

### 22nd August 2024: Dollar bid while Stocks and Bonds slip as attention turns to Jackson Hole

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** Initial jobless claims slightly above expected, but hovers around 230k; Mixed US S&P Global Flash PMIs, Mfg. miss, Svs. beats; Existing Home Sales topped consensus; Harker & Collins ready to start easing monetary policy, while Schmid needs to see more data before supporting a cut; Mixed European Flash PMIs, Strong UK; Stellar ZM report.
- **COMING UP:** **Data:** Japanese CPI, ECB SCE, Canadian Retail Sales. **Events:** Jackson Hole Symposium. **Speakers:** BoJ Governor Ueda; Fed Chair Powell, Goolsbee; BoE's Bailey. **Supply:** Australia.

## MARKET WRAP

US indices (SPX -0.9%, NDX -1.7%, RUT -1.0%) were lower on Thursday while Treasury yields were firmer as participants await the pivotal Fed Chair Powell at Jackson Hole on Friday. US data was mixed, but continued to alleviate fears surrounding the labour market and economic growth concerns, as initial jobless claims, for the week that coincides with the payrolls report, ticked marginally higher above expected but nowhere near enough to stoke fears around the labour market. Meanwhile, US S&P Global Flash PMIs were mixed, with Mfg. missing, but Svs. and Comp. beat. In addition, there was a slew of Fed speak (Schmid, Collins, Harker) with more details below, but the latter two both gave a nod to a September rate cut while Schmid said he still needs to see more data before supporting a reduction. As such, despite it being unlikely, participants will be cognizant of Powell giving any indication of any size of the rate cut at the September FOMC meeting, although the US jobs report (6th Sept) will have a big sway in that decision. Sectors closed largely in the red with big-cap names Technology, Consumer Discretionary, and Communication Services lagging, with only Real Estate, Financials, and Energy in the green. The Dollar clawed back recent weakness to the detriment of G10 FX peers, while Treasuries were lower, retracing some of this week's gains, as solid US data continued to quell fears around an economic slowdown or aggressive Fed easing. Lastly, WTI and Brent saw gains and attempted to recoup some of the recent sizeable losses amid a lack of notable catalysts for oil, as once again geopolitics takes the back seat.

## US

**INITIAL JOBLESS CLAIMS:** Initial jobless claims for the week that coincides with the BLS' August payrolls report, rose to 232k from 228k, above the expected 230k, with the four week average more-or-less unchanged at 236k (prev. 236.75k). Meanwhile, continued jobless claims rose to 1.863m (prev. 1.859m), but beneath the expected, 1.867m. Note, seasonal factors had expected a decrease of 11,882 (or - 5.9%) from the previous week. This data release will continue to ease any Federal Reserve concerns around the labour market, where the discussion around the central bank continues to be around how much it will cut rates by, not when. Nonetheless, ahead of the September 18th FOMC meeting, officials will be awaiting the US jobs report (due September 6th), which will likely have a large sway in participants view of what to do at that meeting; WSJ's Timiraos earlier said "many officials are ready to start cutting rates by a traditional quarter-percentage-point, but are not sure how fast they should go thereafter, adding that labour market data for August could tip the scales in favour of a larger cut if it is as disappointing as July's readings."

**S&P GLOBAL FLASH PMI:** S&P Global Flash Manufacturing PMI surprisingly declined to 48.0 (exp. 49.6, prev. 49.6), while Services rose to 55.2 (exp. 54.0) from 55.0, leaving the Composite ticking slightly lower to 54.1 (prev. 54.30, but surpassing the forecasted 53.5. Within the release, it notes "On balance the key takeaways from the survey are that inflation is continuing to slowly return to normal levels and that the economy is at risk of slowing amid imbalances." Furthermore, the report adds, "This 'soft-landing' scenario looks less convincing, however, when you scratch beneath the surface of the headline numbers." The report concludes, "The solid growth picture in August points to robust GDP growth in excess of 2% annualized in Q3, which should help allay near-term recession fears."

