newsquawk

US Market Wrap

June 4th: Dollar wanes as NFP misses the mark; tech and bonds well bid

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down
- **REAR VIEW**: NFP misses expectation; Biden admin to tackle supply chain issues; Mester wants to see further progress; Putin says hacking allegations are provoking pre-meeting; RBI keeps rates unchanged; AVGO beat on earnings and EPS
- **WEEK AHEAD PREVIEW**: *Previewing* US CPI; ECB, BoC, CBR; UK GDP; Iran Nuclear Talks; Mexico midterms. *To download the report, please click here*.
- **CENTRAL BANK WEEKLY**: *Previewing* the ECB, BoC, CBR; *Reviewing* RBA, RBI. *To download the report, please click here*.

MARKET WRAP

Reminiscent of the Goldilocks period is a fitting description of today's moves, where a second consecutive disappointing jobs report (+559k vs exp. +650k) saw bonds and duration-sensitive stocks (NQ) go bid while the greenback and VIX sold as the market walked back on Fed tightening expectations **-** US 10yr yield sunk 7bps to sit just above 1.55% at pixel time. Many had been looking to this week's NFP as potential to be the start of a string of solid jobs reports, a critical condition to make "substantial further progress" in the eyes of the Fed, which now goes into blackout mode ahead of the June 16th FOMC meeting. The cloudy employment outlook, at least for the time being as labour supply remains limited, has tempered expectations of Fed tapering in H2, and seen rates markets pull back aggressive Fed rate hike bets. The lack of labour market participation saw cyclical/value sectors underperform, with the RUT and DJIA indices underperforming the more tech-focused SPX and NDX, where gains in the latter two saw the indices turn weekly losses into gains.

GLOBAL

NFP: 559k jobs were added in May, missing the consensus +650k, while the prior was upwardly revised to +278k from +266k; private payrolls +492k (exp. +600k); manufacturing payrolls +23k (exp. +24k). The unemployment rate fell to 5.8% from 6.1%, lower than the expected 5.9%; the employment-population ratio rose to 58.0% (prev. 57.9, vs 61.1% in Feb 2020, a benchmark level some Fed members are targeting); participation rate at 61.6% (prev. 61.7%). Average earnings Y/Y rose 2%, above the expected +1.6%, while the M/M rose a sizeable 0.5%, above the expected +0.2%. Pantheon Macroeconomics observes that the May report was "dead in line with the Homebase small business employment data, which also were the best guide to April jobs." Whilst also noting that ADP overstated for the second straight month, citing stronger macroeconomic variables in its model, which diminishes the lack of labour supply challenges. "The bigger picture here", Pantheon says, "is that the labor force is still >5M smaller than we would have expected if the pre-Covid trend had continued. That means firms can’t find all the people they want, so job openings are at a record high and still rising rapidly." The consultancy draws attention to the chunky 0.5% M/M increase in average hourly earnings, which it says is "remarkable" given that 292k jobs added were leisure and hospitality, which should act as a weight on wage growth usually, given they are historically low-paid jobs. "Average wages in leisure and hospitality are now some 7% above their pre-Covid level, and have risen at a 12% annualized rate over the past six months." Pantheon says employers are likely facing a trade-off of having to either pay much more or, "wait until the forces which might be responsible for keeping people away from work fade." Noting that enhanced unemployment benefits end nationwide in September, "though 25 states have already said they’ll stop them earlier, as soon as next week". Pantheon continues to expect the Fed to toe the line that it sees good reasons to expect labour supply to increase substantially in the months ahead. "The potential problem for policymakers is that if that revival is due to much faster wage growth, it will become much harder to argue that the reopening spike in inflation will prove “transitory”. The consultancy concludes that for the time being, "this report is inconclusive", as it says little above how employers and employees will behave in the fall, "which is what will drive policy decisions."

FED: **Mester (2022, 2024 voter)** said the US May employment report was solid and progress continues to be made, but she wants to see further progress. Moreover, Mester does not think the increase of wages is currently feeding into underlying inflation. Additionally, when Mester was asked about possible discussions on tapering, she was vague but noted they need to be patient.

RUSSIA: There was further punchy rhetoric from Russia on de-dollarisation; President Putin stated Russia may consider settlement in national currencies and euros for oil and gas; while alleging the US uses the Dollar as a tool of economic and political war which undermines the dollar. Putin also added if Russian oil companies stop using the dollar, it will be a serious blow for the currency but we don't want to do this. The commentary follows the announcement that the Russian National Wealth Fund is to exit its USD assets, it will invest in EUR (40% share), CNY (30%), XAU (20%), GBP (5%) and JPY (5%), and is expected to come into force within one month. The punchy rhetoric also comes ahead of the meeting between US President Biden and Russia President Putin on June 16th. Putin claimed that hacking allegations against Russia are an attempt to provoke conflict ahead of the meeting and although he expects the summit will be held in a positive atmosphere, he does not expect a breakthrough but hopes it will create conditions to normalise US-Russia ties.

