newsquawk

US Market Wrap

19th May 2023: Stocks and bonds sold after fresh debt and banking woes while Powell is more balanced than peers

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar down.
- **REAR VIEW**: Chair Powell takes balanced approach; Debt ceiling talks not going well; Yellen told bank CEOs more bank mergers may be necessary; Woeful FL earnings & guidance; China jawbones Yuan; China approves MSFT/ATVI deal.
- **WEEK AHEAD PREVIEW**: Highlights include FOMC Minutes, US PCE, RBNZ, EZ/UK/US Flash PMIs. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing FOMC Minutes, RBNZ, PBoC, CBRT, BOK; Reviewing RBA Minutes. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [MON] ZM; [TUES] LOW, INTU, PANW; [WED] ADI, NVDA; [THURS] MDT, WDAY, COST. To download the report, please click here.

MARKET WRAP

The Dollar, bonds and stocks were sold on Friday as participants headed to the weekend. The highlights on Friday saw Fed Chair Powell take a balanced line between the hawks and the doves, helping pare some of the hawkish repricing seen this week with Powell noting they are yet to make a decision for June. Also contributing to the repricing was Treasury Secretary Yellen reigniting banking woes after suggesting more banking M&A will likely be appropriate, weighing on regional banks. The debt ceiling was another key factor, after talks between Republican and White House negotiators came to an impasse with, as it stands, no further scheduled meetings with both sides noting solving the differences will be difficult, but the White House is still optimistic for a deal, although McCarthy is not as optimistic as he was yesterday. In energy markets, crude prices fell on Friday but just managed to close the week higher while Nat Gas pared its early gains after nat gas rigs were unchanged this week, following the steep decline last week. Gold prices jumped on the banking woes and debt limit talks, as well as Powell not as committal as the hawks seen earlier in the week, which also supported the Yen and Swissy while the dollar downside gave a hand to cyclicals. The Yuan was bid after some jawboning from the PBoC. In stocks, sports apparel names were hit on Friday after a dismal update from Foot Locker (FL), while Nike (NKE) also is facing a fine of over USD 500mln. China's SAMR also approved the ATVI /MSFT deal.

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DEBT CEILING: Whilst President Biden is away at the G7, debt ceiling negotiators have held meetings although they are not going well with talks on Friday taking a break as no progress was being made. At the time of writing, Punchbowl reported there were currently no more talks scheduled, adding there are multiple issues that have proven problematic in the discussions. However, the White House were more optimistic, noting if both sides negotiate in good faith and recognise they will not get everything they want, a deal is still possible. The WH also noted there are real differences on budget issues and the talks will be difficult, but they are working hard towards a reasonable bipartisan solution that can pass both the House and the Senate. WaPo political journalist Jeff Stein gave his opinion, stating "[I] Wouldn’t read too much into the blowup today on debt ceiling talks. This allows everyone to try to tell their side they are fighting hard for a deal".

FED: **Chair Powell** took a balanced approach in remarks on Friday given both hawkish and dovish arguments. Powell started the discussion saying inflation is far above its target, and the Fed is strongly committed to returning it to the 2% goal warning a failure to do so would cause greater harm. Powell had noted the policy rate may not have to rise as far as otherwise due to the tightened bank credit conditions, but also noted the Fed has not made any decisions about whether rates are sufficiently restrictive and they have not decided on how much more policy firming may be appropriate. Powell stated that until recently, clear further firming was warranted and now the Fed has come a long way, with uncertainty about lagged effects of policy, guidance today is limited to factors that go into policy decisions. He noted we can afford to look at data and the ongoing outlook, adding the risks of doing too much vs doing too little are becoming more balanced. The commentary is somewhat at odds with recent Fed speak and dampens some of the hawkishness seen priced in earlier in the week as Powell did not take a stance as hard as other Governors or regional Fed Presidents (Bowman, Logan, Bullard). On the economy, the Fed Chair said that labour market slack did not figure into early inflation, but he does think it will be a factor going forward. Inflation in non-housing services is particularly susceptible to labour outcomes. Powell added the natural rate of unemployment probably rose sharply during the pandemic, and the Phillips curve may also have steepened. Vacancies may have been a more important indicator during the pandemic.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 11+ TICKS LOWER AT 113-18

Treasuries steepened on dovish Powell, debt limit impasse, and regional bank concerns. At settlement, 2s +3.5bps at 4.304%, 3s +4.9bps at 3.984%, 5s +6.4bps at 3.762%, 7s +6.5bps at 3.739%, 10s +5.3bps at 3.701%, 20s +5.2bps at 4.082%, 30s +5.1bps at 3.952%.

