US Market Wrap

9th May 2023: Stocks lower ahead of CPI while debt limit talks remain in limbo

- **SNAPSHOT**: Equities down, Treasuries down/flat, Crude up, Dollar up.
- **REAR VIEW**: Williams pushed back against views the Fed has paused; Hawkish ECB commentary; Record strength 3yr auction; Abysmal EV earnings & guidance; NFIB hits decade low; Ryanair confirmed BA order worth USD 40bln; Russia oil output cuts almost hit its pledged goal in April; Reports suggest Biden is to begin refilling the SPR once maintenance is completed; Republicans and White House against a short-term debt limit extension.
- **COMING UP**: **Data**: US CPI, Chinese M2 **Supply**: UK, Germany & US **Earnings**: ABN AMRO, Credit Agricole, Continental, E.ON, Telecom Italia, Nexi; Disney.

MARKET WRAP

Stocks trended lower on Tuesday with losses led by the Nasdaq 100 with Technology an underperforming sector but stocks were predominantly lower across the board with the equal-weighted S&P in the red and the majority of sectors also lower, aside from Industrials and Energy, which only saw marginal gains. Crude prices managed to settle firmer after Russia said its oil output cuts almost hit its pledged goal in April (note reports in March suggested its March data saw little sign of meeting pledged cuts) while reports also suggested Biden is to begin refilling the SPR once maintenance is completed. Treasuries reversed their overnight recovery amid hawkish ECB commentary and pre-CPI nerves with losses capped by a record strength 3yr auction. The Dollar saw a marginal bid ahead of CPI while Fed's Williams pushed back against views the Fed has paused, noting they are prepared to hike more but he did stress data dependence and the impact of credit conditions will be key in future policy decisions. Meanwhile, the debt limit remains in focus with Biden meeting congressional leaders although reports ahead of the meeting saw both Republicans and the White House say they are against a short-term debt limit extension.

GLOBAL

CHINA TRADE: The Trade Balance widened to USD 90.21bln in April (exp. 71.6bln, prev. 88.19bln). Capital Economics notes that export growth slowed in April, reversing almost all of the increase in March, indicating weak global demand. Import volumes unexpectedly dropped to their lowest levels in 12 months, but CapEco said a rebound was expected due to the reopening of the economy driving domestic demand. Still, it thinks that China's trade surplus is likely to decline, and a recession is expected in most developed economies later this year. ING notes that crude oil imports in April fell to an average of 10.36mln BPD (vs prev. 12.37mln, and 10.52mln Y/Y), which it attributes to lower operating rates due to maintenance.

NFIB: The NFIB measure of small business optimism fell to 97.4 in April from 98.7 in March, hitting a decade low with the report noting continued difficulties for small firms in finding experienced workers, with inflation still a major issue, albeit easing somewhat. Oxford Economics highlights the lack of signs in the report of a significant credit crunch, with just 6% of firms reporting credit is hard to get in April. Nonetheless, "that measure lags the Senior Loan Officer Survey (SLOOS) measure of bank lending standards, which points to a sharp drop in bank lending over the second half of the year." Meanwhile, despite firms reporting tight labour markets, "wage and price setting expectations continue to moderate, consistent with an ongoing slowdown in wage and price inflation", the consultancy concludes.

FED

Williams (voter) said he is confident the Fed is on the right path to lower inflation to its 2% target; noting they will be data dependent and are very focused on the impact of tighter credit conditions on economic outlook. He affirmed his April inflation forecasts, where he sees inflation falling to 3.25% in 2023 and 2% by 2025 and he still sees the unemployment rate rising to 4.0-4.5% this year. Williams stressed Inflation pressures remain "too high" and core services inflation stripped of housing remains persistent, running at 4.5% since last August, "it will take the longest to bring down". He expects the economy to grow modestly this year (prev. said he expects under 1% growth this year), while reiterating job growth remains robust amid signs of slowing demand for workers. The NY Fed President exclaimed the Fed has not said it is done raising rates but it has made incredible progress on monetary policy, noting he is prepared to hike again if needed but he does not see any reason to cut rates this year. On credit conditions, he said tighter credit may blunt how far the Fed goes with rate hikes. Williams sees signs tighter credit conditions are affecting the economy, adding commercial real estate (CRE) valuations may understate pressure in the sector but the Fed is very focused on CRE related risks.

