

newsquawk

US Market Wrap - 26th August 2024

Tech weakness hits stocks but Russell outperforms; bonds chop

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** Israel/Hezbollah trade attacks; Libya's eastern gov't will be stopping all oil production and exports; Durable Goods soar, but distorted by transportation orders; Barkin cautious on the labour market; Daly says time to adjust policy is upon them; PDD disappoints.
- **COMING UP: Data:** Japanese Services PPI, German GDP (Detailed), GfK, US Richmond Fed **Events:** NBH Policy Announcement, Fed Discount Rate Minutes **Supply:** Italy, Germany & US.
- **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

Stocks were sold on Monday with the overnight upside in futures pared once cash trade began. The losses were mixed, however, with the downside felt mostly in the Nasdaq with Tech, Consumer Discretionary and Health Care sectors underperforming, while Energy, Consumer Staples and Utilities outperformed. The SPX and NDX closed lower, but the RUT was green. A lot of the tech downside stemmed from weakness in Semiconductors shares with SOXX -2% as all eyes turn to Nvidia (NVDA) earnings on Wednesday. Energy stocks outperformed tracking gains in the crude space on escalating geopolitics with Hezbollah firing at Israel, and Israel returning fire, while participants are wary of an Iranian response to Israel. Meanwhile, Libya's eastern government announced it will be stopping all oil production and exports, seeing crude rally throughout the session. T-Notes were choppy but ultimately bear steepened. Initial upside was seen overnight in a continuation of Friday's post-Powell price action, before selling off as oil prices caught a bid on the Libya news, with dovish remarks from Barkin seeing that pare, but a chunky option play took T-Notes back to lows, before more choppiness was seen throughout the rest of the session. Barkin sounded quite cautious on the outlook for the labour market, meanwhile, Daly suggested she is not hearing that firms are poised for layoffs. She also said it is too early to talk about tactics on rates this year, and it is too early to know how big rate cuts will be. FX trade was quiet with the Buck seeing slight upside while NZD underperformed while CAD prospered from higher oil prices.

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DURABLE GOODS: Durable Goods soared 9.9% in July (prev. -6.9%, exp. 5.7%) and outside the upper bound of the forecast range, but it was solely driven by transportation orders highlighted by the ex-transport gauge declining 0.2% (prev. +0.1%, exp. -0.1%). Ex-defense jumped 10.4% (prev. -7.5%), with Nondefense Capital goods ex-aircraft new orders marginally falling 0.1% (prev. +0.5%, exp. 0.0%). Explaining the headline, there was a 34.8% jump in transportation orders in July to USD 102.2bln, in wake of a 20.6% collapse in June. Pantheon Macroeconomics notes, swings in aircraft orders explain these movements, and they have been even more volatile than usual in recent months, indicated by them swinging from minus USD 8.8bln in June, the worst month since mid-2020, to plus USD 18.4bln in July, a seven-month high. Nonetheless, the consultancy notes, the July rebound is unlikely to mark the start of a fundamental improvement and the 0.2% fall in ex-transport is a much better indication of the underlying trend, which essentially has flatlined since the end of last year.

BARKIN (2024 voter) said the Fed will be taking a "test and learn" approach to rate cuts, noting that the current low-hiring, low firing approach companies are taking is unlikely to persist. He added there is a risk that firms will resort to layoffs if the economy was to weaken. The Richmond Fed President still sees upside risks for inflation but supports a dialling down of rates in the face of a cooling labour market. He believes a large part of the economy is standing ready for the easing cycle to commence.

DALY (2024 voter) largely reiterated Fed Chair Powell's Jackson hole message, noting the time to adjust policy is upon us, but it is too early to know how big rate cuts will be and that it is too early to talk about tactics on rates for the year. She did admit it would be hard to imagine anything that could derail a September cut, but noted if the economy weakness more than they expected, the Fed would need to become more aggressive. She also noted she does not want to declare that the Fed is on the path to neutral. The San Francisco Fed President said she does not see signs of an abrupt weakening in the labour market, and she is not hearing signs that firms are poised for layoffs. She believes the most likely outcome is that they continue to see a gradual slowing of inflation and a sustainable pace of labour market growth.