INFLATION BREAKEVENS: 5yr BEI +1.6bps at 2.199%, 10yr BEI +1.1bps at 2.261%, 30yr BEI +0.5bps at 2.294%.

TOKYO/LONDON: It was largely directionless trade for USTs in APAC trade on Friday, but the front-end led a recovery into the European session, while the rise in Japanese CPI and German PPI capped the strength in the long end in spillover pressure; T-Notes made session highs at 114-05. The recovery didn't last long, and better selling for Treasuries returned late in the London morning, coinciding with some verbal intervention on the Yuan from the PBoC, which saw broader Dollar weakness.

LONDON/NY HANDOVER: Early NY trade saw a 10k block 2yr fut seller, taking contracts through Thursday's lows, while long-end contracts were already leading the way. The renewed selling flows at the NY handover appear more momentum-based rather than fresh catalysts, with traders prepping for Chair Powell at 11:00ET after the recent hawkish slew of Fed Speak raised expectations over a potential shift from the Fed Chair. Fed's Williams (v) and Bowman (v) gave some fresh remarks, but neither opined on policy. T-Notes hit session lows of 113-11 hovering just above in to Powell.

POST-POWELL: As the Fed Chair began speaking the front end led a rip higher in Treasuries, although that was initially a result of banking fears after an ominous CNN article that said Sec. Yellen had told bank CEOs that more bank mergers were likely needed. The haven demand only accelerated as reports broke that debt limit talks had hit a big impasse. Powell hadn't even pulled the meat off the bones by this point, but when he finally got into his policy views - saying rates might not have to rise as far as otherwise due to tightening banking conditions, expressed uncertainty on lagged policy effects, and that the risks of doing too much vs doing too little are becoming more balanced - there was a further pullback in Fed rate hike pricing. June implied hike probability fell as low as 10% vs highs of 40% yesterday. T-Notes recovered to 114-01+, failing to clip the APAC highs of 114-05, before consolidating back beneath 114 into the afternoon as the dust settled, with the cash 2yr reclaiming the 4.25% key level.

REFUNDING: Dealers will be beginning to make room for next week's belly supply. US Treasury to sell USD 42bln of 2yr notes on May 23rd, USD 43bln of 5yr notes on May 24th, and USD 35bln of 7yr notes on May 25th; all sizes unchanged, as expected, and all to settle on May 31st. US also to sell USD 22bln in 2yr FRN reopening on May 24th; to settle on May 26th.

NEXT WEEK: (Mon) PBoC LPR Announcement, Fed's Bullard (nv), Barkin (nv), and Bostic (nv); (Tues) BoK, **EZ/UK/US Flash PMIs**, Richmond Fed, Fed's Logan (v), 2yr auction; (Wed) RBNZ Announcement, UK Inflation, German Ifo, **FOMC Minutes**, 5yr auction; (Thurs) CBRT, SARB, German GDP, GfK Consumer Sentiment, **US Q1 GDP/PCE Prices 2nd**, Chicago Fed NAI, IJC, Pending Home Sales, KC Fed, 7yr auction; (Fri) Tokyo CPI, UK Retail Sales, **US PCE (Apr)**, Durable Goods, UoM Final, US recommended early close for Memorial Day Holiday.

STIRS:

-SR3H3 +0.0bps at 95.053, M3 +1.8bps at 94.828, U3 +0.5bps at 95.025, Z3 -1.0bps at 95.385. H4 -3.5bps at 95.835, M4 -6.0bps at 96.240, U4 -8.0bps at 96.535, Z4 -9.0bps at 96.735, H5 -9.5bps at 96.845, H6 -9.5bps at 96.905.

- NY Fed RRP op demand at USD 2.277tln (prev. 2.238tln) across 106 counterparties (prev. 102). -SOFR flat at 5.05%, volumes flat at USD 1.401tln.
- EFFR flat at 5.08%, volumes fall to USD 127bln from 130bln.

CRUDE

WTI (N3) SETTLED USD 0.25 LOWER AT 71.69/BBL; BRENT (N3) SETTLED USD 0.28 LOWER AT 75.58/BBL

The crude complex was lower on Friday but still managed to close the week in the green, albeit just, as oil was weighed on in the US afternoon amid debt ceiling talks pausing and also some renewed regional bank woes. On the debt ceiling, with concerning commentary from primarily the Republicans that indicated a deal is no closer. The threat of a default could cut energy demand which continues to weigh on the complex. In wake of the aforementioned updates, WTI and Brent slid to session lows of USD 71.18/bbl and 75.12/bbl, respectively. Elsewhere, according to the Iraqi state news agency, Iraq and Russian oil ministers spoke on the phone and affirmed commitments to OPEC+ voluntary production reductions.

