US Market Wrap

25th May 2023: NDX soars on NVDA moonshot; debt ceiling optimism puts pressure back on the Fed

- **SNAPSHOT**: Equities up, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Blockbuster NVDA earnings; Increasing optimism around debt ceiling deal; Q1 GDP revised higher with low jobless claims; Strong 7yr auction; SARB hikes by 50bps; Collins calls for a pause; Hawkish ECB's Knot; Novak says no need for change in June OPEC+ meeting, but later dials back.
- **COMING UP**: **Data**: UK Retail Sales, US PCE Price Index, Durable Goods, Japanese CPI **Speakers**: ECB's Lane, Enria; RBNZ's Orr **Supply**: UK.

MARKET WRAP

Stocks were firmer Thursday as a debt limit solution appears increasingly likely, with a particular rip in the NDX/tech sector after Nvidia (NVDA) ballooned its market cap by 25% to a near USD 1tln company. The chip maker reported solid quarterly earnings whilst guiding sales way above street estimates as it continues to reap the rewards of the latest shift into AI. Debt ceiling optimism also continues to build with Reuters reports that the White House and Republican proposals are getting closer to each other, with chatter there could be a deal to vote on as soon as Tuesday next week - comments from Biden that he has put forward a proposal to freeze spending for two years only raised optimism. Treasuries saw chunky bear-flattening (2yr yield surged nearly 20bps above 4.50%) with the deal optimism putting the onus back on the Fed, with a low initial jobless claims number and upward revisions to Q1 GDP data the latest data points in favour of the hawks. The Dollar was firmer, with the Yen in particular focus with USD/JPY rising above 140 for the first time in six months; in EM, the South African Rand hit record lows vs the Dollar after the SARB's 50bps rate hike was accompanied by dire commentary on the outlook for the currency. Meanwhile, energy prices tumbled through the session with some bearishly received commentary from Russia's Novak ahead of OPEC, in addition to the Dollar strength.

US

DEBT CEILING: Debt ceiling talks progressed on Thursday, albeit slowly with issues still remaining, with the latest rhetoric from US President Biden noting himself and House Speaker McCarthy have had several productive conversations, but he did put forward a proposal to freeze spending for two years. He believes they'll come to an agreement, but Biden will not agree to huge cuts on teachers, police, border patrol agents or increase wait times for social security claims. From the GOP side, McHenry, when asked if a deal could be done today, “does not think so, we're not quite in that zone yet... But the work we're doing centers on a shorter and shorter array of issues". On a numerical front, Reuters sources declared White House and Republican proposals differ by less than USD 70bln on discretionary spending and are focused primarily on top-line numbers. There has been lots of press reports that parties believe a deal could be put forward to a vote as soon as Thursday.

GDP: US Q1 GDP was revised higher to 1.3% from 1.1% in the second estimate, with the report noting the rise reflected increases in consumer spending, exports, federal government spending, state and local government spending, and nonresidential fixed investment that were partly offset by decreases in private inventory investment and residential fixed investment. Inventories did prove to be a sizeable drag, as it subtracted 2.1ppt from the headline figure, a touch less than the 2.2ppt drag in the initial estimate, while net exports were neutral for GDP growth, compared with the 0.1 ppt boost in the advance estimate. Note, inventories and net exports are volatile and can cause big swings in GDP. Elsewhere, PCE prices remained at 4.2%, while ex. food and energy marginally lifted to 5.0% (prev. 4.9%) and deflator was revised slightly higher to 4.1% from 4%. Meanwhile, GDI fell 2.3% in Q1, following a fall of 3.3% in the Q4 ’22. Overall, Oxford Economics “forecast for a recession to start in Q3, but odds are that we will need to push this into the final three months of the year. Also, the severity of the recession could be muted as the recent tightening in lending standards, following the stress in the banking system, was less than anticipated.” However, the looming recession will be modest because there are no glaring imbalances in the economy’s balance sheet.

JOBLESS CLAIMS: Initial jobless claims came in lower-than-forecast at 229k (exp. 245k), with the prior revised much lower to 225k from the initial 242k, albeit amid the reported Massachusetts fraud figures as ahead of the release the state revised 3month jobless claims lower by an average of 14k per week. Continued claims dipped to 1.794mln (prev.

1.799mln), shy of the expected 1.8mln. On the headline, after rising through much of Q1, initial claims have mostly moved sideways, a reminder that labour market conditions are still tight. As such, Oxford Economics “expect the Fed to leave rates steady at its June meeting, the minutes from this month's FOMC meeting made clear that a more significant loosening of labor market conditions is needed to keep rate hikes permanently off the table.”

