US Market Wrap

9th June 2023: Weak global data sees NDX outperform into FOMC and CPI

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Surprise Canadian jobs fall; Weak Chinese inflation data; Latest Redfin survey and BofA institute card data saw declining rent price pressures; GM partnering with TSLA; Slew of broker moves, with MSFT PT raised at BMO, ADBE upgraded to Overweight at Wells, and TGT downgraded at Citi; FDA panel votes 6-0 to back Biogen & Eisai's Alzheimer's drug.
- **WEEK AHEAD PREVIEW**: Highlights include US CPI, FOMC, Retail Sales; ECB; PBoC, China activity data. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing FOMC, ECB, BoJ; Reviewing BoC, RBA, RBI. To download the report, please click here.

MARKET WRAP

Stocks were mixed on Friday as a rally at the NY open unwound through the session with SPX more or less flat and slight strength in the NDX. That comes as Tesla surged yet again (11 days in a row) after the announcement it had partnered with General Motors (GM) to use its North American charging network and technologies. More broadly, on the week, the Nasdaq has now posted its 7th consecutive weekly gain, the longest since Oct-Nov 2019, while the S&P 500 posts four W/W gains, the longest since summer last year - sell in May and go away? Note that the Russell 2k small-cap index on Friday further pared from its highs this week, with the surprise decline in the Canadian jobs report and deflation-threatening Chinese CPI/PPI data capping any exuberance for the real economy-levered index. Treasuries bear-flattened despite weak global data as Dealers make way for next week's condensed supply schedule, hammering the bid on the spike higher in bonds post-CAD jobs. Oil prices settled at lows, and marked the second consecutive week in the red as Dollar strength weighed on top of the weak macro data. The Dollar strength came at the expense of other funders (JPY, EUR, CHF) with activity currencies in G10 (AUD, NZD, GBP) outperforming despite the weak data, albeit CAD was flat.

GLOBAL

CHINA CPI: China CPI -0.2% M/M in May, a little deeper than the expected -0.1%; the annual measure printed +0.2% Y/Y, short of the expected 0.3%, though picking up from the prior 0.1% Y/Y. The data highlights concerns about deflation and a cooling economy in China. Calls are increasing for the PBoC to cut interest rates as a measure to support the economy, with many advocating for rate cuts to ease financing burdens on private businesses and stimulate economic recovery. In addition to a possible RRR adjustment, economists are suggesting that an interest rate cut could be implemented as early as next week, Bloomberg reports. The PBoC has refrained from changing the rate on its one-year MLF since September, instead using other tools like targeted loans to provide support.

CANADIAN JOBS: Canadian jobs surprisingly fell 17.3k in May (prev. +41.4k) against the expected rise of 23.2k. Looking at the internals, the unemployment rate rose to 5.2% from 5.0% while participation rate dipped to 65.5% (prev. 65.6%). Average hourly wage moved lower to 5.1% (prev. 5.2%), but still remains too hot for the BoC, while total hours worked fell 0.4% M/M, the first material drop since September 2022, which is an early indication that GDP contracted in May. Oxford Economics notes, “the labour market finally loosened up in May, and we believe this is just the beginning as the economy slips into recession.” On Wednesday, BoC surprisingly hiked rates by 25bps (against expected unchanged) as it noted it needs to see wage growth slow to the 3%-3.5% range to be confident that underlying inflation will sustainably return to its 2% target. As such, the Bank has one more job report and one inflation report to assess before its next rate decision on July 12th, and Oxford adds “If labour markets, wage growth, and inflation don't slow further as we expect, the BoC would likely hike rates again in July, with even more hike on the table this year.”

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 11 TICKS LOWER AT 113-12+

Treasuries bear-flattened despite weak global data as Dealers make way for next week's condensed supply schedule. 2s +8.9bps at 4.608%, 3s +8.3bps at 4.250%, 5s +6.6bps at 3.922%, 7s +4.9bps at 3.843%, 10s +3.3bps at 3.747%, 20s +0.9bps at 4.054%, 30s +0.1bps at 3.884%.

INFLATION BREAKEVENS: 5yr BEI -1bps at 2.168%, 10yr BEI -0.3bps at 2.223%, 30yr BEI flat at 2.249%.