Jefferson (voter), who is touted to be named Fed Vice Chair (replacing Brainard), said the banking system is sound and resilient, and banks have started to raise lending standards, which is typical for where the US is in the economic cycle. On the economy, Jefferson said inflation has started to come down, and the economy has started to slow in an orderly fashion but still sees inflation coming down while the economy continues to grow.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED HALF A TICK HIGHER AT 115-06

Treasuries reversed their O/N recovery amid hawkish ECB commentary and pre-CPI nerves with losses capped by a record strength 3yr auction. At settlement, 2s +1.6bps at 4.028%, 3s +0.3bps at 3.727%, 5s +0.7bps at 3.505%, 7s +0.7bps at 3.508%, 10s +0.7bps at 3.526%, 20s +1.3bps at 3.937%, 30s +1.6bps at 3.850%.

Inflation breakevens: 5yr BEI -1.4bps at 2.235%, 10yr BEI -0.4bps at 2.237%, 30yr BEI -0.5bps at 2.239%.

TOKYO/LONDON: Treasuries gradually recovered through the APAC Tuesday session with little kneejerk reaction to the soft China trade data. There were some spillover selling pressures from EGBs after hawkish comments from ECB's Kazaks and Kazimir. But T-Notes went on to print highs of 115-15 right after the fall in the NFIB small business index, which saw little improvement amid owners struggling to find workers and inflation remaining a top concern for small businesses, albeit it is showing signs of easing.

NEW YORK: T-Notes failed to extend on highs as US players arrived, falling back beneath the NFP low of 115-13+. Contracts found support at Monday's 115-05 low in wake of some hawkish commentary from ECB's Nagel. New lows were made going into the NY afternoon amid preparation for the 3yr auction in addition to positioning ahead of Wednesday's CPI, with a lot of informal chatter around a hot print. Fed's Williams (v) saying the Fed could do more hikes if needed in his Q&A also supported the selling that was being led by the front-end. T-Notes troughed at 115-01+ before the solid 3yr auction capped losses. Any further downside could see the post-JOLTS gap closed at 114-26 from May 2nd.

3YR AUCTION: A very strong USD 40bln, 3yr auction from the Treasury despite the richening M/M to the lowest stop for the sector since Sept 2022, in addition to an increasingly unattractive relative value profile, albeit the sector still offers pick-up over duration. The 3.695% marked a record 2.8bps stop-through the WI, better than April's on the screws and the six-auction avg. 0.1bp stop-through. The bid/cover ratio of 2.93x was well above the prior and average 2.60x. Dealers were left with a minuscule 13% (prior 17.7% and avg. 18.4%) on account of Indirects surging to 73.4% from last month's 61.3%, indicative of strong end-user demand. Note the April allotment data saw an uptick in foreign accounts, which could be driving further this month too.

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

THIS WEEK: (Weds) **US CPI**; (Thurs) **BoE** (preview here), 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 Daly, Bullard, and Jefferson.

STIRS:

- SR3H3 +0.0bps at 95.060, M3 -2.0bps at 94.910, U3 -2.0bps at 95.220, Z3 -2.5bps at 95.645, H4 -2.0bps at 96.170, M4 -0.5bps at 96.620, U4 +0.5bps at 96.915, Z4 +0.5bps at 97.070, H5 +0.5bps at 97.145, H6 +0.0bps at 97.145.
- US SOFR flat at 5.06%, volumes fall to USD 1.497tln from 1.517tln.
- NY Fed RRP op demand at USD 2.223tln (prev. 2.218tln) across 100 counterparties (prev. 104).
- US EFFR flat at 5.08%, volumes fall to USD 111bln (prev. 112bln).

BILLS: US Treasury announced large cuts to its 4-week and 8-week bill auction sizes to USD 35bln (prev. 50bln) and 35bln (prev. 45bln), respectively, with both to be sold on May 11th and settle on May 16th. It also announced a new USD 45bln 119-day CMB for May 11th, to settle on May 16th. The new CMB is part of a plan for three ad hoc CMBs over the next two-to-three weeks totalling USD 100-150bln to tip-toe around the debt limit.

