newsquawk

US Market Wrap

2nd June 2023: NDX notches sixth straight week of gains; stocks and yields rise on jobs report

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Erratic jobs report with NFP headline very strong, U rising, and wages ticking lower; Mixed OPEC sources, but Reuters reporting possible further 1mln BPD output cut; China mulling packages to boost economy; LULU beat & raise guidance; MSFT President set for talks with UK Chancellor on ATVI acquisition; Debt ceiling bill passes the Senate; Sources suggest AMZN looking at mobile services but exec later refutes reports.
- **WEEK AHEAD PREVIEW**: Highlights include US Services ISM; China CPI and trade data; BoC, RBA, RBI Policy Announcements. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing BoC, RBA, RBI; Reviewing ECB and CBRT minutes. To download the report, please click here.

MARKET WRAP

Stocks were firmer on Friday with a clear bias to cyclicals and value stocks after the solid +339k (exp. +190k) NFP additions. The Russell 2K, which is levered to the 'real economy', sustained gains throughout the session north of 3.5%, posting its strongest D/D gain of the year. The Nasdaq 100 lagged peers, albeit still firmer, with profit-taking in the AI space (NVDA and beyond), particularly weighed on by the pronounced Treasury bear-flattening. On which, while June Fed pricing was little changed (c. 30% implied hike probability) to the NFP data (with soft earnings growth and the spike in the unemployment rate serving a dovish offset to the headline figure), hike pricing ramped further out the curve, with the 2s10s spread reaching its most inverted levels post-SVB. The Dollar surged on the improved economic outlook and rate differentials. But, that didn't stop the commodity rally, with the improved demand outlook post-NFP accentuated by the Bloomberg reports that China is mulling stimulus for the property sector. For oil, note late Reuters source reports that OPEC+ is mulling a 1mln BPD cut for its confab on Sunday, underpinning the strength.

US

NFP: An erratic report saw headline Non-Farm Payrolls spike +339k in May, well above the expected +190k and the highest Wall St forecast at +293k, while the prior was bumped up to +294k from +253k with two-month net revisions at +93k. Wage growth didn't worsen with hourly earnings M/M falling to +0.3% from the downwardly revised +0.4%, the Y/Y figure fell to 4.3% from 4.4%. Average workweek hours fell further to 34.3, sitting at their lowest post-COVID and at the bottom end of ranges pre-COVID outside of a recession, raising suspicions on whether layoffs could soon follow. Meanwhile, the accompanying household survey saw a 310k drop in employment, feeding into the unemployment rate spike to 3.7% from 3.4%, above the consensus 3.5%, marking the largest jump in the U rate since April 2020. While an eye-catching jump, some draw attention to the prime-aged workers (25-54yrs old) unemployment rate remaining unchanged at 3.1%, with the rise occurring from more volatile cohorts that rebounded after recent dips. On the diverging establishment vs household surveys, Pantheon Macroeconomics writes, "Payrolls have averaged 283K over the past three months, with household employment averaging 135K. Neither tends consistently to lead the other, and the payroll survey usually is much more reliable. But the household data fit much better right now with the leading indicators." On a sectoral level, private sector payrolls (in the establishment report) were driven by professional/business services (+64K), education and health (+97K), leisure/hospitality (+48K), and construction (+25K), while manufacturing (-2k) and IT (-9k) saw slight declines. Pantheon adds, "It would take implausibly large revisions to change the big picture here. That's not to say a turning point is necessarily some way off; it could easily come over the next few months. But right now the data suggest that economic growth is stronger than is indicated by most other monthly data."

POLICY IMPLICATIONS: June implied hike pricing has barely moved in the wake of the data with c. 70% still implied for no change in rates, July pricing also hasn't changed, but the December FOMC implied rate has shifted higher to 5% from 4.90% before the release, accompanying Treasury yields out the curve rising more meaningfully. WSJ's Timiraos, the Fed's mouthpiece, said, "Friday's jobs report does little to clarify the Federal Reserve's debate over whether to hold rates steady this month. But it underscores the prospect that, if officials do so, they could favor raising rates later this summer." While on Wall Street, Goldman Sachs says it continues to expect a pause at the June FOMC meeting, reflecting the mixed household survey, the softness in hours worked, and the decline in average hourly earnings growth. Morgan Stanley echoes that, also believes the report was strong enough to meet the bar for a June hike, "but raises the risk that the Fed could hike in July... While payroll numbers were undeniably strong, the FOMC will also be focused on the unemployment rate".