TOKYO/LONDON: After T-Notes peaked at 113-25 in post-settlement trade on Thursday, contracts pared a few ticks into the APAC Friday session. Chinese May inflation data was the highlight, although it did little to shift the existing consensus in the region with CPI still inexistent (+0.2% Y/Y) whilst PPI fell at an even greater rate (-4.6% Y/Y). The weak inflation data saw 113-18 serve as support until European trade got underway, where fresh lows were made. Traders are in part preparing for next week's front-end loaded coupon supply (details below) ahead of CPI and FOMC but also note the strong Norwegian CPI data at the time.

NEW YORK: T-Notes stretched to interim lows of 113-11 before the surprise decline in Canadian jobs (days after a surprise hike) saw global govvies spike higher, sending T-Notes to joint APAC highs at 113-23. Albeit contracts swiftly reversed with Dealers seizing the liquidity event to hammer the bid in preparation for Treasury auctions on Monday, which overcame the bullish govvie signals from the economic data in China inflation and CAD jobs, but also the latest Redfin survey and BofA institute card data which saw both declining rent price pressures ahead of the official CPI release next Tuesday. Acute dealer concession saw contracts trough at 113-06+, still above the pre-IJC 113-01 gap, before paring losses a few ticks into the NY afternoon, trading in a tight 113-11+/113-15+ range from there into the settlement.

REFUNDING: US to sell USD 40bln of 3yr notes and USD 32bln of 10yr notes (reopening) both on June 12th (Monday), and USD 18bln of 30yr bonds (reopening) on June 13th; all to settle on June 15th. In bills, Treasury left its 13-week and 26-week bill sizes unchanged at USD 65bln and 58bln, respectively, sold on June 12th; to sell USD 45bln of the new 6-week CMBs on June 13th; raised its 1yr bill size to USD 38bln (prev. 36bln) for June 13th; all bills to settle on June 15th.

STIRS:

- SR3M3 -0.5bps at 94.74, U3 -3.5bps at 94.76, Z3 -7bps at 94.965, H4 -11bps at 95.315, M4 -13.5bps at 95.725, U4 -12.5bps at 96.12, Z4 -11bps at 96.42, H5 -9.5bps at 96.615, M5 -9bps at 96.715, M6 -5.5bps at 96.83.
- SOFR flat at 5.05% as of June 8th, volumes fall to USD 1.402tln from 1.429tln.
- NY Fed RRP op demand at USD 2.128tln (prev. 2.142tln) across 102 counterparties (prev. 104); no bill settlements Friday.
- EFFR flat at 5.08% as of June 8th, volumes fall to USD 136bln from 137bln.

CRUDE

WTI (N3) SETTLED USD 1.12 LOWER AT 70.17/BBL; BRENT (Q3) SETTLED USD 1.17 LOWER AT 74.79/BBL

The crude complex settled at lows, and marked the second consecutive week in the red as Dollar strength weighed in thin newsflow as market participants await key risk events. Looking at the week, oil prices rose initially, buoyed by Saudi Arabia's pledge over the weekend but a rise in US fuel stocks and weak Chinese export data later weighed on the complex. On Friday, prices dipped into the NY afternoon in absence of an obvious catalyst aside from positioning into the week-end and week ahead, and perhaps catalysed by the surprise contraction in the Canadian labour force, which added to the weak China CPI and PPI data earlier on. In the energy space today, Reuters reported Shell (SHEL LN) is to scrap its annual oil output cut after already reaching targeted reduction and it is to keep oil output flat or slightly higher into 2023. Meanwhile, Commerzbank sees oil prices climbing to USD 90/bbl by end-2023, as the market is set to tighten noticeably. For catalysts ahead, a UBS note added “As we move deeper into the summer driving season in the Northern Hemisphere, demand will be a key factor in determining whether limited inventories must drive prices higher, or soft demand leads to lower prices". To next week, as mentioned, focus will be on macro events such as US CPI (Tues), FOMC (Wed), ECB, US Retail Sales (Thurs), and BoJ (Fri).

BAKER HUGHES: Albeit not garnering much of a market reaction, Oil rigs in the US rose one to 556, nat gas down two to 135, leaving total rigs down 1 at 695.

