

Stocks hit and bonds bid in risk-off trade

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar up.
- **REAR VIEW:** NVDA working on new China chip; US expands steel and aluminium tariffs to 407 more products; VKTX obesity trial results disappoint; Canadian CPI cooler-than-expected; US building permits fall more than expected, Housing starts surprisingly rose; US working on Putin/Zelensky bilateral meeting; META to downsize AI division.
- **COMING UP:** **Data:** UK CPI, EZ HICP (Final) **Events:** RBNZ Policy Announcement, PBoC LPR, Riksbank Policy Announcement & FOMC Minutes **Speakers:** Fed's Bostic, Waller; RBA's Jones; ECB's Lagarde **Supply:** Germany & US **Earnings:** Target.

MARKET WRAP

Stocks sold off on Tuesday, with weakness led by the mega-cap tech stocks, seeing the Nasdaq underperform, with the FT citing the tech weakness to a MIT paper questioning returns from new technology, which has punctured Wall St. enthusiasm. Within the paper, it notes "95 per cent of organisations are getting zero return" from their investments in gen AI". However, breadth was positive with the equal weight S&P seeing gains, with upside led by Real Estate, Consumer Staples and Utilities - all defensive sectors. Tech and Communication were the clear laggards weighing on the market, although small caps still were hit with the Russell closing red, too. In the risk-off trade, T-Notes trended higher throughout the session, while the data highlights saw a strong beat in housing starts but a miss in building permits. Meanwhile, in Canada, inflation was softer than expected, seeing traders boost rate cut bets for the BoC. The focus today remained on Russia/Ukraine progress, although little new information was found, but reports suggest the bilateral meeting between Putin and Zelensky will take place in Budapest, Hungary. Crude prices sold off in a gradual move lower ahead of inventory data, while gold prices pared early gains as the Dollar moved slowly higher, but gains were capped by JPY strength. Attention turns to Jackson Hole this week, particularly Fed Chair Powell's speech on Friday, but before that there is the latest FOMC Minutes on Wednesday.

US

HOUSING STARTS/BUILDING PERMITS (JULY): US housing starts rose 5.2% to 1.428mln from the upwardly revised 1.358mln, above the 1.29mln forecast and the top end of analyst expectations, 1.351mln. Building permits, which are more forward-looking, fell 2.8% to 1.354mln from 1.393mln, below the 1.386mln forecast. On the data, Oxford Economics suggest the July pace of permits suggests the pace of starts will not be sustained, but the increase in housing starts lends upside risk to their forecast for housing starts and residential investment in Q3. Although housing starts can be volatile, single-family housing starts in July were at a rate of 939,000; 2.8% above the revised June figure of 913,000. The July rate for units in buildings with five units or more was 470,000. OxEco notes that the multistarts can be volatile, but have clearly been trending higher in the last few months.

FIXED INCOME

T-NOTE FUTURES (U5) SETTLED 8 TICKS HIGHER AT 111-24+

T-Notes catch bid as attention turns to Jackson Hole and downbeat sentiment boosts haven demand. At settlement, 2-year -1.7bps at 3.756%, 3-year -2.2bps at 3.713%, 5-year -2.9bps at 3.826%, 7-year -3.4bps at 4.039%, 10-year -3.3bps at 4.306%, 20-year -3.4bps at 4.884%, 30-year -3.7bps at 4.905%.

INFLATION BREAKEVENS: 1-year BEI -1.7bps at 3.206%, 3-year BEI -1.7bps at 2.680%, 5-year BEI -1.9bps at 2.423%, 10-year BEI -2.4bps at 2.348%, 30-year BEI -1.8bps at 2.257%.

THE DAY: T-Notes were bid from the European morning through the European close, with the upside holding until settlement. The data highlighted in the US saw the housing starts rise above all analyst forecasts, but these are typically quite volatile, while the forward looking building permits came in beneath St. consensus, which saw brief two-way action in T-Notes. T-Notes then resumed higher with the data out the way, perhaps aided by the cooler than expected Canada inflation data which saw traders boost BoC rate cut bets. The Atlanta Fed GDPNow estimate was also revised down to 2.3% from 2.5% while attention now turns to Jackson Hole, particularly Fed Chair Powell on Friday to see whether he signals a September rate cut. However, he may be reluctant to openly confirm one given another CPI and NFP report are due before the September meeting. Elsewhere, Bowman spoke today, mainly focusing on supervision and regulation, but stating her views on monetary policy and the economy have not changed since July. Waller will speak tomorrow at a Blockchain event while the July FOMC minutes will be eyed, as will the 20yr bond auction.

Bills:

- US to sell USD 65bln of 17-wk bills on August 20th
- US to sell USD 100bln of 4-wk bills and USD 85bln of 8-wk bills on August 21st
- US sold USD 85bln of 6-wk bills at a high rate of 4.245%, B/C 2.57x

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: September 22bps (prev. 21bps), Oct 35bps (prev. 34bps), Dec 54bps (prev. 53bps).**

- NY Fed RRP on demand at USD 22bln (prev. 38bln) across 29 counterparties (prev. 19).
- EFRR at 4.33% (prev. 4.33%), volumes at USD 112bln (prev. 114bln) on August 18th.
- SOFR at 4.34% (prev. 4.36%), volumes at USD 2,810tln (prev. 2.821tln) on August 18th.
- Treasury Buyback (1m-2yr, liquidity support): Accepts maximum amount of USD 4bln of 28.7bln offers (offer to cover, 7.18x), accepts 12 issues from 60 eligible.

