

### Stocks gain for fourth consecutive day as risk on continues to the detriment of the Dollar

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar down
- **REAR VIEW:** Mixed PPI, M/M hotter, Y/Y cooler; Jobless Claims hovers around 230k, as expected; Weak 30yr auction; ECB holds rates as expected, sources note Oct cut is unlikely, but not ruled out; WSJ's Timiraos article gains traction titled "The Fed's Rate-Cut Dilemma: Start Big or Small?"; KR rallies on EPS beat; WFC faces OCC enforcement action; MU double downgraded at BNP.
- **COMING UP:** **Data:** Japanese Capacity Utilisation, French CPI, EZ Industrial Production, US Trade, UoM Prelim. **Events:** BoE/Ipsos Survey, ECB TLTRO.

### MARKET WRAP

US indices (SPX +0.8%, NDX +1%, RUT +1.2%, DJIA +0.6%) witnessed strong gains on Thursday, continuing on from Wednesday, as they benefitted from the risk-on trade and seemingly added tailwinds from an article titled "The Fed's Rate-Cut Dilemma: Start Big or Small?" by WSJ's Timiraos. In the article, Timiraos did not offer any sources, but he is always closely watched (especially in Fed blackout) and quoted Jon Faust, who served until earlier this year as a senior adviser to Powell, who said the amount of cuts over the next few months "is going to be a lot more important than whether the first move is 25 or 50, which I think is a close call". Thereafter, Fed pricing has moved slightly more dovishly to a larger cut with now a circa 30% chance vs. 20bps pre-data. On the data, initial jobless claims were in line and continued to hover around 230k while PPI was mixed as headline and core M/M metrics were hotter than expected, with Y/Y slightly cooler. Elsewhere, the Dollar suffered from the risk-on sentiment and saw notable losses, and is at lows at pixel time, to the benefit of activity currencies and the EUR, although the, as expected, ECB had little sway on the single currency. Spot gold hit another ATH, while Treasuries saw broad-based selling, with underperformance in the long-end, and were not supported by a weak 30yr auction. The crude complex saw gains amid the aforementioned themes and production shut-in due to Hurricane Francine.

### US

**JOBLESS CLAIMS:** Initial jobless claims (w/e 7th Sep) were more-or-less unchanged W/W at 230k from 228k, and was in line with the expected, which left the 4-wk average at 230.75k (prev. 230.25k). Note, the seasonal factors had expected a decrease of 14,366 (or -7.5%) from the previous week. Continued claims (w/e 31st Aug) were also essentially unchanged at 1.85mln (exp. 1.85mln) from 1.845mln. In recent weeks initial jobless claims have settled into a tight range around 230k, and with the Fed's attention on the labour market there is nothing in the claims data to warrant more than a 25bps cut, which continues to be Oxford Economics', and money market pricing's base case. On continued claims, OxEco expect them to drift a little lower in the weeks ahead.

**PPI REVIEW:** The report came in mixed, with the yearly gauges slightly cooler than expected on both the headline and core at 1.7% (exp. 1.8%, prev. 2.2%) and 2.4% (exp. 2.5%, prev. 2.4%), respectively. Additionally, the Headline Y/Y saw a downward revision to 2.1% from the prior 2.2%. Meanwhile, the monthly figures for headline and core were on the slightly hotter side for August, with the former rising 0.2% (exp. 0.1%) after the prior 0.1%, while core rose 0.3% (exp. 0.2%, prev. 0.0%, rev. -0.2%). Overall the report was very similar to the CPI report seen, in terms of the monthly figures being higher than anticipated, while the yearly figures were below expectations. And as such, chances of a 50bps rate cut at the September meeting remain unlikely at 27%, though ticked up from Wednesday's 15%. In terms of what drove the data, Oxford Economics noted "some of the larger gains the index appear to be more noise than signal, with a large gain in guestroom rentals and a jump in trade margins pushing services prices 0.4% higher in August". Going forward, the agency expects "PPI to remain moderate, helped by lower oil price and ongoing declines in factory gate prices in China".

