

Stocks close green as eyes turn to NVDA earnings and data

- **SNAPSHOT:** Equities up, Treasuries steepen, Crude up, Dollar flat
- **REAR VIEW:** Trump admin is reviewing options to exert more influence over Fed regional banks; Fed's Cook lawsuit may be filed as soon as today; Europeans likely to start snapback process on Iran on Thursday; Fed's Williams says they could reduce rates and still be somewhat restrictive; US tariffs on most imports from India double to 50% as scheduled; US 5yr note auction sends mixed signals, while 2yr FRN saw strong indirect demand; Hotter-than-expected Australian CPI; Germany GfK Consumer Sentiment falls more than expected; EIA crude stocks draw more than expected; Starlink and TMUS eye SATS spectrum after AT&T deal.
- **COMING UP: Data:** Swiss GDP (Q2), EZ Sentiment Survey (Aug), US GDP 2nd Estimate (Q2), PCE (Q2), Jobless Claims. **Events:** ECB Minutes. **Speakers:** BoJ's Nakagawa; Fed's Waller. **Supply:** Japan, Italy, US. **Earnings:** Marvell, Dell, ULTA Beauty Best Buy, Pernod Ricard.

MARKET WRAP

Stocks were ultimately bid on Wednesday, with the Russell outperforming and the Nasdaq lagging. Sectors were predominantly firmer, with Energy the clear outperformer while Communication lagged. Tech was bid ahead of NVDA earnings after-hours. T-notes continued to steepen with focus on Fed independence, while Williams was somewhat dovish, but said he thinks it will be appropriate to reduce rates over time, and they will have to watch the data. The Dollar was flat but saw two-way price action with morning strength pared heading into the APAC session, driven by the fall in UST yields throughout the session. Elsewhere in FX, CAD outperformed on higher oil prices, while AUD was bid after hotter-than-expected inflation. Energy prices settled in the green, supported by the increased likelihood Iran will be hit with snapback sanctions, while the EIA report was also bullish, and Hungary MOL Chief said the Druzba pipeline could be restarted today or tomorrow in the best case, but even then it may not be running at full capacity. The reversal of the dollar and yields supported gold prices into the closing bell. Eyes turn to NVDA earnings after-hours, the 2nd estimate of GDP, weekly jobless claims and Fed's Waller on Thursday, and of monthly PCE on Friday.

US

FED'S WILLIAMS: The NY Fed President somewhat reiterated recent remarks that a low neutral rate era appears "far from over", noting that the Fed could reduce interest rates and still be somewhat restrictive. Williams views policy in a modestly restrictive position, and said goals are close to balance, but will have to watch the data. If the economy evolves as he hopes, Williams thinks that at some point, they need to move interest rates closer to neutral over time. On data, Williams said initial jobless claims are low, supply/demand in the labour market and hiring are all slowing, and sees GDP at a 1.5% annual rate (vs Fed median 1.4%). Williams highlighted wage growth continues to be consistent with a solid labour market, and inflation is moderating towards 2% target. When asked about the breakeven rate on employment, he said it is hard to determine; the breakeven number is lower than usual, but he does not have a good estimate on a specific number.

FIXED INCOME

T-NOTE FUTURES (U5) SETTLED 6+ TICKS HIGHER AT 112-13

T-notes continue to steepen on Trump v Fed. At settlement, 2-year -1.9bps at 3.625%, 3-year -2.5bps at 3.595%, 5-year -2.8bps at 3.710%, 7-year -2.3bps at 3.944%, 10-year -1.4bps at 4.242%, 20-year +0.7bps at 4.874%, 30-year +0.9bps at 4.917%.

INFLATION BREAKEVENS: 1-year BEI +6.6bps at 3.362%, 3-year BEI +4.3bps at 2.854%, 5-year BEI +2.1bps at 2.552%, 10-year BEI +0.9bps at 2.428%, 30-year BEI +0.1bps at 2.306%.

