

Stocks and Bonds hit ahead of Fed Chair Powell

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** Strong US Flash PMIs with hawkish commentary; Initial & Continued claims rise more than expected; Soft Philly Fed; Hawkish comments from Fed's Schmid & Hammack and in 'wait-and-see' camp; DoJ officials calls on Powell to fire Cook; Ukraine reports intense Russia attack overnight; Strong US 30yr TIPS auction; Russia/Ukraine deal seems no closer; WMT profit light; Weak COTY earnings
- **COMING UP: Data:** Japanese CPI, Canadian Retail Sales **Speakers:** Fed's Powell; BoE's Bailey **Supply:** Australia **Event:** Jackson Hole (21st-23rd).

MARKET WRAP

Stocks ultimately closed lower on Thursday, albeit in choppy trade, with the Russell outperforming. Sectors were predominantly lower, with Consumer Staples and Consumer Discretionary underperforming after retailer earnings, which saw Walmart miss on EPS, while Coty (COTY) tumbled post-earnings. Energy and Materials were the only sectors to close in the green. The highlights today were the US data and Fed speak. Data saw a strong S&P Global Flash PMI report in the US, accompanied by hawkish commentary, which largely set the tone of trade. In response to the data, T-Notes sold off with the curve flattening. The move was also supported by hawkish Fed speak from Hammack, Schmid and to some extent Bostic. However, earlier data (jobless claims and Philly Fed) both disappointed, with claims rising above the forecast, albeit little reaction was seen. After the PMIs and Fed speak, money market pricing has unwound rate cut bets from the Fed by year-end somewhat, with the market no longer fully pricing two 25bps rate cuts by year-end. Attention turns to Fed Chair Powell on Friday to further shape Fed rate cut expectations. Elsewhere, crude prices chopped, initially tumbling before completely reversing, with questions raised over the Russia/Ukraine peace amid commentary from officials and attacks from Moscow on Ukraine overnight. In FX, the Dollar outperformed on the aforementioned data and Fed speak at the expense of the Yen and Franc.

US DATA

FLASH PMI (Aug): The data was strong, seeing the manufacturing PMI surprisingly return to expansionary territory, printing 53.3, above the exp. 49.5 and prior 49.8. It was also above the most optimistic forecast of 50.5. Services, however, declined, albeit remained in expansionary territory at 55.4, falling from 55.7, but not as steep as the expected decline to 54.2. This left the composite rising marginally to 55.4 from 55.1. Within the report, it noted that the data is consistent with the economy expanding at a 2.5% annualised rate, up from the average 1.3% expansion seen over the first two quarters. The commentary was quite hawkish. S&P Global writes that "The resulting rise in selling prices for goods and services suggests that consumer price inflation will rise further above the Fed's 2% target in the coming months. Indeed, combined with the upturn in business activity and hiring, the rise in prices signaled by the survey puts the PMI data more into rate hiking, rather than cutting territory according to the historical relationship between these economic indicators and FOMC policy changes". On the labour market, it notes hiring also picked up and job creation reached one of the highest rates seen over the past three years, noting companies reported the largest build-up in uncompleted work since May 2022.

EXISTING HOME SALES (Jul): Existing home sales rose 2% to 4.01mln from 3.93mln, and above the expected 3.92mln. Inventory of homes for sale was 4.6 months' worth, marginally falling from last month's 4.7, while the national median home price for existing homes was USD 422,400 (prev. USD 432,700). NAR Chief Economist Lawrence Yun said, "The ever-so-slight improvement in housing affordability is inching up home sales", adding "wage growth is now comfortably outpacing home price growth, and buyers have more choices." Yun said, "Homebuyers are in the best position in more than five years to find the right home and negotiate for a better price. Current inventory is at its highest since May 2020, during the COVID lockdown."

PHILLY FED (Aug): Overall, the Philly Fed was a poor report, highlighted by the headline falling to -0.3 from 15.9, beneath the expected +7.0 and also below the bottom end of the forecast range. Looking at the sub-indices, employment and new orders fell to 5.9 (prev. 10.3) and -1.9 (prev. 18.4), respectively, while prices paid rose to 66.8 from 58.8. Capex jumped to 38.4 from 17.1, while the 6m index rose to 25.0 from 21.5 in July. Within the release, it notes, "responses suggest regional manufacturing activity weakened this month. The indicators for current activity and new orders dipped into negative territory, while the shipments index declined but remained positive. On balance, the firms indicated an increase in employment, and the price indexes rose further above their long-run averages. The survey's broad indicators for future activity suggest that firms continue to expect growth over the next six months."

