



US Market Wrap

8th May 2023: Stocks and Dollar chop while yields climb on expectedly ominous Fed survey

- **SNAPSHOT:** Equities flat, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW:** Fed's SLOOS sees an increase in the tightening of credit standards with further deterioration expected in the year ahead; CTLT delays Q3 results & cuts guidance; Surprise TSN loss per share with weak guidance; AAPL announces five-part debt offering; Mixed NY Fed Consumer Expectations Survey, with 1yr falling but 3yr and 5yr rising; Goolsbee reiterates Fed's data dependency.
- **COMING UP: Data:** Chinese Trade Balance **Speakers:** ECB's Lane, Schnabel; Fed's Williams, Jefferson **Supply** : Germany & US **Earnings:** Daimler Truck, Ubisoft, Direct Line; Airbnb, Occidental Petroleum.
- **WEEK AHEAD PREVIEW:** Highlights include US CPI, Fed SLOOS, UK GDP, China Inflation, China Trade, BoJ SOO. To download the report, [please click here](#).
- **CENTRAL BANKS WEEKLY:** Previewing BoE, BoJ SOO, NZ Inflation Forecast, Riksbank Minutes; Reviewing FOMC, ECB, RBA, Norges, BCB. To download the report, [please click here](#).
- **WEEKLY US EARNINGS ESTIMATES:** [MON] MCK, PYPL; [TUES] APD, DUK, ABNB, OXY; [WED] DIS; [THURS] JD.I. To download the report, [please click here](#).

MARKET WRAP

Stocks were little changed Monday in choppy/tight range with mixed reception to the much anticipated Fed senior loan officer survey (SLOOS). Trading activity was lighter than usual with the UK away for the King's coronation, but that didn't stop the fanfare over Kolanovic's note at JPM, who warned of dissonance in the market over the rate cuts priced in, "What equity (and more broadly risk) markets refuse to acknowledge is that if rate cuts happen this year, it will either be because of the onset of a recession or a significant crisis in financial markets." In sectors, Financials outperformed although regional banks (KRE) saw some further selling, albeit more modest. Consumer Staples took a tumble on Tyson (TSN) earnings and cut guidance. Cross asset, Treasuries extended their post-NFP sell-off with heavy corporate supply and Fed SLOOS risk unwind. On the latter, while there was a notable increase in the tightening of credit availability, it was largely as Powell and Co. had alluded to, thus lacking the bite to cause much of a stir. Oil prices rallied around USD 1.50/bbl with some bullish Goldman jawboning in the absence of more meaningful catalysts after recent heavy selling. In FX, the Dollar was largely sideways with Antipodeans the big beneficiaries, Bitcoin saw significant selling with Binance halting withdrawals for several hours. Meanwhile, EMFX sees a cluster of political catalysts, with Chilean assets and Peso surging on the new right-leaning council, Brazilian markets under pressure from the government's new BCB appointments, and elections approaching in Turkey and Thailand.

US

DEBT CEILING PRIMER: President Biden is set to meet Republican leaders on Tuesday to discuss raising the current USD 31.4tn limit, with Congress typically tying approval of a higher debt ceiling to budget and spending measures. House Republicans have passed a bill already, but it is dead on arrival in the Senate given its spending cuts tied to the debt limit agreement, something the Democrats are highly against. The government already hit the debt-limit on January 19th, but the Treasury announced a "debt issuance suspension period", allowing it to take "extraordinary measures" to borrow additional funds without breaching the ceiling. Therefore, it has been able to continue funding government operations and avoid a default. The debt limit "X-Date", where the US special measures are expected to be reached is seen as early as June 1st, according to Treasury Secretary Yellen and the CBO. However, analysts expect this is a cautious estimate to help persuade congress to act on coming to an agreement. JPMorgan and Moody's see the real X-date occurring in August, while ABN Amro suggest it is likely to occur in late July, providing the government makes it to the mid-June tax payment deadline. To read the full Newsquawk primer, [please click here](#).

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 17+ TICKS LOWER AT 115-05+



Treasuries extended their post-NFP sell-off with heavy corporate supply and Fed SLOOS risk unwind. 2s +8. 3bps at 4.005%, 3s +7.9bps at 3.718%, 5s +7.4bps at 3.493%, 7s +7.1bps at 3.495%, 10s +6.9bps at 3.515%, 20s +6.6bps at 3.919%, 30s +7.0bps at 3.832%.

Inflation breakevens: 5yr BEI +3.4bps at 2.241%, 10yr BEI +2.2bps at 2.241%, 30yr BEI +1.9bps at 2.244%.

WEEKEND: There were few fresh catalysts coming out of the weekend, barring the latest debt limit proposal ([preview here](#)) for an extension until the end of the fiscal year (September), which parties will discuss with Biden on Tuesday. Meanwhile, the hot NFP report and cautious Fed commentary (Bullard and Goolsbee) on Friday afternoon are still top of mind. That's not to mention the increasingly scrutinised CFTC data, with a BBG article titled "Hedge Funds Face Into Bank Turmoil With Epic Short Treasury Bets".

