



US Market Wrap

23rd May 2023: Stocks hit on debt ceiling impasse and US-China trade dispute

- **SNAPSHOT:** Equities down, Treasuries up, Crude up, Dollar up.
- **REAR VIEW:** Debt ceiling talks still far apart; Mixed US PMIs, New Home Sales rise, Richmond Fed composite falls; US lawmaker recommends retaliation against China MU ban; AAPL and AVGO announce American-made deal; Strong 2yr auction.
- **COMING UP:** **Data:** UK CPI, German Ifo **Events:** RBNZ Policy Announcement; FOMC Minutes (May) **Speakers:** ECB's Lagarde; Fed's Waller **Supply:** Germany, UK & US **Earnings:** NVIDIA; Aviva, Marks & Spencer.

MARKET WRAP

Stocks were lower Tuesday, extending to the downside through the session, as debt limit negotiations extend further to the edge with a lack of major breakthroughs while US lawmakers threaten China retaliation to the Micron (MU) ban. Data was mixed in the US with the S&P Flash PMIs for April showing continued growth momentum in services while manufacturers struggled, that divergence was echoed in the regional Richmond Fed index, while the Philly Fed services index also showed a recovery (albeit both manufacturing and services indices for the Philly survey are in negative territory). Meanwhile, new home sales saw a surprise upside figure, but that was offset by downward revisions. There was no Fed Speak of note today, although Governor Waller (hawk) looms on Wednesday. Regardless, Treasuries were firmer today with earlier losses unwound as risk conditions soured (in lack of a debt ceiling deal) and a stellar 2yr auction. In FX, the Dollar saw a marginal bid, with Antipodeans lagging on the risk tone ahead of the RBNZ's expected 25bps hike on Wednesday, where markets are pricing in the risk of an even larger 50bps hike. In stocks, Broadcom (AVGO) surged after announcing a deal with Apple (AAPL) for American-made components - the latter was also making headlines as the EU seeks to re-impose a EUR 14.3bn tax demand -, AutoZone (AZO) was hammered after a poor report and guidance, while Alibaba (BABA) was weighed on amid further job cuts in its Cloud segment raising concerns.

US

DEBT CEILING: Once again, there has been little progress on the debt limit negotiations with both House Speaker McCarthy and Republican Negotiator Graves saying the two sides are far apart. Republican Representative McHenry (R) said the top-line disagreement remains on spending and cannot say when negotiations will resume after ending today. McCarthy said that US President Biden and the White House are trying to bring Medicare and Social Security "back into the fold," as a way "to try to disrupt the whole negotiations.", according to AP. Meanwhile, Graves said he does not think talks are going well but they will meet again shortly. He did note that until the White House understands the spending crisis, they are not going to be able to move forward. Any hopes of an imminent deal looks unlikely with McCarthy saying to a Fox reporter that he doesn't think a deal will get done on Tuesday.

FLASH PMI: A tail of divergence was seen in the S&P's flash figures for the US in May: Services rose to 55.1 from 53.6, against expectations for a fall to 52.6, while Manufacturing fell into contractionary at 48.5 from 50.2, a deeper fall than the expected 50.0, seeing the composite rise to 54.5 from 53.4. Note the more widely followed ISM manufacturing survey isn't due until June 1st. Nonetheless, S&P said, "The rise in output was the sharpest since April 2022, but led by service providers". There was slight growth in manufacturing, but that was tied to improvements in capacity amid greater workforce numbers and some more timely input deliveries, with growth in the sector overall constrained by a lack of new orders - something which will only add to the dampening of global growth expectations as China's reopening lacks the impetus some had anticipated. Both Services and Manufacturing saw their fastest pace of employment since July '22 and September '22, respectively, with manufacturers' backlogs falling at their fastest pace in three years, while firms in services reported flat backlogs after prior increases. For prices, manufacturers saw input prices fall for the first time since May 2020, while service providers still saw elevated prices paid/received levels despite marginal improvement. S&P's Williamson, "Whereas manufacturing prices spiked higher during the pandemic due to strong demand and deteriorating supply, it is now the service sector's turn to be hiking prices amid resurgent demand and an inability to cope with order inflows due to a lack of capacity."

