

16th August 2024: Bonds chop to geopolitics, soft housing data and dovish Goolsbee

- **SNAPSHOT:** Equities flat/up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW:** Dovish Goolsbee, who warns caution; UoM headline beats, with inflation expectations unchanged; Disappointing housing data; Gaza ceasefire talks to resume next week, and sources say Iran is to delay response until talks end; Libya's Waha Oil Company expected to return to normal level today.
- **COMING UP:** **Data:** Japanese Machinery Orders, BoC SLOOS, NZ Trade Balance **Events:** Democratic Convention **Speakers:** Fed's Waller **Earnings:** Estee Lauder, Palo Alto Networks.
- **WEEK AHEAD:** Highlights include: Jackson Hole, FOMC Minutes, ECB Minutes, Canadian and Japanese CPI, and Flash PMI data. [To download the report, please click here.](#)
- **CENTRAL BANK WEEKLY:** Previewing PBoC LPR, Jackson Hole, Minutes from Fed, ECB and RBA; Reviewing RBNZ, PBoC MLF and Norges Bank. [To download the report, please click here.](#)

MARKET WRAP

Stocks ultimately closed little changed with overnight/morning weakness pared after cash equity trade opened. Sectors were mixed with outperformance in Financials, Utilities and Communications, while downside was seen in Real Estate, Industrials and Energy. Index performance saw the Nasdaq flat with marginal outperformance in RUT. US data saw improved UoM Consumer Sentiment while inflation expectations were unchanged. Housing starts and building permits disappointed, which saw a revision lower to the Atlanta Fed Q3 '24 GDP Now tracker to 2.0% from 2.4% on Thursday. Meanwhile, Fed's Goolsbee repeated cautious remarks on the labour market. There was also a lot of focus on geopolitics with Hamas rejecting the latest ceasefire proposal demands. T-Notes were choppy, with downside in oil prices and dovish Goolsbee commentary supporting the upside, before paring as equity futures moved off lows after the cash equity open. Crude prices were hit after Libya's Waha oil field resumed operations. In FX, the Dollar was sold with soft housing data and dovish Goolsbee keeping the buck pressured while NZD and JPY outperformed. Attention next week turns to the Jackson Hole Economic Symposium.

US

GOOLSBEE (2025 voter, dove) reiterated his cautious tone. The Chicago Fed President said when the labour market starts to turn it tends to worsen quickly, and he noted that some leading indicators of a recession are flashing warnings. Goolsbee later added that small business defaults are up, and that the unemployment rate is up, both are cautious signs, adding credit conditions seem tight and contacts also say credit is tight. He warned that the impact of past hikes may also not be fully realized, and acknowledged that if the Fed moves to less restrictiveness, it will ease some of these credit conditions, stressing "You do not want to tighten any longer than you have to, this is not what an overheating economy looks like to me". He concluded that GDP is still pretty strong and there are pockets of strength in the economy.

MICHIGAN: Headline UoM Consumer Sentiment beat in the prelim August reading, rising to 67.8 from 66.4, above the 66.9 forecast. The upside was led by an improvement in forward looking expectations, which rose to 72.1 from 68.8 but the current conditions index fell to 60.9 from 62.7. Within the report, it mainly focuses on the impact of the US election on consumer sentiment. It noted sentiment for Democrats rose 6%, while for Republicans, it fell 5%; independent sentiment rose 3%. The survey shows that 41% of consumers believe that Harris is the better candidate for the economy, while 38% chose Trump. Meanwhile, "expectations strengthened for both personal finances and the five-year economic outlook, which reached its highest reading in four months, consistent with the fact that election developments can influence future expectations but are unlikely to alter current assessments." UoM also highlights that consumer expectations are subject to change as the presidential campaign comes into greater focus, even as consumers expect that inflation, still their top concern, will continue stabilizing. The 1yr ahead inflation expectations were unchanged at 2.9%, with the 5yr expectations also unchanged at 3.0%.

