US Market Wrap

14th June 2023: Markets recover after Powell distances himself from hawkish dot plot

- **SNAPSHOT**: Equities mixed, Treasuries flattened, Crude down, Dollar down.
- **REAR VIEW**: Fed hold rates as expected but with hawkish dots; Powell says July is live, but data dependent, dot plot not a set path; PPI cooler-than-expected; US reportedly resumes quiet diplomacy with Iran; AWS considering using new AMD AI chips; EU antitrust regulators charge GOOGL on anti-competitive ad-tech practices; More financials warn on disappointing NIM & NII figures.
- **COMING UP**: **Data**: US IJC, Retail Sales, Industrial Production, Japanese Trade Balance, Australian Employment, Participation Rate & Unemployment rate, Chinese Retail Sales, New Zealand Manufacturing PMI **Events**: ECB Policy Announcement **Speakers**: ECB's Lagarde **Supply**: Spain & France.

MARKET WRAP

Stocks and bonds finished the session mixed where a cooler-than-expected PPI report gave an initial rally to Treasuries while the Dollar saw a notable hit ahead of the Fed. The Fed decision ultimately saw rates left unchanged as expected but the dot plot saw a marked hawkish revision higher for 2023, raising the 2023 median dot to 5.6% from 5.1% in March, indicative of two more 25bp hikes this year, the 2024 and 2025 dots were also raised from March. It was also accompanied by an improved economic outlook, with GDP forecasts revised up in 2023 and the unemployment rate forecast shifting lower. The statement and SEP saw a hawkish reaction with the Dollar ripping and bonds and stocks falling, although this all unwound as Powell's tone in the presser was seemingly more dovish, and distancing himself from the Dot Plot, saying nothing is set in stone and there is still a lot of uncertainty, leaning on data dependence. Although Powell was still resolute in returning inflation to target, noting rate cuts are not to be expected this year and no one on the Fed thought as much. Once the dust had settled, stocks were mixed with Russell lagging, Nasdaq outperforming, while the Treasury curve bull-flattened with markets pricing in a 60% probability of a hike in July (Powell suggested July was live). Crude prices settled in the red while gold pared its post-PPI gains.

CENTRAL BANKS

FOMC STATEMENT & SEP REVIEW: The Fed left rates unchanged at 5-5.25% as expected, but crucially, ramped its 2023 rate dot forecast 50bps to 5.6% from 5.1% (range of dots for 2023 rate shifted up to 5.1-6.1% from 4.9-5.9%), with many expecting just a 25bps increase, firmly keeping the "skip" narrative on the table. The 2024 dot was raised to 4.6% from 4.3%, 2025 raised to 3.4% from 3.1%, but the longer term 'neutral' rate left at 2.5% (albeit the central tendency of the estimates increased to 2.5-2.8% from 2.4-2.6% amid speculation around now being in a higher equilibrium rate regime). Driving those increases included a material increase in its real GDP 2023 forecast to 1% from 0.4% in March, with Core PCE forecast rising to 3.9% from 3.6% and the unemployment 2023 dot tumbling to 4.1% from 4.5%. The rosy assessment of the economy was accompanied by the statement commentary reiterating that the banking system is "sound and resilient" whilst continuing to acknowledge that the extent of the effects of tighter credit conditions remains uncertain. The copy-paste statement from early May implied a lack of evidence seen amongst the Fed of any material credit contraction in the six weeks gone by, emboldening the upgraded economic forecasts.

POWELL PRESSER: Fed Chair Powell said the Fed has covered a lot of ground and the full effects of tightening are yet to be felt, saying at this meeting, given how fast the Fed has moved, the committee judged it was prudent to keep rates unchanged. But he caveated that by saying "nearly" all participations see further hikes as appropriate. On the dovish side, he concluded his prepared remarks by stressing that the Dot Plot was not a plan or a decision and Fed will continue to make decisions on a meeting-by-meeting basis. On the economy, Powell said "most" policymakers expect subdued growth to continue. Said there are some signs supply and demand in the labour market are coming into better balance, although demand still substantially exceeds the supply of workers. On inflation, Powell said it remains well above the 2% goal, but has moderated somewhat. Warned that reducing inflation is likely to require below-trend growth and some softening of labour conditions.

