

20th August 2024: Stocks sideways, while Dollar slides, and Bonds rise ahead of FOMC Minutes

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar down.
- **REAR VIEW:** Bowman repeats rate cuts appropriate if inflation keeps slowing; KR announced USD 10.5bln issuance to fund ACI acquisition; EU cuts planned tariff on imports of TSLA EVs from China; Stellar PANW report; Headline Canadian CPI ultimately in-line with Core marginally softer; Gaza ceasefire talks continue, with chances of a positive outcome declining.
- **COMING UP:** **Data:** Japanese Trade, Canadian Producer Prices, US Payrolls Benchmark NSA Prelim. **Events:** FOMC Minutes; Democratic Convention. **Supply:** Australia, UK, Germany, US. **Earnings:** Target, Analog Devices, TJX, Synopsys

MARKET WRAP

US indices (SPX -0.2%, NDX -0.2%, DJIA -0.2%, RUT -1.2%) trimmed some gains seen on Monday, finishing the session marginally lower, in a day that saw few macro updates and tier 1 releases. Nonetheless, Fed's Bowman (Voter) reiterated her past comments, as she repeated rate cuts are appropriate if inflation keeps slowing, alongside comments that she still sees upside risks to inflation and needs more inflation data for it to become appropriate to gradually lower rates. Sectors' performance was mixed, with Consumer Staples, and Health outperforming and in the green, with the latter heavily supported by Eli Lilly's (LLY, +3%) Tirzepatide reducing the risk of developing Type 2 diabetes by 94%. Meanwhile, Financials, Materials, and Energy all lag in the red, particularly Energy slumping (-2.4%) amid lower crude prices due to continued China demand woes with the ongoing geopolitical updates taking a backseat, for now. In FX, the dollar index saw downside throughout the session, to the benefit of its G10 peers, most notably in Havens and the Kiwi. Treasuries were firmer and bull steepened ahead of the US USD 16bln 20-yr Bond Auction (Wed), FOMC Minutes (Wed), and Jackson Hole (Fri). Lastly, spot gold was firmer, however, now sits of highs as it printed yet another ATH.

FED

BOWMAN (Voter) largely reiterated her prior views on the monetary policy path, as she repeated rate cuts are appropriate if inflation keeps slowing. Further on inflation, she said they've seen some recent further progress on lowering inflation, but it is still uncomfortably above the committee's 2% goal, and still sees upside risks. Bowman also repeated the Fed's data dependant approach, noting they need to be patient and avoid undermining continued progress on lowering inflation by overreacting to any single data point, and they must view 'totality' of data as risks to employment, and price-stability mandates move into better balance. Looking ahead, Bowman will remain cautious in her approach to any change in policy stance

FOMC MINUTES PREVIEW: The minutes will reveal the extent to which a rate reduction was considered at the July meeting, as well as officials' views on the labour market and the subsequent impact on monetary policy. However, as always, the minutes are stale by a couple of weeks. Additionally, Chair Powell is due to speak at the Jackson Hole Economic Symposium (on Friday at 10:00EDT/15:00BST), which will likely overshadow the minutes, with traders likely to put greater weight on his remarks to gauge how the Fed may respond in September. [For full preview, please click here.](#)

FIXED INCOME

T-NOTE (U4) SETTLED 11 TICKS HIGHER AT 113-18

Treasuries saw gains across the curve and bull steepened on Tuesday in thin newsflow and a day devoid of tier 1 events. At settlement, 2s -7.2bps at 3.996%, 3s -6.7bps at 3.802%, 5s -5.9bps at 3.700%, 7s -5.3bps at 3.736%, 10s -4.7bps at 3.820%, 20s -4.3bps at 4.184%, 30s -4.4bps at 4.071%.

INFLATION BREAKEVENS: 5yr BEI -0.4bps at 2.098%, 10yr BEI -0.2bps at 2.076%, 30yr BEI +0.7bps at 2.102%.

