

21st August 2024: Stocks and Bonds grind higher while Dollar sells off as participants await Powell

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW:** FOMC Minutes continues to highlight likelihood of September rate cut; BLS payrolls revised lower by 818k; Average 20yr Bond Auction; EIA Crude draw bigger than expected; Gaza truce talks reach an impasse; AAPL app store head to step down; Stellar TGT earnings report.
- **COMING UP:** **Data:** Australian, Japanese, EZ, UK & US PMIs, EZ Negotiated Wages (Q2), US IJC, NZ Retail Sales. **Events:** Jackson Hole Symposium; ECB Minutes; Democratic Convention. **Supply:** US. **Earnings:** Swiss Re, Hays, Ross, Intuit, Workday.

MARKET WRAP

US indices saw strength on Wednesday (SPX +0.4%, NDX +0.6%, RUT +1.3%) in what was a day of choppy price action, as most sectors settled in the green with Consumer Discretionary and Materials outperforming and only Financials in the red. The Dollar was weaker, to the benefit of G10 FX peers, and saw a low of 100.920 after the FOMC Minutes, which continued to illustrate it is not a question of when the Fed cuts rates, but more by how much. As such, the Minutes continued to highlight the recently conveyed message from the Fed, as a "vast majority" observed that, if the data continued to come in about as expected, it would likely be appropriate to ease policy at the next meeting, while "several participants" said recent progress on inflation and increases in the unemployment rate provided a 'plausible case' for a 25bps cut at July's meetings. Treasuries bull-steepened and saw gains across the curve in the wake of BLS revisions and the aforementioned FOMC Minutes, while the average US 20yr bond auction garnered little reaction. On the former, BLS payrolls were revised lower by 818k, suggesting job growth was not as strong as previously thought between April 2023 and March 2024. Elsewhere, WTI and Brent were lower, extending on Tuesday's weakness, as the Chinese economy/demand continues to weigh with geopolitics in the background. Looking ahead, US Flash S&P Global PMIs and initial jobless claims are the highlights on Thursday, followed by the eagerly awaited Chair Powell press conference on Friday at Jackson Hole.

US

FOMC MINUTES REVIEW: The 30-31st July FOMC Minutes largely echoed what we heard from Fed Chair Powell in the post-meeting press conference and from Fed officials since, as the Minutes highlighted how the Committee is looking at a September rate cut and the data-dependant approach. Highlighting this, the Minutes noted the vast majority of participants said it would likely be appropriate to ease policy at the next meeting if data continued to come in as expected. At the July meeting, several participants said recent progress on inflation and increases in the unemployment rate provided a 'plausible case' for a 25bps cut or that they could have supported such a move. As a reminder, Powell in the press conference after the meeting said, "there was a real discussion about the case for reducing rates at this meeting; a strong majority supported not moving at this meeting". Meanwhile, the majority of participants said risk to the employment goal has increased, and many noted risks to the inflation goal decreased, reiterating the Fed's message of how their attention has shifted to both sides of the mandate, and almost more to the employment side, rather than just inflation. As a reminder, Chair Powell is due to speak at the Jackson Hole Economic Symposium (on Friday at 10:00EDT/15:00BST).

BLS PAYROLL REVISIONS: The BLS payrolls were revised lower by 818k, suggesting job growth was not as strong as previously thought between April 2023 and March 2024, and came in closer to the bottom end of Goldman Sachs expectations of between 0.6-1mln downward revision. That means so rather than the economy adding 2.9mln jobs in the 12mth period, there were only 2.1mn new jobs. On a monthly footing, it means only 178k jobs were added instead of the initially reported average of 246k. As such, ING notes, given everything was weak in the latest July jobs report (weak payrolls, rising unemployment, falling hours worked, and cooling wages) the revisions today will only put more pressure on the Fed to loosen monetary policy. Even further the bank adds, momentum is being lost from an even weaker position than originally thought. Note, money market pricing currently has 34bps of cuts priced in for September and 105bps by year-end, but all focus turns on Chair Powell at Jackson Hole on Friday, and thereafter the next BLS jobs report on September 6th, the day of Fed blackout before the next FOMC meeting.

FIXED INCOME

T-NOTE (U4) SETTLED 10+ TICKS HIGHER AT 113-28+

Treasuries bull-steepened and saw gains across the curve in wake of BLS revisions and FOMC Minutes. At settlement, 2s -7.2bps at 3.928%, 3s -6.6bps at 3.737%, 5s -5.0bps at 3.651%, 7s -4.0bps at 3.696%, 10s -2.6bps at 3.792%, 20s -1.8bps at 4.165%, 30s -0.4bps at 4.066%.

