US Market Wrap

13th June 2023: Yields soar to post-SVB highs amid pre-Fed positioning after in-line core CPI

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar down.
- **REAR VIEW**: Stubborn CPI keeps a higher 2023 Fed Dot in play for Wednesday; PBoC lowers short-term lending rate & China is considering measures to boost the economy; Hot UK wages further cements BoE tightening; ZEW remains bleak; Norwegian GDP poses a growth headache; OPEC MOMR sees demand forecasts unchanged M /M; Dovish Dhingra; AMD AI event fails to impress; AAPL downgraded at UBS; Mixed banking commentary.
- **COMING UP**: **Data**: US PPI, EU Industrial Production, UK GDP Estimate, Sweden CPI **Events**: FOMC Policy Announcement **Speakers**: Fed's Powell **Supply**: Germany.

MARKET WRAP

Stocks were firmer Tuesday after the in-line core CPI data all but confirmed an unchanged Fed rate on Wednesday, but struggled to sustain gains as front-end yields climbed further. The major indices jumped higher in reaction to the data: Core CPI fell to 5.3% Y/Y from 5.5%, with upward pressures from shelter and used car prices, which many argue are transitory factors given more timely survey data points to downside ahead. Fed pricing for a hike tomorrow fell to c. 5% risk from 25% beforehand. But, WSJ's Timiraos warned later that the Fed could ramp its Dot Plot which was a key factor in USTs reversing their initial spike higher, particularly the front-end, with yields breaking to new post-SVB peaks. The Dollar was lower but managed to pare some of its post-CPI losses as yields flipped higher, while the Pound saw big strength as UK yields continued their ascent after the solid jobs report. Oil was firmer by a few bucks, recovering most of Monday's losses, primarily on the PBoC lowering the short-term lending rate overnight for the first time in 10 months which came in the wake of strength in the European morning after Bloomberg sources noted China is considering measures to boost the economy, including rate cuts. In stocks, note that Tesla (TSLA) extended its winning streak to 13 days, AMD (AMD) tumbled amid its AI day lacking the temerity that Nvidia's (NVDA) did, which itself posted a solid session of strength. On banks, we got a slew of further downgrades in NII guidance across regionals amid rising deposit betas. JPMorgan (JPM) warned that consumers have seen a deceleration of growth in spending. Finally, on liquidity, note the Fed's RRP facility has hit its lowest level since mid-March, with the TGA rebuild (via bill sales) appearing to be draining the facility so far, rather than bank reserves, which will please policymakers who fear over bank funding.

US

FOMC PREVIEW: The FOMC is expected to leave rates unchanged at 5.00-5.25% on Wednesday, absent a surprise rise in the May CPI data. The accompanying 'Dot Plot' will go a long way in dressing the unchanged decision as a 'pause' or a 'skip', where the absence of an increase to the 2023 median rate dot will struggle to see the 'skip' nomenclature hold ground, reflecting diminishing power amongst the hawks. Doves will be hesitant to back guidance around further hikes over fears of a future event in the banking sector, a view that appears more in line with the Fed hierarchy than not. To download the full Newsquawk preview, please click here.

CPI: US CPI in May rose 0.1% M/M (exp. 0.2%; prev. 0.4%) and 4% Y/Y (exp. 4.1%; prev. 4.9%). The core, however, rose at a stronger 0.4% M/M rate (exp. 0.4%; prev. +0.4%), with the core Y/Y falling to 5.3% (exp. 5.3%; prev. 5.5%). The softer headline figures continue to be weighed on by a sharp decline in energy prices and just modest food price inflation. Meanwhile, core CPI is being driven by increases in rents and used vehicle prices - items which many expect to move lower in the months ahead with third-party survey data pointing to a softening. Pantheon Macroeconomics is in that camp, "Given that rents and used vehicles accounted for four-fifth of the increase in the May core, this signals a good chance of 0.2% core prints very soon." While there seems to be a consensus building on those declines in core for the near term, there remains deep scepticism on whether we can get to the 2% target anytime soon. Economist Jason Furman notes, "The most standard measure of core inflation is running at a 5% rate. That almost certainly overstates current underlying inflation. But by how much? How much will it fall? I expect some but have no confidence it is falling to 3% let alone 2%." As far as the Fed is concerned, SGH Macro's Tim Duy says the report doesn't have enough to stop the Fed from holding rates unchanged Wednesday, but, "It's sufficient... to keep the Fed's focus on hiking again in July, making this meeting a skip rather than a pause." Indeed, after the data WSJ's Timiraos, whose insider info is linked to the Fed's Board of Governors, said, "Fed is expected to hold rates steady on Wednesday, with the May CPI report doing little to change the very near-term outlook... officials could use their quarterly projections to signal another rate rise is now the base case".

