US Market Wrap

May 13th: Stocks and bonds pare losses as inflation concerns take a breather

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar flat
- **REAR VIEW**: Hot PPI, but not as hot as CPI; Sloppy 30-year auction; IJC new pandemic low; MCD and AMZN highlight strong labour market; NY Fed tweaks QE; Banxico rate unchanged; Colonial Pipeline reopening remains on track
- **COMING UP**: **Data**: US Retail Sales, Industrial Production, University of Michigan (Prelim.) **Event**: ECB Minutes **Speakers**: Fed's Kaplan **Earnings**: Sage

MARKET WRAP

Equities bounced off the lows from the rout seen this week that has been amplified by inflation concerns. The rebound today came despite a hot PPI - firmer than expected across headline and core metrics - although it remained within the analyst forecast ranges, unlike CPI on Wednesday, perhaps cooling some of the more extreme expectations; however, it is only one month of data and the months ahead will provide more confirmation. The Fed continues to tout recent inflation as transitory, and that the next few months will be hot due to the usual suspects ("base effects", "bottlenecks", "labour demand/supply mismatch") and are not reading too much into the report, while some have suggested we could see inflation noise over the next five-to-six months. Initial jobless claims were encouraging again today, printing another fresh pandemic low and lower than expected. Meanwhile, both McDonald's and Amazon (AMZN) made announcements in testament to the strength of labour demand; MCD is to raise wages by 10% for over 36.5k employees while AMZN is hiring 75k in fulfilment and transportation, with an average salary of USD 17/hr and sign-on bonuses of up to USD 1000. USTs were bid today with the 10-year yield back at 1.65% after the surge in yields yesterday. The latest 30-year auction was sloppy, but failed to ignite much selling in bonds, while the NY Fed announced their much-anticipated technical adjustment to monthly purchases, which saw a slight extension to its weighted average maturities to match outstanding debt from the Treasury. Crude futures saw chunky losses in what appeared to be nothing much more than a continued fade from cycle peaks, while the Colonial Pipeline continues to progress on reopening in line with initial guidance.

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FED: **Barkin (2021, 2024 voter)** stated the question on how to ‘unclog’ the labour market is critical for the recovery, and supply constraints could hinder potential upside growth. **Waller (voter)** spoke for the first time since April 16th, and noted the US economy is going "gangbusters", despite the "thud" of the weak jobs report. Following this, he reiterated familiar Fed commentary, saying now is the time to be patient and they require several more months of data to know if the economy has made substantial further progress. Moreover, Waller continued to echo that the FOMC is to maintain accommodative policy for some time as factors putting upward pressure on inflation are temporary. Additionally, he declared the Fed will not respond to inflation as much as it would have in the past, as he does not want to move too quick chasing inflationary ghosts. Waller continued on the known path as he highlighted the Fed will not raise rates until they see inflation above target for a long time, but, if they observed 4% inflation, month-in month-out, he would get very concerned.

PPI: The headline print rose 0.6% M/M, firmer than the expected 0.3%, whilst Y/Y also topped expectations at +6.2% (exp. 5.9%). Following the same lead, both M/M and Y/Y core prices beat consensus, with M/M printing at +0.7% (exp. 0.4%) and Y/Y rising 4.1% against the consensus +3.7%. It’s worth noting that although it was a hot print, it was not outside the top end of analyst forecasts, unlike yesterday's CPI print, despite PPI normally printing more firmer than CPI in the past; although it is worth noting last month’s PPI report was rather strong as well. Commodity prices have risen significantly over the last 3 months, which will be feeding into the PPI headline. Goldman Sachs note the PPI report confirmed the reopening of the economy boosted prices in several sectors, as air transport +7.3%, vehicle rentals /lodging +3.9% and cruises +1.6% all grew significantly.

