

7th August 2024: Stocks reverse opening strength, and more, while Yen tumbles on dovish Uchida

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar up
- **REAR VIEW:** Dovish BoJ Uchida; Woeful 10yr auction; Strong Kiwi Jobs data; Larger EIA crude draw than expected; NOC confirms EI Sharara force majeure; Iran/Hezbollah response imminent; Weak NVO Wegovy sales; DIS hit on Hula stake; SMCI margins worry investors
- **COMING UP:** **Data:** US IJC **Events:** Banxico & RBI Policy Announcements, BoJ SOO **Speakers:** RBA's Bullock, Fed's Barkin **Supply:** US **Earnings:** Allianz, Deutsche Telekom, Siemens, Antofagasta, Entain, Eli Lilly

MARKET WRAP

Stocks initially resumed the session on a strong footing but shortly after the US open the optimism faded with stocks tumbling throughout the rest of the session with stocks closing well in the red with underperformance in the RUT. Sectors ultimately closed mixed with gains seen in Utilities, Energy and Financials, while Consumer Discretionary, Materials and Tech lagged; Comms also finished red. In healthcare, the weakness was largely led by a tumbling Eli Lilly (LLY) on the back of Novo Nordisk (NVO) Wegovy sales missing estimates, hitting the GLP1 competitor, while CVS (CVS) missed on revenue and light FY guidance. T-Notes were pressured throughout the session with a slew of corporate and treasury supply weighing, with the 10yr auction seeing a very weak reception with a chunky 3.1bps tail. In FX, the Dollar was bid but primarily as a function of Yen weakness after BoJ Deputy Governor Uchida overnight said that the BoJ will not hike rates when markets are unstable, noting that Ueda shares his views. Elsewhere, the cyclical currencies outperformed, particularly the Kiwi after a strong jobs report overnight but all the risk-sensitive currencies were off best levels as equities nose-dived in the US afternoon. Crude prices held onto the bid on geopolitical tensions, bullish inventory data, and Libya's NOC confirming its force majeure of the Sharara oil field.

FIXED INCOME

T-NOTE FUTURES (U4) SETTLES 16 TICKS LOWER AT 112-28+

T-Notes continue to bear steepen amid slew of corporate issuance and US Treasury supply this week, seeing 10yr yield back to pre-NFP levels. At settlement, 2s +2.5bps at 4.010%, 3s +4.8bps at 3.843%, 5s +6.8bps at 3.797%, 7s +7.6bps at 3.857%, 10s +8.0bps at 3.968%, 20s +7.7bps at 4.348%, 30s +8.3bps at 4.260%.

INFLATION BRAKEEVENS: 5yr BEI +2.2bps at 2.127%, 10yr BEI +1.8bps at 2.122%, 30yr BEI +1.6bps at 2.152%.

THE DAY: T-Notes continued to bear-steepen on Wednesday with Treasuries paring the recent vol-induced rally with a chunk of corporate and Treasury supply weighing; IFR noted at least 11 IG deals were expected to be announced today. The pressure in T-Notes saw the 10yr futures print a low of 112-26, well beneath the 115-03+ peak seen on Monday, and back to pre-NFP levels. The diabolical 10yr auction saw the 10yr futures hit lows, given the auction tailed by a whopping 3.1bps. The move saw a slight paring back to circa 113-00 thereafter. There has been a lot more calm in markets from Tuesday and Wednesday, although money markets are still pricing in a c. 80% probability of a 50bp move at the next Fed meeting in September, with 106bps of easing priced through year-end, which implies at least one 50bp cut. Overnight, the focus was on BoJ's Uchida who ruled out upcoming rate hikes, which didn't have too much impact on T-Notes, but it is worth noting the Yen tumbled in response.

