



US Market Wrap

15th May 2023: Stocks rise with regional banks while Dollar dips on weak survey data

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar down.
- **REAR VIEW:** Dismal NY Fed mfg. survey; Plenty of Fed Speak; McCarthy pessimistic on debt ceiling; Gensler says SEC not considering stock short-selling ban; EU clears MSFT acquisition of ATVI; Heavy corporate issuance slate; NEM to acquire Newcrest, OKE to acquire MMP; US to buy 3mln bbls of oil for SPR.
- **COMING UP: Data:** Chinese Retail Sales, UK Unemployment, EZ Employment/GDP Flash Estimate, German ZEW, US Retail Sales, Industrial Production **Speakers:** Fed's Williams, Mester, Bostic, Barr, Logan; ECB's Lagarde **Earnings:** Euronext, Imperial Brands; Home Depot.
- **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

A short squeeze in US regional banks led the bid in risk assets Monday (RUT > NDX > SPX) in spite of a lack of fresh catalysts for the sector. The upside in stocks supported broader pro-risk assets such as oil and activity currencies, with the DXY lower on the session. Treasuries bear-steepened on chunky corporate issuance and overhanging inflation woes (Uni of Michigan on Friday and lack of progress in prices in Empire State survey). Data was bearish for the economy with the plunge in the Empire State mfg. survey, while the latest news on the debt ceiling has been pessimistic with Speaker McCarthy warning of the large gap still between parties. The slew of Fed speak was also net hawkish, with typically cautious Goolsbee remarks offset by hawkish Bostic and Kashkari comments, albeit Bostic did say later that if he had to vote now, it would be for a pause but there is a lot of data to come. Fed pricing has been flirting between 10% to 20% implied for a June hike.

US

EMPIRE STATE: The NY Fed's mfg. survey saw a sharp fall in business activity for May, with the headline index (which, unlike ISMs, is its own question rather than a sum of sub indices) collapsing to -31.8 from April's +10.8, well beneath the expected decline to -3.75, and the second lowest reading of the post-COVID cycle after January's -32.9. The survey is volatile, and the jump to the first positive read of the year in April was always caveated with that in mind, given the broader manufacturing sector malaise that has been well documented. In a similar vein, new orders (-31.8 vs prior +25.1) and shipments (-16.4 vs prior +23.9) reversed their spike in April, while unfilled orders, delivery times, and inventories all fell, a silver lining for the supply chain recovery narrative, although hardly new news. The inflationary picture didn't improve either, with prices paid and received both little changed in positive territory. On the labour market, both employment and hours worked edged lower for a fourth consecutive month. While capital spending plans fell to their lowest level in three years, although note the NY survey had recently been running hot vs other regionals in this department. On the outlook, the future business conditions index edged up to 9.8 indicative of marginal improvement, while new orders, shipments, and employment are expected to improve somewhat too.

DEBT CEILING: The US Treasury on Friday said there was USD 88bln in extraordinary measures to use under its 34.1 trln debt limit; that figure is down from USD 110bln in the previous week. Last week, a meeting between President Biden and Congressional leaders failed to break the impasse, but Biden further talks are set to take place on Tuesday, and Biden said he remained optimistic on talks. Biden said talks were moving along, and we will know more about progress in the next couple of days. Deputy Treasury Secretary Adeyemo added that ongoing debt-ceiling negotiations were constructive between all parties. However, House Speaker McCarthy on Monday did not share the optimism and he is not confident on getting a deal this week, something he says is needed to get a bill through Congress to avoid a default. Note, Washington Post reported over the weekend that markets are not expecting a US default, but some companies



are preparing; by selling short-term Treasury bills and corporate bonds maturing around June 1st, when the government might run out of cash, and buying safer money market funds even though they pay a lower return, in order to cover payrolls.

FED

Goolsbee (voter), speaking to CNBC, leant on the cautious side once again. He said we need to monitor more than normal data sets and need to be attuned to credit, warning a lot of the impact of rate hikes is still in the pipeline. He does not feel like we are in a 2008-type of crisis but it feels like there is stress in some parts of the financial sector, noting the effect of banking stress on GDP is not small and it is something we need to take into account and sit and watch it. Goolsbee added the Fed should be extra mindful, noting they want to get inflation back to the target path without starting a recession. He is trying to figure out where we are in the business cycle, which looks like no other. Meanwhile, on the May rate hike, he revealed it was a close call due to the question mark about credit conditions.

Kashkari (voter), speaking at an industry event, said inflation is much much too high, though starting to come down. However, the Fed has more work to do and warned we should not be fooled by a few months of good data. He added the labour market is not as frothy as nine months ago, but is still strong overall.