NATGAS: Nat gas futures pared some losses after reports in Der Spiegel that the German Government may issue guarantees for LNG shipments from the US. Nonetheless, futures still settled lower by 9.8c at USD 2.254/MMBtu.

EQUITIES

CLOSES: SPX +0.12% at 4,298, NDX +0.30% at 14,528, DJIA +0.13% at 33,876, RUT -0.80% at 1,865.

SECTORS: Technology +0.46%, Consumer Discretionary +0.44%, Health +0.19%, Communication Services +0.13%, Financials +0.07%, Consumer Staples -0.12%, Industrials -0.27%, Real Estate -0.57%, Utilities -0.58%, Energy -0.58%, Materials -0.82%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.18% at 4,289, FTSE 100 -0.49% at 7,562, DAX 40 -0.25% at 15,949, CAC 40 -0.12% at 7,213, FTSE MIB -0.41% at 27,162, IBEX 35 -0.31% at 9,309, SMI -0.53% at 11,248.

STOCK SPECIFICS: **General Motors (GM)** is partnering with **Tesla (TSLA)** to use its North American charging network and technologies. The move is expected to put pressure on other automakers to adopt Tesla's technology - TSLA shares extended their winning run. **ChargePoint (CHPT) and EVgo (EVGO)** saw downside as a result. Moreover, Tesla had Wedbush lift its price target to USD 300 (prev. 215). **Microsoft (MSFT)** price target at BMO raised to USD 385 from 347, reiterates Outperform; "increasingly confident" that it is establishing its position as a leader in AI. **Biogen (BIIB)** shares halted for the whole session, while just before the closing bell the US FDA advisory committee unanimously supports clinical benefit of Eisai's and Biogen (BIIB)'s lecanemab for treatment of Alzheimer's. **NIO (NIO)** reported a shallower loss per share than expected but missed on revenue, gross margin and deliveries. Q2 deliveries and revenue view light. **Adobe (ADBE)** upgraded to Overweight at Wells Fargo with a PT hike to USD 525 from 420 citing increasing confidence generative AI is a tailwind. On top of this, TD Cowen, BMO, Mizuho, and Citi also all raised their PT. Note, ADBE closed Thursday 5% firmer after announcing a new powerful, new-generative AI offering. **Netflix (NFLX)** saw a windfall of new US subscribers as the password-sharing crackdown began, according to WSJ citing Antenna data. Separately, NFLX's price target was raised to USD 535 (prev. 425) at Pivotal Research saying the co. represents a "unique tech growth story". **DocuSign (DOCU)** beat on the top and bottom line with billings +10% Y/Y and subscription revenue +12% Y/Y. Raised FY24 revenue outlook. **Corning (GLW)** upgraded at Morgan Stanley; labelled the cos. business as “derisked.” **Target (TGT)** downgraded at Citi over concerns that sales may have peaked. **Advanced Micro Devices (AMD)** execs said to introduce new data center chips next Tuesday, June 13th. **Braze (BRZE)** posted a shallower loss per share than expected and beat on revenue. Following the report, GS reiterated its buy rating noting AI should help the co. gain market share. **Dish Network (DISH)** appears increasingly desperate to sell assets and raise money, and continues to battle speculation from insiders that it could face bankruptcy, according to New York Post.

