



US Market Wrap

22nd May 2023: Markets in trepidation mode ahead of Biden/McCarthy debt limit meet

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** Kashkari in favour of a June 'skip'; Bullard for another 50bps of hikes; Debt ceiling uncertainty remains; China partially bans Micron chips; Record META fine; JPM raised FY23 NII view amid FRC acquisition; Mixed ECB rhetoric; PACW announced the sale of real estate loans.
- **COMING UP: Data:** US, UK & EZ PMIs (Flash), US Home-Sales **Speakers:** Fed's Logan; ECB's de Guindos, Nagel, Villeroy, Enria; BoE's Bailey, Pill, Tenreyro, Mann **Supply:** Netherlands, UK, Germany & US **Earning:** Lowe's.
- **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:** [TUES] LOW, INTU, PANW; [WED] ADI, NVDA; [THURS] MDT, WDAY, COST. To download the report, [please click here](#).

MARKET WRAP

Stocks were mixed with the SPX and NDX flattish while the RUT saw strong advances, aided by a bounce in regional banks with PacWest (PACW) surging after announcing the sale of real estate loans. Large-cap tech was mixed with losses in AAPL and AMZN offset by gains in MSFT, META, GOOGL, and TSLA. While Micron (MU) was sold after warning of up to a high-single-digit revenue hit from China's latest decision on Sunday to ban the use of its products in what it considers 'vital infrastructure', with details from China thin so far and flaring tensions between the two sides. The tape appeared only somewhat susceptible to debt limit updates, with stocks showing some spurts of weakness Monday on pessimistic headlines from negotiators, although moves lacked momentum in either direction, probably as markets await more concrete updates with House Speaker McCarthy and President Biden's debt ceiling meeting at 22:30BST/17:30EDT. Elsewhere, there was a brief period of risk-off seen in the NY morning after fake reports of an explosion at the Pentagon circulated online, although moves swiftly faded as official lines reported no such thing. Cross-asset, Treasuries saw mild bear-flattening ahead of supply while Fed speakers leant into the "it's a skip, not a pause" messaging to butter up the increasingly likely June pause after Powell's remarks on Friday.

DEBT CEILING

US House Speaker McCarthy, ahead of his key meeting with President Biden scheduled for 17:30EDT/22:30BST on Monday, said a debt ceiling deal has not been reached after toing and froing over the weekend. McCarthy warned that decisions have to start being made given they are ten days away from the deadline. The Republican's point man reiterated the stance that 2024 spending has to be less than 2023, while the White House has been holding out for a flat Y/Y spend. McCarthy later followed up those comments by saying he believes the debt ceiling package being negotiated right now would be acceptable to a majority of House Republicans, but they have to get a deal reached this week in order to get it through Congress before June 1st. Note GOP's McHenry shared that cautious optimism by saying Sunday night's debt limit talks were productive. Although he later said there is still not an agreement on major items, whilst expressing concerns over getting a deal that could pass all the hurdles. Indeed, it remains a question of whether any proposed deal can satisfy the extreme ends of both sides of the aisle.

FED

DALY (non-voter) doesn't appear committed to a current stance for June and did not talk down the idea of a rate hike, or talk up the idea of a skip, while she clearly favours waiting for the data and taking it on a meeting-by-meeting basis. The San Fran Fed President said she wants to see if policy tightening is affecting the economy, and the Fed is focused on a whole dashboard of incoming data, adding the Fed must be very data dependent right now and there is still a lot to see before the June FOMC. Daly also noted that the Fed deciding on a meeting-by-meeting approach is a more prudent path and forecasts are only as good as the day they were printed (referring to March SEPs, set to be updated in June).



She wants to see an ongoing slowing of super core inflation but notes inflation expectations are well anchored. On banking, she notes the banking stresses have calmed and banks are in solid shape, but the Fed must watch for a slowing economy. She notes she does not know how deep and long credit tightening will be but tighter conditions may be akin to one to two rate hikes (a similar view to Fed's Logan). She said it is not surprising to see some credit troubles for Americans, and the global tightening cycle has slowed activity less than expected. On the economy, she notes real wage growth for most has been overtaken by inflation and that it would be a historic anomaly to get 2% inflation with a sub-4 % unemployment rate, and it seems completely reasonable to see the rate rise above 4%. She also expects house price inflation to come down through the year-end.

