US Market Wrap

15th June 2023: Stocks surge as markets digest Fed, ECB, and data into Quad-Witching

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: ECB hike by 25bps, as expected, with upgrades to headline & core inflation forecasts, Lagarde signals July Hike; Dutch gov't to close the Groningen gas field permanently; IJC remains at recent peaks; Retail sales strong on the headline but core in line; NY Fed spikes higher; Import/export prices cooler-than-expected; Beijing planning major steps to revive flagging economy; Smaller-than-expected natgas build; Credit charge-offs rising; Fed & SEC investigating GS' role in buying SVB securities portfolio.
- **COMING UP**: **Data**: EU CPI (Final), US Uni. of Michigan Sentiment Preliminary **Events**: BoJ Policy Announcement; ECB Repayment Publication **Speakers**: Fed’s Waller, Barkin, Bullard; ECB’s Lagarde, de Guindos.

MARKET WRAP

It was a risk on session on Thursday ahead of quad witching on Friday as markets digested the FOMC Wednesday, as well as the ECB on Thursday. Markets are not buying the hawkish dot plots from the Fed, while the ECB leant hawkish hiking by 25bps as expected, while raising its headline and core inflation forecasts, alongside Lagarde signalling a July hike as likely. There were several US data points, primarily US jobless claims which remained elevated, above expectations, while retail sales were strong on the headline but the core was in line with expectations; NY Fed was strong, Philly Fed was in line, while import/export prices added to the cooling inflation narrative. Treasuries rallied on the jobless claims report in signs the jobs market is cracking in the high-frequency data, although Bunds were lower on the session in wake of the ECB, widening yield differentials. That saw the Euro rally vs the buck while DXY tumbled, the weaker dollar likely gave support to the huge equity rally, alongside more reports that China is looking to boost its flagging economy after weak activity data overnight. The softer dollar and risk on tone in equities saw crude prices rally, while US nat gas was buoyed by a smaller-than-expected EIA build but EU nat gas (TTF) surged on reports the Groningen gas field is to shut permanently in October. Attention now turns to the BoJ overnight, the resumption of Fed speak on Friday from Bullard, Waller and Barkin, as well as UoM prelim data for June for a gauge on the consumer.

CENTRAL BANKS

ECB REVIEW: As expected, the ECB delivered another 25bps hike to the Deposit Rate, taking it to 3.5%. The decision to raise rates was once again premised on the judgement that inflation "is projected to remain too high for too long". Going forward, policy decisions will continue to follow a data-dependent approach and on a meeting-by-meeting basis. Perhaps the main takeaway from the initial announcement came from the accompanying macro projections which saw upgrades to headline and core inflation forecasts for 2023 through 2025 with the core 2025 print expected above-target at 2.3%. From a growth perspective, 2023 and 2024 forecasts were revised lower by 10bps. Elsewhere, the GC confirmed that it will discontinue the reinvestments under the asset purchase programme as of July 2023. At the follow-up press conference, when questioned on whether the GC expects to keep raising rates, Lagarde replied that there was still "more ground to cover" and the ECB is not done on rate hikes. Note, Lagarde once again refused to comment on where she saw the terminal rate. In terms of the unanimity of today's decision, Lagarde said the discussion was harmonious and there was a broad consensus. Overall, the decision by the ECB and subsequent commentary was very much as expected, whilst the main takeaway from the release came from the sticky outlook to core inflation which is indicative of further action by the Bank. As such, pricing for Q4 picked up a touch with terminal now seen at around 3.78% vs. 3.75% pre-release. That said, despite Lagarde making it clear that a July hike is on the cards, the odds of such an outcome is only around 65% which is largely unchanged from pricing ahead of the decision. Looking past July, ECB sources via Bloomberg suggested the central bank is set for a tough debate next month on whether a possible September hike is needed, and several officials favour the expected July hike to be the last of the cycle. Elsewhere, Reuters sources suggested policymakers began the debate on "evening out" the interest rate corridor between its three administered rates but discarded a move at this meeting and expect no decision on the matter in July, but they do expect it to gain more relevance later this year. The sources added that ECB staff presented the option of making the spreads between the three rates equal as they were until 2014.

