



## US Market Wrap

### 30th May 2023: Stocks mixed on debt ceiling deal but NVDA helps NDX outperform

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude down, Dollar down.
- **REAR VIEW:** Biden/McCarthy agree debt detail, but Congress views are mixed; Barkin notes uncertainty of where rates need to go; Soft Spanish CPI; Mixed US data; Saudi/Russia tensions rising on supply; JPY FX intervention warnings from officials; NVDA becomes USD 1tn company after further AI product announcements.
- **WEEK AHEAD PREVIEW:** Highlights include US jobs report, US ISM; China PMI; inflation data from EZ and AUS. To download the report, [please click here](#).
- **CENTRAL BANKS WEEKLY:** Previewing ECB and CBRT minutes; reviewing FOMC, RBNZ, PBoC, BoK, SARB. To download the report, [please click here](#).

## MARKET WRAP

Stocks were mixed on return from the Memorial Day holiday with outperformance in the Nasdaq, and underperformance in the Russell while the S&P was flat. The NDX outperformance was buoyed by gains in tech names, particularly NVDA after a slew of AI updates over the weekend saw the stock breach USD 1tn market cap for the first time, but it failed to close above the milestone level. Treasuries settled at highs after grinding higher throughout the session following soft Spanish inflation data, debt ceiling optimism and month-end buying. The debt negotiators managed to come to an agreement over the weekend, while Yellen delayed the X-Date to June 5th from June 1st on Friday. Some of the hard Republicans, the House Freedom Caucus, are against the deal but McCarthy's allies and GOP Negotiator McHenry is optimistic they still have the votes in what could be voted on as early as Wednesday evening (more below). Crude prices sold drastically throughout the session amid WSJ reports that Saudi and Russia tensions are rising as Russia continues to flood the market with cheap oil, undermining Saudi's ability to stabilise oil prices. In FX, the Dollar was sold, but DXY managed to reclaim 104 while the Yen outperformed on FX intervention warnings from officials after the Yen hit its weakest levels in 2023 last week. Ahead of Fed blackout at the end of this week, Barkin (non-voter) said policy is in restrictive territory but there is uncertainty around where rates need to go.

## US

**DEBT CEILING:** On Friday, Treasury Secretary Yellen on Friday extended the "X-Date" estimate to June 5th from June 1st, while the Republicans and White House managed to come to an agreement on the debt ceiling. However, views in Congress are mixed. Fox noted that Democrats are incensed over work requirements, and Republicans do not believe the PAYGO provisions go far enough, and they wanted a more significant clawback of IRS money. The House Freedom Caucus are against the bill but some of the more moderate Representatives are in favour of it but the HFC are calling for an ousting of House Speaker McCarthy if he were to pass the bill in its current form. The HFC holds 45/435 seats in the house (or 45/222 Republican seats), so there is a concern the bill will pass the House, as votes lost by the hard Republicans will need to be made up by Democrats. However, House Democratic Leader Jeffries said the Dems will do their part to pass the bill and that they expect Republicans to keep a promise of at least 150 GOP votes for a debt limit bill. The time for the vote has not been set yet, but it is touted to be as early as Wednesday evening. Providing the bill passes the House, it will then be sent to the Senate, where it has been endorsed by Senate Majority Leader Schumer and the Moderate Democratic Manchin, as well as the Republican Senate Leader McConnell.

**DALLAS FED SURVEY:** The Dallas Fed mfg. Business Activity Index fell to -29.1 in May from -23.4 in April, now at its lowest reading in three years. Production and shipments were little changed over the prior month, while new orders and capacity utilisation indices both declined. The outlook index also fell to a three-year low. Continued employment growth was implied while work hours were flat. And on the inflation front, price pressures dropped further below normal levels, and wage pressures also eased but remained elevated. The survey adds to the slew of May regional surveys showing a continued slump in the US (and global) manufacturing sector. Anecdotally on credit, note that none of the accompanying industry comments in this month's noted any concerns over loans/funding/credit line renewals, as opposed to the same survey in April that saw a few sectors express some concerns, perhaps indicative of the banking failure episode fading.