**EXISTING HOME SALES:** US Existing Home Sales in July rose 1.3% M/M to 3.95m from the upwardly revised 3.9m and above the expected 3.93m. The median home price jumped 4.2% Y/Y to USD 422,600 as home prices increased in all four US regions. Oxford Economics noted that homebuyers responding to a small decline in mortgage rates and a greater supply of homes for sale supported the small rebound witnessed in July. For Q3, the desk expects the weaker pace of sales combined with weaker-than-expected housing starts for July will attribute downside risk to the forecast for residential investment to be flat. In terms of Q4, the desk expected lower mortgage rates to uphold a modest rebound in existing home sales. NAR Chief Economist said despite the modest gain, home sales are still sluggish, but, consumers are definitely seeing more choices, and affordability is improving due to lower interest rates.

## FED

**Schmid** (2025 voter) said they could still see a demand pickup if Fed isn't careful, and payroll revisions do not change how he thinks about policy and looking ahead said need to see more data before supporting rate cut. On the labour markets, adds they have seen some cooling, but it is generally pretty strong. Continuing the Fed's message, Schmid said he is going let the data show where we go.

**Collins** (2025 voter) said the labour market overall is quite healthy, and on benchmark revisions said the data is telling a consistent story. Once again reiterating the Fed's message, Collins noted that data will guide the pace of cuts and "soon" it will be appropriate to begin easing.

**Harker** (2026 voter) stated he is ready to start the process of cutting rates, and wants gradual and methodical course of rate cuts. On the job market, added it has now mostly normalized and while it is softening from a high level, it is heading back to normal. Regarding rates, Harker stated he will not comment on market pricing, and he is not in the camp of 25 or 50bps cuts, as he needs more in the way of data.

## FIXED INCOME

### T-NOTE (U4) SETTLED 19 TICKS LOWER AT 113-09+

Treasuries were lower on Thursday, retracing some of this week's gains, as solid US data continued to quell fears around an

**economic slowdown or aggressive Fed easing.** At settlement, 2s +8.8bps at 4.010%, 3s +8.6bps at 3.816%, 5s +8.6bps at 3.725%, 7s +8.8bps at 3.770%, 10s +8.4bps at 3.860%, 20s +7.7bps at 4.228%, 30s +8.3bps at 4.134%

**INFLATION BREAKEVENS:** 5yr BEI +2.4bps at 2.121% . 10yr BEI +2.2bps at 2.103%, 30yr BEI +2.0bps at 2.132% .

## THE DAY:

In the APAC session Treasuries traded largely sideways, but throughout the European morning Tsys were choppy but ultimately edged lower, likely in sympathy with EBGs and Gilts amid a slew of August Flash PMI data. Briefly recapping, there were strong French PMIs (though subject to extensive Olympic-related caveats), particularly poor German metrics which may spark a revival of recession concerns, in addition to EZ seeing a strong release. The UK also saw a strong PMI release and points towards robust growth with inflationary pressures easing, indicating there is no need for the BoE to commit to back-to-back rate cuts at this stage.

Thereafter, Treasuries saw two-way action after broadly in line jobless claims, but eventually spurred a net-hawkish reaction with T-Notes printing an intra-day low of 113-12. Next on the docket were US S&P Global Flash PMIs, which were mixed but net positive, highlighted by Manufacturing missing and Services beating, leaving the Composite also better than expected. with the report noting the solid growth picture points to robust GDP growth in excess of 2% annualized in Q3, which should help allay near-term recession fears." Overall, the release continued to alleviate labour market fears and as such T-Notes fell to a further intra-day low of 113-08+, before they ground sideways through the duration of the session, albeit hitting a trough of 113-05+. There was a deluge of Fed speak (Schmid, Harker, Collins), with the former arguably the most interesting noting he needs to see more data before he would support a rate cut. For the record, the US 30yr TIPS auction garnered little-to-no market reaction. Looking ahead, and as mentioned, the key risk event is Fed Chair Powell speaking at Jackson Hole on Friday at 15:00BST/10:00EDT (Newsquawk primer here), with attention also on any other central bank speakers.

