US Market Wrap

12th May 2023: Stocks and Treasuries grind lower on stagflationary Michigan survey

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Poor UoM with long-term inflation expectations rising; Biden nominates Jefferson as Fed Vice Chair; Baker Hughes Nat Gas rigs tumble; Bowman notes further rate hikes likely appropriate if inflation remains high; Iraqi oil minister expects no further OPEC cuts in June meeting.
- **WEEK AHEAD PREVIEW**: Highlights include: US retail sales, China activity data, Japan CPI, jobs data from UK and Australia. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing PBoC and RBA minutes; reviewing BoE, BoJ, Riksbank minutes. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [TUES] HD; [WED] TGT, TJX, CSCO, SNPS; [THURS] BABA, WMT, AMAT; [FRI] DE To download the report, please click here.

MARKET WRAP

Stocks were lower on Friday amid inflation and consumer concerns post-Michigan survey and debt limit agitation, albeit indices closed off lows. Global equity futures had been tracking higher out of APAC and in the European morning, but a choppy open in NY for cash stocks saw gains unwound, with desks pointing to debt ceiling fears after talks were delayed until next week. The risk-off gained momentum after the tumble in the Uni of Michigan consumer sentiment survey, while the rise in longer-term inflation expectations to fresh cycle peaks (and highest since 2011) saw Fed pricing shift hawkishly (June Fed hike implied probability back above 10%), with strong bear-flattening flows seen in Treasuries. Nonetheless, the major stock indices bounced off lows into the close. Cross-asset, the Dollar saw a strong bid that did not fade, with the DXY up c. 0.6% at 102.70. Oil prices tracked risk sentiment, flipping into the red during the NY session, while nat gas futures surged on a material decline in reported US nat gas rigs by Baker Hughes.

GLOBAL

MICHIGAN SURVEY: The prelim UoM survey for May saw sentiment fall to 57.7 from 63.5, well beneath the expected 63.0, printing the lowest since July 2022. Current conditions and forward-looking expectations also disappointed falling to 64.5 (exp. 67.0, prev. 68.2) and 53.4 (exp. 59.8, prev. 60.5), respectively. Meanwhile, 1yr inflation expectations slightly fell to 4.5% (prev. 4.6%), but the longer term 5-10yr rose to 3.2% (prev. 3.0%), the highest since 2011. The rise in inflation expectations echo the NY Fed's survey from Monday which saw the 1yr tick lower, but the 3yr and 5yr move higher, which in the aggregate, have reignited concerns around destabilizing inflation expectations, putting more onus on the Fed to nip it in the bud. Meanwhile, the steep decline in the headline sentiment index reflects consumers' concerns about the economy and the tightening in lending standards due to the recent stress in the banking system. As such, Oxford Economics “Expect consumer spending to weaken later this year as lending conditions tighten, job growth softens, and real disposable income remains squeezed by elevated inflation.” Overall, OxEco “have lowered its forecast for GDP in the second half of this year because the tightening lending standards, which hits consumer spending and the broader economy with a lag.”

FED: **Bowman (voter)** said additional rate hikes are "likely appropriate" if inflation stays high and labour market stays tight. On data, said recent CPI and jobs reports have not provided persistent evidence that inflation is on a downward path. Regarding policy, Bowman said Fed policy rate will need to remains sufficiently restrictive for some time, and while policy is now restrictive, it is uncertain if it is sufficiently restrictive to bring down inflation. Looking ahead, she noted future rate hikes will look for "consistent evidence" of falling inflation. Elsewhere, **Goolsbee (voter)**, speaking on PBS, said inflation is still to high but at least it is coming down. And on Fed nominations, Biden has confirmed Jefferson for Vice Chair, as expected, which will now require approval in Congress.

UK GDP: Data out of the UK showed GDP output slipped in March by 0.3% against expectations of an unchanged reading; the 3-month/3-month estimate was 0.1% in March, as expected, while the annual gauge printed 0.3% Y/Y in March, short of the expected 0.4%; the prelim figure for Q1 came in at 0.2% Y/Y, in line with the consensus. The ONS said output was depressed by strikes, and it could not yet fully quantify its impact. The ONS also noted that GDP was now 0.1% higher than pre-pandemic levels from February 2020. For the quarter as a whole, the ONS said there had been no growth in household consumption in Q1, but there was a positive contribution from gross fixed capital formation. Pantheon Macroeconomics said the data highlights that the UK is still at the bottom of the G7 league table, and that support from rising investment will fade. Ahead, PM says the BoE's new forecast for GDP to hold steady in Q2 is in the right ballpark; "In Q3, households should be in a position to lead a recovery, given that consumer energy prices look set to fall by about 20% in July, and the rate of increase in other prices looks set to slow," it writes, "but with fiscal policy contractionary this year and most of the impact of the increase in Bank Rate still to permeate into the economy, we doubt the recovery will gather much momentum."