**CONSUMER CONFIDENCE:** US consumer confidence fell to 102.3 from an upwardly revised 103.7 (prev. 101.3), although it well surpassed expectations of 99.1. The Present Situation index declined to 148.6 (prev. 151.8), while



Expectations slightly dipped to 71.5 (prev. 71.7), still below 80 (the level associated with a recession). Meanwhile, the consumers' assessment of current employment conditions saw the most significant deterioration with jobs 'plentiful' declining to 43.5% (prev. 47.5%) and in addition, jobs 'hard to get' rose to 12.5% (prev. 10.6%). On the inflation front, one-year expectations remained elevated, but stable at 6.1% (prev. 6.2%). Overall, the report notes, "Consumer confidence declined in May as consumers' view of current conditions became somewhat less upbeat while their expectations remained gloomy".

## FIXED INCOME

### T-NOTE (U3) FUTURES SETTLED 27 TICKS HIGHER 114-01

**Treasuries rallied, led by the belly, with soft Spanish CPI, debt default risk unwind, mixed US data, and big month-end buying all at play.** At settlement, 2s -12.7bps at 4.463%, 3s -14.8bps at 4.115%, 5s -13.8bps at 3.812%, 7s -13.4bps at 3.754%, 10s -12.8bps at 3.692%, 20s -9.5bps at 4.062%, 30s -7.6bps at 3.901%.

**INFLATION BREAKEVENS:** 5yr BEI -5.2bps at 2.145%, 10yr BEI -3.5bps at 2.232%, 30yr BEI -3.0bps at 2.297%

**TOKYO/LONDON:** T-Notes extended on their Monday (holiday-thinned) strength with particular intensity as London returned Tuesday from the long weekend. Desks cited confidence in Treasuries after the "in principle" US debt deal agreed ahead of votes in Congress. There's also potentially a supply-related bid with the deal (if passed) capping spending growth for two years. Meanwhile, EGBs found tailwinds behind a miss in Spanish CPI data and a well-received BTP auction ahead of a busy supply calendar on the continent this week - note there are no coupon auctions in the US this week, removing a headwind for govvie bulls.

**NEW YORK:** T-Notes hit resistance of 114 at the NY handover, before paring some strength amid CVS opening the week's Dollar IG supply, announcing a five-part deal. That slight pullback was nothing more than an attractive entry for bulls, with better buying returning later in the NY morning. The US consumer confidence data was strong, but was accompanied by a nudge lower in the survey's 1yr inflation expectations. Simultaneously, oil prices continued to tumble and not after the conference board data and the Dallas Fed mfg. index for May hit a three-year low. Which, in the aggregate, when including the large month-end demand expected (more below), led to fresh highs in USTs being made going into the NY afternoon. T-Notes ultimately peaked at 114-05, with the market gearing up for Wednesday's China PMIs, Australian, French, Italian, and German CPI readings, Chicago PMI, JOLTS job openings, and a slew of Fed Speak ahead of the blackout this weekend.

**MONTH-END:** Bloomberg estimates a 0.11yr UST May-end duration extension, a typically larger addition on account of quarterly refunding. There is also expected strong demand from European accounts, with IFR noting last week that EUR 110bln of euro-area bonds are falling out of the benchmarks this month, the largest amount of the year so far, which, all else equal, will be expected to be reinvested.

### THIS WEEK:

- **WED:** Japanese Retail Sales (Apr), **Chinese Official PMIs (May), Australian CPI (Apr), French, Italian, German Prelim CPI (May),** German Unemployment (May), Canadian GDP (Q1), Chicago PMI, **JOLTS, Beige Book, Fed's Bowman, Collins, Harker, Jefferson.**
- **THU:** ECB Minutes, Chinese Final Caixin Manufacturing PMI (May), German Retail Sales (Apr), EZ/UK/US Final Manufacturing PMIs (May), EZ Flash CPI (May), **US ADP National Employment (May), US Productivity, US ISM Manufacturing PMI (May), Fed's Harker.**
- **FRI: US Labor Market Report (May).**

### STIRS:

- SR3M3 -0.5bps at 94.668, U3 +3.5bps at 94.790, Z3 +8.5bps at 95.100, H4 +13.0bps at 95.540, M4 +18.0bps at 96.005, U4 +21.0bps at 96.400, Z4 +21.0bps at 96.680, H5 +21.0bps at 96.845, M5 +20.0bps at 96.900, M6 +18.0bps at 96.885.
- SOFR flat at 5.06%, volumes fall to USD 1.476tln (prev. 1.537tln).
- NY Fed RRP op demand at USD 2.200tln (prev. 2.190tln) across 103 counterparties (prev. 107).
- EFFR flat at 5.08%, volumes rise to USD 136bln from 131bln, marking a new high in FF market activity.
- US sold USD 68bln of 3-month bills at 5.300%, covered 2.38x; sold USD 60bln of 6-month bills at 5.290%, covered 2.58x; sold USD 50bln of 161-day CMBs at 5.340%, covered 2.89x.