THE DAY: T-Notes attempted a mild recovery during APAC trade on Monday, peaking at 115-27+ ahead of Europeans (ex-UK) arriving. Better selling then commenced into the NY morning with volumes well below average amid the UK coronation. A slew of announced corporate Dollar debt deals including USD 5bln from Apple (AAPL) and USD 6bln from Merck (MRK) saw Treasuries extend to lows amid rate lock-related flows (Tsy selling/swap paying). T-Notes troughed at 115-05 in the NY morning, extending past the NFP low of 115-13+, with not much in the way of the pre-JOLTS 114-26 from May 2nd. Contracts pared some losses into the afternoon with dovish reiterations from Fed's Goolsbee (v), mixed NY Fed consumer inflation expectations, and angst around the Fed SLOOS, but ultimately, those longs were unwound with the report largely consistent with Fed expectations/consensus: an increase in the tightening of credit standards with further deterioration expected in the year ahead. Participants now prep for this week's Treasury supply, CPI, and Fed Speak.

REFUNDING: US to sell USD 40bln of 3yr notes on May 9th, USD 35bln of 10yr notes on May 10th, and USD 21bln of 30yr bonds on May 11th.

THIS WEEK: (Tues) Chinese Trade Balance, Fed's Jefferson and Williams; (Weds) **US CPI**; (Thurs) **BoE**, BoJ Summary of Opinions, Chinese Inflation, **US PPI**, Fed's Waller; (Fri) UK GDP (Mar/Q1), French CPI, US Import Prices, Uni of Michigan prelim., Fed's Bullard and Jefferson.

STIRS:

- SR3H3 -0.5bps at 95.06, M3 -2.5bps at 94.935, U3 -6.5bps at 95.245, Z3 -9bps at 95.675, H4 -9.5bps at 96.20, M4 -9bps at 96.63, U4 -7.5bps at 96.915, Z4 -6.5bps at 97.075, H5 -6.5bps at 97.145, H6 -5bps at 97.15.
- US SOFR flat at 5.06%, volumes fall to USD 1.517tln (prev. 1.590tln).
- NY Fed RRP op demand at USD 2.218tln (prev. 2.207tln) across 104 counterparties (prev. 101).
- US EFR flat at 5.08%, volumes fall to USD 112bln (prev. 114bln).
- US sold USD 64bln of 3-month bills at 5.140%, covered 2.66x; sold USD 53bln of 6-month bills at 4.890%, covered 2.83x.

CRUDE

WTI (M3) SETTLED USD 1.82 HIGHER AT 73.16/BBL; BRENT (N3) SETTLED USD 1.71 HIGHER AT 77.01/BBL

The crude complex was firmer on Monday amid the recent heavy sell-off, epitomised by three straight weekly declines, on top of Goldman Sachs noting demand fears are overblown and easing recessionary fears. As such, oil grinded higher throughout the US session, albeit settling off peaks, where WTI and Brent hit earlier highs of USD 73.69/bbl and 77.43/bbl, respectively. Crude-specific newsflow was sparse to start the week which only amplified the light liquidity conditions amid UK's market holiday and the lack of any major economic data. Goldman Sachs argues that fears around US bank stress, China's industrial weakness, and declining margins around diesel have been the drivers behind the complex's recent downside. Says that supply-side updates, such as around Russia and OPEC compliance, are regarded as overblown. Nonetheless, the desk maintains their Brent December'23 and April'24 forecasts of USD 95 /bbl and USD 100/bbl respectively, citing expected large deficits in H2. Looking ahead, the key events this week are US CPI (Wed) and BoE (Thurs), accompanied by any Fed speak and the weekly oil updates, such as private inventories (Tues) followed by EIA data (Wed).

EQUITIES

CLOSES: SPX +0.05% at 4,138, NDX +0.25% at 13,291, DJIA -0.17% at 33,618, RUT -0.31% at 1,754.



SECTORS: Communication Services +1.27%, Consumer Discretionary +0.3%, Financials +0.21%, Energy +0.07%, Technology -0.02%, Health -0.22%, Consumer Staples -0.22%, Materials -0.3%, Utilities -0.32%, Industrials -0.37%, Real Estate -0.69%.

EUROPEAN CLOSSES: Euro Stoxx 50 +0.19% at 4,348, DAX 40 -0.05% at 15,952, CAC 40 +0.11% at 7,440, FTSE MIB +0.28% at 27,426, IBEX 35 +0.70% at 9,211, SMI +0.38% at 11,597.