FED

HAMMACK (2026 voter) toed a hawkish tune, as she said if the Fed meeting was tomorrow, she does not see a case for reducing interest rates. On the longer-term, Hammack noted there is a small distance to get to neutral policy, and her longer-term rate is towards the higher level of Fed estimates (June projections ranged from 2.5-3.9%). The 2026 voter added that both sides of Fed mandate are under pressure, and it is important to maintain a modestly restrictive policy to lower inflation, and the Fed needs to stay 'laser focused' on too high inflation. Further on this, Hammack said the biggest concern is that inflation is too high and it has been trending in the wrong direction. As such, it puts her in the camp of those who believe that inflation is further away from its goals

than employment. Ahead of the September meeting, Hammack said she walks into every meeting with an open mind, and reiterated data dependency as she stated there is a lot of data between now and September.

SCHMID (2025 voter, Hawk) one of the more hawkish members on the FOMC, reiterated he is not in a hurry to cut interest rates, noting market and spreads are in good shape, adding he needs definitive data to move the policy rate. The Kansas City Fed President also suggested the Fed have to be careful about what lowering short-term rates would do to inflation mentality, noting anchoring inflation at 2% is a key part of the Fed mandate. Schmid added that officials will be watching August and September inflation data, stressing there is a lot of data and a lot to be said between now and September. Schmid is searching for data that shows the Fed is restrictive, but he views the current stance as modestly restrictive and appropriate. On the labour market, he agrees with Fed Chair Powell that while numbers seem softer, it appears to be in balance, highlighting unemployment is still at 4.2% amid the impacts of immigration. He also described the labour market as solid. On inflation, he reiterated it is closer to 3% than 2%, and the Fed has more work to do - stressing the need to push inflation down to 2%, adding that the last mile of inflation is pretty hard.

BOSTIC (2027 voter, Hawkish) highlighted that Fed policy has been positioned to return inflation to 2% but inflation remains above target. The Atlanta Fed President stated that business contacts say costs are going up, but the transmission to prices is inconsistent. By year-end, there will be enough clarity for firms that key decisions can be made. On the labour market, Bostic said that between 50-75k is now closer to the jobs market's monthly replacement rate (Schmid had said that it may be sub 50k), but added that the unemployment rate has been consistent with full employment for some time. On policy, Bostic is still eyeing one rate cut in 2025, but the forecast is in flux. But he said he is not stuck on anything when it comes to monetary policy, adding that when the Fed moves on policy, the direction should be consistent.

FIXED INCOME

T-NOTE FUTURES (U5) SETTLED 10 TICKS LOWER AT 111-17+

T-Notes sold after strong PMI data and hawkish Fed speak ahead of Powell . At settlement, 2-year +4.6bps at 3.790%, 3-year +4.5bps at 3.742%, 5-year +4.7bps at 3.857%, 7-year +4.4bps at 4.067%, 10-year +3.2bps at 4.328%, 20-year +2.3bps at 4.903%, 30-year +1.9bps at 4.923%.

INFLATION BREAKEVENS: 1-year BEI +4.1bps at 3.252%, 3-year BEI +3.1bps at 2.736%, 5-year BEI +4.2bps at 2.473%, 10-year BEI +3.6bps at 2.380%, 30-year BEI +3.0bps at 2.282%