- Treasury left its 4- and 8-week bills unchanged at USD 35bln each whilst raising its 17-week bills to USD 44bln from 42bln. Said the auctions would represent a net paydown and that it anticipates the issuance of several CMBs in the coming days.

## CRUDE

**WTI (N3) SETTLED USD 3.21 LOWER AT 69.46/BBL; BRENT (Q3) SETTLED USD 3.39 LOWER AT 73.71/BBL**

**The crude complex saw pronounced weakness on Tuesday on concerns about whether the US Congress will pass the debt ceiling bill accompanied by mixed OPEC+ supply messages.** On the latter, WSJ reported that Saudi Arabia and Russia are experiencing tensions as Russia continues to flood the market with cheap oil, undermining Saudi efforts to stabilise prices after the Saudi Energy Minister last week warned participants that are betting oil prices will fall to "watch out". Nonetheless, the dispute comes ahead of a crucial OPEC+ meeting on June 4th to decide on production plans. Meanwhile, according to Interfax, Russia Deputy PM Novak is to discuss the oil market situation with oil companies later today which followed him last week noting he does not see new steps at the meeting. Back to the day, US/UK players returned from their respective long weekends to see WTI and Brent print lows of USD 69.02/bbl and 73.32/bbl, respectively, as oil ground to session lows through the afternoon as risk sentiment soured. Looking ahead, attention will be on the aforementioned debt ceiling updates, and Chinese manufacturing/service sector data for insight on fuel demand recovery, as well as the crude-specific private inventory data (Wed), EIA's (Thurs), Baker Hughes (Fri), and concluding with OPEC+ starting on Sunday.

**LOADINGS:** North Sea Brent crude oil stream is to load 2 cargoes in July (prev. 2 M/M), Oseberg 3 cargoes (prev. 3 M/M), Troll 5 cargoes (prev. 6 M/M), Ekofisk 11 cargoes (prev. 8), and Forties 8 cargoes (prev. 7). Meanwhile, the supply of five North Sea crude oil grades underpinning dated Brent benchmark to average 655k BPD in July (prev. 607k BPD in June).

**RUSSIA:** Russia's offline primary oil refining capacity revised up by 0.5mln T in May to 5.0mln T, according to Reuters calculations and sources; with offline primary oil refining capacity seen falling 38% in June vs May to 3.048mln T.

## EQUITIES

**CLOSES:** SPX +0.00% at 4,205, NDX +0.40% at 14,354, DJIA -0.15% at 33,042, RUT -0.32% at 1,767.

**SECTORS:** Consumer Staples -1.08%, Energy -0.94%, Health -0.67%, Materials -0.59%, Utilities -0.39%, Industrials -0.23%, Communication Services -0.07%, Financials unch., Real Estate +0.27%, Technology +0.63%, Consumer Discretionary +0.76%.

**EUROPEAN CLOSES:** Euro Stoxx 50 -0.66% at 4,291, FTSE 100 -1.38% at 7,522, DAX 40 -0.27% at 15,908, CAC 40 -1.29% at 7,209, FTSE MIB -0.16% at 26,575, IBEX 35 -0.14% at 9,167, SMI -1.27% at 11,289.