JOBLESS CLAIMS: Initial Jobless Claims came in at 473k, better than the expected 490k, and improved from last week’s 507k figure, continuing to print fresh pandemic lows as economies reopen, specifically, it was the lowest level since March 14th, 2020. Continued claims fell to 3.66mln, a touch above the expected 3.655mln, while the prior was revised higher to 3.7mln from 3.69mln. After the dismal April jobs report, 13 GOP states have started to walk back the enhanced unemployment benefits as they believe it may be dissuading employees to return to work, so looking ahead it will be interesting to see if those claiming Pandemic Unemployment Assistance starts to fall (it rose this week), with WaPo highlighting roughly 900k Americans are set to see their unemployment checks slashed dramatically in June.

RETAIL SALES PREVIEW: Analysts expect April's retail sales data will see a +0.2% M/M rise (from the prior +9.8%), the ex-autos measure is seen rising +0.8% M/M (from +8.4%). Given that the March data was underpinned by a fresh round of stimulus checks, the cooling in retail sales is understandable. The key debate ahead is how sustainable the consumer impulse will be: will consumers have front-loaded spending, and turn more cautious, or will they continue spending as restrictions are lifted. Some analysts have been making the case that the rounds of stimulus checks, pent-up savings, and a normalisation of economic conditions will result in consumption picking up. RBC's analysts say that as the reopening continues, it can see in the weekly credit card data that many of the sales sub-categories continue to push higher, and this dynamic is likely to support the 'retail control' measure (RBC sees +1.4% in April); the bank says Q2 consumer spending appears to be starting out on a strong footing.

FIXED INCOME

T-NOTE (M1) FUTURES SETTLED 8+ TICKS HIGHER AT 132-06

Treasuries rallied, led by the belly, as the market pared back some of Tuesday's CPI-induced sell-off in light of a relatively more tame PPI print; sloppy 30yr auction had little sway. By settlement, 2s -0.8bps at 0.159%, 5s -2.5bps at 0.839%, 10s -3.2bps at 1.671%, 30s -1.6bps at 2.400%; TYM1 volumes were decent, but not as strong as Wednesday. 5yr BEI -5.3bps at 2.738%, 10yr BEI -2.6bps at 2.517%, 30yr BEI -0.3bps at 2.374%. SOFR and EFFR unchanged at 1bp and 6bps, respectively.

OPS & SALES: US sold USD 43bln 1-month bills at 0bps, covered 4.17x; USD 43bln of 2-month bills at 1bp, covered 3.47x; USD 27bln of 30-year bonds, tailed 1.8bps. US announced it is to sell USD 27bln (as expected) of 20-year bonds on May 19th, settle on June 1st; USD 13bln (as expected) of 10-year TIPS on May 20, settle on May 18th. NY Fed RRP demand rises to new YTD peak at USD 235.2bln across 36 bidders (prev. USD 209.3bln across 39 bidders).

QE TWEAKS: NY Fed made technical adjustments to its asset purchases; adjusted maturity ranges of asset purchases, extending WAM somewhat to align purchases with outstanding debt; reduces short-end and TIPS purchases modestly. Allocations across 7-30yr coupons will increase by 3%. Will distribute monthly purchases across eight sectors based on 12-month average of the proportional amount of Treasury securities outstanding. These adjustments had been flagged by Fed officials recently and thus come as little surprise to market participants, who have been expecting these tweaks to purchases for a few months now. Furthermore, it is worth stressing that the total purchase amount remains the same at USD 80bln of Treasuries and TIPS per month, and while the duration has been modestly extended to match Treasury issuance, this should not be misconstrued as an "operation twist" or "tapering", nor any other deviation of Fed policy.