FIXED INCOME

T-NOTE (U1) FUTURES SETTLED 19+ TICKS HIGHER AT 132-06+

Treasuries rallied hard after the disappointing NFP report, led by the belly as traders walked back hike pricing and taper expectations amid the path to recovery becoming murkier. By settlement, 2s -0.9bps at 0.151%, 3s -2.7 bps at 0.303%, 5s -6.0bps at 0.785%, 7s -6.8bps at 1.231%, 10s -6.5bps at 1.562%, 20s -6.0bps at 2.158%, 30s -5.4bps at 2.241%; TYU1 volumes were above recent averages. Inflation breakevens narrowed: 5yr TIPS -4.4bps at -1.790%, 10yr TIPS -4.5bps at -0.867%, 30yr TIPS -4.3bps at -0.076%. Eurodollars rallied: Z2 +3bps at 99.635, Z3 +6.5bps at 99.070, Z4 +9bps at 98.490, Z5 +10.5bps at 98.080. SOFR and EFFR unchanged at 1bp and 6bps, respectively.

OPS & SALES: Fed bought USD 3.201bln 7-10yr Treasuries, O/C 3.64x (prev. 3.37x). NY Fed RRP op demand rises to USD 483bln across 42 bidders (prev. USD 479bln across 40 bidders).

THE DAY: Bonds were subdued and lifeless overnight/out of Europe on Friday, with little major catalysts to find impetus from ahead of the US payrolls report. The disappointing 559k jobs added (exp. +650k) saw a kneejerk lower in yields, only to reverse within 5/10 minutes after the release, perhaps as inflation concerns weighed on the +0.5% M/M AHE earnings print. However, once the dust settled, the strength in USTs resumed, sustaining through into the afternoon, seeing yields hug lows into the futures settlement. The lacklustre report knocked expectations for the May print being the start of a string of strong employment reports, something which is considered crucial to the Fed's "substantial progress", and has diminished expectations of taper discussions getting going in the upcoming meetings as participants recalibrate their smooth recovery outlooks. Given tapering is a prerequisite to hiking, we also saw traders pare back their aggressive Fed rate hike bets, with a strong bid across the Eurodollar strip, particularly the blue pack (EDZ5 +10bps). Participants are now looking to next week's CPI print, especially after last month's print stoked a large market reaction. Furthermore, Treasury refunding is on the radar, where we could see some concession early next week ahead of the 3s, 10s, and 30s auctions on Tuesday, Wednesday, and Thursday, respectively. A lack of Fed speak - due to the blackout period - should reduce headline risk for dealers looking to make room for the chunky supply.

CRUDE

WTI (N1) SETTLED USD 0.81 HIGHER AT 69.62/BBL; BRENT (Q1) SETTLED USD 0.58 HIGHER AT 71.89/BBL

Oil prices edged higher on Friday in a quiet session for catalysts - aside from NFP - with front-month futures marking a second consecutive weekly gain, and this time to new cycle peaks after breaking key resistance levels of USD 67.50/bbl and 70.00/bbl for WTI and Brent, respectively earlier in the week. The softer than expected jobs report didn't have much noticeable impact on the energy space immediately, although benchmarks saw some additional upside in the hours following the report, likely finding some sympathy from the sustained stock rally. But, oil prices did pare somewhat in later trade. While not price moving, there was some fresh punchy anti-US rhetoric from Russian President Putin today, where the leader said Russia might consider oil and gas settlements in its national currency and euros, taking another stab at dollar hegemony amid its concerns around the dollar being used as a "tool of economic and political war". Putin also said that a key part of Nord Stream 2 pipeline has been completed, adding that Russian gas supplies to Europe could rise by 50 BCM in the next decade. Over in America, the Baker Hughes rig count for this saw Oil rigs unchanged at 359, Nat gas -1 at 97, and Total -1 at 456. Looking ahead, next week sees the release of the EIA STEO followed by the OPEC and IEA MOMR towards the latter part of the week. However, these releases are unlikely to provide much colour given the fluidity of energy fundamentals and OPEC+ holding monthly meetings. US CPI however could prove to be another major market catalyst, as was the case last month.