FIXED INCOME

T-NOTE FUTURES (U4) SETTLED 3+ TICKS LOWER AT 113-19

T-Notes chop to surging oil prices, dovish Barkin & chunky option plays . At settlement, 2s +1.8bps at 3.932%, 3s +1.4bps at 3.741%, 5 +1.2bps at 3.662%, 7s +1.1bps at 3.718%, 10s +0.7bps at 3.814%, 20s +0.2bps at 4.192%, 30s +0.4bps at 4.106%.

INFLATION BREAKEVENS: 5yr BEI +2.6bps at 2.186%, 10yr BEI +1.9bps at 2.144%, 30yr BEI +1.4bps at 2.152%.

THE DAY: T-Notes sold off across the curve with the curve bear steepening in a choppy session. T-Notes initially continued the Friday dovish Powell bid to peak at 113-30 overnight before paring as the US session began, perhaps linked to the upside in oil prices after Libya announced it will stop all oil production and exports. There was a notable bid back up to the peaks in response to remarks from Fed's Barkin in a Bloomberg podcast. The 2024 voter warned that the current low-hiring, low-firing approach companies are taking to employment is unlikely to persist, warning of risks that firms will resort to layoffs if the economy were to weaken. Meanwhile, US Durable Goods data was mixed, where the headline saw a strong beat, although it was distorted by a huge jump in transportation equipment, leaving the ex-transport metric -0.2%, beneath the -0.1% forecast. The Atlanta Fed GDPNow was unchanged at 2% as a result. Nonetheless, the post-Barkin upside was short-lived with T-Notes quickly falling to session lows of 113-19. IFR highlighted that a chunky 10yr October put buyer was the reason, with market makers having to sell September 10yr futures as a hedge. Nonetheless, the move then pared before being sold yet again to see T-notes settle at lows.

STIRS:

- **Market Implied Fed Rate Cut Pricing: September 32bps (prev. 34bps D/D), November 66bps (prev. 69bps), December 100bps (prev. 103bps).**
- US sold USD 75bln of 6-mnth bills at 4.685%, covered 3.05x; sold USD 81bln of 3-mnth bills at 4.980%, covered 3.03x
- NY Fed RRP op demand at USD 354bln (prev. 313bln) across 63 counterparties (prev. 65).
- SOFR at 5.33% (prev. 5.31%), volumes at USD 2.152tln (prev. 2.037tln).
- EFFF at 5.33% (prev. 5.33%), volumes at USD 93bln (prev. 91bln).

CRUDE

WTI (V4) SETTLED USD 2.59 HIGHER AT 77.42/BBL; BRENT (V4) SETTLED USD 2.41 HIGHER AT 81.43/BBL

The crude complex saw notable gains to start the week as heightened Middle East tensions were later accentuated by Libya updates. As such, WTI and Brent started the week on the front foot amid geopol updates over the weekend, whereby the actions from Hezbollah and Israel were framed as one of the biggest clashes in more than 10 months while Gaza talks in Cairo ended without an agreement being reached. Moreover, Iran is still yet to respond although Sky News Arabia citing an Iranian official said revenge against the Israeli entity is inevitable (the White House later noted it has to assume Iran remains postured and prepared to attack Israel). Further bullish sentiment was added in the morning to oil after Libya's eastern government announced that it will be stopping all oil production and export activity; an update which was reportedly a response measure to the Tripoli-based governments attempt to takeover the nation's central bank. Thereafter, WTI and Brent rose to session highs of USD 77.60/bbl and 81.58/bbl, respectively, before hovering just off those levels through the US afternoon and into settlement.

EQUITIES

CLOSES: SPX -0.31% at 5,616, NDX -1.04% at 19,516, DJIA +0.16% at 41,240, RUT +0.16% at 2,222.

SECTORS: Technology -1.12%, Consumer Discretionary -0.81%, Industrials -0.13%, Health -0.12%, Real Estate -0.12%, Communication Services -0.02%, Financials +0.31%, Materials +0.39%, Utilities +0.61%, Consumer Staples +0.72%, Energy +1.11%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.26% at 4,897, DAX -0.06% at 18,622, CAC 40 +0.18% at 7,590, SMI +0.10% at 12,359, FTSE MIB -0.13% at 33,605, IBEX 35 -0.11% at 11,266, PSI +0.26% at 6,716, AEX -0.12% at 907.