NFIB: NFIB business optimism index marginally rose to 89.40 in May from 89.0. Within the release, the key findings include that 44% of owners reported job openings that were hard to fill, down one point from April and remaining historically very high. Additionally, the net percent of owners raising average selling prices decreased one point to a net 32% (seasonally adjusted), still an inflationary level but trending down. Moreover, the net percent of owners who expect real sales to be higher deteriorated two points from April to a net negative 21%. Overall, NFIB's Drunkelberg said, "Small business owners are expressing concerns for future business conditions... Supply chain disruptions and labor shortages will continue to limit the ability of many small firms to meet the demand for their products and services, while less severe than last year's experience."

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 22 TICKS LOWER AT 112-21+

Treasuries bear-flattened as yields rose to post-SVB peaks as stubborn CPI keeps a higher Dot Plot in play for Wednesday. 2s +8.7bps at 4.679%, 3s +9.2bps at 4.290%, 5s +8.9bps at 4.005%, 7s +8.3bps at 3.931%, 10s +6.4bps at 3.829%, 20s +4.2bps at 4.116%, 30s +2.9bps at 3.935%.

INFLATION BREAKEVENS: 5yr BEI +0.5bps at 2.150%, 10yr BEI +1.3bps at 2.221%, 30yr BEI +0.7bps at 2.245%.

TOKYO/LONDON: Treasuries entered the NY Tuesday session mixed ahead of CPI, with APAC Tuesday seeing a 'surprise' -10bps cut in China's 7-day RRP rate. UK selling pressures were also in focus with the UK 2yr yield entering levels last seen during Truss' reign after the strong UK labour market data. T-Notes ran up against resistance at 113-22 in the Tokyo morning, drifting to support at 113-14+ at the London handover. Contracts remained rangebound into the US session, and as CPI approached, a big 19k FV/8k TN curve block went through.

NEW YORK: There was particularly noticeable strength in the long end just before CPI in what was dressed as positioning. The May data had some promising internals that traders latched onto, with Fed hike pricing for Wednesday unwinding to near 0% vs 25% pre-data. T-Notes fell from 113-23 to lows of 113-05, only to swiftly reverse to peaks of 114-00 within a few minutes post-data. 14k 2yr and 6.5k 5yr futs block buys were seen after the data. But, Fed whisperer (WSJ's) Nick Timiraos soon wrote, "Fed is expected to hold rates steady on Wednesday, with the May CPI report doing little to change the very near-term outlook... officials could use their quarterly projections to signal another rate rise is now the base case". That last bit weighed on the curve (Bloomberg's economist survey expected no change to Fed 2023 Dot) given the indication of a higher terminal rate forecast.

T-Notes broke beneath their initial lows of 113-05 later in the NY morning, aided by the positioning into the Fed and as commodities held onto strength post-China stimulus. Some of the pullback was in part a function of the approaching 30yr bond auction, but that was ultimately solid and the selling continued after then even. T-Notes broke beneath their post-SVB May double bottom at 112-29+ and ultimately troughed at 112-20+ in late trade, although it was the front end leading the move (in fitting with pre-Fed hawkish positioning), with the cash 2yr yield breaking above its May high of 4.64% to peak at 4.71% (techs flag next support at 4.86%).

