

# newsquawk

## US Market Wrap - 27th August 2024

### Stocks gain, Dollar slides & Bonds chop as participants await Nvidia earnings

- **SNAPSHOT:** Equities mixed, Treasuries mixed, Crude down, Dollar down.
- **REAR VIEW:** US Consumer Confidence surpasses consensus, with avg. 12mth inflation expectations dropping to lowest level since March 2020; Richmond Fed falls further into contractionary territory; Decent 2yr auction; ECB's Knot will wait for data to decide on Sept rate-cut view; Iran Supreme Leader opens door to nuclear negotiations; Hidenburg shorts SMCI.
- **COMING UP:** **Data:** Australian CPI. **Speakers:** Fed's Bostic. **Supply:** Australia, UK, US. **Earnings:** Nvidia, Salesforce, CrowdStrike.

### MARKET WRAP

US indices were mixed on Tuesday (SPX +0.2%, NDX +0.3%, DJIA flat) with clear underperformance in the small-cap Russell 2000 (-0.7%), in a day of thin headline newsflow as participants await tech behemoth Nvidia earnings on Wednesday after-hours. Sectors were mixed, as Energy lagged and weighed on by weakness in the crude complex, as WTI and Brent wiped out almost all of Monday's gains, amid a lack of geopolitical escalation, and participants' profit-taking. Technology and Financials sit atop of the pile, with the former supported by Nvidia (+1.5%) ahead of the aforementioned earnings. The Dollar was lower on Tuesday and retraced its gains seen on Monday, albeit in a week, so far, typical of summer trading conditions ahead of the Labour Day holiday next week, which was to the benefit of its G10 peers. For the record, there was no Fed speak, and on the data docket Richmond Fed composite fell further into contractionary territory, while Consumer confidence beat expectations, although the outlook for the labour market was less optimistic. T-Notes were lower and curve steepening in an extension of a slew of dovish Fed speak echoing Powell last Friday.

### US

**CONSUMER CONFIDENCE:** The Conference Board's Consumer Confidence data in August rose to 103.3 from 101.9 (revised up from 100.3), above the 100.7 forecast. The upside was due to a tick up in both the Present Situation Index, to 134.4 from 133.1, and the Expectations Index, to 82.5 from 81.1, marking the 2nd straight month of a print above 80; a reading below 80 usually signals a recession ahead. Further into the report, it notes that consumers, compared to July, were more positive about business conditions, both current and future, but also more concerned about the labor market. It also adds that the assessments of the current labor situation, while still positive, continued to weaken, and assessments of the labor market going forward were more pessimistic. "This likely reflects the recent increase in unemployment. Consumers were also a bit less positive about future income." Note, 32.8% of consumers said jobs were plentiful (prev. 33.4%), while 16.4% of consumers said jobs were "hard to get" (prev. 16.3%). Seeing the differential narrow to 16.4 from 17.1%. Looking ahead, on a 6mth basis, the consumer assessment of the labour market was slightly less optimistic, with 16.1% of consumers expecting more jobs to be available, vs 15.2% in July, but 17.5% anticipated fewer jobs, up from 16.4%. On inflation, the average 12mth inflation expectations dipped to 4.9% in August, the lowest level since March 2020, and CB writes that it is consistent with slower overall inflation and declines in some goods prices.

**RICHMOND FED:** Richmond Fed composite manufacturing index fell to -19 (prev. -17) in July. Of its three components, shipments lifted to -15 (prev. -21), while new orders and employment decreased to -26 (prev. -23) and -15 (prev. -5), respectively. On the inflationary footing, prices paid declined to 2.45 from 3.00, but prices received rose to 1.87 from 1.31, with the forward-looking expectations also showing the same theme. Within the release, firms grew less optimistic about local business conditions, as the index fell to -24 from -21. In addition, the index for future local business conditions fell notably, with fewer than 10% of respondents expecting conditions to improve in the next six months. However, the report adds, the future indices for shipments and new orders remained solidly in positive territory, suggesting that firms continued to expect improvements in these areas over the next six months. The vendor lead time index decreased slightly into negative territory. On balance, firms continued to report declining backlogs in August as that index remained negative.

### FIXED INCOME

#### T-NOTE FUTURES (U4) SETTLED 2+ TICKS LOWER AT 113-16+

**Light newsflow saw mixed price action in Treasuries, although settling off worst levels with the longer end seeing the greatest selling pressure.** At settlement, 2s -2.9bps at 3.906%, 3s -1.9bps at 3.724%, 5s -0.5bps at 3.659%, 7s +1.1bps at 3.732%, 10s +1.5bps at 3.833%, 20s +2.1bps at 4.216%, 30s +2.2bps at 4.129%.

