

### Dollar drops and bonds pop after JOLTS falls beneath forecasts

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar down.
- **REAR VIEW:** JOLTS beneath all analyst expectations, with vacancy rate falling & quits rate rising; BoC cuts rates, as expected, more expected; OPEC+ discussing delaying planned output hike; Biden prepared to block Nippon Steel purchase of US Steel; VZ in advanced talks to acquire FYBR; SMCI downgraded at Barclays; Dismal DLTR earnings; NVDA received DoJ subpoena, but later denied it.
- **COMING UP:** **Data:** Japanese Overtime Pay, German Industrial Orders, EZ Construction PMIs, EZ Retail Sales, US Challenger Layoffs, ADP National Employment, IJC, ISM Services **Events:** BoE Decision Maker Panel **Speakers:** RBA's Bullock; BoJ's Takata **Supply:** Japan, Spain, France, UK, US **Earnings:** Volvo AB, Broadcom.

### MARKET WRAP

Stocks were ultimately lower on Wednesday, albeit not to the same extent as Tuesday's session. Losses were widespread, with Energy, Materials and Tech underperforming, with Nvidia (NVDA) hit again after a DoJ subpoena, although it denies this, while SMCI also was lower after a downgrade from Barclays. Note, SOXX ETF closed up, despite the NVDA and SMCI weakness. Elsewhere, only Utilities closed green with Consumer Staples flat, emphasising the risk-off trade. Energy weakness tracked crude and gas prices lower. The highlight of the day was the JOLTS data for July, which came in well beneath consensus and beneath the lowest analyst forecast. Adding to the dovishness of the report was a move up in the quits rate and a move lower in the vacancy rate, with the whole report seeing T-Notes rally, gold catch a bid and the dollar hit. The data also saw money markets start to price in a 50bp rate cut in September with more certainty, briefly rising above 50%, albeit since paring to c. 44%. In FX, the Dollar was sold with JPY a clear outperformer with CHF and EUR also gaining. CAD saw gains in wake of the BoC rate decision, which cut rates by 25bps as expected, but Macklem warned that although not their base case, there is a risk that the upward forces on inflation could be stronger than expected. Crude prices were very choppy but ultimately settled in the red with Libya supply and demand woes weighing on the complex, despite several source reports that OPEC+ are considering delaying their planned production hikes. There were also several key equity stories. Telecoms were hit on a WSJ sources article suggesting Verizon (VZ) is in talks to acquire Frontier (FYBR), while WaPo reported US President Biden is prepared to block the Nippon Steel (5401 JT) acquisition of US Steel (X). Meanwhile, the Nordstrom Family offered to purchase Nordstrom (JWN) for USD 23/shr in cash. Dollar Tree (DLTR) slumped after woeful earnings, while Zscaler (ZS) dived after poor guidance.

### NORTH AMERICA

**JOLTS:** JOLTS job openings for July printed 7.673mln falling from the prior, revised lower, 7.91mln, well short of the expected 8.1mln and outside the bottom end of the forecast range, 7.8mln. The headline coming in beneath all analyst expectations adds to signs of a cooling labour market in July. The dip in the vacancy rate and rise in the quits rate is also notable, the vacancy rate fell to 4.6% (prev. 4.9%, rev. 4.8%), with the quits rate rising to 2.1% (prev. 2.1%, rev. 2.0%). Regarding the vacancy rate, Fed Governor Waller Waller has previously said that if it were to dip beneath 4.5%, it would likely suggest that excess labour demand has been worked off, and the unemployment rate could start to rise. As mentioned above, the report offers further evidence of cooler labour market conditions but it doesn't change Oxford Economics' call for the Federal Reserve to cut rates by 25bps cut at September 18th FOMC meeting, however Citibank suggest a 50bp rate cut is likely. Money markets currently are pricing in 36bps of easing for September, which implies a 44% probability of a 50bp move. Although, all attention will be on the US jobs report on Friday to determine the size of the cut.

**US FACTORY ORDERS:** Factory orders soared 5.0% in July, greater than the expected 4.7% rise, and from June's 3.3% decline. Looking at the internals, shipments, up five of the last six months, rose 0.9% (or USD 5.4bln) to USD 593.8bln, while unfilled orders increased 0.2% (USD 3.1bln) to USD 1,386.3bln. The report adds the unfilled orders-to-shipments ratio was 6.76, down from 6.91 in June. Inventories, up five of the last six months, lifted 0.1% (USD 0.6bln), with the inventories-to-shipments ratio 1.45, ever-so-slightly down from 1.46 in June. Delving a bit deeper, new orders expanded by 9.8% for durable goods industries, lifted by transportation equipment (34.7%). In the meantime, orders in non-durable goods industries rose by 0.8%. Excluding transportation, factory orders rose by a significantly softer 0.4%.

