

14th August 2024: Stocks mixed on inline CPI ahead of Retail Sales and Jobless Claims data

- **SNAPSHOT:** Equities mixed, Treasuries mixed Crude down, Dollar flat
- **REAR VIEW:** CPI broadly inline, headline Y/Y touch softer; Goolsbee more concerned about jobs mandate "on the margin"; RBNZ cuts 25bps; Soft UK inflation; Mars to acquire K; Hamas will not attend ceasefire talks this week.
- **COMING UP:** **Data:** Japanese GDP, Australian Employment, Chinese Retail Sales/Industrial Output, UK GDP, US NY Fed Manufacturing, Export/Import Prices, IJC, Retail Sales. **Event:** Norges Bank Policy Announcement. **Speakers:** Fed's Musalem, Harker; Norges Bank's Bache. **Earnings:** Zealand Pharma.; Deere, Alibaba, Walmart

MARKET WRAP

Stocks were mixed on Wednesday after CPI failed to live up to the dovishness of the PPI report on Tuesday, albeit CPI on net was still in line with expectations and there were no signs of concern within the report. The report did little to alter Fed expectations, with September seen as a guaranteed cut, but markets are still torn between 25 or 50bps. Perhaps Thursday's Retail Sales and Jobless Claims number will help cement expectations further, but the real test won't be until the August NFP report. Sectors were also mixed, with outperformance seen in Financials, Energy and Consumer Staples, with the latter buoyed by gains in Kellanova (K) +7% after it announced it is to be acquired by Mars. Underperformance was seen in Communication Services, Consumer Discretionary, Materials, and Utilities, with the former weighed on by weakness in Google (GOOGL) on continued antitrust fears. T-notes saw a wide range around the CPI data, between a peak of 114-02 and a trough of 113-13+, but the curve ultimately flattened on the session with attention turning to Retail Sales and Jobless Claims on Thursday. The Dollar was ultimately flat with NZD underperforming after the RBNZ cut rates by 25bps vs split analyst expectations for a hold or cut, albeit money markets were pricing in a cut as the more likely option. GBP was also sold after cooler-than-expected UK inflation data with the Euro the G10 outperformer. Energy prices ultimately settled in the red after a surprise crude stock build in weekly inventory data but geopolitics remains in focus with Hamas not attending cease fire negotiations this week.

US

CPI: CPI data was primarily in line with expectations, although when rounded the numbers are a touch on the soft side. Headline CPI rose 0.155%, vs. the 0.2% expectation and prior -0.1%, with the Y/Y rising 2.9%, a touch beneath the 3.0% forecast and prior. Core metrics saw the M/M rise 0.165% vs. the 0.2% forecast and prior 0.1%. The Core Y/Y rose by 3.2%, in line with expectations and a touch beneath the prior 3.3%. On an annualised basis, the headline Y/Y saw the 3mth at 0.4% (prior 1.1%) and 6mth at 2.5% (prior 2.8%). Core annualised saw the 3mth at 1.6% (prior 2.1%) and 6mth at 2.8% (prior 3.3%). Within the report, it notes that the index for shelter rose 0.4%, accounting for nearly 90% of the monthly increase in the all items index. The energy index was unchanged over the month, after declining in the two preceding months. The index for food increased 0.2%, as it did in June. The food away from home index rose 0.2%, and the food at home index increased 0.1%. With the data broadly in line with expectations, it is worth noting it was not as cool as the PPI report on the prior day, perhaps offsetting some of the inflation relief seen on Tuesday. With CPI and PPI both released, economists are now pencilling in their forecasts for Core PCE, the Fed's preferred gauge of inflation. So far, from what we have seen, forecasts for Core M/M PCE range between 0.12% and 0.18%, with JPMorgan looking for the former, while Oxford Economics sees it at the latter. Overall, the CPI report alone does little to alter the Fed narrative with a September rate cut locked in, while WSJ's Timiraos highlights that it does however make it easier at the margin to avoid dissents on the first rate cut, but it does not resolve the debate to start with 25 or 50bps. With the Fed noting risks to the dual mandate "continue to move into better balance", a sharp slowdown in the labour market would likely be required for a 50bp rate cut.

FED'S GOOLSBEE: The Chicago Fed President (2025 voter) said that climbing unemployment may indicate a worsening job market, noting that he is more concerned about the jobs side of the mandate "on the margin". Goolsbee also added he would focus much more on the employment side of the mandate if the job market weakens, noting that economic conditions will warrant the size of rate cuts. He also noted that policy is very restrictive and the economy is not overheating.

FIXED INCOME

T-NOTE FUTURES (U4) SETTLED 4+ TICKS HIGHER AT 113-24+

T-notes chop to inline CPI ahead of retail sales. At settlement, 2s +1.2bps at 3.954%, 3s +0.4bps at 3.761%, 5s -0.7bps at 3.675%, 7s -1.4bps at 3.723%, 10s -2.3bps at 3.831%, 20s -3.5bps at 4.213%, 30s -4.3bps at 4.123%.