**INFLATION BREAKEVENS:** 5yr BEI -0.3bps at 2.184%, 10yr BEI +1.2bps at 2.157%, 30yr BEI +1.3bps at 2.170%.

**THE DAY:** T-Notes were lower in a steeper fashion on Tuesday in what is usually the quietest week of the year with the steepening seen this week a function of a slew of dovish Fed speak, echoing Powell last Friday. The downside accelerated in the European morning ahead of supply out of Europe and the US, with downside in Bunds and Gilts weighing on USTs. Some of the Bund weakness was likely a function of multiple euro-denominated corporate issuers (Schneider Electric, Caterpillar, National Grid and Repsol), with soft German GDP data doing little to limit the downside. Meanwhile, Gilts were hit in catch-up trade with the UK returning from the August Bank Holiday, while UK PM Starmer was also warning that the October budget will be "painful". Elsewhere, in the US, data saw House Price growth ease in June, albeit CaseShiller was above expectations. The Richmond Fed composite fell further into contractionary territory, while Consumer confidence beat expectations, although the outlook for the labour market was less optimistic. Meanwhile, the 2yr auction was strong, but not quite as strong as the July offering, with little reaction seen in response. T-Notes printed lows at the time of US Consumer Confidence and Richmond Fed data, before paring losses into settlement.

**2YR:** Overall, a decent 2yr auction again, but not quite as strong as the July offering. The US Treasury sold USD 69bln of 2yr notes at a high yield of 3.874%, lower than the prior 4.434%, seeing a stop through of 0.6bps, vs the prior stop through of 2.3bps, but stronger than the average 0.2bp stop through. The Bid-to-Cover of 2.86x was above both the prior and average, with strong direct demand supporting, rising to 19.1% from 14.4%, returning closer to the six auction average of 20.1%. Indirect demand was stronger than average at 69%, but a notable step back from the prior 76.6%. Dealers were left with 11.9% of the auction, vs the prior 9.0% and average of 13.7%.

#### STIRS:

- **Market Implied Fed Rate Cut Pricing: September 34bps (prev. 32bps D/D), November 68bps (prev. 66bps), December 104bps (prev. 100bps).**
- US to sell USD 60bln of 17-wk bills on August 28th; to sell USD 85bln of 4-wk bills and USD 80bln of 8-wk bills on August 29th; all to settle on September 3rd.
- US sold USD 75bln of 42-day CMBs at 5.150%, covered 2.67x.
- NY Fed RRP op demand at USD 344bln (prev. 354bln) across 68 counterparties (prev. 63).
- SOFR at 5.34% (prev. 5.33%), volumes at USD 2.039tln (prev. 2.152tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 94bln (prev. 93bln).

## CRUDE

**WTI (V4) SETTLED USD 1.89 LOWER AT 75.53/BBL; BRENT (V4) SETTLED USD 1.88 LOWER AT USD 79.55/BBL**

**The crude complex almost wiped out Monday's gains, amid a lack of geopolitical escalation, and participants' profit-taking.** WTI and Brent sold off throughout the session with little buying support, despite discord within Libya persisting. Libya's Eastern Parliament speaker said oil and gas flows will continue to be halted until the Central Bank Governor resumes his legal duties, whereby currently two oilfields in Southeast Libya have shut down whilst another has reduced production to its lowest capacity. On geopolitics, White House official Kirby said Iran's retaliatory attack is still expected and believes Iran is "postured and poised" to launch an attack on Israel, yet remains hopeful on Gaza ceasefire talks since all parties remain engaged. Nonetheless, thin newsflow saw WTI and Brent fall to troughs of USD 75.40/bbl and 79.50/bbl, respectively, ahead of the weekly private inventory data after the close, where current expectations are (bbls): Crude -2.3mln, Distillate -1.1mln, Gasoline -1.6mln.

## EQUITIES

**CLOSES:** SPX +0.16% at 5,626, NDX +0.33% at 19,582, DJIA flat at 41,251, RUT -0.67% at 2,203

**SECTORS:** Energy -0.93%, Utilities -0.74%, Consumer Discretionary -0.47%, Communication Services -0.44%, Materials -0.01%, Industrials +0.01%, Health +0.10%, Consumer Staples +0.22%, Real Estate +0.25%, Financials +0.48%, Technology +0.63%.

