US Market Wrap

16th June 2023: Stocks down, yields up on hawkish central bank rhetoric and Quad Witching

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Strong UoM, with falling inflation expectations; Fed's Waller says more tightening likely required, Barkin comfortable for more; ECB's Wunsch says ECB could hike in Sept, Lagarde says they will be data dependent; BoJ unchanged; Treasury refrains from designating any currency manipulators; China Cabinet pledges forceful actions; MU to face China revenue hit; STLD soft profit guidance; BALL to sell aerospace unit.
- **COMING UP**: **Data**: US NAHB Event: ECB SOMA **Speakers**: ECB’s Lane, Schnabel & de Guindos **Holiday/Desk**: US Juneteenth. Service shuts at 18:00BST/13:00ET on June 19th, reopens at 22:00BST/17:00ET.
- **WEEK AHEAD**: Highlights include BoE, SNB, PBoC, Norges; UK & Japan CPI, Flash PMIs. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing BoE, PBoC LPR, SNB, Norges Bank, Minutes from RBA and BoC; Reviewing FOMC, ECB, BoJ To download the report, please click here.

MARKET WRAP

A session of mild losses but the broader picture is the Nasdaq has now posted its eighth straight W/W gain, its longest winning run since March 2019, and SPX posted its fifth consecutive W/W gain and longest winning run since November 2021. Friday's session was characterised by choppy trade for stocks with Quad Witching/op-ex anxiety on the radar. There was a cyclical/value bias, with growth underperforming, and that's perhaps an element of central bank policy with the Fed skewing hawkishly after the latest dot plot. Furthermore, China's Cabinet announced approaching "forceful" policy actions, with Fed's Waller (voter) and Barkin (nv) leaning hawkish, talking up the strength of the US economy which helped drive the cyclical bid. Note that tech sentiment was also hit with Micron (MU) ramping its estimates on how widespread the China regulatory ban on its products will be to revenue. Treasuries bear-flattened, although softer UoM consumer inflation expectation gauges capped losses. Oil prices were firmer, confirming a W/W gain with bullish price commentary from Russian officials and Chinese Cabinet stimulus declarations. The DXY was firmer, but mainly due to Yen weakness after the BoJ lacked any hawkish surprises again - Sterling saw particular strength vs Euro and Yen ahead of the hawkishly skewed BoE confab next Thursday.

FED, DATA

GOVERNOR WALLER (hawk) gave a speech at an IMF event, primarily on banking, but in the Q&A he noted as of right now, everything in the banking system seems to be calm. The US economy is still "ripping along", adding anticipated global spillovers from coordinated central bank tightening have not really materialised. He added there could be short run price impacts of things, such as re-shoring production, but that should not imply ongoing inflationary price increases, while he echoed Powell that core inflation is not coming down "like I thought it would", he said it is "disturbing" it is not moving and will probably require some more tightening. On the labour market, Waller said so far it looks like the idea of labour market softening without much rise in unemployment is holding up. On forward guidance, he said reliance on it means the policy lag is not the same as it used to be, it makes conditions tighten faster. In his speech, he noted changes in credit since the SVB failure are in line with what was happening before that due to Fed rate hikes, adding it is still not clear recent bank failures had a material effect on credit conditions. He noted monetary policy and financial stability tools are separate and distinct, with one acting broadly and the other more surgical. Waller said that policy should not be altered due to ineffectual management at a few banks, noting it is the Fed's job to use monetary policy to fight inflation, and the job of bank leaders is to deal with interest rate risk.

BARKIN (non-voter) said he is comfortable doing more on rates if incoming data does not confirm a story that slowing demand is returning inflation to 2%. Higher rates could create the risk of a more significant slowdown but the experience of the 70s shows the Fed should not back off its inflation fight too soon. Inflation has proved to be stubbornly persistent and is still looking to be convinced that it will be controlled via weakening demand. On the June "skip", Barkin noted slowing the pace of rate hikes gives time to assess the data.

MICHIGAN SURVEY: The June prelim. Uni of Michigan survey was solid. Headline consumer sentiment jumped to 63.9 (exp. 60.0, prev. 59.2) with a sizeable jump in both conditions, 68 from 64.9 (exp. 65.5) and expectations, 61.3 from 55.4

