US Market Wrap

23rd August 2024: Dovish Powell sets the path for September rate cut, with Stocks/Bonds bid & Dollar sold

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down
- **REAR VIEW**: Powell completes dovish pivot; ECB sources say broad support is beginning to form over a September rate cut but move is not a done deal; BoJ Governor Ueda stands by last month's rate hike; New home sales soar; Other Fed speak at Jackson Hole echoes known Fed message
- **COMING UP**: **Data:** German Ifo, US Durable Goods. **Holiday:** UK Market Holiday. **Supply:** EU. **Earnings:** PDD.
- **WEEK AHEAD:** Highlights include US PCE, UoM, Global CPI's, and NVDA earnings. To download the report please, click here.
- **Central Bank Weekly:** Reviewing ECB/FOMC Minutes and Powell, PBoC LPR, RBA Minutes, Riksbank, and CBRT. To download the report, please click here.

MARKET WRAP

US indices (SPX +1.2%, NDX +1.2%, DJIA +1.1%, RUT +3.2%) and Treasuries were firmer to end the week, while the Dollar saw weakness after Fed Chair Powell completed his dovish pivot at Jackson Hole. The Chair continued to indicate that a September rate cut is coming, as he said “the time has come for policy to adjust”, with traders on the lookout for clarity regarding the magnitude of the cut. On the labour market, Powell noted they "Do not seek or welcome further labour market cooling", which once again shows the importance of the US jobs report on 6th September which will seemingly dictate the size of the move by the Fed. As such, the aforementioned dovish reaction was seen, which was sustained throughout the rest of the session, benefitting all G10 FX peers (vs.. the Dollar) and also supporting rising oil prices, with weekend geopolitical risk also a factor. For the record, a slew of other Fed speak was seen at at Jackson Hole (Bostic, Harker, Goolsbee), but they offered little new and reiterated the known Fed message. Note, that sectors all closed in the green with Real Estate and Consumer Discretionary sitting atop of the pile with Consumer Staples and Utilities lagging, albeit still slightly firmer.

FED

POWELL: Powell's comments continued to indicate that a September rate cut is coming, as he said “the time has come for policy to adjust”, with traders on the lookout for clarity regarding the magnitude of the cut. On the labour market, the Chair said "We do not seek or welcome further labour market cooling", which once again shows the importance of the US jobs report on 6th September which will seemingly dictate the size of the move by the Fed, as WSJ's Timiraos noted earlier in the wake that a report as week as July might lead to a larger than 25bps cut. Powell continued to note how the Fed’s attention has shifted within its dual mandate, as it stated "the balance of risks to our mandates has changed and upside risks to inflation have diminished, downside risks to employment have increased." Lastly, the Chair reiterated data-dependency noting that "timing and pace of rate cuts will depend on data, outlook, balance of risks". In reaction, markets saw a broad-based dovish reaction, with upside in Treasuries and stocks alongside downside in the Dollar.

BOSTIC (2024 voter): Said they are on the cusp of a turning point in Fed policy, and the Atlanta Fed reiterated Fed language regarding risks to both sides of the mandate. On rate cuts, Bostic noted close to being ready to cut rates and policy has had its effect, and the BLS payrolls revision did not effect his view. When asked about market pricing, Bostic calls for patience on the policy path, and sending a signal is not going to be helpful. Lastly, Bostic reiterated data-dependency and he estimates long-run Fed rate at 3% (SEPs were 2.8%).

HARKER (2026 voter): Doesn’t see large outsize risk of labour deterioration, and added the neutral rate is somewhere around 3%. On cuts, Harker noted contacts are urging the central bank not to stop and start rate cuts, and the jobless rate will not peak above 5%.

GOOLSBEE (2025 Voter): Supports the Fed's new focus on the job market and noted policy is now at its tightest point of the entire hike cycle. He went on to reiterate, that Poweells rate comments were clear and definitive and has every reason to think Fed forecasts of rate cuts will happen. On the size and pace of the cuts, Gooslbee took the data-dependent approach, adding, that the size of a given Fed rate cut isn't what matters most and the path is key.

DATA

NEW HOME SALES: US New home sales soared 10.6% to 0.739mln in July, well above the expected 0.625mln and the prior, revised higher, 0.668mln. Elsewhere within the release, new home supply was 7.5 months’ worth at current pace (prev. 8.4 months’ M/M), while homes for sales was 0.462mln units (prev. 0.467mln units M/M), and median sale price fell 1.4% Y/Y in July to USD 429.8k. On the release, Oxford Economics notes new home sales make only a small contribution to residential investment and GDP growth, but the pace of sales in July, if sustained, would offset some of the downside risk to its forecast coming from weaker than expected housing starts and existing home sales in the same month.

