US Market Wrap

12th June 2023: Big Tech squeezes market higher into CPI and FOMC

- **SNAPSHOT**: Equities up, Treasuries bull-steepen, Crude down, Dollar flat.
- **REAR VIEW**: NY Fed consumer l/t inflation expectations rise; banks warn of rising deposit betas; FTC looks to stop MSFT/ATVI deal; Disappointing 3yr and 10yr auctions.
- **COMING UP**: **Data**: US CPI, UK Jobs Report, EU & German ZEW **Speakers**: BoE's Bailey, Dhingra; ECB's Enria **Supply**: Italy, UK, German & US.
- **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

The SPX and NDX broke to fresh YTD highs on Monday with big tech leading as yields moved lower ahead of CPI and the FOMC. There was little key data or weekend catalysts for traders to dig into - a rise in the medium and long-term NY Fed's consumer inflation expectations was the US 'highlight' ahead of Tuesday's CPI. Treasuries bull-steepened by a few bps, with yields choppy, amid heavy supply, pre-event positioning, and tumbling oil prices. On the latter, Brent crude settled at multi-year lows after one of Wall Street's biggest commodity bulls, Goldman's Currie, slashed his price forecasts - prices trundled lower through the session. In FX, the Dollar index was ultimately little changed, although the Pound was a particular underperformer as UK yields reapproach the Truss tyranny zone. Otherwise, bank guidance was a key theme in the US with Morgan Stanley's conference getting underway, with the likes of KeyBanc (KEY) and Citizens Financial (CFG) slashing interest income guidance as the pair flagged headwinds from rising deposit betas. Meanwhile, Bank of America (BAC) CEO Moynihan said on CNBC that the economy is slowing down - the latest bulge bracket to flag concerns.

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FRBNY SURVEY: The NY Fed's May Consumer Survey saw median 1yr-ahead inflation expectations fall to 4.1% (prev. 4.4%), 3yr-ahead rise to 3% (prev. 2.9%), and 5yr-ahead rise to 2.7% (prev. 2.6%). While the 1yr ahead expectations being at their lowest since May 2021 caught the media limelight, some raising of eyebrows will be made at the longer-term inflation gauges with similar concerns raised in the May Uni of Michigan survey. Nonetheless, the 3yr and 5yr gauges remain beneath their recent peaks of 4.2% and 3.0%, respectively, unlike the 5-10yr gauge in the Uni of Michigan survey which has been flirting with its highest since 2011 - we get the June Uni of Michigan preliminary figures on Friday. Elsewhere in the NY Fed report, commentary said labour market expectations were mixed with expected earnings growth declining, and unemployment expectations and perceived job loss risk improving. While Households' perceptions and expectations for credit conditions and their own financial situations deteriorated slightly.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLE 1 TICK LOWER AT 113-11+

Treasuries bull-steepened amid heavy supply, oil prices tumbling, and positioning into CPI and FOMC. 2s -2.7 bps at 4.577%, 3s -2.9bps at 4.218%, 5s -2.3bps at 3.895%, 7s -1.6bps at 3.825%, 10s -0.5bps at 3.740%, 20s -0.7bps at 4.051%, 30s -0.6bps at 3.881%.

INFLATION BREAKEVENS: 5yr BEI -2.2bps at 2.147%, 10yr BEI -1.5bps at 2.208%, 30yr BEI -0.9bps at 2.239%.

THE DAY: Govvies lacked direction during APAC on Monday and the European morning with a lack of fresh catalysts out of the weekend and some trepidation ahead of this week's calendar bonanza. T-Notes found support initially at 113-06+ in the European morning, which was the low from Friday when acute selling was seen in anticipation of this week's supply. Contracts saw a surge higher at the NY handover, with the front end leading in anticipation of Tuesday's CPI and Wednesday's FOMC. Perhaps also some geopolitical fears on headlines that the US is preparing to evacuate its own citizens from Taiwan amid heightened tensions. T-Notes peaked at 113-21+, just shy of the post-CAD jobs report high of

113-23 from Friday before reversing back to session lows of 113-03 all before lunchtime in NY as a fairly busy supply calendar was accompanied by rate-lock related flows (Tsy selling/swap paying) in otherwise light trade - no doubt the approaching Treasury supply saw little eager to stand in the way. The 3yr and 10yr coupon auctions were sold within 90mins of each other and both saw lacklustre demand, but given the event risk and condensed auction calendar, the figures were 'good enough' to help Treasuries pare losses into the close. Particularly as the NDX leads stocks higher with some bulls eager to get ahead of the approaching CPI and FOMC. That's also not to mention the tumble to multi-year lows in oil prices as Wall Street's biggest oil bull slashed his price forecasts.

