US Market Wrap

6th June 2023: SPX closes at 2023 in light trade with RUT and DXY firmer on US growth upgrades

- **SNAPSHOT**: Equities mixed, Treasuries mixed, Crude down, Dollar up.
- **REAR VIEW**: RBA surprise 25bp hike; Nova Kakhovka Dam destroyed; ECB consumer inflation expectations decline; German industrial orders fall; COIN sued by SEC; GS cuts year-ahead US recession probability; World Bank lifts 2023 GDP forecast, buts cuts 2024; EIA STEO raised '23 world oil demand forecast; BA slowing 787 Dreamliner deliveries after new production flaw.
- **COMING UP**: **Data**: Australian GDP, Chinese Trade Balance **Events**: BoC Announcement **Speakers**: RBA's Lowe, Bullock, ECB's de Guindos, Knot, Panetta.

MARKET WRAP

Stocks were mixed Tuesday in light trade in the absence of tier 1 data and a marginal improvement in the IBD/TIPP economic optimism index the "highlight". Treasuries bear-flattened and the Dollar saw mild strength, largely on account of weak European data that weighed on the single currency. The death of US data gave more importance to the ramped US growth forecasts from Goldman Sachs and World Bank. Perhaps no surprise that while the SPX and NDX were little changed, the RUT surged nearly 3%, making a clean break above its 100DMA for the first time since the banking 'episode' whilst regional banks were particularly buoyed - Goldman's forecast noted its confidence in the US banking sector, while JPM's strats were also out downplaying the CRE headwinds as a story for the years ahead not the time being. The headline indices were suppressed by some weakness in large-cap names such as Apple (AAPL), Microsoft (MSFT), and Nvidia (NVDA), which marked its third consecutive day of losses from ATHs last week. Coinbase (COIN) was slammed after being sued by the SEC, but Bitcoin gained some lost ground after recent selling. Perhaps no coincidence with the VIX approaching the 14 level, which would be the lowest since early 2020.

GLOBAL

BOC PREVIEW: The Bank of Canada is widely expected to keep rates unchanged at 4.5%, but with the possibility of a 25bps hike in wake of the recent stronger-than-expected GDP and CPI metrics, accompanied by robust labour market data. Desks are citing the likelihood of a hawkish hold on Wednesday, which could pave the way for a future rise in July. Since the prior meeting, as well as the aforementioned strong data, further warnings from Governor Macklem, and the GC discussing a hike at the April meeting, as the Minutes revealed, may all test the mettle of the current pause stance even though expectations remain for the GC to hold firm. To download the full Newsquawk preview, please click here.

IBD/TIPP: IBD/TIPP economic optimism marginally rose in June to 41.7 from 41.6, but remained at a deeply pessimistic level, with the three sub-indices the headline is made of up mixed. The forward-looking six-month outlook marginally dipped to 34.5 (prev. 34.6). Personal financial outlook jumped further above 50 to 51.9 (prev. 50.1), but this was largely offset by federal policies falling to 38.6 (prev. 40). The data set noted, “sliding support for federal economic policies among young adults following last week's debt-ceiling deal largely offset broad improvement in the outlook for personal finances.” On the broader economy, “51% of adults polled think a US recession is at hand, down from 55% in May and the lowest since May 2022.”

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 3+ TICKS LOWER AT 113-25

Treasuries bear-flattened Tuesday amid IG supply and improved US growth forecasts, unwinding initial EGB-led strength. 2s +4.0bps at 4.523%, 3s +3.8bps at 4.161%, 5s +2.3bps at 3.851%, 7s +0.9bps at 3.781%, 10s +0.0bps at 3.693%, 20s -1.6bps at 4.025%, 30s -2.6bps at 3.865%.

INFLATION BREAKEVENS: 5yr BEI -1.3bps at 2.180%, 10yr BEI -0.6bps at 2.220%, 30yr BEI +0.3bps at 2.239%.

TOKYO: T-Notes drifted to resistance at 114 in the Tokyo morning, with the region playing catch up to Monday's ISM Services drop. But a run on Monday's peak of 114-03+ was not initially successful ahead of the RBA meeting with contracts pulling back a few ticks ahead of the meeting. Interim support was found in T-Notes at 113-24 after the bank made a surprise 25bp hike to 4.10% whilst warning more tightening may be needed.

LONDON: Contracts were hesitant to sustain selling post-RBA, and once European trade got underway, bullish spillover was seen out of EGBs after soft German industrial orders and softening consumer inflation expectations in the ECB survey, not to mention some balanced commentary from ECB hawk Knot, all in the backdrop of concerns around the recent dam bursting in Ukraine. T-Notes breached Monday's highs to peak at 114-06+ before paring somewhat into the NY handover.

NEW YORK: A bullish US economy note from Goldman Sachs' Hatzius (forecast 1.8% 2023 GDP) was doing the rounds in an otherwise quiet US morning, tempering some of the UST bullishness, and then selling became more meaningful as Dollar IG supply came in, with T-Notes breaking beneath the post-RBA lows of 113-24. Some hawkish comments from former Fed VC Clarida on Bloomberg TV alongside ramped 2023 growth forecasts from the World Bank accompanied contracts to session lows of 113-18+, not quite closing the ISM Services gap at 113-15. The long end led a recovery off lows into the NY afternoon, with another disappointing IBD/TIPP economic optimism index being the "highlight" in an otherwise quiet session.