CRUDE

WTI (M3) SETTLED USD 0.55 HIGHER AT 73.71/BBL; BRENT (M3) SETTLED USD 0.43 HIGHER AT 77.44/BBL

The crude complex was ultimately firmer on Tuesday and saw strength on the back of reports that Russian oil output cuts almost hit its pledged goal in April and reports Biden is to start refilling the SPR after maintenance. Nonetheless, oil was weaker throughout the European morning and the start of the US session due to lacklustre Chinese import data overnight and continued US economic woes (banking sector jitters and debt-ceiling talks), as opposed to anything headline specific for crude. Despite this, we did see the EIA STEO for May and Saudi Aramco earnings (more details below), on top of the UAE Energy Minister noting UAE is not worried about the very short term, but is more worried about the long term investments while voluntary cuts were done to balance the market. Additionally, according to Bloomberg, and providing support for the crude complex, the Biden administration is planning to begin buying oil to refill the SPR after completing maintenance work this year. 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 EIA data (Wed) after private inventories (Tues), where current expectations are: Crude -0.9mln, Gasoline -1.2mln, Distillate -0.8mln.

EIA STEO (May): 2023 world oil demand growth forecast was raised by 120k BPD to 1.56mln BPD Y/Y increase, but 2024 forecast was cut by 130k BPD to a 1.72mln BPD Y/Y increase. Meanwhile, 2023 US crude output seen rising 640k BPD to 12.53mln BPD (prev. rise of 660k BPD forecast last month) with 2024 US crude output seen rising 160k BPD to 12.69mln BPD (prev. rise of 210k BPD). For full EIA headlines, please click here.

SAUDI ARAMCO: In Q1 Aramco saw lower crude oil prices which resulted in profit falling 19% Y/Y. However, Aramco added major investments advance strategic downstream expansion in key global markets and its global downstream strategy is gaining momentum. Lastly, Aramco said moving forward with the capacity expansion and the long-term outlook remains unchanged.

EQUITIES

CLOSES: SPX -0.46% at 4,119, NDX -0.68% at 13,201, DJIA -0.17% at 33,561, RUT -0.27% at 1,749.

SECTORS: Materials -0.93%, Technology -0.85%, Health -0.69%, Communication Services -0.52%, Real Estate -0.4%, Financials -0.37%, Consumer Staples -0.3%, Utilities -0.2%, Consumer Discretionary +0.02%, Energy +0.04%, Industrials +0.17%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.59% at 4,323, FTSE 100 -0.18% at 7,764, DAX 40 +0.02% at 15,955, CAC 40 -0.59% at 7,397, FTSE MIB -0.16% at 27,383, IBEX 35 -0.31% at 9,183, SMI -0.36% at 11,553.

STOCK SPECIFICS: **Ryanair (RYA ID)** confirmed it ordered 300 new **Boeing (BA)** 737 Max-10 crafts worth USD 40bln. **Coty (COTY)** beat on EPS and revenue as well as lifting FY23 EPS guidance. **Palantir Technologies (PLTR)** beat on EPS and revenue alongside raising its FY outlook; CEO said demand for its AI platform is “without precedent.” Note, Q2 guidance was short of expectations. **Skyworks Solutions (SWKS)** EPS and revenue was more-or-less in line, but Q3 guidance was disappointing. **Under Armour (UAA)** beat on EPS and revenue while inventory rose 44% to 1.2bln. FY23 revenue is expected to be flat to up slightly while the initial FY24 EPS outlook missed expectations. **PayPal (PYPL)** saw weakness despite a strong report aside from Q2 EPS view marginally disappointing. **McKesson (MCK)** surpassed Wall St. consensus on top and bottom line alongside lifting long-term operating profit growth targets. **Citizens Financial Group (CFG)** said total deposits were up slightly in April and reaffirmed its commitment to medium-term targets. Pierre Lassonde confirmed earlier reports that it has made an offer to invest in **Teck Resources (TECK)** coal business in a bid to thwart **Glencore (GLEN LN)**. **Amazon (AMZN)** reportedly plans more warehouses and higher headcount in Europe, according to Reuters citing an exec. **Gilead (GILD)** won a Delaware jury trial defeating a billion-dollar US Government lawsuit over HIV prevention drug patents. **Paramount (PARA)** reportedly cuts 25% of staff in its domestic cable networks

EVs: EV names were weighed on following weak earnings and updates from **Lucid (LCID), Nikola (NKLA), and Fisker (FSR)**. Lucid results missed estimates, but it did reiterate plans to make 1k+ vehicles this year. Lucid added Q2 deliveries will increase sequentially, while it sees supply chain issues ease somewhat during the rest of the year. Fisker posted a deeper loss per share than expected, cut FY production guidance to 32-36k (prev. 42k) and said it will push back the launch of the second EV model to 2025. Note, it beat on revenue. Finally, Nikola revenue was short and said it would pause production to streamline the assembly line at its Arizona factory amid sluggish demand for its battery-powered trucks. Again, do note NKLA loss per share was in line.

