



## US Market Wrap

### 5th June 2023: AAPL and market reverses strength after VR headset announcement; Dollar and yields lower on surprise ISM fall

- **SNAPSHOT:** Equities down, Treasuries up, Crude up, Dollar down.
- **REAR VIEW:** Saudi Arabia to cut further 1mln BPD of oil output in July; Surprise fall in ISM Services with disappointing internals; AAPL VR headset, Apple Vision Pro, underwhelms investors; ECB's Nagel reiterates several more hikes required.
- **COMING UP: Data:** EZ Retail Sales **Events:** RBA Announcement **Supply:** UK, Germany, EU syndication.
- **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

The major indices were little changed ultimately with a 'sell the news' reaction on Apple's (AAPL) VR headset unwinding earlier strength. Apple shares had been making record highs as the WWDC event began and it announced its new M2 Ultra chip, with machine leanings (AI) capabilities, but lost momentum into the tail-end when it began announcing details around its USD 3k VR headset that won't be available until next year - note that shares of Unity (U) and Disney (DIS) spiked on headset collaboration announcements. Elsewhere, Treasuries ultimately bull-steepened after the surprise fall in ISM Services caught NFP shorts off guard. Indeed, yields had drifted higher initially out of APAC and European trade, with the bounce in oil prices post-Saudi's voluntary production cut applying more selling pressure to bonds via the inflationary angle - as was the rip higher in nat gas and metals with desks citing continued China stimulus momentum after Friday's Bloomberg reports about a potential property sector package. The Dollar index was modestly lower with weakness driven by Yen clawing back some ground as US yields pulled back after ISM data. Elsewhere, note underperformance in the Russell 2k index, with regional banks particularly pressured after reports suggest an increasing scope of regulatory capital requirements - that also comes after the Russell's best session of the year on Friday post-payrolls. Bitcoin and crypto-related stocks were pressured after the SEC announced it was suing Binance and its founder Zhang.

## US

**ISM SERVICES:** ISM Services PMI saw a surprise fall to 50.3 in May from 51.9 in April, against the consensus view for a rise to 52.2, indicating a slower pace of growth. The current Business Activity Index fell to 51.5 from 52, bucking the expected rise to 52.5. While the fall in Prices Paid to 56.2 from 59.6 was good news on the inflation front, it was accompanied by declines in both the forward-looking New Orders (52.9 vs prior 56.1) and Employment (which slipped into contractionary territory at 49.2 from the prior 50.8), raising some growth concerns. The contraction in Employment counters the solid additions in Friday's NFP report, and gives some more weight to the negative aspects of the jobs report last week, such as the fall in hours worked and spike in the unemployment rate. However, Pantheon Macroeconomics notes the ISM Services Employment and payrolls figures don't have the clearest relationship, but warns, "the NFIB hiring intentions index has been a much more reliable guide to private payroll growth over the past couple years, and points to a slower pace of hiring." The consultancy also says the fall in Prices Paid is consistent with a steep drop in wage growth, given wages are the largest expense for services firms, and should give policymakers some comfort given the links made between wages and core PCE services inflation ex-rent.

## FIXED INCOME

### T-NOTE (U3) FUTURES SETTLED 1+ TICKS HIGHER AT 113-28+

**Treasuries bull-steepened after the surprise fall in ISM Services caught NFP shorts off guard.** 2s -2.9bps at 4.474%, 3s -2.5bps at 4.117%, 5s -1.7bps at 3.825%, 7s -1.1bps at 3.768%, 10s -0.4bps at 3.689%, 20s +0.0bps at 4.038%, 30s +0.6bps at 3.889%.