### EU

**ECB REVIEW:** As expected, the ECB opted to cut the deposit rate by 25bps from 3.75% to 3.5% whilst also lowering the main refi and marginal lending rates by 60bps (as previously announced in March). In the policy statement, the ECB reiterated that it will continue to follow a meeting-by-meeting approach and remain in data dependent mode. Furthermore, policy rates will be kept sufficiently restrictive for as long as necessary and the ECB will not pre-commit to a specific policy path. In the accompanying macro projections, headline inflation forecasts for 2024-26 were left unchanged; 2026 remained below target at 1.9%. On a core basis, 2024 and 2025 forecasts were upgraded by 10bps on account of stubborn services inflation. From a growth perspective, 2024-2026 projections were lowered by 10bps each "owing to a weaker contribution from domestic demand over the next few quarters". At the follow-up press conference, Lagarde noted that today's decision to cut the DFR by 25bps was "unanimous". On the inflation path, the President noted that September inflation is likely to see a downtick on account of base effects before rising again in Q4. Despite attempts by journalists to extract information about easing intentions for the October meeting, Lagarde stated she would neither commit to a position or comment on how close the ECB is to R-star. Elsewhere, the President noted that the GC is going to be attentive to the risks of undershooting inflation. Overall, pricing has moved in a slightly more hawkish direction with around 7bps of easing seen in October vs. around 9bps pre-release with a total of 38bps of easing seen by year-end vs. 39bps pre-release. However, as we mentioned in our preview, those looking for any overt clues over the ECB's easing plans for October were always likely to be disappointed given the Bank's strict data-dependent credentials. As such, it remains a case of seeing how inflation and growth dynamics play out in the coming weeks. Following this, Bloomberg sources noted that ECB officials have not ruled out a rate cut at the October meeting even if such a move is unlikely. The BBG sources added that given the downside risks to economic growth in the Eurozone, officials would rather keep open the option to lower borrowing costs at that meeting. Separately, Reuters sources noted that an October rate cut is unlikely for now and a move before December would take exceptional negative growth surprises. The sources added a move on October 17th could not be ruled out but it was not likely because policymakers would not have much new information by then and would rather wait for a new round of projections in December.

### FIXED INCOME

#### T-NOTE (Z4) SETTLED USD 4+ TICKS LOWER AT 115-06

**T-Notes saw broad-based selling, as the day saw a mixed PPI report, a weak 30yr auction, and Timiraos article eyed.** At settlement, 2s +0.0bps at 3.646%, 3s +1.1bps at 3.476%, 5s +1.7bps at 3.464%, 7s +2.1bps at 3.562%, 10s +2.7bps at 3.680%, 20s +3.6bps at 4.072%, 30s +3.5bps at 3.998%

**INFLATION BREAKEVENS:** 5yr BEI +2.2bps at 2.076%, 10yr BEI +0.9bps at 2.056%, 30yr BEI +0.9bps at 2.082%.

**THE DAY:** Over the course of the APAC and European hours, Treasuries progressively weakened, though as the US session got underway, buying picked up. The 115-17+ peak of the session was made in an initial reaction to the US data, which saw mixed PPI data, similar to Wednesday's CPI report, that is cooler Y/Y prints on the Headline and Core, but slightly hotter figures on the monthly gauges. On the job front, Initial Jobless Claims were bang in line with the expected 230k (prev. 227k, rev. 228k), with the same result for continued claims, 1.85mln (exp. 1.85mln, prev. 1.838mln, rev. 1.845mln). Nonetheless, downside followed, as the hotter-than-expected PPI M/M prints likely weighed. Later on, the US 30yr auction was fairly average when compared to recent auctions, although involved greater demand relative to the last auction. The auction prompted weakness in the US 30yr, sending 30yr yields higher, but ultimately, losses were reduced later on. In terms of Fed pricing, rate cut expectations by year-end picked up later in the session with the chance of a 50bps cut now at 27% (prev. 15%) amid a piece from WSJ's Timiraos, which read like a preview of next week's Fed meeting, titled "The Fed's Big Dilemma" Start Big or Small?"

**30YR:** Overall, the auction was fairly weak though stronger than the prior, as there was a tail of 1.4bps, above the six-auction average of 0.3bps, although, under the previous 3.1bps. Bid-to-cover indicated improved demand when compared to the previous auction, 2.38x (prev. 2.31x, six-auction avg 2.39x), further supported by dealers taking 15.7% of the bid, less than the 19.2% seen in August. For directs, they took 15.7% (prev. 15.5%, six-auction avg. 18.6%), while indirects rose to 68.9% (prev. 65.3%, six-auction avg. 65.5%).

