US Market Wrap

20th June 2023: Stocks chop and bonds surge as desks warn of early month-end flows in quiet trade

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW**: Blowout US Housing Starts, weak Philly Fed services; PBoC Cuts LPRs 10bps; Dovish RBA minutes; RIVN to adopt TSLA superchargers; ADNOC in talks to buy Covestro; Lanxess profit warning.
- **COMING UP**: **Data**: UK CPI **Events**: BoJ Minutes; BoC Minutes **Speakers**: Fed's Powell, Jefferson, Cook, Goolsbee, Mester; ECB's Schnabel **Supply**: Germany & US.
- **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

Stock indices were flat to lower on Monday in choppy trade with initial spurts of weakness framed as preliminary month /quarter-end selling in the absence of major data until Friday's ISMs. There is an increasing amount of ink being spilt on what is shaping up to be big global stock selling/bond buying, with sell-side trading desks suggesting we could be seeing some of that already. Indeed, UST futures reversed their holiday-thinned selling from Monday, with additional support from UK Gilts leading the charge higher as traders position into Wednesday's UK CPI data and Thursday's BoE. Meanwhile, the since-2016 record M/M increase in US housing starts caught many off-guard, providing some knee-jerk selling in govvies, but that didn't sustain - albeit homebuilder stocks benefitted - perhaps with some focus on the tumbling Philly Fed services index. Elsewhere, DXY was flat but AUD saw particular weakness after the dovish RBA minutes, while the Yen served as a headwind to the initial Dollar strength given the lower yield environment. Oil prices were lower, with China stimulus optimism taking a pullback after the PBoC refrained from cutting its 5yr LPR 15bps as many had been looking for, while Citi joined Goldman in cutting its GDP forecasts for the country.

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HOUSING STARTS/PERMITS: The May data points to a homebuilding frenzy while the existing homes market sits in gridlock. Housing starts spiked 21.7% M/M to 1.63mln from 1.34mln in April (which was downwardly revised from the initial 1.40mln print), marking the largest M/M relative increase since October 2016, smashing the consensus estimate of 1.40mln and well north of the highest surveyed analyst by Reuters at 1.46mln. That surge was underpinned by 18.5% and 27.1% spikes in single-family and (the more volatile) multifamily starts, respectively. Pantheon Macroeconomics notes, "Homebuilders are benefitting from the current stasis in the existing home market, thanks in part to the flurry of refinancing activity at low interest rates during the early stages of Covid." The consultancy explains that this is effectively keeping people in their current homes, "because moving would trigger enormous increases in their mortgage payments." Note that the existing home sale data on Thursday should be much more informative of the general state of the housing market given that new home sales, while rising, still accounted for just 15% of single-family home sales in April. Wall Street consensus currently sees existing home sales falling to 4.25mln in May from April's 4.28mln. While starts surged in May, it's extremely unlikely we see the same sort of momentum in June, given that building permits, which lead starts, rose at a much more modest (albeit still elevated) 5.2% M/M pace to 1.491mln from 1.417mln, still north of the expected 1.420mln. Further, on the outlook, Pantheon warns, "A sustained recovery in housing requires a meaningful improvement in affordability, via lower mortgage rates, or falling home prices, or both. Neither will happen overnight."

PHILLY FED SERVICES: The Philly Fed services June survey saw general activity at the firm level rise to -7.5 from -9.5 in May, where 23% reported an increase of activity, 30% reported decreases, and 45% reported no change. New orders tumbled to -16.2 from +2.7 with just 14% reporting an increase, down from May's 28%, while 30% saw a decrease, a larger share than 25% in May. On employment, firms reported decreases in both part and full-time work; the full-time index fell to -14.4, the first negative reading since December 2020. On prices, the survey suggests continued but less widespread increase for inputs, but overall declines in price for the firms' own goods and services. Prices paid fell to the lowest since October 2020 at 20.8, where 28% reported higher input prices, 27% reported no change and 8% reported decreases. Prices for the firms' own goods and services saw the first negative read since August 2020 at -5.8, falling from 15.8. Looking ahead, "The future firm-level general activity index remained low but continued to suggest firms expect growth at their own companies over the next six months". 40% of firms expect an increase in activity over the next six months, 26% expect decreases, and 32% expect no change. Companies were also asked to estimate total sales growth for Q2 vs Q1, where 58% expect an increase in revenue vs 30% expect a decrease. Firms also noted labour supply and supply chains constrained operations at least slightly. And finally, over half reported financial capital was not a constraint, albeit 18% said it was a significant restraint.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLE 8+ TICKS HIGHER AT 113-10

Treasuries bull-flattened after the long weekend, although futures saw a big recovery from Monday's lows as anxiety grows around month- and quarter-end flows. 2s -3.0bps at 4.693%, 3s -3.7bps at 4.288%, 5s -3.8bps at 3.955%, 7s -3.9bps at 3.845%, 10s -3.9bps at 3.730%, 20s -3.9bps at 4.010%, 30s -3.6bps at 3.820%.