**INFLATION BREAKEVENS:** 5yr BEI +1.4bps at 2.191%, 10yr BEI +0.7bps at 2.222%, 30yr BEI +0.6bps at 2.235%.

**THE DAY:** It was lacklustre trade for Treasuries entering the new week with contracts extending lower from Friday's NFP sell-off through APAC trade and the European morning. The upside in oil prices post-OPEC meeting added to the belly-led sell-off ahead of the US' arrival. T-Notes troughed at 113-10 at the NY handover, with a healthy batch of corporate Dollar IG debt supply weighing on the complex ahead of the ISM Services data. The surprise fall in the headline ISM survey, accompanied by falls across business activity, prices paid, new orders, and employment sub-indices, saw USTs lifted in size with shorts scrambling to cover. T-Notes spiked from 113-15 pre-data to session highs of 114-03 within 20 minutes after the release with the front end leading the bid. The size of the move caught some off guard given the strong NFP print last Friday, which points to some positioning factors behind the strength Monday. Nonetheless, heading into the NY afternoon, the front end led the pullback off highs in light of major catalysts, albeit the curve was still steeper a few bps on the session with front-end yields lower.

#### STIRS:

- SR3M3 +1bps at 94.7325, U3 +1.5bps at 94.785, Z3 +3.5bps at 95.08, H4 +5bps at 95.535, M4 +6bps at 96.005, U4 +5.5bps at 96.385, Z4 +4bps at 96.645, H5 +3.5bps at 96.795, M5 +3bps at 96.855, M6 +3.5bps at 96.895.
- SOFR fell to 5.07% on June 2nd from 5.08%, volumes fell to USD 1.475tln from 1.627tln.
- NY Fed RRP op demand falls to USD 2.131tln from 2.142tln across 105 counterparties (prev. 104); note the fall comes amid a USD 40bln cash drain due to T-bill settlements.
- Note market-based repo rates have been drifting lower with some acute 'specials' seen for on-the-run coupons - desks cite likely return of cash providers (who don't have access to RRP) to the repo market now that the debt limit has passed, removing a key risk.
- EFFR flat at 5.08% on June 2nd, volumes rise to USD 141bln from 131bln, a fresh high in activity.
- US sold USD 68bln of 3-month bills at 5.220%, covered 3.15x; sold USD 61bln of 6-month bills at 5.250%, covered 3.14x; sold USD 50bln of 44-day CMBs at 5.150%, covered 3.19x.

## CRUDE

**WTI (N3) SETTLED USD 0.41 HIGHER AT 72.15/BBL; BRENT (Q3) SETTLED USD 0.58 HIGHER AT 76.71/BBL**

**The crude complex was firmer to start the week after Saudi Arabia announced additional cuts at the OPEC+ meeting, although oil settled well off earlier APAC, and US, peaks as desks cited ongoing growth concerns.** To recap the confab, Saudi is to unilaterally cut an additional 1mln BPD of oil output for July, with all other OPEC+ producers agreeing to extend earlier cuts through to the end of 2024. OPEC+ agreed for the output target for 2024 to be lowered by 1.4mln BPD and said Russia, Angola and Nigeria are to see significant production cuts in 2024 (more below). Meanwhile, the UAE sees a higher baseline for production curbs. In the wake of the meeting, and as expected, [Saudi Arabia raised](#) all July crude prices to US, European, and Asia, with the latter lifted to a 6-month high. Looking ahead, market participants will be eagerly awaiting Chinese import/export (Wed) and inflation data (Fri) to gauge a further indication into the economy. On top of this, the weekly private inventory, EIA, and Baker Hughes data will also all be closely followed.

**COMMENTARY:** Saudi's Energy Minister said they are not targeting prices and that the extra voluntary cut is a precautionary measure, while they will keep the markets in suspense on whether the additional voluntary cut for July will be extended and will review the extra voluntary cuts every month. Russian Deputy PM Novak added they are seeing oil demand rising and they will take decisions so that the oil market is stable, and that Russia is fulfilling its obligations in full. In the aftermath of the confab, White House officials said they will continue to work with all fuel producers to ensure energy markets support US economic growth, while the US Energy Secretary said after the US is going to work with all producers and consumers to seek lower prices for Americans.