BAKER HUGHES: In the week ending May 19th, oil rigs fell 11 to 575, while nat gas was unchanged at 141, leaving the total declining 11 to 720. In wake of the metrics, nat gas futures saw some downside, which came after last weeks surge higher following the decline of -16, the largest since Feb 2016.

EQUITIES

CLOSES: SPX -0.15% at 4,191, NDX -0.23% at 13,803, DJIA -0.33% at 33,426, RUT -0.62% at 1,773.

SECTORS: Consumer Discretionary -0.84%, Communication Services -0.49%, Financials -0.45%, Industrials -0.27%, Utilities -0.17%, Real Estate -0.15%, Technology -0.11%, Consumer Staples +0.01%, Materials +0.26%, Health +0.46%, Energy +0.73%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.64% at 4,395, FTSE 100 +0.19% at 7,756, DAX 40 +0.69% at 16,275, CAC 40 +0.61% at 7,491, FTSE MIB +1.05% at 27,520, IBEX 35 +0.42% at 9,251, SMI +1.03% at 11,555.

STOCK SPECIFICS: **Footlocker (FL)** slumped in wake of a dismal report; missed on revenue and cut FY guidance amid a tough macroeconomic backdrop. Also weighed on sportswear apparel peers such as Adidas, JD Sports, and Nike. Although for **Nike (NKE)**, contributing to its downside, according to The Guardian citing obtained documents, NKE may have misclassified thousands of temporary office workers and faces potential tax fines of more than USD 530mln. **Deere (DE)** posted a blowout report; topped consensus on EPS and revenue. Looking ahead, raised FY net income view. **Applied Materials (AMAT)** lower despite decent earnings, highlighted by surpassing Wall St. expectations on top and bottom line, with Q3 guidance also solid. **DXC Technology (DXC)** slightly missed on EPS and revenue, while next quarter guidance disappointed analyst expectations. **Ross Stores (ROST)** beat on profit and SSS but marginally missed on revenue. Q2 EPS view light and backed FY revenue outlook. Samsung Electronics will not be swapping out the default search engine on its smartphones from **Google (GOOGL)** to **Microsoft's (MSFT)** Bing any time soon, according to WSJ citing sources. **Farfetch (FTCH)** posted a shallower loss per share than expected and beat on revenue. Exec noted sequential improvement in GMV growth in the US and China, its two largest markets, as well as in orders across the Farfetch Marketplace. **Berkshire Hathaway (BRK.B)** continued to purchase more **Occidental Petroleum (OXY)** stock, and purchased another 200mln worth, increasing its stake to USD 12.7bln, or just under 25%. Morgan Stanley (MS) CEO Gorman said he plans to step down as CEO in the next 12 months and assume the role of executive chairman. **YouTube (GOOGL)** is reportedly undercutting **Amazon (AMZN)** on its streaming push, according to The Information; as AMZN takes 50% of subscription fees, plus ad dollars, while YouTube is offering to charge a lower cut on subscription fees. China's SAMR approved **Microsoft (MSFT)** and **Activision (ATVI)** deal according to Dealreporter. **Meta's (META)** Instagram is reportedly readying a Twitter competitor for summer release, according to Bloomberg. **Krystal Biotech (KRYS)** received FDA approval of Vyjuvek for treatment of Dystrophic Epidermolysis Bullosa. **Tesla (TSLA)** is offering discounts in excess of USD 1,300 on some Model 3 cars in US inventory, according to the Tesla website.

REGIONAL BANKS: Regional banks saw a bout of renewed weakness on Friday, albeit settling off lows, after US Treasury Secretary Yellen, according to CNN, told bank CEOs more bank mergers may be necessary. In wake of the headline, PacWest Bancorp (PACW) and Western Alliance (WAL), amongst others, sank to session lows beneath 5%, as did KRE, as concerns around regionals reared their ugly head. Although, the aforementioned names eventually closed ~2.5% in the red.