30YR AUCTION: A decent 30yr bond auction with CPI in the rear-view and benefitting after the long-end reversed its initial post-data spike. The USD 18bln reopening stopped at 3.908%, more attractive than last month's 3.741%, but the 1.1bp stop-through wasn't as firm as the prior 1.5bp, but still much better than the six-auction avg. 0.5bp tail. The auction was covered 2.52x, better than the prior and average. Dealers were left with 9% (prev. 10.2%), joint lowest of the year alongside January, with Directs and Indirects both seeing marginal increases in participation.

AHEAD:

- WED: ***FOMC Announcement***, 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 +5bps at 94.78, U3 flat at 94.735, Z3 -7bps at 94.885, H4 -12bps at 95.205, M4 -14.5bps at 95.615, U4 -15bps at 96.01, Z4 -15bps at 96.30, H5 -14.5bps at 96.49, M5 -13.5bps at 96.59, M6 -9.5bps at 96.75.
- SOFR flat at 5.05% as of June 12th, volumes rise to USD 1.399tln from 1.392tln.
- NY Fed RRP op demand falls to USD 2.075tln (lowest since March 16th) from 2.127tln across 105 counterparties (prev. 106); comes amid USD 35bln bill settlement, likely explaining a large amount of the USD 52bln decline.
- RRP decline is a positive as far as the Fed is concerned given evidence the TGA rebuild is not draining bank reserves (which could risk financial stability).
- EFFR flat at 5.08% as of June 12th, volumes edge higher to USD 134bln from 133bln.
- US sold USD 45bln of 42-day CMBs at 5.020%, covered 3.38x; sold USD 40bln of 1yr bills at 4.930%, covered 2.83x.
- Treasury announced increases to its 4- and 8-week bills to USD 65bln and 55bln, respectively, from 60bln and 50bln, both sold on June 15th; left 17-week bills unchanged at USD 46bln, sold on June 14th; all three bills to settle on June 20th.

CRUDE

WTI (N3) SETTLED USD 2.30 HIGHER AT 69.42/BBL; BRENT (Q3) SETTLED USD 2.45 HIGHER AT 74.29/BBL

Oil was in the black on Tuesday, recovering most of Monday's losses, primarily on the PBoC lowering the short-term lending rate overnight for the first time in 10 months which came in the wake of strength in the European morning after Bloomberg sources noted China is considering measures to boost the economy, including rate cuts. The sources added further plans include at least a dozen measures to support domestic demand and the property sector. As a reminder, on June 2nd via Bloomberg sources, it was reported China is reportedly mulling a property-market support package to bolster the economy. In other news, Goldman Sachs Currie spoke on CNBC to stress he had not changed his long-term supercycle thesis on oil which came after Monday's downside was attributed to the strategists slashing of mid-term price forecasts. On the data docket, US CPI was a welcome report as the headline figures cooled more than expected, albeit remaining elevated, while the core was in line ahead of the FOMC rate decision Wednesday. Elsewhere, private inventory data is after-hours where the current expectations are: Crude -0.5mln, Distillate +1.2mln, Gasoline +0.3mln.

RUSSIA/KAZAKHSTAN: Kazakhstan has reportedly increased oil output by 9% from June 8th to 256.6k BPD following the recovery of the Kashgan oilfield, according to data and sources cited by Reuters. Separately, Reuters reported Russia's May Seaborn oil product exports -14.7% M/M.

OPEC MOMR: Demand forecasts were unchanged M/M; OPEC May production decreased with output from Saudi, UAE, and Kuwait declining. Further, on the demand front, forecasts for China, LatAm, and the Middle East were revised up slightly, while OECD Europe, Other Asia and Africa were adjusted slightly lower. On supply, prelim data indicate May's global oil supply decreased by 1.0mln BPD M/M (vs -0.5mln BPD M/M in April) to average 100.2mln BPD (prev. 101.3 mln BPD), up by 1.7mln BPD Y/Y. Overall, the release is backwards looking and does not encompass the latest OPEC+ meeting. Furthermore, the report comes before the latest round of stimulus flagged for China, on top of the aforementioned cut to the short-term interbank funding rate and measures being mulled to bolster the economy.

EQUITIES

CLOSES: SPX +0.69% at 4,369, NDX +0.79% at 14,900, DJIA +0.43% at 34,212, RUT +1.23% at 1,896.