Bostic (non-voter), who gave a slew of press interviews whilst hosting the Atlanta Fed conference, said to CNBC he does not see inflation coming down quickly and the Fed will not be looking at cuts until "well into 2024", warning the Fed may have to go up on rates but we are currently where his dot is portrayed in the dot plots. Bostic also added the appropriate policy is to wait and see the effects of tightening, warning there is some risk of a recession but if it does happen it will neither be long nor deep. He later added in a Bloomberg interview that he does not rule out anything as far as rate hikes, but if he were to vote now for June it would be for a hold but the committee is still considering what to do given there is a lot of data to come. He sees inflation in the "high 3s" by year-end, and would need inflation to come down more quickly to consider a rate cut. He sees inflation to continue at a steady, but not fast decline.

Barkin (2024 voter) said to the FT he sees no barrier to higher rates if inflation persists or even accelerates, noting policymakers should be sensitive to financial stability risks, but it should not take precedence over its fight against inflation. Barkin said he would advocate for a steady approach that would lessen the damage of any potential over-correction, but it is not obvious to him that there is a financial stability challenge of having a higher rate path and he does not see the urgency of making a different decision due to financial stability risks. He did not give a preference for June as there is still data to come and due to ongoing uncertainty around bank credit and the debt ceiling, but he said to Reuters he is very comfortable with a data-dependent approach although he is not yet convinced inflation is on a steady path downward.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 6+ TICKS LOWER AT 115-07+

Treasuries bear-steepened Monday on heavy corporate supply and stagflationary economic data. 2s -0.2bps at 4.002%, 3s +0.0bps at 3.669%, 5s +1.1bps at 3.462%, 7s +2.4bps at 3.479%, 10s +3.7bps at 3.500%, 20s +5.6bps at 3.922%, 30s +5.8bps at 3.835%.

Inflation breakevens: 5yr BEI +0.8bps at 2.133%, 10yr BEI +1.5bps at 2.209%, 30yr BEI +0.6bps at 2.255%.

TOKYO/LONDON: Extremely tight trade for T-Notes during APAC trade on Monday, with Friday's rise in UoM inflation expectations capping any recovery beyond 115-15. Asia risk assets were buoyed by PBoC liquidity support and the initiation of the China-Hong Kong 'Swap Connect' programme, which is seen as further opening access for foreign investors. Europe hit the bid on arrival in govies, with 115-08+ serving as support into the NY handover...

NEW YORK: Contracts nudged lower after some hawkish Bostic (nv) comments on CNBC, who dismissed rate cuts "well into" 2024, as well as supply consideration with Pfizer (PFE) initiating calls on its M&A bond for Seagen (SGEN) - Bloomberg reports chatter around the deal suggests it could be an eight-parter worth USD 31bln, expected to price Tuesday. Tuesday's Pfizer deal chatter was accompanied by a chunky slew of deal announcements for Monday (13 IG & 2 SSA) with T-Notes printing lows of 115-05, and the cash 10yr yield flirting back above 3.50%, amid rate lock-related hedging flows (Tsy selling/swap paying). There was a spike higher on the tumble in the Empire State mfg. survey, but contracts swiftly pared back to lows (115-05) amid the heavy corporate supply and the lack of progress in the survey's prices paid or received sub-indices, adding to the 'stickyflation' woes from Friday's jump in consumer inflation expectations (Uni of Michigan). Contracts hovered near lows through into settlement, although the front end was slightly supported into the NY afternoon, despite hawkish commentary from Fed's Bostic and Kashkari.



THIS 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.

THIS WEEK'S CALENDAR: (Tues) Chinese retail sales and IP, UK employment, EZ employment and GDP, German ZEW, US retail sales, IP, NAHB, Fed's Mester, Williams, Bostic, and Goolsbee; (Weds) Japanese GDP, Australian wage/price index, EZ CPI (final), US housing starts, 20yr auction; (Thurs) Japanese trade balance, Australian labour report, Philly Fed mfg. survey, IJC, existing home sales, 10yr TIPS auction, Banxico; (Fri) G7 Summit in Japan, SARB, Japanese CPI, Fed's Williams and Powell both at a Fed conference.

STIRS:

- SR3H3 flat at 95.058, M3 -1.5bps at 94.91, U3 -1bps at 95.215, Z3 flat at 95.515, Z3 -0.5bps at 95.67, H4 flat at 96.21, M4 +0.5bps at 96.66, U4 +0.5bps at 96.955, Z4 +1bps at 97.125, H5 +1.5bps at 97.21, H6 +0.5bps at 97.21.
- US SOFR flat at 5.05%, volumes fall to USD 1.372tln from 1.410tln.
- NY Fed RRP op demand at USD 2.221tln (prev. 2.229tln) across 103 counterparties (prev. 100).
- US EFFR flat at 5.08%, while volumes rise to record highs (since data available in 2016) at USD 124bln from 117bln, indicative of a strong unsecured funding market.
- US sold USD 64bln of 3-month bills at 5.060%, covered 2.79x; sold USD 58bln of 6-month bills at 4.980%, covered 2.61x.