CRUDE

WTI (V5) SETTLED USD 0.93 LOWER AT 61.77/BBL; BRENT (V5) SETTLED USD 0.81 LOWER AT 65.79/BBL

The crude complex was lower on Tuesday and weighed on by broader risk-off sentiment. The main headline risk this week has been the US/Ukraine/Russia peace talks, and although talks may advance and there is a possibility of a Putin/Zelensky summit, no breakthrough has been seen yet, which was widely anticipated. There are several sticking points in the negotiations, with a main one being Ukraine's refusal to cede any land, something Russia wants them to do, and the US has even suggested may need to happen. In terms of the next stages, the White House Press Secretary said Putin has agreed to begin the next stage of the peace process, and the accommodations for a Zelensky/Putin meeting are underway, with reports suggesting it could take place in Budapest, Hungary. Elsewhere, newsflow was sparse as traders await private inventory metrics after hours, whereby expectations are (bbls): Crude -1.8m, Distillate +0.9m, Gasoline -0.9m. For the record, WTI traded between USD 61.65-62.68/bbl and Brent between USD 65.61-66.58/bbl.

EQUITIES

- **CLOSES:** SPX -0.57% at 6,412, NDX -1.39% at 23,385, DJI +0.02% at 44,922, RUT -0.77% at 2,277.
- **SECTORS:** Real Estate +1.8%, Consumer Staples +0.99%, Utilities +0.99%, Materials +0.53%, Health +0.62%, Financials +0.17%, Industrials +0.19%, Consumer Discretionary -0.37%, Communication Services -1.16%, Technology -1.88%, Energy -0.19%.
- **EUROPEAN CLOSES:** Euro Stoxx 50 +0.87% at 5,482, Dax 40 +0.50% at 24,436, FTSE 100 +0.34% at 9,189, CAC 40 +1.21% at 7,979, FTSE MIB +0.89% at 43,021, IBEX 35 +0.34% at 15,304, PSI +1.05% at 7,963, SMI +1.19% at 12,216, AEX +0.56% at 902.

STOCK SPECIFICS:

- **Palo Alto Networks (PANW):** EPS and revenue beat with stellar guidance.
- **Nvidia (NVDA)** reportedly working on a new AI chip for China which outperforms the H20.
- **SoftBank (SFTBY)** will make a c. USD 2bln investment in **Intel (INTC)**.
- **Tegna (TGNA)** to be acquired by **Nexstar (NXST)** for USD 22/shr; note, TGNA closed Mon at USD 20.18/shr.
- **Home Depot (HD):** EPS, revenue light and affirms guidance.
- WSJ reports **Medtronic (MDT)** is to add directors after Elliott becomes big shareholder while EPS, revenue topped and lifted FY EPS view.
- **Viking Therapeutics (VKTX)** most recent weight loss data from its phase 2 trial looks inferior to Eli Lilly (LLY) on almost all metrics accompanied by such a high discontinuation rate.
- **Plymouth Industrial REIT (PLYM)** received USD 24.10/shr proposal from Sixth Street; PLYM closed Monday at USD 14.64/shr.
- Hedge Fund Toms Capital pushes to meet with **CSX (CSX)** after acquiring a stake, according to Reuters citing sources. Separately, an Ancora letter to CSX urges the Co. to terminate CEO Hinrichs if a merger cannot be consummated in a timely manner.
- **Meta (META)** to downsize AI division and some executives expected to leave, via NYT.

US FX WRAP

The **Dollar Index** saw slight gains on Tuesday, despite a lack of US data and Fed speak, although there was mixed housing data - the forward-looking building permits fell more than anticipated, while the volatile housing starts unexpectedly soared higher and printed outside the top end of the forecast range. Elsewhere, it was a very quiet summer trading day as participants await Jackson Hole, where Chair Powell is set to speak on Friday at 10:00EDT, but before that is the FOMC Minutes on Wednesday. DXY traded between 97.938-98.321.

G10 FX was largely lower against the Greenback, although the Yen firmed and was the clear outperformer with USD/JPY hitting a low of 147.45 against an earlier high of 148.11 as it was supported by the broader risk-off sentiment. Antipodeans and CAD lagged, with the former weighed on by the broader risk tone ahead of RBNZ overnight, while the Loonie was hit by cooler than expected Canadian CPI, which tilted money market pricing modestly dovish. USD/CAD traded between 1.3797-3864, while AUD/USD and NZD/USD both traded within a 50-pip range.

CHF, EUR, and GBP all saw similar losses vs. the Buck, albeit not to the extent of the aforementioned three (AUD, NZD, CAD) as newsflow was light and attention turns to UK CPI on Wednesday, which will be pivotal in determining the outcome of the next BoE meeting.

EMFX was mixed. Yuan was flat ahead of PBoC LPR overnight, whereby it is likely to keep rates at their current levels, with the 1-year LPR at 3.00% and the 5-year LPR at 3.50%.

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