KASHKARI (voter) gave an interview to the WSJ on the weekend where he said he is open to the idea of a pause (a 'skip', in his words) in June to give officials more time to assess the effects of past rate hikes and any potential credit crunch. The Minneapolis Fed President said a skip to get more inflation is very different in his mind than saying, "Hey, we think we're done". He also warned that the longer the yield curve remains inverted, the more challenging environment it becomes for banks, which would become more of a serious problem the longer inflation, ergo higher Fed rate, persists. Kashkari followed that interview up with a CNBC interview on Monday, proving a hawkish offset in saying the Fed could need to go north of 6% - note that a 'skip' and hawkish rate guidance is likely to be a key playbook for hawks if the Fed does hold in June. Kashkari also said on CNBC that he is not yet seeing evidence that the banking stress is doing the Fed's inflation-fighting work for it. He also refuted the idea that his terminal rate forecast was 5.25%.

BULLARD (non-voter, hawk), speaking at the American Gas Association, said the Fed may still need to hike another 50bps this year, seemingly an attempt to add a hawkish spin to the June meeting should the FOMC hold - he told the FT last week he is currently inclined to hike. Note the 50bps comment would be in fitting with his prior terminal rate guidance of 5.75%. The St Louis Fed President underlined that the FOMC's SEP median of 5.1% was based on slow growth and inflation improvements that have not occurred. While on the economy, Bullard said his base case remains for relatively slow growth for the rest of this year and into 2024 and that recession probabilities are probably overstated. He warned that core measures of inflation had not changed much in recent months, and if inflation is not controlled, the Fed will have to do "a lot more"; as such, the bank should err on the side of excess.

FED SPEAK AHEAD: Relatively fewer speakers than last week's bonanza, although Governor Waller, the outspoken hawk, will be of particular interest on Wednesday given Powell's pushback on a June hike last Friday. Specifically, will he attempt to keep a June hike live or compromise in the June 'skip' narrative, keeping hikes on the table for meetings afterwards. In order this week: (Tues) Logan (v, hawk) delivering opening remarks at Richmond Fed conference at 09:00EDT; (Weds) Waller (v, hawk) speaking in Santa Barbara at 12:10EDT; (Thurs) Collins (nv) participating in a fireside chat at 10:30EDT.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 3 TICKS LOWER AT 113-15; JUNE/SEPT ROLL 15% COMPLETE

Treasuries saw mild bear-flattening Monday ahead of supply while Fed speakers stress it's a 'skip', not a 'pause'. 2s +3.1bps at 4.320%, 3s +1.7bps at 3.987%, 5s +1.8bps at 3.764%, 7s +1.6bps at 3.742%, 10s +2.5bps at 3.717%, 20s +2.6bps at 4.100%, 30s +2.1bps at 3.969%.

INFLATION BRAKEEVENS: 5yr BEI +0.2bps at 2.200%, 10yr BEI -0.2bps at 2.259%, 30yr BEI +0.7bps at 2.301%.

TOKYO/LONDON: Treasuries were bid through APAC trade and into the European morning on Monday with the regions playing catch-up to Fed Chair Powell's pushback on a June rate hike, accentuated by the weekend WSJ interview with Kashkari (voter), who said he was happy for a June 'skip', all of which taking the sting out of the hawkish Fed Speak seen throughout last week (Bowman, Logan, Bullard, Mester). There was also some haven demand after Treasury Secretary Yellen warned over the weekend that the government was unlikely to make it to the mid-June tax date. T-Notes hit session highs of 113-30 in the European morning, just off the post-Powell peak of 114-01+.