BUILDING PERMITS/HOUSING STARTS: Building permits fell 4% in July to 1.396mln from 1.454mln, and beneath the expected 1.429mln, with single-family permits 0.1% to 938k and multifamily -11.1% to 458k. Housing starts fell 6.8% to 1.238mln (exp. 1.33mln, prev. 1.329mln), accompanied by single-family starts tumbling 14.1% to 851k and multi-family soaring 14.5% to 387k. On the disappointing housing starts, Oxford Economics notes Hurricane Beryl may have weighed on activity, but the softness was not limited to the South. In addition, single-family starts, which make a large contribution to GDP growth, fell to their lowest pace in more than a year, and the consultancy notes while it's only the first month of Q3 data. Overall, OxEco expects housing starts to remain under pressure in Q3 before beginning a modest recovery in Q4 as further declines in mortgage rates boost demand and as credit conditions for builders become less restrictive.

FIXED INCOME

T-NOTE FUTURES (U4) SETTLED 5+ TICKS HIGHER AT 113-03+

T-Notes chop to dovish Goolsbee, falling oil prices and heightened geopolitics . At settlement, 2s -4.1bps at 4.060%, 3s -4.2bps at 3.864%, 5s -3.5bps at 3.764%, 7s -3.3bps at 3.804%, 10s -3.6bps at 3.890%, 20s -2.8bps at 4.257%, 30s -3.1bps at 4.149%.

INFLATION BREAKEVENS: 5yr BEI -3.8bps at 2.107%, 10yr BEI -3.7bps at 2.077%, 30yr BEI -3.6bps at 2.097%.

THE DAY: T-Notes caught a mild bid overnight to regain 113-00 to the upside. Gains extended throughout the European morning to see T-Notes peak at 113-12 with the upside seemingly a function of falling energy prices on the resumption of operations from Libya's Es Sider port. There was also some cautious commentary from Fed's Goolsbee (dove), warning when the labour market starts to turn, it tends to worsen quickly, which helped with the T-Note bid. Nonetheless, once US equity trade got underway the risk tone improved and T-Notes sold off while equities caught a bid. Thereafter, T-Notes pushed to lows of 112-29 despite weak housing data although consumer sentiment improved, while inflation expectations were unchanged in August. T-Notes then reversed some of the weakness after Hamas rejected new conditions in the proposed Gaza deal. T-Notes pared back above 113-00 to settle just above the round level. Attention next week lies on the Jackson Hole Economic Symposium to see if more on the Fed are as concerned as Goolsbee appears to be, as well as their take on recent economic data.

STIRS:

- **Market Implied Fed Rate Cut Pricing: September 31bps (prev. 31bps D/D), November 62bps (prev. 61bps), December 94bps (prev. 93bps).**
- NY Fed RRP op demand at USD 330bln (prev. 307bln) across 63 counterparties (prev. 63).
- SOFR at 5.35% (prev. 5.33%), volumes at USD 2.118tln (prev. 2.108tln).
- EFFF at 5.33% (prev. 5.33%), volumes at USD 96bln (prev. 99bln).

CRUDE

WTI (V4) SETTLED USD 1.45 LOWER AT 75.54/BBL; BRENT (V4) SETTLED USD 1.36 LOWER AT 79.68/BBL

The crude complex was lower, despite the weaker Dollar, as weakness ensued in the European morning after Libya's Waha Oil Company said it is expecting to return to normal level within the coming hours. On that, the Co. reported it has finished maintenance and pumping started from the field to ES-Sider port (250k BPD capacity). Regarding geopolitics, the Gaza ceasefire talks in Doha ended, but they are set to resume next week with Israel sending a delegation to Cairo on Sunday ahead of another Doha summit next weekend. On the talks that concluded today, Senior US admin official said the talks to end the Gaza conflict were very constructive and negotiators believe they have a deal ready to go, with talks in Cairo next week aimed at concluding a deal. In addition, via NYT citing sources, Iran is expected to delay planned reprisals against Israel for the assassination of a top Hamas leader in Tehran to allow mediators time to make a high-stakes push for a cease-fire to end the war in Gaza. Elsewhere, in the weekly Baker Hughes rig count, oil fell 2 to 483, nat gas rose 1 to 98, leaving the total down 2 to 586. As mentioned, WTI and Brent saw weakness through the EZ morning to hit session lows of USD 74.52/bbl and 78.62/bbl, respectively, before recovering through the US afternoon to settle well within the days ranges.

EQUITIES

CLOSES: SPX +0.20% at 5,554, NDX +0.09% at 19,508, DJIA +0.24% at 40,659, RUT +0.27% at 2,141.

