US Market Wrap

10th May 2023: Treasuries rip on CPI and choppy risk appetite

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: CPI lacks upside surprise, Timiraos says it gives Fed room to pause; Barkin says inflation is too high; UAE short US stocks; Relatively strong 10yr auction; Mixed EIA inventory report; GOOGL unveils slew of AI products and new devices.
- **COMING UP**: **Data**: Chinese CPI, US IJC, PPI **Events**: BoE Policy Announcement & Press Conference; OPEC MOMR **Speakers**: US Treasury Secretary Yellen, Fed's Waller, ECB's Schnabel & de Guindos **Supply**: Japan, Italy & US **Earnings**: Deutsche Telekom, Telefonica, Merck, ING, Rolls-Royce.

MARKET WRAP

Stocks were choppy and Treasuries ripped higher (led by the front-end) in a catalyst-driven trading session Wednesday with CPI lacking any upside surprises as had been feared. Fed pricing now sees nearly 80bps of cuts by year-end (vs 60bps pre-CPI), with June pricing unwinding all hike risk. After equity futures spiked on the CPI data pre-market, gains were pared from the open, particularly on the back of a Bloomberg report that the UAE sovereign fund was short-selling US stocks on growth concerns. Sentiment on the consumer was also taking a hit on the back of BofA's April prop. data that saw spending per household falling -1.2% Y/Y, the first negative reading since February 2021, with services leading the drop, particularly on airlines. The indices crossed into the red, with Treasuries extending their bull-steepening, later in the NY afternoon on a broader deterioration in risk sentiment in the absence of a particular catalyst at the time, although Bitcoin tumbling beneath USD 27k in a sharp manner added to the instability. However, the sell-off couldn't sustain and the NDX led a late recovery into the black before the close, with Alphabet (GOOGL) shares surging higher amid its I/O event, where it touted a slew of AI products and new Pixel devices. In FX, the DXY was lower with the Yen surging and the Euro was also supported on improved rate differentials, while the Pound was flat ahead of the BoE. In commodities, oil prices were lower amid choppy risk sentiment and mixed EIA inventory data (crude build offset by draws in products), precious metals flat, and copper lower.

US

CPI: Headline April CPI came in slightly cooler than expected at 4.9% Y/Y, the first sub-5% figure since April 2021 and against the expected unchanged pace of 5.0%, coming also on the low end of analyst forecasts that ranged between 4.8-5.2%. The M/M reading rose 0.4%, in line with expectations but accelerating from the 0.1% print in March. Meanwhile, the services less rent of shelter rose 0.1%, accelerating from the prior 0.0%. The core metrics were in line with expectations with Y/Y at 5.5% cooling from 5.6%, and the M/M rose 0.4%, matching the prior pace. The cooler headline helped offset fears into the release of a hot print, and keeps the door open for the Fed to initiate a pause in June, although there is plenty of data left between now and the June FOMC, including another CPI and NFP report, the April PCE, and two PPI reports. Fed's Barkin (non-voter), speaking to AP News, said the latest figures reflected some one-time fluctuations — sharp drops in airline fares and hotel room prices, for example, and a spike in the cost of used cars — that may not persist, "just looking through all that it still paints a picture of inflation that is stubbornly high". Meanwhile, WSJ's Timiraos penned a piece saying the report reinforces the Fed's plans to pause.

FED: **Nick Timiraos** at the WSJ noted Fed officials were leaning towards taking a "summer vacation" from rate hikes and the April inflation report makes it easier to do so as it showed price pressures are not worsening and might soon be slowing. Meanwhile, **Barkin** (non-voter) gave an interview to AP, saying inflation remains stubbornly high, noting core inflation has been stuck in the 0.3-0.5% range for months, and he wants to see it moving down back to target. He repeated Williams in noting the Fed's message last week was "explicitly not a pause" in rate hikes, or even necessarily a peak, noting it provided optionality to do more if needed, but also gave the optionality to wait if it was appropriate.

BOFA CONSUMER DATA: Bank of America Institute's April prop. data saw signs of consumer softening (ahead of retail sales on May 16th). Spending per household fell 1.2% Y/Y, the first negative reading since February 2021, while S.A. spending rose 0.3% M/M. BofA says, "Most noteworthy is a softening in spending on services to just +0.9% YoY. Until recently, services had been driving overall spending growth. The moderation last month, however, was broad-based led by spending on airlines dropping by 4.5 percentage points to +0.9% YoY in April." While on the labour market, BofA data

Copyright © 2023 Newsquawk Voice Limited. All rights reserved.

suggests some deterioration at the higher end of the income distribution, with unemployment rising fastest amongst higher-income households, while their pay growth is weakest, "Higher-income spending growth on discretionary items has also fallen below lower- and middle-income households".

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 23 TICKS HIGHER AT 115-29

Treasuries saw big bull steepening on stable CPI and risk aversion. 2s -11.2bps at 3.912%, 3s -11.7bps at 3.572%, 5s -11.4bps at 3.381%, 7s -9.4bps at 3.406%, 10s -7.4bps at 3.448%, 20s -5.0bps at 3.882%, 30s -4.3bps at 3.806%.