STOCK SPECIFICS: **Ryanair (RYA ID)** is close to placing significant, "multi-billion-Dollar" new 737 MAX aircraft order with **Boeing (BA)**; could be announced as soon as Tuesday, according to Reuters sources. **Tyson Foods (TSN)** posted a surprise loss per share and missed on revenue alongside cutting its FY sales forecast. **Catalent (CTLT)** delayed Q3 results and cut guidance; expects to reduce both its FY23 revenue and adj. EBITDA views "by more than USD 400mln each". **Berkshire Hathaway (BRK.B)** earnings rose 12.6% Y/Y with strong performance led by a rebound in its insurance business. Buffett expects earnings to decrease this year at most of Berkshire's businesses due to an economic downturn. Said reducing investments in stocks such as Chevron (CVX) and Apple (AAPL) was the best business in Berkshire's portfolio. Buffett leaned back on reports that it could acquire Occidental Petroleum (OXY), though added that he is happy with its 23.6% stake in the oil company. Nelson Peltz is exploring a possible shakeup at **Estee Lauder (EL)** that could include ousting the long-time CEO and possibly pushing for a turnaround and eventual sale, according to NY Post citing sources. However, CNBC later reported that the NY Post story about activist Peltz exploring a shakeup is not true. **Zscaler (ZS)** raised Q3 and FY23 revenue view; CEO noted it had a strong finish to the quarter as the high ROI of adopting the Zscaler Zero Trust Exchange™ platform continues to resonate with customers and prospects in this challenging macro environment. **Braskem (BAK)** said controller Novonor has received a non-binding offer for the firm. On Friday, according to Brazilian Press Folha, Braskem was reportedly the subject of a takeover proposal by ADNOC and Apollo, who plan to offer up to BRL 37.5bln. However, Novonor later said it has not received any proposal regarding a sale. **Fortinet (FTNT)** upgraded at BofA on 'strong' fundamentals and execution despite a challenged environment. **American Airlines (AAL)** upgraded at JPMorgan; highlighted AAL's attractive valuation and said the "Big 3" airlines, which encompasses American, Delta and United, are pulling away from the broader field of providers. **Boston Scientific (BSX)** and **Shockwave Medical (SWAV)** deal talks have reportedly broken down, according to Street Insider.

US FX WRAP

The Dollar was flat and traded within a very narrow range, 101.030-410, amid a quiet start to the week which lacked any tier 1 data on top of the UK away for a market holiday. We did see Fed's Goolsbee (voter, dove) echo his Friday commentary, saying the Fed must be data-dependent and watch credit conditions, saying he is getting "vibes" that a credit squeeze is beginning, which followed remarks on Friday where he expressed caution in the face of credit tightening. The [Fed SLOOS Survey for April](#) did not contain anything too surprising from what was expected beforehand, as Chair Powell said last Wednesday that the report showed what the Fed expected: tighter credit conditions with more tightening expected through the year. Lastly, the NY Fed Consumer Expectations survey saw the short-term 1yr ahead inflation expectations fall, but the 3yr and 5yr ahead both rose by 0.1%. Looking ahead, the key risk events this week are US CPI (Wed) and BoE (Thurs), not to mention risks around the debt ceiling.

Antipodeans were the G10 outperformers and saw strong gains against the Buck with the Kiwi outperforming its counterpart amid tailwinds from the underlying strength in metals and crude prices. NZD/USD hit a high of 0.6359 and AUD/USD breached a key round level to peak at 0.6803 ahead of consumer sentiment (May) and Q1 retail trade data.

CAD and GBP were both flat against the Greenback, and while the Loonie saw initial strength on the back of firmer crude prices the cross seemingly came off lows as oil pared some of its gains. Cable traded within a 50pip range in thin newsflow and little Sterling-specific amid the aforementioned UK bank holiday. Although, global market participants will be awaiting UK participants returning to their desks ahead of the BoE on Thursday ([preview here](#)) and UK GDP (Fri).

FUNDERS: Swiss Franc was marginally stronger, the Euro was more-or-less flat, and the Yen was the G10 underperformer as the Yen was weighed on by higher US yields which kept USD/JPY elevated near 135.00 for the duration of the session in the run up to Japanese household spending and earnings data. EUR/USD hit a peak of 1.1053 and a trough of 1.1002 on a quiet day, as the single currency failed to derive any impetus from ECB's Lane who noted there is still a lot of momentum in inflation. Lastly, the Franc was largely unfazed by small and narrowly contrasting changes in weekly Swiss bank sight deposits, but waned around 0.8869 against its US rival.

EMFX was mixed against the Dollar: ZAR saw strong gains, CNY, TRY, and HUF were flat, while MXN, BRL, and CLP were weaker.



TRY was flat, ahead of the most important election in a generation which is certain to provide volatility for the Lira. Opinion polls continue to show that Erdogan's main political rival, Kilicdaroglu, remains ahead in the first round of voting scheduled on May 14th.

ZAR saw gains against the Buck supported by the yellow-metal firming, but it comes as the Rand attempts to catch up to other major EMs who saw gains last week, after the ZAR remains the weak link underpinned by the energy crisis in the country.

BRL was undermined amid finance minister Haddad announcing new additions to the BCB's board, raising concerns around their independence.

CLP saw losses which came despite news over the weekend that the Chile constitutional elections saw a big upset for the Government as right-wing parties secured a majority on the constitutional council, which is likely to be seen as bullish for Chilean assets. Separately, Chilean inflation also rose less than expected as it printed 0.3% (exp. 0.4%, prev. 1.1%).

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