(exp. 56.5). The increased optimism was driven by easing inflation and as policymakers resolved the debt ceiling crisis. The report notes that sentiment is now 28% above the historic low from a year ago and maybe resuming its upward trajectory since then, however, sentiment still remains low by historical standards as income expectations have softened. The report also found a majority of consumers still expect difficult times in the economy over the next year. The inflation expectations saw the more volatile, energy-exposed 1yr-ahead gauge slashed lower to 3.3% from 4.2%, the lowest since March 2021, following the recent drop in gasoline prices. Meanwhile, the long run 5-10yr expectations, which the Fed pay more attention to (in order to gauge how anchored inflation expectations are), saw a slight move lower in June to 3.0% from 3.1%, however, the report notes that is still elevated to the 2.2-2.6% range seen in the two years before COVID. On an aside and for consumer spending more broadly, while not a headwind in just yet, it's worth flagging that the US student loan repayment pause is now coming to an end, with Barclays estimating a potential aggregate USD 15.8 bln monthly headwind to US spending as the average student debt holder sees an incremental monthly payment of USD 390 beginning this fall - these expectations could start to drag futures expectations into year-end for the sentiment surveys.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLE 13 TICKS LOWER 113-01+ Treasuries bear-flattened after hawkish Fed Speak and more China stimulus momentum; softer UoM inflation gauges capped losses. 2s +6.8bps at 4.716%, 3s +7.1bps at 4.319%, 5s +6.4bps at 3.988%, 7s +5.2bps at 3.879%, 10s +3.7bps at 3.765%, 20s +2.0bps at 4.044%, 30s +0.4bps at 3.852%.

INFLATION BREAKEVENS: 5yr BEI flat at 2.210%, 10yr BEI +0.3bps at 2.247%, 30yr BEI +0.5bps at 2.239%.

THE DAY: T-Notes drifted in tight ranges during APAC trade on Friday with the BoJ a non-event/dovish. Contracts hit support at 113-05 in the London morning. Fresh lows weren't made until NY trade got underway with hawkish ECB's Wunsch given weight to by Fed's Waller (voter), who was typically hawkish and talked up the US economy, Barkin (2024 voter) also gave a speech, with both Fed officials expressing appetite for further hikes. At the same time, oil prices were on the up with China's Cabinet announcing "forceful" stimulus measures in the pipeline, piquing the global inflationary outlook all of which saw T-Notes travel to session lows of 112-24+ not long after the US cash equity open, recovering somewhat into the NY afternoon after the decline in UoM inflation expectation gauges, with trade quiet and flat around 113 for T-Notes into the long weekend.

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. We will also get the 2yr, 5yr, and 7yr note auctions for the proceeding week on Thursday.

STIRS:

- SR3M3 -1.3bps at 94.7825, U3 -2bps at 94.69, Z3 -3.5bps at 94.81, H4 -7.0bps at 95.11, M4 -9.5bps at 95.525, U4 -10.5bps at 95.93, Z4 -10.5bps at 96.245, H5 -11.5bps at 96.44, M5 -10.5bps at 96.565, M6 -7.5bps at 96.775.
- SOFR rises to 5.06% as of June 15th (corp. tax date and chunky bill+coupon settlement).
- NY Fed RRP op demand at USD 2.012tln (prev. 1.992tln) across 104 counterparties (prev. 103).
- EFFR falls to 5.07% as of June 15th from 5.08%, volumes flat at USD 128bln.

NEXT WEEK:

- MON: US Juneteenth Market Holiday, US NAHB index
- TUE: PBoC LPR Announcement, RBA Minutes, NBH Announcement, German PPI (May), US Housing Starts /Building Permits (May), Fed's Bullard and Williams
- WED: BoC Minutes, BCB Announcement, CNB Announcement, UK Inflation (May), New Zealand Trade Balance (May), Fed Chair Powell (in House) and Goolsbee
- THU: BoE Announcement, SNB Announcement, Norges Bank Announcement, CBRT Announcement, Banxico Announcement, Bank of Indonesia Announcement, US Current Account, Chicago Fed NAI, Existing Home Sales, KC Fed index, Fed's Waller, Bowman, Powell (in Senate), Mester, and Barkin
- FRI: Japanese CPI (May), UK Retail Sales (May), EZ/UK/US Flash PMIs (Jun), Fed's Bullard and Mester

CRUDE

WTI (Q3) SETTLES USD 1.12 HIGHER AT 71.93/BBL; BRENT (Q3) SETTLES USD 0.94 HIGHER 76.61/BBL

Oil prices were firmer on Friday to confirm a W/W gain with bullish price commentary from Russian officials and Chinese Cabinet stimulus declarations. Prices had been choppy during APAC and the London morning before advancing into the US session, settling at peaks - note WTI interest is now shifting into August futures and some book squaring may be at play. Driving the NY morning bid, China's Cabinet announced "forceful" stimulus measures in the pipeline, providing a bullish demand catalyst from the horse's mouth, while on the supply side, Russia's President Putin was on the wires noting how Russia wanted to diversify its revenues away from oil and gas. Traders were also passing around Russian state press reports citing Energy Minister Shulginov that oil prices hitting USD 80/bbl was realistic, whilst also reaffirming that Russia's oil and gas condensate production is expected to fall by around 20mln T (400k BPD) this year, vs 2022's 535mln T total (10.7mln BPD). Bids were capped later in the NY morning on Reuters reporting that Iran's crude exports and oil output hit new highs in 2023 despite sanctions, with exports hitting 1.5mln BPD in May, the highest since 2018, citing Kpler data, while sources noted crude production has been running at new recent peaks of 3mln BPD. Prices advanced again later in the NY afternoon, with Baker Hughes reporting a decline in US rigs (oil -4 and nat gas -5) into the long weekend and potentially book squaring ahead of July WTI expiry on Monday.