NEW YORK: Better selling picked up as US players returned from the weekend, with Kashkari on CNBC providing a hawkish offset to his skip/pause comments from the weekend, saying rates could need to rise above 6% eventually. Furthermore, a healthy slew of corporate debt was brought to the primary market on Monday, with corporates rushing to fill their coffers before any potential default and ahead of this week's Treasury auctions, both weighing on govies via the supply angle. Bullard (non-voter) calling for 50bps more of hikes added to the front end-led pressure. Note there was a wave of haven demand that unwound as swiftly as it arrived later in the NY morning after fake reports that there had been an explosion at the Pentagon. Otherwise, contracts trundled lower into the afternoon, where T-Notes troughed at 113-10+ before paring to flat come settlement, aided by some on pause-friendly rhetoric from Fed's Bostic (non-voter) and then debt ceiling angst after House Speaker McCarthy warned no deal had been reached and "decisions" need to start being made, while GOP's McHenry also expressed concerns over a getting a deal that could please all over the



line. Note a chunky 26k TY2M3 115.75/116.75 call spread (June 9th expiry) trade on exchange, vs underlying ZNU3 at 114-09, came amid some of the debt ceiling angst.

REFUNDING: Dealers will be making room for this 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.

STIRS:

- SR3M3 -4.25bps at 94.80, U3 -5.5bps at 94.985, Z3 -5.5bps at 95.345, H4 -4.5bps at 95.81, M4 -3bps at 96.235, U4 -2bps at 96.545, Z4 -1.5bps at 96.750, H5 -1bps at 96.865, M5 -1.5bps at 96.89, M6 -3bps at 96.88.
- SOFR flat at 5.05%, volumes fall to USD 1.363tln (prev. 1.401tln).
- NY Fed RRP op demand at USD 2.275tln (prev. 2.277tln) across 105 counterparties (prev. 106).
- EFFR flat at 5.08%, volumes rise to USD 132bln from 127bln.
- US sold USD 63bln of 13-week bills at 5.250%, covered 2.56x; sold USD 60bln of 26-week bills at 5.170%, covered 2.96x.

CRUDE

WTI (N3) SETTLED USD 0.44 HIGHER AT 71.99/BBL; BRENT (N3) SETTLED USD 0.41 HIGHER AT 75.99/BBL

The crude complex was ultimately firmer, albeit choppy, through a slew of supply updates, M&A activity, market commentary, and debt ceiling updates, with the stronger Dollar offset by lower supplies from OPEC+ producers in April. On the latter, JPMorgan noted total exports of crude and oil products fell 1.7mln BPD by May 16th, and Russian oil exports will likely fall by late May. Further for Russia, according to Reuters sources and calculations, Russian Urals oil trades below the price cap this month despite firming differentials and softer freight. On the session, WTI and Brent entered into the European morning on the backfoot. But, at the US cash energy open, the complex saw a spike higher, albeit not on a headline catalyst, before WTI and Brent extended to highs of USD 72.36/bbl and 76.46/bbl, respectively, hovering just off those peaks into settlement. Looking ahead, the weekly private inventory data (Tues), EIA (Wed), and Baker Hughes (Fri) will be in particular focus for energy watchers. Additionally, the OPEC+ June confab is slated for next week, but before that, the Saudi Energy Minister is poised to make some comments on Tuesday at the Qatar Economic Forum.

EMEA: Turkey has reportedly not yet responded to Iraq's request to restart the Northern oil pipeline, according to Reuters sources. Note, due to an arbitration ruling on March 23rd, oil exports from northern Iraq to the Turkish port of Ceyhan were shuttered, which halted flows of some 450k BPD. In other news, Jordan Energy Minister has announced the resumption of Iraqi crude oil imports.

COMMENTARY: Goldman Sachs noted rising fears of a US recession and a China slowdown are likely weighing on oil prices, and estimates that forward curves are pricing all the main bearish risks to its USD 95/bbl December 2023 Brent forecast. Adds that the oil market is too pessimistic and expects sustained deficits from June as OPEC+ production cuts are fully realised and demand rises further. Echoing this, a Vitol executive stated as we move into H2, largely due to Asian demand growth, the world will need more oil barrels than now, numbering it at "around 2mln BPD more".

