Daily US Market Wrap- 29th August 2024

Stocks pare early gains as tech takes a hit; bonds down after US data

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude up, Dollar up
- **REAR VIEW**: NVDA beats, but stock sells; Q2 US GDP revised up, Core PCE revised down; Jobless Claims inline; Soft German Inflation; Iraq to cut oil output; AAPL and NVDA to join OpenAI funding round.
- **COMING UP**: **Data:** Japanese Tokyo CPI, Unemployment Rate, German Trade, Retail Sales, French CPI, Spanish Retail Sales, EZ CPI, Italian CPI, US PCE. **Speakers:** ECB's Schnabel. **Supply:** Australia.

MARKET WRAP

Stocks were gradually bid throughout the majority of the session despite the weaker NVDA shares post-earnings. However, a late trade tech sell-off saw these gains unwind with NVDA extending on losses while some of the large-cap names propping up the indices earlier (TSLA, GOOGL, MSFT) fell off highs; AAPL were also off highs, but not to the same extent. WSJ reported that Apple (AAPL) is to join the OpenAI funding round (Bloomberg later reported that Nvidia (NVDA) is also in talks about joining), which weighed on GOOGL. The earlier stock upside came despite NVDA losses despite EPS and revenue beats, with some analysts citing expected increases in shipments of the current Hopper gen of chips over the next couple of quarters, while others remain unimpressed by the Cos. expected growth rate, which is cooling from lofty levels; some noted that the growth projections did not exceed the most optimistic views of the street, while others noted that its margins were up Y/Y, but cooled vs Q1. Elsewhere, Treasuries were sold across the curve in response to a surprise revision higher in the 2nd estimate of Q2 GDP while Jobless Claims data were in line with expectations, again helping quell labour market concerns. The data also lifted the Dollar but the antipodean currencies were the outperformers while the Euro was among the laggards after soft German inflation data. Crude prices caught a bid and held onto the majority of gains after it was reported that Iraq is to cut its crude oil output.

US DATA

JOBLESS CLAIMS: Initial jobless claims rose 231k in the w/e 24th August, slightly shy of the expected, 232k, and the prior, 233k, but continues to hover around the 230k mark and highlight that the labour market is not seeing any further weakness or notable softening, which suggests the Fed will likely go with a 25bps cut in September. However, the US jobs report next Friday (Sept 6th) will be the determining factor behind the magnitude of the Federal Reserve rate cut. Back to the metrics, initial claims saw the 4-wk average fall to 231.5k (prev. 236.25k), while continued claims, for the week that coincides with the jobs report, printed 1.868mln (exp. 1.870mln, prev. 1.855mln).

GDP: The 2nd estimate of GDP was revised up to 3.0% from 2.8%, above the consensus of it being left unrevised and also the top estimate of 2.9%. Consumer Spending was also revised up to 2.9% from 2.3%, while the GDP deflator was revised up to 2.5% from 2.3%, above the expected 2.3%. Core PCE was revised down to 2.8% for Q2 from the 2.9% prior. The data suggests a better Q2 in the eyes of the Fed than previously thought with a stronger consumer than initially thought while prices eased a touch, although there is still the final estimate due, so this may be subject to change. The BEA highlighted that the updated print primarily reflected the upward revision to consumer spending, but Oxford Economics pointed out it was mostly offset by downward revisions to non-residential fixed investment, exports, private inventory investment, government spending, and residential fixed investment. Nonetheless, Oxford Economics highlights that this report does not warrant a change to their forecast for the economy to settle into a more sustainable pace of growth through the remainder of this year and early next. The desk also notes this will not have implications for the outcome of the Fed's September meeting as its focus is on the labour market.

PENDING HOME SALES: Pending home sales fell 5.5% in July, much worse than the expected +0.4% and also outside of the lower bound of the forecast range, -4.0%. Oxford Economics notes, despite some relief on mortgage rates and an increase in the supply of homes for sale, the headline fell to a record low, indicating that high home prices and potentially uncertainty about the labour market are keeping buyers on the sidelines. Looking towards the end of 2024, Oxford expects lower mortgage rates and increases in supply to support an improvement in home sales. However, some softening of home price growth may be needed to boost sales given the affordability challenges faced by many potential buyers.