BOJ PREVIEW: The BoJ is expected to keep policy settings unchanged when it concludes its 2-day policy meeting on Friday with the Bank Rate held at -0.10% and QQE with YCC maintained at the current parameters. BoJ stood pat at the last meeting in April which was the first policy decision under Governor Ueda's leadership, while it tweaked guidance but remained dovish. Rhetoric from the central bank continues to suggest a lack of urgency to normalise policy further, while mixed data also supports the view of keeping policy settings unchanged. To download the full Newsquawk preview, please click here.

US DATA

JOBLESS CLAIMS: Initial claims remained at the recent peaks of 262k, against the street looking for a paring back down to 249, confirming that the Memorial Day spike was not an irregularity. That takes the 4wk moving average to 246,750, an increase of 9,250 from the previous week's average. The largest increases in initial claims for the week ending June 3rd were in Ohio (+6,447) - which is again the largest contributor to new claims and perhaps ramps concerns over fraudulent claims- California (+4,103), Minnesota (+2,693), Pennsylvania (+2,069), and Tennessee (+732), marking another set of broad-based increases. The largest decreases were in Connecticut (-2,544), New York (-1,325), Texas (-617), New Jersey (-560), and Oregon (-450). It's also worth noting the week-delayed continued jobless claims rose to 1.775mln from 1.755mln, above the expected 1.765mln. The figures will ramp confidence around the turning of the labour market, with other measures ex-NFP, such as Challenger and the NFIB survey's measure of hiring intentions, pointing to deterioration also. The higher claims will also give more weight to the household survey rather than the establishment survey, that continues to run high.

RETAIL SALES: Headline retail sales rose 0.3% in May, against expectations for a 0.1% fall, and a nudge lower from the 0.4% increase in April. The largest M/M increases in percentage terms came from motor vehicle & parts dealers (+1.4%), building material & garden (+2.2%), while, as anticipated, gas stations saw a decline (-2.6%). As such, the retail sales ex-gasoline stations rose 0.6% M/M, with the ex-motor vehicles and gas stations measure rising 0.4%, down from April's +0.4%. The GDP input, retail control, rose 0.2%, as expected, a sizeable decline from the upwardly revised 0.7%. While the headline printed north of expectations, once stripping the more volatile components, we can see the pace of retail sales is losing some momentum, albeit far from a sharp decline.

NY FED: The NY Fed's "Empire" Manufacturing index for June spiked to +6.6 from last month's near cycle low -31.8, well above the expected -15.10. The spike was in contracts to the simultaneously released Philly Fed survey that saw a fall deeper into contraction, highlighting the volatility of the regional measures. The increase was driven by the new orders index spiking 31 points to +3.1, indicative of marginal growth in future activity, while the shipments index spiked to +22 from -16, with declines in inventories. The employment sub-gauges saw reduced hiring and a decline in hours worked. The report had good news on the inflation front with the rate of input and selling prices increases slowing considerably (prices paid at +22 vs prior +35).

IMPORT/EXPORT PRICES: The US import/export prices were both cooler than expected and support the cooling inflation narrative, from a global trade perspective, following cooler-than-expected domestic CPI and PPI data for May. Import prices declined 0.6% in May from the prior rise of 0.3% (revised down from +0.4%), a touch cooler than the expected -0.5% print. The decline in import prices was driven by both lower fuel and non-fuel imports, but mainly the former, where fuel imports saw the largest drop since August 2022, falling 6.4% following a 4.1% gain in April, with lower petroleum and nat gas prices contributing towards the May decline. Nonfuel imports fell 0.1% following an unchanged print in April. The decline in nonfuel industrial supplies and materials and foods, feeds, and beverages, more than offset higher prices for automotive vehicles and capital goods. Oxford Economics writes, "Lower import prices will support goods disinflation, with producers reaping the benefits. A hawkish fed, softening domestic demand, and a stronger US dollar, which effects import prices with a lag, will limit gains over the next few months." Export prices came in well beneath expectations, posting the largest decline since December 2022 at -1.9% vs an expected unchanged print, following a 0.1% decline in April, which was revised down from +0.2%. Both agricultural and non-agricultural prices declined in May, -2.1% and -1.8%, respectively. The lower prices for corn, soybeans, and wheat more than offset higher meat and fruit prices. Meanwhile, non-agricultural export prices saw lower prices in industrial supplies and materials, as well as foods, which more than offset higher prices of capital goods, consumer goods and automotive vehicles.

