

Dollar drops, while Stocks & Bonds chop ahead of payrolls Friday

- **SNAPSHOT:** Equities flat/down, Treasuries up, Crude flat, Dollar down
- **REAR VIEW:** Soft ADP print, outside bottom end of forecast range; Initial jobless claims ticks lower, but within recent ranges; ISM Services slightly rises while employment sub-index falls; Much greater than expected EIA crude draw; Trump proposes 15% corporate tax for US-made products; OPEC+ to October oil output increase for two months; TSLA to launch FSD in Europe & China early next year.
- **COMING UP:** **Data:** Japanese Household Spending, German Industrial Output, Trade, EZ Employment (F), US NFP, Canadian Employment. **Speakers:** ECB's Elderson; Fed's Williams, Waller. **Earnings:** Berkeley.

MARKET WRAP

Stocks lacked direction for the majority of the day (SPX +0.3%, NDX flat, DJIA -0.5%, RUT -0.6%), but ultimately, headed lower late in the day following a slew of mixed US data, as it was initially weighed on by soft ADP, which came in underneath the bottom end of the forecast range. Sectors finished largely to the downside led by Health Care, Industrials, and Financials. Regarding green performance, Consumer Discretionary took the top spot, assisted by Tesla (TSLA, +4.4%) rallying after it plans to launch its Full Self Driving driver assistance product in Europe and China early next year. Elsewhere, Treasuries were bid across the curve, more so in the longer end, supported by the lower-than-expected ADP and Initial Jobless Claims data remaining firm, but fought hard to hold onto the upside post-ISM beat. The crude complex experienced the choppy theme seen across markets, initially gaining on the OPEC+ agreeing to delay October oil output increases for two months and bigger draws than anticipated in the Weekly EIA report. Nevertheless, WTI and Brent pared gains finishing the session flat, as traders potentially booked profits. In FX, the Dollar was broadly weaker, with the Kiwi leading G10 strength, attempting to reverse some of its recent selling, while the Loonie was relatively unchanged, and as such was the G10 underperformed. Looking ahead all attention is on the US payrolls report on Friday, which will likely determine the magnitude of the Fed's rate cut in the September meeting.

US

ISM SERVICES: ISM services slightly rose to 51.5 from 51.4, and above the expected 51.5. Looking at the sub-components, employment fell to 50.2 from 51.1 but remained above 50, with prices paid and new orders lifting to 57.3 (prev. 57.0) and 53.0 (prev. 52.4), while business activity fell to 53.3 from 54.5. Inventories lifted back above 50 to 52.9 (prev. 49.8), while backlog of orders, new exports orders, imports, and inventory sentiment all tumbled. ISM says the report corresponds to a 0.8ppt increase in real GDP on an annualized basis. On the dataset, Oxford Economics notes, the stability of the ISM surveys in August is consistent with an economy experiencing slow growth, but nothing worse. The details of the report showed slight declines in the business activity and employment indexes offset by a rise in new orders and supplier delivery times. Overall, the consultancy adds, the services index is holding up far better than its manufacturing counterpart, highlighting the ongoing resilience of consumer spending, which continues to prop up the broader economy.

ADP NATIONAL EMPLOYMENT: ADP national employment fell to 99k in August from the prior (revised lower) 111k, beneath the expected 145k, and even outside the bottom-end of the forecast range. Looking at the median change in annual pay, job-stayers remained at 4.8% Y/Y, and for job-changers it marginally rose to 7.3% Y/Y (prev. 7.2%). ADP's chief economist said, "the job market's downward drift brought us to slower-than-normal hiring after two years of outsized growth. The next indicator to watch is wage growth, which is stabilizing after a dramatic post-pandemic slowdown." After this data release, all attention is on the US payrolls data due Friday, which will seemingly dictate the magnitude of the Federal Reserve rate cut on September 16th, as the Central Bank has shifted its focus to the employment side of the mandate, rather than the inflation side.

