

### Stocks down in tech-led sell-off while in-line PCE does little to change Fed expectations

- **SNAPSHOT:** Equities down, Treasuries steepen, Crude down, Dollar flat
- **REAR VIEW:** US PCE in line with expectations; US adv goods trade balance deficit widens; Chicago PMI sinks beneath expectations; UoM Sentiment & inflation expectations revised lower; Atlanta FED GDPnow (Q3) revised higher; Fed's Waller reinforces view for a cut in September; US judge does not rule on Fed Cook dismissal; CPI mixed in Tokyo and Spain, while France comes in cooler than expected and Germany slightly hot; Canadian GDP growth contracts in June
- **COMING UP: Holiday:** US Labour Day, Canadian Labour Day. **Desk:** The desk will open as usual at 22:00BST/17:00EDT on Sunday, 31st August and run until 18:00BST/13:00EDT on Monday, 1st September, upon which the desk will close and then re-open at 22:00BST/17:00EDT the same day due to US market closures. **Data:** Chinese Caixin Manufacturing PMI (Final), EZ, UK, US Manufacturing PMI (Final), EU Unemployment Rate (Jul), New Zealand Terms of Trade (Q2). **Speakers:** ECB's Schnabel, Cipollone, Lagarde.
- **WEEK AHEAD:** Highlights include US NFP, ISM PMIs, EZ Flash CPI, UK Retail Sales, and Canada Jobs. [Click here for the full report.](#)
- **CENTRAL BANK WEEKLY:** Reviewing ECB Minutes, RBA Minutes and PBoC MLF. [Click here for the full report.](#)
- **WEEKLY US EARNINGS ESTIMATES:** AVGO the highlight on Thursday AMC. [Click here for the full report.](#)

### MARKET WRAP

Stocks closed lower on Friday with underperformance in the Nasdaq while the Dow outperformed. Sectors, however, were mixed, with Tech and Consumer Discretionary posting the largest losses, while Consumer Staples and Health Care outperformed. The focus on Friday was US data, which saw in-line PCE, albeit the supercore print saw three months of consecutive gains, raising concerns about sticky inflation in the face of tariffs. However, it had little influence on Fed expectations with participants eyeing the August jobs report next Friday. The Chicago PMI data was softer than all analyst expectations, while the trade deficit widened due to a jump in imports. The Final UoM consumer sentiment report for August was revised down due to a drop in expectations, while inflation expectations were also revised down. Meanwhile, on the Fed, Governor Cook's hearing yielded no decision, with both sides asked to provide more documentation next week. Meanwhile, Fed Governor Waller spoke overnight, reiterating his dovish tone, adding he anticipates additional rate cuts over the next 3-6 months, viewing current rates 1.25-1.50% above neutral. On price action, T-notes steepened as Fed independence questions remained, while the dovish Waller saw front-end yields lower. The Dollar was ultimately flat with outperformance in the Antipodes and underperformance in GBP and JPY. Crude prices extended losses into the month-end with desks citing a weaker demand outlook in the US ahead of Labor Day. Gold prices benefited from questions around Fed independence and prospects of a more dovish Fed.

### US

**PCE:** Overall, the PCE data were in line. Headline M/M rose 0.2%, cooling from the prior 0.3% pace. The Y/Y rose 2.6%, in line with prior and forecast. The core metric rose 0.3%, matching the prior and expected, with Y/Y rising 2.9%, in line with forecasts but accelerating from the 2.8% prior. Further, the super core measure rose 0.4%, accelerating from the prior 0.2%, seeing the third consecutive month of acceleration, raising stickiness fears of inflation in the face of tariffs. Elsewhere in the report, Personal income rose by 0.4%, in line with forecasts and picking up from the prior 0.3%, while consumption rose 0.5%, in line with forecasts, also accelerating from the prior of 0.4%. Real spending rose by 0.3%, up from the prior 0.1%. The data didn't impact Fed expectations too much. The hot supercore was some cause for concern, but Powell recently said that a reasonable base case is that the inflation effects of tariffs will be short-lived. There is a lot of focus on the labour market, with next week's NFP likely the next catalyst to shift Fed rate cut expectations. Looking ahead, Pantheon Macroeconomics continue to expect core PCE inflation to peak at 3.3% at the turn of the year, before then easing to about 2.5% by the end of 2026, "That path should allow the FOMC to ease policy substantially over the next year to shore up the labor market; we still expect a 75bp reduction in the funds rate this year, and a further 75bp easing in 2026."