## STIRS

- **Market Implied Fed Rate Cut Pricing: September 33bps (prev. 28bps D/D), November 71bps (prev. 65bps), December 110bps (prev. 105bps).**
- US sold USD 80bln of 4-wk bills at 4.965%, covered 2.92x; sold USD 80bln of 8-wk bills at 4.990%, covered 2.45x.
- US to sell USD 13bln of reopened 20yr bonds on September 17th and USD 17bln of reopened 10yr TIPS on September 19th; to settle on September 30th.
- NY Fed RRP op demand at USD 294bln (prev. 297bln) across 58 counterparties (prev. 58).
- SOFR at 5.32% (prev. 5.33%), volumes at USD 2.308tln (prev. 2.161tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 105bln (prev. 101bln).

## CRUDE

**WTI (V4) SETTLED USD 1.66 HIGHER AT USD 68.97/BBL; BRENT (X4) SETTLED USD 1.36 HIGHER AT USD 71.97/BBL**

**The crude complex saw gains on Thursday amid the broader risk-on sentiment and production shut-in due to Hurricane Francine.** On the latter, the latest update from BSEE suggested 42% of oil production at the US Gulf of Mexico was shut, vs. 39% on Wednesday. Elsewhere, there were little crude-specific headlines and appeared to benefit off broader risk tones to see WTI and Brent hit highs of USD 69.81/bbl and 72.87/bbl, respectively, against earlier troughs of 67.24/bbl and 70.59/bbl. In addition, some desks also flagged potential short covering after the market moved into "oversold" territory following the latest batch of Chinese data. Analysts at ING suggest the supply risk from Hurricane Francine provided a reason to short-cover. Looking ahead, there is little scheduled on Friday aside from prelim UoM (Aug) and the weekly Baker Hughes data ahead of the pivotal FOMC meeting next week.

**IEA OMR:** Cut its 2024 world oil demand growth forecast to 900k BPD (prev. 970k BPD), and sees 2025 demand at 950k BPD. IEA added that the rapid decline in global oil demand growth in recent months, led by China, has fuelled a sharp sell-off in oil markets.

## EQUITIES

**CLOSES:** SPX +0.75% at 5,596, NDX +0.97% at 19,423, DJIA +0.58% at 41,097, RUT +1.22% at 2,129.

**SECTORS:** Real Estate +0.10%, Financials +0.12%, Utilities +0.17%, Health +0.31%, Consumer Staples +0.56%, Industrials +0.72%, Technology +0.82%, Materials +0.91%, Energy +0.94%, Consumer Discretionary +1.15%, Communication Services +2.01%.

**EUROPEAN CLOSES:** DAX: +0.97% at 18,508, FTSE 100: +0.57% at 8,241, CAC 40: +0.52% at 7,435, Euro Stoxx 50: +1.04% at 4,813, AEX: +0.99% at 893, IBEX 35: +1.08% at 11,400, FTSE MIB: +0.84% at 33,454, SMI: +0.56% at 11,990, PSI: +0.18% at 6,792.

## STOCK SPECIFICS

- **Arm (ARM):** MScience is reportedly out saying shares seeing share losses against x86 and decelerated new deployments inform somewhat cautious outlook for data center business in Q2.
- **Alaska Air (ALK):** Lifts next quarter profit and RASM guidance.
- **Delta Airlines (DAL):** Upgrades FY outlook
- **US Bancorp (USB):** Announces USD 5bln stock buyback plan and raised quarterly dividend by 2%.
- **Moderna (MRNA):** Cutting annual spending on R&D by USD 1.1bln by 2027.
- **Interpublic Group of Companies (IPG):** Downgraded to 'Sell' from 'Neutral' at UBS.
- **Kroger (KR):** Profit and SSS topped Wall St. expectations accompanied by upbeat commentary on consumer trends.
- **Dow (DOW):** Cut Q3 net sales guidance and impacted by an unplanned event at Texas ethylene cracker.
- **Micron Technology (MU):** Double downgraded to 'Underperform' from 'Outperform' at Exane BNP Paribas.
- **Unity (U):** Cancelling runtime fee.
- **Warner Bros. Discovery (WBD):** CEO said it expects to add more than 6mln streaming subscribers this quarter, via GS conference
- **Amazon (AMZN):** Boosts pay for its drivers following threats to unionize, according to WSJ; investing about USD 2bln into its delivery services programme this year and boost average pay to nearly USD 22/hr, +7% Y/Y.
- **Wells Fargo (WFC):** OCC issues enforcement action against Wells Fargo. In response, WFC stated they have been working to address a substantial portion of what's required in the formal agreement, and are committed to completing the work with the same sense of urgency as our other regulatory commitments
- **Fortinet (FTNT):** Confirmed data breach after hacker claims to steal 440GB of files, BleepingComputer reports. FTNT said to-date there is no indication that the incident has resulted in malicious activity affecting any customers. The incident has not impacted its operations, products, and services.