SECTORS: Materials +2.33%, Industrials +1.16%, Consumer Discretionary +1%, Technology +0.71%, Real Estate +0.62%, Financials +0.62%, Health +0.53%, Energy +0.47%, Consumer Staples +0.42%, Communication Services +0.27%, Utilities -0.06%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.72% at 4,347, FTSE 100 +0.32% at 7,594, DAX 40 +0.83% at 16,230, CAC 40 +0.56% at 7,290, FTSE MIB +0.57% at 27,566, IBEX 35 -0.11% at 9,333, SMI +0.26% at 11,330.

STOCK SPECIFICS: **Apple (AAPL)** downgraded at UBS; said it sees continued pressure for iPhone demand even with support from emerging markets. **Oracle (ORCL)** beat expectations on the top and bottom line alongside raising quarterly dividend. Q1 guidance more-or-less inline but is seeing unprecedented demand for cloud services and especially AI services. **Home Depot (HD)** reaffirmed FY23 outlook; sees sales growth between 3-4% per year and overall home improvement market to grow by low-single digits in market stability base case. CEO said they are super bullish on housing in the long term. **Bunge (BG)** is to combine with **Glencore's (GLEN LN)** Viterra in a USD 18bln deal including debt. **Methode Electronics (MEI)** lowered FY23 EPS and revenue view. **NexTier Oilfield Solutions (NEX) and**

Patterson-UTI Energy (PTEN) are in discussions over a potential tie-up that would establish a major player in the oilfield services industry, according to WSJ sources. **First Horizon (FHN)** downgraded at JPMorgan; cited the near-term outlook looking uncertain amid rising expenses. **Disney (DIS)** delays 'Avengers,' 'Star Wars,' and 'Avatar' films.

FINANCIALS: **Zions (ZION)** COO issued cautious commentary around NIM and NII; said its NII outlook was "decreasing" (prev. "moderately decreasing) and sees Q2 NIM trending towards 2.85% (prev. 3.33% in Q1). Added, pricing on deposits led to lower earnings guidance and the beta is likely to go up. Note, Zion is the latest bank to warn about rising deposit betas hitting its profitability after KeyCorp (KEY) and Citizens (CFG). **Wells Fargo (WFC)** CFO said deposits have been stable in the last few quarters and consumer spending is still healthy highlighted by credit card spending up ~10% in April and May. Expects upside on NII going ahead but likely to see some losses in the CRE portfolio. **Comerica (CMA)** also expects NII to be at the low end of its target range. However, still expects to be moderately above 2022 results but is more cautious about the balance sheet on the lending side with the deposit guide still intact. **US Bancorp (USB)** reiterated FY23 NIM guidance of 3-3.05% but does see elevated cash levels weighing down NIM. **PNC Financial (PNC)** CFO added not likely to see an acquisition in the near term, but plans to continue bolt-on acquisitions; the quarter is playing out as expected with NII in line, which marks an exception from other regionals slashing their NII guidance. PNC said its seeing some slowdown in loan growth and deposit balances match trends in industry data. **JPMorgan's (JPM)** Piepszak said the deposit environment is "certainly very competitive" and consumers continue to be very resilient but have seen a "deceleration of growth." Noted the median consumer cash buffer 20% above the pre-pandemic level.

AMD: Debuts AMD Ryzen Pro 7040 and 7000 Series, while at its AI event, CEO said it is still very, very early in the lifecycle of AI and sees potential for 50% compound annual growth rate to USD 150bln in 2027. Announces instinct MI300x accelerator for generative AI, but some investors were disappointed after sampling of the new accelerator to come in Q3 with production only to come in Q4. In addition, some point to perhaps lofty expectations after Nvidia (NVDA), with AMD shares tumbling through the announcements. Finally, Amazon (AMZN) announced AWS will offer Genoa AMD (AMD) CPU starting later this year and Oracle (ORCL) will offer Genoa starting in July.

