

newsquawk

US Market Wrap - August 30th 2024

Stocks rally on month-end while bonds fall & dollar gains post PCE

- **SNAPSHOT:** Equities up, Treasuries down, Crude down, Dollar down
- **REAR VIEW:** PCE shows cool price pressures with a healthy consumer; Atlanta Fed GDPNow revised up to 2.5%; UoM Sentiment sees slight revision higher, 1yr inflation expectations ease; OPEC+ to proceed with planned gradual oil production hikes; Aussie retail sales miss; Hot Tokyo CPI; INTC mulls foundry split, DELL earnings beat, NXPI raises dividend and buyback.
- **COMING UP: Holiday:** Labour Day; The desk will open as usual at 22:00BST/17:00EDT on Sunday 1st September and run until 18:00BST/13:00EDT on Monday 2nd September, upon which the desk will close and then re-open at 22:00BST/17:00EDT the same day due to US market closures. **Data:** Australia, Japanese, EZ, UK Manufacturing PMI.
- **WEEK AHEAD:** Highlights include US NFP & ISMs; BoC rate decision, Canada jobs; Australian GDP and Swiss CPI. [To download the report please click here.](#)
- **CENTRAL BANK WEEKLY:** Previewing BoC rate decision. [To download the report, please click here.](#)

MARKET WRAP

Stocks saw two-way price action but ultimately closed well in the green with outperformance in the Nasdaq after a slew of strong tech updates, namely Intel (INTC) mulling a foundry split off while Dell (DELL) earnings were strong and NXP Semiconductors (NXPI) boosted its dividend and buyback programme. There was also a wave of buying into heavyweight stocks into the closing bell, likely related to month-end flows on the last trading day of the month which saw the S&P 500 close out at intraday highs. The focus of the session was largely on the PCE data which saw the pricing data inline M/M but cooler than expected Y/Y, but the reaction was hawkish with upside in the Dollar and downside in T-notes on account of the strong consumer spending and personal income section of the report, showing a healthy consumer. The Dollar and CAD outperformed with the latter supported by strong growth data while the Yen was the laggard as yields rose while the Aussie took a hit after soft retail sales data overnight. Crude prices slumped on Reuters source reports that OPEC+ is to go ahead with its planned, gradual output hikes. Gold and silver were lower in response to the higher yield environment. Elsewhere, it was quiet trade on month-end as participants head into the long weekend on account of the US Labour Day on Monday.

US

PCE: Core PCE, the Fed's preferred measure of inflation, rose by 0.2% in July, matching the prior and expected 0.2%. The unrounded number was 0.1611%, down from the prior 0.1818%. The Y/Y print rose 2.6% Y/Y, matching the prior pace but beneath the 2.7% forecast. The annualised Core PCE rates saw the 3-month ease to 1.7% (prev. 2.3%, rev. 2.1%) and the 6-month ease to 2.6% (prev. 3.4%, rev. 3.3%). The headline numbers rose 0.2%, in line with the 0.2% forecast, but picking up from the prior 0.1%; unrounded 0.155% (prev. 0.0788%). Within the headline numbers, prices for goods decreased by less than 0.1% and prices for services increased 0.2%. The data will be welcomed by the Fed as it shows that inflation is not reaccelerating, however with Y/Y Core PCE at 2.6%, it is still a bit above the Fed's target. However, the recent trend of inflation has been lower, and the annualized numbers are also heading lower. Meanwhile, a lot of the Fed's focus now is on the labour market which has shown signs of cooling, although the latest string of Jobless Claims data suggests the cooling is not something to be overly concerned about yet. The August NFP report on 6th September will be key. Elsewhere in the report, Personal Income rose 0.3%, above the 0.2% forecast and prior, with consumption rising 0.5%, up from the 0.3% prior but inline with forecasts. Real consumption rose 0.4%, up from the prior revised 0.3% (up from 0.2%), Capital Economics highlights that this "suggests that third-quarter consumption growth will be 3.7%. Even allowing for the unexpected strength of imports, GDP growth is tracking at close to 2.5%, which should ease any lingering recession fears".

UOM: Final UoM for August saw the headline revised marginally higher to 67.9 from 67.8, but shy of the expected 68.0. Current conditions were revised up to 61.3 from 60.9, while forward looking expectations were left unchanged at 72.1. Looking at the inflation metrics, 1yr ticked lower to 2.8% (prev. 2.9%) and 5yr was unrevised at 3.0%. Within the report, it notes that "sentiments this month reflects a slight rise in sentiment among Independents, as Democrats and Republicans offset each other almost perfectly." The release adds, Democrats saw a notable 10% increase, while Republicans posted an equally sized decline. UoM adds that these resulted from a sea change in election expectations this month with Harris emerging as the Democratic Presidential Candidate. In July, 51% of consumers expected Trump to win the election vs. 37% for Biden. In August, election expectations flipped; 36% expected Trump to win vs. 54% for Harris.