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 28+ LOWER AT 113-27

Treasuries bear-flattened after blowout jobs NFP additions ramped hike expectations beyond June and July. 2s +16bps at 4.501%, 3s +15.8bps at 4.145%, 5s +14.1bps at 3.842%, 7s +12.0bps at 3.778%, 10s +8.3bps at 3.691%, 20s +5.1bps at 4.034%, 30s +4.5bps at 3.879%.

INFLATION BREAKEVENS: 5yr BEI +3.8bps at 2.167%, 10yr BEI +2.1bps at 2.208%, 30yr BEI -0.6bps at 2.221%.

TOKYO/LONDON: Thin ranges ahead of payrolls after Thursday's bull-steepening, with T-Notes paring back a few ticks into the Friday APAC session, with some pressure out of AGBs after the minimum wage hike in Australia. The US Senate also passed the debt limit bill, which now goes to Biden's desk for passing. T-Notes hit support at 114-19+ at the Tokyo/London handover, with Bloomberg reports about China mulling stimulus in the property sector keeping further strength capped amid a bounce in commodities.

NEW YORK: There were a few block steepeners at the NY handover seen ahead of the jobs data. But those were absorbed and the front-end started leading a sell-off into the data, which proved well timed after 339k jobs added headline number (exp. +190k). T-Notes dived further from 114-18+ to 114-08 in an immediate reaction, with the front end leading the sell off as the cash 2s10s spread inverted further from -75bps pre-data to -81bps. However, the move faded significantly five minutes after its release, with the spike in the unemployment rate and decline in hourly earnings and worked hours taking some of the hawkish sting out of the reading. It wasn't until an hour or so later that futures contracts began making fresh lows, with profit-taking after this week's rally and potentially as the NFP details were more finely scoured. Fed mouthpiece, WSJ's Timiraos, also noted "Friday’s jobs report does little to clarify the Federal Reserve’s debate over whether to hold rates steady this month. But it underscores the prospect that, if officials do so, they could favor raising rates later this summer", which provided some balanced perspective after the dovish overload in the wake of Fed's Harker and Jefferson in recent sessions. T-Notes ultimately troughed at 113-25 in the NY afternoon, with the 2s10s cash spread hitting -83bp, nearing the most inverted levels post-SVB of -84bps on May 30th.

STIRS:

- SR3M3 -3bps at 94.728, U3 -9.5bps at 94.78, Z3 -16bps at 95.05, H4 -20.5bps at 95.49, M4 -23bps at 95.945, U4 -23bps at 96.33, Z4 -21bps at 96.61, H5 -19bps at 96.765, M5 -17.5bps at 96.83, M6 -13.5bps at 96.865.
- SOFR remains at elevated at 5.08% as of June 1st, while volumes rise to USD 1.627bln from 1.623bln, despite passing of month-end.
- NY Fed RRP op demand at USD 2.142tln (prev. 2.160tln) across 104 counterparties (prev. 102), fall accompanies USD 25bln cash drain from bill settlements.
- EFFR flat at 5.08%, volumes rise to USD 131bln from 118bln.
- US sold USD 15bln in 1-day CMB's at 5.060%, covered 4.11x; sold USD 50bln in 38-day CMBs at 5.250%, covered 3.40x.
- Treasury announced USD 50bln 38-Day CMBs on June 2nd, to settle on June 5th; USD 50bln 44-day CMBs on June 5th, settle on June 6th.

CRUDE

WTI (N3) SETTLED USD 1.64 HIGHER AT 71.74/BBL; BRENT (Q3) SETTLED USD 1.85 HIGHER AT 76.13/BBL

The crude complex ended the week in the red, but firmer on the session after Congress passed the debt ceiling bill, averting a Government default, on top of Bloomberg reporting about China mulling stimulus for the property sector all ahead of the OPEC+ meeting on June 4th. On this, Reuters OPEC+ sources noted it is too soon to be sure of the outcome on Sunday, with another source adding the idea of formalising the voluntary cuts as an OPEC+ decision was being looked at, but desks are seemingly in consensus that the group will keep production steady but will stress flexibility. (Newsquawk preview available here). Note late Reuters source reports that OPEC+ is indeed debating an additional oil production cut among possible options. Earlier on, an Iraqi minister noted the group wants to maintain stability in the oil market and OPEC+ has proven it reads the market in the right way. Prices were also buoyed Friday with the risk on sentiment seen in wake of the erratic NFP report (headline very strong, u/e rose, wages ticked lower) printing highs of USD 72.17/bbl and USD 76.45/bbl, respectively. In bank commentary, JPMorgan noted world oil demand defies bearishness, likely growing 1.6mln BPD in Q1, and seen rising 2.4mln BPD in Q2. On OPEC, said April cuts should suffice to tighten oil markets in H2.