INFLATION BREAKEVENS: 5yr BEI -0.8bps at 2.091%, 10yr BEI -2.1bps at 2.074%, 30yr BEI -2.2bps at 2.105%.

THE DAY: T-notes meandered overnight but caught a bid in the European morning, perhaps as participants reacted to the RBNZ rate cut overnight and softer UK inflation data earlier in the morning. All eyes then turned to the US CPI data, which ultimately was in line with expectations, with the Y/Y headline a touch softer than forecasted, while the 3dp M/M numbers were also on the softer side. Two-way price action was seen with the below forecast Y/Y headline print sending T-notes to peaks of 114-02 before swiftly paring. T-notes then pushed lower to a trough of 113-14 as some of the post-PPI dovishness on Tuesday was unwound as the CPI report was ultimately not as soft as the PPI report. Nonetheless, T-notes then pared and meandered around pre-CPI levels throughout the rest of the session. Money markets saw a slight reaction to the CPI data with some of the priced easing unwound, but it still leaves participants torn between a 25 and 50bp rate cut in August, with c. 34bps of rate cuts priced in for that meeting. Attention this week now turns to Retail Sales on Thursday, while Jobless Claims will also be key given the increased focus on the labour market.

STIRS:

- Market Implied Fed Rate Cut Pricing: September 34bps (prev. 39bps D/D), November 70bps (prev. 75bps), December 105bps (prev. 108bps).
- NY Fed RRP op demand at USD 328bln (prev. 324bln) across 66 counterparties (prev. 62)

- US sold USD 60bln of 17-wk bills at 4.980%, covered 3.34x.
- SOFR at 5.34% (prev. 5.34%), volumes at USD 2.082tln (prev. 2.138tln).
- EFRF at 5.33% (prev. 5.33%), volumes at USD 100bln (prev. 102bln).

CRUDE

WTI (U4) SETTLED 1.37 LOWER AT 76.98/BBL; BRENT (V4) SETTLED USD 0.93 LOWER AT 79.76/BBL

The crude complex was lower on Wednesday, albeit in a choppy session, as geopolitics remains in focus while inventory data saw a surprise crude stock build. On geopolitics, despite no Iranian response, yet, fears surround the risk of a wider conflict after reports today suggested Hamas will not partake in the negotiations after Israel changed some demands. Nonetheless, the talks are still to take place in Doha on Thursday, involving officials from Israel, Qatar, US and Egypt, with mediators then expected to consult with Hamas following the discussions. Out of Russia/Ukraine, the former said the issue of peace talks with Ukraine has been put on a long pause amid Ukrainian attacks in Kursk - with Ukraine floating the idea of martial law in the region. Elsewhere, Libya's Waha oil firm has reportedly lost 115k BPD due to maintenance on the pipeline from the Waha field (285k BPD) to the Es-Sider port. In addition, WTI and Brent sold off after the weekly EIA data whereby crude saw a surprise build, although both distillates and gasolines saw a larger draw than expected. Overall, crude production saw a 100k fall to 13.3mln, with refining utilisation rising 1% (exp. 0.4%). On the day, WTI and Brent saw peaks of USD 79.10/bbl and 81.44/bbl, respectively, against troughs of 76.87/bbl and 79.66/bbl.

EQUITIES

CLOSES: SPX +0.38% at 5,455, NDX +0.09% at 19,023, DJIA +0.61% at 40,008, RUT -0.52% at 2,084

SECTORS: Communication Services -0.9%, Consumer Discretionary -0.4%, Utilities -0.1%, Materials flat, Real Estate +0.4%, Industrials +0.4%, Consumer Staples +0.5%, Health +0.5%, Technology +0.6%, Energy +0.7%, Financials +1.3%.

EUROPEAN CLOSES: DAX: +0.38% at 17,879, FTSE 100: +0.56% at 8,281, CAC 40: +0.79% at 7,333, Euro Stoxx 50: +0.67% at 4,727, AEX: +0.15% at 890, IBEX 35: +0.27% at 10,753, FTSE MIB: +1.00% at 32,328, SMI: +1.21% at 12,073, PSI: +0.35% at 6,612.

EARNINGS

- **Apple (AAPL)** – Apple's key manufacturing partner Foxconn reported better-than-expected profits in Q2, benefitting from strong demand for servers powering AI applications
- **Brinker International (EAT)** - Profit missed with FY25 EPS guidance disappointing.
- **UBS Group ADR (UBS)** - Q2 net profit more than doubled analysts expectations with revenue also beating. That said, Co. did give a cautious Q3 outlook.
- **Cardinal Health (CAH)** - Reported a beat on the top and bottom line, alongside upgrading its FY EPS view above expectations.
- **Flutter Entertainment ADR (FLUT)** - Revenue and average monthly players grew more than was expected, alongside lifting FY guidance.
- **Performance Food Group (PFGC)** - Bottom line surpassed expectations, with the Co. to acquire Cheney Bros for USD 2.1bln in cash.