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 19+ TICKS LOWER AT 115-14

Treasuries bear-flattened Friday as longs took profit and inflation fears permeated on rising consumer expectations. 2s +8.5bps at 3.991%, 3s +9.4bps at 3.661%, 5s +8.7bps at 3.445%, 7s +8.0bps at 3.452%, 10s +6.2bps at 3.459%, 20s +4.4bps at 3.864%, 30s +3.2bps at 3.776%.

Inflation breakevens: 5yr BEI -0.5bps at 2.123%, 10yr BEI +1.6bps at 2.192%, 30yr BEI +3.9bps at 2.250%.

TOKYO/LONDON: Treasuries saw a marginal bounce into the Friday APAC session after T-Notes bounced off 116 late on Thursday. Contracts hit session highs of 116-07, failing to make a run of Thursday's 116-16 high, ahead of European trade with catalysts and volumes in APAC on the light side. The sustained bid in global stocks ahead of the US session offset any growth woes on the miss in UK GDP (March), and T-Notes saw selling through 116.

NEW YORK: T-Notes found support at 115-25+ at the handover to NY ahead of Thursday's 115-24 low and the CPI gap close at 115-05+, while the curve originally lacked any direction despite some block steepeners in 2yr/Ultra 10s. A 5k 2yr block seller was absorbed easily amid US stocks posting a shaky open, with T-Notes making a dead-cat bounce to 116-02 before the rise in prelim. Uni of Michigan survey consumer inflation expectations saw pronounced bear-flattening flows as Fed pricing shifted hawkishly, with money markets back to pricing a slight risk (10%) of a June hike. It's also worth noting that after a strong rally in USTs in recent sessions, there will be an element of profit taking at play into the weekend, which, once again, is laden with event risk in the form of banking news/bailouts/etc...

TREASURY INFLOWS: Amid Treasuries' bounce on the week, particularly post-CPI, PPI, and highest jobless claims since Oct. 2021, BofA's weekly Flow Show (as of Thursday) reported USTs saw their largest inflow in six weeks at USD 6.3bln. The CFTC data released Friday will no doubt continue to gain attention with headlines such as "hedge funds hold massive shorts", although it's worth considering that at least some of this is likely a function of the basis trade (short futures/long cash), rather than outright shorts. A pullback in repo market activity in recent sessions, with SOFR rate falling on Thursday, does not point towards positioning that is outrageously short, and chimes with the basis trade view on the CFTC data.

NEXT WEEK'S SUPPLY: US to sell USD 15bln of 20yr bonds on May 17th, to settle on May 31st; to sell USD 15bln in 10yr TIPS reopening on May 18th, to settle on May 31st. In bills, US raised 26-week (May 15th) and 52-week (May 16th) auction sizes to USD 51bln and 36bln from 48bln and 34bln, respectively; left 13-week (May 15th) unchanged at USD 57bln; all to settle on May 18th.

NEXT WEEK'S CALENDAR: (Mon) **Empire State mfg. survey**, Fed's Bostic and Kashkari; (Tues) **retail sales**, IP, NAHB, Fed's Mester, Williams, Bostic, and Goolsbee; (Weds) housing starts, **20yr auction**; (Thurs) **Philly Fed mfg. survey**, IJC, existing home sales, 10yr TIPS auction; (Fri) Fed's Williams and Powell both at a Fed conference.

STIRS:

- SR3H3 +0.25bps at 95.06, M3 -1bps at 94.935, U3 -6.5bps at 95.240, Z3 -9bps at 95.685, H4 -10.5bps at 96.22, M4 -11.5bps at 96.665, U4 -12bps at 96.955, Z4 -11.5bps at 97.12, H5 -11bps at 97.20, H6 -8.5bps at 97.21.
- US SOFR falls to 5.05% from 5.06%, volumes fall to USD 1.372tln from 1.410tln; first SOFR decline since April 10th and lowest volumes since April 26th.
- NY Fed RRP op demand at USD 2.229tln (prev. 2.242tln) across 100 counterparties (prev. 102).
- US EFFR flat at 5.08%, volumes fall to USD 117bln from 120bln.