NEW HOME SALES: New home sales rose 4.1% in April to 683k, above the prior, revised lower, 656k and the expected 665k. Meanwhile, new home supply was 7.6 months at current pace, against the 7.9 months in March. The headline



surprised to the upside again in April, although in keeping with a recent pattern, sales for March were revised lower. On the release, a tight supply of existing homes, builder incentives and resilient demand have been supporting new home sales, however, Oxford Economics “expect new home sales to run out of momentum as the economy enters a recession and the labor market softens.” Overall, the rise in the headline was led by gains in sales in the Midwest and South. While on new home prices, the median fell 7.7% M/M and 8.2% Y/Y in April, which Oxford Economics notes is the first Y/Y decline in median prices since August 2020.

RICHMOND FED: Richmond Fed showed activity deteriorated in May, with the Composite falling to -15 (prev. -10), with two of the three component indices also declining as manufacturing shipments and new orders dropped to -13 and -29, respectively, from -17 and -20. Although, more encouragingly, employment rose to 0 (prev. 5). Firms continued to remain pessimistic about local business conditions as it printed -27 (prev. -19), with the expectations index for future local business conditions also falling further. The report indicates many firms continued to report reductions in orders backlogs and vendor lead time as these indexes remained negative. On the inflationary front, prices paid and received welcomed falls with the former dipping much more. The services component remained in contractionary territory at -10, but better than the prior -23.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 4+ TICKS HIGHER AT 113-19+

Treasuries were firmer with earlier losses unwound as risk conditions soured in lack of a debt ceiling deal and a stellar 2yr auction. 2yr +2.2bps at 4.344%, 5yr -0.7bps at 3.76%, 10yr -1.2bps at 3.707%, 30yr -1.6bps at 3.955%.

TOKYO/LONDON: APAC trade on Tuesday was uneventful with T-Notes edging to peaks of 113-17, whilst 113-13 served as support in Tokyo despite all the noise around the debt ceiling. It wasn't until London arrived that better selling picked up, led by the front end, although desks note supply out of Europe was adding pressure out the curve too. Data was mixed in the region, with strong flash PMIs in Germany offset somewhat by the weaker showing in the UK. Entering the US session, Fed hike expectations continued to ramp beyond June, coming off of Monday's guidance from Kashkari (said Fed may need to go above 6% on rates, despite a skip in June) and Bullard (looks for 50bps more hikes this year) ahead of Governor Waller (hawk) on Wednesday.

NEW YORK: STIR futures hit their lowest levels in the aftermath of the recovery in the Philly Fed services survey, with T-Notes bottoming at 113-04. Better buying picked up later in the morning for govies, with debt ceiling angst amplified on Washington Post reports that the Treasury had begun asking agencies if certain payments can be made at a later date, while House Speaker McCarthy said they are "nowhere near a deal yet". The mixed S&P US Flash PMIs saw contracts struggle for a clear direction in the immediate aftermath, with the approaching 2yr auction also capping the recovery. Nonetheless, more debt ceiling headaches in the NY afternoon (AP reported Biden wants to bring Medicare and social security into negotiations) underpinned the bid and fresh highs were made after a super-strong 2yr auction. T-Notes ultimately peaked at 113-22 right before settlement, coinciding with Rep. McHenry (R) noting DL disagreements and not being able to say when negotiations would continue, also coinciding with punchy rhetoric from a US lawmaker calling for retaliation to China's restrictions on Micron (MU).

2YR AUCTION: A solid 2yr auction from the Treasury with USD 42bln sold at 4.300%, the highest yield at an auction in the tenor since February, with the front-end offering its largest pick-up over duration in months also. The auction stopped through the When Issued by 1.5bps, better than April's tail of 0.3bps and the six-auction average stop-through of 0.1bps. The bid/cover ratio spiked to 2.90x from the prior 2.68x, well above the average 2.67x. The takedown was also solid with Dealers (forced surplus buyer) only taking 16.2% vs prev./avg. 18.9%/18.8%. That was a result of a large jump in Indirects participation to 68.2% from 61.2%, indicative of strong end-user demand, whilst Directs saw a fall.