POWELL Q&A: When asked, Powell said the main issue is determining the extent of additional tightening, saying it makes sense for rates to move higher, but at a more moderate pace. Powell said the Fed did not discuss whether to go to an every-other meeting approach and has not made a decision about July, despite noting that the July meeting came up several times at the FOMC. Powell was eager to describe July as a 'live' meeting and a data-dependent one. Powell said the question of speed on rate hikes is separate from the question of the level of rates, saying the Fed is not so far away from the destination, which makes it reasonable to go slower, but noted that a 5.6% terminal rate is pretty consistent with where it was trading before the banking turmoil in March. Powell also followed that up by saying Fed is much closer to the 'sufficiently restrictive' zone. Further on the pace of tightening, he said "most" policymakers thought it is reasonable to adjust to a slower pace. There was an interesting slip of the tongue from the Fed Chair after he referred to the June decision as a skip, only to correct himself that he shouldn't refer to it as a skip. While some of his concluding answers leant on the hawkish side, saying that not a single person pencilled in a rate cut this year, saying they "are not appropriate." On the economy, Powell said any forecast for inflation coming down this year will contain a big dose of housing disinflation. He also said the key to non-housing services disinflation is to get a loosening in labour market conditions. Said when the Fed sees inflation flattening, and softening, we will know what tightening is working; adding that by taking a little more time on tightening, Fed reduces the chance of going too far. And on the evolution of credit conditions, he said it is too early to know the full extent of banking turmoil-related credit tightening. If the Fed sees more of an effect from credit tightening, it would factor that into rate decisions. Powell also said the Fed will monitor market conditions carefully as Treasury refills the TGA, but does not see reserves becoming scarce over the course of the year.

ECB PREVIEW: All surveyed analysts expect the ECB to come to market with another 25bps hike, taking the deposit rate to 3.5%. Market pricing concurs, with 26bps of hikes factored in for the announcement. Since the prior meeting, headline Eurozone CPI has cooled to 6.1% from 7.0%, whilst the “super-core” measure fell to 5.3% from 5.6%. Furthermore, the ECB’s Consumer Expectations survey for April saw the 1yr ahead inflation expectation decline to 4.1% from 5.0% and 3yr view fall to 2.5% from 2.9%. That said, despite the disinflationary impulses, President Lagarde has reiterated that inflation “is too high and is set to remain so for too long”, adding that the ECB will “keep moving forward”. In terms of what happens beyond June, as it stands, markets assign a roughly 75% chance of a further 25bps move in July. However, for now, the ECB will likely continue to stress its “data-dependent approach” To download the full Newsquawk preview, please click here.

DATA

US PPI: May PPI data was cooler than expected, falling 0.3% M/M from the prior gain of 0.2% and a deeper fall than the expected -0.1% print, sitting on the cooler side of the analyst forecast range (-0.4 to +0.2%). The Y/Y cooled to 1.1% from 2.3%, cooler than the 1.5% forecast. The core metrics (ex-food and energy) saw the M/M print in line with expectations and matching the prior month's pace at 0.2% while the Y/Y rose 2.8%, down from the prior 3.1% (revised lower from 3.2%) and a touch cooler than the expected 2.9%, matching the lowest analyst forecast (2.8-3.1% range). The report added to the argument that inflation is continuing to cool after the CPI report on Tuesday. Similar to CPI, the headline fall was led by a fall in energy prices, with final demand energy falling 6.8% while final demand for foods fell 1.3%. Analysts at Pantheon Macroeconomics note all the increase in the core was led by the trade services component, which measures gross margins for retailers and wholesalers. The 1.0% increase was the largest since last August, driven by an 11.3% gain in gas station margins, and a 5% jump in the auto dealer component. The consultancy notes gas station margins are hyper-volatile and the jump in auto dealer margins will not last with underlying pressure to the downside as supply increases and tighter credit conditions deter buyers. The super core metrics (ex-food, energy and trade services) were flat in May after rising 0.1% M/M in April (revised down from 0.2%) and +2.8% Y/Y, cooler than the prior revised down 3.3%. Looking ahead, Pantheon Macroeconomics suggests Core PPI will fall below zero in September, noting the recent downward trend is not just a story of falling food and energy prices. The consultancy concludes, "Margin re-compression over the next year will exert intense downward pressure on core PCE inflation and the GDP deflator, as well as the PPI."