PHILLY FED: Manufacturing activity continued to decline in June as it printed -13.7 (prev. -10.4, exp. -14.0). Within the release, new orders fell to -11 (prev. -8.90), while employment encouragingly rose to near zero (-0.4) from -8.60. Prices paid was little changed at 10.50 (prev. 10.90), but prices received rose 7 points from a three-year low in May to 0.1, marking the index's first increase since January. Looking ahead, the 6-month index jumped to 12.70 (prev. -10.30), the first positive reading in four months and highest reading since March 2022. Future new orders and shipments rose to 14.1 (prev. -1.9) and 28.3 (prev. 24.3), respectively. Future employment edged up to 13.1 (prev. 12.6), with the future price indices suggesting firms expect price increases over the next six months, but both declined and remained below their long-run averages. Overall, the survey concludes, responses suggest continued overall declines in the region's manufacturing sector this month, and the indicators for current activity and new orders remained negative, while the index for shipments turned positive. Firms reported relatively no change in prices received and continued to indicate overall increases in prices paid. The survey's future indexes improved but continued to suggest subdued expectations for growth over the next six months

IP: Industrial Production fell 0.2% in May from the prior 0.5% gain, a deeper decline than the +0.1% print expected. Manufacturing output rose 0.1% in line with expectations while the prior was revised to 0.9% from 1.0%. Capacity Utilization came in at 79.6% (exp. 79.7%, prev. 79.8%) with the prior revised up from 79.7%. Analysts at Oxford Economics note the decline in IP reflects downside in mining and utilities output while the growth in manufacturing output remains subdued. Looking ahead, the desk expects "a backdrop of weak global activity, softening goods demand, and a strong dollar will weigh on the sector for the rest of the year".

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 18+ TICKS HIGHER AT 113-14+

Treasuries bull-steepened after more US data pointed to a softening labour market. At settlement, 2s -6.3bps at 4.644%, 3s -7.6bps at 4.246%, 5s -8.9bps at 3.920%, 7s -8.5bps at 3.825%, 10s -7.4bps at 3.724%, 20s -5.0bps at 4.023%, 30s -3.4bps at 3.847%.

INFLATION BREAKEVENS: 5yr BEI +1.3bps at 2.202%, 10yr BEI +0.2bps at 2.234%, 30yr BEI -0.8bps at 2.227%

SO FAR: T-Notes entered the APAC handover for Thursday pinned just beneath 113 before better selling developed as the session got underway. A mixture of digesting the latest FOMC Dot Plot (and less hawkish Powell presser) in combination with a hot Australian job report sustained mild selling all the way into the London morning where contracts troughed at 112-16+, still above the post-FOMC low at 112-12+. T-Notes recovered a few ticks in Europe before hovering back down towards lows entering the NY session, with the ECB's hike and accompanying large increases in the inflation forecasts keeping contracts pressured ahead of the US data.

NEW YORK: The unchanged initial jobless claims (262k) ramped confidence that last week's spike was not just a Memorial Day effect and gave weight to the deteriorating household employment survey (rather than the exuberant establishment survey). The accompanying slowdown in US retail sales and a larger decline in import prices only added to the dovishness. T-Notes rallied gradually from their session lows of 112-16 to print session highs over two hours later at 113-18, with the massive move given weight from the surprise decline in industrial production data, while Lagarde's accompanying ECB presser lacked any market-moving comments. Price pulled back somewhat into the NY afternoon as longs took profit and also as commodities saw some more strength on renewed pending China stimulus reports (this time in WSJ).