CHEVRON: Chevron (CVX) is set to buy PDC Energy (PDCE) for USD 72/shr in an all-stock deal. CVX is still open to acquisition opportunities and sees stronger global demand for gas growth than for oil. On the PDC deal, it is to almost triple DJ basin production (currently 142k BPD). Lastly, the CEO added the acquisition was in line with Biden's request for more US oil production.

EQUITIES

CLOSES: SPX +0.02% at 4,192, NDX +0.34% at 13,849, DJIA -0.42% at 33,286, RUT +1.22% at 1,795.

SECTORS: Communication Services +1.17%, Real Estate +0.67%, Financials +0.22%, Technology +0.13%, Health +0.04%, Utilities +0.03%, Industrials unch., Consumer Discretionary -0.37%, Energy -0.39%, Materials -0.55%, Consumer Staples -1.47%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.22% at 4,385, FTSE 100 +0.18% at 7,770, DAX 40 -0.32% at 16,223, CAC 40 -0.18% at 7,478, FTSE MIB -0.76% at 27,310, IBEX 35 +0.58% at 9,305, SMI -0.19% at 11,548.



STOCK SPECIFICS: **Meta (META)** hit with a record USD 1.3bln fine over data transfers to the US; META is set to appeal. **Applied Materials (AMAT)** to invest USD 4bln in Silicon Valley chip research centre. **Apple (AAPL)** was downgraded at Loop Capital as it said it sees "material downside risk" to Apple's June quarter revenue relative to both guidance and street estimates. **PacWest Bancorp (PACW)** entered into a loan purchase and sale agreement with a unit of Kennedy-Holdings; to sell portfolio of real estate construction loans with USD 2.6bln outstanding. **Ford (F)** had its analyst investor day; maintained FY guidance for adj. EBIT and FCF; sees Model E's growth production capacity run-rate of 2mln EVs by 2026 end and has agreed many new lithium deals. Highlighting this, **Albemarle (ALB)** establishes a strategic agreement with Ford, where ALB will supply more than 100k metric tonnes of battery-grade lithium hydroxide for roughly 3mln future F EV batteries. **VectivBio Holding AG (VECT)** to be acquired by **Ironwood (IRWD)** for USD 17 /shr in an all-cash offer. Note, VECT closed Friday at USD 11.69/shr. **PDC Energy (PDCE)** to be acquired by **Chevron (CVX)** for USD 72/shr in an all-stock deal. Note, PDCE closed Friday at USD 65.12/shr. **Pfizer's (PFE)** oral weight loss drug may be as effective as and quicker than Ozempic injection by Novo Nordisk (NOVOB DC), according to a JAMA Network released year-old study cited by CNBC. **DraftKings (DKNG)** upgraded at UBS on strong growth in new states. **T-Mobile (TMUS)** CEO sees Q2 postpaid phone net additions at flat or higher vs Q2 last year.

MICRON: Beijing, via CAC regulator, ordered Chinese companies to halt purchases from Micron (MU), citing cybersecurity concerns. MU conveniently (for investors) scheduled at the JPM analyst day today, where it estimated the impact of total revenue in the range of the low single digits to and high single digit percentage. While overall, it estimates combined direct and indirect sales through distributors to China HQ is roughly 25% of revenue. Looking ahead, Micron added that it needs to take stock of how this will play out and will provide an update on the August quarter during the earnings call in June. Finally, Micron reiterated that it will continue to cooperate with CAC and is working to understand the details. US State Department spokesperson said the US has serious concerns about the Micron report from China.

JPM: **JPMorgan (JPM)** raised FY23 NII view USD 3bln to 84.0bln ex-CIB markets (prev. around USD 81bln, market-dependent) due to its purchase of failed First Republic Bank. JPM added 2023 expense outlook is unchanged excluding expenses associated with FRC. Further on FY23 guidance, it sees ROTCE around 17% and CET1 at 13.5%. In commentary, said consumer balance sheet and credit remains healthy, while exec noted it has seen stabilisation of deposits and clients after the FRC deal. The President expect markets revenue and IB fees both down 15% in Q2, and higher volatility in markets. Speaking at its investor day, another exec said JPM is seeing FICC and Equities perform (or underperform) similarly in Q2, noting that comps are tough given the extremely strong performance in Q2 2022. On CRE, JPM said it is seeing a significant reduction in loan activity, but feels very good about its own CRE exposure, noting office was less than 9% of its total CRE portfolio, but is watching CRE market fundamentals "carefully".