EQUITIES

CLOSES: SPX +0.87% AT 4,229, NDX +1.78% AT 13,770, DJIA +0.52% AT 34,757, RUT +0.24% AT 2,286

SECTORS: TECHNOLOGY +1.92%, COMMUNICATION SERVICES +1.37%, CONSUMER DISCRETIONARY +0.82%, ENERGY +0.55%, INDUSTRIALS +0.34%, CONSUMER STAPLES +0.34%, HEALTH +0.32%, FINANCIALS +0.2%, MATERIALS +0.18%, REAL ESTATE +0.13%, UTILITIES -0.15%

EUROPEAN CLOSES: EURO STOXX 50 +0.24% AT 4,089; FTSE 100 +0.05% AT 7,068; DAX +0.39% AT 15,694; CAC 40 +0.12% AT 6,516; IBEX 35 -0.57% AT 9,090; FTSE MIB +0.33% AT 25,536; SMI +0.44% AT 11,561

STOCK SPECIFICS: Abbott Laboratories (ABT) filing estimated that it would incur between USD 550-700mln of pre-tax costs, which comes after last month's approving a cost-cutting plan, following lower COVID testing demand. Apple Inc. (AAPL) said to be releasing a slimmer entry-level iPad later in 2021 and working on an iPad Pro with wireless charging, as well as a new iPad mini. For Boeing (BA), Qatar Airways CEO said the airline is considering a multi-billion-dollar investment with a potential order of 30+ freighters. Broadcom Inc. (AVGO) posted strong earnings after it beat on EPS and revenue, whilst raising Q3 revenue guidance. Facebook's (FB) classified ads business is the centre of an antitrust investigation from both the EU and the UK, who are looking into the use of the business and whether a probe could force it to change its business model as well as take a hefty fine; meanwhile, FB extended its ban on former US President Trump for two years. Tesla (TSLA) is reportedly looking at bringing Model 3 cars to India by July/August for testing; back-end work is underway for sales before the end of 2021, according to CNBC TV 18. In other news, the latest data from a TSLA car owner in Taiwan hints that the Full Self-Driving (FSD) Subscription is almost complete and will launch in early July, according to Tesla blog, Tesmanian. The Walt Disney Company (DIS) Chairman Iger sold 550.6K shares of common stock worth USD 98.7mln, reducing his stake by roughly 51%. Iger is expected to retire as chairman at the end of the year, following his passing of the CEO role to Bob Chapek in 2020. Citi (C) CEO said its commercial banking business is "exploding". Square (SQ) CEO Dorsey is mulling a hardware wallet for Bitcoin. Walmart (WMT) is reported to be quietly laying plans to care for patients in 16 more states as it pushes into online care - of note for competitor Teledoc Health (TDOC). Royal Caribbean (RCL) stated to restart cruises in the US in July, according to an industry blog.

EARNINGS: DocuSign (DOCU) EPS and revenue beat on guidance, also raised FY22 revenue view. LuluLemon (LULU) beat on EPS and revenue. CrowdStrike (CRWD) missed on EPS, but revenue was in line with expectations. MongoDB (MDB) missed on EPS but beat on revenue. Slack (WORK) posted a surprise EPS and revenue also printed above expectations. Costco Wholesale Corp. (COST) May SSS Ex-Gas and FX +16.7% (exp. +14.5%), Net sales +24.2% Y/Y to USD 15.59bln; Total SSS (ex-gas): +14.7%.

WEEKLY FX WRAP

Another NFP let down for the Dollar

DXY - In stark contrast to this time last Friday when the Buck was benefiting from some supportive month end rebalancing demand (a day earlier than the actual turn due to US and UK holidays on May 31 itself), bears have regained the upper hand in wake of US jobs data that fell short of consensus and so called 'whisper' numbers inflated by several anecdotal gauges skewing expectations towards a stronger headline payrolls gain. So, a similar feeling of disappointment even though the over half million rise represents a considerable improvement from April's figure and big miss, while other BLS metrics were better than forecast, including unemployment and U6 underemployment rates along with average earnings. Nevertheless, the latest labour report will likely dampen taper talk amongst those at the Fed who have recently been more eager to start discussing dialling down the pace of QE, and the market reaction may be exacerbated by the imminent blackout period before June's FOMC policy meeting. Indeed, the index is struggling to hold above 90.000 having slipped back below the 21 DMA and labouring to breakout of ranges around the round number on the way to posting a w-t-d high of 90.629 earlier in the session vs a low at 89.662 and 90.087 'open' on Monday when trading volumes were adversely impacted by Memorial Day and the UK's late May Bank Holiday. For the record, the DXY and general Greenback revival began on Wednesday, but really got going yesterday when the delayed ADP release beat forecast comfortably and was compounded by upgrades to final Markit services and composite PMIs plus the headline non-manufacturing ISM alongside some sub-components such as prices paid and business activity.