SECTORS: Financials +0.62%, Utilities +0.4%, Technology +0.26%, Communication Services +0.21%, Consumer Staples +0.19%, Consumer Discretionary +0.14%, Materials +0.12%, Health +0.03%, Real Estate -0.04%, Energy -0.14%, Industrials -0.19%.

EUROPEAN CLOSES: DAX +0.80% at 18,329, FTSE 100 -0.43% at 8,311, FTSE 250 -0.21% at 21,049, CAC 40 +0.35% at 7,450, IBEX 35 +0.59% at 10,950, FTSE MIB +2.20% at 33,041, PSI +0.44% at 6,656, Euro Stoxx 50 +0.71% at 4,841, SMI +0.29% at 12,186.

STOCK SPECIFICS:

- **Applied Materials (AMAT)** - Profit and revenue beat, with next quarter guidance also slightly better than expected. Nonetheless, PT was lowered at Wells Fargo on October quarter guidance slightly missing buy-side expectations.
- **Autodesk (ADSK)** - Said to have continued a controversial sales strategy despite pledging to stop, ignoring internal warnings, Bloomberg reports.
- **Amcor (AMCR)** - Top line fell short, while adj. EPS did beat. Executives said as customer demand improved it maintained focus on managing costs.
- **H&R Block (HRB)** - EPS and revenue surpassed Wall St. consensus, in addition to authorising a new USD 1.5bln share buyback programme and raising quarterly dividend by 17%
- **Coherent (COHR)** - Sales surpassed expectations, alongside a strong revenue outlook.
- **Texas Instruments (TXN)** - To receive up to USD 1.6bln under CHIPS Act.
- **Estee Lauder (EL)** - Downgraded at Bank of America, citing headwinds in its China market and softening US demand is also weighing upon shares.
- **Repligen (RGEN), Maravai Lifesciences (MRVI)** - RGEN reportedly approaches MRVI with an acquisition offer, according to Reuters citing sources.
- **Fox (FOX), Disney (DIS), and Warner (WBD)** sports service blocked for now in **Fubo (FUBO)** win, according to Bloomberg.

US FX WRAP

The Dollar was lower to end the week and hit a trough of 102.450, as the Greenback unwound some of the gains seen after Thursday's data. Nonetheless, newsflow on Friday was light amid typical summer trading conditions, with the highlight out of the US either Fed's Goolsbee (2025, repeating his cautious stance, or prelim UoM (Aug) surpassing consensus with inflation expectations left unchanged. For the record, housing stars disappointed, which saw the Atlanta Fed GDPNow tracker ease to 2.0% from 2.4%. Looking ahead, FOMC Minutes and Jackson Hole Symposium are the highlights next week, with the latter concluding with Powell on Friday at 10:00EDT:15:00EST.

G10 FX was firmer across the board, as it benefitted from the broader Buck weakness as opposed to much currency specific headlines. Recapping, **Cable** saw a WTD peak of 1.2945 on Friday, but little reaction was seen to UK retail sales, which was in line and is unlikely to have much bearing on the BoE. **EUR/USD** eventually reclaimed the 1.10 handle and reached a peak high of 1.1021, but is still some way away from the 1.1047 YTD peak printed earlier in the week.

JPY managed to reclaim some of Thursday's heavy selling after the aforementioned US data, and while USD/JPY hit a low of 147.63 it failed to get near Thursday's bottom of 147.05.

Antipodeans saw notable gains, with the Kiwi outperforming its Aussie counterpart, with NZD/USD and AUD/USD hitting highs of 0.6671 and 0.6055, respectively. Overnight there was extensive commentary from both RBA and RBNZ officials, where some of the highlights included RBA Governor Bullock noting based on what the board knows at present, it does not expect that it will be in a position to cut rates in the near term.

EMFX was almost exclusively firmer against the Dollar, with only the CLP and COP seeing weakness. EMs largely benefitted off the floundering Dollar, but ZAR was supported by rising gold prices, as it hit a record high above USD 2,500/oz. Elsewhere, BCB Chief Neto said the Central Bank did not want to sign a commitment to any policy guidance and that they will watch data. Neto added 12-mth inflation shows higher figures again, and BCB thinks next inflation figures will be lower. In terms of data, both Brazilian IGP1- inflation (Aug) and Economic activity (Jun) came in above St. expectations and outside the upper bound of the forecast range. Neto also said they are willing to hike if needed.

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