

8th August 2024: Stocks surge and bonds fall on lower jobless claims

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar flat
- **REAR VIEW:** Initial Jobless Claims fall by more than expected; Hawkish RBA Governor Bullock; Woeful 30yr auction; Stellar LLY earnings; Banxico cut rates
- **COMING UP:** Data: Chinese CPI, Norwegian CPI, Canadian Jobs. **Earnings:** Generali

MARKET WRAP

Stocks surged on Thursday with broad based gains while T-notes bear flattened after Initial Jobless Claims fell by more than expected, helping ease some recent labour market concerns. The equity rally was broad-based, with all sectors in the green but the gains were seen most in Tech, Communication, Industrials and Health Care, with the latter sector buoyed by a stellar report from Eli-Lilly (LLY) which saw it raise its outlook on diabetes and weight loss drugs after a strong quarter for Mounjaro and Zepbound, seeing the stock + c. 9.5%. T-notes were sold across the curve in a flatter manner after the jobless claims data, while attention turned to the 30yr bond auction, which ultimately was woeful, seeing a whopping 3.1bp tail, the largest since November. Crude prices continued their bid, buoyed by risk sentiment and geopolitical tensions. The Dollar was bid after the US claims data while Yen and franc underperformed given their sensitivity to risk and yields. The cyclical currencies outperformed, but the Aussie was a clear leader, buoyed by hawkish commentary from RBA Governor Bullock. MXN was choppy around the Banxico rate decision, which voted 3-2 to cut rates by 25bps, vs split analyst expectations for a cut or hold.

GLOBAL

US JOBLESS CLAIMS: Initial jobless claims eased to 233k from 250k, and beneath the expected 240k, while the 4wk average ticked higher to 240.75k (prev. 238.25k). Continued claims rose to 1.875mln from the revised lower, 1.869mln and above the expected 1.870mln. Note, neither prints fall in the usual US jobs report survey period. Note, seasonal factors had expected an increase of 1,251 (0.6%) from the previous week. On the headline, it declined more than anticipated as the impacts of summer auto plant shutdowns and Hurricane Beryl continue to fade. In addition, the low claims report has helped ease some (but by no means all) labour market concerns after the ISM Mfg PMI employment sub-index and NFP miss last week. Looking ahead, Oxford Economics expects the Fed to move forward with a rate cut in September, "but as of now, we don't think the labor market is weak enough to warrant more than a 25bps rate cut".

FED'S BARKIN (2024 voter) said that for him, the case for lowering in July would have been either absolute conviction that the labour market was on the precipice, or if you thought you had inflation under control. He is pretty optimistic that they see good inflation in the coming months, noting they are closing in on a set of economic numbers that look normal. On the labour market, Barkin says that from what he hears on the ground, is that people are cutting back on hiring, but not firing. No hiring and no firing - Is what they see in the data, and from here it could go either way. He acknowledged job growth has settled down, but the economy is still adding jobs. He also noted that there is a lot more labour supply than thought a year or two ago, and the math of that suggests that the unemployment rate goes up. What would make him more worried is that if job growth started to disappear. He said wages are coming down, suggesting normalisation in the labour market, adding that you've got some time to figure out if the economy is steadily normalizing, or do you have to lean into it.

BANXICO REVIEW: Banxico cut rates by 25bps to 10.75%, with analyst expectations split going into the meeting; 12/22 surveyed by Reuters expected rates unchanged, while the remaining ten saw a 25bp rate cut. Three out of the five Banxico members, namely Governor Victoria Rodríguez, Galia Borja, and Omar Mejía supported the decision while the remaining two, Irene Espinosa and Jonathan Heath wanted to hold rates at 11%. The meeting saw 2024 year-end headline inflation forecasts lift from 4% to 4.4% whereas the core forecast was left unchanged. The language within the statement was largely reiterated, with the Banxico maintaining guidance that "Looking ahead, the Board foresees that the inflationary environment may allow for discussing reference rate adjustments". It also maintained its language on the balance of risks, noting the balance of risks for the trajectory of inflation path within the forecast horizon is towards the upside, whereas for the growth of economic activity, it's towards the downside. Banxico also maintained that it expects inflation to converge to the target range by Q4 2025.

FIXED INCOME

T-NOTE FUTURES (U4) SETTLED 7+ TICKS LOWER AT 112-21

T-Notes bear flatten after Initial Jobless Claims fall by more than expected, easing some labour market fears; woeful 30yr bond auction. At settlement, 2s +4.7bps at 4.048%, 3s +4.8bps at 3.886%, 5s +4.3bps at 3.838%, 7s +3.7bps at 3.894%, 10s +3.4bps at 4.001%, 20s +3.2bps at 4.380%, 30s +2.6bps at 4.287%

INFLATION BREAKEVENS: 5yr BEI +2.5bps at 2.136%, 10yr BEI +1.5bps at 2.133%, 30yr BEI +2.3bps at 2.164%.