THE DAY: T-Notes continued to grind lower post FOMC Minutes on Wednesday, albeit the downside accelerated in the wake of the stronger than expected Flash PMI data for July, which was accompanied with hawkish commentary. The manufacturing PMI beat all analyst expectations while services saw a narrower decline than feared, ultimately lifting the composite slightly. Within the report, it highlighted that the rise in selling prices for goods and services suggests CPI will rise further above the Fed's target in the coming months. Adding that when combined with the upturn in business activity and hiring, the rise in prices signalled by the survey puts the PMI data more into rate hiking territory, rather than rate cutting territory - according to the historical relationship between these economic indicators and FOMC policy changes. On Fed speak, Hammack and Schmid implied they are currently in the wait-and-see camp, and will be eyeing upcoming data. Bostic meanwhile suggested the breakeven labour market number is 50-75k, noting that unemployment rate has been consistent with full time employment for some time, adding inflation remains well above target. Elsewhere, Jobless Claims data rose, which resulted in fleeting upside for Treasuries, while the Philly Fed data missed expectations but prices paid rose with employment easing. On Fed's Cook, Bloomberg reported that a DoJ official is urging Fed Chair Powell to remove Cook from the board. The hawkish fed speak and PMI data weighed T-Notes throughout the session, but a bottom was found ahead of the 30yr TIPS auction, which saw very strong demand (more below).

SUPPLY

T-Notes/Bonds

- US to sell USD 69bln of 2-yr notes on August 26th, USD 28bln of 2-yr FRN and USD 70bln of 5-year notes on August 27th, and USD 44bln 7-yr notes on August 28th; all to settle on Sept 2
- **30YR TIPS:** Overall, a strong 30yr TIPS auction. The Treasury sold USD 8bln with a high yield of 2.650%, stopping through the When issued by 2.3bps, a strong improvement vs the prior tail of 0.3bps. The bid-to-cover of 2.78x was also well above the prior 2.48x and average 2.50x. There was a jump in direct demand to 25% from 15%, although indirect demand fell to 70.4% from 77.5%, but the strong direct demand saw dealers take home just 4.50% of the auction, beneath the prior and average.

Bills:

- US sold USD 100bln of 4-wk at high rate 4.300%, B/C 2.61x
- US sold USD 85bln of 8-wk bills at high rate 4.220%, covered 2.71x
- US to sell USD 85bln of 26-wk bills and USD 82bln 13-wk bills on August 25th
- US to sell USD 73bln of 26-wk bills on August 25th

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: September 19bps (prev. 21bps), Oct 30bps (prev. 35bps), Dec 48bps (prev. 54bps).**
- NY Fed RRP op demand at USD 25bln (prev. 35bln) across 17 counterparties (prev. 18).
- EFRR at 4.33% (prev. 4.33%), volumes at USD 115bln (prev. 109bln) on August 20th.
- SOFR at 4.31% (prev. 4.33%), volumes at USD 2.704tln (prev. 2.760tln) on August 20th.

CRUDE

WTI (V5) SETTLED USD 0.81 HIGHER AT 63.52/BBL; BRENT (V5) SETTLED USD 0.83 HIGHER AT 67.67/BBL

The crude complex saw gains on Thursday and was potentially bolstered by the increasing likelihood of no deal being agreed between Russia and Ukraine. In terms of the day, WTI and Brent initially moved lower through the duration of EU morning to hit lows of USD 62.52/bbl and 66.74/bbl, respectively, just after the cash open before reversing higher through the rest of the US day to settle at peaks. Highlighting the stalling Russia/Ukraine picture, overnight, Ukraine's Air Force said Russia used 574 drones and 40 missiles in an attack, which would be one of the most intense Russian strikes to date. Following this, Zelensky said the attacks show that Moscow is trying to avoid the need for meetings aimed at ending the war. In other remarks, Zelensky stated Kyiv wants to have an understanding of security guarantees within 7-10 days, followed by bilateral and trilateral leaders' meetings. From the other side, Russian Foreign Minister Lavrov suggested Ukraine is showing that it is not interested in a sustainable and long-lasting peace settlement, and Russia supports the ideas set out in 2022 Istanbul talks on security guarantees for Ukraine. Meanwhile, according to Reuters sources, Putin demands that Ukraine is to give up Donbas, no NATO and no Western troops. From the Western side, the Guardian, citing officials familiar, said US President Trump steps back from Russia and Ukraine peace talks for now, and he told top advisers trilateral meeting would take place after the leaders of the two countries have met first. Later on, Trump [on Russia-Ukraine] said they'll know in about two weeks. Elsewhere, strong flash PMI data in the US helped support the demand side of the equation. The highlight on Friday is the Jackson Hole symposium, where Fed Chair Powell is speaking at 10:00EDT/15:00BST, and not forgetting the weekly Baker Hughes rig count.