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLED 8+ TICKS LOWER AT 113-01+

T-notes sold off across the curve after PCE data showed a healthy consumer. At settlement, 2s +3.6bps at 3.929%, 3s +4.0bps at 3.795%, 5s +4.7bps at 3.715%, 7s +4.6bps at 3.809%, 10s +4.4bps at 3.911%, 20s +4.2bps at 4.288%, 30s +4.4bps at 4.195%

INFLATION BREAKEVENS: 5yr BEI -0.8bps at 2.184%, 10yr BEI -0.1bps at 2.162%, 30yr BEI +0.7bps at 2.175%

THE DAY: T-notes traded sideways overnight and throughout the European morning with the weakness seen in response to the US data. The PCE report saw inflation metrics on the cooler side of expectations, although it showed a strong consumer with rising personal income. With the Fed's focus shifting to the labour market, signs of a strong consumer will likely see the Fed favour a 25bp rate cut over a 50bp move in September, although the August NFP report (on September 6th) will likely be the deciding factor. The post-data move in T-notes did gradually pare, however better selling then resumed, likely supported by the upward revision in the Q3 Atlanta Fed GDPNow to 2.5% from 2.0% previously, on the account of the strong consumer data today. Note, it was once again quiet, illiquid trade as participants head to the long weekend on account of the Labour Day holiday in the US. Attention next week turns to the highly anticipated August NFP report on Friday, as well as ISM Manufacturing and Services PMI data earlier in the week.

STIRS:

- **Market Implied Fed Rate Cut Pricing: September 33bps (prev. 34bps D/D), November 66bps (prev. 66bps), December 100bps (prev. 101bps).**

- NY Fed RRP op demand at USD 433bln (prev. 383bln) across 72 counterparties (prev. 69)
- SOFR at 5.33% (prev. 5.35%), volumes at USD 2.088tln (prev. 2.030tln).
- EFRR at 5.33% (prev. 5.33%), volumes at USD 97bln (prev. 95bln).

CRUDE

WTI (V4) SETTLED USD 2.36 LOWER AT 73.55/BBL; BRENT (V4) SETTLED USD 1.14 LOWER AT 78.80/BBL

The crude complex ended the day, and week, in the red as OPEC+ sources weighed. WTI and Brent were largely sideways through the European morning in thin newsflow, but immediate downside ensued after Reuters sources noted that OPEC+ is likely to proceed with a planned gradual oil production increase from October. The sources further added that eight OPEC+ members are scheduled to boost output by 190k BPD in October, as part of a plan to begin unwinding their most recent layer output cuts of 2.2mln bpd, while keeping other cuts in place until end-2025. The plan to raise production remains in place as the loss of Libyan output tightens the market and hopes build that the Fed will cut interest rates in September. Elsewhere, newsflow was pretty sparse to end the week as participants await the long weekend out of the US due to Labor Day, although Libya's NOC stated recent oilfields closures have caused loss of approximately 63% of total oil production. For the record, Baker Hughes rig count saw the total -2, with oil rigs unchanged and nat gas rigs declining by 2.

EQUITIES

CLOSES: SPX +1.01% at 5,648, NDX +1.29% at 19,575, DJIA +0.55% at 41,563, RUT +0.67% at 2,218

SECTORS: Consumer Discretionary +1.92%, Industrials +1.11%, Technology +1.06%, Materials +1.02%, Real Estate +0.98%, Financials +0.94%, Communication Services +0.82%, Consumer Staples +0.74%, Health +0.73%, Utilities +0.61%, Energy +0.27%.