THE DAY: T-notes meandered overnight, finding some upside in a flight to quality after the Wednesday US equity sell off. T-notes did not take much direction from the BoJ Summary of Opinions, which ultimately reaffirmed its hawkish tilt, although there was a wide range of views. Elsewhere, there was hawkish commentary from RBA Governor Bullock, but the remarks also had little impact on the Treasury space. T-notes gradually sold off ahead of the US Initial Jobless Claims data which ultimately came in on the hotter side with Initial Claims falling by more than expected, helping ease some recent labour market fears, seeing the curve bear flatten. The data saw T-notes fall to session lows with some gradual paring ahead of the 30yr bond auction, which was woeful, posting the largest tail since November of 3.1bps (more below).

30yr: Another woeful bond auction. The US sold USD 25bln of 30yr bonds at a high yield of 4.314%, showing a chunky 3.1bps tail vs the 4.283% WI. The 3.1bp tail is the largest tail since November, and even larger than the chunky prior month tail of 2.2bps. The Bid-to-Cover was more in line with last month's weak auction, but below the six auction average. Dealers took a chunky 19.18% of supply, above the 15.9% prior and 15.2% average, while direct bidders took a step back, taking just 15.5% of the supply, vs the prior 23.4% and average 18.4%. Indirect demand improved however, taking 65.32%, albeit still a touch beneath the six auction average.

STIRS:

- **Market Implied Fed Rate Cut Pricing:** September 39bps (prev. 42bps D/D), November 72bps (prev. 76bps), December 103bps (prev. 106bps).
- US sold USD 95bln 4wk bills at 5.285%, B/C 2.77x; sold USD 90bln 8wk bills at 5.19%, B/C 2.74x
- NY Fed RRP op demand at USD 303bln (prev. 287bln) across 58 counterparties (prev. 52)
- SOFR at 5.33% (prev. 5.33%), volumes at USD 2.042tln (prev. 2.086tln).
- EFFF at 5.33% (prev. 5.33%), volumes at USD 96bln (prev. 89bln).

CRUDE

WTI (U4) SETTLED USD 0.96 HIGHER AT USD 76.19/BBL; BRENT (V4) SETTLED USD 0.83 HIGHER AT USD 79.16/BBL

The crude complex continued on Wednesday's gains in light newsflow, as participants await the imminent Iran/Hezbollah response. On the latter, Hezbollah reportedly looks increasingly like it may strike Israel independent of whatever Iran intends to do, according to CNN citing two sources familiar with the intelligence. In addition, according to Axios sources, Israel told the US if Hezbollah harms Israeli civilians as part of its retaliation for the assassination of its top military commander, the Israel Defense Force's response would be disproportionate. Elsewhere, the WTI and Brent extended higher in wake of US jobless claims, which came in beneath expectations and abated some pessimism regarding the US economy. Looking ahead, attention continues to reside around the ever looming Middle East threats, as well as the weekly Baker Hughes rig count on Friday.

EQUITIES

- **CLOSES:** SPX +2.3% at 5,319, NDX +3.1% at 18,414, DJIA +1.8% at 39,447, RUT +2.4% at 2,084
- **SECTORS:** Utilities +0.2%, Consumer Staples +0.9%, Real Estate +0.9%, Materials +1.6%, Financials +1.6%, Energy +2.1%, Consumer Discretionary +2.1%, Health +2.3%, Industrials +2.3%, Communication Services +2.4%, Technology +3.3%.
- **EUROPEAN CLOSES:** DAX: +0.3% at 17,666, FTSE 100: -0.3% at 8,145, CAC 40: -0.3% at 7,247, Euro Stoxx 50: flat at 4,667, AEX: -0.2% at 884, IBEX 35: -0.4% at 10,558, FTSE MIB: -0.3% at 31,742, SMI: -0.3% at 11,805, PSI: flat at 6,570

EARNINGS

- **Eli Lilly (LLY)** - Beat on profit, revenue, and key drug breakdown, alongside better-than-expected FY guidance. Moreover, plans to launch zepbound single-dose vials in the coming weeks. Executive says concerns remain about Novo Nordisk (NOVOB DC) and Catalent (CTLT) acquisition
- **Warner Bros Discovery (WBD)** - Much deeper loss per share than expected with revenue missing, as results include a USD 9.1bln non-cash goodwill impairment, plus a USD 2.1bln amortisation and restructuring cost.
- **Robinhood (HOOD)** - Revenue and EPS exceeded expectations.
- **Monster Beverage (MNST)** - Poor report, highlighted by profit, net sales, volume and average net sales all short.
- **Zillow Group (Z)** - EPS, revenue, and adj. EBITDA all topped alongside solid next quarter outlook. The CEO is to step down, with the COO replacing him.
- **Dutch Bros (BROS)** - Expects new openings for this year to be at the lower end of a range between 150-165, which overshadowed a stellar report.
- **Bumble (BMBL)** - Revenue missed and FCF way below the consensus and significantly cut its revenue and adj. EBITDA margin growth view.
- **Occidental Petroleum (OXY)** - Top and bottom line surpassed forecasts and maintained its YF production guidance ex CrownRock.
- **Under Armour (UAA)** - Surprise profit per share and revenue topped, alongside lifting FY adj. operating income view.

