newsquawk

US Market Wrap

15th August 2024: Stocks rally as deluge of data eases some US economic concerns

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Strong US retail sales; Initial jobless claims unexpectedly fell; Mixed US survey data; Poor NAHB housing market index; IP disappoints; Musalem says time may be nearing for a change in policy rate; Bostic open to Sept. cut; Stellar WMT earnings; Disagreements between parties remain big on Gaza talks.
- **COMING UP**: **Data:** UK Retail Sales, US Building Permits/Housing Starts, Uni. of Michigan (Prelim.). **Speakers:** RBA's Bullock, Hauser, Hunter, Kent & Jones; Fed's Goolsbee.

MARKET WRAP

US indices (SPX +1.6%, NDX +2.5%, DJIA +1.4%, RUT +2.5%) saw strong gains, as did the Dollar, while Treasuries saw notable weakness in reaction to the stronger-than-expected US retail sales, as well as the fall in initial jobless claims. The data helped ease recent economic concerns and pushed back against expectations for a 50bp rate cut from the Fed in September, highlighted by money markets now pricing in 94bps of cuts by year-end, vs. 105bps pre-data. Elsewhere within the US data deluge, survey data (Empire/Philly Fed) was mixed, Industrial Production disappointed while import and export prices were a touch hotter than the prior, and the NAHB Housing Market Index fell beneath all analyst forecasts. Despite the strong retail sales numbers, after IP and Import/Exports, the Atlanta Fed GDPNow (Q3) estimate was revised down to 2.4% from 2.9%. Sectors were almost exclusively in the green with only Real Estate in the red, as Consumer Discretionary and Technology sat atop of the pile, with stellar Walmart (WMT, +6.5%) earnings arguably the stock-specific highlight. Elsewhere, the crude complex was firmer on Thursday, irrespective of the firmer Dollar, amid the continued backdrop of heightened geopolitical tensions, whereby the latest update on the Gaza talks in Doha, via Egypt's Al Qahera News TV citing 'informed sources', is that disagreements between parties remain big. In FX, safe-havens (CHF, JPY) saw notable losses against the Buck as it was weighed on by broader risk-on sentiment, while GBP was one of the better performers in the wake of Q2 GDP metrics underpinning the view that the UK economy saw a solid H1. On the Fed footing, Bostic (voter) is open to a September rate cut as inflation cools, while Musalem (2025 voter) said recent data has bolstered his view on inflation and the time may be nearing for a change in the policy rate.

US DATA

RETAIL SALES: Headline Retail Sales for July rose by 1.0%, well above the expected 0.3% on Refinitiv (Bloomberg consensus was for 0.4%). The core metric, ex autos, rose by 0.4%, above the 0.1% forecast while the prior was revised up to 0.5% from 0.4%. Super core, ex gas and autos, rose by 0.4%, easing from the prior 0.8%. The Retail Control rose by 0.3%, above the 0.1% forecast and but vs a prior 0.9% pace. The control metric is a great gauge for consumer spending of GDP, and suggests that the strong growth in Q2 has continued into Q3, albeit perhaps not as fast of a pace seen in June (end of Q2). It is also worth noting that commentary from Walmart (WMT) post earnings saw the retail behemoth state that they are not seeing spending weakness with customers even in the first couple of weeks in August. The strong Retail Sales print has helped ease some fears of a slowing US economy and has also seen market participants start to price out the probability of a 50bp rate cut from the Fed in September. Nonetheless, a lot of focus remains on the labour market after the soft NFP print, but recent Jobless Claims data has not shown any signs of labour market stress, and the retail sales report suggests the consumer is still healthy. Looking into the report, it is clear a lot of the strength was driven by outperformance in motor vehicle and parts dealers, rising 3.6% M/M, reversing the weakness seen in the prior month. Meanwhile, miscellaneous store retailers saw sales -2.5%, vs the prior months 1.7% gain.

