CEO bullish on oil; Iran/Lebanon Israel response awaits; DIS raising streaming prices; Average US 3yr auction; Strong UBER & PLTR earnings; Dismal ZI guidance.
- **COMING UP:** **Data:** German Industrial Production, Chinese FX Reserves & Trade **Event:** BoC Minutes **Speakers:** ECB's Rehn
Supply: UK, Germany & US **Earnings:** ABN AMRO, Continental, Commerzbank, Novo Nordisk, Puma, Siemens Energy, Glencore, Disney

MARKET WRAP

Stocks rebounded from the recent bloodbath with slight outperformance in the NDX for the majority of the session although gains were broadbased, with the SPX, RUT and RSP (equal weighted S&P) not far behind. The sectoral outperformance was seen in Real Estate, Financials and Industrials, although all sectors were in the green with the large cap Tech, Consumer Discretionary and Comms notching gains north of 1.2%. However, some broad-based profit taking was observed within the last hour and a half of trade, with indices closing off highs with the RUT finishing out in front. T-Notes were choppy but ultimately bear steepened, with the equity rally and concession ahead of the 3yr auction weighing, with overnight pressure following the fastest increase of Japanese wages since 1997, while Asian stocks surging (Nikkei up over 10%) also likely added to the overnight pressures. Some rebound was seen after strong German Industrial orders, but once US equities rallied after the open, the T-Note selling resumed. In FX, the USD saw only marginal gains, with DXY hovering around 103.00, while the Yen underperformed after its recent rally but AUD was the leader after hawkish commentary from RBA Governor Bullock, who noted the RBA discussed a rate hike at this meeting. It is also worth noting that in Japan, the top currency diplomat, BoJ and FSA discussed the recent big moves in the stock market, forex and that they are closely watching FX moves but they gave no further details. Oil prices were choppy but ultimately settled marginally in the green.

US

INTERNATIONAL TRADE: The US International Trade Deficit in June narrowed to 73.1bln from 75bln in May, although it was wider than the expected 72.5bln. The trade balance saw exports rise by 1.5% to USD 269.5bln, while imports rose by 0.6% to USD 339bln. The June decrease in the goods and services deficit reflected a decrease in the goods deficit of USD 2.5bln to 97.4bln and a decrease in the services surplus of 0.6bln to 24.2bln. Imports of goods increased USD 1.9bln to 271.6bln, while exports of goods increased USD 4.4bln to 174.2bln in June. Imports of services increased USD 0.2bln to 67.5bln, while exports of services decreased USD 0.4bln to 91.7bln in June. Analysts at Oxford Economics note that "Net trade was shown to have been a 0.7ppt drag on GDP growth in Q2, and the June trade report is unlikely to materially change this number in the second release of GDP. The risks are for a larger drag, though, with real trade data from June's report showing a 1.6% annualized decline in goods trade, compared to a 1.6% gain in the first estimate of GDP."

RCM/TIPP INDEX: RCM/TIPP Economic Optimism Index marginally ticked up in August to 44.5 from 44.2 in July. Within the release, optimism among investors dropped 2.2% to 52.4 (prev. 53.6), while it increased by 3.3% among non-investors to 40.7 (prev. 39.4). Looking at the three key components in August, the Six-Month Economic Outlook improved to 43.4 from 40.7, but Personal Financial Outlook and Confidence in Federal Economic Policies declined to 51.8 (prev. 51.9) and 38.3 (prev. 40.0), respectively. Additionally, RCM/TIPP releases its own companion index, known as the RCM/TIPP Financial-Related Stress Index, which rose 2.1% from 66.2 in July to 67.6 in August, which is the highest reading for the eight months of 2024. The editor of RCM said, "Periods of pessimism not infrequently beget optimism as the down times force individual fixes that set us up for optimism". The report further adds, "Consumer sentiment held steady, however, 86% are concerned about inflation. The share of respondents who think the US is in a recession decreased slightly to 45% (prev. 46% M/M), while the share who believe the economy is improving dropped to 27% (prev. 28%). It concludes, "Financial stress increased significantly in August. Inflation, food prices, gasoline prices, and government spending threaten the US economy."

FIXED INCOME

T-NOTE FUTURES (U4) SETTLE 22 TICKS LOWER AT 113-12+

T-Notes were choppy on Tuesday but ultimately bear steepened with a rally in equities weighing on the curve while the 3yr auction had little reaction. At settlement, 2s +10.5bps at 3.990%, 3s +10.2bps at 3.817%, 5s +10.4bps at 3.731%, 7s +10.7bps at 3.783%, 10s +10.7bps at 3.890%, 20s +10.6bps at 4.272%, 30s +10.6bps at 4.178%.