EQUITIES

CLOSES: SPX -0.37% at 4410, NDX -0.67% at 15,084, DJIA -0.32% at 34,299, RUT -0.73% at 1,875.

SECTORS: Communication Services -1%, Technology -0.83%, Financials -0.22%, Consumer Discretionary -0.18%, Industrials -0.15%, Energy -0.11%, Real Estate -0.11%, Health Care -0.01%, Consumer Staples +0.05%, Materials +0.11%, Utilities +0.53%.

EUROPEAN CLOSES: DAX: +0.41% at 16,357.63, FTSE 100: +0.19% at 7,642.72, CAC 40: +1.34% at 7,388.65, Euro Stoxx 50: +0.68% at 4,394.82, IBEX 35: +0.68% at 9,495.00, FTSE MIB: +0.47% at 27,861.80, SMI: +0.68% at 11,380.00.

STOCK SPECIFICS: **Adobe (ADBE)** earnings beat on the top and bottom line with Q3 guidance also beating, it also raised FY guidance above expectations. **Intel Corp. (INTC)** is to invest USD 4.5bln in a new chip plant in Poland that will employ up to 2k workers, according to Reuters. FT later reported that Germany is close to a deal with INTC for a EUR 20bln chip plant, following reports on Thursday it was close to an agreement for a EUR 10bln subsidy. **Micron (MU)** is to invest USD 600mln in a China factory, and USD 1bln in a chip packaging plant in India. However, MU later announced it believes half of its China revenue, which equates to a low double digit percentage of worldwide revenue, is now at risk of being impacted, up from its low single digit estimates back in May. **Amazon's (AMZN)** purchase of **iRobot (IRBT)** has been cleared by the UK CMA. **Meta (META)** wants to make its next big open-source AI model commercially available, according to The Information. **Humana (HUM)** reaffirmed FY23 adj. EPS guidance of at least USD 28.25/shr (exp. 28.34); but it now expects to be at the top end of the range of FY insurance segment benefit expense ratio of 86.3-87.3%. HUM also noted a pick-up in dental health interest which supported **Henry Schein (HSIC) and Dentsply (XRAY)**. **UPS (UPS)** took a brief hit after Teamsters authorised strikes at UPS if there is no contract agreement by July 3rd. AGF Investments suggested that would see 340k workers to the sidelines that could cripple the economy and scramble the supply chain. **Nucor (NUE)** Q2 EPS guidance was above expectations, noting it expects earnings for steel mills to improve in Q2, but **Steel Dynamics (STLD)** Q2 EPS forecast was short of expectations, it expects profitability from steel ops to be significantly stronger than Q1 but steel fabrication earnings are expected to be lower. **Cabot (CBT)** withdrew guidance noting they are not seeing the anticipated pace of recovery in China and they continue to see soft demand on a global basis across many of its key end markets. **Virgin Galactic (SPCE)** sets its first commercial space flight for as soon as June 27th. **Ball Corp (BALL)** is exploring the sale of its aerospace unit for over USD 5bln, according to Reuters sources, adding it has attracted interest from **BAE Systems (BA. LN)** and **Textron (TXT)**. Note, **Airbus (EADSY/ AIR FP)** spoke at the Paris Air show after European hours and said they are confident of meeting its year-end target of 720 deliveries, noting it has signed a big single-aisle jet order with an undisclosed leading company, and it also signed an A350 order with a major international airline. It later noted it signed for 60 A320s and 10 A350s as part of the June orders.