JOBLESS CLAIMS: Initial jobless claims (w/e 31st Aug) remained within recent ranges, but slightly dipped to 227k (prev. 232k, exp. 230k), leaving the 4wk average at 230k (prev. 231.75k). Continued claims (w/e 24th Aug) also fell to 1.838m from 1.860m, shy of the expected 1.865m and outside the bottom end of the guidance range. Note, seasonal factors were suggesting an increase of 1,627 (0.8%) from the previous week. As known, heavy attention is being paid to any labour market data currently, given the Fed's focus and payrolls on Friday, so the headline figure continuing to be within recent numbers will indicate the labour market is not seeing any further excess cooling. On the data, Oxford Economics notes that a pivotal factor why initial claims remain low is that reemployment rates across industries remain elevated. As such, the consultancy adds a key risk to their forecast for a soft landing in the labour market is that reemployment rates decline, causing initial claims and the number of permanent job losers to rise quickly.

NFP PREVIEW: The headline is expected to come in at 160k, rising from the prior, but below recent averages, with the unemployment rate forecasted to tick back lower, after unexpectedly rising last time out. Nonetheless, the data set is of paramount importance for the FOMC meeting on September 16th, where the Central Bank's attention has shifted towards the employment side of its mandate, and this report will largely guide the magnitude of the rate cut at that confab. At Jackson Hole Chair Powell said "the time has come for policy to adjust", with emphasis on the labour market, especially after the July jobs report, adding "we do not seek or welcome further labour market cooling." As such, WSJ's Timiraos noted that a report as weak as July could result in an upsized cut. Currently, money markets are fully pricing in a 25bps rate cut, but have assigned a probability of around a 45% of a 50bps reduction. [To download the full Newsquawk preview, please click here.](#)

FED: DALY (2024 voter) stated the Fed needs to cut the policy rate due to falling inflation and a slowing economy, very in fitting with recent Fed remarks. Daly added the size of the September rate cut is still unknown and that more data, including Friday's job market report and CPI, is needed. On the labour market, Daly highlighted it has softened but remains healthy, and any overly tight policy could lead to further labour market slowing. The San Fred President added price stability has not been fully restored, with inflation still a major concern, and businesses are being frugal with hiring but not yet laying off employees. Daly concluded, the current economic outlook is uncertain and data will be volatile.

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLED 6 TICKS HIGHER AT 114-24

T-Notes rallied across the curve, particularly in the longer end, amid a mixed bag of US data with 2s/10s again failing to sustain an

inversion. At settlement, 2s -2.4bps at 3.746%, 3s -2.9bps at 3.610%, 5s -2.9bps at 3.537%, 7s -3.4bps at 3.625%, 10s -3.9bps at 3.729%, 20s -3.8bps at 4.108%, 30s -4.6bps at 4.021%.

INFLATION BREAKEVENS: 5yr BEI -3.4bps at 2.029%, 10yr BEI -2.5bps at 2.037%, 30yr BEI -2.7bps at 2.072%.

THE DAY: T-Notes were muted throughout the APAC session and European morning, trading roughly near 114-18 before the series of US data. US ADP National Employment kickstarted a move higher in the space, due to an August figure way below market expectations and beneath the bottom end of the forecast range. Choppy trade followed in response to Initial Jobless Claims once again coming inside the consensus range, although, declined more than was expected. That said, as time passed, T-Notes edged higher, setting a high of 114-29+, albeit, the upside was short-lived once it was unveiled ISM Services PMI unexpectedly inched further into expansionary territory. As such, gains in Treasuries completely unwound, setting a fresh session low of 114-16 before ultimately rallying once again, paring most of the ISM sell-off. On the speaker front, Fed's Daly (2024 Voter) noted the Central Bank needs to cut the policy rate, although the size of the September rate cut is still unknown, hence, more data (NFP, CPI) is required. For the record, the US 2s/10s yield once again failed to sustain an inversion ahead of Friday's momentous NFP report.