## STIRS

- **Market Implied Fed Rate Cut Pricing: September 31bps (prev. 34bps D/D), November 63bps (prev. 71bps), December 97bps (prev. 105bps).**
- NY Fed RRP op demand at USD 317bln (prev. 321bln) across 63 counterparties (prev. 66).
- US sold USD 90bln in 8-wk bills at 5.125%, covered 2.83x; sold USD 95bln in 4-wk bills at 5.240%, covered 2.67x.
- US to sell USD 69bln 2-yr notes on August 27th, USD 70bln 5-yr notes on August 28th, and USD 44bln 7-yr notes on August 29th; all to settle September 3rd. To sell USD 28bln of 2yr FRN on August 28th, to settle on August 30th.
- US to sell USD 76bln of 13-wk bills and USD 70bln of 26-wk bills on August 26th; to settle on August 29th.
- SOFR at 5.31% (prev. 5.32%), volumes at USD 1.975tln (prev. 2.101tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 93bln (prev. 90bln).

## CRUDE

**WTI (V4) SETTLED USD 1.08 HIGHER AT USD 73.01/BBL; BRENT (V4) SETTLED USD 1.17 HIGHER AT 77.22/BBL**

**The crude complex saw gains on Thursday and attempted to recoup some of the recent sizeable losses amid a lack of notable catalysts for oil.** On the data footing, no move was seen on Flash PMI data from the EZ, UK and the US, although the former flagged a bleak picture for the EZ economy, albeit the Olympics in France cushioned the region. Meanwhile on the geopolitical footing, there has been little by the way of updates especially after reports yesterday that Gaza truce talks have reached an impasse. Although, a US envoy told the Security Council that a Gaza ceasefire and hostage deal are "now in sight", and urged Security Council members to pressure Hamas into accepting the bridging proposal. Looking ahead, Fed Chair Powell's appearance at Jackson Hole is the headline on Friday, as well any other central bank speakers and the weekly Baker Hughes rig count.

## EQUITIES

**CLOSES:** SPX -0.89% at 5,571, NDX -1.68% at 19,492 DJIA -0.43% at 40,713, RUT -0.95% at 2,150

**SECTORS:** Technology -2.13%, Consumer Discretionary -1.87%, Communication Services -0.93%, Materials -0.24%, Industrials -0.18%, Utilities -0.17%, Consumer Staples -0.11%, Health -0.02%, Energy +0.32%, Financials +0.48%, Real Estate +0.56%.

**EUROPEAN CLOSES:** DAX: +0.25% at 18,495, FTSE 100: +0.06% at 8,288, CAC 40: flat at 7,524, Euro Stoxx 50: flat at 4,885, AEX: +0.08% at 908, IBEX 35: +0.37% at 11,156, FTSE MIB: flat at 33,311, SMI: +0.62% at 12,326, PSI: -0.43% at 6,645

## EARNINGS :

- **NetEase (NTES):** Missed on EPS and revenue.
- **Baidu (BIDU):** Reported in line revenue with profit surpassing expectations.
- **Zoom Video Communications (ZM):** Profit and revenue exceeded Wall St. consensus alongside strong FY and next quarter guidance.
- **Synopsys (SNPS):** Beat on the top and bottom line while FY and next quarter profit outlooks were above analysts' expectations.
- **Advanced Auto Parts (AAP):** Profit missed and cut FY outlook.
- **Urban Outfitters (URBN):** Q2 results beat on total sales, GM, and EPS, but the company missed comps at all three divisions.