FRIDAY: ***BoJ Announcement (preview here)***, ECB TLTRO III.5-10 Repayment, EZ Final CPI (May), ***Uni. of Michigan Prelim. (Jun)***, Quad Witching.

SUPPLY: Treasury to sell USD 12bln in 20yr bonds on June 21st and USD 19bln in 5yr TIPS on June 22nd; both to settle June 30th. In bills, Treasury leaves 13- and 26-week bills unchanged at USD 65bln and 58bln, respectively, to be sold on June 20th and settle on June 22nd. Treasury also announces USD 50bln 6-week (42-day) CMBs auction for June 20th, to settle on June 22nd.

STIRS:

- SR3M3 -0.8bps at 94.793, U3 +0.5bps at 94.705, Z3 +4.0bps at 94.845, H4 +6.0bps at 95.185, M4 +6.5bps at 95.625, U4 +6.5bps at 96.040, Z4 +7.0bps at 96.355, H5 +8.5bps at 96.565, M5 +9.5bps at 96.680, M6 +10.0bps at 96.855.
- SOFR flat at 5.05% as of June 14th, volumes rise to USD 1.397tln from 1.375tln.
- NY Fed RRP op demand tumbles to USD 1.992tln from 2.109tln, across 103 counterparties (prev. 106).
- First sub-USD 2tln figure in RRP since June 2022. USD 117bln fall comes amid a chunky net USD 92bln coupon and bill cash drain from settlement and also the corporate tax deadline which is likely a factor.
- EFFR flat at 5.08%, volumes fall to USD 128bln (prev. 131bln).
- US sold USD 66bln of 4-week bills at 5.010%, covered 3.03x, stops-through 0.6bp; sold USD 56bln of 8-week bills at 5.080%, covered 3.06x.

CRUDE

WTI (N3) SETTLED USD 2.35 HIGHER AT 70.62/BBL; BRENT (Q3) SETTLED USD 2.47 HIGHER AT 75.67/BBL

The crude complex was firmer on Thursday as it benefitted from the buoyant risk sentiment and the tumbling Dollar. As such, WTI and Brent trundled higher through the duration of the US session hitting highs of USD 70.96/bbl and 75.97/bbl, respectively, with the bid ensuing in the wake of a plethora of US data with the main takeaway for the complex being soft jobless claims. On the day, post-Fed and pre-ECB oil was modestly firmer, but within tight ranges, despite the generally softer tone and pressure on the Chinese data. On this, activity data was disappointing whereby both industrial production and retail sales missed expectations. Data which is in-fitting with the recent slew of soft figures from China as the region's reopening stalls and has prompted action from officials to bolster the demand situation. Nonetheless, there were further reports today of extra support being considered by China to boost the economy. Looking ahead, traders will focus on UoM Prelim (June), BoJ, Fed speak from Bullard, Barkin, Waller, and finally Baker Hughes.

RUSSIA: Rosneft is reportedly close to striking long-term deals with "trading firms" to sell substantial supplies of oil to end users in China, India, and Turkey, according to WSJ sources. Report adds the tender is likely to be the largest since the war began, adding it could also be one of Rosneft's biggest in recent years and involves a significant portion of the company's output. In other news, according to Ria, Russian Deputy Energy Minister says they have no objections to the OPEC+ oil production quota adjustment.

NAT GAS: Dutch TTF, at one point albeit the move has largely pared, saw intraday gains in excess of 30% after Bloomberg reported via sources that the Dutch gov't is to close the Groningen gas field permanently in October. Although do note, this was in fitting with prior sources earlier in the year via FT. Though, the Dutch energy minister has previously intimated the optionality to keep the site open for one more year (i.e. to October 2024) if there is a winter gas shortage. However, it remains to be seen if this optionality remains, though the Bloomberg pieces phrasing of "permanently" implies it does not. Separately, US nat gas surged to highs in wake of the smaller build than expected in EIA nat gas figures.

EQUITIES

CLOSES: SPX +1.22% at 4,425 NDX +1.20% at 15,185, DJIA +1.26% at 34,408, RUT +0.81% at 1,889.