THE DAY: Bonds were bid overnight with reported strong buying from overseas accounts seeing decent volume trade, likely some "buy the dip" motivation after Wednesday's vicious sell-off, decent 10-year auction, and continued risk-off in APAC trade. Prices pared in the European morning, however, with fresh Italian supply seeing EGBs and other govvies on the back-foot. But, as US players arrived, duration began to catch a bid. And interestingly, continued to move higher on the back of both firmer-than-expected PPI and lower-than-expected Initial Jobless Claims data in the US. Some traders reasoned that given the magnitude of the PPI beat was not as punchy as Wednesday's CPI, and that the much-touted commodity price boom was not leaving such a mark (yet), the report could be construed as a near-term cooler on the market's inflation expectations - BEIs narrowed in wake of the release. Duration extended its bid into the 30-year auction, with no room made for any concession. The auction was a sloppy one too, tailing 1.8bps, covering less than average, and seeing larger than average Dealer participation amid disappointing Indirects (foreign demand proxy) - unlike the strong demand at Wednesday's 10-year auction. There was a brief leg higher in yields, although just as bonds failed to sustain a bid after the 10-year auction, they failed to extend on any losses after today's 30-year, with yields hugging lows into the futures settlement. Although, it's worth highlighting that yields are still a good deal cheaper than the lows from last Friday (1.48% for 10s), so the market could be hesitant to extend higher in the near term.

CRUDE

WTI (N1) SETTLED USD 2.26 LOWER AT 63.84; BRENT (N1) SETTLED USD 2.27 LOWER AT 67.05/BBL

Crude futures were offered pretty hard on Thursday in a lack of meaningful new updates, with hot PPI data failing to provide support. Instead, over-arching bearish themes are being cited, whether that be the sustained COVID situation in India, or continued supply risk declines as the Colonial Pipeline remains on track to reopen by the end of the week. FX headwinds could also be weighing on the demand outlook, with DXY moving further north of the 90 handle that it failed to break beneath. The higher US yield environment in the last few days is no doubt supporting the Buck strength, whilst also tightening financial conditions for foreign net crude importers. On a technical basis, it's worth noting that crude futures have recently just made a run at cycle peaks, thus the air is more likely thinner up here as the benchmarks fly closer to the sun.

EQUITIES

CLOSES: SPX +1.23% AT 4,112, NDX +0.83% AT 13,109, DJIA +1.29% AT 34,021, R2K +1.39% AT 2,169

SECTORS: INDUSTRIALS +1.9%, FINANCIALS +1.87%, UTILITIES +1.79%, MATERIALS +1.53%, CONSUMER STAPLES +1.39%, TECHNOLOGY +1.37%, REAL ESTATE +1.18%, HEALTH +0.95%, COMMUNICATION SVS. +0.86%, CONSUMER DISCRETIONARY +0.69%, ENERGY -1.35%

EUROPEAN CLOSES: EURO STOXX 50 +0.12% AT 3,952; FTSE 100 -0.61% AT 6,962; DAX +0.30% AT 15,196; CAC 40 +0.14% AT 6,288; IBEX 35 -0.46% AT 8,966; FTSE MIB +0.31% AT 24,528; SMI +0.41% AT 11,034

STOCK SPECIFICS: McDonald's Corp. (MCD) is to raise wages at company-owned restaurants across the US; hourly wages will be raised for over 36,500 employees by an average of 10%. Amazon.com Inc. (AMZN) announced it is hiring 75k employees in fulfilment and transportation; average salary above USD 17/hr, and sign-on bonuses up to USD 1,000. Boeing Company (BA) is close to a fix for engine covers, such as the one that fell apart on a United Airlines (UAL) plane earlier in the year, according to WSJ citing sources. Meanwhile, BA received FAA approval for its electrical fixes to the 737 MAX and sent a service bulletin to airlines, clearing the way for jets to return to service. JPMorgan Chase & Co. (JPM) and others, including Wells Fargo (WFC) and US Bancorp (USB), will consider information from applicants' checking or savings accounts to increase their chances of being approved for credit cards, according to WSJ citing sources. Microsoft Corp. (MSFT) announced it is shutting down its Azure Blockchain service on September 10th. Tesla (TSLA) CEO Musk announced TSLA has suspended vehicle purchases using Bitcoin. Elsewhere, Global Times reported there has been no halt seen at the Shanghai Tesla (TSLA) factory after reports the other day suggested Tesla ditched plans to expand the factory amid US/China tensions. Electrek noted TSLA Model S Plaid has seen a few delivery delays, but buyers are starting to get some delivery dates for next month. Alphabet Inc Class C (GOOG) has been fined EUR 102mln by Italy's competition regulator for excluding an e-mobility app developed by Enel from its Android system. Google Cloud also expanded its partnership with PayPal (PYPL). Facebook, Inc. (FB) Digital currency group, Diem Association, formerly Libra, plans to launch a US Dollar stablecoin as they look to focus on the US rather than the globe. S&P Global, Inc. (SPGI) and IHS Markit Ltd. (INFO) are mulling divestiture of IHS' oil price information services unit, as well as IHS' coal, metals and mining business amid their merger. Alibaba Group Holding Ltd (BABA) missed on EPS but beat on revenue, and slightly upgraded FY22 revenue view. Bumble (BMBL) beat on EPS (may not compare) and Adj. EBITDA whilst revenue was in line with expectations; upgraded Q2 revenue view. Pan American Silver (PAAS) missed on EPS and revenue.