JOBLESS CLAIMS: Initial Jobless Claims came in at 227k, shy of the expected 235k, and falling from the prior 234k, as the latest print quelled some fears surrounding the labour market, although the data set can often be choppy, particularly in the Summer months. The print came in alongside a stronger than expected Retail Sales, which also helped ease recent economic concerns and pushed back against expectations for a 50bps rate cut from the Fed in September. However, ahead of the next Fed meeting (Sept 18th) primary focus will remain around the next jobs report (Sept. 6th). The 4wk average fell to 236.5k from 241k, with continued claims declining to 1.864mln (exp. 1.875mln, prev. 1.871mln). Note, the seasonal factors had expected an increase of 1,874 (0.9%) from the previous week.

NY FED: The NY Fed Manufacturing survey for August printed -4.7 in August, a slight improvement from the prior months -6.6 and better than the expected -6.0. New Orders were weak, falling to -7.9 (prev. -0.6), while the six-month business conditions also eased to 22.9 (prev. 25.8). Employment rose marginally to -6.7 (prev. -7.9), while prices paid eased to 23.4 from 26.5. To summarise, NY Fed notes "New orders declined modestly, while shipments held steady. Delivery times continued to shorten, and supply availability was little changed. Inventories moved lower for a second consecutive month. Labor market conditions remained weak, with employment continuing to contract and the average workweek dropping sharply. Input prices increased at a slightly slower pace than last month, while selling price increases remained steady and small. Firms were fairly optimistic that conditions would improve in the months ahead".

PHILLY FED: Philly Fed headline surprisingly slumped into contractionary territory to -7.0 from 13.9, and much beneath the expected 6.0. In the sub-indices, New Orders and Employment fell to 14.6 (prev. 20.7) and -5.7 (prev. 15.2), while the inflationary-gauge of Prices Paid lifted to 24.0 (prev. 19.8). In addition, CapEx rose to 12.0 from 7.4, and looking-ahead the firms continue to expect growth over the next six months, but expectations were less widespread this month. On the release, Pantheon Macroeconomics believed that the prior July jump to a three-month high always looked like an outlier, but August’s correction is bigger than they expected, taking its lowest level since January. The consultancy adds, as always, it is risky to put much weight on single regional surveys as the samples are small, and regional economies perform differently. Further, Philly Fed has outperformed the other regional surveys in recent months, and the Empire State report today shows new orders dipping to a three-month low.

NAHB HOUSING MARKET INDEX: NAHB housing market index in August fell to 39.0 from 41.0, the lowest reading since December 2023, and below the expected 43.0 and outside the lower end of the forecast range. Within the dataset, all three HMI components remain below 50 with present sales at 44 (prev. 46), expected sales in the next six months at 49 (prev. 48), and traffic of prospective buyers declining to 25 (prev. 27). The release depicts that a lack of affordability and buyer hesitation stemming from elevated interest rates and high home prices contributed to the continued decline in builder sentiment. Additionally, the survey revealed that builders are increasingly cutting prices to bolster home sales (33% of builders did so in August vs. 31% in July and 29% in June). However, the average price reduction in August held steady at 6% for the 14th straight month.

INDUSTRIAL PRODUCTION: US Industrial Production in July declined 0.6% (exp. -0.3%), while the prior was revised down to 0.3% from 0.6%. Manufacturing output also disappointed, printing -0.3% (prev. +0.4%, exp. -0.2%). Capacity utilisation fell to 77.8% (prev. 78.4%, exp. 78.5%). Pantheon Macroeconomics' Chief Economist states that July's dip and the downward revisions to growth in Q2 indicate that the trend in industrial production is still essentially flat. The desk expects "IP to continue to stagnate over the rest of this year, thus failing to offset the slowdown developing across the rest of the economy". Pantheon highlights that the tailwinds to production from improving supply chains and restocking by businesses have run out of steam, while the recent dollar appreciation, tight credit condition, and falling household and business confidence points to continued weakness in manufacturing output ahead.