EQUITIES

CLOSES: SPX -0.40% at 6,370, NDX -0.46% at 23,143, DJI -0.34% at 44,786, RUT +0.21% at 2,274.

SECTORS: Energy +0.7%, Materials +0.26%, Technology -0.39%, Industrials -0.34%, Financials -0.31%, Real Estate -0.38%, Consumer Discretionary -0.68%, Utilities -0.71%, Communication Services -0.3%, Health -0.36%, Consumer Staples -1.19%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.19% at 5,342, Dax 40 +0.00% at 24,193, FTSE 100 -0.06% at 9,096, CAC 40 +0.44% at 7,743, FTSE MIB +0.56% at 41,624, IBEX 35 +0.91% at 14,825, PSI +0.23% at 7,780, SMI +0.15% at 11,867, AEX -0.13% at 891.

STOCK SPECIFICS:

- **Meta (META):** Frozen hiring in its AI division.
- **Coty (COTY):** Surprise loss per shr. w/ weak guidance.
- **Walmart (WMT):** EPS missed & rev. beat; Raises FY26 outlook.
- **Boeing (BA):** In talks to sell as many as 500 planes to China.
- **Dayforce (DAY):** Enters into USD 12.3bln definitive agreement w/ Thoma Bravo to go private; stockholders to receive USD 70/shr in cash as BBG. reported on Tues.
- **Nordson (NDSN):** EPS & rev. topped expectations.
- **Johnson & Johnson (JNJ):** Continues US investment w/ USD 2bln commitment to enable manufacturing at the North Carolina facility.
- **Gilead (GILD):** CVS holds off adding Cos. new HIV prevention shot to drug coverage lists.

FX

The Dollar saw gains on Thursday and was boosted after strong S&P Global Flash PMIs and hawkish commentary within. The Manufacturing PMI surprisingly rose into expansionary territory, while Services fell, albeit not as much as expected. Within the release, it said, "The resulting rise in selling prices for goods and services suggests that CPI will rise further above the Fed's 2% target in the coming months. Indeed, combined with the upturn in business activity and hiring, the rise in prices signaled by the survey puts the PMI data more into rate hiking, rather than cutting territory according to the historical relationship between these economic indicators and FOMC policy changes". Elsewhere, hawkish Fed speak came from Hammack and Schmid at Jackson Hole, with likely a deluge more on Friday, culminating with Chair Powell the highlight at 10:00EDT. We will be looking to see what members on the FOMC are in the camp that believe inflation is further away from target than employment, and vice versa. On data, aside from PMIs, US existing home sales unexpectedly rose, while initial and continued claims rose, with the former on the top end of the forecast range.

G10 FX was exclusively lower against the Greenback, albeit to varying degrees, with safe-havens (CHF, JPY) the laggards as the Yen gave back a chunk of its gains seen on Wednesday. Overnight, there was little move in USD/JPY on the release of S&P Global Japanese PMIs which saw Mfg. rise and Services fall.

EUR/USD tested 1.16 to the downside but did not breach the key round level, after the single-currency saw weakness in the European morning amid reports from Ukraine's Air Force that Russia used 574 drones and 40 missiles in an overnight attack. Nonetheless, some of the pessimism faded following flash PMI metrics from across EZ with a solid report from France kickstarting the recovery and followed by a mostly positive German release. The EZ-wide print saw the composite move further into expansionary territory with the accompanying report noting that "economic activity has picked up in both manufacturing and services".

Cable printed a low of 1.3406 against an earlier high of 1.3482, and came after the Pound saw a boost on strong UK Comp. and Services flash PMI metrics.

Antipodeans were the relative G10 outperformers, though still seeing slight losses against the Buck, in thin newsflow. The Kiwi was unable to retrace any of its post-RBNZ losses. AUD/USD and NZD/USD traded within very tight parameters of 0.6415-36 and 0.5812-32, respectively.

EMFX was largely weaker against, aside from the BRL which strengthened. Elsewhere out of LatAm, Mexican retail sales disappointed, while the CLP saw weakness after CNN Chile reported that the Finance Minister resigned.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com