INFLATION BREAKEVENS: 5yr BEI +5.3bps at 2.110%, 10yr BEI +4.7bps at 2.109%, 30yr BEI +3.9bps at 2.142%

THE DAY: T-Notes sold off overnight to hit a low 113-12 in European trade. The overnight weakness started after the hot Japanese wage metrics rose by the fastest pace since 1997, well above expectations. T-Notes gradually pushed lower into European trade which also coincided with a rally in Asian equities; Nikkei 225 closed up over 10%. A stronger than expected Industrial Orders print for Germany put a halt to the slide, and T-Notes gradually rose once US trade got underway, to peak around the US cash equity open. A strong equity open saw T-Notes reverse lower, likely with dealers making some concessions ahead of the 3yr note auction too. IFR highlighted that IG supply also weighed on the belly, while overseas spec/day trader liquidations added to the sell off that led prices to session lows. The auction ultimately sparked little reaction (more below). Money market pricing saw a slight unwind too, now pricing in 105bps of easing through year-end, vs 117bps on Monday.

3YR: The USD 58bln 3yr auction was rather average. The high yield of 3.810% stopped through the when issued by 0.2bps, vs the six auction average of on the screws, but not as strong as the prior 0.8bps stop through. The bid-to-cover of 2.55x was just a touch under the six auction average of 2.57x, and beneath the prior 2.67x. Dealer demand was a touch better than average, taking just 15.35% vs the average 16.5%, but not as strong as the prior 14.8%. There was a slight increase in indirect demand to 64.39% from 64.0%, relatively in line with the 65% average, while direct demand slipped marginally to 20.25% from 21.3%, but above the 18.5% six-auction average.

STIRS:

- **Market Implied Fed Rate Cut Pricing** : September 42bps (prev. 46bps D/D), November 76bps (prev. 86bps), December 107bps (prev. 117bps).
- US sold USD 50bln in 1-yr bills at 4.255%, covered 2.93x; sold USD 75bln in 42-day CMBs at 5.270%, covered 2.76x
- US to sell USD 60bln in 17-wk bills on August 7th; to sell USD 95bln in 4-wk bills and USD 90bln in 8-wk bills on August 8th; all to settle on August 13th
- NY Fed RRP op demand at USD 292bln (prev. 316bln) across 60 counterparties (prev. 63)
- SOFR at 5.32% (prev. 5.35%), volumes at USD 2.199tn (prev. 2.077tn).
- EFRF at 5.33% (prev. 5.33%), volumes at USD 86bln (prev. 89bln).

CRUDE

WTI (U4) SETTLES USD 0.26 HIGHER AT 73.20/BBL; BRENT (V4) SETTLES USD 0.18 HIGHER AT 76.48/BBL

The crude complex was choppy on Tuesday, and ultimately settled marginally higher, as it attempt to claw back some of its recent US-growth fear induced losses. On the day, WTI and Brent sold off overnight and through the European morning to hit lows of USD 72.20/bbl and 75.58/bbl, respectively, before gaining through the US session as sentiment improved to hit peaks of 74.56/bbl and 77.85/bbl. In addition, energy giant Saudi Aramco's CEO was bullish on oil in wake of earnings (more details below). In geopolitics, market participants still await Iran/Lebanon's retaliation against Israel, whereby Hezbollah's leader recently stated their response is coming, and it will be strong and effective. Moreover, CNN sources reported that US is beginning to see some Iranian preparations for a potential military response to Israel. On the production footing, Libya's El Sharara (300k BPD) oil field has begun gradually reducing production due to a force majeure, although reports on Monday suggested that the El Sharara fields output has fully halted production. Looking ahead, traders await the weekly private inventory data after-hours, where current expectations are (bbls): Crude -0.7mln, Distillate +0.2mln, Gasoline -1.0mln.

ARAMCO: Post-earnings, Aramco President stated that strong demand returns to market fundamentals coinciding with the entry of the driving season, and they expect oil demand to increase in the coming months. Furthermore, he noted strong oil demand from China may continue during H2 '24, while in July and early August, saw growth in jet-fuel demand and significant growth in China. Looking ahead, Aramco CEO expects global oil demand of 104.7mln BPD in 2024 (vs 104.5mln in OPEC July MOMR), seeing more plans to replenish strategic inventories which will aid healthy demand.

EIA STEO: Leaves 2024 world oil demand growth unchanged at a 1.1mln BPD Y/Y increase, and lowers forecast for 2025 world oil demand growth to see growth of 1.6mln BPD (prev. 1.8mln BPD).

EQUITIES

- **CLOSES:** SPX +1.04% at 5,240, NDX +1.02% at 18,078, DJI +0.76% at 38,998, RUT +1.23% at 2,064.
- **SECTORS:** Real Estate +2.30%, Financials +1.46%, Communication Services +1.22%, Industrials +1.18%, Technology +1.11%, Consumer Discretionary +1.04%, Utilities +0.82%, Materials +0.56%, Consumer Staples +0.55%, Health +0.48%, Energy +0.40%.
- **EUROPEAN CLOSES:** DAX: -0.10% at 17,321, FTSE 100: +0.23% at 8,027, CAC 40: -0.27% at 7,130, Euro Stoxx 50: +0.08% at 4,575, AEX: +0.73% at 867, IBEX 35: -0.32% at 10,391, FTSE MIB: -0.60% at 31,107, SMI: -0.53% at 11,502, PSI: -0.19% at 6,456.