3YR AUCTION: An average 3yr auction on the face of it, but more respectable when factoring in the event risk in CPI and FOMC, not to mention the slew of bill sales and 10yr supply also on Monday. The auction stopped at 4.202%, significantly cheaper than last month's 3.695%, which still wasn't enough to stop the auction tailing 0.2bps, as opposed to last month's 2.8bp stop-through, but in line with the six-auction average. The auction was covered 2.70x, better than the avg. 2.56x but a fall from last month's stellar 2.93x. Dealers were left with 16.7% (prev. 13%), a bit better than average. That was composed of a massive shift from Indirects demand (61.5% vs prior 73.4%) to Directs (21.7% from 13.7%).

10YR AUCTION: The 10yr auction was disappointing. The USD 32bln reopening stopped at 3.791%, offering more than last month's 3.448% but still tailing a larger 1.5bps (prev. 0.9bps, which is also the six-auction avg.). The auction was covered 2.36x, beneath the prior (and avg.) 2.45x. After the heavy govvie selling on Friday, which was linked to the Dealer community making room for this week's supply, the cohort was indeed left with a sizeable 17.8% (prev. 13%; avg. 15%), with Indirect participation falling to 62.3% from 67.5% whilst Directs rose marginally to 19.9%. Some mild selling in Treasuries in wake of was swiftly unwound. Tuesday sees the 6- and 52-week auctions alongside the 30yr bond reopening.

THIS WEEK:

- TUE: OPEC MOMR, German Final CPI (May), UK Jobs Data (Apr/May), German ZEW Survey (Jun), US CPI (May).
- WED: FOMC Announcement, IEA OMR (2024 Forecast), UK GDP (Apr), Swedish CPIF (May), EZ Industrial Production (Apr), US PPI (May), New Zealand GDP (Q1).
- THU: ECB Announcement, PBoC MLF Announcement, Eurogroup meeting, Japanese Trade Balance (May), Australian Job Report (May), Chinese Retail Sales and Industrial Production (May), US Philly Fed (Jun), US Retail Sales (May).
- FRI: BoJ Announcement, ECB TLTRO III.5-10 Repayment, EZ Final CPI (May), Uni. of Michigan Prelim. (Jun), Quad Witching.

STIRS:

- SR3M3 -0.75bps at 94.73, U3 -2bps at 94.74, Z3 -0.5bps at 94.96, H4 +2bps at 95.335, M4 +4bps at 95.77, U4 +5.5bps at 96.175, Z4 +4.5bps at 96.465, H5 +3.5bps at 96.65, M5 +2.5bps at 96.74, M6 +3bps at 96.86.
- SOFR flat at 5.05% as of June 9th, volumes fell to USD 1.392tln from 1.402tln.
- NY Fed RRP op demand at USD 2.127tln (prev. 2.128tln) across 106 counterparties (prev. 102).
- GC opened unchanged at 5.09% bid on Monday with no settlement flows, with 10yr on the runs increasing in 'specialness' again, bid 127bps through GC ahead of the auction settlement on Thursday.
- EFFR flat at 5.08% as of June 9th, volumes fell to USD 133bln from 136bln.
- US sold USD 61bln of 6-month bills at 5.155%, covered 3.02x, stop-through 1.5bps; sold USD 69bln of 3-month bills at 5.150%, covered 2.99x, 0.5bp stop-through.

CRUDE

WTI (N3) SETTLES USD 3.05 LOWER AT 67.12/BBL; BRENT (Q3) SETTLES USD 2.95 LOWER AT 71.84/BBL

Oil prices tumbled on Monday after Goldman Sachs, a staunch bull, threw in the towel and slashed its price forecasts. Goldman's Jeff Currie, who has been driving a "commodity supercycle" narrative for years now said, "Oil prices are down USD 10/bbl over the past two months despite last week’s announcement that Saudi Arabia will deliver an extra extendable production cut... we are lowering our December 2023 Brent forecast to USD 86/bbl from 95/bbl previously." The firm catalysed selling on overarching bearish themes: too much oil sloshing around the world; SPR releases; more Russian oil production than anticipated. Meanwhile, Reuters reported that Saudi Aramco has told at least five customers in North Asia they will receive full nominated volumes of oil in July amid its pledge to cut production from July to 9mln BPD from 10mln BPD. Iraq's Parliament approved a record 2023 Budget - raising fiscal sustainability concerns - which factors in an oil price at USD 70/bbl and projects exports of 3.5mln BPD (currently 3.31mln BPD in June according to Refinitiv), including 400k BPD from the Kurdish region.

