US Market Wrap

7th June 2023: BoC surprise hike tremor accelerates Nasdaq/Russell 2k spread unwind

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW**: Surprise 25bps BoC hike, remains data dependent; Surprise crude draw but gasoline & distillates bigger builds than forecast; Chinese exports fall further than expected, but imports not as bad as feared; Putin held a phone with Saudi Crown Prince; CRM undergoing mgmt. shake-up & expands partnership with Google Cloud.
- **COMING UP**: **Data**: Australian Trade Balance, US IJC **Event**: RBI Policy Announcement **Speakers**: SNB's Jordan.

MARKET WRAP

SPX and NDX were lower on Tuesday, particularly the latter with some chunky losses in big tech in the absence of an obvious catalyst barring the hawkish tremors from the surprise 25bp BoC hike. That is only half the story though with the NDX/RUT spread seeing a massive divergence (NDX -1.75%, RUT +1.8%) in what appears to be some position unwinds in the wake of the small cap index's technical breakout higher earlier this week that has carried the momentum with it even further. There was little tier 1 data in the US or Europe, with China's trade data the main highlight: big falls in exports reduced the trade surplus, although note imports held up much better. Nonetheless, that didn't stop the offshore Yuan from weakening to its worst level vs the Dollar since November last year - eyes to China inflation data on Friday. The DXY was little changed after earlier losses were reversed through the US session as yields climbed post-BoC.

GLOBAL

BOC REVIEW: The Bank of Canada surprisingly, although not completely unexpectedly, hiked rates by 25bps (exp. unchanged) to 4.75% noting monetary policy was not sufficiently restrictive to bring supply and demand back into balance and return inflation sustainably to the 2% target. As such, the BoC continues to expect CPI inflation to ease to around 3% in the summer, but concerns have increased that it could get stuck materially above the 2% target. Meanwhile, BoC noted the labour market remains tight and overall, excess demand in the economy looks to be more persistent than anticipated. Later in the statement, the Bank adds demand for services continued to rebound while housing market activity has picked up. Looking ahead, the BoC is seemingly entirely data-dependent as they have removed the language from April that they are prepared to raise further if needed and will continue to assess core inflation and the outlook for CPI instead. On the rate decision, Oxford Economics “Believes Canada’s strong Q1 economic performance was only a temporary reprieve from a recession as the lagged impact of past interest rate hikes fully hit the economy in the latter half of 2023.” Moreover, should labour markets, wage growth, and inflation not slow as Oxford Eco expect, the BoC would likely hike rates again in July, with even more rate increases on the table this year. As a result, Oxford concludes, “This would likely warrant a downgrade to our economic forecast for the latter part of 2023 and through 2024.” Lastly, it is worth remembering the BoC will have two new job reports and one inflation report to assess before its next rate decision on July 12th.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 18 TICKS LOWER AT 113-07

Treasuries bear-steepened further Wednesday after duration caught up to the front end after the surprise BoC hike. 2s +4.6bps at 4.571%, 3s +6.4bps at 4.230%, 5s +8.6bps at 3.942%, 7s +9.6bps at 3.884%, 10s +9.5bps at 3.795%, 20s +8.8bps at 4.121%, 30s +6.8bps at 3.943%.

INFLATION BREAKEVENS: 5yr BEI +1.6bps at 2.198%, 10yr BEI +1.7bps at 2.238%, 30yr BEI +1.8bps at 2.256%.

THE DAY: T-Notes recovered into the APAC Wednesday session with the long end leading the way (similar to Tuesday NY afternoon). Contracts hit session highs of 114-02+, just above the 200d MA, with weak China trade data keeping contracts supported, before some paring into the London handover in the absence of other catalysts. Some block buys in London led to some chop before new lows were made in the NY morning. T-Notes found support at 113-19+ with corporate debt issuance beginning to pile up again. A fall in the May Manheim user car price index ahead of CPI capped losses briefly before the surprise BoC 25p hike. Tuesday's 113-09 low was broken beneath in a wave of kneejerk bear-flattening that saw the 2s10s curve hit its most inverted post-SVB levels of -86.1bps. But, duration soon caught up, steepening the curve into the NY afternoon. T-Notes bottomed out at 113-01, nearing the late May double bottom trough of 112-29+, which would open up a run to the pre-banking crisis levels that gravitated around 111 in early March.

TGA: US Treasury announced Wednesday it now expects its cash balance to be approximately USD 425bln at the end of June (below refunding estimate of USD 550bln). That target is a bit on the light side of some analyst estimates, which could be a marginal improvement in the liquidity outlook, as far as money markets are concerned, amid the uncertainty on how much of the bill issuance will come from RRP balances or bank reserves. Treasury also announced the introduction of a regular weekly 6-week CMB.