WEEKLY FX WRAP

Buck cedes some ground after steep climb to new Q2 highs

USD - Caution awaiting further direction from Fed Chair Powell (see remarks on the Headline Feed at 16.06BST, 16.15 BST, 16.35BST and 16.42BST for details) saw the Dollar and index shed some gains, but the DXY also lost momentum when it faded a fraction under the prior day's peak that marked a fresh pinnacle for May and the current quarter. Moreover, the Yen recouped a chunk of its losses in corrective price action and short covering ahead of the weekend, while Chinese state banks are said to have bought the onshore Yuan in an effort to prevent further depreciation. Prior to that, the Greenback overcame a setback in wake of a dire NY Fed manufacturing survey (headline and new orders both deeply negative from +10.8 and +25.1 previously) with help from a hawkish Kashkari before Bostic and Barkin left the door ajar for more tightening. However, the Buck remained relatively restrained through mixed US retail sales metrics as the headline missed consensus by some distance, ex-autos were bang in line and the control exceeded expectations more than two-fold. Ultimately, the latter proved pivotal given its significance for GDP and the DXY gathered momentum ahead of ip and manufacturing output via Mester stating that she would like the policy rate to get to a point where it could equally be a potential increase or decrease, does not put it in terms of a pause, but a hold and does not think we are at that level yet. In the event, the aforementioned production data were much stronger than forecast and topped off by a surprise rise in the NAHB housing market index to set a constructive midweek platform for the Dollar and index, but Thursday proved more decisive as the DXY rallied from circa 102.790 to 103.630 and further away from the 102.190 w-t-d low. The catalysts, much better than feared Philly Fed business findings, on balance, lower than expected initial claims for the May NFP report and comments from Fed's Logan, Jefferson and Bullard. In short, Logan said data up to now does not justify a June pause or suggest that skipping a rate hike is appropriate, Jefferson said some measures show the disinflation process is slowing and Bullard that he is inclined towards another tightening move. Data and Fed speak aside, hopes for a resolution to the debt ceiling impasse gradually rose after both sides reported progress and President Biden cut short his Asia trip to return for more talks, but latest remarks from the GOP negotiating team were hardly positive and other reports suggested that the Democratic delegation walked out of discussions due to multiple problematic issues.

NZD/AUD - In stark contrast to this time last Friday, the Kiwi hit best levels vs its US rival, partly on the back of NZ exports outstripping imports to turn a trade deficit into surplus, though also taking into consideration a couple of pretty aggressive RBNZ rate calls (5.75-6% peak from 5.25% at present) in advance of the upcoming policy meeting when a 25 bp increase in the OCR is widely expected and priced in. Nzd/Usd extended its recovery from around 0.6186 to 0.6290 and the Aud/Nzd cross hovered near 1.0600 within a 1.0764-1.0587 range as Aud/Usd lagged between 0.6709-0.6606 parameters due to a combination of Yuan contagion and a disappointing Aussie labour market update that heightened the prospect of the RBA moving back to the sidelines after its return to hiking earlier in May. Note also, the Kiwi benefited from improvement in NZ's fiscal situation and revised budget projections removing the likelihood of recession.

JPY/CHF/XAU - As noted above, a bout of pre-weekend positioning pushed Usd/Jpy down from highs for the week and 2023 irrespective of BoJ Governor Ueda sticking staunchly to ultra-easy guidance regardless of Japanese inflation rising further. Nevertheless, the headline pair remained elevated within a 138.74-135.61 band on yield and policy divergence rather than risk grounds, as sentiment soured when US debt ceiling talks broke down and Treasury Secretary Yellen reportedly told bank CEOs more mergers may be necessary, according to CNN. Conversely, this all gave the Franc and Gold a boost in their safe haven capacity, with Usd/Chf recoiling from near its 0.9062 weekly apex through 0.9000, but still 'comfortably' above the 0.8920 low and Xau/Usd rising to almost Usd 1984/oz from just over Usd 1954 between Usd 2022-19-1951.75 or so extremes.

EUR/GBP - The Euro and Pound took advantage of Friday's Greenback relapse (DXY to just shy of 103.000 at one stage) to steady sinking ships given hefty losses in the run up on some downbeat or worse than anticipated Eurozone and UK macro releases. However, Eur/Usd and Cable remained rooted towards or closer to the base of 1.0761-1.0904 and 1.2392-1.2546 respective bounds as the former lost numerous technical props and the latter took on board a slump in HMRC payrolls and an uptick in the ILO unemployment rate.

CAD - Hotter than consensus headline Canadian headline inflation offered the Loonie a cushion all too briefly as Usd /Cad climbed from 1.3405 to 1.3567 at one stage with little impediment other than some stabilisation in crude prices, bar BoC Governor Macklem reiterating the Bank's commitment to getting CPI back to target and it's far too early to be thinking about interest rate cuts. For the record, retail sales matched consensus at headline level, but were not as weak as feared ex-autos.

SCANDI/EM - The Sek huffed and puffed, but never really got over cool Swedish CPI metrics, but the Nok gleaned traction from Brent's bounce, the Inr took some comfort from RBI intervention in similar vein to the Cny and Cnh that were undermined by Chinese ip, retail sales and urban investment all missing consensus and forcing them through chart supports like 200 DMAs and Fibs. However, SA's domestic power and other issues continued to weigh heavily on the Zar, the Try suffered more Turkish political angst after an inconclusive first round saw current President Erdogan emerge with a lead and the Mxn had to contend with confirmation of Banxico pausing at the end of a lengthy hike cycle.

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