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 6+ TICKS HIGHER AT 112-28

Treasuries bull-flattened amid kneejerk selling after the hawkish Dot Plot being unwound through Powell's presser and Q&A. 2s +3.2bps at 4.728%, 3s +3.4bps at 4.341%, 5s +0.7bps at 4.028%, 7s -1.8bps at 3.926%, 10s -3.1 bps at 3.808%, 20s -4.5bps at 4.078%, 30s -5.5bps at 3.886%

INFLATION BREAKEVENS: 5yr BEI +3.3bps at 2.190%, 10yr BEI +0.8bps at 2.234%, 30yr BEI -1.2bps at 2.235%.

TOKYO/LONDON: After T-Notes hit lows of 112-20+ on Tuesday evening post-CPI, there was a partial recovery into the APAC session on Wednesday with trepidation ahead of PPI and the FOMC. T-Notes hit interim highs of 113-00 at the London handover, but struggled to sustain a move above the double-bottom low from May at 112-29+.

NEW YORK: It wasn't until the run-in to PPI in the NY morning that strength reappeared. The softer PPI figures, both in headline, core, and supercore, saw T-Notes spike to fresh highs above 113, and ultimately peaked at 113-05+ in the aftermath, while the cash 2yr yield broke back beneath the key support it broke on Tuesday at 4.64%. After the Fed's 'Dot Plot' saw an aggressive 50bp increase to the 2023-end median dot, T-Notes dived from 113-02+ to lows of 112-12+, with 2s10s inverting further, only to pare a lot of the move into Powell's presser and Q&A as he warned the Dots were not a plan or decision and lacked any further hawkish bite - note the curve failed to resteepen meaningfully despite the move back lower in yields across the curve.

FED PRICING: July rate hike odds are implied at just over 50% after paring from a larger probability implied immediately after the Dot Plot was released. The implied rate for December currently sits at 5.18%, which compares to 5.11% before the Fed but is well off the highs around c. 5.25% seen in the kneejerk reaction.

STIRS:

- SR3M3 +2bps at 94.80, U3 -2bps at 94.71, Z3 -6.5bps at 94.80, H4 -8bps at 95.10, M4 -6bps at 95.525, U4 -5 bps at 95.93, Z4 -3.5bps at 96.24, H5 -3.5bps at 96.43, M5 -2bps at 96.545, M6 flat at 96.73.
- SOFR flat at 5.05% as of June 13th, volumes fall to USD 1.375tln from 1.399tln.
- NY Fed RRP op demand rises to USD 2.109tln from 2.075tln, across 106 counterparties (prev. 105).
- USD 34bln RRP increase comes amid no bill settlements with GC drifting lower into op. And potentially some temporary warehousing ahead of the corporate tax collection deadline and the massive USD 92bln coupon and bill cash drain from settlement both on Thursday.
- EFFR flat at 5.08% as of June 13th, volumes fall to USD 131bln from 134bln. -US sold USD 46bln of 17-week bills at 5.150%, covered 3.18x.

AHEAD:

- 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.

CRUDE

WTI (N3) SETTLED USD 1.15 LOWER AT 68.27/BBL; BRENT (Q3) SETTLED USD 1.09 LOWER AT 73.20/BBL

The crude complex was choppy on Wednesday but settled at lows after a hawkish FOMC pause where the Fed left rates unchanged but signalled more hikes are to come in the dot plots. In the European morning oil initially continued its ascent higher amid an extension of Tuesday's price action, but this later reversed on US/Iran reportedly resuming talks and a larger EIA crude build than expected. Elsewhere, there was further banking commentary and the IEA MOMR - more details on these below. Market participants now await Chinese data overnight as the latest gauge of how the economy is faring and its implications for oil demand.

US/IRAN: According to WSJ sources, the US resumed "quiet" diplomacy with Iran on prisoners and nuclear issues, with the officials holding several sets of indirect talks in Oman. This followed Axios reports on Tuesday that Israeli PM Netanyahu said the Biden admin held indirect talks with Iran on a mini-agreement or an understanding related to Iran's nuclear programme. The two above source reports perhaps give the Middle East Eye article from last Thursday, which saw massive crude futures selling before Western officials swiftly refuted the claims, a bit more credence than was initially let on.