10yr: The 10yr auction was weak. The US Treasury sold USD 42bln of 10yr notes at a high yield of 3.960%, showing a whopping 3.1bp tail vs the 3.929% WI. The Bid-to-Cover of 2.32x was well beneath the prior and average of 2.58x and 2.52x, respectively. The breakdown saw dealers take an above-average 17.9%, while direct demand took a step back to 16% from 20.9%, beneath the 17.1% average. Indirect demand slipped marginally and was a touch beneath the six-auction average.

STIRS: * **Market Implied Fed Rate Cut Pricing:** September 42bps (prev. 42bps D/D), November 76bps (prev. 76bps), December 106bps (prev. 107bps). * US sold USD 60bln of 17-wk bills at 4.990%, covered 2.89x * NY Fed RRP op demand at USD 287bln (prev. 292bln) across 52 counterparties (prev. 60) * SOFR at 5.33% (prev. 5.32%), volumes at USD 2.086tln (prev. 2.199tln). * EFFF at 5.33% (prev. 5.33%), volumes at USD 89bln (prev. 86bln).

CRUDE

WTI (U4) SETTLES USD 2.03 HIGHER AT 75.23/BBL; BRENT (V4) SETTLES 1.85 HIGHER AT 78.;33/BBL

The crude complex was firmer on Wednesday and supported by looming geopolitical risk . Regarding the latest updates in the Middle East, US officials are confident that their [Iran/Hezbollah] response is imminent, and while initial assessments predicted an early-week attack, latest intelligence suggests any response may be delayed until late Thursday or Friday. In addition, Egypt instructed all its airlines to avoid Iranian air space for a 3-hour period in the early morning on Thursday [02:00/05:00BST] amid tension between Israel and Iran. On the supply side, a larger than expected crude draw, in the weekly EIA data, further underpinned the energy complex and helped lift WTI and Brent to intraday peaks, before extending further to highs of USD 75.84/bbl and 78.87/bbl, respectively. Elsewhere in the metrics, Distillates saw a slightly greater build than forecast, while Gasoline noticed a surprise build. Overall crude production rose 100k to 13.4mtn, a record high, although EIA said it includes a re-benchmarking that impacted crude output volume by less than 50k BPD. Sticking with the supply side, desks cite some support for the complex from Libya's Sharara oil field fully halting production (which was confirmed today), while also out of the country the Chief Prosecutor has reportedly ordered the arrest of their oil minister.

EQUITIES

- **CLOSES:** SPX -0.77% at 5,200, NDX -1.16% at 17,867, DJI -0.60% at 38,763, RUT -1.41% at 2,033.

- **SECTORS:** Utilities +0.55%, Energy +0.43%, Consumer Staples +0.08%, Financials +0.06%, Communication Services -0.39%, Industrials -0.50%, Real Estate -0.79%, Health -1.06%, Technology -1.33%, Materials -1.37%, Consumer Discretionary -1.41%
- **EUROPEAN CLOSERS:** DAX: +1.47% at 17,610, FTSE 100: +1.75% at 8,167, CAC 40: +1.91% at 7,266, Euro Stoxx 50: +2.00% at 4,667, AEX: +2.24% at 886, IBEX 35: +2.01% at 10,599, FTSE MIB: +2.33% at 31,832, SMI: +2.86% at 11,849, PSI: +1.85% at 6,575.