ADVANCE GOODS TRADE BALANCE: The July US Advance Goods Trade Balance saw a deficit of 102.66bln, deeper than June's 96.56bln as imports continue to outpace exports. Exports were unchanged last month, but continued to climb at a relatively healthy pace. However, imports continue to rise at a much faster rate, including a 2.8% increase in July, with the goods trade deficit of USD 14.5bln bigger in July than its Q4 2023 average. Analysts at Pantheon Macroeconomics note "It is far too early in the quarter to predict the likely impact of net trade on Q3 GDP growth with any real confidence." Despite saying this, the consultancy adds "combining July's advance goods trade data with some conservative assumptions about the rest of the quarter, and penciling-in slight deterioration in the services trade balance due to the purchase of media rights for the Paris Olympics, it tentatively points to net trade knocking somewhere in the region of 1% from headline GDP growth this quarter."

FED

BOSTIC: The 2024 voter said that there is still a distance to go on inflation, while the labour market is quite strong by historical standards and that he is still awaiting data to be sure it's time to cut rates. Bostic noted inflation has come down faster than expected, and unemployment has risen farther than he thought. The Atlanta Fed President repeated the Fed cannot wait until inflation is at 2% to move away from restrictive stance, adding "This means we should pull forward rate cut to 3rd quarter" (he previously had said the Fed should cut in Q4). Bostic also warned that it would not be good to cut rates only to have to raise them again.

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLED 6+ TICKS LOWER AT 113-28

T-notes fade European strength on upward GDP revision and inline Jobless Claims data. At settlement, 2s +2.7bps at 3.894%, 3s +2.5bps at 3.755%, 5s +2.6bps at 3.670%, 7s +2.7bps at 3.764%, 10s +2.6bps at 3.867%, 20s +2.3bps at 4.246%, 30s +2.2bps at 4.153%

INFLATION BREAKEVENS: 5yr BEI +0.5bps at 2.195%, 10yr BEI +1.0bps at 2.166%, 30yr BEI +0.7bps at 2.172%.

THE DAY: T-notes traded sideways overnight but caught a bid in the European morning in response to softer state German inflation data, tracking bunds higher to see the 10yr T-note futures (Z4) hit a peak of 114-07. The soft German inflation reports were later confirmed in the national print, but had little follow-through impact. T-notes then pared any earlier gains and sold off across the curve in response to hotter-than-expected revisions to GDP (although Core PCE was revised down for Q2), while the latest Initial and Continued Jobless Claims Data was in line with expectations, once again offsetting some recent labour market concerns after the July NFP report. T-notes went on to hit a low of 113-23+, perhaps with some concession taking place ahead of the 7yr note auction. However, although once Europe left for the day, T-notes saw a slight pick up with only a minor hit to the weak 7yr auction before immediately paring.

7YR: Overall a relatively weak 7yr auction due to weak direct demand. The US Treasury sold USD 44bln of 7yr notes at a high yield of 3.770%, tailing the when issued of 3.761% by 0.9bps, weaker than the prior stop through of 0.4bps and six auction average stop through of 0.1bps. The Bid-to-Cover of 2.50x was softer than both the prior and six-auction average too. The breakdown saw direct demand fall to 11.19% from 16.8%, beneath the 17.4% six-auction average, while indirect demand saw a slight tick up to 75.09%, above the 69.2% average. However, the weak direct demand saw dealers take home a larger proportion of the auction than was seen in July at 13.72%, up from 8.9%, however, it was only marginally above the six-auction average.

