

12th August 2024: Small caps tumble but tech gains, while bonds and oil rise on geopolis

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude up, Dollar flat.
- **REAR VIEW:** NY Fed 3yr inflation expectations tumble to series low; More reports suggest Iran response is imminent; Bowman (over week-end) sees inflation declining further, but still sees some upside risks; BoE's Mann says UK wage growth is still a concern; TSLA halts cheaper Cyber Truck orders.
- **COMING UP:** **Data:** Australian Wage Price Index, UK Unemployment, German ZEW, US PPI. **Speakers:** Fed's Bostic. **Supply:** UK & Germany. **Earnings:** Porsche SE, Pandora, Flutter, Home Depot.

MARKET WRAP

Stocks ultimately closed mixed with the RUT tumbling while the majority of sectors took a hit. Individual stock weakness was offset by tech outperformance in the SPX and NDX, to see a flat close for those two indices. The US data highlight was the NY Fed Survey of Consumer Expectations, which saw the 1 and 5yr inflation expectations unchanged at 3.0% and 2.8%, respectively, although the 3yr expectations fell to a series low of 2.3% (prev. 2.9%). Meanwhile, Fed's Bowman spoke over the weekend, noting her baseline outlook is that inflation will decline further but she still sees some upside risks for inflation, also adding the rise in the unemployment rate may be exaggerating the degree of cooling in the labour market. Elsewhere, T-notes were bid across the curve in a steeper fashion with all eyes turning to key US data this week (PPI, CPI, Retail Sales). The upside today was also supported by heightened geopolitical tensions, which saw oil prices surge. An Iran/Hezbollah response appears imminent with Fox reporting Iran could attack Israel in less than 24 hours. Haven FX also performed well on this, with both Yen and Franc paring from worst levels, although on the day it was the Antipodes that outperformed with Kiwi traders eyeing the RBNZ later in the week. Gold prices surged on the aforementioned geopolitical tensions.

US

NY FED SCE (JUL): Consumer inflation expectations for the 1yr and 5yr ahead remained unchanged at 3.0% and 2.8%, respectively, but the 3yr dropped dramatically to 2.3% from 2.9%, which is the lowest since the June 2013 inception of the survey. Elsewhere within the release, delinquency expectations increased, with the average perceived probability of missing a minimum debt payment over the next three months increasing by 1ppt to 13.3%, its highest level since April 2020. In addition, labour market expectations came in mixed, with respondents' median one-year-ahead expected earnings growth declining by 0.3ppt to 2.7%, although the mean expected likelihood that the US unemployment rate will be higher one year from now decreased by 1.0ppt to 36.6%.

FED'S BOWMAN: Fed Governor Bowman spoke over the weekend, noting her baseline outlook is that inflation will decline further with the current stance of monetary policy. She added if US inflation continues the move toward 2%, it will become appropriate to gradually lower the policy rate. However, she calls for patience, noting she still sees some upside risks to inflation. Bowman also added that the rise in the unemployment rate may be exaggerating the degree of cooling in labour markets and that the Fed still needs to pay close attention to inflation, while watching for risks of the labour market weakening. She acknowledged progress on inflation in May and June is welcome, but it is still uncomfortably above the Fed's 2% goal, and Bowman also said she is not confident that inflation will decline as it did in H2 23. Looking to September, Governor Bowman said the Fed will have additional economic data by then and a wider view of financial conditions' impact on the outlook

FIXED INCOME

T-NOTE (U4) FUTURES SETTLED 9 TICKS HIGHER AT 113-07+

Heightened geopolitics keeps T-Notes bid as eyes turn to key US data; PPI (Tue), CPI (Wed), Retail Sales (Thu). At settlement, 2s - 3.6bps at 4.017%, 3s -4.3bps at 3.832%, 5s -4.5bps at 3.751%, 7s -4.2bps at 3.799%, 10s -3.5bps at 3.907%, 20s -2.7bps at 4.290%, 30s - 2.8bps at 4.197%.

INFLATION BREAKEVENS: 5yr BEI +1.0bps at 2.125% 10yr BEI +0.7bps at 2.121% 30yr BEI +0.3bps at 2.153%.