**STOCK SPECIFICS:** **NVIDIA (NVDA)** became the ninth stock, and first US chipmaker, to breach USD 1tn in market capitalization which came after the co. unveiled further AI products over the weekend. **Goldman Sachs (GS)** is reportedly preparing another round of layoffs amid the deal drought, according to WSJ citing sources, who suggest it could be fewer than 250 jobs. **Tesla (TSLA)** CEO Musk visited China and met with Foreign Minister Gang. Musk said TSLA is ready to expand business in the country, while China noted it will continue to unwaveringly promote high-level opening-up and will strive to create a better international business environment for enterprises. **Ford (F)** was upgraded at Jefferies; who cited a strong plan and management that can help it close the gap with rivals. **BofA** was upgraded **ChargePoint (CHPT)**; said it has proof of execution and a line of sight to profitability and a cash inflection in 2024. The US government accredits **GlobalFoundries (GFS)** to manufacture trusted semiconductors at the New York facility. CNBC's Faber said the UK hearing reportedly went fairly well for **Microsoft (MSFT)** in its acquisition of **Activision Blizzard (ATVI)**. Earlier, China reportedly gave regulatory approval for the deal. **Boeing (BA)** raised 787 production rate to 4/month from 3/month in late April. **Fleetcor (FLT)** is said to be pursuing a prepaid card sale amid a company review, according to Bloomberg; the unit could be valued between USD 500mln-1bln. FTC approved the final order requiring **Mastercard (MA)** to stop blocking the use of competing debit payment networks. **Comerica (CMA)** in serious violation of Treasury's Direct Express programme after officials privately acknowledged significant compliance failures in operating the programme, according to American Banker citing sources.

## US FX WRAP



**The Dollar** sold off on Monday with lows seen in the early morning where the risk environment was strong and yields were notably lower after the Debt Ceiling agreement was made over the weekend. However, the dollar moved off its lows and reclaimed 104 after the US open which saw stocks sold but yields continued to fall. Albeit a "deal" was agreed, there are many GOPs and Dems who are disappointed with some of the details but the more centre-leaning GOPs seem to be in favour. Data saw the Conference Board Consumer Confidence at 102.3, falling from the revised 103.7 but above expectations of 99.1, while the 1yr consumer inflation expectations edged down marginally to 6.1% from the prior 6.2% with both the present situation and expectations index edging lower, particularly the former. The Dallas Fed mfg business index fell to the lowest reading in three years, and added to the slew of May regional surveys showing a continued slump in the US manufacturing sector ahead of the May Manufacturing ISM data on Thursday.

**The Euro** saw gains as the Dollar was sold helping take the single currency back above 1.07, but technicians do warn of a drop back to the 1.05 level of the 1.05-1.10 range seen this year in EUR/USD after failing to rise above the 1.10 handle in April/May. Spanish CPI data cooled by more than expected while the latest EZ M3 & loans data for April showed a reduction in lending activity as monetary conditions tighten, please see the [Newsquawk European Data Wrap](#) for more details.

**The Yen** saw notable strength but was off its best levels as the dollar moved from lows. USD/JPY hit a low of 139.58 from highs of 140.93 and it managed to hold beneath 140 throughout the US session with the Yen supported by the drop in UST yields and MoF commentary. The latter saw remarks from the Ministry of Finance speaking on FX intervention if the Yen falls too much, albeit a top currency diplomat said it was not their intention to serve as a verbal intervention on the Yen. Nonetheless, the meeting helped keep the Yen bid throughout the session after the warning to Yen shorts following the Yen hitting the weakest levels this year.

**Cyclical currencies** were mixed, the antipodes were weaker vs the buck, particularly the Aussie ahead of inflation data and commentary from RBA's Lowe while NZD was softer, but firmed vs the Aussie with AUD/NZD falling sub 1.08. GBP saw solid gains as Gilts were initially sold after the BRC shop price data hit a series high, underpinning BoE hike expectations after a hot CPI last week. Cable rose above 1.24 to highs of 1.2446 before paring back beneath 1.24 as the buck moved from lows and as gilts reversed higher. CAD saw marginal weakness vs the dollar despite the strong downside in oil prices.

**EMFX** was mixed, the BRL saw notable weakness after the April PPI data declined 0.35% from March, albeit not as fast as the prior -0.65% pace. There was also commentary from Brazil's Planning Minister Tebet, who noted it will be a challenge to bring the primary deficit to zero next year, but it is possible, adding it is possible the finance minister presents new measures to increase revenues in H2. He was also calling on rate cuts from the BCB, saying as of August, the BCB is able to lower rates. The Lira weakened and hit fresh record lows after Turkish President Erdogan prevailed in the second round of the election. Meanwhile, the CBRT is poised to meet with Turkish Bank executives today; expected to discuss FX-protected accounts alongside other topics, according to Bankers cited by Reuters. CLP was flat vs the buck despite marginal weakness in copper prices. CLP saw notable gains while MXN was weaker, despite both being exposed to lower oil prices on Tuesday.

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