BAKER HUGHES: Today broke the three-week trend of a notable move in natgas following the Baker Hughes data, as nat gas rigs were unchanged at 137 in the w/e June 2nd. Meanwhile, oil rigs fell 15 to 555, the largest fall since September '21.

EQUITIES

CLOSES: SPX +1.45% at 4,282, NDX +0.73% at 14,546, DJIA +2.12% at 33,762, RUT +3.56% at 1,830.

SECTORS: Materials +3.37%, Industrials +2.96%, Energy +2.96%, Consumer Discretionary +2.2%, Financials +2.18%, Real Estate +2.09%, Consumer Staples +1.39%, Health +1.33%, Utilities +1.02%, Technology +0.51%, Communication Services +0.1%.

EUROPEAN CLOSES: Euro Stoxx 50 +1.55% at 4,323, FTSE 100 +1.56% at 7,607, DAX 40 +1.25% at 16,051, CAC 40 +1.87% at 7,270, FTSE MIB +1.85% at 27,068, IBEX 35 +1.63% at 9,317, SMI +1.27% at 11,439.

STOCK SPECIFICS: Bloomberg sources said **Amazon (AMZN)** is in discussions to offer mobile services to US Prime members. However, an Amazon spokesperson later said it does not have plans to add wireless at this time. Nonetheless, the initial report weighed on wider telecom names such as **Verizon (VZ)** and **T-Mobile (TMUS)**. Additionally, **Dish (DISH)** surged after prior reports noted it is close to announcing a deal to sell mobile plans through Amazon. Elsewhere, **Trade Desk (TTD)** upgraded at Morgan Stanley; said the co. is a top pick that is set to thrive in a stabilizing market for sales. **Boeing (BA)** CEO said resolving supply chain constraints is "frustratingly slow going" and production rate increases could accelerate if supply chain can improve quicker than anticipated; said there has been some progress in supply chain for engine forgings and castings. **Chemours (CC), DuPont de Nemours (DD) and Corteva (CTVA)** reached an agreement in principle to comprehensively resolve all PFAS-related drinking water claims. Moreover, **3M (MMM)** reportedly said to be in at least USD 10bln PFAS water pollution settlement, according to Bloomberg; settlement awaits board approval and would avoid June 5th trial. EVs names, such as **Li Auto (LI), Xpeng (XPEV), and Nio (NIO)** saw upside after the Chinese Cabinet said it will study policies to promote the development of new energy vehicles. **General Motors (GM)** CEO said in the next 10 years there are giant growth opportunities for the US in autonomous and see opportunities for technology sharing. Believes EV units to achieve double-digit margins by 2025. **Walmart (WMT)** said profit growth will inflect more next year, and profits won't outgrow sales every quarter but lowering some merchandise prices further is part of the long term plan. On inflation, noted encouraging to see general merchandise coming down but some is still very stubborn with dry groceries up over 20% in two years. **Microsoft (MSFT)** President Smith is set for talks with UK Chancellor Hunt regarding **Activision Blizzard (ATVI)** deal ban, according to Bloomberg.

EARNINGS: **MongoDB (MDB)** topped expected on EPS and revenue alongside Q2 and FY profit outlook surpassing consensus. **Lululemon (LULU)** beat on the top and bottom line with FY23 guidance surpassing expectations. **SentinelOne (S)** missed on revenue with Q2 revenue view light and lowering FY24 revenue outlook. Execs noted macro challenges remained, but it saw margin improvement. **Samsara (IOT)** reported a slightly shallower loss per share and beat on revenue. Lifted FY24 profit view as well as FY/Q2 revenue guidance.