Inflation breakevens: 5yr BEI -8.0bps at 2.157%, 10yr BEI -4.3bps at 2.194%, 30yr BEI -1.3bps at 2.223%.

THE DAY: T-Notes were choppy during APAC Wednesday trade, hitting resistance at 115-08+ in the Tokyo morning before paring to session lows of 115-02+ at the London handover. The front-end remained near lows while the long-end recovered into the NY session, aided by some dovish balance sheet commentary from ECB's Lagarde and a well-received UK auction. The curve entered the CPI print significantly flatter. That all unwound in a flash amid the inflation data coming in broadly as expected while the headline Y/Y was slightly softer, refuting chatter of risks of a hot print leading up to the event. The front end led the surge, flipping the curve steeper on the day in an immediate reaction (2s10s spiked from -57bps to -49bps), but the whole curve feasted as T-Notes jumped to 115-24 from 115-06. Contracts hovered near highs through into the 10yr refunding auction in the NY afternoon, with hawkish ECB source reports failing to sustain any selling pressure. The relatively strong demand for the 10yr offering (0.9bp tail vs avg. 1.4bp), particularly in lack of a concession, saw T-Notes extend on gains past their prior WTD highs of 115-27+ from Monday. Not long after the auction, a deterioration in risk sentiment saw further bull-steepening flows, seeing 2s10s peak at -44bps while T-Notes made session highs of 115-31, just failing to clip 116 ahead of settlement.

10YR AUCTION: The USD 35bln 10yr new issue saw a relatively strong demand reception vs the sector's prior and averages, albeit still a tail. The 3.448% stop was marginally richer than April's 3.455% and also the lowest auction yield since last year. The offering tailed by 0.9bps, which after the record 3yr stop-through on Tuesday, was not so inspiring, although that fairs relatively well when compared against the 10yr's prior 2bp tail and six-auction avg. 1.4bp tail. The 2.45 x bid/cover ratio was above the auction's prior (2.36x) and average (2.41x). The takedown saw Dealers (forced surplus buyers) left with 13% (prev. 17.1%; avg. 16.9%), with Indirects participation jumping to 67.5% from 63%, indicative of strong end-user demand.

REFUNDING: US to sell USD 21bln of 30yr bonds on May 11th.

THIS WEEK: (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 -0.3bps at 95.058, M3 +4.0bps at 94.955, U3 +9.0bps at 95.315, Z3 +13.0bps at 95.790, H4 +15.0bps at 96.335, M4 +15.5bps at 96.785, U4 +15.0bps at 97.075, Z4 +14.0bps at 97.225, H5 +13.5bps at 97.290, H6 +10.0bps at 97.255. US SOFR at 5.06% (prev. 5.06%), volumes at USD 1.482tln (prev. 1.497tln). NY Fed RRP op demand at USD 2.233tln (prev. 2.223tln) across 104 counterparties (prev. 100). US EFFR flat at 5.08%, volumes rise to USD 112bln from 111bln. US sold USD 36bln of 17-week bills at 5.00%, covered 2.98x.

CRUDE

WTI (M3) SETTLED USD 1.15 LOWER AT 72.56/BBL; BRENT (N3) SETTLED 1.03 LOWER AT 76.41/BBL

The crude complex was lower on Wednesday in choppy trade post CPI, EIA and volatile risk sentiment. Crude prices hit highs in wake of the CPI report, supported by the weaker dollar while the dovish release helped ease some recent demand fears. Fed pricing is now seen with 74bps cut until year-end vs 63bps prior to the dataset. However, gains were short-lived. As risk sentiment soured, so did crude prices. Meanwhile the EIA data helped spur WTI to lows of USD 72.02/bbl after the unexpected crude build, albeit not as large as the API data Tuesday night. Nonetheless, the complex quickly reversed off lows as the larger-than-expected draws in gasoline and distillates managed to draw some support for oil and attempted to rebound the risk induced losses. It failed to do so, however, with risk sentiment taking a knock once again pre-settlement. Elsewhere, it is worth noting that Iraq stated it is still waiting on Turkey to restart

Copyright © 2023 Newsquawk Voice Limited. All rights reserved.
Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.
newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

Ceyhan oil exports and Hungarian Foreign Minister noted new oil pipeline is to be built between Hungary and Serbia. Looking ahead, there is the OPEC MOMR (Thurs) and Baker Hughes (Fri), while Macro calendar looks to Chinese CPI /PPI, BoE and US PPI (Thurs), as well as any Fed speakers throughout the week.

EQUITIES

CLOSES: SPX +0.45% at 4,138, NDX +1.11% at 13,348, DJIA -0.09% at 33,531, RUT +0.56% at 1,760.

SECTORS: Communication +1.69%, Technology +1.22%, Real Estate +0.98%, Utilities +0.94%, Consumer Discretionary +0.63%, Health Care +0.27%, Materials +0.05%, Consumer Staples -0.15%, Industrials -0.32%, Financials -0.58%, Energy -1.15%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.38% at 4,306, FTSE 100 -0.29% at 7,741, DAX 40 -0.37% at 15,896, CAC 40 -0.49% at 7,361, FTSE MIB -0.43% at 27,264, IBEX 35 -0.17% at 9,167, SMI -0.88% at 11,444.