**EUROPEAN CLOSES:** DAX: +0.44% at 18,698, FTSE 100: +0.21% at 8,345, CAC 40: -0.32% at 7,566, Euro Stoxx 50: flat at 4,897, AEX: flat at 908, IBEX 35: +0.55% at 11,327, FTSE MIB: +0.52% at 33,779, SMI: -0.55% at 12,291, PSI: +0.45% at 6,746

### STOCK SPECIFICS:

- **Microsoft (MSFT):** CEO sold 14k shares at an average price of USD 417 on August 23rd.
- **Apple (AAPL):** CFO Luca Maestri will step down at the end of 2024, with VP of Financial Planning and Analysis Kevan Prekh set to succeed him.
- **Paramount Global (PARA):** Edgar Bronfman Jr. dropped his bid for the Co. The board announced its decision to proceed with the Skydance Media deal.
- **Eli Lilly (LLY):** Released single-dose vials for Zepbound to improve access; to begin selling the vials at a 50% discount to the list price of all other incretin (GLP-1) medicines for obesity.
- **Hershey (HSY):** Downgraded to at Citi; said volume weakness and "stepped up" cocoa inflation present "looming downside risk".
- **CAVA Group (CAVA):** Artal International files to sell 6mln shares of the Co.
- **JD.com (JD):** Authorised a new USD 5bln share repurchase programme.
- **Trip.com (TCOM):** Beat on EPS with positive commentary. Said Q2 saw continued growth driven by strong travel demand, and was pleased with its strong growth and the resilience of travel consumption in China.
- **Lumen Technologies (LUMN):** Kerrisdale Capital short the name.
- **Super Micro (SMCI):** A new short at Hindenburg Research.
- **Centene (CNC):** - Eliminates brokers' commissions for Medicare drug plans, via Stat News, who add the decision will save hundreds of millions of dollars for Centene. "The decision by the largest Medicare Part D carrier may end up steering policyholders toward Medicare Advantage plans".
- **Exxon (XOM):** - Reportedly looking to sell conventional Permian assets for USD 1bln, according to Bloomberg.
- **Nio (NIO):** - Opening 100 Onvo stores next week to sell its new USD 30k Tesla (TSLA) Model Y challenger, Electrek reports.

## US FX WRAP

**The Dollar** was lower on Tuesday and retraced its gains seen on Monday, albeit in a week, so far, typical of summer trading conditions ahead of the Labour Day holiday next week. There was no Fed speak and data came via Richmond Fed and Consumer Confidence. For the record, the former was mixed as the composite manufacturing index fell to -19 (prev. -17) in July, and of its three components, shipments lifted, but new orders and employment decreased. Consumer confidence was better than expected, while average 12-month inflation expectations dropped to 4.9% in August—the lowest since March 2020. Looking ahead, Nvidia earnings are eagerly awaited, with jobless claims (Thurs) and PCE (Fri) the next highlights ahead of payrolls next Friday.

**G10 FX** saw gains across the board, albeit to varying degrees, with the Kiwi outperforming and the Euro 'underperforming' on account of the weaker Dollar, as opposed to much currency-specific related.

**For the single currency,** EUR/USD traded between 1.1151-90, with the German GDP and consumer sentiment data once again providing a bleak account for the region. In terms of ECB speak, Centeno said the path for interest rates seems relatively clear, while Knot said as long as the disinflation path converges to 2% before end-2025, then is comfortable with gradual policy easing, and he will wait for data to decide on the September rate-cut view.

**In high beta FX,** Cable saw a peak of 1.3265, while AUD/USD and NZD/USD saw highs of 0.6795 and 0.6254, respectively. AUD/USD still holds below the 0.68 mark, albeit just, as attention is on a test of the 0.68 mark, which hasn't been breached since 2nd Jan. For NZD/USD, the focus is on whether it can eclipse Friday's 0.6236 high which was the highest level since January. Ahead, Australian CPI is overnight ahead of further data on Thursday.

**The Yen** initially saw weakness on Tuesday, with USD/JPY reaching a high of 145.17, but later retraced to lows of 143.93 on account of the aforementioned Buck weakness. Regarding levels, Monday's trough of 143.45 is the next level to be cognizant of.

**EMFX** was pretty mixed vs. the Dollar. The Yuan, TRY, and BRL were flat, while ZAR and RUB saw marginal strength, while the MXN was the distinct underperformer. For the Lira watchers, the latest CBRT Minutes said leading indicators suggest that monthly inflation will slow down in August, and data for Q2 suggests that the annual and quarterly GDP growth rates will decline vs. Q1. In Brazil, IPCA-15 Mid-Month CPI was cooler than forecasted for both M/M and Y/Y metrics. MXN slid more than 1% after lawmakers in the lower house of Congress approved in

general terms a controversial judicial reform, while other LatAm currencies were subdued as investors remained largely risk-off. Lastly, the HUF appreciated both against the EUR and Dollar after the NBH paused its rate-cutting cycle after 10 consecutive cuts.

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