**TRADE:** The Advanced Goods Trade balance saw the deficit widen to 103.6bln from a deficit of 84.85bln, much wider than the 89.45bln forecast. Looking within the report, July exports were USD 178.0bln, USD 0.1bln less than June exports. Imports of goods for July were USD 281.5bln, USD 18.6bln more than June imports. Given that the deficit increase is led by a jump in imports, it could have negative implications for GDP, as imports are a subtraction in the calculation of GDP. The rise in imports was led by a 25.4% increase in industrial supplies and an 11.5% increase in other goods. On the report, OxEco suggest the trade data creates downside risk to Q3 GDP, noting the increase in capital goods imports may reflect ongoing spending by businesses on high-tech goods associated with AI, but it may also be in response to looming sector-specific tariffs.

**FED'S WALLER (voter):** The Fed Governor reiterated his dovish views in a more confident manner on Friday, saying he would support a 25bps rate cut at the September meeting, anticipating future cuts over the next 3-6 months. This is an unsurprising development in the governors' views, given he previously said before the July NFP report (which saw large downward revisions), "while the labor market looks fine on the surface, once we account for expected data revisions, private-sector payroll growth is near stall speed, and other data suggest that the downside risks to the labor market have increased". Waller does not believe a bigger

cut in September is needed, unless the August jobs report showed a substantial weakening, with inflation staying well contained. He called the current policy rate modestly restrictive, and estimates its 1.25-1.50% above neutral (puts Waller in line with the Fed median FFR neutral estimate of 3%, but in the lower end of the 2.5-3.9% range). Similar to Powell, Waller views the downside risks to the labour market as having increased with labour demand weakening. The dovish member called tariffs a tax that does not raise inflation and added that there is no set sequence for rate cuts; they are going to get to neutral, it is just a question of how long it will take.

## FIXED INCOME

### T-NOTE FUTURES (Z5) SETTLED 3 TICKS LOWER AT 112-16

**T-notes continue to steepen on Fed independence concerns.** At settlement, 2-year -1.4bps at 3.621%, 3-year -0.8bps at 3.584%, 5-year +0.5bps at 3.701%, 7-year +1.2bps at 3.930%, 10-year +2.1bps at 4.228%, 20-year +3.8bps at 4.867%, 30-year +4.6bps at 4.918%.

**INFLATION BREAKEVENS:** 1-year BEI -2.0bps at 3.323%, 3-year BEI -1.0bps at 2.823%, 5-year BEI -1.3bps at 2.522%, 10-year BEI -0.3bps at 2.398%, 30-year BEI +0.9bps at 2.288%.

**THE DAY:** T-notes steepen on Fed independence woes while sticky core service inflation raises inflation expectations. The main focus of the day was the US PCE report, which ultimately was very much in line with analyst expectations. However, the super core print appeared to take focus, which rose to 0.4% from 0.2%, marking the third consecutive month of gains. This raised sticky inflation fears and ultimately weighed on the long-end. Fed pricing was little changed, with focus turning to next week's NFP report. Fed independence also remains in the limelight with the court hearing today of Cook v the Government coming to no decision, with more documents to be submitted by Tuesday next week. Elsewhere, Fed Dove Governor Waller spoke overnight, reiterating the case for lower rates, noting he would support a 25bp cut in September, and he expects additional cuts over the next three-six months. Aside from the Fed and inflation data, the latest trade data saw the deficit widen, bolstered by a jump in imports. After the GDP data on Thursday, PCE and trade data today, the Atlanta Fed GDPNow estimate was raised to 3.5% in Q3 from 2.2%. Note, the roll into the December contract is now effectively complete, with open interest concentrated in the December contract as we head into September.