CRUDE

WTI (M3) SETTLED USD 1.07 HIGHER AT 71.11/BBL; BRENT (N3) SETTLED 1.06 HIGHER AT 75.23/BBL

Oil prices climbed through the session on Monday, starting the week on the front foot with broader risk appetite, Dollar weakness, and Iraq-related supply tailwinds. Prices settled just off highs. After some initial weakness out of the APAC session, where WTI and Brent front-month futures troughed at USD 69.41/bbl and 73.49/bbl, prices climbed gradually through the rest of the session, roughly tracking risk sentiment, particularly cyclicals as regional banks lead the recovery in stocks while the Dollar underperformed. While in the energy space specifically, some supply risk is likely getting baked in after Reuters reported flows of northern Iraqi crude oil to Turkey's Ceyhan port have not resumed following Iraq's request, with operators at Ceyhan yet to receive instructions to prepare for the restart since Turkey halted Iraq's 450k BPD northern exports on March 25th. Separately, Reuters reported Russian seaborne oil exports were down 5% M/M in April to 11.383mln T, with trading contacts citing the approaching refinery maintenance period and rising domestic demand.

EQUITIES

CLOSES: SPX +0.3% at 4136, NDX +0.55% at 13,414, DJIA +0.14% at 33,349, RUT +1.19% at 1,762.

SECTORS: Materials +0.85%, Financials +0.82%, Technology +0.74%, Industrials +0.51%, Energy +0.2%, Consumer Discretionary +0.14%, Communication Services -0.03%, Health Care -0.16%, Real Estate -0.24%, Consumer Staples -0.27%, Utilities -1.24%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.03% at 4,316, FTSE 100 +0.30% at 7,777, DAX 40 +0.02% at 15,917, CAC 40 +0.05% at 7,418, FTSE MIB -0.37% at 27,245, IBEX 35 -0.35% at 9,201, SMI +0.13% at 11,580.

M&A: Newmont (NEM) has agreed to acquire Australian rival **Newcrest (NCMGY)** for USD 19.2bln, amounting to the gold mining sector's largest deal to date. **ONEOK (OKE)** is to acquire **Magellan Midstream (MMP)** in a cash and stock deal valued at around USD 18.8bln including assumed debt. **Western Digital (WDC)** and Japan's Kioxia are stepping up merger talks, as a slumping flash memory market puts fresh consolidation pressure on the world's No. 2 and No. 4 players; reports said the merged entity would be 43% owned by Kioxia, 37% by Western Digital and the rest by existing shareholders of the cos. **TPG (TPG)** to acquire Angelo Gordon in USD 2.7bln cash and equity transaction. **NeoGames (NGMS)** to be bought by Aristocrat Leisure for USD 29.50/shr or roughly USD 1.2bln. Note, NGMS closed Friday at USD 12.84/shr. **Heico (HEI)** to purchase Wencor Group for USD 1.9bln in cash and USD 150mln in stock.

STOCK SPECIFICS: EU antitrust regulators cleared the **Microsoft's (MSFT)** acquisition of **Activision Blizzard (ATVI)**; said remedies fully address competition concerns in the cloud gaming market. However, UK CMA stands by decision against the Microsoft/Activision deal. **Charles Schwab (SCHW)** was upgraded at Raymond James; said Schwab's core banking business remains strong, which could help the stock gain as much as 30%. Activist investor Engaged Capital has built a 6.6% stake in **Shake Shack (SHAK)**, including swaps, and is planning to run a proxy fight for three board



seats. FDA advisers recommended **Sarepta Therapeutics (SRPT)** be granted accelerated approval for its first-of-its-kind gene therapy for DMD. **Amazon (AMZN)** has transformed its logistics network in a bid to speed up deliveries and boost profits; has cut package travel distances, improved inventory management, and changing search results. **SoFi Technologies (SOFI)** was downgraded at Wedbush; said SoFi's fee income may be reaching a tipping point and it may need to raise capital this year to support growth. Elliott Investment recommends renewed focus on leadership operations, strategy and capital allocation changes in **NRG Energy (NRG)**; have an investment of around USD 1bln in the co. Castlake reaches purchase agreement for up to USD 4bln of consumer installment loans originated on **Upstart's (UPST)** platform. **C3.ai (AI)** Q4 revenue and non-GAAP loss from operations view surpassed Wall St. expectations, alongside raising FY23 revenue outlook. **Natera (NTRA)** sees jury rule in its favour, finding all asserted patents valid and infringed by Archerdx/Invitae; was awarded USD 19.35m in past damages for royalties and lost profits. Lennox (LII) raised its quarterly dividend. **Lattice Semiconductor Corporation (LSCC)** is targeting annual revenue growth of 15-20% over the next 3-4 years, according to an SEC filing.