SECTORS: Health +1.55%, Communication Services +1.54%, Industrials +1.51%, Technology +1.28%, Financials +1.26%, Utilities +1.06%, Energy +1.04%, Consumer Staples +0.93%, Materials +0.85%, Consumer Discretionary +0.68%, Real Estate +0.34%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.25% at 4,365, FTSE 100 +0.34% at 7,628, DAX 40 -0.13% at 16,290, CAC 40 -0.51% at 7,290, FTSE MIB -0.28% at 27,731, IBEX 35 -0.02% at 9,430, SMI +0.22% at 11,302.

STOCK SPECIFICS: Citi cut **American Express (AXP)** PT and keeps a Sell rating accompanied with cautious commentary. **Target (TGT)** raised quarterly dividend 1.9% to USD 1.10/shr (prev. 1.08). **Lennar (LEN)** beat on EPS, revenue and new orders alongside raising FY23 deliveries and Q3 net order guidance. **Patterson-UTI Energy (PTEN)** and **Nextier (NEX)** to combine in an all-stock deal with an enterprise value of USD 5.4bln. **Goldman Sachs (GS)** is cutting more than 30 investment banking jobs in Asia. **SoFi Technologies (SOFI)** was downgraded at Oppenheimer, **Corning (GLW)** was upgraded at Citi; said it has "greater conviction" in cos. margin recovery potential. **Zions Bancorp (ZION)** was downgraded at Janney; citing expectations for lower-than-expected spread income and margins given accelerating funding costs. **AutoZone (AZO)** authorised an additional USD 2bln share buyback programme. **AbbVie (ABBV)** alleged **BeiGene's (BGNE)** Brukinsa blood-cancer drug infringes a patent covering its Imbruvica that was issued Tuesday. **Kroger (KR)** beat on profit but missed on revenue alongside re-affirming FY guidance. **Editas Medicine (EDIT)** announced USD 125mln common stock offering. **New Relic (NEWR)** COO Kristy Friedrich resigned. **Manchester United (MANU)** is negotiating the granting of exclusivity to Qatar's Sheikh Jassim in USD 6bln-plus sale negotiations, according to Reuters sources. However, later BBC sources suggested MANU is not entering exclusivity with Qatar. **Lennar (LEN)** CEO said, regarding homebuilding, the economic environment has stabilised as customers have adjusted to higher-for-longer interest rates. **General Motors (GM)** CFO said the year is off to a fantastic start and given the strength of consumer, performance is ahead of expectations. Co. is outperforming the industry, which is trending ahead of its earlier forecast, stressing it expects to significantly outperform earlier expectations. **Rivian (RIVN)** sees a stable demand environment throughout this year. The Fed and SEC are investigating **Goldman Sachs's (GS)** role in buying Silicon Valley Bank's securities portfolio while it was working on its doomed capital raise before its failure, according to WSJ citing sources. Following this, GS spokesperson said it is cooperating with various governmental bodies in connection with their investigations and inquiries into SVB. **Delta (DAL)** reinstates quarterly dividend at USD 0.10/shr

CREDIT CARD DATA (MAY): A common theme has been rising credit charge off rates from banks in signs of the consumer struggling, however commentary from corporates has suggested the consumer remains strong. **Capital One Financial (COF)** Credit Card Charge-offs: 4.50%, a cycle peak, (prev. 4.26% in April and 2.4% Y/Y); Delinquency rate 3.64% (prev. 3.57%). Charge off rate for autos 1.35% (prev. 1.16%), delinquency rate for autos 5.39% (prev. 5.10%). **American Express (AXP)** USCS card member loans net write-off rate 1.6% (prev. 1.5% April-end); 30 days past due loans 1.1% (prev. 1.1%). **Citigroup (C)** Credit Charge offs: 2.06% (prev. 1.99% M/M); delinquency rate 1.15% (prev. 1.14%). **Bank of America (BAC)** Credit Charge-offs: 1.94% (prev. 1.89% in April), delinquency rate 1.15% (prev. 1.17%).