STIRS:

- **Market Implied Fed Rate Cut Pricing: September 35bps (prev. 34bps D/D), November 71bps (prev. 68bps), December 109bps (prev. 103bps).**
- NY Fed RRP op demand at USD 291bln (prev. 337bln) across 59 counterparties (prev. 64).
- US to sell USD 58bln in 3yr notes on September 10th, USD 39bln in 10yr on September 11th, and USD 58bln in 30yr on September 12th; all to settle September 16th. 3yr size left unchanged, but 10yr and 30yr unexpectedly cut USD 3bln each.
- US to sell USD 76bln of 13-wk bills and USD 70bln of 26-wk bills on September 9th; to settle on September 12th.
- US sold USD 80bln of 4-wk bills at 5.080%, covered 3.03x; sold USD 80bln of 8-wk bills at 5.040%, covered 2.78x.
- SOFR at 5.35% (prev. 5.34%), volumes at USD 2.169tln (prev. 2.403tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 103bln (prev. 100bln).

CRUDE

WTI (V4) SETTLED USD 0.05 LOWER AT 69.15/BBL; BRENT (X4) SETTLED USD 0.01 LOWER AT 72.69/BBL

The crude complex was choppy on Thursday, but eventually settled more-or-less flat despite large crude draws and bullish OPEC sources. WTI and Brent were in comparatively tight ranges, whereby overnight and through the European morning energy saw slight strength after the greater-than-expected private inventory draw. Thereafter, WTI and Brent saw slight downside after Reuters sources stated that OPEC+ has agreed to delay the October output increase by two months, with the weakness possibly due to a function of the delay being for a relatively short period. However, after the report got further coverage, a bid was seen in WTI and Brent to peaks for the day, at USD 70.82/bbl and 74.20/bbl, respectively. However, through the New York afternoon the complex sold off to settle at troughs, potentially on profit taking and of course the pivotal payrolls release on Friday. Note, only modest reaction was seen on the deluge of US data.

EIA: In the weekly EIA data, crude saw a much bigger draw than forecasted, in line with the private inventory data, which distillates saw a slight surprise draw, also replicating the private metrics last night. Gasoline was an unexpected build, while weekly crude production was unchanged at 13.3mtn.

EQUITIES

CLOSES: SPX -0.3% at 5,503, NDX +0.05% at 18,930, DJIA -0.54% at 40,756, RUT -0.61% at 2,132

SECTORS: Health -1.39%, Industrials -1.18%, Financials -1.04%, Materials -0.80%, Energy -0.76%, Consumer Staples -0.41%, Real Estate -0.37%, Utilities -0.27%, Technology +0.05%, Communication Services +0.52%, Consumer Discretionary +1.41%.

EUROPEAN CLOSES: DAX: +0.02% at 18,596, FTSE 100: -0.34% at 8,242, CAC 40: -0.92% at 7,432, Euro Stoxx 50: -0.68% at 4,815, AEX: -0.57% at 892, IBEX 35: +0.53% at 11,274, FTSE MIB: +0.01% at 33,685, SMI: -1.04% at 12,049, PSI: +0.02% at 6,741.

EARNINGS

- **Verint Systems (VRNT):** Fell short on Q2 profit and revenue, with FY25 outlook disappointing.
- **C3.ai (AI):** Beat Q1 profit expectations, with traders attributing the stock's downside to the lack of updated guidance.
- **Hewlett Packard Enterprise (HPE):** Reported top- and bottom-line beats, although gross margin and its FY FCF view missed Wall St. consensus.
- **JetBlue Airways (JBLU):** Q3 revenue outlook was better than expected.
- **Copart (CPRT):** EPS missed.