THE DAY: Overnight and through the European morning T-Notes traded largely sideways, but as US players entered for the day T-Notes saw some upside. Tsys continued to grind higher throughout the US session, albeit in pretty tight ranges, as there was little newsflow or scheduled risk events, and as such T-Notes printed a high of 113-19 against an earlier trough of 113-03+. In terms of the day, while headline news was sparse, a brief pullback was seen in T-Notes as the corporate docket once again drew attention as Kroger kicked off a USD bond sale to fund the Albertsons tie-up, which was later announced to be USD 10.5bln in a 7-parter, consisting of 2/3/5/7/10/30/40yr. However, in the wake of Canadian CPI, we did see some Treasury buying to give them a bit of further impetus. Also, Fed's Bowman (voter) reiterates her prior views on the monetary policy path, noting rate cuts are appropriate if inflation keeps slowing. As mentioned, risk events were light on Tuesday but pick up from here, with the annual BLS benchmark revisions on employment, USD 16bln 20yr bond auction, and FOMC Minutes on Wednesday, with the major risk event being Fed Chair Powell at Jackson Hole on Friday.

STIRS

- **Market Implied Fed Rate Cut Pricing: September 32bps (prev. 33bps D/D), November 63bps (prev. 61bps), December 97bps (prev. 94bps).**
- NY Fed RRP op demand at USD 311bln (prev. 334bln) across 77 counterparties (prev. 63).
- US sold USD 75bln 42-day CMBs at 5.185%, covered 2.72x.
- US to sell USD 60bln of 17-week bills on August 21st, and to sell USD 90bln of 8-week bills and USD 95bln of 4-week bills on August 22nd; all to settle on August 27th.
- SOFR at 5.32% (prev. 5.32%), volumes at USD 2.118tln (prev. 2.131tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 95bln (prev. 93bln).

CRUDE

WTI (V4) SETTLED USD 0.49 LOWER AT 73.17/BBL; BRENT (V4) SETTLED USD 0.46 LOWER AT 77.20/BBL

The crude complex was lower, continuing on the weakness seen from Monday, as the weak Chinese economy is seemingly the main driver, as it overlooks the geopolitical risks for now. On the latter, the prospects of an Israel-Hamas ceasefire deal seem to be declining, therefore paving the way for retaliations from Iran and Lebanon, although US Secretary of State Blinken continues to do the rounds in the Middle East, and has now arrived in Qatar in an attempt to push for a truce in Gaza. The latest update was that Senior US Official pushed back on reporting that Blinken, in a meeting with Netanyahu, was "convinced" of Israeli demand that Israeli troops remain in the Philadelphia corridor, and as such "Maximalist statements" like this are not constructive to getting a ceasefire in Gaza and risk the ability of the technical talks to move forward. Nonetheless, newsflow was sparse on Tuesday as participants awaited any potential Middle Eastern escalation or other macro risk events, such as Fed Chair Powell on Friday. Looking ahead, the weekly private inventory data is after-hours, where current expectations are (bbls): Crude -2.7mln, Distillate -0.2mln, Gasoline -0.9mln.

BANK COMMENTARY: Goldman Sachs sees a sharp slowdown in China demand Y/Y growth to 0.2mb/d in H1 '24 and negative Y/Y growth this summer; soft China demand and downside risks to China GDP growth strengthen the view that risks to USD 75-90/bbl range for Brent in 2025 skew to the downside. Goldman also sees Brent falling to USD 68/bbl by late 2025 (prev. USD 81/bbl base case), if China's oil demand were to stay flat.

EQUITIES

CLOSES: SPX -0.20% at 5,597, NDX -0.24% at 19,720, DJIA -0.15% at 40,835, RUT -1.17% at 2,142

SECTORS: Energy -2.65%, Materials -0.38%, Financials -0.33%, Technology -0.32%, Industrials -0.29%, Utilities -0.25%, Consumer Discretionary -0.02%, Communication Services +0.03%, Real Estate +0.06%, Health +0.37%, Consumer Staples +0.53%.

EUROPEAN CLOSES: DAX: -0.36% at 18,355, FTSE 100: -1.00% at 8,273, CAC 40: -0.22% at 7,486, Euro Stoxx 50: -0.30% at 4,858, AEX: -0.64% at 903, IBEX 35: -0.13% at 11,088, FTSE MIB: -0.57% at 33,076, SMI: flat at 12,275, PSI: -0.68% at 6,678

EARNINGS:

- **Palo Alto (PANW):** EPS and revenue beat, authorised an additional USD 500mln in share repurchases and guidance also topped expected.
- **Fabrinet (FN):** Top and bottom line surpassed expectations in addition to better-than-forecasted next quarter guidance.
- **Lowe's (LOW):** Revenue missed, comps. declined more than expected, and cut FY guidance. Note, profit topped.