EARNINGS

- **Uber (UBER)** - Revenue and gross bookings surpassed expectations.
- **Palantir (PLTR)** - Beat on the top and bottom line, alongside giving Q3 and FY24 revenue outlooks above forecasts.
- **GlobalFoundries (GFS)** - Adj. EPS and revenue beat, though Q3 Adj. EPS was below the consensus.
- **ZoomInfo Technologies (ZI)** - EPS and revenue missed alongside guidance for the next quarter and FY coming in light.
- **Caterpillar (CAT)** - Exceeded Adj. EPS and revenue consensus.
- **Zoetis (ZTS)** - Topped EPS and revenue expectations, as well as its FY revenue view.
- **Yum China (YUMC)** - Profit beat, and on a separate footing announced its CFO is stepping down.
- **Lucid (LCID)** - Top line beat and delivered more vehicles than expected alongside PIF making an investment worth USD 1.5bln.

STOCK SPECIFICS

- **Southwest Airlines (LUV)** - Elliot Investment management disclosed a 7% stake in the Co, believing the shares undervalued.
- **Lumen Technologies (LUMN)** - Announced it has USD 5bln in new business due to AI-driven demand for connectivity, with another USD 7bln in discussions.
- **CrowdStrike (CRWD)** - Upgraded to Overweight from Neutral at Piper Sandler, on the ramifications of the latest update 'will likely be more-so short-lived and at negligible cost'.
- **TSMC (TSM)** - To increase prices for its 5nm and 3nm process manufacturing in 2025 by 3-8%
- **Disney (DIS)** - Raised streaming prices by as much as 25% and adds channels.

US FX WRAP

The **Dollar Index** saw marginal gains on Tuesday, albeit within a narrow range (102.690-103.220) in respect to the moves in the prior three days. Nonetheless, the index hit a high of 103.220 as US-growth fears quelled, given the extreme risk-averse sentiment seen since the tail end of last week. Newsflow and tier 1 risk events out of the US were light, with Fed's Daly (2024 voter) after-hours on Monday the highlight, whereby she noted risks to Fed mandates getting in more balance and minds are open to cutting the rate in coming meetings. For the record, US international trade posted a slightly larger deficit than expected and RCM/TIPP economic optimism index rose slightly in August. Looking ahead, there is a distinct lack of tier 1 data releases, or Fed speak, this week with initial jobless claims and Barkin (2024) (Thurs) arguably the highlights.

JPY was the distinct G10 underperformer against the Greenback, but of course comes after significant Yen strength in recent days. Highlighting this, the cross reached a peak of 146.36 today (vs a low of 143.63), but just last Wednesday USD/JPY was at 155.21. As such, the Yen 'weakness' was a function of the recent overbuying of haven assets and a slight retracement of recent moves, as opposed to anything Yen specific. Overnight, Japanese markets rebounded from Monday's turmoil, whilst Japan's MOF, FSA and BoJ held a meeting on market volatility, but telegraphed little in terms of details. Japanese wage metrics overnight were also much hotter than expected, rising at the fastest pace since 1997.

EUR and **GBP** saw weakness, amid the aforementioned themes, and as such Cable reversed from a high of 1.2803 to a low of 1.2673. For the Euro, EZ retail sales for June declined more than expected M/M, but German industrial orders were significantly better than forecasted,

with not much scheduled for the week ahead.

Antipodeans and the **CAD** were firmer with the Aussie notably outperforming after a hawkish RBA hold. Briefly recapping, the Central Bank held at 4.35%, as expected, reiterated it remains resolute in its determination to return inflation to the target and is not ruling anything in or out. GDP, CPI and Unemployment forecasts were raised, while RBA Governor Bullock said the board did consider a rate hike, and a cut is not on the near term agenda; which sparked the Aussie strength. AUD/USD hit a high of 0.6541. NZD benefitted off the coat tails of the Aussie strength, on top of the reversal in risk sentiment.

EMFX was mixed. COP, ZAR, BRL, and CLP all firmed vs. the Greenback with the latter two outperforming with the Chilean Peso supported by rising copper prices. MXN, TRY, and the Yuan all saw losses, and weighed on by the Dollar retracing some of recent losses. Regarding data, Brazilian trade balance for July was not as large a surplus as expected. Risk events scheduled this week are thin, with the highlight Banxico on Thursday, with the Central Bank expected to hold rates at 11.0%, but 10/22 analysts surveyed by Reuters look for a 25bps cut.

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