FIXED INCOME

T-NOTE (U4) FUTURES SETTLED 13 TICKS HIGHER AT 113-22+

Treasuries were firmer on Friday and driven higher in wake of a dovish Powell. At settlement, 2s -9.7bps at 3.913%, 3s -9.0bps at 3.727%, 5s -7.8bps at 3.649%, 7s -6.9bps at 3.703%, 10s -5.9bps at 3.803%, 20s -4.3bps at 4.187%, 30s -3.7bps at 4.098%.

INFLATION BREAKEVENS: 5yr BEI +3.8bps at 2.163%, 10yr BEI +2.4bps at 2.129%, 30yr BEI +1.1bps at 2.142%.

THE DAY: Overnight and through the European morning Treasuries traded largely sideways and were in a holding pattern ahead of Fed Chair Powell's appearance at Jackson Hole. Powell did not disappoint and he delivered a dovish pivot ahead of the September 18th meeting, as he noted “The time has come for policy to adjust”, while also sticking to data-dependency. Powell didn't rule anything in or out in terms of rate cut magnitude, but did note they "Do not seek or welcome further labour market cooling", which once again shows the importance of the US jobs report on 6th September, and will likely dictate the size of the cut. In wake of Powell there was a notable dovish reaction, with T-Notes rising to a high of 113-26, vs. ~113+10+ prior to Powell's speech. Meanwhile, Fed pricing has seen a dovish shift, though only a modest one, with 34bps for Sep. (prev. 31bps) and 103bps by end-2024 (prev. 96bps). Through the rest of the US session Treasuries came slightly off the highs, but hovered around the earlier peaks.

STIRS:

- **Market Implied Fed Rate Cut Pricing: September 34bps (prev. 31bps D/D), November 69bps (prev. 63bps), December 103bps (prev. 97bps).**
- NY Fed RRP op demand at USD 313bln (prev. 317bln) across 65 counterparties (prev. 63).
- SOFR at 5.31% (prev. 5.32%), volumes at USD 2.037tln (prev. 1.975tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 91bln (prev. 93bln).

CRUDE

WTI (V4) SETTLED USD 1.82 HIGHER AT USD 74.83/BBL

The crude complex ended the day with notable gains, as the weaker Dollar aided in addition to geopolitical weekend risk. Despite a lack of energy-specific newsflow on Friday, WTI and Brent ground higher throughout the European morning in a continuation of the strength seen on Thursday. Nonetheless, oil extended its bid after a dovish reaction to Fed Chair Powell's comments at Jackson Hole, after he paved the way for a September rate cut. Thereafter, the Dollar weakness continued throughout the afternoon, supporting oil and seeing it settle at highs. For the record, Baker Hughes saw Oil unchanged at 483, Nat Gas drop 1 to 97, leaving the Total declining 1 to 585.

In addition, it is worth being cognizant that the strength comes ahead of the weekend, with continued geopolitical risks in wake of a week that failed to secure a ceasefire deal between Israel and Hamas. Regarding OPEC+, some desks believe that it is increasingly likely that the group will abandon plans to begin increasing supply from October, albeit contingent on market conditions at the end of next month.

EQUITIES

CLOSES: SPX +1.15% at 5,635, NDX +1.17% at 19,721, DJIA +1.14% at 41,175, RUT +3.19% at 2,219

SECTORS: Real Estate +2.00%, Consumer Discretionary +1.70%, Technology +1.66%, Energy +1.48%, Materials +1.35%, Industrials +1.04%, Financials +0.91%, Health +0.52%, Communication Services +0.50%, Utilities +0.29%, Consumer Staples +0.23%.

EUROPEAN CLOSES: DAX: +0.77% at 18,636, FTSE 100: +0.48% at 8,328, CAC 40: +0.70% at 7,577, Euro Stoxx 50: +0.46% at 4,908, AEX: +0.02% at 909, IBEX 35: +1.09% at 11,278, FTSE MIB: +1.02% at 33,650, SMI: +0.38% at 12,352, PSI: +0.80% at 6,698.

EARNINGS

- **Intuit (INTU):** Beat on revenue and profit, with soft guidance for the next quarter, as well as approving a new USD 3bln share repurchase programme.
- **Workday (WDAY):** Beat on the top and bottom line and authorised a share buyback of up to USD 1bln. Executive said the macroeconomic environment was consistent with last quarter, reiterating its FY25 subscription revenue view.
- **Ross Stores (ROST):** Adj.EPS, revenue, and comp.sales exceeded analysts' expectations. Executive warned that its low-to-moderate income customers continue to face persistently high costs on necessities, pressuring discretionary pending.