IEA MOMR: Oil demand is set to increase by 2.4mln BPD in 2023 to a record of 102.3mln BPD (vs. May view of 102mln BPD). The report adds an increasingly adverse macroeconomic climate will act as a headwind in 2024, and as the post-pandemic recovery will largely have run its course, oil demand growth is set to slow to 860k BPD. In May, world oil production fell by 660k BPD to 100.6mln BPD following additional cuts by some OPEC+ producers. Note, Tuesday’s OPEC 2023 world oil demand growth is broadly unchanged from last month’s assessment at 2.3mln BPD.

JPM: Cut 2023 Brent forecasts to USD 81/bbl (prev. 90/bbl) with world oil demand set to average 101.5mln BPD this year, almost 1mln BPD above 2019 and a new record. Even with OPEC's 1.16mln BPD cuts extended into 2024, sees 0.4mln BPD surplus next year. Concludes that it expects output from Venezuela, Nigeria, and Iran almost 600k BPD higher vs its projections last November.

EIA: In fitting with APIs last night, crude stocks saw a surprise build of 7.919mln (exp. -0.1mln, prev. -0.45mln), while distillates and gasoline notched up a large build than forecasted, also aligning with Tuesday nights data. Refining utilisation fell 2.1% (exp. +0.1%), while overall crude production remained unchanged at 12.4mln.

EQUITIES

CLOSES: SPX +0.08 at 4,372 NDX +0.70at 15,005, DJIA -0.68% at 33,979, RUT -1.17% at 1,874.

SECTORS: Energy -1.12%, Health -1.12%, Materials -0.43%, Financials -0.37%, Industrials -0.29%, Consumer Discretionary -0.11%, Utilities -0.07%, Communication Services +0.13%, Real Estate +0.32%, Consumer Staples +0. 56%, Technology +1.14%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.65% at 4,375, FTSE 100 +0.10% at 7,602, DAX 40 +0.49% at 16,310, CAC 40 +0.52% at 7,328, FTSE MIB +0.88% at 27,809, IBEX 35 +1.06% at 9,432, SMI -0.43% at 11,278.

STOCK SPECIFICS: **Amazon's (AMZN)** cloud computing unit (AWS) is considering **AMD's (AMD)** new AI chips, according to sources. In other news, AMD had its PT raised at a plethora of firms, such as Deutsche, Barclays, Wells Fargo, Baird, Stifel, and others. EU antitrust regulators charged **Google (GOOGL)** with abusive practices in the digital advertising business. **UnitedHealth (UNH)** warned of a spike in medical costs in Q2 adding margin pressure to insurers. **UNH, Humana (HUM), Cigna (CI), and Agilon Health (AGL)** saw pronounced weakness, however, hospital operators like **Universal Health Services (UHS)** benefitted. US judge granted an FTC request temporarily blocking **Microsoft (MSFT)** from closing the deal to buy **Activision Blizzard (ATVI)**. **Maxeon Solar (MAXN)** announced a collab with **Samsung (SSNLF)** to integrate SunPower One residential energy solution within SmartThings' connected home platform. In wake of this, MAXN saw an upgrade at Roth. **NextDecade (NEXT)** entered into a pact with **TotalEnergies (TTE)** and GIP to support the Rio Grande LNG project. **Logitech (LOGI)** CEO and President Darrell is to resign with immediate effect. Citi downgraded the stock as a result. **Toyota Motor (TM)** shareholders re-elected chairman Akio Toyoda to the board, in a broad endorsement of the cos. governance and new EV strategy. **SoFi (SOFI)** was named a top pick at BTIG in the fintech sector. **Aptiv (APTV)** CFO noted European sentiment has improved and supply chain disruptions will come down. Booking will be lumpy but still sees strong growth throughout the year. Continue to see that business should continue to improve margins with the software business continuing to grow significantly.

FINANCIALS: **Fifth Third Bancorp (FITB)** sees Q2 revenue down 2-3% from Q1 and guides Q2 NII down 4-5%, assuming the Fed funds remains the same through the end of quarter. **Charles Schwab (SCHW)** reported May total client assets of USD 7.65tln +5% Y/Y, flat M/M; sees Q2 revenue declining 10%-11% Y/Y citing temporarily compressed NIM. **BlackRock (BLK)** targets 5% organic base fee revenue growth and 3.1% share of industry base fee revenue (prev. 2.8% forecast) between 2023-2027. Added new market regime will present compelling inorganic growth opportunities. **Citi (C)** CFO said Q2 markets revenue is likely down 20% Y/Y and IB revenue down 25%, in line with the industry. Adding corporate clients are looking to shore up balance sheets and fears how increased capital will impact credit crunch. Citi did also add it has resumed stock buybacks and is on schedule to purchase USD 1bln in stock this quarter.