THE DAY: The curve continued to steepen on Wednesday, with little data to focus on, with bond traders still digesting the Trump v Fed debacle. After the settlement on Tuesday, reports from WSJ suggested that Trump is looking to nominate a Cook replacement quickly, suggesting it could be former World Bank President Malpass or even CEA Chair Miran, who is currently set to replace Kugler until the end of January - Trump had suggested Miran could see a more permanent role at the Fed. Moreover, Bloomberg reported that the administration is reviewing options for exerting more influence over the Fed's 12 regional banks. The attempt to flood out the governors and even have sway over the regional Fed Banks is diminishing Fed independence. Former NY Fed President Dudley penned an opinion piece in Bloomberg, warning that the markets are too complacent, even if Trump stands only a small chance of taking control of the Fed, the effort itself is disruptive, and the consequences of success would be dire. Dudley warned that the threat to Fed independence, risk of uncontained inflation, and much higher long-term borrowing costs, and a significantly weaker Dollar, are not going away. Elsewhere, Fed speak saw NY Fed President Williams speak on rates, noting the Fed is still in a modestly restrictive stance, every meeting is a live meeting, and that the Fed could lower rates and still be somewhat restrictive. He thinks that at some point, the Fed will need to move interest rates closer to neutral over time. The T-note auctions were mixed, with the 2yr FRN seeing a strong reception, while the 5yr was mixed (more below). The 7yr auction, 2nd estimate of Q2 GDP, and weekly jobless claims data will be in focus on Thursday, ahead of Fed's Waller after hours, before the monthly PCE on Friday. Fed Chair Powell alluded that the PCE will come in at 2.6% on the headline and 2.9% on the core, vs market expectations of 2.6% and 2.9%, respectively. Williams today noted that perhaps four or five tenths of a percentage point on Core PCE is due to

higher tariffs.

SUPPLY

T-Notes/Bonds

- **5-year:** Overall, a relatively mixed auction. The US Treasury sold USD 70bln of 5yr notes at a high yield of 3.724%, a lower yield than the prior 3.983%, and tailing the when issued by 0.7bps, similar to the prior 0.8bps tail but not as strong as the six auction average stop through of 0.1bps. Although it tailed, perhaps driven by the richening going into the offering, the bid-to-cover was above the prior and in line with the average. The breakdown was strong, with direct and indirect demand rising, leaving dealers (forced surplus buyers) with a below-average take-down. Direct bidders took 30.7% of the auction, vs the prior 29.5% and the average of 19.4%. Indirect bidders took 60.5%, up from the prior 58.3%, but below the 69.3% average.
- **2-year FRN:** Overall, a strong 2yr FRN auction. The US Treasury sold USD 28bln at a high discount margin of 0.195%, allotting 77.45% at the high. The bid-to-cover of 3.22x was well above the average and prior of 2.81x. The strong auction was led by a surge in Indirect demand to 77.85% from 59.73%, well above the 57.86% average, which saw dealers take 0.71% of the auction, vs the prior 0.83%. This left dealers overall with 21.43%, well below the 39.44% seen in July and the six auction average of 40.62%. US to sell USD 44bln 7-yr notes on August 28th.

Bills:

- US sold USD 65bln of 17-week bills at a high rate of 4.020%, B/C 3.00x
- US to sell USD 85bln in 8-week bills and USD 100bln of 4-week bills on August 28th

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: September 21bps (prev. 21bps), Oct 35bps (prev. 34bps), Dec 55bps (prev. 54bps).**
- NY Fed RRP op demand at USD 35bln (prev. 29bln) across 21 counterparties (prev. 16)
- EFRR at 4.33% (prev. 4.33%), volumes at USD 113bln (prev. 113bln) on August 26th
- SOFR at 4.38% (prev. 4.37%), volumes at USD 2.820tln (prev. 2.825tln) on August 26th

CRUDE

WTI (V5) SETTLED USD 0.90 HIGHER AT USD 64.15/BBL; BRENT (X5) SETTLED USD 0.74 HIGHER AT USD 67.44/BBL

The crude complex bounced from Tuesday's sell-off, as further sanctions on Iran loom. Overnight, US tariffs on most imports from India doubled to 50% as scheduled. India responded with a hopeful diplomatic message and plans to provide financial aid for exports as well as diversification of exporters' shipments to other markets. Amid the European morning, crude prices saw their lows, with WTI and Brent hitting USD 62.95/bbl and 66.37, respectively. Thereafter, WTI and Brent hit highs of 64.23 and 67.43, respectively, on a couple of factors. Firstly, a gradual upside followed an increased likelihood that Iran will be hit with the UN's snapback measure, which Reuters reported via sources that Europeans are likely to kickstart the snapback mechanism on Thursday. Additionally bullish for oil was the weekly EIA report, which saw crude stocks draw by 2.392mln, larger than the expected draw of 1.863mln and 1mln draw seen in Tuesday's private inventory report. Separately, the Hungary MOL Chief said the Druzba pipeline could be restarted on August 27th or 28th in the best case, but even then it may not be running at full capacity. Concerning Russia-Ukraine, Ukraine's Energy Ministry said Russia attacked energy and gas transit infrastructure in six Ukrainian regions overnight. At Goldman Sachs, they expect Brent to decline to the low USD 50s by late 2026, arguing the oil surplus is expected to widen and average 1.8mln b/d in Q4 2025 to Q4 2026, leaving a nearly 800mb rise in global stocks by the end of 2026.