### SUPPLY

#### Bills:

US to sell USD 85bn 6-week bills, USD 73bn 26-week bills, USD 82bn 13-week bills, and USD 50bn 52-week bills on September 2nd; all to settle on September 4th

### STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: September 22bps (prev. 21bps), Oct 35bps (prev. 35bps), Dec 55bps (prev. 55bps).**
- NY Fed RRP op demand at USD 78bn (prev. 32bn) across 26 counterparties (prev. 20)
- EFR at 4.33% (prev. 4.33%), volumes at USD 115bn (prev. 114bn) on August 28th
- SOFR at 4.34% (prev. 4.36%), volumes at USD 2.870tn (prev. 2.889tn) on August 28th

## CRUDE

### WTI (V5) SETTLED USD 0.59 LOWER AT USD 64.01/BBL; BRENT (X5) SETTLED USD 0.50 LOWER AT USD 68.12/BBL

**Crude prices extend losses into the month-end with desks citing a weaker demand outlook in the US ahead of Labor Day.** WTI and Brent reside slightly above session lows of USD 63.88/bbl and 67.29/bbl, respectively, from earlier highs of 64.55/bbl and 67.94/bbl. Bloomberg reported that Germany and France are seeking secondary sanctions on Russia's backers, but this shouldn't come as a surprise given the lack of progress in Russia-Ukraine talks. France and Germany would additionally provide air defence to Ukraine. Meanwhile, energy updates again concern facilities in Russia. Novatek partially resumed processing at the Ust-Luga complex (via Reuters) following the complex operating at half capacity in September due to pipeline damage from Ukrainian drone attacks. Meanwhile, operations at Russia's Kuibyshevsk oil refinery (140k bpd) have been suspended since 28th August due to drone strikes. Separately, the Caspian Pipeline Consortium says Mooring 2 halted operations amid an oil spill; more details await. The latest Reuters Poll showed analysts expected US WTI to average USD 64.65/bbl in 2025 (prev. forecast 64.61/bbl in July); Brent to average USD 67.65/bbl (prev. forecast 67.84 in July). The weekly Baker Hughes Rig Count is as follows: Oil +1 at 412, Natgas -3 at 119, Total -2 at 536.

## EQUITIES

**CLOSES:** SPX -0.64% at 6,460, NDX -1.22% at 23,415, DJI -0.20% at 45,545, RUT -0.50% at 2,366

**SECTORS:** Technology -1.63%, Consumer Discretionary -1.14%, Industrials -0.95%, Utilities -0.36%, Communication Services -0.32%, Materials +0.02%, Financials +0.21%, Energy +0.54%, Real Estate +0.55%, Consumer Staples +0.64%, Health +0.73%.

**EUROPEAN CLOSES:** Euro Stoxx 50 -0.82% at 5,352, Dax 40 -0.50% at 23,920, FTSE 100 -0.32% at 9,187, CAC 40 -0.76% at 7,704, FTSE MIB -0.59% at 42,196, IBEX 35 -0.82% at 14,948, PSI -0.55% at 7,760, SMI -0.22% at 12,186, AEX -0.76% at 897

### STOCK SPECIFICS

- **Autodesk (ADSK):** Profit, sales & guidance topped expectations.
- **Dell Technologies (DELL):** Concerns over weaker ISG margins outweigh Q2 beats and raised guidance.
- **Alibaba (BABA):** Revenue beat; has developed a new, more versatile AI chip.