KC FED: The Kansas City Fed composite index rose to -1 in May from -10, driven by both durable and non-durable goods. The production, volume of shipments, volume of new orders, number of employees, and finished goods inventories indexes all increased closer to their March levels after a significant decline in April. The average employee workweek and new orders indexes decreased slightly over the last month. All year-over-year indexes increased or stayed close to their April levels, with the promising exception of the price indexes which cooled. The future composite index was modestly positive, at 2.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 25+ TICKS LOWER AT 112-20

Treasuries bear-flattened to their most inverted since mid-March with debt ceiling progress putting onus back on the Fed after more hot data. 2s +19.2bps at 4.535%, 3s +18.2bps at 4.212%, 5s +16.8bps at 3.915%, 7s +13.4bps at 3.881%, 10s +10.2bps at 3.821%, 20s +6.0bps at 4.165%, 30s +3.2bps at 3.997%.

INFLATION BREAKEVENS: 5yr BEI -1.4bps at 2.183%, 10yr BEI -0.3bps at 2.267%, 30yr BEI +1.4bps at 2.334%.

TOKYO/LONDON: T-Notes (M3) dipped to 113-03 during the APAC morning on Thursday, which served as support through into European trade. That came after some late Wednesday volatility on Fitch placing the US AAA sovereign rating on Rating Watch Negative, which actually saw futures contracts bounce briefly with haven demand on the guidance that the agency believes risks of a debt default have risen, rather than on the ratings angle. Better selling picked up later into the London morning after positive Punchbowl reports on the debt ceiling. T-Notes hit support at 112-30 at the NY handover, which marked a key 61.8% Fibo of the trough-to-peak move from March 2nd.

NEW YORK: There was a brief recovery bid as Politico reported on the remaining differences in the debt limit deal, but, selling came right back in after the hot US data, with jobless claims falling and the 2nd estimate of US Q1 GDP coming in above expectations, breaking beneath the 112-30 level. Contracts found support at 112-22 in the after the data, with even more deal optimism from GOP's McCarthy and McCaul. That optimism saw Fed rate hike implied odds for June spike to 50% from 40% and the 2yr flirt above 4.50% for the first time since mid-March. It wasn't until later in the day that fresh lows were made in futures, where Fed's Collins (nv) calling for a 'pause' and a solid 7yr auction failed to prevent T-Notes settling at fresh lows with continued signs of progress on a debt deal unwinding haven demand.

7YR AUCTION: A home run from the Treasury this week with the USD 35bln 7yr offering marking yet another stop-through. The 3.827% stop offered a significant yield pick-up over last month's 3.563%, accompanied by a 0.8bps stop-through the WI, as opposed to the prior 1.3bps tail and six-auction avg. 0.9bps tail. The bid/cover ratio at 2.61x was a solid jump from the prior/avg. of 2.41x/2.46x. Dealers (forced surplus buyers) were left with just 10.4% (prior/avg. 14.8% /14.5%) thanks to another surge in Indirects participation at this week's auctions, rising to 72.3% from April's 64.1% (avg. 66.6%).

FRIDAY: No scheduled Fed Speakers. But, Australian Retail Sales, Tokyo CPI, UK Retail Sales, **US PCE (Apr)**, Durable Goods, International Trade, UoM Final, **June Tsy OpEx**. US recommended early close for Memorial Day Holiday.

X-DATE: US announced new USD 50bln 161-day CMBs to be sold on May 30th, raises 13-week and 26-week auction sizes, both on May 30th, to USD 63bln and 56bln from 57bln and 54bln, respectively; all three bills to settle on June 1st. TD Securities' Goldberg, via Reuters, said the announcement is an indication that Treasury has the cash to settle the security, making the early June 1st X-date unlikely, highlighting that the Treasury has said before that it would not announce auctions that they did not believe it had the means to settle. But it's still likely that in the first two weeks of June, the Treasury will run out of cash.

STIRS:

- SR3M3 -6.3bps at 94.675, U3 -11.5bps at 94.77, Z3 -17.5bps at 95.055, H4 -22.5bps at 95.48, M4 -25bps at 95.91, U4 -23.5bps at 96.27, Z4 -21.5bps at 96.535, H5 -19.5bps at 96.695, M5 -18bps at 96.755, M6 -14bps at 96.74.
- SOFR flat at 5.05%, volumes rise to USD 1.401bln from 1.383bln.
- NY Fed RRP op demand falls to USD 2.198tln from 2.251tln, across 106 counterparties (prev. 105). The fall comes amid market repo rates rising amid debt default angst, in addition to the withdrawal of monthly GSE cash.