STOCK SPECIFICS:

- **PDD Holdings (PDD):** Revenue disappointed, and noted revenue growth will face pressure due to intensified competition and external challenges.
- **Meta Platforms (META):** Cancelled plans for a premium mixed-reality headset intended to compete with Apple's Vision Pro, The Information reported.
- **Boeing (BA):** NASA said that due to ongoing issues with Boeing's Starliner spacecraft, it will turn to SpaceX to return the two NASA astronauts from the ISS.
- **Intel (INTC):** Has enlisted advisors, including Morgan Stanley, to defend against activist investors amid a 60% drop in its stock value this year, CNBC reports.
- **SolarEdge Technologies (SEDG):** CEO Zchi Lando steps down, with Ronen Faier, a prior CFO, to serve as interim CEO, effective immediately.
- **BJ's Wholesale (BJ):** Upgraded at JPMorgan; said modest reflation in grocery and the benefit from its efforts to drive share by reinvesting in the business.
- **Petrobras (PBR):** Upgraded at Morgan Stanley; said the noise level will gradually diminish with management changes now behind, which could remove some of the volatility.
- **eBay (EBAY):** Ikea is launching a second-hand marketplace, Ikea Preowned, to compete with platforms like eBay and Craigslist, FT reports.
- **XPeng (XPEV):** Disclosed the CEO increased his stake, buying 1mln Class A shares and ~1.4mln American depository shares.
- **Apple (AAPL):** Announces iPhone event for September 9th.
- **Evolent Health (EVH):** Evlevance Health (ELV) has reportedly dropped out of the process to bid for Evolent Health; TPG (TPG), CD&R and KKR (KKR) are among the parties interested in EVH, according to Reuters citing sources.
- **Paramount (PARA):** Reportedly exploring the sale of 12 local TV stations, which could fetch between USD 500mln to USD 1bln, according to Bloomberg citing sources.

US FX WRAP

The Dollar attempted to recoup some of last week's heavy selling, with Friday's weakness induced by a dovish Powell. As such, despite thin newsflow on Monday, the Buck managed to eke out gains and hit a high of 100.920, vs. last week's low of 100.60 and high of 102.46. As mentioned, headlines were light but the escalatory Israel/Hezbollah actions over the weekend took most of the limelight. Elsewhere, Durable Goods soared 9.9% in July (prev. -6.9%, exp. 5.7%) and outside the upper bound of the forecast range, but it was solely driven by transportation orders highlighted by the ex-transport gauge declining 0.2% (prev. +0.1%, exp. -0.1%). On the Fed footing, Daly (2024 voter) and Barkin (2024 voter) with the former reiterating that time to adjust policy is upon them, while the latter sounded concerned about the outlook on the labour market. Looking ahead, Nvidia earnings (Wed), jobless claims (Thurs), and PCE (Fri) are the highlights this week, with all focus on the jobs report next Friday.

CAD was the clear G10 outperformer and the only currency to see gains against the Dollar as it was buoyed by the crude complex strength, as opposed to anything Loonie-specific. For the record, WTI and Brent saw notable gains as initial heightened Middle East tensions were later accentuated by Libya supply updates. USD/CAD hit a high of 1.3516 vs. a later low of 1.3464.

NZD, EUR, AUD, JPY, and GBP all saw weakness, albeit to varying degrees, and it was a function of broader Dollar strength as opposed to anything currency-specific. **EUR/USD** traded between 1.1151-1201, but the cross saw little move on the better-than-expected German Ifo data. **Cable** hovered around 1.32 and peaked at 1.3222 overnight but ran out of momentum ahead of Friday's multi-year peak at 1.3230. Note, it was a UK bank holiday today and the Pound might be at the whim of broader moves due to no tier 1 data this week. **USD/JPY** saw a high of 144.65, although CitiFX month-end model suggests USD selling with the signal the strongest vs. the JPY.

CHF was flat vs. the Buck and seemed to gain traction and appeal as a result of the weekend's geopolitical escalation. Nonetheless, the cross was still in a pretty tight range, indicated by a peak of 0.8485 and a trough of 0.8457.

EMFX was mixed, and without sounding like a broken record, in light trading conditions. ZAR and CLP were aided by firmer spot gold and copper prices, respectively, while MXN recouped some of last week's selling. For the South African Rand, it comes ahead of a big week data

as participants will be attentive to monthly producer inflation, money supply, and trade balance which all might give indications to the health of the South African economy. For the BRL, Brazil Labour Minister said that the job creation data to be released this week will be "strong", while BCB Director Galipolo stated there is a lack of synchrony between the economies of US and Brazil.

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