STIRS:

- **Market Implied Fed Rate Cut Pricing: September 34bps (prev. 34bps D/D), November 66bps (prev. 68bps), December 101bps (prev. 103bps).**
- US sold USD 85bln of 4-wk bills at 5.170%, covered 2.83x; sold USD 80bln of 8-wk bills at 5.100%, covered 2.60x
- US to sell USD 76bln of 13-wk bills, USD 70bln of 26-wk bills, and USD 46bln of 52-wk bills on September 3rd; all to settle on September 5thUS to sell USD 65bln of 42day CMB's on Sept 3rd; to settle Sept 5th.
- NY Fed RRP op demand at USD 383bln (prev. 389bln) across 69 counterparties (prev. 74)
- SOFR at 5.35% (prev. 5.35%), volumes at USD 2.030tln (prev. 2.027tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 86bln (prev. 94bln).

CRUDE

WTI (V4) SETTLED USD 1.39 HIGHER AT USD 75.91/BBL; BRENT (V4) SETTLED USD 1.29 HIGHER AT USD 79.94/BBL

The crude complex was firmer on Thursday, albeit settling off highs, after further Libya updates and initial Iraq induced upside usurped Dollar strength or any lack of Middle Eastern updates. As such, WTI and Brent rose to session highs of USD 79.91/bbl and 80.78/bbl, respectively, after Reuters sources reported that Iraq plans to cut oil output to between 3.85-3.9mln BPD in September. For reference, analysts were expecting July production at 4.17mln BPD, and its OPEC target for Q1 is 4.009mln BPD. In addition, Libya suspended oil exports from five eastern ports, and the country's output dipped further amid an escalating stalemate over who controls the central bank. The eastern-based government ordered the halt of oil-loading operations at the ports of Brega, Es Sider, Ras Lanuf, Zueitina and Hariga, according to BBG citing sources. Nonetheless, through the US afternoon oil came off those peaks, potentially on profit taking or the firmer Dollar having more of an influence. Regarding geopolitics, updates were sparse with the only real update, albeit not much new, from White House's Sullivan noting Gaza talks have now moved to an advanced stage and talks have made progress but many issues remain unresolved. Looking ahead, US PCE (July) is the highlight to conclude the week as well as the weekly Baker Hughes rig count.

EQUITIES

CLOSES: SPX flat at 5,592, NDX -0.13% at 19,325, DJIA +0.59% at 41,335, RUT +0.66% at 2,203

SECTORS: Technology -0.74%, Consumer Staples -0.47%, Real Estate -0.40%, Communication Services -0.21%, Consumer Discretionary +0.20%, Health +0.21%, Utilities +0.55%, Materials +0.56%, Industrials +0.70%, Financials +0.85%, Energy +1.27%.

EUROPEAN CLOSES: DAX: +0.64% at 18,903, FTSE 100: +0.43% at 8,380, CAC 40: +0.84% at 7,641, Euro Stoxx 50: +1.06% at 4,965, AEX: +1.43% at 924, IBEX 35: +0.23% at 11,359, FTSE MIB: +0.92% at 34,192, SMI: +0.61% at 12,424, PSI: -0.07% at 6,714

STOCK SPECIFICS

- **Nvidia (NVDA):** Beat on EPS and revenue, although some analysts remained unimpressed by Cos. expected growth rate, while others noted that the growth projections did not exceed the most views of the street, and others said margins were cooler were up Y/Y, but cooled vs Q1. For a full sell-side analysis piece, please click here.
- **Salesforce (CRM):** Adj. EPS and revenue surpassed analysts expectations, with FY profit view also strong. President and CFO Amy Weaver to step down.
- **CrowdStrike (CRWD):** Guidance for the next quarter and FY disappointed, although, did beat on the top and bottom line. Working with customers to recover from the July 19th outage incident and said the incident had 'significant impact' on the last two weeks of the quarter
- **Dollar General (DG):** Fell short on Wall. St forecasts for Q2, EPS, Revenue, SSS, Gross Margin, as well as poor FY guidance.
- **Best Buy (BBY):** EPS, revenue, and comp. sales exceeded expectations, with the Co. expecting to spend USD 500mln on share buybacks during FY25.
- **Affirm (AFRM):** Shallower loss per share with gross merchandise volumes guidance impressing.
- **Gap (GAP):** In an early press release, posted earnings that beat on expectations with strong comp sales and raising guidance.
- **HP Inc (HPQ):** Profit missed, but revenue beat and raised share buyback programme to USD 10bln.
- **Tesla (TSLA):** Requested Canada to lower the newly imposed 100% tariff on Chinese-made EVs, seeking a rate similar to what it received in the EU.
- **Apple (AAPL):** Planning to produce 88-90mln AI-equipped iPhones, exceeding last year's orders of 80mln, Nikkei reports.
- **Joby Aviation (JOBY):** Reportedly inked a deal with Virgin Atlantic, according to Tech Crunch citing sources.
- **Super Micro (SMCI):** BofA moved its rating on SMCI to "Under Review" after yesterday's delayed 10-K news saying it has led to uncertainty and their analyst is unable to look into the company's financials.