THE DAY: T-notes meandered overnight and in the European morning with T-notes hitting a low of 112-25 in European trade, a level that was tested once US trade was underway with pressure seen amid a slew of more corporate issuance. Any pressure was short-lived however with heightened geopolitics resulting in a flight to quality bid; gold also surged, while Yen and Franc were well off their worst levels, with stocks also off earlier peaks. On geopolitics, it appears the Iranian response to Israel is imminent, with Fox reporting it could occur in less than 24 hours. Meanwhile, attention shifts to key US economic data this week with PPI on Tuesday, ahead of CPI on Wednesday, and before Retail Sales on Thursday. All data will be key, but some desks are putting more onus on the Retail Sales data over CPI, given the current concerns about the economy.

STIRS:

- **Market Implied Fed Rate Cut Pricing:** September 38bps (prev. 37bps D/D), November 71bps (prev. 70bps), December 103bps (prev. 101bps).
- NY Fed RRP op demand at USD 329bln (prev. 312bln) across 64 counterparties (prev. 62)
- US sold USD 76bln in 6mth bills at a high rate of 4.795%, B/C 2.73x; Sold USD 83bln in 3mth bills at a high rate of 5.070%, B/C 2.95x.
- SOFR at 5.34% (prev. 5.34%), volumes at USD 2.170tln (prev. 2.196tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 104bln (prev. 106bln).

CRUDE

WTI (U4) SETTLED USD 3.22 HIGHER AT USD 80.06/BBL; BRENT (V4) SETTLED HIGHER USD 2.64 AT USD 82.30/BBL.

The crude complex was firmer to start the week amid heightened geopolitical uncertainty. The latest update is that Iran could reportedly attack in Israel in less than 24 hours, according to Fox citing sources, as Western powers issue Tehran a warning. As such, and as they already have been, participants will continue to await the ever-looming response. WTI and Brent have ticked higher throughout the US session to settle at peaks. Elsewhere, the OPEC MOMR for August saw demand growth for 2024 revised down 135k BPD, with 2025 forecast revised down by 65k BPD. As a reference, EIA STEO left its 2024 world oil demand growth unchanged at a 1.1m BPD Y/Y increase and lowered the forecast for 2025 world oil demand growth to see growth of 1.6m BPD (prev. 1.8m BPD). All-in-all, there isn't much in terms of fresh updates in the OPEC MOMR, with the report backward-looking against the backdrop of heightened geopolitics and growth fears across top economies. Elsewhere, Saudi crude oil supply to China is to fall to about 43m bbls in September, while another two north Asian refiners are to receive full allocation for September, according to sources cited by Reuters. In the US, DoE said it is seeking to buy 6m bbls of oil to help replenish the SPR, with the latest solicitation being the first for delivery into Bryan Mound, Texas site since it had maintenance work. Macro developments aside from geopolitics were quiet on Monday, but scheduled risk events pick up from Tuesday with the macro highlights being US PPI (Tues), CPI (Wed), Retail Sales/initial jobless claims (Thurs), and UoM Prelim for August (Fri).

EQUITIES

CLOSES: SPX flat at 5,344, NDX +0.16% at 18,542, DJIA -0.36% at 39,357, RUT -0.91% at 2,062

SECTORS: Real Estate -0.6%, Communication Services -0.6%, Industrials -0.5%, Consumer Staples -0.5%, Financials -0.5%, Materials -0.4%, Consumer Discretionary -0.4%, Health -0.4%, Utilities +0.2%, Energy +0.5%, Technology +0.9%.

EUROPEAN CLOSES: DAX: -0.06% at 17,711, FTSE 100: +0.52% at 8,210, CAC 40: -0.26% at 7,251, Euro Stoxx 50: -0.10% at 4,671, AEX: +0.26% at 886, IBEX 35: +0.07% at 10,646, FTSE MIB: +0.46% at 31,928, SMI: +0.23% at 11,893, PSI: +0.09% at 6,556.