IMPORT/EXPORT PRICES: Import prices unexpectedly rose 0.1% in July (exp. -0.1%) after being flat in June. Import fuel prices rose 0.5%, after falling 1.7% in the previous month, marking the first 1-month rise in natural gas prices since November 2023. Ex-fuel, prices for nonfuel imports rose 0.1% (prev. +0.2%); higher prices for foods, feeds, beverages, automotive vehicles, and capital goods more than offset lower prices for consumer goods, nonfuel industrial supplies, and materials. Export prices ticked 0.7% higher with the prior decline of 0.5% seen in June, revised higher to -0.3%. The move higher in July export prices stemmed from higher nonagricultural prices more than offsetting lower prices for agricultural exports. Oxford Economics noted going forward, past appreciation of the dollar, and ongoing imported disinflation from China US nonfuel import prices will be kept in check, seeing little signs that supply chain pressures and higher freight rates are raising import prices at this time.

FED

Bostic (voter) is open to a September rate cut as inflation cools and said as price pressures ease officials also need to be conscious of their mandate of maintaining full employment, according to FT. He added labour market is weakening but is not weak. **Musalem** (2025 voter) said monetary policy is moderately restrictive and absent further shocks, inflation seems to have returned back to path consistent with 2% over time. Musalem added the recent data have bolstered his confidence on inflation, and the time may be nearing for a change in policy rate. On the economy, notes it has been growing very well, and data does not support the idea of a recession, and reiterated the Fed's broader message that he is focussed on both sides of the mandate.

FIXED INCOME

T-NOTE (U4) SETTLED 26 TICKS LOWER AT 112-30+

T-Notes bear steepened after strong retail sales and falling jobless claims, helping quell recent economic concerns with traders paring 50bp rate cut bets. At settlement, 2s +15.0bps at 4.097%, 3s +15.0bps at 3.901%, 5s +12.6bps at 3.792%, 7s +11.6bps at 3.829%, 10s +9.9bps at 3.921%, 20s +8.0bps at 4.281%, 30s +6.7bps at 4.177%.

INFLATION BREAKEVENS: 5yr BEI +5.6bps at 2.148%, 10yr BEI +4.5bps at 2.120%, 30yr BEI +3.5bps at 2.139%.

THE DAY: T-Notes meandered overnight and throughout the European morning with attention on the US Retail Sales and Jobless Claims data. Retail Sales topped analyst forecasts while Jobless Claims saw a surprise fall. The data helped ease recent economic concerns in the US and thus traders started to pare their 50bp rate cut bets for the September Fed meeting. T-Notes immediately sold off in response to the data to eventually print a low of 112-25+ before paring to c. 113-00. Aside from the aforementioned metrics, survey data was mixed with the NY Fed Manufacturing seeing a slight improvement, but remaining in contractionary territory, while the Philly Fed saw a surprise slump to the contractionary territory. Industrial Production data also disappointed in July while import and export prices were a touch hotter than the prior. The NAHB Housing Market index for August fell beneath all analyst forecasts. Despite the strong Retail Sales data, after the IP and Import/Export price data, the Atlanta Fed GDPNow (Q3) estimate was revised down to 2.4% from 2.9%. The next major events will be Jackson Hole next week where there will be plenty of Fed speak where we will gather more of participants' views on the economy after the recent bout of data. The FOMC Minutes are also due next week but may be deemed stale given recent developments since NFP. PCE will be key at the end of the month, but many are forecasting another soft print after the CPI and PPI prints. With the Fed's increased focus on the labour market, the August NFP will be of most importance; Goolsbee last night suggested he is more concerned about jobs side of the mandate "on the margin". In the meantime, the Treasury is to sell USD 16bln in 20yr bonds on August 21st and USD 8bln in 30yr TIPS on August 22nd.

STIRS

- **Market Implied Fed Rate Cut Pricing: September 31bps (prev. 34bps D/D), November 61bps (prev. 70bps), December 93bps (prev. 105bps).**
- NY Fed RRP op demand at USD 307bln (prev. 328bln) across 63 counterparties (prev. 66).
- US sold USD 90bln in 8wk bills at a high rate of 5.175%, B/C 2.77x; sold USD 95bln in 4wk bills at a high rate of 5.260%, B/C 2.90x
- SOFR at 5.33% (prev. 5.34%), volumes at USD 2.108tln (prev. 2.082tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 99bln (prev. 100bln).