## US FX WRAP

**The Dollar** was weaker on Thursday, and weighed on by the risk-on sentiment, as initial jobless claims and PPI had little sway on the Buck

and the likelihood of the Fed cutting rates by 25bps next week. In terms of Fed money market pricing, there is currently a circa 25% chance of a larger 50bps cut next week, although most desks/analysts' base case is for the smaller 25bps cut. Note, WSJ's Timiraos published an article titled "The Fed's Rate-Cut Dilemma: Start Big or Small?", and although he did not include sources he did note that the Fed will cut rates at its meeting next week, but how much is shaping up to be a close call. Highlighting this, within the piece Jon Faust, who served until earlier this year as a senior adviser to Powell, said the amount of cuts over the next few months "is going to be a lot more important than whether the first move is 25 or 50, which I think is a close call". Briefly recapping the data, both headline and core M/M PPI came in slightly hotter than expected, while Y/Y metrics were slightly cooler. Initial jobless claims continued to hover around 230k which was in line with expectations. Looking ahead, there is little scheduled by way of risk events on Friday with only UoM Prelim (Aug) of note ahead of US retail sales (Tues) and the pivotal FOMC (Wed).

**AUD, NZD, and GBP** were the G10 outperformers, and benefitted from risk-on trade and Dollar weakness, as opposed to anything currency-specific. AUD/USD and NZD/USD currently sit at highs at around 0.6720 and 0.6175, respectively, while Cable peaked at 1.3111. In terms of levels, for NZD/USD attention is on the 10DMA at 0.6185, and for AUD/USD the 21DMA at 0.6725, meanwhile, Cable tests 1.3112 to the upside, which is the 10DMA.

**CAD** underperformed and was flat with desks citing potential short covering, while BMO noted "You are seeing the CAD dollar start to soften a little bit and we wouldn't be shocked if that is the trend you continue to see here - some Canadian dollar underperformance against the USD for the next number of months as the Bank of Canada continues to ease".

**EUR** ended firmer but largely on the back of the Dollar sell-off as opposed to the macro main risk event on Thursday, the ECB. On the central bank, it was an in-line event, where rates were cut as expected, whilst President Lagarde refrained from pre-committing to a particular rate path. Furthermore, the staff projections saw HICP inflation unchanged, but core inflation revised higher for 2024 and 2025 on account of services inflation. Growth forecasts were downgraded by 0.1ppt across the horizon. The press conference was a non-event. Following the presser, BBG and Rtrs sources were out, with the former noting ECB officials have not ruled out an October rate cut while the latter noted an October rate cut unlikely for now and move before December would take exceptional negative growth surprises. EUR/USD hit a peak of 1.1061 vs. an earlier low of 1.1006 and is currently at the top end of the range.

**Safe havens** were mixed as JPY eked out gains and the CHF was flat vs. the Greenback, as the former was likely supported by US Treasuries coming off best levels. Note, the Yen was initially the laggard on Thursday despite hawkishly-perceived comments from BoJ's Tamura overnight who followed suit from other policymakers this week alluding to the upward policy path at the bank. USD/JPY briefly dipped under 142.00 to trade in a 141.92-143.04 band. The Swissy was likely weighed on by risk-on trade as opposed to anything currency-specific, although we were expecting remarks from SNB Chair Jordan but did not get any.

**EMFX** largely firmed vs. the Buck as it benefitted from aforementioned themes and bullish commodity prices. LatAm kept up its winning streak with ZAR bolstered by spot gold hitting another ATH, and CLP by gains in copper prices. Data wise, South African mining production (Jul) surprisingly declined, while Brazilian retail sales (Jul) topped expectations on M/M and Y/Y metrics. Looking to next week, there are both the SARB and BCB rate decisions which will be viewed with intrigue.

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