WEEKLY FX WRAP

Surprise hikes, dovish sources and some soft data

USD/AUD/CAD - The Dollar remained on track to rack up net losses within a 103.290-104.400 range in DXY terms, and the latest retreat began when the US services ISM came in below expectations with weaker sub-components including new orders, activity and prices paid. However, the Buck succumbed to more downside pressure on Tuesday after the RBA sprung another surprise by lifting the Cash Rate to 4.10% and maintaining guidance for some further tightening as the Bank remains resolute in its determination to return inflation to target. The accompanying statement cited recent data indicating that upside risks to the inflation outlook have increased and the Board has responded to this, while the Board remains alert to the risk that expectations of ongoing high inflation contribute to larger increases in both prices and wages. In response, the Aussie rebounded strongly from near 0.6600 lows against the Greenback and subsequently breached a couple of technical resistance levels just under 0.6700, like a Fib and the 200 DMA, convincingly on the way to peaking at 0.6750. Not to be outdone, the BoC came off the sidelines and its conditional pause with a 25 bp hike of its own on the grounds that monetary policy was not sufficiently restrictive to bring supply and demand back into balance and return inflation sustainably to the 2% target. Usd/Cad duly reversed from circa 1.3427 to 1.3321 or so having already pared back from 1.3461 at the start of the week with assistance via a rebound in crude oil following Saudi Arabia’s unexpected decision to cut production by 1 mn bpd from July. Fast forward to Friday, and the Loonie was clearly anticipating a strong Canadian LFS to back up the BoC, but was wrong-footed as the employment change fell (and would have been even more negative on full time jobs alone), the unemployment rate rose and average hourly earnings for permanent workers ticked down. Nevertheless, Usd/Cad only knee-jerked higher on the premise that market pricing continued to heavily favour no change in rates from the FOMC next week and the probability of a skip was heightened by a spike in weekly initial claims to highs not seen since October 2021.

NOK/NZD/GBP - Much hotter than forecast Norwegian inflation metrics helped the Nok end an otherwise bleak week with a flourish, but the Norges Bank may well have to be more aggressive than the ECB when it comes to hiking and/or revising its rate path to ensure that the cross continues to retrace from almost 11.9100 beyond 11.5540. Similar story for the Kiwi in context of the next RBNZ policy meeting as Nzd/Usd and Aud/Nzd left it late to turn the tide, notwithstanding the fact that Monday was a NZ holiday, with the former rebounding just over 100 pips from 0.6032 and the latter easing back from 1.1032, albeit still well above the sub-1.0900 base in recognition of the RBA’s back-to-back ¼ point rate increases after a one month pause. Elsewhere, the Pound’s resurgence started in earnest from midweek and gathered momentum to a crescendo on Friday when Cable got to within 10 pips of 1.2600 compared to 1.2369 at the other end of the spectrum, while Eur/Gbp made a cleaner break from 0.8636 through 0.8550 on chart impulses and perceptions that the BoE could be compelled to raise rates a lot higher given stickier and more persistent UK price pressures relative to the US and Eurozone.

JPY/EUR/CHF - The Yen consolidated off recent lows between 140.45-138.76 parameters vs the Dollar, but was capped by Fib resistance and importer bids along with widening UST-JGB yield differentials ahead of the Fed and BoJ as Governor Ueda persisted with dovish guidance and sources echoed the likelihood of no near term tweak in YCC or other ultra-accommodative policy settings. On that note, the Euro was hampered to an extent by ECB sources suggesting that the GC is shifting to the view of two more 25 bp hikes in the cycle, and the latter either in July or September post-recess depending on the nature of revised forecasts. This countered some of the ongoing hawkish communication from ECB officials including President Lagarde and especially Nagel, but held sway after the April Consumer Expectations Survey revealed marked downgrades to 1 year inflation projection in particular (vs moderately softer 3 year ahead estimate). Nonetheless, Eur/Usd retained the bulk of its upside within 1.0668-1.0786 bounds on the prospect of the FOMC standing pat this month, while the ECB delivers another 25 bp hike. Staying with that theme, and irrespective of softer Swiss CPI and core prints, comments from SNB Chair Jordan underscored expectations of further tightening in June as he said inflation is more persistent than we had thought, the Bank is seeing second and third round effects, Swiss interest rates are relatively low and it is not a good idea to wait for inflation to rise and then have to hike rates. A 25 bp hike is currently being factored in, but ½ point cannot be ruled out.

SEK/EM - Some respite for the Sek as the week progressed, but no real sign of an end to the losing streak, while the Cny and Cnh were undermined by worrying Chinese trade data, weak CPI and PPI readings that infer more stimulus may be needed to support the economy on top of the reduction in Usd depo rates administered by China’s largest banks. Meanwhile, the Zar accumulated bigger and largely corrective gains, the Mxn and Brl strengthened on tech factors, rate premium and underlying commodities, in stark contrast to the Try that plummeted to a series of deeper all time lows regardless of Turkish President Erdogan appointing more so-called market friendly, respected and orthodox people to primary roles, like Erkan as new CBRT Governor. Note also, Lira devaluation failed to stop even though CPI topped consensus and analysts ratcheted up rate hike forecasts.