EARNINGS

- **Super Micro Computer (SMCI)** - Missed on profit and gross margin, with gross margin guidance underwhelming, and announced a 10-for-1 stock split.
- **Walt Disney (DIS)** - Saw weakness on Hulu negotiations despite a blowout report, as it may have to pay USD 5bn more for Hulu stake.
- **Ralph Lauren (RL)** - Beat on the top and bottom line
- **Shopify (SHOP)** - Strong earnings report, highlighted by beating on key metrics.
- **Airbnb (ABNB)** - Fell short on profit and gave soft guidance for the next quarter, with the executive seeing some signs of slowing demand from US guests.
- **Rivian Automotive (RIVN)** - Deeper loss per share than expected, and has seen its order backlog fall in recent quarters as deliveries increased and some customers cancelled their reservation.
- **Novo Nordisk (NVO)** - Q2 profit and sales disappointed after bottlenecks hit its weight loss products, though it did raise its FY sales outlook on the increased supply of its weight loss drugs.
- **CVS Health (CVS)** - Bottom line and comp. sales surpassed expectations, though revenue and FY guidance were beneath forecasts.
- **Amgen (AMGN)** - Bottom line missed.
- **Lyft (LYFT)** - Profit missed with next quarter guidance soft.
- **Fortinet (FTNT)** - Stellar report; EPS and revenue beat, with strong guidance for the next quarter and the FY.
- **Upstart (UPST)** - Shallower loss per share, topped on revenue, with solid outlook.

STOCK SPECIFICS

- **Nvidia (NVDA)** - Nvidia clears Samsung's (SSNLF) 8-layer HBM3E chips for use in AI chipsets, and it is set to sign a deal to begin supplies of such chips by end-Q4.
- **Micron (MU)** - Has determined that it could resume its buyback programme, citing improved conditions
- **Advanced Micro Devices (AMD)** - Piper Sandler reiterated AMD as a top pick, saying the stock should gain significant market share in the traditional server space.
- **Meta (META)** - Reportedly in talks with Indian tech firm Jio for a possible hardware device deal, according to The Information

US FX WRAP

The Dollar Index was slightly firmer on Wednesday, and saw a boost on the Yen weakness after comments from BoJ Deputy Governor Uchida overnight. Nonetheless, Dollar specific newsflow was light in general thinner trading conditions, amid no Fed speak or tier 1 US data. As such, DXY traded between 102.910-103.370 and currently sits in the middle of the range, with jobless claims and Fed's Barkin (2024 voter) scheduled the clear highlights.

Safe-havens, CHF and JPY, were the clear G10 laggards and reversed some of their recent gains with the Yen aggressively hit overnight after dovish remarks from BoJ Deputy Governor Uchida. Briefly recapping, he noted they won't hike rates when markets are unstable and must maintain the current degree of monetary easing for the time being. In wake of his remarks, USD/JPY climbed to 147.40 from 145.20, before extending through the EZ morning to a peak of 147.89.

NZD was the G10 outperformer and buoyed from encouraging Kiwi jobs data overnight. Q2 unemployment rate rose less than expected, while job growth Q/Q and participation rate surprisingly rose.

CAD, AUD, GBP, and EUR were mixed, with the latter three more-or-less flat, with the Loonie seeing slight gains and likely supported by firmer crude prices. BoC Minutes offered little new, with the highlight arguably the GC seeing risk that consumer spending could be significantly weaker than expected in 2025 and 2026. EUR/USD and Cable were within tight ranges and between 1.0906-36 and 1.2681-1.2735, respectively, in thin newsflow for the currencies. The Kiwi, Aussie, Looney and Pound were off best levels as US equities tumbled in the US afternoon.

LatAm FX was largely firmer across the board against the Buck, in a reversal of recent trade as opposed to any specific newsflow, as the LatAm's attempted to recoup some of the significant weakness seen. Highlighting this, USD/MXN surged 2% at its peak, following the MXN hitting a two year low on Monday. In addition, MXN benefitted from JPY weakness as it is a key beneficiary of Yen-funded carry trades. Looking to Thursday, Banxico rate decision is the highlight where analysts are divided on whether the Bank holds rates at 11% or cuts by 25bps to 10.75%.

The Yuan was weaker against the Dollar, and came after mixed Chinese trade data overnight, whereby exports disappointed but imports topped forecasts. Later in the session, Global Times reported that the PBoC has "opted not to inject any short-term cash into financial market for the first time since 2020", and analysts cited say there is ample cash in the system, no need for more liquidity. Adding, this shows domestic economic activity is improving. Ahead, Chinese inflation data on Friday is the scheduled risk event.

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