REFUNDING: US Treasury to sell USD 43bln of 5yr notes on May 24th, and USD 35bln of 7yr notes on May 25th; all to settle on May 31st. US also to sell USD 22bln in 2yr FRN reopening on May 24th; to settle on May 26th.

FED SPEAK: 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: (Weds) Waller (v, hawk) speaking in Santa Barbara at 12:10ET; (Thurs) Collins (nv) at fireside chat.

DATA/EVENTS THIS WEEK: (Wed) RBNZ Announcement, UK Inflation, German Ifo, FOMC Minutes; (Thurs) CBRT, SARB, German GDP, GfK Consumer Sentiment, US Q1 GDP/PCE Prices 2nd, Chicago Fed NAI, IJC, Pending Home Sales, KC Fed; (Fri) Tokyo CPI, UK Retail Sales, US PCE (Apr), Durable Goods, UoM Final, June Tsy OpEx, US recommended early close for Memorial Day Holiday.



STIRS:

- SR3M3 -2.25bps at 94.78, M4 -2.5bps at 96.21, M5 +2bps at 96.91, M6 +0.5bps at 96.885.
- SOFR flat at 5.05%, volumes rise to USD 1.434tln from 1.363tln.
- NY Fed RRP op demand at USD 2.257tln (prev. 2.275tln) across 102 counterparties (prev. 105).
- EFRF flat at 5.08%, volumes fall to USD 124bln from 132bln.
- US sold USD 35bln of 21-day CMBs at 6.200%, covered 2.21x.
- US leaves 13- and 26-week bill sizes unchanged at USD 35bln each, both to be sold on May 25th; raises 17-week bill size to USD 42bln (prev. 39bln), to be sold on May 24th; all three to settle on May 30th.

CRUDE

WTI (N3) SETTLES USD 0.86 HIGHER AT 72.91/BBL; BRENT (N3) SETTLES USD 0.85 HIGHER AT 76.84/BBL

Oil prices rose gradually on Tuesday, despite the firmer Dollar and risk off conditions, amid Saudi jawboning and Russian gasoline export ban warnings. Saudi's Energy Minister set the tone in the European morning after saying he will keep telling short sellers they will be "ouching" and to "watch out", a comedic if not entirely novel approach from the official given similar remarks back in September 2022. That was also accompanied by Norway's preliminary April oil output figures falling slightly more than expected (1.81mln BPD from 1.83mln BPD in March; exp. 1.82mln BPD), although nat gas production fell slightly less than expected. The strength was further underpinned by Reuters source reports at the London/NY handover that Russia is considering a possible gasoline export ban to prevent domestic fuels shortages and price hikes, with the government also mulling increasing the volumes of mandatory gasoline sales on its commodity exchange. Energy participants now look to the weekly US energy inventory data, with the private release due later Tuesday ahead of the official EIA figures on Wednesday. Current expectations (bbls): Crude +0.8mln, Gasoline -1.1 mln, Distillate +0.4mln.

EQUITIES

CLOSES: SPX -1.12% at 4,146, NDX -1.28% at 13,673, DJIA -0.69% at 33,056, RUT -0.43% at 1,788.

SECTORS: Materials -1.54%, Technology -1.5%, Communication -1.48%, Real Estate -1.28%, Industrials -1.23%, Financials -1.22%, Health Care -1.13%, Consumer Discretionary -0.87%, Consumer Staples -0.71%, Utilities -0.34%, Energy +1.04%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.99% at 4,342, FTSE 100 -0.10% at 7,762, DAX 40 -0.44% at 16,152, CAC 40 -1.33% at 7,378, FTSE MIB -0.50% at 27,174, IBEX 35 -0.41% at 9,267, SMI -0.53% at 11,492.