## STOCK SPECIFICS

- **Charles Schwab (SCHW) and TD Bank (TD):** TD Bank set aside an additional USD 2.6bln, anticipating fines from ongoing US investigations into its anti-money laundering practices. Provision will be partially offset by a 40.5mln share sale of Charles Schwab that it held.
- **Disney (DIS):** Appointed Board James Gorman as Chair of its Succession Planning Committee; Gorman previously led the succession process at Morgan Stanley (MS) as executive chairman.
- **Paramount (PARA):** Edgar Bronfman Jr. increased his bid on National Amusements, and a minority stake in Paramount, to USD 6bln.
- **Nvidia (NVDA):** DigiTimes reports that despite rumours of shipment delays for Nvidia's net-gen AI chips, the demand for AI servers remains strong.
- **Estée Lauder (EL):** Upgraded to Overweight from Neutral at Piper Sandler, citing management changes should be viewed in positive light with the stock's valuation that suggests limited downside.
- **Evolent Health (EVH):** Exploring a sale after receiving acquisition interest; potential bidders include private equity firms TPG, CD&R, KKR, and Elevance Health (ELV).
- **Apple (AAPL) -** To offer more options for choosing default browser in EU.

## US FX WRAP

**The Dollar Index** snapped its 4-day losing streak on Thursday, erasing Wednesday's losses as it headed higher into the 101 handle. Dollar strength was seen in the European session, with upside continuing upon the release of Initial Jobless Claims which rose more than expected, although continued Jobless Claims rose less than anticipated from the downwardly revised figure from last week. Mixed S&P Global PMIs (Mfg miss, and Services/Comp beat) saw choppy price action in the DXY initially, but as the session progressed, the Dollar strength resumed ahead of Fed Chair Powell speaking at Jackson Hole, and likely plenty more with only Goolsbee (2025 Voter, Dove) on the radar at pixel time. The day witnessed multiple Fed speakers, namely, Schmid (2025 Voter) who noted more data is needed before supporting a rate cut and that there is room to reduce the balance sheet faster than they are now. Moreover, Harker (2026 Voter) said he is ready to start the process of cutting rates, but he's not in the camp of 25 or 50bps cuts. Collins (2025 Voter) said the timing seems appropriate to begin easing monetary policy, and that policy is well positioned. Money-market pricing for the Fed into Jackson Hole sees 31bps of rate cuts priced in at the September meeting, and 97bps by year-end.

**G10 FX** largely trimmed recent gains, most prominently in the Yen, Aussie, Euro, and Kiwi. At the same time, the Franc, CAD, and Pound saw a flattish performance on the day, the latter buoyed by UK Flash PMIs coming in above expectations; Cable made new YTD highs of 1.3129, bringing the 1.3142 high of 2023 into the vicinity.

**EUR/USD** was choppy in the midst of cooler EZ negotiated wages and European Flash PMIs, which saw EZ PMI beat on services and composite but fall short on manufacturing. Nonetheless, the cross headed lower, with weakness exacerbated on the US Initial Jobless Claims release. As such, EUR/USD wiped out Thursday's gains, falling to troughs of 1.1099.

**Antipodes**, like their G10 peers, were initially firmer, yet failed to withstand the Greenback strength after the aforementioned US data. Macro updates in the space were thin; AUD/USD dipped below the 0.67 mark, albeit has since pared the move, while NZD/USD sits around 0.6140.

**Haven FX** performance was mixed. Yen unperformed, with USD/JPY reclaiming the 146 handle ahead of BoJ Governor Ueda's appearance before Parliament and Powell's Jackson Hole appearance on Friday. Meanwhile, USD/CHF hovers around 0.852 and Gold fell below USD 2,500/oz to around the USD 2,480/oz level.

**EMFX** were almost exclusively in the red, as the MXN continues to lead underperformance in the space following cooler-than-expected Inflation, Econ Activity, and GDP figures. In the Asia region, USD/KRW strengthened following the BoK's decision to keep its base rate unchanged at 3.5%, with the Central Bank noting its pace and extent of interest rate cuts will be smaller than that of the US. Lastly, the Ruble and Israeli Shekel outperformed in the space, albeit, the upside was modest.

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