**NAT GAS:** Nat gas futures saw significant strength on Monday, with Dutch TTF and US nat gas firmer by >20% and 4.50%, respectively, with some desks citing continued follow-through from the Bloomberg reports on Friday regarding further stimulus on its way. Meanwhile, some analysts also cited signs of a tighter LNG gas market and potentially stringer Asian demand. Additionally, last week Dutch TTF fell to the lowest level in two years, so some trading also suggests a potential bottoming out and moving quickly to build positions. Finally, note the EU announced it would not be rolling over its energy subsidy programme, which could be a factor in the Dutch TTF's rip higher.

## EQUITIES

**CLOSES:** SPX -0.20% at 4,273, NDX +0.07% at 14,556, DJIA -0.59% at 33,562, RUT -1.32% at 1,806.



**SECTORS:** Communication Services +0.58%, Utilities +0.46%, Health +0.38%, Consumer Discretionary +0.35%, Materials -0.1%, Consumer Staples -0.35%, Real Estate -0.52%, Technology -0.56%, Financials -0.56%, Energy -0.58%, Industrials -0.71%.

**EUROPEAN CLOSES:** Euro Stoxx 50 -0.70% at 4,293, FTSE 100 -0.10% at 7,599, DAX 40 -0.54% at 15,963, CAC 40 -0.96% at 7,200, FTSE MIB -0.78% at 26,856, IBEX 35 -0.30% at 9,289, SMI -0.25% at 11,415.

**STOCK SPECIFICS:** **Palo Alto (PANW)** is to be added to the S&P 500, replacing **Dish (DISH)**, effective at the open on June 20th. **Epam Systems (EPAM)** cut Q2 and FY guidance for both EPS and revenue due to further deterioration in the near-term demand environment. **Amedisys (AMED)** received an all-cash proposal from Optum to be acquired for USD 100/shr. Although, the board's recommendation is in favour of a merger agreement with **Option Care Health (OPCH)** who's offer stands at USD 86.30/shr. Note, AMED closed Friday at USD 79.47/bbl. **Walt Disney (DIS)** sees USD 1.5bln impairment charge for direct-to-consumer services but does not expect material cash expenditures; sees up to USD 400mln in additional charges. **Circor (CIR)** to be acquired by KKR (KKR) for USD 49/shr or USD 1.6bln, including debt. Note, CIR closed Friday at USD 31.67/shr. **C.H. Robinson (CHRW)** is set to name Ford (F) executive David Bozeman as its next CEO, according to FreightWaves sources. The report notes Bozeman's selection may "come as a surprise to many" who thought former UPS (UPS) COO Jim Barber would be selected as CHRW's next CEO. **Dollar General (DG)** downgraded at Morgan Stanley citing its "thesis-shifting quarter". As a reminder, DG slashed guidance last week as part of its earnings citing macro-economic challenges. **Tesla (TSLA)** sold 77,695 Chinese-made cars in May, +2.4% M/M, according to CPCA. SEC sues Binance and CEO Zhao of breaking US securities rules; charges include operating unregistered exchanges, broker dealers, and clearing agencies. Binance responded saying it is to defend itself vigorously against the SEC suit and remains open to productive compromise; weighed on crypto names such as **Coinbase (COIN)**, **MicroStrategy (MSTR)**, and **Riot Blockchain (RIOT)**. Of note for banking names, **Capital One Financial (COF)** and **Truist (TFC)** reported large issuances on Monday in potential anticipation of what regulations are to come. Over the weekend, WSJ reported that large US banks could face a 20% boost to the capital requirement as those relying on fees may need larger capital buffers to absorb losses under planned rules.

**APPLE (AAPL) WWDC:** Began on Monday with eyes on the announcement of its VR headset, which was named the Apple Vision Pro. However, AAPL shares sank to session lows in wake of the announcement, potentially a 'sell-the-news' event, where the product is to start at USD 3,499 and will not be available until 2024, and the US only at first, with other countries later in the year. Apple and **Disney (DIS)** partner on content for the headset with Disney+ available on the Vision Pro, and it is also working with **Unity (U)** to bring its apps to the device. Elsewhere, the tech giant announced a new M2 Ultra chip, which features in new Mac Studio and Mac Pro, on top of a 15-inch MacBook Air, powered by M2 processor chip, to cost USD 1,299, while 13-inch to cost USD 1,099.