STOCK SPECIFICS:

- **Apple (AAPL)** - Foxconn has added 50k workers at its Zhengzhou plant over the past two weeks as it prepares for the iPhone 16 launch.
- **Disney (DIS)** - Unveiled plans of four new cruise ships and six new themed lands.
- **Starbucks (SBUX)** - Activist investor, Starboard Value, has acquired a stake in the Co., WSJ reported.
- **Tesla (TSLA)** - Halted orders for the USD 61,000 base model of its Cybertruck, Fox News reports.
- **KeyCorp (KEY)** - Scotiabank announced it is to acquire a 14.9% interest in KeyCorp for USD 2.8bln, at 17.17/shr (currently, USD 17.11/shr)
- **Hawaiian Electric (HE)** - Agreed to settle Maui wildfire claims, aiming to resolve litigation and stabilise its future; reporting a Q2 loss of USD 1.3bln, including USD 1.7bln for wildfire liabilities.
- **Eli Lilly (LLY)** - Upgraded at Deutsche on high growth outlook and low beta.
- **JetBlue Airways (JBLU)** - Announced plans to offer USD 400mln of convertible senior notes due in 2029.
- **Qualcomm (QCOM)** - Downgraded at Wolfe Research.
- **Johnson & Johnson (JNJ)** - Gets plaintiff backing for USD 6.5bln baby power accord, Bloomberg reports. Co. cleared a key hurdle for advancing a USD 6.5bln plan to resolve thousands of lawsuits by people who say its baby powder gave them cancer.
- **Warner Bros. Discovery (WBD)** - Olympics audience climbed 23% over Tokyo and streaming subscribers topped Tokyo by 77%.

US FX WRAP

The Dollar was rangebound on Monday, with the dollar index trading near session lows of 103.09 heading into APAC trade. The buck was little changed by the NY Fed SCE (Jul), which unveiled 1- and 5-year inflation expectations were unchanged, while the 3-year expectations waned by 0.6% to 2.3%. ING believes if there are no upside surprises in US inflation this week, that their bias would be that the current DXY rally stalls ahead of the 103.5 area before it dips again. Other dollar drivers in the space were thin, with participants placing their focus on Tuesday for PPI, and Fed's Bostic (2024 Voter, Hawk). CPI on Wednesday and Retail Sales on Thursday will also be key.

The Euro, Pound, and CAD saw mixed performances versus the buck amid a lack of fresh newsflow in the space. Participants fix their sights on the only G10 currency to have outperformed the dollar year to date, that is, the Pound ahead of a busy week in the UK, with the Jobs & Wages data (Tue), CPI (Wed), and Retail Sales (Fri) lying ahead. Rabobank believes if the UK data unveils strength within the economy, EUR/GBP, which trades just above its 200 SMA (0.8556), is likely to put the 100 SMA (0.8510) in view if it breaks below. Also of note, BoE's Mann (hawk) spoke to the FT, noting UK wage growth is still a concern for inflation and wage pressures could take years to dissipate. She is still concerned about upside risks to inflation, but she admitted she has moved down from a 10 to a seven on the scale of "hawkishness" since the start of the year as price pressures eased. Elsewhere, EUR/USD inched further into 1.09 territory, nearing session highs of 1.0939, while USD/CAD shrugged off a surging crude complex, remaining unchanged at 1.3740.

Antipodeans outperformed their G10 peers, with Kiwi taking the top spot ahead of the RBNZ rate decision on Wednesday. Newsflow was relatively light, with the NZIER Shadow Board split regarding the RBNZ rate decision, with the majority of shadow board members recommending a rate cut, meanwhile money markets price about a 75% chance of a 25bps rate cut. NZD/USD recaptured the 0.6 handle, peaking at 0.6032. Meanwhile, RBA's Deputy Governor Hauser spoke on Monday, assuming inflation stickiness is due to weaker supply and labour market tightness and assumed unemployment will rise only slowly; AUD/USD pared most of the losses endured on Friday, rising to roughly 0.6590.

The Yen and Franc initially saw weakness against the dollar, albeit, performance diverged as the session progressed, with the Franc clawing back nearly all weakness, while the Yen only retraced over half the amount. USD/JPY peaked at 148.22, before falling to the low end of the 147 level, ahead of Japanese PPI (Tue). USD/CHF rallied to 0.8711, then descended back to its open of 0.8650. The reversal in the haven currencies was due to heightened geopolitics, with reports suggesting the Iran/Hezbollah response is imminent.

EMFX: EUR/CZK saw modest losses after the Czech CPI was hotter than expected, while the Indian Rupee was unchanged against the buck, despite cooler-than-expected Indian CPI. LatAm FX saw mixed price action, with **COP** strengthening while the **BRL** and **CLP** lagged. Lastly, the **Rand** weakened ahead of Tuesday's Mining Production and Unemployment data.

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