STOCK SPECIFICS

- **Nvidia (NVDA)** - Issues with its Blackwell chips have not yet deterred Big Tech companies from investing in Nvidia AI chips, DigiTimes reports.
- **Apple (AAPL)** - Prepares a small Mac mini model that will use the new M4 chip, Bloomberg reports. The design will be the smallest Apple desktop computer to date.
- **Amazon (AMZN)** - Enlists **TikTok** and **Pinterest (PINS)** in a quest to sell everywhere, according to The Information.
- **Delta Air Lines (DAL)** - Said they are pursuing legal claims against **CrowdStrike (CRWD)** and **Microsoft (MSFT)** to recover damages caused by outage, which total at least USD 500mln

US FX WRAP

The **Dollar Index** climbed higher with gains coming to fruition after weekly Initial Jobless Claims data unveiled a lower figure than expected. A large factor of the drop was in Texas, which reverted some of its earlier rise induced by July's Hurricane Beryl. Treasury yields rallied on the back of the data, buoying the dollar index's move higher to a summit of 103.54, albeit, gains have trimmed since. Looking ahead, attention turns to US CPI, PPI, Retail Sales, and UoM data.

The **Euro** largely traded as a function of the Dollar and was relatively flat heading into APAC trade, but EUR/USD hit lows in the aftermath of the US jobless claims data of 1.0883, before paring back above 1.0900.

Cyclical currencies proved resilient on Thursday, strengthening against the buck, despite the dollar index extending into a three-day streak of gains. Strength was led by the **Aussie**, with upside arising from a hawkish tone set by RBA's Governor Bullock: based on current information, the RBA does not anticipate rates coming down quickly and the board considered a hike on Tuesday and will not hesitate to hike if needed, suggesting expectations for a rate cut are overblown. **AUD/USD** has snapped back the heavy losses it faced earlier in the week, seeing a peak today of 0.6590. Rabobank notes that the hawkishness of the RBA combined with the underlying resilience of the Australian economy suggests that the AUD is likely to perform well, assuming market conditions normalise. The desk kept its AUD forecasts of a move to 0.68 on a 3-month view. Across the globe, the pound saw decent gains, with **Cable** peaking at 1.2748, while the **Kiwi** and **CAD** witnessed modest upside, with the latter now in focus ahead of Canadian Employment data on Friday.

The **Yen** and **Franc** continued to give back big gains witnessed in the first week of August, as Thursday marks the third consecutive day of losses for havens. The primary catalysts today were the aforementioned US Jobless Claims data, while UST yields were firmer across the curve, weighing on the rate sensitive currencies. Meanwhile, it is worth noting Japan was hit by earthquakes of a magnitude of 7.1 with a tsunami reaching Japan's South Western Miyazaki prefecture - albeit there was little market reaction. **USD/JPY** climbed above 147.00 in response to the US Jobless Claims data, seeing a session high of 147.53, meanwhile, **USD/CHF** sits near its peak of 0.8674.

The **Yuan** saw slight weakness against the greenback ahead of Chinese CPI and PPI data on Friday, CPI for July is expected to rise 0.3% for both the yearly and monthly figures while PPI Y/Y is expected to signal deflation. USD/CNH distance from its weekly low of 7.15467 widened, as the cross lifts itself to around 7.1820 at time of writing.

EMFX: LatAm FX largely realised gains, led by the **BRL, COP, CLP,** and **MXN.** MXN saw brief weakness after the Banxico cut rates by 25ps, vs split expectations for a cut or hold. However, the weakness largely pared with the statement maintaining guidance, although it raised headline inflation forecasts, while the decision to cut was not unanimous, with three members voting to cut, and two voting to hold rates. The **Indian Rupee** gave a muted reaction towards the RBI keeping its Repurchase Rate unchanged at 6.5% as expected, with two-thirds of the members in favour of the move; USD/INR finished the session slightly higher, though still a way off its ATH of 84.145 it set on Monday. Lastly, **HUF** experienced upside against the buck and Euro after the Headline and Core CPI was hotter than expected for July.

Copyright © 2024 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

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

Copyright © {{ copyright-year }} Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

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