CRUDE

WTI (U4) SETTLED USD 1.18 HIGHER AT USD 78.16/BBL; BRENT (V4) SETTLED USD 1.28 HIGHER AT 81.04/BBL

The crude complex was firmer on Thursday, irrespective of the firmer Dollar, amid the continued backdrop of heightened geopolitical tensions. On the latter, participants still await the Iran/Lebanon retaliation against Israel, but the Gaza hostage and ceasefire talks happened in Qatar today, and are expected to continue on Friday. However, Egypt's Al Qahera News TV citing 'informed sources' say that disagreements between parties remain big. As a reminder, Hamas on Wednesday stated it would not take part in the new round of ceasefire talks due to Israel revising terms. On the response, the latest Sky News Arabia sources note that estimates indicate that Hezbollah is to respond and this may be within days, and this weekend Israel will be in maximum readiness for a response. Elsewhere, US data was solid (lower initial jobless claims, higher retail sales) which show a more balanced US economy than some had feared. Looking ahead, the weekly Baker Hughes rig count is on Friday as well a continued eagle-eye on geopolitical tensions, from both Israel/Iran/Lebanon and Russia/Ukraine. On the latter, and also of note for natgas, AFP sources citing Zelenskiy suggested that Ukraine has captured Russian town of Sudzha. WTI and Brent were in daily ranges of USD 76.93-78.60/bbl and 79.61-81.43/bbl, respectively.

EQUITIES

CLOSES: SPX +1.61% at 5,543, NDX +2.46% at 19,490, DJIA +1.39% at 40,563, RUT +2.45% at 2,135

SECTORS: Real Estate -0.34%, Utilities flat, Health +0.60%, Energy +0.86%, Communication Services +0.87%, Financials +0.92%, Consumer Staples +0.99%, Industrials +1.32%, Materials +1.50%, Technology +2.54%, Consumer Discretionary +3.38%.

EUROPEAN CLOSES: DAX: +1.66% at 18,182, FTSE 100: +0.80% at 8,347, CAC 40: +1.23% at 7,423, Euro Stoxx 50: +1.69% at 4,806, AEX: +1.75% at 906, IBEX 35: +1.23% at 10,886, FTSE MIB: +1.00% at 32,328, SMI: +0.80% at 12,169, PSI: +0.23% at 6,627.

EARNINGS:

- **Cisco (CSCO)** - Top and bottom lines beat alongside cutting 7% of its workforce. Exec sees steady demand in the latest quarter despite persistent macro uncertainty.
- **Walmart (WMT)** - Topped expectations in profit, revenue, and comp sales, in addition to boosting FY adj. EPS view.
- **Alibaba (BABA)** - Revenue fell short, with executives expecting most of its international business will break even in one to two years.
- **Deere & Co (DE)** - EPS and revenue exceeded expectations, as higher prices helped shield profits from slowdown in demand for new machines amid decline in crop prices and high borrowing cost.
- **JD (JD)** - Beat on the top and bottom line.
- **Lumentum (LITE)** - EPS and revenue surpassed Wall St. consensus with strong next quarter top line guidance.

STOCK SPECIFICS:

- **Nvidia (NVDA)** - Nvidia Blackwell GPU delay is manageable, DigiTimes reports. Separately, supplier Foxconn (HNHPF) said the development of GB200 is on track, despite recent rumours it's facing shipment delays.
- **Ulta Beauty (ULTA)** - Berkshire Hathaway (BRK) took a new stake in the Co.
- **Boeing (BA)** - Israel's El Al Airlines signed a deal to buy up to 31 737 Max craft for as much as USD 2.5bln.
- **Nike (NKE)** - Bill Ackman's Pershing Square took a new stake in the Co.
- **Snowflake (SNOW)** - Downgraded at Wells Fargo on its premium multiple being 'tougher to defend".
- Bronfman prepares bid for **Paramount (PARA)** parent National Amusement, according to WSJ sources; the bid could come together in coming days and he has had discussions with possible partners including **Fortress** and **Roku (ROKU)**. Effort comes as interested parties have until August 21st to make rival offers for NAI in wake of Skydance deal.
- **Kroger (KR)** - Plans USD 1bln in price cuts after Albertsons merger, according to Bloomberg.