WEEKLY FX WRAP

Price moves driven by policy divergence, rate perceptions and data

USD/EUR/JPY: The Fed failed to get much bang for its Buck as US data provided more evidence of disinflation via CPI and PPI and signs of looser labour market conditions given another 260k odd rise in weekly jobless claims. In fact, the Dollar only got a short-lived reprieve after the FOMC skipped tightening on Wednesday, as widely expected, but implied that it will resume hiking in July and added an extra 25 bp to the median dot plot for 2023 than most were anticipating. Fed Chair Powell subsequently pushed back a bit during the press conference and Q&A after what some have dubbed a Freudian slip in terms of his reference to the skip by repeating that SEP rate predictions are not a Committee decision or plan, though the cat was already out of the bag when he labelled next month's FOMC gathering a 'live' one. However, the DXY faded fairly fast and sharply over the course of the following session and gave up 103.000+ status in response to the aforementioned above consensus initial claimant count that compounded external pressure from the Euro post-hawkish ECB hike. On that note, a back-to-back 25 bp tightening move was fully priced, but Eur/Usd was propped up by the Staff's upwardly revised headline and core CPI projections that nudged both price measures a tad further beyond target levels two years down the line. The headline pair gradually gathered momentum through President Lagarde's presser and especially when she reiterated that the GC has not finished the journey, is not at the destination and has further ground to cover, adding there will likely be a hike in July, baring a material change and the Bank is not thinking about pausing. Eur/Usd extended to just over 1.0950 and reached 1.0970 at one stage on Friday when the Greenback lost more ground generally, but not universally, as the Yen relapsed on confirmation of no change in the BoJ's ultra-easy policies and dovish guidance from Governor Ueda. To recap, he said the Bank didn't change policy because Japanese inflation is not considered sustainable before going on to repeat that responding to an inflation undershoot after a premature rate hike is more difficult than responding to an overshoot. Usd/Jpy saw its second successive significant rebound from sub-140.00 and eventually surpassed Thursday's 141.50 peak to target 142.00 amidst a reversion to bear-flattening in Treasuries in wake of hawkish remarks from Fed's Waller and Barkin in advance of considerably better than forecast UoM sentiment, expectations and conditions that outweighed a marked slowdown in one year inflation expectations and dip in the 5 year view. Indeed, the gains in Usd/Jpy helped the Buck broadly and index survive a few tests of 102.000 irrespective of even bigger rallies in several Yen crosses, albeit the DXY still below Monday's 103.756 w-t-d best.

GBP/CAD: Stellar weeks for the Pound and Loonie relative to their US rival, with Cable flying from under 1.2500 to 1.2850 before stalling and Usd/Cad recoiling almost 200 pips from circa 1.3383. Sterling soared in tandem with BoE rate hike pricing after a hot UK labour report, average earnings in particular and as GDP matched consensus for growth in April fuelled by spending in pubs. Moreover, BoE commentary in the run up to next week's MPC policy gathering was mostly hawkish aside from resident dissenter Dhingra as nemesis Mann maintained her rationale for further hikes, Haskel continued to stress the importance of leaning against inflation risks and Governor Bailey revealed that the Bank has fed more measures of price persistence into its models. Note also, incoming BoE rate-setter Greene gave testimony to the TSC and signalled her inclination to keep tightening. Meanwhile, the Loonie had spillover from the surprise BoC hike to supplement a supply-demand and natural gas related bounce in crude rather than Canadian macro releases or actual rhetoric.

NZD/CHF/AUD: The Kiwi made the most of its US peer's frailty, but could not keep pace with the Aussie for valid fundamental reasons as NZ Q1 GDP confirmed a technical recession whereas Australian jobs came roaring back in May to prompt dovish and hawkish RBNZ and RBA policy shifts. In short, the former is now expected to have hit terminal with its OCR and perhaps start easing in the not too distant future, while the latter may raise the Cash Rate once or twice more per the most aggressive calls. Nzd/Usd topped out just shy of 0.6250 vs a trough near 0.6100, Aud/Usd touched 0.6900 compared to a sub-0.6750 base and the Aud/Nzd cross climbed over a big figure to 1.1050. Elsewhere, the Franc took on board softer Swiss import and producer prices between 0.9109-0.8902 extremes vs its US counterpart, but eagerly awaited the upcoming Quarterly SNB Policy Review in context of recent hawkish vibes from Chair Jordan and odds evenly split regarding a 25 bp or 50 bp rate increase, and with one lone shout for no rise at all based on comparatively low inflation and a weakening economy.

SCANDI/EM: Stronger than expected Swedish inflation readings barely supported the Sek, but the Nok derived traction from Brent's revival and positive elements in the latest Norwegian Regional Network Report ahead of the looming Norges Bank rate decision (tipped to hike 25 bp as signalled previously, but could upgrade the repo path). Conversely, the Cny and Cnh actually retraced losses vs the Usd regardless of all round PBoC easing and downbeat Chinese data as the prospect of 'forceful' fiscal stimulus improved to compliment technical and psychological factors, in keeping with the Zar and Mxn, while the Brl got some helpful Brazilian macro news. However, the Try collapsed all over again before drawing some encouragement from Turkish President Erdogan giving his approval (presumably with reluctance) to the conventional steps that the Finance Ministry and CBRT are set to take, including or starting with hefty monetary tightening according to the analysts and pundits, while the Ils was cautious ahead of the Israeli Government's vote on judicial reform.