STOCK SPECIFICS

- **Nvidia (NVDA):** Denied receiving an antitrust subpoena from the DoJ.
- **Verizon (VZ):** To acquire Frontier Communications (FYBR, -10%) for USD 20bln, USD 38.5/shr, all-cash.
- **Tesla (TSLA):** To launch its Full Self Driving driver assistance product in Europe and China early next year.
- **XPO (XPO):** Reported preliminary less-than-truckload tonnage 4.6% lower in August Y/Y, acknowledging soft demand.
- **StoneCo (STNE):** Downgraded at Morgan Stanley, warning of a potential decline in the payments business as the market gets more saturated.
- **Napco Security Technologies (NSSC):** Fuzzy Panda Research discloses a short position on the stock.
- **Paramount (PARA):** Larry Ellison will control Paramount after the deal, according to Bloomberg.
- **Vestis (VSTS):** Elis has made an offer to buy Vestis, according to Reuters citing sources.
- **Smartsheet (SMAR):** Investor consortium including Vista Equity and Blackstone (BX) in talks to acquire Smartsheet, according to Reuters citing sources.

US FX WRAP

The Dollar was weaker on Thursday, in what was a choppy session. On the day, the Dollar saw immediate weakness and hit session troughs of 100.96 after the ADP national employment report, whereby it fell to 99k and printed outside the bottom end of analysts' consensus range. However, the Index swiftly pared this move ahead of ISM Services, which then helped push the Dollar to a fresh peak of 101.37 after the headline marginally rose and printed slightly above expectations, with the sub-component of employment declining but remaining in expansionary territory. Further, on the data docket, initial jobless claims marginally declined, and were shy of the expected, but continued to

hover around recent ranges continuing to indicate no excess softening of the labour market. Later in the US afternoon, the Buck was weighed on by the improving risk sentiment in lack of much new. On the Fed footing, Daly (2024 voter) reiterated recent Fed messaging that the Fed needs to cut the policy rate and added the size of the September rate cut is still unknown and that more data, including Friday's job market report and CPI, is needed. Looking ahead, all participants await the August payrolls report on Friday which will help the Fed determine the quantity of the September move. (Newsquawk preview available here).

G10FX more-or-less saw gains across the board vs. the Buck, albeit to varying degrees. The Kiwi relatively outperformed, while the Loonie was flat, and hence the underperformer. G10s largely traded at a whim to the Dollar performance, given the lack of currency-specific newsflow, as traders await the pivotal risk events.

Elsewhere, for the **EUR**, German industrial orders sparked modest strength in the single currency, whilst EZ construction PMIs had little impact. EUR/USD traded between 1.1076-1.1119, and currently sits around the 1.11 mark.

Antipodeans benefitted from the aforementioned broad Dollar weakness, as they attempted to claw back some of their steep losses this week amid the downbeat sentiment across markets. Overnight RBA's Bullock reiterated her hawkish tones, although little reaction was seen in the Aussie.

USD/JPY saw a peak of 144.22 versus a later low of 142.86, as at the risk of sounding like a broken record, the Yen caught a bid following the broader Dollar sell-off, after the US ADP release, but later retraced following the ISM print. Although, as risk sentiment improved through the session the Yen was not as buoyed given its typical haven properties. Note, overnight Japanese labour cash earnings Y/Y printed way above forecasts, while BoJ's Takata was on the wires.

EMFX was mixed. ZAR saw gains on account of the gold strength, while BRL noticed the greatest gains. BCB Director Guillen said that since their latest interest rate-setting meeting, policymakers have observed stronger economic growth in the country and the trends they had been monitoring have proven to be persistent. Guillen added that the exchange rate "is a bit higher" than in July, while inflation expectations have remained broadly unchanged and de-anchored, a source of discomfort for the central bank. Data released by Brazil's statistics agency this week showed stronger-than-expected activity in Q2, reinforcing market bets that had already pointed to the central bank raising rates at its upcoming Sept. 17-18 meeting.

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