STIRS:

- SR3M3 +1.5bps at 94.7475, U3 +0.5bps at 94.79, Z3 -3.5bps at 95.045, H4 -7bps at 95.465, M4 -9bps at 95.915, U4 -9.5bps at 96.29, Z4 -8bps at 96.565, H5 -5.5bps at 96.735, M5 -4bps at 96.815, M6 +1bps at 96.895.
- SOFR falls to 5.06% on June 5th from 5.07% on June 2nd, volumes fall to USD 1.472tln from 1.475tln.
- NY Fed RRP op demand edges higher to USD 2.135tln from 2.131tln, across 101 counterparties (prev. 105); rise in participation comes despite a USD 28bln net cash drain due to bill settlements.
- EFFR flat at 5.08% as of June 5th, volumes fall to USD 136bln from a record 141bln on June 2nd.

TGA: As expected, Treasury announced large increases to its bill auctions sizes: to sell USD 60bln (prev. 35bln) and 50bln (prev. 35bln) of 4- and 8-week bills on June 8th, USD 46bln (prev. 44bln) of 17-week bills on June 7th; all to settle on June 13th. Increases on account of the TGA rebuild post debt limit resolution.

CRUDE

WTI (N3) SETTLED USD 0.41 LOWER AT 71.74/BBL; BRENT (Q3) SETTLED USD 0.42 LOWER AT 76.29/BBL

Oil prices were only slightly lower Tuesday after unwinding earlier losses out of Europe through the US session on the improved growth outlooks. Prices had been falling through the European morning, despite more stories around Chinese growth stimulus in the pipeline. The initial downside saw WTI and Brent hit session troughs at USD 70.13/bbl and 74.72/bbl, respectively, unwinding the post-OPEC+ price pop. However, as US trade got underway, losses were pared. Perhaps that was a part supply story with Shell (SHEL LN) halting a unit at the 400k BPD Pernis refinery in Rotterdam, Europe's largest, although the combination of ramped US growth forecasts from Goldman Sachs and the World Bank improved the demand outlook too in a catalyst light session, with value and cyclicals outperforming in stocks. Later on, the EIA STEO saw the 2023 world oil demand growth forecast raised by 30k BPD and the 2024 forecast cut by 20k BPD. Elsewhere, Russia said its crude oil production remained stable in May. Note also earlier Reuters reports that Asian refiners are likely to take less oil from Saudi Arabia for July and buy more spot cargoes, such as those from the UAE, after the surprise price hike and output cut. Looking ahead, attention turns to private inventory data after-hours, with expectations: Crude +1.0mln, Distillate +1.3mln, Gasoline +0.9mln.

EQUITIES

CLOSES: SPX +0.24% at 4,283, NDX +0.01% at 14,558, DJIA +0.03% at 33,573, RUT +2.69% at 1,855.

SECTORS: Financials +1.33%, Consumer Discretionary +0.99%, Energy +0.9%, Real Estate +0.66%, Materials +0.65%, Industrials +0.6%, Communication Services +0.49%, Utilities -0.07%, Technology -0.12%, Consumer Staples -0.47%, Health -0.88%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.05% at 4,295, FTSE 100 +0.37% at 7,628, DAX 40 +0.18% at 15,992, CAC 40 +0.11% at 7,209, FTSE MIB +0.67% at 27,036, IBEX 35 +0.23% at 9,310, SMI +0.48% at 11,470.

STOCK SPECIFICS: **Boeing (BA)**, whose shares tumbled, is slowing 787 Dreamliner deliveries after the discovery of a new production flaw, but it still targets 70-80 deliveries this year. Impacts 90 Dreamliners in inventory and will take two weeks to fix each plane. **TSMC (TSM)** expects H2 performance to be better than H1 but sees H1 revenue down 10% Y

/Y. Added that rising demand for AI is driving orders and is seeing a recovery in some of its end markets. But it said its FY capex is to come around USD 32bln vs its 32-36bln prior guidance, dimming the outlook for semi cap names. **Coinbase (COIN)** was sued by the US SEC claiming it is acting as an unregistered broker. **J M Smucker (SJM)** beat expectations on the top and bottom line, with guidance raised but in line with forecasts. **GitLab (GTLB)** posted a shallower loss per share than expected and beat on revenue; Q2 EPS and revenue forecasts beat expectations and lifted FY guidance. **Thor Industries (THO)** beat on EPS and revenue; raised the low end of FY profit view. **Mobileye (MBLY)** will sell 35mln Class A shares in a secondary offering and will not receive any proceeds from the sale. **McCormick (MCK)** double upgraded at BofA; cited easing volume pressures and called the stock a growth staple. **Core & Main (CNM)** beat on profit but fell short on revenue. Noted demand began improving in late April and given recent acquisitions and strong margin performance, raised FY23 net sales and adj. EBITDA guidance. **Ciena (CIEN)** topped consensus on EPS and revenue, but cut FY23 revenue view midpoint and Q3 guidance. **Merck (MRK)** sued the US government to halt Medicare drug price negotiation programme in the IRA. Following this, White House is confident it will succeed in court saying there is nothing in the constitution that prevents Medicare from negotiating lower drug prices. Piper Sandler raised its price target of **Advanced Micro Devices (AMD)** to USD 150/shr (prev. USD 110/shr). Later we heard comments from an exec who said the data centre is seeing a mixed demand profile. **Apple (AAPL)** reportedly bought an AR headset start-up called Mira, according to The Verge. **First Horizon National (FHN)** FY23 NII seen up 6-9% (exp. +13%), non-interest income seen down 6-10%, while Q2 NII seen down 6-9% (exp. +25%). Encouragingly, QTD deposits are up USD 400mln (Q2 deposits exp. -50mln) with net deposit growth at USD 1.5bln in May. Note, its guidance assumes 25bps rate cuts in Nov and Dec.