US FX WRAP

The Dollar Index markedly rose on Thursday, lifting from lows of 102.53 to a high of 103.23, after Retail Sales (Jul) surpassed both expectations and the consensus range, driven by a 3.6% rise in sales of motor vehicle and part dealers. As such, Treasury yields were sent roaring higher, with money markets reacting hawkishly to the data, pricing in approximately 93bps of rate cuts by year-end (vs. 105bps pre-data). Simultaneously, Initial Jobless Claims and Continued Claims unexpectedly fell, potentially quelling some recent fears surrounding the labour market and that the consumer remains healthy, supporting DXY's move higher. Meanwhile, Industrial Production fell more than expected and Empire/Philly Fed survey data was mixed. Regarding Fedspeak, Bostic (2024 Voter, Neutral) noted in morning trade, that he is open to a September rate cut as inflation cools and as price pressures ease officials also need to be conscious of their mandate of maintaining full employment. Similarly, Musalem (2025 Voter) said the time may be nearing for a change in the policy rate and altered his view on monetary policy from restrictive in July to moderately restrictive. The Dollar index trimmed some its gains in the US afternoon, falling back below the 103 handle ahead of UoM Prelim (Aug) on Friday.

The Pound outperformed in the G10 space after the in-line GDP Q2 results, bolstered the view the UK economy has incurred a solid H1. Cable set highs of 1.2871. In the meantime, the **Euro** lagged in the red, as EUR/USD trundled lower to lows of 1.0950, although, reduced losses as the session progressed.

Antipodeans performance slightly diverged, with the Aussie strengthening, while the Kiwi lagged against the Buck. Newsflow was centred around the Aussie, as the Australian economy added significantly more jobs than was expected, while the Unemployment Rate surprisingly ticked higher, albeit, as the Participating rate too unexpectedly jumped higher. AUD/USD regained the 0.66 handle ahead of RBA's Bullock, Hauser, Hunter, Kent & Jones speaking to the House of Representatives, whereas NZD/USD slipped to 0.5975.

The Yen and Franc weakened against the Greenback, noticeably more than their G10 peers, and were weighed on by the risk-on sentiment. USD/JPY climbing to 149.32 despite GDP data out of Japan rising more than expected, as rising US yields which rallied on US Retails, offset the positive GDP data. USD/CHF started the session at 0.8650, setting a peak of 0.8748.

The Yuan was softer vs. the Dollar, after mixed data releases in China, specifically Retail Sales which beat, while Industrial Output rose slightly below expectations. ING noted "weak credit, low inflation, and soft growth should provide plentiful reasons for easing" from the PBoC. The PBoC Governor said later on, they will be planning new incremental policies and that the overall Chinese financial system is relatively stable; USD/CNH sits near session highs of 7.1846.

EUR/NOK witnessed another flattish day, after the Norges Bank maintained its rate at 4.5% for the fifth consecutive meeting, reiterating the "policy rate will likely be kept at the current level for some time ahead". Governor Bache said a "very high" threshold would have to exist for the Central Bank to intervene in FX to support the NOK. She added a floating NOK is an advantage, and has no new prognosis on when the first rate cut will come.

EMFX: LatAm FX outperformed in the EM space, as MXN led the strength, while the COP was flat despite the cooler-than-expected growth in the Columbian economy. In the CEE region, EUR/CZK ended a four-day streak of losses ahead of the Czech PPI on Friday, whereas PLN saw mixed price action against the EUR and USD before Polish Inflation (Fri).