EQUITIES

CLOSES: SPX +0.93% at 4,339, NDX +1.76% at 14,784, DJI +0.56% at 34,066, RUT +0.4% at 1,873.

SECTORS: Technology +2.07%, Consumer Discretionary +1.74%, Communication Services +1.2%, Industrials +0.7%, Health Care +0.46%, Materials +0.44%, Real Estate +0.03%, Consumer Staples +0.01%, Financials -0.09%, Utilities -0.17%, Energy -0.97%.

EUROPEAN CLOSES: EUROPEAN CLOSES: Euro Stoxx 50 +0.62% at 4,316, FTSE 100 +0.11% at 7,570, DAX 40 +0.93% at 16,097, CAC 40 +0.52% at 7,250, FTSE MIB +0.91% at 27,410, IBEX 35 +0.37% at 9,344, SMI +0.46% at 11,306.

STOCK SPECIFICS: The US FTC will seek to keep **Microsoft's (MSFT) Activision (ATVI)** deal from closing; FTC is to file in federal court in California as soon as Monday with the court filing seeking a pause until August FTC trial resolution. **Nasdaq (NDAQ)** is to acquire Adenza from Thoma Bravo for USD 10.5bln in cash and stock. Would be NDAQ's largest acquisition as it sharpens its focus on financial technology and attempts to diversify. **NIO (NIO)** cut starting prices on all models and said it will no longer provide free battery swapping services to new users. US FDA advisory committee unanimously support the clinical benefit of **Biogen (BIIB) and Eisai's (ESALF)** Alzheimer's treatment drug. EU antitrust regulators are set to approve **Broadcom's (AVGO)** USD 61bln bid for **VMware (VMW)**, according to Reuters citing sources. **Illumina (ILMN)** board accepted the resignation of CEO and Director Francis deSouza, effective immediately; move follows pressure from activist investor Carl Icahn. **Novartis (NVS)** is to acquire **Chinook (KDNY)** for USD 3.2bln, expected to close in H2. **Oracle (ORCL)** was upgraded at Wolfe Research; citing accelerating sales and earnings growth from cloud adoption and AI tailwinds. Evercore ISI, Barclays and JPMorgan all raised their respective price targets for the stock in recent days ahead of earnings after-hours today. **Carnival (CCL)** was upgraded at both BofA and JPM; cited continued demand momentum in the cruise industry. **Advanced Micro Devices (AMD)** price target was raised to USD 145 (prev. 95) at Wedbush. Separately, AMD is to showcase next-generation data center and AI technology at the "AMD Data Centre and AI Tech. Premiere" on June 13th. **Adobe (ADBE)** price target was raised to USD 530 (prev. 440) at Jefferies whilst maintaining a Buy rating. Jefferies expects the co. to report slight upside to Q2 estimates on a "resilient" macro environment and solid channel checks. However, the bigger investors' focus remains on the Figma acquisition and AI. **XPeng (XPEV)** reported over 25k in G6 pre-sale orders in 72 hours. **Lumen (LUMN)** announced a new network interconnection ecosystem called ExaSwitch, created in collaboration with Google (GOOGL) and Microsoft (MSFT). Raymond James added **Southwest Airlines (LUV)** to its current favorites list and made no change to the Strong Buy rating.