WEEKLY FX WRAP

Flagging Greenback gets headline NFP fillip

USD - A holiday-shortened week, but no lack of price action even though implied volatility continued to dwindle through the ultimately safe passage of the US debt ceiling bill to President Biden’s office via the House and Senate. Indeed, after a rather forgettable Memorial Monday, the Dollar and DXY gathered upside momentum into month end and reached midweek peaks, at 104.700 for the index with the aid of an unexpected jump in JOLTS job openings to 10 mn+ that overshadowed a much weaker than forecast Chicago PMI. However, the Buck faded fast as June kicked off and lost 104.000+ status in terms of the DXY on Thursday in a knock-on reaction to two current FOMC voters backing a June rate hike skip. Jefferson and Harker were both keen to stress this does not mean a pause, but the latter subsequently added a few dovish nuances, namely that the Fed is close to the point where it can hold interest rates in place and is closely monitoring data to assess whether additional policy tightening will be needed, adding that it doesn't have to keep tightening and he thinks it should ‘at least’ skip hiking next month. Moreover, after a bumper ADP national employment report, rate expectations retreated in response to a deeper contraction in ISM manufacturing new orders and a marked slowdown in prices paid, with Greenback following suit as the index hit a w-t-d base of 103.380 in the run up to the official BLS release. In the event, headline payrolls beat the street handsomely, for the 13th time in the last 14 and came with a +93k net 2 month back revision to offset a bigger than forecast rise in the unemployment rate and slightly softer than anticipated average earnings y/y. However, June pricing barely changed and the DXY waned after a bounce to 103.900 with some note taken of the latest NY Fed monthly Multivariate Core Trend (MCT) model update showing inflation persistence declining significantly in April.

AUD/CNY-CNH - Having been hit by collapsing commodities and Yuan contagion for the most part, the Aussie embarked on a major recovery rally, with the aid of its US rival's pullback and a firm bounce in base metals alongside the Cny and Cnh. To recap, the Yuan depreciated markedly as China's official NBS manufacturing and composite PMIs surprised to the downside and sparked global growth concerns, but the Caixin manufacturing PMI returned to expansionary territory and source reports suggested that the Chinese authorities are mulling a property-market support package to bolster the economy. Usd/Cny and Usd/Cnh recoiled towards the bottom of 7.0570-7.1240 and 7.0670-7.1400 respective ranges, while Aud/Usd rebounded from 0.6459 to 0.6638, with independent impetus via Australia hiking its minimum wage hot on the heels of stronger than consensus and previous weighted monthly CPI and ANZ raising its terminal RBA rate projection to 4.35% from 4.1% ahead of next week's policy meeting.

NZD/CAD - The Kiwi piggy-backed its Antipodean peer, but with a lag between 0.5986-0.6111 parameters as Nzd/Usd was hampered to an extent by weaker than feared NZ terms of trade for Q1, import and export prices, while the Loonie got a late boost from what looked like a pre-OPEC+ short squeeze in oil to compound some earlier upbeat Canadian macro news in the form of Canadian GDP metrics rather than the manufacturing PMI that slipped beneath the 50.0 growth/contraction threshold. Usd/Cad clawed back from 1.3651 to within single digits of 1.3400 at one stage, awaiting the BoC next week for further direction.

GBP/EUR/CHF/JPY - All making way for the Dollar's post-US jobs data revival, but Sterling retained solid net gains within 1.2544-1.2328 extremes and the Pound outperformed the Euro between 0.8694-0.8568 bounds on diverging BoE-Fed/ECB policy perceptions after the recent estimate-topping UK inflation data, hawkish comments from BoE's Mann noting that core prices are stickier at home than in the US or Eurozone, and BRC shop prices hitting a y/y series high. Conversely, prelim EZ CPIs were sub-forecast in line with most national readings, aside from Italy and the Netherlands, while GC members generally toned down guidance, albeit remaining focused on the more stubborn core and President Lagarde reiterating the mantra that inflation is too high and set to remain that way for too long, so we will keep moving forward – determined and undeterred – until we see that inflation is returning to our 2% medium-term target in a timely manner. Hence, Eur/Usd held above 1.0700 having been up to 1.0778 and as low as 1.0636. Elsewhere, the Franc and Yen were far from in sync, though broadly traded along risk and yield differential lines vs their US counterpart. Nevertheless, while Usd/Chf pared back within 0.9148-0.9015 confines, Usd/Jpy survived a couple of attempts to test 141.00 and peered over 138.50 at best under the threat of intervention irrespective of the fact that Japan's top currency diplomat insisted that was expressly not the intention of an emergency FSA, MoF and BoJ meeting.

SCANDI/EM - Troubled times for the Nok and Sek, former partly due to weakness in Brent and latter in wake of a downbeat Riksbank FSR and more expressions of worry about the Krona's depreciation, while the Norges Bank only trimmed its daily foreign currency purchases for this month. Similarly, the Zar suffered more angst on SA specifics including power outages, and the Try was plagued with political-related issues after Erdogan succeeded in the Turkish Presidential run-off. On the flip-side, hawkish BCB and Banxico vibes via minutes offered the Brl and Mxn some traction along with the aforementioned recovery in commodities and the Czk took positives out of the CNB cutting its countercyclical buffer for Czech banks.