**US INTERNATIONAL TRADE:** The trade balance widened to a deficit of USD 78.8bln from the prior 73bln, although it was slightly narrower than the consensus USD 79bln. The widening deficit was led by a 2.1% increase in imports, and just a 0.5% increase in exports. Exports were at USD 266.6bln, a USD 1.3bln increase from June, with imports at USD 345.4bln, a USD 7.1bln increase from June. The July increase in the goods and services deficit reflected an increase in the goods deficit of USD 5.6bln to USD 103.1bln and a decrease in the services surplus of USD 0.2bln to 24.3bln. Analysts at Oxford Economics highlight that the television broadcast rights related to the Olympics weighed on the goods deficits and the services surplus. The desk expects some narrowing in the deficit over the rest of the quarter, but still sees trade on pace to drag 0.4ppts from Q3 GDP growth.

**FED'S BOSTIC (2024 voter)** said the Fed must not maintain a restrictive policy stance for too long, noting he is now giving equal attention to the maximum employment side of the mandate as inflation. He added that the Fed is in a generally favourable position and a soft landing for the economy may be within reach. Bostic stated that the most recent inflation reports bolster confidence inflation likely on a sustainable path back to 2%, while price pressures are diminishing quickly and broadly, and the labour market continues to weaken, but it is not weak. He added that business contracts point to a loosening but still broadly stable labour market, while noting that wage growth is pulling back to a level more conducive to price stability.

**BOC REVIEW:** The Bank of Canada cut rates as expected to 4.25%, marking its third consecutive 25bp rate cut. The BoC noted the cut was due to continued easing in broad inflationary pressures, repeating that excess supply in the economy continues to put downward pressure on inflation, while price increases in shelter and some other services are holding inflation up. Looking ahead, it maintained guidance that "Monetary policy decisions will be guided by incoming information and our assessment of their implications for the inflation outlook.", noting it is carefully assessing the opposing forces of inflation. The rate cut and statement was largely as expected and providing inflation continues to ease, and the price increases in shelter and some other services don't see inflation reverse higher, the BoC look set to continue on their easing path. The market currently fully prices in 50bps of easing through year-end, implying two 25bp rate cuts in October and December. BoC Governor Macklem, in the opening remarks, warned that inflation may bump up later in the year as base effects unwind, and that there is a risk that the upward forces on inflation could be stronger than expected. In the Q&A however he did note this was not their base case.

Macklem also repeated that if inflation continues to ease broadly in line with their July forecast, it is reasonable to expect further cuts in their policy rate. The Governor also acknowledged that as inflation gets closer to target, they want to see economic growth pick up to absorb the slack in the economy so inflation returns sustainably to the 2% target. He also noted that the BoC cares as much about CPI below 2%, as they do above, a nod to the fact that they will aim to not let inflation sink too far beneath 2%. Macklem acknowledged that in the meeting, there was a strong consensus for a 25bps move, but alternative scenarios were discussed, including slowing the pace of cuts and also a 50bps move. He stated that if the economy were to be weaker than expected, a cut larger than 25bps would be appropriate.

## FIXED INCOME

### T-NOTE FUTURES (Z4) SETTLED 18 TICKS HIGHER AT 114-18

**T-Notes bull steepen after dovish July JOLTS, seeing 2s10s briefly un-invert while the probability of a 50bp cut in Sept nears 50%**. At settlement, 2s -12.4bps at 3.764%, 3s -11.1bps at 3.634%, 5s -9.3bps at 3.563%, 7s -8.8bps at 3.654%, 10s -7.9bps at 3.765%, 20s -7.3bps at 4.140%, 30s -6.7bps at 4.063%.

**INFLATION BREAKEVENS:** 5yr BEI -5.9bps at 2.062%, 10yr BEI -5.1bps at 2.063%, 30yr BEI -4.5bps at 2.099%.

**THE DAY:** T-Notes meandered overnight and through the European morning, holding above 114-00 throughout the sessions. There was a dip lower once US trade got underway however with more corporate supply weighing, taking T-Notes to lows of 114-00+. Attention then turned to the key JOLTS data, which ultimately was dovish as it came in beneath the lowest analyst forecast with upside in the quits rate and downside in the vacancy rate emphasising the dovishness of the report, reigniting labour market concerns in July. T-Notes rallied to a peak of 114-18 with Fed Chair Powell previously acknowledging this is a key aspect of the labour market the Fed watches closely, which has seen calls for a 50bp cut in September re-emerge. Citi suggests it is likely, while money markets are currently pricing in a 44% probability of a 50bp rate cut. There is still plenty of labour market data due by the end of the week, including the August ADP and Layoffs data on Thursday, and the latest weekly Jobless Claims, ahead of the pivotal August NFP on Friday. In wake of the jobs data, the US 2s/10s yield spread briefly un-inverted for the first time since the 5th August (before that, the spread hadn't been positive since Q3 22).