US FX WRAP

The Dollar was lower on Tuesday but managed to pare some of its post-CPI losses as the Buck extended to troughs of 103.040 in wake of the report. The US CPI data supported expectations that the Fed would refrain from raising rates on Wednesday after the headline cooled more-than-expected for both M/M and Y/Y, albeit core measures were in line, with the Core Y/Y at a lofty 5.3%. Fed whisperer (WSJ's) Timiraos said after the data the Fed is expected to hold rates steady, with the CPI report doing little to change the very near-term outlook, although officials could use their SEPs to signal another rate rise is now the base case - that last bit appeared to drive the move higher in front-end yields through into the NY afternoon to post-SVB highs, supporting the Dollar index off lows. Looking ahead, all attention turns to the aforementioned FOMC on Wednesday, but before that there is PPI.

The Pound saw strength with Cable hitting a high of 1.2624 as technicians noted the cross broke through some key resistance levels. In contrast to the Fed, BoE tightening expectations ratcheted higher for June and well beyond on the back of the latest UK jobs report that was stronger than anticipated on all counts, including average earnings, the employment change and unemployment rate, while the claimant count fell and HMRC payrolls rose after a big upward revision to the previous month. This prompted a firmer rebound in the Pound along with passing impetus from BoE testimony as MPC appointee Greene told the Treasury Select Committee that labour market conditions are surprisingly tight, indicators are not evolving as one might expect given significant monetary policy tightening and there are some second-round inflation effects. Although, Cable did not top 1.2600 until after the aforementioned post-US CPI Buck decline and Sterling still had to face comments from arch BoE dove Dhingra. In the event, the recent hike dissenter conceded that inflation remains too high relative to target, but stuck to her script that lags in monetary policy transmission imply there is little we can do to affect inflation in the immediate future, therefore the focus should be on the medium term.

Activity currencies, CAD, NZD, and AUD, all saw gains to varying degrees as they took advantage of the aforementioned Dollar demise. In addition, the Loonie also saw tailwinds from the crude complex which retraced the majority of Monday's losses after the PBoC lowered the short-term lending rate overnight on top of Bloomberg sources noting China is considering measures to boost the economy (more below). As such, USD/CAD hit a low of 1.3287 but is back above the key 1.3300 at pixel time. AUD/USD and NZD/USD traded between 0.6739-6807 and 0.6107-78, respectively, but are currently off best levels as the CPI gains somewhat fade. Aussie watchers seemingly ignored the downbeat NAB business conditions/confidence and consumer sentiment during the APAC session. Looking forward, Q1 New Zealand current account data due on Wednesday.

Euro and Franc saw similar gains, although EUR/USD retreated off its 1.0823 peak as US Treasury yields recovered to end the session acutely higher despite the single-currency managing to shake off a disappointing German ZEW survey. Nonetheless, all this seems trivial ahead of the key ECB rate decision on Thursday, followed by President Lagarde's presser, where the Bank is widely expected to hike rates by 25bps to 3.75%.

Yen saw notable losses, henceforth the G10 underperformer, after US Treasury yields rebounded to see USD/JPY close in on 2023 highs and print a peak of 140.30. Regarding the YTD peak, analysts note if there is a hawkish skip by the Fed it may see the cross take a run at the YTD peak of 140.93 and nearby resistance. Note, earlier in the session USD/JPY tested 139.00 to the downside to see lows of 139.02 but later recoiled amid the aforementioned factors.

Scandis were the G10 outperformers, firmer by over a percent against the Greenback, as Brent's revival coupled with the squeeze in natgas rescued the NOK from the depths of negative monthly Norwegian mainland GDP.

EMFX was mixed. CLP and MXN firmed, with the former aided by notable strength in copper. ZAR, RUB, and CNH were lower, while TRY and BRL were flat. The Yuan was hit after the PBoC cut the 7-day repo rate reduction overnight by 10bps, as well as the SLF and 1 month rate which were all shaved by the same margin. Separately, the Yuan saw some strength in the European morning after Bloomberg source reports suggested China is said to be weighing broad economic stimulus with possible property support and rate cuts. Note, on June 2nd, Bloomberg reported similarly that China is mulling a property-market support package to bolster the economy.