STOCK SPECIFICS

- **Paramount (PARA):** Skydance accused Paramount's special committee of breaching their deal by extending negotiations with other bidders, WSJ reports. Elsewhere, Bronfman is open to having Shari Redstone stay involved at Paramount if the special committee accepts his consortium's bid for controlling stake, CNBC reports.
- **General Motors (GM)** and **Uber Technologies (UBER):** GM's Cruise unit has partnered with Uber to offer driverless rides starting next year, aiming to revive its robotaxis business after halting operations due to a 2023 incident, CNBC reports.
- **Snowflake (SNOW):** Upgraded to Hold from Reduce at HSBC, raising its PT to USD 121 from USD 119. HSBC cited the Co.s growth has reduced, and it will increasingly focus on margin expansion, with the stock's premium valuation "well deserved".
- **Las Vegas Sands (LVS):** Downgraded at UBS to Neutral from Buy with a PT of USD 49, down from USD 70. The UBS analyst expects the recovery in the Co.'s Macau EBITDA to get more protracted, and Macau will not see a step change until the economic outlook for the mass market customer improves.
- **GE Vernova (GEV):** Sees another blade failure at UK offshore wind farm, which comes after a high-profile Nantucket blade collapse, Bloomberg reports.
- **Apple (AAPL)** - Targets September 10th debut for new iPhones, Airpods, and Watches, Bloomberg reports. Apple is ramping up testing of Mac models with m4 processors. Meanwhile, Third Point sees "significant" upside for Apple stock as AI features have the potential to increase Apple's earnings "meaningfully".
- **TPG (TPG)** and **United Health (UNH)** - Said to be among suitors for **Surgery Partners (SGRY),** Bloomberg reports. SRGY rallied on the news finishing over 17% higher.
- **Meta (META)** - Axed planned high-end Quest headset and keeping the device’s price below USD 1,000 was proving challenging, according to The Information; Decision followed meeting with CEO Zuckerberg and other execs.

US FX WRAP

The Dollar Index slipped markedly following the text release from Fed Chair Powell at Jackson Hole, who noted the time has come for policy to adjust, and on the labour market that the Fed "do not seek or welcome further labour market cooling", which once again shows the importance of the US jobs report on 6th September. The dovish-leaning remarks sent the DXY tumbling to 101.051 over the 5 minutes following the remarks. Weakness in the Dollar continued throughout the session, falling below its December 2023 low of 100.61. Elsewhere, Fedspeak saw Harker (2026 Voter) say 25bps or 50bps doesn't matter so much, but you have to commit to the process, while Goolsbee (2025 Voter) said Powell's rate comments were clear and definitive. In addition, Bostic (2024 Voter) towed Powell's tone, noting they are on the cusp of a turning point in Fed policy. The week marks the fifth straight week of losses in the Dollar Index ahead of next week's US PCE, UoM, GDP 2nd, and Durable Goods.

G10 FX strength resumed on Friday with all constituents in the green, and most prominent in the Aussie, Kiwi, and Yen. Canadian Retail Sales Ex-Autos unexpectedly rose, and firmer oil prices, supported the USD/CAD move lower, to which it later broke below its 200DMA (1.3591) to a trough of 1.3499. Meanwhile, BoE's Bailey said at Jackson Hole that the policy setting will need to remain restrictive for sufficiently long; Cable climbed above the 2023 high of 1.3142, setting another YTD high of 1.3230.

The Euro benefitted from Powell's remarks, sending EUR/USD to a high of 1.1200, with the 2023 high of 1.1275 in view. ECB Consumer Expectations Survey unveiled an unchanged 12-month outlook of 2.8%, while the 3yr rose slightly higher to 2.4%. Elsewhere, Reuters sources revealed there broad ECB support is beginning to form over a September rate cut, with one source saying the concern is over October not September and to ensure a September cut doesn't "stoke expectations too much". Money markets price a full 25bps rate cut at the September meeting, 42bps by the October confab, and 67bps by year-end.

Haven FX, like their G10 peers, rallied on the Dollar weakness and bid US Treasuries, with the Yen outperforming the Swissy. USD/JPY dipped to a trough of 144.14. Newsflow for the Yen centred around BoJ Governor Ueda very much leaving the door open for rate cuts, while Japanese CPI was largely in line.

EMFX primarily strengthened against the Buck on Friday, except for the TRY, which finished at a new all-time low and was weighed on by the rising oil prices. Earlier in the week, CRBT held its Weekly Repo Rate earlier in the week. LatamFX gains were led by MXN, which managed to regain some of its recent weakness, although, it still finished the week in the red against the Greenback. Lastly in CEE, HUF saw upside but was flattish against the Euro.