STIRS:

- SR3M3 -0.75bps at 94.7375, U3 -1.5bps at 94.77, Z3 -4.5bps at 95.00, H4 -8bps at 95.385, M4 -10.5bps at 95.81, U4 -10bps at 96.19, Z4 -9.5bps at 96.47, H5 -8.5bps at 96.645, M5 -8.5bps at 96.73, M6 -9.5bps at 96.79.
- SOFR fell again to 5.05% on June 6th from 5.06%, volumes fell to USD 1.414tln from 1.472tln; GC opened firmer at 5.10% on Wednesday.
- NY Fed RRP op demand rises USD 27bln to USD 2.162tln across 108 counterparties (prev. 101) in the lack of any bill settlements ahead of a USD 21bln bill settlement on Thursday.
- EFFR flat at 5.08% on June 6th, but volumes rise to new highs at USD 144bln, indicative of an increasingly active unsecured interbank lending market.
- US sold USD 46bln of 17-week bills at 5.200%, covered 3.36x, stopped-through 2bps.

CRUDE

WTI (N3) SETTLED USD 0.79 HIGHER AT 72.53/BBL; BRENT (Q3) SETTLED USD 0.66 HIGHER 76.95/BBL

The crude complex edged higher on Wednesday with Saudi output cut plans, strong Chinese oil imports data, and stimulus speculation continuing to underpin the market. China's total exports plunged a lot further than expected as manufacturers struggled to find demand abroad and domestic consumption remained sluggish, although imports were not as bad as feared. Specifically, Crude oil imports in May rose to the third-highest monthly level on record as refiners built inventories and stepped up operations after maintenance in April. A JPM note highlighted "forward crude cover in the country has climbed, indicating refiners have not increased processing rates but are instead storing oil. In other news, the BoC surprisingly hiked rates which saw the Dollar plunge to session lows, supporting crude, although the Buck did later reclaim the losses albeit not to the detriment of oil. On the day, WTI and Brent hit highs of USD 73.19/bbl and 77.64/bbl after the weekly EIA data (more below) before fading off best levels into settlement as risk sentiment deteriorated. Looking ahead, the calendar is light of key risk events ahead of next week, but participants will be awaiting Chinese inflation data (May) and Baker Hughes on Friday.

EIA: Crude stocks surprisingly drew 450k (exp. 1mln build), in fitting with the private inventory data on Tuesday; overall crude production ticked higher to 12.4mln BPD from 12.2mln last week. As was seen Tuesday in the private data, Distillates and Gasoline stocks both had larger builds than forecasted, raising concerns among participants over consumption by the world's top oil user, especially as travel demand grew during the Memorial Day weekend. Although the large product builds were accompanied by refining utilisation rising 2.7% (exp. +0.6%, prev. +1.4%).

EQUITIES

CLOSES: SPX -0.38% at 4,267, NDX -1.75% at 14,303, DJIA +0.27% at 33,665, RUT +1.78% at 1,888.

SECTORS: Communication Services -1.87%, Technology -1.62%, Consumer Discretionary -0.91%, Health -0.41%, Consumer Staples -0.33%, Financials +0.33%, Materials +1.18%, Industrials +1.59%, Utilities +1.7%, Real Estate +1.75%, Energy +2.65%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.08% at 4,291, FTSE 100 -0.05% at 7,624, DAX 40 -0.20% at 15,960, CAC 40 -0.09% at 7,202, FTSE MIB +0.07% at 27,055, IBEX 35 +0.53% at 9,359, SMI -1.04% at 11,349.

STOCK SPECIFICS: **Amazon (AMZN)** in talks to bring ad-supported versions of **Max (WBD) and Paramount+ (PARA)** to Prime Video channels, according to WSJ citing sources. **Tesla (TSLA)** was boosted on BBG reports all its Model 3 vehicles are eligible for full USD 7.5k US tax credit - note TSLA shares have posted nine straight sessions of gains, the longest streak since 2021. **Salesforce (CRM)** is undergoing a management shakeup, as CEO Benioff brings back former executives from Amazon and Oracle, according to Business Insider; changes are aimed at strengthening its leadership team, and hint at a succession plan. Separately, Salesforce expands partnership with **Google Cloud (GOOGL)** and announces MarketingGPT and CommerceGPT. Following this, Google Cloud consulting launching four new generative AI consulting offerings designed to help customers activate their AI deployments. Wells Fargo and JPMorgan raised their price targets for **Netflix (NFLX)** to USD 500 (prev. 400) and USD 470 (prev. 380), respectively. **Marvell (MRVL)**, according to Taiwanese press, has won the contract for **Amazon's (AMZN)** second-generation AI inference ASIC chip and is expected to start entrusted design in H2. TSMC (TSM) will adopt a 5nm process and put it into production next year. However, Wedbush threw some caution over the reports, suggesting some inconsistencies that need verifying. **Samsung Electronics (SSNLF)** plans to raise NAND wafer prices, according to DigiTimes. **Affirm (AFRM)** and **Amazon (AMZN)** announced eligible US merchants offering Amazon Pay can now seamlessly add Affirm's Adaptive Checkout as a payment option. US FDA stated **Eisai's (ESALY) and Biogen's (BIIB)** Alzheimer's drug may get full approval despite FDA concerns. **Roku (ROKU)** saw big strength which was attributed by traders to a supposed bullish Q2 sell side note (unconfirmed).