INFLATION BREAKEVENS: 5yr BEI -0.3bps at 2.097%, 10yr BEI +0.3bps at 2.077%, 30yr BEI +0.9bps at 2.111%

THE DAY: Overnight and through the European session Treasuries were largely sideways, where newsflow and specific were generally sparse as participants awaited the day's major risk events. The BLS jobs revisions were due at 15:00BST/10:00EDT, but were 32 minutes late, but that did not stop Treasuries seeing a kneejerk lower and falling to session lows at the scheduled time of the data release. Nonetheless, the BLS revisions for April 2023/March 2024 showed a reduction in jobs of 818k, which was more towards the top end of forecast ranges, Tsys saw some strength as the data solidified expectations of a rate move in September. Thereafter, there was an average 20yr bond auction (more details below) but T-Notes saw little reaction. Later in the session Treasuries saw a little bit of strength, and eked out marginal session highs after FOMC Minutes, which continued to highlight the likelihood of a September rate cut, and largely echoed what Powell said in his post-meeting presser and what other officials have said since. Looking ahead, Thursday's session is headlined by Flash PMIs for August before attention turns to the long-anticipated speech from Fed's Powell on Friday at Jackson Hole.

20YR AUCTION: US sold USD 16bln of 20yr bonds in what was an average auction, overall. Highlighting this, the auction stopped-through by 0.1bps, the same as the prior, whilst the six-auction average sees a slightly more impressive 0.7bps stop-through. Bid-to-cover was 2.54x less than both the prior, 2.68x, and the average, 2.66x. Dealers took 9.7%, more than the previous but less than the average, while Directs,

19.3%, was greater than both and Indirects, 71%, declined.

STIRS

- **Market Implied Fed Rate Cut Pricing: September 34bps (prev. 32bps D/D), November 71bps (prev. 63bps), December 105bps (prev. 97bps).**
- NY Fed RRP op demand at USD 321bln (prev. 311bln) across 66 counterparties (prev. 77).
- US sells USD 35bln of 16-day CMBs at 5.260%, covered 3.10x
- SOFR at 5.32% (prev. 5.32%), volumes at USD 2.101tln (prev. 2.118tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 90bln (prev. 95bln).

CRUDE

WTI (V4) SETTLED USD 1.24 LOWER AT USD 71.93/BBL; BRENT SETTLED (V4) USD 1.15 LOWER AT USD 76.05/BBL

The crude complex was lower on Wednesday, extending on its weakness seen on Tuesday, as the Chinese economy/demand continues to weigh with geopolitics in the background. On the Middle Eastern footing, ceasefire negotiations seem to be going nowhere as things stand, while the new head of Israeli military intelligence stated they continue to strengthen preparations for the expansion of the war in the north, and later reports noted that Gaza truce talks have reached an impasse. Elsewhere, in the weekly EIA data, crude and gasoline saw greater than expected draws, while distillate saw a surprise draw, with the weekly crude production rising 100k to 13.4mln. On the day, WTI and Brent edged higher throughout the European session to hit peaks of USD 74.16/bbl and 78.21/bbl, respectively, but sold off notably throughout the US session to settle at lows, albeit on no single headline just wider sentiment. Note, weakness in oil was seen after the BLS payrolls revisions, which saw a significantly lower number of jobs added in the year to March than previously reported, pressuring investor sentiment.

EQUITIES

CLOSES: SPX +0.42% at 5,621, NDX +0.53% at 19,825, DJIA +0.13% at 40,890, RUT +1.32% at 2,171

SECTORS: Financials -0.14%, Energy -0.01%, Communication Services +0.17%, Health +0.22%, Real Estate +0.33%, Technology +0.46%, Industrials +0.62%, Consumer Staples +0.62%, Utilities +0.74%, Materials +1.15%, Consumer Discretionary +1.18%.

EUROPEAN CLOSES: DAX: +0.51% at 18,452, FTSE 100: +0.12% at 8,283, CAC 40: +0.52% at 7,525, Euro Stoxx 50: +0.33% at 4,885, AEX: +0.51% at 908, IBEX 35: +0.24% at 11,115, FTSE MIB: +0.72% at 33,312, SMI: -0.12% at 12,252, PSI: -0.06% at 6,674

EARNINGS

- **Target (TGT):** Beat on profit and comp. sales, alongside raising FY guidance for adj. EPS.
- **Macy's (M):** Same-store sales disappointed, and downwardly revised its FY sales outlook.
- **TJX Companies (TJX):** Beat on the EPS, revenue, and comp. sales, in addition to lifting FY guidance for both EBT and EPS.
- **Analog Devices (ADI):** Top and bottom line surpassed expectations.
- **Keysight Technologies (KEYS):** EPS and revenue topped Wall St. consensus, with next quarter outlook also solid.
- **Coty (COTY):** Surprise slight loss per share, with revenue also light.