- **Marvell Technology (MRVL):** Guidance and data centre revenue disappoints investors; downgraded at BofA to 'Neutral' from 'Buy'.
- **Elastic (ESTC):** EPS & revenue beat expected.
- **Affirm Holdings (AFRM):** EPS, revenue & guidance come in strong.
- **Caterpillar (CAT):** Expects a USD 1.5-1.8bln tariff impact in 2025.
- **Ulta Beauty (ULTA):** EPS & revenue surpassed expectations with guidance raised.
- **Gap (GAP):** Profit beat and in line revenue offsets concerns over Q2 SSS miss.
- **Celsius Holdings (CELH):** PepsiCo said to boost stake in CELH with USD 585mln deal.
- **Ambarella (AMBA):** Q2 metrics beat with revenue guide above expectations.
- **Kraft Heinz (KHC):** Nearing breakup announcement as soon as next week, WSJ reports.
- **Google (GOOGL):** Set to face modest EU antitrust fine over AdTech practices, according to Reuters, citing sources.

## FX

**The Dollar** was broadly lower against major peers amid an in-line PCE report. Headline and Core components matched analysts' expectations, while the supercore measures showed three consecutive months of acceleration. Overall, the report didn't change Fed policy expectations for September, with the base case (90% chance) still calling for a 25bps rate cut. The NFP report next Friday is more likely to dent rate cut expectations should job growth and the unemployment rate prove resilient despite recent pressures. The advanced trade goods balance deficit widened more than expected in July due to a jump in imports, which opens the door for a future drag on GDP growth. Following the data, the Atlanta Fed GDPnow (Q3) was revised up to 3.5% (prev. 2.2%). Uncertainty over Fed Governor Cook's role at the Fed remains, with the US judge not ruling on her dismissal, asking both parties to submit court documents next week. Elsewhere, Fed Governor Waller repeated his dovish views, but in a confident manner since the poor July NFP report. Waller anticipates additional rate cuts over the next 3-6 months, viewing current rates 1.25-1.50% above neutral. DXY saw modest moves on the data before reversing earlier gains from session highs of 98.141 to lows of 97.69.

In Europe, inflation readings out of France were softer than expected, Spain was mixed (M/M cool, Y/Y in line), while Germany was slightly hotter than expected. Further, for Germany, Retail Sales on a monthly real-adjusted basis declined more than expected, with unemployment unexpectedly decreasing. Overall, the data didn't have a long-lasting impact on EUR/USD, which now sits higher at 1.1700 thanks to broad USD weakness. The latest ECB SCE saw consumer expectations largely unchanged, while ECB's de Guindos calls the current level of interest rates "appropriate".

**JPY** was little changed vs USD after a mixed set of data. Tokyo CPI was largely in line, unemployment fell unexpectedly, but industrial production and retail sales disappointed, leaving JPY price action muted. Details behind the cancellation of the Japanese trade negotiator's visit to Washington became known, whereby Trump's plan to get increased Japanese purchases of American rice is causing discord. USD/JPY trades ahead at 147.0 into the weekend.

**Sterling** continued to underperform, perhaps as fiscal policy developments capped upside. Specifically, UK PM Starmer named former BoE Deputy Governor Shafiq as his top economic adviser. Meanwhile, the UK think tank recommended a windfall tax on commercial banks to reclaim profits from taxpayer-backed BoE deposits, to which senior bankers warned would be politically easy but damaging.

**USD/CAD** rose after the US PCE and Canadian GDP reports. The latter showed a surprise contraction in GDP growth in June. Ultimately, the move pared, putting USD/CAD at ~1.3730.

**EMFX:** In India, the rupee sank to a new all-time low following the increased US tariffs on India coming into effect this week. An analyst at ANZ Bank writes that the US tariffs are likely to prolong India's balance of payment stress, keep financial flows weak and widen the trade deficit. "My view remains bearish on INR, with USD/INR to rise more despite a broadly weaker dollar". Elsewhere, Reuters reported that the Brazilian government is to issue retaliatory measures against the US. However, President Lula later spoke, noting there are no immediate plans to match US tariffs on Brazilian goods, saying the process will require time, and he wants to negotiate with the US; BRL was among the worst EM performers.

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