US FX WRAP

The Dollar sold off heavily pre-Fed with DXY printing a low of 102.66, after the cooler-than-expected PPI report saw DXY breach beneath the 103 handle, falling from highs of 103.40. However, after the hawkish FOMC rate decision, where rates were left unchanged (as expected) accompanied with a 50bps increase to 2023 dot plot, we saw a broad hawkish reaction. Highlighting this, DXY rose from ~102.75 to 103.27, but as Chair Powell's presser continued DXY reversed back to the 103 handle, as the Chair did not seem to encompass as much of the hawkish tone as potentially anticipated from the initial SEPs. Looking ahead, the macro risk events continue with US retail sales, ECB, Philly Fed on Thursday, ahead of BoJ, prelim UoM, and Fed's Bullard and Waller on Friday.

Antipodeans were the G10 outperformers with the Kiwi seeing much stronger gains than its Aussie peer. Prior to the Fed, cyclical currencies were already outperforming with the antipodes finding support from the risk environment and continued support from the PBoC actions on Tuesday. As such, NZD/USD and AUD/USD posted highs of 0.6236 and 0.6835, respectively, although are currently off best levels with AUD sub 0.68 but NZD is holding just above 0.62. AUD and NZD pared some of the day's gains on the initial hawkish SEPs but as Powell's conference got underway, they managed to restore a portion of the lost ground. NZD watchers will be eyeing NZ GDP data after hours, while Aussie watchers will be awaiting Employment data.

GBP saw strong gains vs the Greenback, and without sounding like a broken record came off best levels in the aftermath of the initial FOMC announcement. Nonetheless, Cable tested 1.27 to the upside pre-Fed making a fresh YTD high and at the highest level since April 2022 as GBP continued to rally post the hot labour market data on Tuesday, while Wednesday's GDP report was in line with expectations at 0.2% M/M and 0.5% Y/Y (more available in the Newsquawk European Data Wrap). Note, there was a BoE Poll released where all analysts expect a 25bp hike to 4.75% on June 22nd, but the peak rate is still seen at 5.00% in Q3, lower than the near 5.75% peak markets are currently pricing in, despite Tuesday's wages metrics, which was incorporated to this latest survey.

CAD was flat and weighed on by the reversal in crude prices as USD/CAD traded between 1.3273-1.3352.

CHF and **JPY** both firmed, albeit to varying degrees. USD/JPY fell in wake of the US PPI report as Treasuries caught a bid while post Fed the pair saw a spike above 140.00, but failed to hold above the psychological level as the dust settled. USD/CHF at pixel time was well within the days range (0.8966-9060) as the cross was at lows heading into the Fed but the broad hawkish reaction saw the Swissy give up some of its days gains. On the calendar, there is a slew of Japanese data overnight ahead of BoJ on Friday.

SEK was softer vs the Euro but firmer vs the Dollar pre-Fed despite inflation data coming in hotter than both market expectations and the Riksbank forecast, therefore, a 25bp hike and guidance towards further tightening to bring inflation to target and address recent SEK pressure should be expected in June (more available in the Newsquawk European Data Wrap). However, as the Dollar pared losses post FOMC, SEK finished flat vs the buck but still weaker vs the Euro and notably weaker vs the NOK.

EMFX predominantly firmed, highlighted by CLP, MXN, BRL, TRY, and ZAR all profiteering off the floundering Buck with the latter the clear outperformer. In terms of currency specifics, Turkish President Erdogan said he has accepted steps that the CBRT and Finance Minister Simsek will take, while the Chilean Peso may have seen tailwinds from copper prices. Brazilian retail sales came in cooler-than-expected, with later comments from VP Alckmin noting high Brazil rates are harming economic activity and the Brazil real interest rate is going up without reason. However, the BRL saw strength after S&P revised its outlook for Brazil to Positive from Stable, affirming its BB- rating. Lastly, the Rand rallied although retail sales data disappointed but the upside in gold prices was supportive, although the gains pared after the FOMC.