FINANCIALS: **Truist (TFC)** lowered revenue guidance, noting a topline revenue decline is expected for the quarter (prev. relatively stable), adding it sees 3% revenue growth for the FY (exp. 5.9%, prev. 5-7%). **KeyCorp (KEY)** lowered its NII guidance and also noted headwinds from deposit betas. **Citizens (CFG)** CFO said they have tightened on the underwriting side and are seeing higher-than-expected charge-offs. Additionally, CFG added NII could fall short of prior guidance by a bit (prev. saw 3% decline Q/Q) citing deposit betas. **State Street (STT)** sees Q2 NII in line with prior guidance, but down 5-10% Q/Q (exp. -7.5%) while its fee revenue is seen +4-4.5% in Q2. **Morgan Stanley (MS)** CEO Gormon expects more consolidation in the asset management space and circa 25% of AUM are currently in cash or cash equivalents. Gormon sees the bank doing deals in asset management and is agnostic about geography. **Goldman Sachs (GS)** CEO Solomon said he thinks it is a period to be a little cautious and thinks inflation is a little bit stickier. He added the real estate market has come under pressure and expects more real estate lending impairments this quarter. Looking ahead, Solomon expects capital market activity to pick up next year and is a big believer that there needs to be more consolidation in banking.

US FX WRAP

The Dollar tracked Treasury yields on Monday, initially catching a bid from the rise in longer-term yields amid heavy supply ahead of key risk events this week including US CPI on Tuesday and the Federal Reserve rate decision on Wednesday (Newsquawk Fed preview here). However, yields later reversed and the gains had completely unwound. Data was light Monday, although the latest NY Fed Consumer Inflation expectations saw a move lower to the shorter 1yr ahead forecasts, but the medium (3yr) and longer term (5yr) were revised up, something that the Fed will pay close attention to given anxiety around unstable infation expectations. DXY hit a peak of 103.75, and held above the 7th June low of 103.64 for the tail end of the session.

The Euro was flat vs the buck but nonetheless was still a G7 outperformer and EUR/USD hit a high of 1.0790 on Monday morning before paring to c. 1.0750 with the move lower being led by the earlier drive higher in US yields. The highlight domestically for the single currency this week will be the ECB rate decision on Thursday, full [Newsquawk ECB Preview available here].

The Yen unwound strength on the NY morning rise in UST yields, seeing USD/JPY hit a high of 139.76 after testing the 21dma at 139.04, but failed to reclaim strength despite yields moving back lower into the close. The BoJ rate decision Friday serves as the key domestic event risk for the currency, although little fireworks are expected but what will be more influential on USD/JPY will be the CPI and FOMC on Tuesday and Wednesday, respectively.

Antipodeans were mixed. The Aussie saw a high of 0.6773 earlier on before paring to just slight firmer levels around 0.6750 as the Dollar gain took the cross from its highs while lower metal prices also weighed but participants now look to consumer sentiment, NAB business conditions and confidence data. NZD/USD was flat, falling from earlier highs of 0.6152 to lows of 0.6107 but found support just above 0.6100. AUD/NZD rose from lows of 1.10 to highs of 1.1039.

The Pound was the laggard after hitting a one-month high of 1.2599 earlier on, rejecting the 1.26 handle and then trending lower throughout the rest of the session. It is worth noting that UK front-end rates have revisited the peaks seen in the aftermath of "Trussonomics" last September, perhaps sparking some fiscal concerns, although the rate move is primarily led by the high and sticky UK inflation with money markets fully pricing in a 25bp hike to 4.75% with a 20% probability of a 50bp move at the June 22nd meeting.

The Loonie saw marginal weakness vs the buck as oil prices tumbled with USD/CAD hitting a high of 1.3383 from lows of 1.3316. Note the relative underperformance of CAD to other activity currencies in the days following the surprise BoC hike at the end of last week, which could be capping further weakness.

EMFX was mixed. BRL saw gains while MXN and COP were flat, but CLP tumbled. The pronounced weakness in CLP came after Chile announced a USD 10bln programme steps to boost international reserves while weakness in copper prices only added to the CLP woes. MXN looked past the slump in oil prices while COP was also flat, but Columbia was shut for a holiday. BRL had little reaction to BCB Chief Neto comments who still notes the data does not support rate cuts, while refusing to state what will be done at next week's meeting. TRY hit a fresh record low again in the fallout from Erdogan naming yet another new CBRT Governor last week, Hafize Gaye Erkan. JPMorgan now expects the central bank to hike to 25% from the current 8.5% rate. CEE saw weakness in general, but particularly the CZK despite initial strength on hotter than expected inflation for May, albeit it did cool from the prior and the CNB said it was 0.5% lower than expected in the Spring forecast. Later, the CNB stated there is no need to hike rates further and inflation is easing as expected, adding rate cuts could start in Q4 or in 2024.