US FX WRAP

The Dollar was lower on Monday after a dismal NY Fed Manufacturing survey and an improved risk environment throughout the afternoon, while debt limit talks remain in limbo with McCarthy dissatisfied with progress, despite optimism from the White House over the weekend. JPM did a client survey on asset price responses in the event of a US technical default, which saw a strong consensus that the Dollar would depreciate relative to safe haven currencies, "78% of respondents see the USD weakening by an average of 2.6% versus the JPY and the CHF". Clients broadly expect the Dollar to underperform relative to the Euro, "72% of respondents expect the USD to weaken relative to the EUR by an average of 1.7%". While respondents believe the USD would outperform EMFX modestly, "62% of respondents expect the Dollar to strengthen relative to Emerging Market currencies by an average of 0.2%".

The Euro saw gains thanks to the weaker buck with EUR/USD trading between 1.0846 and 1.0890 but failing to rise above 1.09 perhaps limited by a weak industrial production print in March, albeit the regional prints did allude to a soft report. Attention on Tuesday will turn to the Q1 GDP flash estimates, German ZEW for May, while in the US, retail sales are due, alongside more talks between congressional leaders on the debt ceiling.

The Yen was weaker vs the buck after wholesale inflation data in Japan slowed once again in April which is seen by analysts as a leading indicator of consumer price trends, thus it could suggest CPI could return to target but BoJ Governor Ueda has noted before they will keep their ultra-easy policy unless the rise in CPI is due to robust domestic demand alongside higher wage growth. Note, Japan PM Kishida issued an order for the Japanese government and BoJ to assess whether recent wage hikes would be sustainable. The dismal NY Fed data saw USD/JPY test the overnight lows of 135.61 but it failed to hold before returning back above 136.

The CHF gained vs the Dollar and marginally gained vs the Euro despite weakness in the Yen, but gold prices saw marginal upside. Looking ahead, Rabobank have lowered their EUR/CHF forecast to 0.97 on a 1-3mth view and to 0.96 by year-end. The desk writes, "Traditionally, the CHF has also behaved as a safe-haven. Although this role may have suffered some damage due to the recent issues in the Swiss banking industry, we expect the CHF to strengthen vs. the EUR in the second half of the year based on our view that the Eurozone economy is likely to stagnate and that there is a lot of positive news baked into the value of the single currency."

Cyclical currencies were generally supported by the weaker Dollar and equity gains. AUD and NZD outperformed with the Aussie leading the Kiwi. AUD/USD rose from 0.6642 at the lows, eclipsing Friday's high of 0.6706 at a peak of 0.6708 before returning to the round 0.67 handle with attention on the RBA minutes Tuesday. Meanwhile, NZD/USD moved from lows of 0.6186 to highs of 0.6239 and remained around highs into the start of the APAC session but both Kiwi and Aussie watchers will be attentive to China economic data Tuesday. GBP also saw gains vs both the Dollar and the Euro with the pound supported by gains in equities. There was more BoE commentary from Chief Economist Pill, who said he likes to think the BoE has done enough but they need to monitor the risks, whilst saying he is concerned the UK economy has too much momentum and warned there is a risk of inflation getting stuck at 4-5%. CAD also saw gains, buoyed by the risk environment but also the gains in oil prices. Note, the BoC financial stability review saw the bank have confidence in its financial system at the highest level since 2018 and noted the risk of a shock that could impair the Canadian financial system has decreased since the last survey.

Scandis were mixed, with NOK buoyed by gains in Brent crude but SEK was hampered after Swedish April inflation numbers eased more from the prior than forecast across the board. Swedish CPI Ex Energy YY (Apr) 8.4% vs. Exp. 8.7% (Prev. 8.9%). Riksbank's Bunge noted it is a good thing inflation is falling but there is some way to go before it nears the 2% target, and they are currently not at a turning point in inflation.



EMFX was mixed. In LatAm, BRL, MXN and COP gained, but CLP was lower and USD/CLP hit a 3mth high after Chile's central bank left rates unchanged at 11.25% on Friday. COP gains tracked the upside in the crude complex, while BRL strength was seen after the Brazil Mines and Energy Minister Silveira said reversing Eletrobras (ELET3 SA) privatisation is not on the agenda. In Mexico, the latest Banxico poll sees 12/15 analysts looking for rates to be left unchanged on Thursday, but the remaining three see a 25bp hike. Elsewhere, the Turkish Lira was weaker vs the Dollar in the wake of the election on Sunday which has been deemed too close to call and will likely go to a run-off in two weeks. State-owned Anadolu news agency has Erdogan at 49% and Kilicdaroglu at 45%. The ZAR saw impressive gains paring recent weakness following reports in Bloomberg that the US is unlikely to sanction South Africa in the Russian weapons dispute.

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