## US FX WRAP

**The Dollar** was choppy to start the week but ultimately slightly weaker, albeit within tight ranges (103.930-104.400 for the DXY), amid thin newsflow on Monday aside from ISM Services for May. The greenback started the week where it left off taking its cue from the very strong NFP headline number, but a broad miss across ISM Services saw it give up its gains with technicians noting last week's high of 104.70 is key resistance ahead of the FOMC meeting next Wednesday. The headline ISM Services fell to 50.3, well beneath the expected (52.2) and prior (51.9), on top of a surprise fall in business activity, and a slowdown in new orders and employment. Compounding the misery for the Dollar, factory orders also missed consensus with core durable goods orders revised lower. Looking ahead, not much in way of the FOMC and CPI next week with a lack of tier 1 data (out of the US) this week.

**Antipodeans** saw upside and took advantage of the Dollar's relapse as opposed to anything currency specific, as market participants await the key RBA meeting Tuesday where it is expected to keep the Cash Rate Target unchanged at 3.85% although there is a chance of a 25bps hike due to elevated inflation ([Newsquawk preview available here](#)). NZD/USD hit a high of 0.6085 in the absence of many NZ market participants enjoying a 3-day holiday weekend.

**Euro** was flat. Almost 1.3bln option expiries spanning 1.0685-75 helped the Euro contain losses vs its US counterpart, while remarks from ECB's Vujcic, President Lagarde, and Nagel highlighted ongoing concern about inflation in the Eurozone, with the latter particularly punchy, reaffirming his view that several more rate hikes are needed, expressing uncertainty whether a peak will be reached this summer, and adding that underlying price pressures are too high and show no signs of abating. EUR/USD bounced from 1.0675 before fading just over 1.0720.

**Sterling and the Loonie** were more-or-less flat vs the Buck, but the Pound managed to pare its initial weakness in the session as the Buck came off highs. Cable traded between 1.2369-2456 with traders noting the initial Sterling weakness may have been technical after it breached 1.2400 to the downside. In addition, desks also alluded to high energy prices Monday stoking UK inflation and growth concerns. USD/CAD saw narrow parameters, albeit the Loonie saw weakness



creep in as the oil complex retreated off highs seen in the APAC session amid ongoing growth concerns offsetting some of the upside seen after Saudi Arabia announced additional cuts at the OPEC+ meeting. The BoC rate decision on Wednesday serves as the highlight this week with the bank expected to hold rates at 4.5% with an outside chance of a 25bps hike.

**Yen and Franc** firmed against the Buck, with the former boosted after the ISM Services miss which saw a sharp rebound in USTs to see USD/JPY retreat from highs of 140.45 to lows of 139.26. USD/CHF resides at session lows, at pixel time, with the Swissy testing 0.9050 to the downside but unable to breach the key level. On the day, newsflow was light for the aforementioned currencies although Swiss CPI for May printed in line for both M/M and Y/Y.

**EMFX** was mixed. CLP, BRL, MXN, and ZAR all firmed with the latter the clear outperformer and seeing tailwinds from the gains in spot gold and SA Government cutting petrol pump and wholesale diesel prices. For the ZAR watchers, there is GDP (Tues) and current account (Thurs) data this week. The Chilean Peso also saw commodity tailwinds, this time from copper, which may be seeing follow-through from Bloomberg source reports from Friday of added China stimulus to the economy; Chile May trade data and CPI due Wednesday and Thursday. The Real saw [comments from Director Guillen](#) who sees a deceleration in economic activity, but resilience mostly in the labour market; May IGP and IPCA inflation data due on Tuesday and Wednesday. MXN derived traction from an uptick in Mexican consumer confidence; May CPI and April IP data due Thursday and Friday. Conversely, TRY underperformed even though former and supposedly respected orthodox Semsek returned as Finance Minister, as Turkish CPI eclipsed expectations and reports circulated that President Erdogan is said to be considering appointing Hafize Erkan as CBRT Governor.

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