

13th August 2024: Stocks and Bonds bid while Dollar sold after cooler-than-expected US PPI

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW:** US PPI softer than forecasted; US officials do not expect Iranian attack today; Bostic willing to wait for the first rate cut but it is coming; Surprise fall in UK unemployment rate, while headline adds more jobs than expected; Dismal German ZEW economic sentiment survey; SBUX appoints CMG CEO as its new leader
- **COMING UP:** Data: UK CPI, US CPI. **Event:** RBNZ Policy Announcement. **Speakers:** RBNZ's Orr. **Supply:** Japan, Germany, France. **Earnings:** Aviva, Cisco.

MARKET WRAP

US indices (SPX +1.7%, DJIA +1.0%, RUT +1.6%) saw broad-based gains on Tuesday in wake of the cooler-than-expected US PPI release, with the tech-heavy Nasdaq 100 (+2.5%) outperforming and buoyed by notable strength in Nvidia (+6.5%) and Tesla (+5.3%), which saw Technology and Consumer Discretionary be the clear sectorial outperformers. Overall, sectors were almost exclusively in the green, with only Energy in the red and weighed on by weakness in WTI and Brent as participants potentially factor in reports that suggested Iran's response may be limited. As such, Middle East tensions remain front of vision, although the latest updates from Axios citing an official is that they do not expect an Iranian attack today. In addition, US President Biden stated he expects Iran to hold off on Israel retaliation if a hostage deal is reached, with talks scheduled for Thursday. US Treasuries were firmer across the curve, in wake of the aforementioned cool PPI data, which adds further conviction in the Fed's fight against returning inflation to 2%, although the July CPI (released Aug. 14th) will also be key in confirming whether price pressures are continuing to ease. Thereafter, focus will continue to be around jobs numbers/data ahead of the September 18th FOMC meeting. In wake of the metrics, Fed pricing moved dovishly with 108bps of cuts priced in vs. 103bps pre-data. Further on the Fed footing, Bostic (2024 voter) gave hawkish remarks, as he stated he wants to see a little more data and is willing to wait for the first rate cut, but it is coming. In the FX space, the Dollar saw notable losses to the benefit of all G10 peers, with EUR/USD testing 1.10 to the upside and USD/JPY 146.50 to the downside. Looking ahead, participants await RBNZ overnight, any Iran response, and US CPI (Wed) amongst others.

US

PPI REVIEW: Overall, the PPI data was cooler than expected. Headline PPI rose 0.1% M/M, beneath the 0.2% forecast and easing from the prior 0.2% pace with the Y/Y rising 2.2%, beneath the 2.3% forecast and down from the prior 2.7% (revised up from 2.6%). The Core metrics were also soft, with the headline unchanged at 0.0% M/M (exp. 0.2%, prev. 0.3% (revised down from 0.4%)), with Y/Y rising 2.4%, down from 3.0% in June and beneath the 2.7% consensus, it was also softer than all analyst forecasts with the lowest forecast pencilling in 2.5%. The data was well received and adds further conviction in the Fed's fight of returning inflation to 2% - the July CPI (released August 14th) will also be key in confirming whether price pressures are continuing to ease. The Fed has acknowledged that the risks to achieving its employment and inflation goals continue to move into better balance, and recent signs of a cooling labour market has seen participants put more credence on labour market reports over inflation. As such, focus will continue to be around jobs numbers/data ahead of the September 18th FOMC meeting. For the record, July CPI is due August 14th, July PCE is due August 30th, August PPI is Sept 12th, with Aug CPI on Sept 11th ahead of the Fed rate decision and Summary of Economic Projections. Looking into the components of PPI that feed into PCE, the Fed's preferred gauge of inflation, Oxford Economics highlights "There were no glaring areas of concern... Air travel rose only modestly, and with jet fuel prices falling in August, this shouldn't mark an upward trend. Encouragingly, hospital services fell for the first time in nine months. Financial services will provide upward pressure, but with the pullback in equity markets in August, this will turn to a drag next month".

Fed's Bostic (2024 voter), who spoke for the first time since the FOMC meeting, said that the balance of risks in the economy is getting back to level, and on inflation noted the recent inflation data gives him more confident they can get back to 2%, but wants to see 'a little more' data. The Atlanta Fed President added the Fed needs to make sure inflation trend is real. On rates, the known hawk said it would be really bad if they cut rates and then had to raise them again, and he is willing to wait for the first rate cut but it is coming. Moreover, he added if the economy evolves as he expects, there would be a rate cut by the end of the year. Looking ahead, recession is not in his outlook, and the labour market can slow but without considerable concern.

FIXED INCOME

T-NOTE (U4) FUTURES SETTLED 12+ TICKS HIGHER

Soft US PPI sees T-Notes bid across the curve as eyes turn to CPI and Retail Sales. At settlement, 2s -7.3bps at 3.942%, 3s -7.4bps at 3.757%, 5s -6.7bps at 3.682%, 7s -6.1bps at 3.737%, 10s -5.5bps at 3.854%, 20s -4.1bps at 4.248%, 30s -3.2bps at 4.166%.