US FX WRAP

The Dollar Index rose above the 101 handle, with earlier gains in the session kickstarted by Euro Weakness rather than dollar-specific drivers. That said, strength in the buck continued once dollar catalysts arrived, namely, a surprise revision higher to Q2 GDP, while Jobless Claims were in line with expectations, once again easing concerns of a cooling labour market. The Dollar Index reached session highs of 101.58, although has since pared slightly. Elsewhere, Fedspeak in the session included Fed's Barkin (2024 Voter) saying inflation is down, not there yet but is making progress. Going forward, attention will be on the Dollar for Friday's Core PCE, which is expected to rise 2.7% Y/Y and 0.2% M/M, as well as the Chicago PMI.

G10FX price action was mixed, with upside against the buck present in Antipodes and the CAD, while CHF, JPY, GBP, SEK, and JPY were all in the red. Meanwhile, the NOK saw a flattish session. AUD/USD set a peak on the session of 0.6823, a level not seen since the 1st week of January this year, although, the pair has trimmed gains prior to overnight's Australian Retail Sales M/M Final for July. Elsewhere, a surging New Zealand ANZ Business Outlook (highest level since May 2014), driven by investment intentions and determination for employment, helped push the Kiwi higher; NZD/USD saw highs of 0.6298, but has retreated to around 0.6260.

The Euro saw weakness versus the greenback on Wednesday, with losses arising after the German state CPI cooled more from the prior than was anticipated. As such, EUR/USD fell from 1.1130 to 1.1089, though it did bounce for some time, amid better-than-expected EU Services, Economic, and Industrial Sentiment for August. That said EU final Consumer Confidence fell short of expectations. Losses resumed in the cross after the aforementioned US data, troughing at lows of 1.1054. In terms of ECB speak, Holzmann said he is not against lowering rates but one has to be careful, or one could be forced to take a step back. Holzmann added September or at the latest October will be the first month with no more base effects dropping out of inflation. Meanwhile, Nagel pointed towards the risk that a somewhat stronger economic recovery could further delay the return to target. Looking ahead, upcoming Euro drivers on Friday include HICP Flash (AUG), EZ Unemployment Rate (Jul), German Unemployment Chg SA (Aug), and a text release from ECB's Schnabel.

Haven FX weakened on the day, suffering from a stronger buck and US yields rather than currency-specific drivers. USD/JPY peaked at 145.55, but as the session progressed the cross failed to hold on to the 145 mark. SNB's Chairman Jordan's remarks had little impact on the Swissy, noting the weak Euro area is hunting demand for Swiss exports; USD/CHF sits off highs of 0.8493.

EMFX performance was mixed for the day, with outperformance present in ILS, KRW, and the CLP, although the upside was modest. CLP seemingly shrugged off the Chilean Jobless Rate which jumped more than was expected, while cooler-than-expected Brazil IGP-M Inflation Index for August weighed on the Real, sending USD/BRL higher. In the CEE space, PLN strengthened vs the Euro but was pressured by the buck, following unchanged GDP Prelim data for Q2.

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