US FX WRAP

The Dollar was firmer on Monday albeit within contained ranges, illustrated by a high of 103.370 and a low of 102.960, and was underpinned by hawkish remarks from Bullard (nv) and Kashkari (v), although the latter's comments today were offset by his dovish WSJ interview over the weekend where he gave the nod for a June rate 'skip'. Nonetheless, via a CNBC interview today, Kashkari noted the Fed could need to go north of 6%, while Bullard reiterated the Fed may still need to hike another 50bps this year to get to his terminal forecast. Elsewhere, participants remain anxious ahead of House Speaker McCarthy and President Biden's debt ceiling meeting at 22:30BST/17:30EDT. Ahead of this meeting, House Speaker McCarthy (R) and Rep. McHenry (R) both gave two-way commentary, with the former noting a deal could be reached today or tomorrow but nothing is yet agreed on, while McHenry noted Sunday talks were positive but is concerned over reaching a deal that could pass all hurdles. Looking ahead, aside from the debt ceiling updates, US Flash PMIs on Tues, FOMC Minutes on Weds, and April PCE on Fri are the highlights in the US, amongst numerous Fed speakers, with Governor Waller (hawk; voter) the most interesting on Wednesday after Powell's dovish comments last Friday.

The Yen was the G10 laggard and saw losses against the Buck as USD/JPY hit a peak of 138.69. The Yen underperformed on wider Treasury/JGB yield differentials rather than Japanese machinery orders hugely missing consensus in both M/M and Y/Y terms.

The Franc was the G10 outperformer and appeared to track strength from its haven properties or short covering impetus, as opposed to anything Swiss-specific. USD/CHF traded between 0.8941-98 parameters.

Antipodes were marginally firmer against the Buck, with the Kiwi outperforming its counterpart, as it held up relatively well as market participants await the anticipated [RBNZ 25bps hike on Wednesday](#). Although, desks note the risks of a 50bps hike have increased since NZ budget. Nonetheless, both antipodes traded within tight parameters vs the Buck, with AUD/USD between 0.6628-67 as players await flash May Aussie PMIs.



The Pound was ultimately flat, with Cable peaking twice at 1.2472 during the APAC and US morning, making it a double-top, but strength was curbed on hawkish Fed rate expectations accompanied by positioning from traders ahead of Tuesday's PMI data and Wednesday's UK price data. In terms of levels, to the downside technicians are flagging the May 18-19th double bottom by 1.2390.

The Loonie, akin to other activity currencies, traded within narrow ranges with not much CAD-related newsflow ahead of Canadian producer and raw materials prices.

The Euro was more-or-less flat vs the Greenback, and the single currency saw no adverse reaction to prelim Eurozone consumer survey coming in weaker than forecast or comments from ECB's Villeroy even though more dovish than other GC members. Villeroy contended that the Bank could hike or pause at the next three policy meetings and the primary question is not how much further to tighten, but how large the pass-through of what is already in the pipe given that in the current tightening cycle, the transmission lag could be at the upper end of a one to two year range. De Cos, who is typically dovish, spoke later, saying that the Bank is not yet done with tightening. The Euro flirted either side of the 1.0800 handle vs the Dollar, holding above it at pixel time.

EMFX was mixed. CNH, TRY, MXN, and RUB all saw losses, but the ZAR, ILS, and BRL saw strong gains against the Dollar. The Lira failed to derive much support from an upturn in Turkish consumer morale as the front runner for election round two, Erdogan, got backing from 3rd placed Ogan. The Real was boosted by BCB Chief Neto maintaining a hawkish line on core inflation and longer term expectations. The Shekel took some encouragement from the Bol keeping the door open for more hikes after holding fire this time.

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