INFLATION BREAKEVENS: 5yr BEI -2.3bps at 2.104%, 10yr BEI -2.2bps at 2.097%, 30yr BEI -2.2bps at 2.129%.

THE DAY: T-Notes saw mild selling pressures throughout the Asia and European session with T-Notes hitting lows of 113-03+ in response to the lack of retaliation from Iran and Hezbollah as of yet. After the lows were hit, a bid was seen throughout the early US morning ahead of the US July PPI report. The softer-than-expected PPI report added to the T-Note bid, hitting a high of 113-21 c. 45 minutes after the data. The soft headline and Core PPI prints reassured participants that the Fed's fight against inflation is still making progress and offered signs of optimism ahead of the July CPI release Wednesday. Retail Sales will also be key on Thursday with participants perhaps more concerned about a slowdown in the economy, with more and more confidence inflation is returning to target and with risks to the Fed's dual mandate becoming more balanced. Money market pricing saw a slight dovish repricing, with 108bps of easing priced throughout the year-end, vs the 103bps priced on Monday. On Fed speak, Bostic (2024 voter) was hawkish and said recent inflation data gives him more confident they can get back to 2%, and he wants to see 'a little more' data. Looking ahead, he is willing to wait for the first rate cut but it is coming, but if the economy evolves as he expects, there would be a rate cut by the end of the year.

STIRS:

- **Market Implied Fed Rate Cut Pricing: September 39bps (prev. 38bps D/D), November 75bps (prev. 71bps), December 108bps (prev. 103bps).**
- NY Fed RRP op demand at USD 324bln (prev. 329bln) across 62 counterparties (prev. 64).
- US to sell USD 60bln in 17-week bills on August 14th; to sell USD 95bln in 4-week bills and USD 90bln in 8-week bills on August 15th, all to settle on August 20th
- SOFR at 5.34% (prev. 5.34%), volumes at USD 2.138tln (prev. 2.170tln).
- EFRF at 5.33% (prev. 5.33%), volumes at USD 102bln (prev. 104bln).

CRUDE

WTI (U4) SETTLED USD 1.71 LOWER AT 78.35/BBL; BRENT (V4) SETTLED USD 1.61 LOWER AT 80.69/BBL

The crude complex was lower on Tuesday, trimming some of Monday's gains as participants potentially factor in reports that suggested Iran's response may be limited. Nonetheless, the ever-looming Iranian response continues to be of pivotal focus for the crude complex, with the latest update via Axios sources citing US officials noting that they do not expect an Iranian attack today. Additionally, within these reports, Secretary of State Blinken has postponed his trip to the Middle East and won't travel to the region tonight as planned due to the uncertainty about the situation. Further, on the geopolitical footing, desks are wary that Ukraine's gains inside Russia could lead to increased tensions between the West and Moscow - some also suggest Belarus could join as it boosted troops at the border after accusing Ukraine of an airspace violation. On prices, WTI and Brent edged lower throughout the duration of the NY afternoon to settle more-or-less at lows, vs. earlier peaks of USD 80.15/bbl and 82.30/bbl, respectively. For the record, US PPI was cooler-than-expected and continues to illustrate the Fed have inflation under control with further attention cast towards upcoming labour market data, but not forgetting CPI on Wednesday. After-hours participants await the weekly private inventory data, current expectations are (bbls): Crude -2.2mln, Distillate -0.6mln, Gasoline -1.4mln.

EQUITIES

CLOSES: SPX +1.69% at 5,434, NDX +2.5% at 19,006, DJIA +1.04% at 39,766, RUT +1.61% at 2,095

SECTORS: Energy -1.0%, Consumer Staples +0.5%, Utilities +0.5%, Real Estate +0.7%, Financials +0.9%, Materials +1.0%, Industrials +1.1%, Health +1.2%, Communication Services +1.5%, Consumer Discretionary +2.4%, Technology +3.0%.

EUROPEAN CLOSES: DAX: +0.45% at 17,806, FTSE 100: +0.30% at 8,235, CAC 40: +0.35% at 7,276, Euro Stoxx 50: +0.49% at 4,695, AEX: +0.37% at 889, IBEX 35: +0.73% at 10,724, FTSE MIB: +0.24% at 32,006, SMI: +0.42% at 11,924, PSI: +0.50% at 6,589

EARNINGS:

- **Home Depot (HD)** - Lowered FY outlook alongside comp sales missing, though did beat on profit with revenue meeting forecasts.
- **On Holding (ONON)** - Reversed initial losses, albeit revenue surpassed expectations. On reversed as during conference call it noted H2 reacceleration of trends also alongside a favourable PPI release.
- **Tencent Music (TME)** - Revenue declined 1.7% Y/Y with MAUs in the mobile categories also shy of expected.