### STIRS:

- **Market Implied Fed Rate Cut Pricing: September 36bps (prev. 34bps D/D), November 74bps (prev. 67bps), December 112bps (prev. 101bps).**
- NY Fed RRP op demand at USD 337bln (prev. 349bln) across 64 counterparties (prev. 69)
- US sold USD 60bln of 17-wk bills at 4.810%, covered 3.21x
- SOFR at 5.34% (prev. 5.32%), volumes at USD 2.403tln (prev. 2.011tln).
- EFR at 5.33% (prev. 5.33%), volumes at USD 100bln (prev. 89bln).

## CRUDE

### WTI (V4) SETTLED USD 1.14 LOWER AT 69.20/BBL; BRENT (X4) SETTLED USD 1.05 LOWER AT 72.70/BBL

**The crude complex was choppy on Wednesday, but eventually extended on its recent losses, as demand woes and Libya supply updates outweighed bullish OPEC sources.** On the day, WTI and Brent saw weakness overnight and through the European morning to hit intraday lows of USD 69.19/bbl and 72.63/bbl, respectively, as sluggish growth in China remains, in wake of the latest batch of economic data. Thereafter, the complex was initially buoyed by BBG source reports noting that China is mulling further support for the property sector. After this, and further bolstering oil, Reuters citing sources said OPEC+ is reportedly discussing a delay to a planned oil output hike in October, and the delay comes as oil prices slump, market volatility from Libya shutdowns and a weak demand outlook reportedly increasing concern among the group. As such, WTI and Brent rose to peaks of USD 71.46/bbl and 74.80/bbl, before trundling back towards the aforementioned lows with reports in Bloomberg that oil is still trickling out of Libya despite the block adding to the pressure. Nonetheless, crude prices were bolstered again by similar OPEC+ source reports in the WSJ this time, but the upside was not as pronounced and quickly saw the contracts fall through the afternoon to settle at lows. Demand woes continued to weigh with US labour market concerns mounting after a soft JOLTS report, as well as the previously mentioned China data, while reports that Libya oil is still trickling, coupled with remarks on Tuesday that a deal could be reached to end the oil blockade, kept the crude complex pressured. Looking ahead, attention will be on OPEC+, Libya, geopolitical updates, and US jobs report on Friday, but in the immediacy it will be private inventory data after-hours, which is delayed by a day on account of the Labor Day market holiday. Current expectations are (bbls): Crude -1.0mln, Distillate +0.5mln, Gasoline -0.7mln.

## EQUITIES

**CLOSES:** SPX -0.16% AT 5,520, NDX -0.20% at 18,921, DJIA +0.09% at 40,974, RUT -0.34% at 2,141

**SECTORS:** Energy -1.41%, Materials -0.48%, Technology -0.41%, Communication Services -0.38%, Health -0.14%, Consumer Discretionary -0.05%, Financials +0.09%, Industrials +0.11%, Real Estate +0.25%, Consumer Staples +0.52%, Utilities +0.85%.

**EUROPEAN CLOSES:** DAX: -0.83% at 18,590.95, FTSE 100: -0.35% at 8,269.60, CAC 40: -0.98% at 7,500.97, Euro Stoxx 50: -1.28% at 4,849.55, AEX: -1.31% at 896.98, IBEX 35: -0.58% at 11,213.90, FTSE MIB: -0.54% at 33,682.26, SMI: -1.48% at 12,164.85, PSI: +0.49% at 6,739.83.

### EARNINGS

- **Dollar Tree (DLTR):** EPS, revenue, and SSS missed analysts' expectations, with FY guidance way short. Co. attributes the misses and guidance cuts to the increasing effect of macro pressures on the purchasing behaviour of middle and higher-income customers.
- **Hormel Foods (HRL):** Revenue fell short, and narrowed its FY24 adj. EPS and revenue view, with the latter disappointing.
- **Zscaler (ZS):** Next quarter and FY profit view fell way short of St. consensus.