US FX WRAP

The Dollar was marginally bid on Tuesday ahead of CPI on Wednesday with DXY hitting a high of 101.84 as UST yields moved off lows. Attention lies on US CPI on Wednesday, but also debt limit negotiations tonight between Biden and the GOP and Dem leaders, although commentary on Tuesday shows the WH and Republicans are still against a short-term debt limit extension while Dems want a "clean" debt limit bill. House Speaker McCarthy (R) believes Congress will need a deal in principle to lift the debt limit by next week, given the time constraints. Fed's Williams and Jefferson spoke on Tuesday, where both noted the banking system is sound and resilient. Williams noted he is focused on the impact of tighter credit conditions on the outlook and he is seeing signs it is affecting the economy, while he stressed data dependence in upcoming meetings while maintaining his April inflation forecasts of 3.25% in 2023 and 2% by 2025. Kaskhari is due after hours.

The Euro was weaker on Tuesday, falling beneath the psychological 1.10 handle to a low of 1.0942 before paring above a fib level of 1.0959. Analysts at ING were highlighting that CFTC data shows Euro is the most overbought currency in G10 and that speculators have continued to add to net-longs in EUR/USD for the week ending 2nd May. The desk notes "This mostly has implications for the near term, so, while we remain resolutely bullish on EUR/USD in the longer run on the back of US-eurozone (and Fed-ECB) divergence and pronounced undervaluation, we flag positioning as one reason to be cautious on the short-term outlook." Note, there was plenty of ECB speakers (Kazaks, Kazmir, Lane, Vujcic, Vasle, Villeroy, Schnabel) on Tuesday with the vast majority noting rate hikes are not finished while Nagel said he could have imagined a 50bp hike in May but thought the 25bp hike was "okay".

The Yen was flat vs the Dollar as it tracked US yield movements, USD/JPY hit a low of 134.73 with UST yields at lows, but as yields reversed throughout the US session, so did USD/JPY to hit a high of 135.35. Note, overnight BoJ Governor Ueda spoke noting if the price target is met in a sustainable manner, BoJ will end YCC and then shrink its balance sheet, noting they are seeing some bright signs including on inflation expectations but they remain elevated.

Cyclical currencies were little changed, GBP and CAD were flat vs the buck while AUD was the laggard and NZD saw marginal downside. Aussie underperformance followed the latest budget decision which forecasted a wider budget surplus for 2022/23 than expected at AUD 4.2bln (exp. 4.0bln), while GDP is seen rising 1.5% in 2023/2024 before rising to 2.25% and then 2.5%, while inflation is seen at 3.25%. Meanwhile, retail trade declined, but was in line with expectations. Both NZD and AUD were weaker in wake of the China trade data showing a surprise fall in Chinese imports while NZD traders will be eyeing commentary from the Finance Minister ahead of the NZ budget. CAD moved off its lows as oil prices rebounded on production cut commentary from Russia and reports about the US refilling the SPR this year.

Scandis were mixed with NOK seeing weakness vs the Euro but SEK saw strength. The Riksbank minutes saw several members raise the point that a stronger SEK would be desirable in the scenario that there is considerable uncertainty and a risk that inflation becomes entrenched at a too high level. It also noted members were unanimous that policy needs to be tightened and remain contractionary so inflation returns to target. Floden also spoke later saying he does not see rate cuts this year. Meanwhile, Norges Bank Governor Bache also spoke, noting there is substantial uncertainty about the outlook and the future policy rate path will depend on economic developments.

EMFX was mixed, MXN saw gains vs the Dollar despite inflation data cooling more-or-less as expected. BRL also firmed despite dovish commentary from BCB Nominee Galipolo. COP saw pronounced weakness after the Finance Minister said it may start discussing rate cuts in H2, noting it is also willing to compromise on labour and pension reforms. The Yuan was marginally weaker vs the Dollar after trade data overnight saw a lack of domestic demand boost its trade surplus while the fall in exports sparked fears of global demand. TRY saw marginal weakness vs the Dollar but the 1-week USD/TRY option implied vol surged ahead of Sunday's election.