EQUITIES

CLOSES: SPX +0.24% at 6,481, NDX +0.17% at 23,566, DJI +0.32% at 45,565, RUT +0.64% at 2,374

SECTORS: Energy +1.14%, Technology +0.48%, Real Estate +0.43%, Consumer Staples +0.22%, Materials +0.19%, Financials +0.18%, Utilities +0.06%, Consumer Discretionary +0.05%, Industrials -0.02%, Health -0.05%, Communication Services -0.09%

EUROPEAN CLOSES: Euro Stoxx 50 +0.18% at 5,393, Dax 40 -0.41% at 24,054, FTSE 100 -0.11% at 9,256, CAC 40 +0.44% at 7,744, FTSE MIB -0.72% at 42,349, IBEX 35 -0.62% at 15,025, PSI -0.36% at 7,816, SMI +0.45% at 12,215, AEX +0.31% at 908

STOCK SPECIFICS

- **Eli Lilly (LLY):** Verzenio medication showed improvement; upgraded at HSBC to 'Hold' from 'Underperform'.
- **J.M. Smucker (SJM):** Q1 Adj. EPS, Q1 rev. and FY26 adj. EPS outlook all missed.
- **Abercrombie & Fitch (ANF):** Q3 EPS outlook fell short.
- **MongoDB (MDB):** Q2 metrics beat with strong guidance.
- **Kohl's (KSS):** Adj. EPS, rev., and profit guidance topped expectations.
- **PVH (PVH):** Adj. EPS & rev. beat expectations.
- **Canada Goose (GOOS):** Received bids to go private for ~USD 1.4bln.
- **Fortune Brands Innovations (FBIN):** Downgraded to 'Hold' from 'Buy' at Truist.
- Scorpion Capital said they remain short **Soleno Therapeutics (SLNO)**.
- **EQT Corp (EQT)** is in talks to take a supply of LNG from **NextDecade's (NEXT)** export terminal, which is being built in Texas, via Bloomberg.
- **Google (GOOGL)** has eliminated 35% of managers overseeing small teams in the past year, CNBC reports.
- US HHS Secretary Kennedy said the emergency use authorisations for COVID vaccines are now rescinded; FDA has now

issued marketing authorisation for those at higher risk.

FX

The Dollar Index finished flat as upside against the EUR and JPY was offset by weakness vs CAD, GBP and CHF. Market-moving events were lacklustre for the buck, with markets awaiting PCE on Friday as the potential next catalyst for the next large move. Updates surrounding Fed Governor Cook continue to have a relatively muted impact within FX, namely, US President Trump is considering quickly announcing the replacement of Cook, with former World Bank President Malpass as a potential candidate. Further, the Trump admin is reviewing options to exert more influence over the Fed's 12 regional banks, a move that would only accelerate concerns over Fed independence and its ability to keep inflation expectations anchored. At the Fed, NY Fed President Williams sounded dovish, given his views on the neutral rate, in which the Fed could reduce interest rates and still be somewhat restrictive. Albeit he said rates should be lowered over time. DXY now sits around 98.23 from earlier highs of 98.735.

CAD and AUD outperformed G10 peers, with the latter supported by a stronger-than-expected weighted CPI reading, 2.8% (exp. 2.3%, prev. 1.9%). Accordingly, RBA money market pricing reacted hawkishly at first, briefly seeing an 81% chance of unchanged rates at the September meeting before paring most of the move to 75% (prev. 73%); AUD/USD now trades at 0.6510.

For the Franc, SNB Chairman Schlegel said the SNB does not see a risk of deflationary developments, and forecasts show a jump in inflation in the coming quarters. The Chair also referenced FX diversification, namely, a significant portion of dollar holdings must be allocated to Euros, and this "is being done".

The Euro was modestly weaker vs USD, hitting lows of 1.1575 before moving back to ~ 1.1630. In Germany, GfK Consumer Sentiment deteriorated more than expected, weighed by a sharp decline in consumers' income outlook. Possibly limiting EUR bids was the continued rise in the German Bund/OAT 10yr spread to ~ 81bps from the ~ 69bps at the start of the week. ING writes that a break above December's high of 90bps can trigger a significant move in the Euro, but would suggest that fiscal concerns are outweighing political instability. "The latter seems largely priced into the OAT risk premium, given that politically stable Italy is trading at almost the same 10-year yield despite a BBB+ rating".

USD/INR was little fazed by the expected implementation of US tariffs doubling on most Indian imports to 50%. India's response was absent of retaliatory measures, with the government planning financial aid for affected exporters amid a push to boost textile, leather, gem and jewellery shipments.

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