- EFFR flat at 5.08%, volumes flat at USD 126bln.
- US sold USD 36bln of 4-week bills at 5.750%, covered 2.79x; sold USD 36bln of 8-week bills at 5.350%, covered 2.82x.

CRUDE

WTI (N3) SETTLED USD 2.51 LOWER AT 71.83/BBL; BRENT (N3) SETTLED USD 2.10 LOWER AT 76.26/BBL

The crude complex tumbled through the session on Thursday with the downside beginning in the European morning amid comments from Russian Deputy PM Novak and extending in the wake of the Dollar bid. Russia's Novak played down the prospect of further OPEC+ production cuts at the June 4th meeting as he noted he does not see new steps at the confab. Although, in late April he did make similar remarks. Additionally, the Deputy PM sees Brent crude above USD 80/bbl by year-end, which could be perceived as somewhat underwhelming (for bulls) with some sell side strats such as Goldman aiming for USD 95/bbl. Separately, Reuters reported Russia is to cut oil loadings from Western ports by 6% in June/May on reduced output and higher refinery runs, according to Reuters sources and calculations, which follows reports earlier this week that Moscow is considering a gasoline export ban. Prices were also weighed on by the Buck printing a fresh high since early March after a clean sweep of forecast-beating US macro releases resulted in a hawkish shift to pricing for a 25bps Fed hike next month which resulted in WTI and Brent sliding to session lows of USD 70.98/bbl and 75.10/bbl, respectively. Looking ahead, there is a slew of US data on Friday with PCE the highlight, accompanied by Baker Hughes' rig count and any further debt ceiling updates as we head into the Memorial Day weekend.

EQUITIES

CLOSES: SPX +0.88% at 4,151, NDX +2.46% at 13,938, DJIA -0.11% at 32,764, RUT -0.70% at 1,754.

SECTORS: Technology +4.45%, Communication Services +0.43%, Industrials +0.3%, Real Estate +0.28%, Financials +0.03%, Materials -0.38%, Consumer Discretionary -0.52%, Consumer Staples -0.77%, Health -1.04%, Utilities -1.38%, Energy -1.89%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.14% at 4,269, FTSE 100 -0.74% at 7,570, DAX 40 -0.31% at 15,793, CAC 40 -0.33% at 7,229, FTSE MIB -0.44% at 26,408, IBEX 35 -0.52% at 9,116, SMI -0.51% at 11,325.

STOCK SPECIFICS: **Nvidia (NVDA)** posted a blockbuster report; smashed through profit and revenue on top of stellar next quarter revenue guide. CFO said the data centre revenue rise was led by growing demand for generative AI and large language models using GPUs. As a result, NVDA is supporting chip names such as AMD and TSM as well as AI names such as C3.AI and Palantir. **Dollar Tree (DLTR)** missed on profit and lowered its guidance amid expected elevated shrink and unfavourable sales mix to persist through the balance of the year. **Snowflake (SNOW)** topped consensus on EPS and revenue, but FY product revenue outlook was light as it cited an unsettled demand environment and cost concerns. **American Eagle (AEO)** profit in line while revenue beat, however it cut FY outlook. **Best Buy (BBY)** surpassed consensus on profit and affirmed FY guidance. Revenue missed but expects to continue share repurchases throughout FY24. **Carnival (CCL)** upgraded at Citi; said Carnival is at a turning point on its balance sheet at a time when investors seem more interested in the cruise space. **Medtronic (MDT)** topped on EPS and revenue alongside raising quarterly dividend, but FY24 profit view came in light. **Ralph Lauren (RL)** beat on top and bottom line. **Dish (DISH)** is in talks to sell wireless plans through Amazon (AMZN), according to WSJ citing sources. **Disney (DIS)** is in talks to buy out **Comcast's (CMCSA)** minority stake in Hulu, where Comcast has stopped funding Hulu amid talks with Disney over its future are ongoing, according to WSJ. **Chevron (CVX)** launched the sale of its oil and gas assets in Congo which could raise up to USD 1.5bln, according to Reuters sources. **Glencore's (GLEN LN)** Viterra reportedly in merger talks with **Bunge (BG)**, according to Bloomberg.