STOCK SPECIFICS: **Apple (AAPL)** announced a multi-billion deal with **Broadcom (AVGO)** for components made in the US, which weighed on **Qualcomm (QCOM)**. In other news, the EU is seeking to re-impose a EUR 14.3bln tax demand on Apple and will try to overturn a court decision that rejected the order. Lastly, the Apple WWDC is to kick off on June 5th, 2023. **Lowe's (LOW)** beat on EPS and revenue, but SSS saw a deeper decline than expected and the co. also cut its FY23 guidance to reflect softer-than-expected consumer demand for discretionary purchases. **AutoZone (AZO)** surpassed expectations on profit, but missed on revenue, comp. sales, and auto part sales. US Transportation Secretary Buttigieg stated there is "real concern" about interaction between **Tesla (TSLA)** autopilot and drivers. Elsewhere, Tesla (TSLA) CEO Musk said they will probably pick another location for a Tesla plant by the end of this year and when asked if India is an interesting location for a Tesla factory, said "absolutely". Activist investor TCS Capital Management has acquired over 4% of **Yelp (YELP)** common stock and is urging the co. to explore strategic alternatives, including a potential sale. Later on, TCS said it believes Yelp should explore a tax-free merger with **Angi (ANGI)**; and added if necessary, they are willing to make a bid themselves. **Alibaba's (BABA)** cloud arm is to cut around 7% of its staff in an overhaul, according to Bloomberg. **Dick's Sporting Goods (DKS)** surpassed Wall St. consensus on profit and revenue and affirmed its FY23 outlook. CEO feels "very good" about how its consumer is holding up and did not see consumer trade-down in Q1. US DoE reportedly decided not to grant **Microvast Holdings (MVST)** a USD 200mln grant due to concerns about its alleged connections to the Chinese government. On the semiconductor industry, **Samsung Electronics' (SSNGY)** DRAM shipment is expected to increase by 15-20% in Q2, rebounding from a 10% decline in Q1, while **SK Hynix (HXSL)** shipments are expected up between 30-50% in Q2, according to South Korea's Pulse News. This comes as South Korea's semiconductor industry is recovering from last year's economic downturn, with major chip makers and smartphone/server manufacturers cutting production and reducing inventories. **Microsoft (MSFT)** is to add Bing search engine to OpenAI's ChatGPT plus. **Boeing (BA)** said it could see supply constraints for a very long time and 737 delivery problem will probably defer 1-1.5months of production which will be quickly recovered. Propulsion and wing constraints mean it will be at least until mid-2030s before Boeing, and presumably **Airbus (AIR FP)**, launch a new craft. On supply chains, says resolution to take all of this year and likely next. **Match (MTCH)** CFO noted Tinder



acceleration that was seen in April has continued into May. **Delta Air Lines (DAL)** expects to fly almost 2.8mln customers over the five-day memorial day holiday period, 17% increase Y/Y; will see an average of 560k passengers a day and is expected to exceed pre-pandemic holiday volume in 2019. **Choice Hotels International (CHH)** is seeking to buy **Wyndham Hotels & Resorts (WH)**; aren't in serious talks currently and unclear if Wyndham wants to engage in a deal, according to WSJ sources. **Netflix (NFLX)** has asked customers in the US and 102 other regions to stop sharing accounts outside their households, but also offers users the privilege for an additional fee. US judge says trial in FTC fight against **Amgen (AMGN)** deal to buy **Horizon Therapeutics (HZNP)** will be in September.

AI: Microsoft (MSFT) is to add Bing search engine to OpenAI's ChatGPT plus. **NVIDIA (NVDA)** says it is integrating NVIDIA AI enterprise software into **Microsoft's (MSFT)** Azure machine learning; omniverse cloud platform as service now available on Microsoft Azure as private offer for enterprises. **Fiscalnote (NOTE)** announced it is building a plugin for **Microsoft's (MSFT)** new AI-Powered Bing. **Google (GOOGL)** says it will launch a new AI chatbot to help cos. create ads.

CHINA/MU: The Chair of US House's China Select Committee said the Commerce Department should add **Changxin Memory Technologies (CXMT)** to the entity list. The Chair noted that Chinese actions against **Micron (MU)** are the latest example of economic coercion to intimidate US government from implementing export controls and the Dept. should ensure no US export licenses are granted to firms operating in China are used to backfill Micron. Meanwhile, the US DoE reportedly decided not to grant **Microvast Holdings (MVST)** a USD 200mln grant due to concerns about its alleged connections to the Chinese government. Looking ahead, the White House Press Secretary said that US Commerce Secretary Raimondo and her China counterpart are to have an important talk.