EARNINGS: **United Natural Foods (UNFI)** missed on top and bottom line, in addition to cutting EPS and EBITDA view. Exec noted profitability was impacted by a greater-than-expected decline in gross margins. **Yext (YEXT)** beat on profit and revenue; CEO noted a strong start to the year highlighted by Q2 guidance slightly topping expected and lifting FY outlook. **Stitch Fix (SFIX)** reported a shallower loss per share than expected and beat on revenue, although the next quarter revenue view missed. Co. mentioned it focused on “improving efficiencies, maintaining profitability and cash flow” during Q3.

US FX WRAP

The Dollar was choppy on Wednesday, albeit closing firmer, despite the Buck plunging to session lows of 103.640 after the surprise 25bps BoC rate hike. However, as the US session continued and European players left for the day risk sentiment (in stocks) whilst yields rose to the benefit of the Greenback, for it to pare the initial losses. Moreover, the BoC hike followed the RBA's surprise move earlier this week, and while the rationale may be flawed, some may extrapolate that this makes a Fed hike next week more likely, since G10 central banks would clearly be showing an ability to resume tightening policy in the face of a potential resurgence in inflation. Nonetheless, Fed money market pricing is little changed in the very short end - note a Reuters survey of economists released saw 78/86 forecasting no change for next week's FOMC. There is little scheduled for the rest of the week, with only the weekly jobless claims on Thursday, but this all comes ahead of a slew of key risk events next week via US CPI (Tues), FOMC (Wed), ECB (Thurs), and BoJ (Fri).

The Loonie was the talk of the town and firmer against the Buck, but well-off its strongest levels now, after the surprise Bank of Canada 25bps rate hike being justified by the sticky core inflation print and "concerns have increased that CPI inflation could get stuck materially above the 2% target." Looking ahead, the BoC is seemingly entirely data-dependent as they have removed the language from April that they are prepared to raise further if needed and will continue to assess core inflation and the outlook for CPI instead. After the rate decision USD/CAD fell to session lows of around 1.3320 from ~1.3380, which was roughly similar to the breakeven of 68 pips heading into the meeting. Although, as mentioned, as the Dollar rebounded off lows so did USD/CAD to hover around 1.3375, at pixel time. BoC’s Deputy Governor Beaudry is scheduled to speak on Thursday on the Economic Progress Report.

Antipodeans were weaker vs the Buck with the NZD the G10 underperformer, as the respective currencies came off highs after the aforementioned Dollar firming. Nonetheless, Aussie’s fall from grace was arguably more of a shock given hawkish RBA rhetoric in wake of the latest 25bps point rate rise. Moreover, AUD/USD branched technical and psychological resistance at one stage on the way to probing a virtual double top from mid-May before reversing all the way down to 0.6642 from 0.6717 ahead of trade data. Meanwhile, the Kiwi waned from just under 0.6100 to lows of 0.6032 ahead of NZ manufacturing sales.

The Pound and Euro saw slight firmness as they took advantage of the Dollar relapse as Cable rebounded just shy of 1.2400, while EUR/USD traded 1.0669-1.0739 parameters. Although, as did its G10 peers they waned off best levels amid the broad Dollar rebound. Additionally, Cable has gained in the wake of hawkish moves by the RBA and BoC, with the BoE previously flirting with the idea of a pause. On the single currency, EUR/USD's slipped from early highs on ECB rate hike hopes merely left it flat on the day, as Bund yields also rose roughly in line with Treasury yields.

Safehavens, CHF and JPY, saw weakness albeit to no great surprise after the aforementioned spike in yields weighed as the Swissy and Yen traded within 0.9044-9107 and 139.04-140.24 respective ranges. However, the weakness was exasperated as the Buck clawed from lows and continued to lose some of their appeal. For the calendar, Japanese Q1 GDP is on Thursday.

EMFX was mixed. CLP, MXN, and ZAR firmed, but CNH, RUB, and TRY weakened. However, calling the TRY weaker is a disservice, as USD/TRY soared to record highs of 23.3069 with the cross up circa 7.5% on Wednesday as authorities appeared to loosen stabilising measures after the government signalled a pivot to more orthodox policies. Amid the fragility of the TRY it remains a one-way bet, highlighted by GS revising its USD/TRY forecast, in the wake of President Tayyip Erdogan's cabinet reshuffle, to climb to 28.0000 in 12 months compared with a previous prediction of 22.0000. CNH was weaker following worrying Chinese trade data, where exports declined much further than expected, although imports didn't fall as much as anticipated - note USD/CNH hit highs of 7.1532 in the late US session, the highest since November last year.