US FX WRAP

The Dollar was firmer on Thursday and hit a two-and-a-half-month high of 104.310 in wake of a clean sweep of forecast-beating US data releases which resulted in a hawkish shift and edged towards to pricing for a 25bps Fed hike next month. On the data sets, initial jobless claims rose to 229k (exp. 245k), after the prior was revised significantly lower amid Massachusetts fraud inflating figures, and Q1 GDP was revised higher to 1.3% from 1.1%. Additionally, debt ceiling talks are progressing, albeit slowly, with US President Biden most recently touting that himself and House Speaker McCarthy have had several productive conversations, and he put forward a proposal to freeze spending for two years. Fed talk was largely sparse on Thursday, although Collins (non-voter) said the Fed may be at/near the time to pause rate increases. Looking ahead, there is plenty of US data on Friday, with most focus on US PCE (Apr).

Antipodeans were the G10 underperformers as the Kiwi continues to be hit after the dovish RBNZ hike, where Governor Orr continued to underline the rationale behind the decision. He noted rates are restrictive and well above neutral with economic growth and inflation weaker than expected, and if required can change assessment as new data emerges. Highlighting the weakness, AUD/USD and NZD/USD both breached key levels and hit six-month troughs of 0.6499 and 0.6045, respectively. Additionally, whilst the Dollar strength weighed, of course, the slumping commodities weighed on Aussie too, with growth concerns present. Next up, final Australian retail sales for April.

CAD and GBP saw similar losses vs the Greenback, with the former weighed on by weaker oil prices as opposed to a slowdown in average Canadian earnings. Cable trickled lower throughout the session but managed to stoutly defend 1.2300, highlighted by a bottom of 1.2309, as the Pound saw further weak data in the form of CBI in the aftermath of Wednesday's dismal CPI miss. BoE's Haskel spoke late, albeit garnering no market reaction, as he prefers to lean against risks of inflation and further UK rate rises can't be ruled out, and as difficult as current circumstances are, embedded inflation would be worse. On data, Haskel believes it is prudent to reduce the focus we place on forecasts of the medium-term and put more weight on the near-term data.

CHF and JPY were both lower with the Yen underperforming and eventually losing 140.00 after spending the majority of the US session attempting to defend it. Governor Ueda may have offered some initial solace for the Yen after stating that YCC may be tweaked if the balance between benefit and cost of the policy shifts, and one option could be shortening the duration of the bond yield targeted to 5yr JGBs from the current 10yr benchmark. The Swissy was the relative G10 outperformer, albeit still lower, as USD/CHF could have been gleaned appeal from its safe-haven properties with debt deal announced.

EUR was softer with the cross trading between 1.0708-56. On the data footing, detailed German GDP metric was downgraded showing a 0.3% contraction from stagnation with consumer sentiment also disappointing. However, EUR /USD held just above 1.0700 as EGBs moved in tandem with USTs to keep the 10yr yield spread relatively steady and contained. There was a plethora of ECB speak, with the highlight coming from known hawk Knot who said no sign that underlying inflation is abating and ECB will hold rates at peak for significant time, and specially said ECB needs to hike rates by 25bps in June and July but is open minded on September - that weighed on EGBs at the time, but failed to support the Euro.

EMFX was all weaker vs the Greenback with the ZAR the significant underperformer after the SARB rate decision (more below). The TRY was a relative outperformer, with the Lira taking another on hold CBRT decision largely in stride following a call to Turkish banks to shore up default swaps by mopping up USD debt. For the CZK, CNB Vice-Governor Zamrazilova noted monetary policy is tight enough to bring inflation to target and inflation pressures are relatively persistent, and the central bank is not thinking about rate cuts now, and the main question is whether the main rate at 7% will be sufficient. BRL was actually undermined by softer than forecast Brazilian IPCA mid-month CPI, the MXN was hampered by the aforementioned downturn in crude prices, and the ILS was rattled by reports about the Israeli army on alert at the northern border after the military shot down a drone that crossed over from Lebanon.

SARB hiked its repo rate by 50bps to 8.25% from 7.75%, with Reuters expectations for a 25bps although some analysts were forecasting a larger 50bps raise. The ZAR saw pronounced weakness, highlighted by USD/ZAR hitting a record-high, despite the hawkish rate decision, although offset by some larger hike consensus and the bleak accompanying commentary. On this, SARB said further ZAR weakness appears likely and assesses risks to the medium-term domestic outlook to be balanced. Looking ahead, GDP growth forecast for 2024 and 2025 is unchanged from the previous meeting, at 1.0% and 1.1%, respectively. While the central bank concluded as they approach the mid-point of the year, persistent inflation and elevated financial stability risks continue to mark a somewhat improved global growth outlook, but South Africa's economic conditions, however, remain poor.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

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