US FX WRAP

The Dollar was marginally firmer on Tuesday, albeit within tight parameters, amid a sparse calendar schedule and absent of any key risk events with EUR/USD weakness aiding the Greenback rise. Although note the ramped US growth forecasts from Goldman Sachs and the World Bank doing the rounds.

The Euro was the G10 underperformer to see the cross print lows of 1.0668 following an unexpected decline in German Industrial orders, flat Eurozone retail sales, and ECB consumer expectation survey showing a sharp reduction in inflation expectations and hinting that ECB hawks are seeing progress being made in reducing price growth. In addition, ECB's Knot, typically hawkish, gave some balanced commentary saying the worst in inflation is behind us, but underlying pressures will prove more difficult to bring down. Looking ahead, there is a plethora of ECB speak scheduled on Wednesday ahead of revised Q1 GDP and employment data on Thursday.

The Loonie managed to eke out some gains against the Greenback to see the cross print a low of 1.3391, breaching the key 1.34 to the downside. The CAD was initially weighed on by lower oil prices, but as the complex pared losses, on the improved growth outlooks, it followed suit. On the data footing, although garnering no reaction in either, there was a sharp decline in Canadian Building Permits for April which was later followed by a fall in Ivey PMI SA. Nonetheless, market participants will have all eyes on the BoC rate decision on Wednesday (Newsquawk preview available here), where it is expected to hold rates at 4.5%, but there is a distinct possibility of a 25bps hike in the wake of the recent stronger-than-expected GDP and CPI metrics, accompanied by robust labour market data.

Sterling and Yen were flat, with the **Franc** seeing slight weakness. The Yen pared some of its initial strength with the Swissy also weighed on by the firmer rebound in US Treasury yields compared to global bond counterparts. JPM's strats have flagged expectations of sizeable haven demand in Swissy set to unwind due to the passing of the debt limit resolution. Cable traded within tight ranges, highlighted by a low of 1.2392 and a high of 1.2458. As Sterling came off highs desks the UK construction PMI beat was being looked past to focus on weak home building and rising recession risks as the BoE's year-and-a-half-long rate hike campaign appears to be slowing the economy, increasing the chances that Cable is capped by this year's highs.

Aussie was the clear G10 outperformer after the RBA surprisingly hiked rates 25bps to 4.10%, with most expecting a hold, accompanied by hawkish RBA guidance noting further rate hikes "may be required". Goldman analysts continue to expect the RBA to hike 25bps in July, reaching a terminal rate of 4.35%, although there is significant uncertainty around of the path for rates - money markets are pricing in a 60% implied chance of a 25bp hike for the July 4th confab currently. AUD/USD hit a high of 0.6685, but fell just short of the 200DMA at 0.6692. Next up for the Aussie watchers, there is AIG manufacturing and construction indices, then real Q1 GDP and component breakdown, although it might be regarded somewhat irrelevant given that the RBA has already opted to lift the Cash Rate to 4.10%. Additionally, RBA Governor Lowe and Bullock are scheduled to speak Wednesday. NZD also firmed, but not to the extent of its Antipodean counterpart, as NZD/USD topped out at 0.6100 against the lows of 0.6046 ahead of Q1 manufacturing sales on Wednesday.

EMFX was mixed. BRL, COP, ZAR, and MXN saw gains, and henceforth the outperformers, while the TRY, CNH, and RUB all saw weakness. The CNH continued to depreciate vs the Buck on Chinese economic and diplomatic angst in advance of trade data and regardless of both reports of more China stimulus (RRR cuts) in the pipeline in the Securities Journal and a Global Times article claiming that the Yuan has remained largely stable despite short-term downward pressure, while positive factors including China's economic rebound and a possible end to US interest rate hikes may boost it to about 6.8 per the USD dollar by the end of 2023. Similar story for the TRY even though analysts weighed up magnitudes of potential post-Turkish election hikes by the CBRT, and the PLN remained on the backfoot following the NBP as rates were held as forecast at 6.75% and guidance maintained, but the accompanying statement also said that core CPI likely cooled significantly in May. Note there was some unwinding of Zloty shorts on pre-meeting speculation there could be a surprise rate cut.