EUROPEAN CLOSES: EUROPEAN CLOSES: DAX: -0.03% at 18,908, FTSE 100: -0.04% at 8,377, CAC 40: -0.13% at 7,631, Euro Stoxx 50: -0.18% at 4,957, AEX: -0.55% at 919, IBEX 35: +0.38% at 11,402, FTSE MIB: +0.53% at 34,373, SMI: +0.21% at 12,444, PSI: +0.69% at 6,760

EARNINGS

- **Autodesk (ADSK):** Topped revenue and profit expectations. Exec said that given its momentum in Q2, it's lifting guidance ranges for FY billings, revenue, EPS, and free cash flow.
- **Dell Technologies (DELL):** Top and bottom line beat Wall St. consensus. Continues to see an increase in the number of enterprise customers buying AI solutions.
- **Marvell Technology (MRVL):** Adj. EPS and revenue surpassed market expectations.
- **Lululemon (LULU):** Profit beat, although it lowered guidance and missed sales estimates.
- **Ulta Beauty (ULTA):** Missed on profit and lowered guidance with an exec citing a decline in SSS as the main driver for the quarter's weak performance.
- **Elastic (ESTC):** Next quarter revenue guide light, and lowered FY view. Exec noted it had a slower start to the year due to segmentation changes, and it has taken steps to address it but will impact revenue this year.

STOCK SPECIFICS

- **Intel (INTC):** Working with investment bankers to navigate its slump, exploring options like splitting its product-design and manufacturing units and potentially scrapping factory projects, Bloomberg reports.
- **NXP Semiconductors (NXPI):** Approved an interim dividend of USD 1.014/shr alongside an additional USD 2bln for share purchases.
- **Goldman Sachs (GS):** To lay off over 1.3k workers, expected to affect 3-4% of the workforce, WSJ reported.
- **Novavax (NVAX):** FDA authorised an updated Novavax (NVAX) COVID-19 vaccine to better protect against currently circulating variants

US FX WRAP

The Dollar Index extended into a third straight day of gains on Friday, marking its first week of strength since mid-July, with gains on the day stemming from another US data release. US PCE Prices for July were as expected on the monthly figures, though cooler on the yearly figures. The report also saw Personal Income rise more than anticipated, while both real and adjusted personal consumption improved, supporting the case for dollar strength. This extended after the Atlanta Fed GDPnow was revised upwards to 2.5% (prev. 2.0%) for Q3. Meanwhile, Chicago's PMI for August beat expectations. Outside of the data, newsflow was thin in the US heading into month end and a long weekend. Attention is now fixed on next Friday's Jobs report, where the US economy is expected to add 160k jobs (prev. 114k), while the Unemployment Rate is expected to hold firm at 4.2%. Elsewhere, attention will lie on JOLTs, and the ISM Manufacturing and Services PMI reports.

G10FX were exclusively in the red versus the buck, with downside led by the Yen, and Aussie, meanwhile CAD outperformed in the space, albeit, flat, following a strong GDP Q/Q Annualised for the quarter. The Aussie weakness stemmed after a miss in Retail Sales, which was unchanged on the month, missing the 0.3% forecast.

The Euro headed for its worst week since April, as downside ensued from dollar strength. Meanwhile, Eurozone inflation was mixed, with Headline Y/Y falling as expected, driven mainly by energy inflation, whereas Core Y/Y was stickier than expected as was Services. Elsewhere, the EZ Unemployment Rate surprisingly ticked lower to 6.4%, and Germany's unemployment Chg came in well below market expectations. For ECB speak, Villeroy was of interest, noting the market view is reasonable on rates at 2-2.5% in 2025, and it's fair and wise to expect rate cuts in September. ECB's Schnabel said, "while risks to growth have increased, a soft landing still looks more likely than a recession". EUR/USD set a low of 1.1045, with the daily low of 1.1012 on August 18th in view ahead of a myriad of PMIs in Europe on Monday.

Haven FX weakened on dollar strength, except weakness was more pronounced as rising US Treasury yields added more pressure towards the yield-sensitive currencies. USD/JPY showed little reaction overnight towards the hotter-than-expected Tokyo CPI, which now sits just off its session high of 146.24. ING believes "markets are still underestimating the chances of another hike by the BoJ before the end of the year, with only one 8bp priced in by December". For reference, money markets see the first full 10bps hike in January 2025.

EMFX price action was skewed to the downside, visible in CEE FX, particularly, PLN, HUF, and CZK, while in LatAm, performance was mixed with MXN outperforming. South of the equator, the Rand witnessed a volatile session, initially setting a high not seen since July 2023 on improved investor sentiment on signs the economy's momentum is kickstarting. That said, Rand strength failed to sustain post-US data, resulting in Rand snapping its 2-week streak of gains. Lastly, USD/BRL showed little reaction to the BCB selling 15.3k out of the 30k FX swaps offered at an additional auction.

The Yuan was rather flat vs the buck but did see some strength overnight after Bloomberg reported that China is to allow refinancing on USD 5.4tn in mortgages. It is also worth noting that Reuters sources stated that China's major state-owned banks were seen buying USD in onshore foreign exchange market to prevent CNH from appreciating too fast.

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