US FX WRAP

The Dollar saw mild gains on Tuesday amid a risk off tone in US equities helping DXY hit a high of 103.65. Yields were lower on the session paring earlier strength which did limit gains in the DXY. Fed speak was light, other than Kashkari repeating we need to get more data, but also noting it is possible a mild recession would bring inflation down. Logan primarily spoke on banking but attention turns to the minutes on Wednesday to gauge views at the May meeting (remember Goolsbee said it was a close call for him) but given the extensive, more up to date Fed speak recently, they are somewhat stale given it is an account of the May 3rd meeting. A full Newsquawk FOMC Minutes primer is [available here](#). Data Tuesday was mixed, where the Flash PMI data saw the services beat but manufacturing miss, the Richmond Fed index saw a similar pattern, while the Philly Fed Services index improved thanks to a jump in new orders, but overall still remained in contractionary territory for both regional business activity and firm-level business activity.

The Euro saw losses as the Dollar saw gains while the Flash PMI data saw PMIs at a multi-month low with pronounced manufacturing pressure accompanied by a sharp increase in service sector prices (For the full Newsquawk EU data wrap, please [click here](#)). Attention turns to the German May IFO on Wednesday, as well as the aforementioned FOMC Minutes. ECB President Lagarde also spoke where she repeated that rates are to reach sufficiently restrictive levels and stay there for as long as necessary, while ECB's Nagel said at a CDU event, in a familiarly hawkish manner, that several more ECB rate hikes are needed to tame inflation and will need to maintain the peak rate for a sufficiently long time until inflation has fallen sustainably.

The Yen saw marginal gains vs the Dollar and traded between 138.90 and 138.25 with the Yen finding support as Treasury yields grinded lower throughout the US afternoon as the risk tone soured. Other havens, like Gold were also supported but the Franc failed to find a gain vs the buck and was flat vs the Euro.

The antipodeans saw weakness due to the risk tone with AUD/USD testing 0.6600 from highs of 0.6661 on the risk woes with concerns on the debt ceiling hitting sentiment, alongside retaliatory measures from the US after the Micron (MU) ban. A slide in the Yuan as it advances above 7.00 vs the buck as well as weaker iron and copper prices also hindered the Aussie. A key risk Wednesday is the RBNZ rate decision, where the bank is expected to hike by 25bps to 5.50% but money market pricing is a coin toss between 25 or 50bps (full Newsquawk RBNZ preview available [here](#)).

The Loonie was flat vs the Dollar as the upside in oil prices helped offset the downbeat risk tone in Equities while the latest pricing data for April saw producer prices fall at a faster rate than the prior month while the raw material prices saw a reversal and gained in April, albeit we have already seen the April CPI report.

The Pound saw mild weakness vs the Dollar but gained vs the Euro after softer than expected PMI data (see the [Newsquawk EU/UK data wrap](#) for more). There was plenty of BoE Speak too at the Treasury Select Committee hearing, where Governor Bailey said the MPC will adjust the bank rate as needed to return inflation to target and reiterated that further tightening in policy would be required, but later added we must not attempt to fight inflation with very severe increases in rates but the MPC is very worried about the asymmetry of how long inflation will take to unwind. Meanwhile,



BoE's Mann noted financial conditions are not tight and that she cannot make judgements about the peak in rates, saying it is data dependent.

CEE: HUF was weaker vs the Euro and the Dollar after the NBH left its overnight deposit rate and base rate unchanged as expected, but cut the top end of its rate corridor to 19.5% from 20.5% although the NBH said a base rate cut will not be on the agenda for a long time. CZK was marginally weaker vs the Euro after CNB's Holub said he is seeing a partial realisation of the risk of a wage-inflation spiral and added that heightened inflation expectations cannot be underestimated. PLN outperformed in CEE despite a miss in Polish retail sales and commentary but after comments from the Finance Minister said they are not really present in the currency saying it is quite ok with Zloty strength.

LATAM: COP saw notable gains on the gains in crude prices while CLP was hit by falling copper. BRL was relatively flat but the Mexican Peso is softer.

EMEA: ZAR saw marginal gains thanks to upside in gold prices while the Lira was marginally softer vs the Dollar.

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.