FX WRAP

The dollar was choppy with DXY trading between 90.587 and 90.909 after the solid gains seen yesterday while it closed rather flat today as equities bounced from the rout seen this week. Today's data saw jobless claims print a fresh pandemic low and will hopefully continue to do so in the months ahead while the PPI report was hot, but not quite as hot as the CPI seen on Wednesday. Yields remained lower across the curve on the session, providing headwinds to upside in the greenback. Fed's Waller hit the wires today and noted the Fed will not respond to inflation as much as it would have in the past while noting we need several more months of data to know if the economy has made substantial further progress. Waller said now is the time to be patient and he expects the FOMC to maintain an accommodative policy for some time; he called the CPI report a surprise, but it does not alter the fundamental inflation outlook. The Fed so far are all sticking to the same tone noting it is only one inflation report, although it was surprising, but the Fed will look to data in the months ahead and they should not pre-emptively judge the policy path with the noise. However, they do note if it does get out of hand they have the tools to do so. The choppy dollar space saw a flat EUR today with EURUSD briefly touching above 1.21 this morning but quickly paring; EGB/UST spreads narrowed today. JPY was slightly firmer and USDJPY hovered around 109.50 as the Yen found a benefit from the fall in US yields as some of the inflationary concerns had cooled slightly, which in turn provided a benefit to Gold, although other metals were mixed with Palladium flat after seeing downside from Russia's Nornickel fully restoring operations at its Oktyabrsky mine. Silver was modestly firmer in sympathy with Gold.

Cyclicals were mixed. GBP was softer against the buck and Euro with Cable falling sub 1.4050 but holding onto the 1.40 handle while EURGBP reclaimed 0.86. BoE Governor Bailey added little new but noted we are already seeing a strong UK economic recovery, reiterating we expect inflation to pick up round about now but we do not think higher inflation will persist, but it is being watched very carefully. AUD was lower as copper prices saw another retreat today while the Kiwi was firmer finding a benefit from a surge in housing sales, according to REINZ while food prices also rose M/M. CAD was softer paring some of its recent strength as crude prices tumbled while there was some jawboning from BoC Governor Macklem who noted if CAD continues to appreciate it could be more of a headwind to export projections.

He noted the BoC is looking at this and if it moves a lot higher it could have a material impact on its outlook and how we set monetary policy. The combination of the two saw USDCAD rise above 1.22

EMFX was mixed. RUB was firmer despite the leg lower in the crude complex although the US has said many times that they do not believe the Russian government is behind the hacking of the Colonial Pipeline, although the White House noted they should bear some responsibility given it happened in their country. MXN was hardly phased by the latest Banxico rate decision which left rates unchanged at 4% as expected in a unanimous decision while largely reiterated recent guidance that the board will take the necessary actions based on incoming information in order for the policy rate to be consistent with the orderly and sustained convergence of headline inflation to the 3% target within the time frame in which monetary policy operates. While reiterating there are upside risks to inflation. MXN was firmer on the day, continuing to rise against the buck post-Banxico. BRL was a touch firmer while the latest Economic Activity data (March) was better than feared. ZAR was flat amid a mixed metal complex while its latest mining production figures rose much more than expected with Gold production rising 10.5% in March from a prior decline of 9.1%. TRY was softer with USDTRY finding a high of 8.51, its weakest level in 6 months

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