STOCK SPECIFICS

- **JD.com (JD):** Walmart to sell USD 3.6bln stake in JD.com, at an 11% discount to Tuesday's closing price.
- **Alphabet (GOOGL):** M Science negative on Google; said Cos. search growth has decelerated with growth slowing in Europe.
- **American Express (AXP):** Downgraded at BofA as it sees limited incremental upside given the potential for subdued billings volume growth and current premium valuation.
- **Texas Instruments (TXN):** Upgraded to Buy from Neutral at Citi, as the firm believes margins are bottoming and should rebound to the previous peak, and sees upside when inventory replenishment happens.
- **Corning (GLW):** Upgraded at Mizuho to Outperform from Neutral, with a PT of USD 47 (prev. 44), on optical power and cooling advantages driving growth to data centres.
- **Apple (AAPL):** Longtime App Store head to step down in reorganisation due to global regulatory scrutiny, Bloomberg reports.

US FX WRAP

The Dollar Index continued to see weakness on Wednesday, with the index lower heading into BLS payrolls revisions. The release saw a downward revision of 818k, with the DXY initially moving slightly higher. Ultimately, the Dollar trundled lower before FOMC Minutes, to the advantage of all its G10 peers, to which after the Minutes the Greenback extended its losses, falling below the 101 handle, to a low of 100.92 with December's 2023 low of 100.61 in focus. FOMC Minutes unveiled that a vast majority of participants at the July meeting said it would likely be appropriate to ease policy in September if data continued to come in as expected, and several participants believed there was a 'plausible case' for a July 25bps rate cut based on recent progress on inflation and increases in the unemployment rate. Next up on the US docket are Initial Jobless Claims and S&P Global Flash PMIs on Thursday, with the former particularly in focus as the FOMC Minutes reinforced the present significance attributed to jobs data, by noting the majority of participants said that the risks to the unemployment goal have increased, while risks to the inflation goal have decreased.

G10 FX took advantage of the weaker Buck, with all constituents rallying on the session, with the upside most pronounced in GBP and CHF. A Reuters BoE poll revealed that 57/60 economists surveyed expected the Central Bank to keep rates unchanged in September, and the BoE is expected to cut rates one more time this year; 37/60 expect it to be in November. Cable again printed fresh YTD highs, this time at 1.3119 as the July 2023 high of 1.3142 lies ahead.

EUR/USD rallied for the fourth straight day, roaming further onto the 1.11 handle, pushing its YTD high to 1.1173, with 1.12 the next key level, and the July 2023 high of 1.1276 going beyond. Money markets price ~96% of a 25bps rate cut in September, reinforced by ECB's Panetta remarks where he hopes they cut in September. Thursday will see the release of EZ, French, and Germany Flash PMIs, alongside EZ Consumer Confidence Flash (Aug) and ECB Minutes.

Haven FX largely strengthened on the day, with upside supported by rising US Treasuries; USD/JPY made troughs of 144.46, and USD/CHF fell to as low as 0.8496. Meanwhile, Gold was flat, with the commodity clinging above the USD 2500/oz handle. Looking ahead, the Yen will be of focus heading into JibunBK Flash PMIs (Aug) on Thursday.

Antipodes were mixed versus the Buck, with the Kiwi seeing gains and the Aussie the G10 underperformer, albeit still flat. AUD/USD

peaked at 0.6760, before Judo Bank PMI Flash data, as the cross continues to approach July's 2024 high of 0.6798. NZD/USD blew past earlier highs seen in July, inching further closed to the 0.62 mark, with a high of 0.6177.

EMFX had a mixed performance against the Greenback on Wednesday. MXN again underperformed after Retail Sales unexpectedly declined earlier in the week, as Banxico Minutes, Final GDP, 1st Half-Mth Inflation, and IGAE Econ Activity on Thursday act as immediate drivers for MXN. Elsewhere, the USD/ZAR rose modestly after South African CPI Y/Y (Jul) was cooler than expected, and in the CEE space, PLN witnessed mixed price action against the Euro and Dollar following weaker industrial output than was expected, cool Sector Wages, above forecasted PPI, and employment falling as anticipated.

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