CRUDE

WTI (M3) SETTLED USD 0.83 LOWER AT 70.04/BBL; BRENT (N3) SETTLED USD 0.81 LOWER AT 74.17/BBL

The crude complex was lower Friday as the stronger Dollar, continued demand fears, and risk-off sentiment weighed, confirming the fourth consecutive weekly loss. WTI and Brent hit weekly lows on Friday of USD 69.93/bbl and 74.03/bbl, respectively, as oil saw continued downside after the US cash equity open in line with stocks and the aforementioned deteriorating sentiment after a poor prelim. Uni of Michigan consumer survey. On the OPEC footing, the Iraqi Oil Minister told Reuters he does not expect OPEC+ to decide on further cuts at the next meeting (in June) and added Iraq cannot cut production further. Looking ahead, there is US and Chinese retail sales (Tues) which will give a further indication on the current strength of the world's largest economies, although particular focus on China's in the wake of the soft-leaning data seen this week.

IRAQ/TURKEY: Turkey is not likely to accept a request from Iraq to resume Kurdish oil exports through the port of Ceyhan on Saturday, according to a Turkish official cited by MiddleEastEye, which followed reports in the European morning that Iraq didn't get a reply from Turkish Botas on the request to resume oil flow. ING wrote "Iraq's oil minister has said that exports via Ceyhan would resume on 13 May with Iraq's state-run oil company informing Turkey's Botas of the resumption. Although, there does not appear to be confirmation from Turkey yet. A return of this oil would bring in the region of 450Mbbls/d back to the market."

BAKER HUGHES: In the week ending May 12th, oil rigs fell two to 586, nat gas declined 16 to 141 leaving the overall slumping 17 to 731. As a result, nat gas futures rallied to highs on the session. Note, a common theme in the recent earnings season has been US natural gas producers mentioning likely production halts and maintenance to take place while nat gas prices remain low.

EQUITIES

CLOSES: SPX -0.16% at 4,124, NDX -0.37% at 13,340, DJIA -0.03% at 33,300, RUT -0.22% at 1,740.

SECTORS: Consumer Discretionary -0.89%, Financials -0.41%, Technology -0.22%, Health -0.18%, Industrials +0.01%, Energy +0.12%, Real Estate +0.15%, Materials +0.17%, Communication Services +0.19%, Consumer Staples +0.36%, Utilities +0.44%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.19% at 4,317, FTSE 100 +0.31% at 7,754, DAX 40 +0.50% at 15,913, CAC 40 +0.45% at 7,414, FTSE MIB +0.92% at 27,347, IBEX 35 +0.56% at 9,234, SMI +0.41% at 11,570.

STOCK SPECIFICS: Chinese regulator said **Tesla (TSLA)** is to recall 1.1mln vehicles for a software update to allow changes to braking methods and more warnings about the use of accelerator pedals. Note that CEO Musk also indicated that he had found a new CEO to run Twitter. Third Point's Dan Loeb said they are no longer exploring an acquisition transaction with **SiriusPoint (SPNT)**. **First Solar (FSLR)** announced acquisition of Evolar AB which strengthens FSLR's global technology position in photovoltaics. **News Corp (NWSA)** beat on the top and bottom line; sees USD 160mln in yearly savings from staff cuts. **Spectrum Brands (SPB)** posted a deeper loss per share than expected and missed on revenue. Trimmed FY sales and profit forecasts. **Fox (FOX)** downgraded at Wells Fargo; cited challenges related to demand for linear TV and the costs for sports rights. **Embraer (ERJ)** and NetJets announced a deal for up to 250 Praetor jets in excess of USD 5bln. **Apple (AAPL)** in the coming weeks is expected to unveil what is perhaps the most experimental, unconventional product in its history, according to WSJ citing sources. **Netflix (NFLX)** is reportedly planning further spending cuts this year by USD 300mln, according to WSJ sources. **Marriott International (MAR)** raised quarterly dividend by 30% to USD 0.52/shr (prev. 0.40). Sir Jim Ratcliffe has moved a significant step closer to securing **Manchester United (MANU)** with the Glazers and their New York bankers ready to discuss details of a sale, according to The Times. **Lyft (LYFT)** CEO said the co. is open to offers for acquisition, but a sale is not the focus.