GOOGLE: Google (GOOGL) presented its keynote I/O event where it unveiled its AI tools, including the Palm 2 AI model, noting Bard is running on Palm 2, adding it will be available in 180 countries. The speech also mentioned Adobe (ADBE) firefly and shared images of the software in connection to Google's AI advances, while it also announced A3 virtual machines with Nvidia (NVDA). As expected, it also unveiled several new devices, including the Pixel Fold, its foldable phones, as well as the Pixel tablet and Pixel 7A, which has AI integrated into the device.

STOCK SPECIFICS: **Rockwell (ROK)** faces US Government probe over China operations, according to WSJ; investigation looks at whether its software might allow access to critical US government and industrial infrastructure. **Syneos Health (SYNH)** confirmed it will be acquired by private investment consortium for USD 7.1bln or USD 43/shr. Note, SYNH closed Tuesday at USD 38.45. **Microsoft (MSFT)** is mulling a Firefox search deal as Bing chatbot struggles to gain shares vs **Google (GOOGL)**, according to The Information. EU antitrust regulators are set to approve **Microsoft's (MSFT)** acquisition of **Activision Blizzard (ATVI)** next week with May 15th as the likeliest date, according to Reuters sources. **Apple (AAPL)** tap-to-pay tech gets extra round of EU antitrust scrutiny. **Microsoft (MSFT)** will not raise salaries for full-time employees this year and is cutting bonus and stock award budget, according to Business Insider. **First Citizens (FCNCA)** deposits rose USD 50.4bln in Q1 to 140.05bln (exp. 118.98bln) and it sees FY deposits at USD 132-137bln (exp. 119bln); predicts USD 8bln decline in SVB deposits. **Estée Lauder (EL)** backs CEO and leadership team in internal memo after NY Post citing sources on Monday reported billionaire Nelson Peltz is exploring a possible shakeup that could include ousting longtime CEO and possibly pushing for a turnaround and eventual sale. However, CNBC later reported that the NY Post story is not true.

US FX WRAP

The Dollar was choppy on Wednesday with a dovish CPI print sending the buck to lows with the DXY troughing at 101.21 from highs of 101.80 pre-data, with rate differentials a key driver in its weakness. However, as risk sentiment deteriorated into the NY afternoon the buck moved from its lows to c. 101.50, relatively unchanged on the session.

The Euro only saw marginal gains but failed to hold above 1.10 as the Dollar pared the majority of its losses. The post-CPI break above 1.10 was very short-lived, with a brief attempt back above the figure after hawkish ECB sources, seeing EUR/USD peak 1.1006 only to swiftly pull back beneath. Bloomberg sources suggest some ECB officials are starting to believe a September rate hike may be needed in order to bring inflation entirely under control.

The Yen outperformed as risk aversion and cool CPI heavily weighed on UST yields, supporting Yen through a narrowing of rate differentials. USD/JPY tested 134.00 to the downside with a low of 134.12, breaching the 5th May opening level of 134.27. There was more commentary from BoJ Governor Ueda earlier, who noted the BoJ's ETF buying is helping underpin consumption and capex by preventing volatile market moves from hurting public confidence, adding it is too early to debate specific ways the BoJ could sell ETFs. Ueda also repeated they are not at a stage to engage in discussions on how the BoJ will exit easy policy, but when the price target goal is nearly achieved, they will debate its exit strategy and communicate it appropriately.

Cyclical currencies were mixed. GBP was flat vs the Dollar after its recent rally while Deutsche Bank announced it no longer thinks the Pound is attractive in the short-term and said it is taking profits in Cable, noting it sees dovish risks at Thursday's BoE meeting, for a full Newsquawk BoE Preview, please click here. AUD saw mild gains vs the Dollar but NZD was the cyclical outperformer ahead of the April food price index data. Meanwhile, Aussie eyes turn to Chinese CPI and PPI data on Thursday. CAD was flat vs the buck amid a choppy crude environment, with lower crude prices, while Canadian building permits were stronger than expected.

Copyright © 2023 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com

Scandis were mixed with NOK outperforming after hotter than expected Norwegian CPI in April, and also above the Norges bank's expectation and against their commentary from the May meeting that "underlying inflation has been as projected". Nonetheless, the data still cements guidance for further tightening "most likely" occurring in June. SEK saw weakness after weak industrial data, accentuated by the macro risk aversion.

EM's were mixed. RUB saw notable strength but ZAR saw pronounced weakness, hitting a three-year low on loadshedding fears. TRY was slightly softer. LatAm FX predominantly saw gains, particularly BRL and MXN after the cooler than expected US headline CPI while strong industrial output data out of Brazil was also supportive of the Real. CLP only saw mild gains, however, with weak copper prices limiting its strength but the Senate Finance Committee in Chile did vote to advance a new mining royalty bill on Tuesday.

Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited (**"Newsquawk"**) on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.

Copyright © 2023 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com