STOCK SPECIFICS:

- **Starbucks (SBUX), Chipotle Mexican Grill (CMG)** - Starbucks appointed CMG's chief Brian Niccol as its next CEO.
- **Reliance (RIL IS), Disney (DIS)** - Cos. offer to sell some TV channels to win antitrust nod for Indian USD 8.5bln media merger, according to Reuters citing sources.
- **BHP (BHP)** - Workers at its Escondida mine in Chile will begin a strike on Tuesday, after failing to reach a wage agreement.
- **Occidental Petroleum (OXY)** - Launched an underwritten secondary public offering of 29.6mln shares of its common stock.
- **Viasat (VSAT)** - Offered 11.246mln shares in a spot secondary offering, with a price range of USD 20.00-20.50/shr (Monday close: USD 21.62).
- **Boeing (BA)** - Will likely miss its key 737 MAX jet production target in 2024, which aims to produce 38 MAX jets a month by the end of 2024, analysts at rating agencies Moody's and S&P told Reuters.
- **Illumina (ILMN)** - Unveiled a strategy aimed at 8-9% sales growth by 2027 and is to focus on streamlining DNA sequencing and analysis; sees at least 10% total EPS growth over next 3 years. USD 200mln in cost cuts boosting performance.
- **Google (GOOGL)** - Revealed its lineup of new Pixel smartphones which includes a tensor G4 processor; Pixel 9 Pro fold starts at USD 1799; Pixel 9 Pro starts at USD 999 and Pixel 9 Pro XL starts at USD 1,099; Pixel 9 starts at USD 799.
- **Boeing (BA)** - Discovered a new set of problems in its 737s and further slowing deliveries, according to Fortune. Boeing confirmed in a statement to Fortune that it identified a "non-conforming component" on three already delivered airplanes, leading to their grounding. Co. noted that production hasn't stopped at the Renton factory.
- **Dell (DELL)** - Upgraded at Barclays.

US FX WRAP

The Dollar was weaker on Tuesday, with downside ensuing after PPI was cooler than expected on all fronts. The dollar index was initially firmer in APAC trade, but once the US session was underway, the aforementioned data sent the index tumbling to an initial low of 102.71, a move coinciding with Treasury yields rallying to session lows, as the US 10yr yield fell ~6bps in the session. In terms of Fed pricing, there was a slight dovish reaction to the data, with 39bps of rate cuts priced in at the September meeting (prev. 37bps D/D) and 108bps of rate cuts by year-end (prev. 101.8). On the FedSpeak front, Bostic (2024 Voter) regurgitated his past hawkish commentary, noting he wants to see 'a little more' data and if the economy evolves as he expects, there would be a rate cut by the end of the year. The Buck finished the session weaker vs all of its G10 peers with downside's most prominent cyclical currencies, as US CPI on Wednesday is the next potential dollar driver.

Cyclical currencies all saw upside vs the Greenback on the day, with strength led by the **Kiwi** and **Pound**, while **CAD** lagged behind with modest gains, perhaps weighed on by a weaker crude complex. Macro newsflow, saw strong UK June Jobs data, specifically a much larger addition to Jobs than was expected alongside the Unemployment Rate unexpectedly falling (forecasted to rise), while average earnings (Ex-Bonus) fell in line with expectations. As such, Cable sits near session highs of 1.2873, further cementing its place as the sole G10 FX to have strengthened against the Buck YTD ahead of UK CPI (Wed).

Meanwhile, **AUD/USD** rallied above both its 200 DMA (0.6593) and 90 DMA (0.6608) to around 0.6637, putting aside earlier choppy trade it endured after the Australian Wage Price Index was slightly hotter than forecasted. Lastly, **NZD/USD** broke above its 90 DMA (0.6042) and 50 DMA (0.6059), with the cross eyeing the 200 DMA (0.6086) as the key level, prior to RBNZ rate decision (Wed). A Reuters poll revealed that the majority of economists call for the RBNZ to hold its Cash Rate at 5.5%, whereas, money markets see a 74% chance of a 25bps rate cut.

The Euro saw pressure earlier on in the European session, after Germany's ZEW Economic Sentiment (Aug) was well below market expectations, driving EUR/USD to its session lows of 1.0914. Nevertheless, the Euro, like its G10 peers, benefited off the back of the cool US PPI data, swiftly eliminating intraday losses, seeing highs of 1.0999. Looking ahead, EZ flash GDP and Employment data behave as the next possible Euro catalysts.

The Yen and Franc strengthened versus the Dollar, with the yield-sensitive currencies gaining from the soft-PPI-induced drop in US yields. USD/JPY hovers around 146.60, with Rabobank expecting the market to return to the business of evaluating fundamentals, in which they expect it to start likely with a recovery in the value of the USD over the coming days. That said, the agency expects USD/JPY can still trend lower on a 3-to-6-month view and a move lower to 142 on a 6-month view.

EMFX: The **Rand** took advantage of a weaker Buck, with USD/ZAR extending into a sixth day of consecutive gains, despite a larger decline in Mining Production in June than what was expected and a greater-than-expected jump in the Unemployment Rate. **USD/INR** finished the session unchanged ahead of Indian CPI (Wed), while LatAm FX experienced broad based strength with **BRL**'s upward move helped by stronger-than-expected Brazilian Service Sector growth.

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