WEEKLY FX WRAP

DXY less reliant on data as it rebounds through prior m-t-d high

The Dollar was naturally hesitant in the run up to April's potentially pivotal US inflation data given a decline in NY Fed one year ahead expectations, uncertainty surrounding the SLOOS and semi-annual FSR, but the lending survey did not throw up any nasty surprises and the stability report noted that recent turmoil in banking industry had stabilised and while it could weigh on credit conditions going forward, the banking sector overall remained resilient with substantial loss-absorbing capacity. Subsequently, NFIB business optimism weakened and headline y/y CPI caught the eye more than the other metrics that were bang in line with consensus as it slowed to 4.9% from 5% vs an unchanged forecast. The Buck backed off in response amidst a dovish shift in rate pricing, albeit moderate, and this looked likely to be a decisive move irrespective of hawkish comments later that day from Fed's Barkin (message after last week's FOMC meeting was explicitly not a pause in its rate increases or even necessarily a peak). Indeed, PPI prints came in mostly softer than expected, weekly claims jumped well above consensus and the Atlanta Fed wage growth tracker eased to 6.1% from

6.4%. However, the Greenback's fortunes started to improve with the aid of comments from 2023 voter Kashkari (inflation is coming down, but it's been pretty darn persistent and means the Fed has to keep going for an extended period) and continued with impetus via fellow current voter Bowman (recent CPI and jobs reports have not provided persistent evidence that inflation is on a downward path) before a final fillip from a rise in five year UoM inflation expectations to a decade high. Using the DXY as a benchmark, the index reclaimed 102.000+ status on the way to posting a new peak for May at 102.690 compared to 101.030 low on Monday, but the Dollar's revival was broad-based and arguably driven by heavy losses in currencies outside the basket.

NZD/AUD/JPY/EUR - In contrast to the aforementioned US inflation expectations, Q2 projections were appreciably lower over 1 and 2 year horizons in NZ to the detriment of the Kiwi that hit lows for the week on Friday below 0.6200 vs the Buck and circa 1.0745 against the Aussie that had been underperforming due to its closer correlation with the depreciating Yuan and base metals, like iron ore and copper. In fact, Aud/Usd also slumped from best levels approaching the weekend, sub-0.6650 from over 0.6800 at one stage, and regardless of a rise in Melbourne Institute inflation expectations. Elsewhere, the Yen succumbed to rebounding US Treasury yields following further dovish guidance from BoJ Governor Ueda and April's SOO, while the Euro failed to glean any lasting traction from EGBs tracking USTs in closer lock-step or ECB members maintaining a hawkish stance on rates, including the prospect of tightening beyond June and July, according to Kazaks and sources. Usd/Jpy topped 135.70 from a 133.75 trough and Eur/Usd retreated towards 1.8050 from just above 1.1050, through Fibs that were propping the headline pair and a vast array of big option expiries along the way.

CHF/GBP/CAD - Relative 'outperformers', or at least showing some semblance of resilience in the face of a resurgent Greenback, and the Franc may have gleaned a bit of safe haven premium on the premise that US default risk lingers as long as the debt ceiling impasse is unresolved. Meanwhile, the Pound notched a twelfth BoE hike on its belt and took heed of the MPC keeping forward guidance intact (if there were evidence of more persistent price pressures, further tightening would be required), but Governor Bailey said there was no directional steer in the statement or bias for setting future policy, and data-wise it was a mixed UK bag with sufficient positives to offset the negative monthly GDP disappointment. On that note, the Loonie had booming Canadian permits to lean on for a while against the backdrop of receding WTI, but Usd/Cad ultimately rallied from 1.3316 to 1.3550, Usd/Chf from 0.8869 to 0.8981 and Cable recoiled 1.2679 to 1.2450.

SCANDI/EM - Hot Norwegian inflation readings only gave the Nok a partial reprieve following comments from Norges Bank Governor Bache downplaying the efficacy of expensive currency intervention, and the Sek did not get much in the way of sustained support via hawkish Riksbank minutes or separate remarks as Floden contended that rate rises may be nearing an end. Nevertheless, the Crowns fared better than the Cny and Cnh that were deflated after significantly softer than expected Chinese CPI and PPI, the Try ahead of Sunday's Turkish elections as implied option volatility soared, the Zar that swooned beneath 19.0000 vs the Usd during SA President Ramaphosa's grilling on the country's energy crisis and on accusations that it gave weapons to Russia, and the Mxn as Mexican CPI decelerated. Conversely, the Huf and Pln were underpinned by hawkish NBH and NBP vibes and the Brl coped well with Brazilian Government appointments to the BCB Board as momentum behind the fiscal reform bill apparently faded.

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