### STOCK SPECIFICS

- **Super Micro Computer (SMCI):** Downgraded at Barclays, citing a "poor" gross margin in the June quarter and the annual filing delay "that evidenced several fundamental risks".
- **Nvidia (NVDA):** Received a DoJ subpoena as part of an escalating antitrust investigation into its dominance in AI computing, Bloomberg reported. Late in trade on Wednesday, Nvidia said they have not been subpoenaed by the DoJ, according to Bloomberg.
- **Intel (INTC):** Manufacturing business suffered a setback after tests with Broadcom (AVGO) failed. Broadcom concluded the manufacturing process is not yet viable to move to high-volume production.
- **Salesforce (CRM):** To acquire AI-powered voice agent developer Tenyx to enhance its AI-driven solutions.

- **US Steel (X)**: US President Biden reportedly prepares to block the Nippon Steel (5401 JT) acquisition of US Steel, according to WaPo citing sources.
- **AMD (AMD)**: Appointed Keith Strier as senior VP of global AI markets. Strier has over 30 years of experience, including a recent role at NVIDIA.
- **Nordstrom (JWN)**: Nordstrom family offers to buy Nordstrom for USD 23/shr in cash.
- **Moderna (MRNA)**: Reported encouraging results on its mpox vaccine, as outbreaks in Africa spread, according to STAT News; Cos. shot provided more protection than an existing vaccine in an animal study.
- **Verizon (VZ)** reportedly in advanced talks to acquire **Frontier Communications (FYBR)** in a deal that would bolster Cos. fiber network to compete with rivals including **AT&T (T)**, according to WSJ citing sources.

## US FX WRAP

**The Dollar** was weaker on Wednesday after the US JOLTS data, whereby the headline missed analyst expectations and even printed outside the bottom of the forecast range, which saw the Dollar Index hit a trough of 101.24. Elsewhere, Fed's Beige Book noted employment levels were generally flat to up slightly in recent weeks, and accounts of layoffs remained rare. Bostic (2024 voter) was the only Fed speaker on the wires, and echoed familiar messages noting the Fed must not maintain a restrictive policy stance for too long, noting he is now giving equal attention to the maximum employment side of the mandate as inflation. Looking ahead, all attention is on the US payrolls report on Friday, whereby Williams and Waller are scheduled to appear after, with the former at a council on foreign relations event, and the latter on the economic outlook.

**Safe-havens**, CHF and JPY, were the G10 outperforms vs. the Buck on Wednesday, although the Yen saw notably more strength than the Swissy, as they were supported by the continued slump in risk sentiment which saw USD/JPY hit a low of 143.87.

All other **G10 peers** managed to eke out gains vs. the weaker Greenback, albeit to varying degrees, with Antipodeans the 'underperformers' highlighted by the Aussie more-or-less flat and weighed on by the subdued sentiment. Elsewhere, currency-specific newsflow was fairly sparse, as EUR/USD traded towards the top end of today's 1.1039-94 range, with the Euro seeing strength in the wake of the JOLTS data, as it was unperturbed by ECB speak and EZ PMIs in the European morning. Cable saw a low of 1.3102 against a later high of 1.3175, with UK catalysts light ahead of PMIs on Thursday.

**CAD** saw slight strength against the Greenback after the BoC rate decision, whereby the Loonie was flat heading into. Briefly recapping, the Bank cut by 25bps to 4.25%, as expected, and noted it was due to continued easing in broad inflationary pressures, repeating that excess supply in the economy continues to put downward pressure on inflation. In the accompanying press conference, Governor Macklem gave two-way commentary noting there was a strong consensus for a 25bps move, and alternate scenarios were discussed, including slowing the pace of cuts and also a 50bps move.

**EMFX** was mixed. CLP and MXN saw weakness, with the former weighed on by falling copper prices and the latter by Mexico's Lower House giving final approval to the judicial reform after a detailed vote, which sends the bill to the Senate. ZAR, BRL, and Yuan saw slight gains. For the Yuan, data overnight continued to point towards a glum outlook for the Chinese economy, before BBG source reports suggested the country is looking towards supporting the property sector. Elsewhere, Brazil data disappointed with industrial output slightly undershooting expectations, with M/M declining more than forecasted. Finance Minister Haddad was also on the wires, with the most pertinent comment him noting at the moment they are not discussing new pension reform.

**EUR/PLN** was flat, with the Zloty seeing no long lasting reaction after the NBP held rates at 5.75%, as expected. Following the decision, the NBP said it may intervene in FX market and after energy price shock fades CPI should return to target. Strong Zloty helps CPI fall and current level of rates will help CPI return to medium-term target and further decisions depend on data.

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