AUD/NZD - No surprise to see the high beta or activity currencies take advantage of their US counterpart's demise, albeit with the Aussie and Kiwi still facing an uphill task to revisit best levels circa 0.7773 and 0.7287 respectively as the former continues to reflect on dovish RBA rate guidance, fresh COVID outbreaks that have prompted a return to snap lockdown in Melbourne and could undermine the overall economic recovery acknowledged by the Bank via its more upbeat assessment. Meanwhile, the latter is taking on board caveats from the RBNZ attached to its hawkish shift on OCR tightening, and this is evident in a further bullish Aud/Nzd cross retracement towards 1.0746 from just a tick above 1.0600 when the timing of a hike was brought forward to September next year.

JPY/GBP - The next major beneficiaries of the broad Dollar reversal, and for the Yen in particular also a pronounced retreat in US Treasury yields amidst curve re-flattening, pending catch-up in JGBs. Accordingly, Usd/Jpy is now retesting weekly lows and almost 100 pips down from the 110.33 apex, while the Pound remains toppy near 1.4200 following its June 1st spike to circa 1.4248-50 and subsequent failure to get anywhere close before recoiling to a sub-1.4100 trough today. However, Japanese and UK specifics have been positive on balance, such as PMIs, household spending and yet another booming house price survey from Nationwide that will draw attention from the BoE given two MPC members (Cunliffe and Ramsden) stating that the property market is under close scrutiny in context of rising inflation pressures as pandemic restrictions are lifted.

CHF/EUR - Franc outperformance and net appreciation over the course of the week will not be missed by the SNB so soon after VC SNB Vice Chairman Zurbruegg said he welcomes its recent weakening, although it remains highly valued, so current expansionary monetary policy remains appropriate. Moreover, Eur/Chf sub-1.0950 could be significant given dovish ECB vibes overall ahead of next Thursday's policy meeting with perceptions shifting in favour of an extension of the higher pace of PEPP activity rather than rolling back from significantly more buying during Q2. On the flip-side, Eurozone data and surveys remain encouraging if not universally upbeat to provide the hawkish GC camp with ammunition to argue the case for a return to normal, though no actual unwind while the re-opening from virus measures and faster roll-out of vaccinations could still be scuppered by new variants and waves. Meanwhile, Eur/Usd sits in the lower segment of a 1.2254-1.2105 band and hovering just under the 21 DMA.

CAD - The Loonie has been underpinned and occasionally boosted by the sharp rally in crude that culminated in WTI reaching Usd 69.76/brl at best, but is also languishing near the base of 1.2133-1.2006 extremes against its US rival after an arguably worse Canadian jobs outcome in headline terms than the US result, and in the run up to the BoC due next week as well. However, Usd/Cad has also witnessed more corrective trade after numerous attempts to breach 1.2000 and forming an ever congested trough from 1.2654 highs pre-May's BoC that came with a hawkish rate guidance twist on top of the widely anticipated QE taper announcement.

SCANDI/EM - Lots going on technically and independently to compliment broader moves in lock-step with the Usd, and Eur in the case of the Nok and Sek, plus gyrations in risk sentiment and underlying commodities. To recap, the PBoC pulled out several stops to stall the ascent of the Cny and Cnh, including a 200 bp rise in FX reserve ratio requirements to 7% from June 15 and actively urging banks to use Usd-denominated loans, while China's SAFE increased the capital outflow quota for domestic institutional investors. Elsewhere, the Mxn tracked oil prices and garnered momentum from holding above the 50 DMA in advance of Mexico's mid-term elections, the Zar and Brl excelled against the backdrop of real yield premiums, SA and Brazilian economic recoveries, long portfolio positioning and Gold's rush beyond Usd 1900 /oz even though it has not been able to stay there. Even the Rub drew some comfort from Brent's exertions to Usd 72+ at one stage amidst all the Russian angst on geopolitical grounds and staunch defence of Ukraine in the face of EU sanctions. Conversely, the Try has endured a torrid week and plumbed new all time depths following Turkish President Erdogan summoning the CBRT Governor to a meeting where he rammed home his message that interest rates must be cut to bring inflation down, while the Inr was choppy as the RBI left it late to reveal another dose of QE following its unchanged rate verdict that was universally expected.