US FX WRAP

The Dollar tumbled on Thursday in the aftermath of Powell's dovish press conference (relative to statement/dot plots), a hawkish ECB, elevated jobless claims, soft import/export prices, retail sales cooling, but not as much as expected on the headline, and mixed Fed surveys; NY Fed saw a strong bounce while Philly Fed fell, but not as much as expected. Industrial production also missed expectations. DXY fell from highs of 103.38 in the European morning to a low of 102.08, with technicians eyeing 102 as support. The sell off accelerated after the ECB rate decision, which hiked 25bps as expected, while lifting core and headline inflation projections throughout the forecast horizon and President Lagarde also said a hike in July is likely but later sources suggested ECB is set for a tough debate on whether a possible September rate hike is needed, with some of the doves implying July will be the last hike. The US data, particularly the jobless claims, saw UST yields tumble but the hawkish ECB kept German yields afloat, weighing on the buck through rate differentials while many question the Fed's hawkish dot plots with markets just pricing in a 65% probability of just one more 25bp hike from the Fed. Meanwhile, the overall tone of trade was a risk on one with stocks surging, also hampering the buck.

The Euro rallied in wake of the ECB 25bp hike which was accompanied by hawkish staff projections. During the press conference, ECB President Lagarde strongly suggested another is likely in July, widening the policy differentials between the Fed and the ECB with markets not buying the Fed's dot plot peak. EUR/USD tested 1.0950 to the upside and marginally breached it, albeit briefly, although remained in proximity to the psychological level ahead of the Final EZ inflation data on Friday morning.

The Yen saw weakness vs the buck despite the Dollar's demise and lower UST yields as attention turns to the BoJ overnight, Newsquawk BoJ Preview available here. The Yen was the underperforming currency on the day albeit it did post an impressive comeback with USD/JPY seeing a high of 141.50 in the European morning back to 140.30 at time of writing as the Dollar collapsed and as UST yields fell.

The Yuan saw gains as the Dollar collapsed but USD/CNH did see a high north off 7.19 after weak China activity data overnight. However, some support was later seen in reports in WSJ that Beijing is planning major steps to revive its flagging economy. Ultimately, USD/CNH hit a low of 7.1180 in US trade.

Antipodeans saw gains, but the Aussie was the clear outperformer with AUD/USD rising to test 0.6900 from lows of 0.6768 with the gains buoyed by a blowout jobs report overnight as well as the risk on trade throughout the US session. NZD was firmer vs the buck, but a relative laggard to other currencies with AUD/NZD rising from lows of 1.0941 to highs of 1.1041 with NZD hampered by GDP data overnight, putting New Zealand into a technical recession. Other cyclical currencies also saw decent gains, with GBP seeing a high of 1.2785 vs the Dollar, the highest since April with the risk rally supporting the Pound. The Pound saw mild weakness vs the Euro however after the ECB rate decision. CAD saw pronounced gains and tested 1.32 to the downside supported by the equity rally and surge in crude prices.

Scandis were mixed, SEK was flat vs the firmer Euro but the NOK saw gains and was an outperforming currency after the Norges Bank Regional Network Survey which saw relatively robust growth commentary, which did help offset some of the concerns around surprisingly soft Norwegian growth data and seemingly gives the Norges Bank enough cover on growth to continue tightening and perhaps lift its repo path forecast to, or even above, a 4% peak from the current 3.6%. The rally in Brent crude prices only helped support the NOK gains.

In EMFX, LatAm's were mixed, the BRL saw mild gains but MXN was flat, while CLP outperformed and COP was also buoyed. The BRL saw continued tailwinds from the S&P outlook upgrade on Thursday, although Services data today disappointed expectations. CLP tracked copper prices higher while COP tracked oil prices. Meanwhile, in Argentina, the Central Bank left rates unchanged at 97% following an inflation undershoot. Elsewhere, TRY was weaker and failed to derive any real encouragement from Turkey’s Vice President pledging to continue steps within free market principles while the ZAR saw gains as gold prices rose.

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