STOCK SPECIFICS:

- **Paramount (PARA):** Edgar Bronfman Jr. raised USD 5.5bln to bid for Paramount parent National Amusements, according to Axios sources. The bid could scuttle a USD 8bln agreement struck last month between Paramount and Skydance Media.
- **Tesla (TSLA):** European Commission cut its planned tariff on imports of Tesla's EVs from China.
- **Boeing (BA):** FAA mandated inspections of Boeing 787 Dreamliners. Separately, BA has halted 777-9 test flights, awaiting certification, after it discovered a damaged component during a maintenance check.
- **Hawaiian Holdings (HA):** Alaska Air & Hawaiian merger clears DoJ review.
- **Eli Lilly (LLY):** Late-stage trial found Cos. weight-loss drug tirzepatide reduced the risk of obese or overweight adults developing Type 2 diabetes by 94%.
- **Bank of America (BAC):** Berkshire sold ~13.97mln Bank of America common shares over three transactions in the past several days.
- **AMD (AMD):** Edward Jones initiated coverage with a buy rating; said that AMD's acquisition of semiconductor firm Xilinx will help broaden out its array of chip offerings and enter new markets.
- **Texas Instruments (TXN):** Trimmed 2026 CapEx expectations.
- Gearbox Studio, which was acquired by **Take-Two Interactive Software (TTWO)**, posted on X that Borderlands 4 is coming in 2025.

US FX WRAP

The Dollar Index edged lower for the third consecutive day, during a quiet session regarding newsflow. That said, Fed's Bowman (Voter) reiterated past hawkish commentary, saying "should inflation data show inflation is moving sustainably toward the target, it will become appropriate to gradually lower rates to prevent becoming overly restrictive", adding, "still sees upside risks to inflation", and "will remain cautious in the approach to any change in policy stance". The index descended further into the 101 handle, setting a low of 101.39, with the YTD low of 101.29 in view. Ahead of FOMC Minutes (Wed), Fed Pricing has 32bps of rate cuts priced in at the September meeting and 97bps by year-end.

The Euro, like its G10 peers, reaped the rewards from the weaker greenback, with EUR/USD pushing above the 1.11 handle for the first time this year. Data in the region saw Final HCIP EZ data for July in line with expectations, while the EU Current Account SA (Jun) printed a record high. Going forward, Rabobank sees upside risks for EUR/USD likely to be associated with a softer USD rather than a broadly stronger EUR.

Activity currencies, except the CAD, all saw upside on the session versus the Dollar, particularly the Kiwi, which rallied for the third day in a row, inching closer to the June high of 0.6167. At the same time, the Aussie is firmer on the session after RBA minutes unveiled that the board considered the case to raise rates, and possible the cash rate would have to stay steady for an extended period; **AUD/USD** saw session highs of 0.6749, with Julys peak of 0.6798 in focus. Lastly, **Cable** made fresh YTD highs of 1.3052.

CAD was stronger against the buck in European trade, though USD/CAD fell short of its 200 DMA (1.3593), with the Loonie seeing weakness after Canadian CPI was in line with analysts' expectations. USD/CAD finished the session flat, meanwhile, BoC pricing reacted slightly toward the dovish side post-CPI release.

Haven FX were among the top performers in the G10 space, benefiting from both the weaker Greenback and the narrowing yield differential. USD/JPY fell to the low end of the 145 handle, USD/CHF troughed at 0.8546.

USD/CNH headed lower on Tuesday, finishing below the lows seen in December 2023, with the YTD performance of the cross now flat. Overnight, the PBoC maintained their 1yr and 5yr Loan Prime Rates, as expected.

EUR/SEK and **USD/SEK** fell despite the Riksbank cutting its Rate by 25bps to 3.5% as expected. In addition, guidance leaned dovish, with the Executive board noting the policy rate can be cut two or three more times this year, somewhat faster than the board expected in June, albeit, the guidance was broadly in-fitting with market pricing.

EMFX largely rallied on the dollar weakness, but the likes of **MXN** and **BRL** performed poorly, with MXN downside weighed on by Mexican

Retail Sales surprisingly falling. **USD/TRY** once again printed fresh ATH highs of 33.8944 after the CBRT expectedly held its Weekly Repo Rate at 50.

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