STOCK SPECIFICS

- **Kellanova (K)** - Mars confirmed earlier reports that is to acquire Kellanova (K) for USD 83.50/shr in cash, for a total consideration of USD 35.9bln. Note, K closed Tuesday at USD 74.50/shr. CEO does not expect antitrust concerns on deal with Mars.
- **Alphabet (GOOGL)** - The DoJ is considering breaking up the Co, after a court ruling found that it monopolised online search and ads, with a ban on exclusive contracts being considered.
- **Arm Holdings (ARM)** - Intel sold its 1.18mln share stake in the Co. in Q2.
- **Eli-Lilly (LLY)** - Reportedly demands doctors stop selling copycat weight-loss drugs, according to Bloomberg.
- **Johnson & Johnson (JNJ)** - Is preparing to disclose supermajority support for talc bankruptcy settlement as soon as Friday, according to Reuters sources; preparing to have subsidiary seek bankruptcy protection to consummate talc settlement as soon as next week.

US FX WRAP

The Dollar was choppy to the US CPI data, which was mainly in line with expectations, bar the headline Y/Y which was 2.9%, slightly below the expected 3.0%. Nonetheless, weakness ensued in the dollar index, as it trundled to lows of 102.26, albeit losses vanished as the session progressed, with the likes of the CAD, Cable, and Yen heading into the red. In terms of Fed pricing, it moved modestly hawkish towards the data, now pricing in 34bps of rate cuts at the September meeting (prev. 37) and 104bps of cuts by year-end (prev. 106). Going forward, attention lies on the Weekly Initial Jobless Claims data on Thursday, which is expected to marginally rise by 2k, while Retail Sales are expected to grow by 0.3% in July after being unchanged in June. Meanwhile, Thursday will also unveil Industrial Production data (Jul), as well as remarks from Fed's Musalem (2025 Voter, Hawk), and Harker (non-voter).

The Euro outperformed its major peers on Wednesday, rising above the 1.10 handle, setting session highs of 1.1047, a level not seen in EUR/USD since the beginning of the year in January. Data releases were contained to the employment side, with Flash Employment Y/Y increasing less than anticipated while the Q/Q metric and GDP Flash Q/Q were in line with expectations.

Antipodeans were the bottom feeders in the G10 space, particularly, the Kiwi which snapped its two-day gain streak after the RBNZ cut its Cash Rate by 25bps to 5.25% with projections pointing towards a further reduction later this year. The Central Banks Governor Orr noted that they considered a range of moves including a 50bps rate cut but the consensus was for 25bps, while the minutes unveiled New Zealand's economic activity and near-term inflation indicators now resemble those in countries in which central banks have started cutting policy rates; NZDUSD reversed its Tuesday move above its 90 DMA (0.6042) and 50DMA (0.6055), with the pair falling to roughly 0.6000 from a peak of 0.6083. Elsewhere, AUD/USD saw session lows of 0.6596, although, strengthened against its down-under neighbour; AUD/NZD rallied from 1.0916 to highs of 1.1038 ahead of Australian Employment (Jul) on Thursday.

The Pound and Yen finished the day in the red, while CAD and the Swissy were flat. The Pound took the spotlight after UK CPI data was cooler than expected. As such, Cable initially fell from 1.2860 to 1.2818. Capital Economics said the data is probably not enough to prompt back-to-back rate cuts in September but it does lend some support to their view that CPI inflation will be back below the 2% target next year and that interest rates will fall further and faster than markets expect. Looking towards Thursday, USD/JPY will closely be watched before Japanese GDP data for Q2.

Scandi FX saw mixed price action with SEK weakening against the Euro despite hotter-than-expected Swedish Inflation, whereas NOK was relatively unchanged against both the Euro and Dollar, ahead of the Norges Bank rate decision on Thursday. Norges Bank is not anticipated to make any adjustments to forward guidance or rates, which would mark the fifth consecutive time the Central Bank has held interest rates at 4.5%.

USD/CNH finished the session flat ahead of China Industrial Output (Jul) and Retail Sales (Jul), where the former is expected to show a slight decline, while the latter is expected to jump higher.

EMFX: Polish GDP yearly flash data for Q2, was better than expected, sending PLN to highs against the buck not seen since September 2021. USD/INR was unchanged after Indian WPI inflation Y/Y (Jul) came in below market expectations. Lastly, BRL ended its eighth straight day of gains after Brazil's Retail sales in June disappointed.

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