INFLATION BREAKEVENS: 5yr BEI -1.5bps at 2.194%, 10yr BEI -0.3bps at 2.244%, 30yr BEI +0.6bps at 2.245%.

TOKYO/LONDON: Govvie futures were in recovery mode as US participants returned from the long weekend after the Gilt-led sell-off on Monday ahead of UK CPI/BoE lost momentum into APAC on Tuesday. APAC trade saw dovish RBA minutes, supporting the front-end via AGB spillover, while the temerity around China stimulus is also stopping for pause with the LPR rate cut 10bps (vs some expectations for a larger 15bp cut) - not to mention Citi joining Goldman in downgrading China GDP forecasts. The upside was accentuated during Europe amid well-received German and UK auctions. Otherwise, many pointed to potential early month-end flows this week amid the lack of major data (outside of Flash PMIs on Friday), with heavy equity selling much touted, but for bonds, heavy buying is expected. Anecdotally, JPM's Nikos sees USD 150bln of global equity selling with a similar amount of bond buying.

NEW YORK: T-Notes, after troughing at 112-23 on Monday, entered the NY session back above 113, and managed to close the gap from Monday's high at 113-07+ before the housing data, with Gilts leading the charge higher, and the belly /duration outperforming the short end. The tumble in oil prices at the time only supported the move. But, the highest M/M increase in US housing starts since 2016 saw kneejerk selling in Treasuries, with the weak Philly Fed services index overshadowed by the magnitude of the housing data beats. That didn't last long, however, and some sizeable stock selling and renewed Treasury strength into the NYSE open only ramped expectations that we were seeing some early month-end flows. T-Notes reclaimed pre-data highs of 113-10+ and stretched to new session highs of 113-17, just failing to clip the post-jobless claims high of 113-18 from last Thursday. Contracts moved a few ticks lower into the NY afternoon, settling near highs with Fed's Williams and Barr giving nothing relevant for policy/outlook at the NY Fed conference. All eyes to Powell in the House on Friday, albeit he probably won't deviate from his messaging last Wednesday. Likely more importantly for USTs, we get UK CPI data before at 07:00BST/02:00EDT, the day after the UK gilts yields saw their largest one-day decline since mid-March amid touted short-covering, albeit money markets are still implying a near 30% chance of a 50bp hike on Thursday.

STIRS:

- SR3M3 -0.75bps at 94.7775, U3 -2bps at 94.67, Z3 -1.5bps at 94.80, H4 +0.5bps at 95.115, M4 +2bps at 95.545, U4 +3bps at 95.96, Z4 +3.5bps at 96.275, H5 +4bps at 96.48, M5 +4bps at 96.60, M6 +2bps at 96.795.
- SOFR falls back to 5.05% as of June 16th (prev. 5.06%), volumes fall to USD 1.405tln from 1.527tln.
- NY Fed RRP op demand at USD 1.989tln (prev. 2.012tln) across 102 counterparties (prev. 104).
- USD 23bln decline in the RRP comes amid a net USD 50bln cash drain from the system due to a USD 50bln T-bill settlement. It's worth flagging that we are also entering the period of the month where the monthly GSE cash entered the money markets, likely providing upside momentum to the RRP usage.
- EFFR rises back to 5.08% as of June 16th (prev. 5.07%), volumes rise to USD 129bln from 128bln.
- US Treasury raises 4- and 8-week bill sizes to USD 70bln and USD 60bln from USD 65bln and USD 55bln, respectively, both to be sold on June 22nd; leaves 17-week bill auction (June 21st) unchanged at USD 46bln; all three to settle on June 27th.
- US sold USD 66bln of 3-month bills at 5.130%, covered 2.58x; sold USD 59bln of 6-month bills at 5.170%, covered 2.65x; sold USD 50bln of 42-day CMBs at 5.070%, covered 2.77x.

AHEAD:

- **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 0.74 LOWER AT 71.19/BBL; BRENT (Q3) SETTLES 0.19 LOWER AT 75.90/BBL

The crude complex was lower on Tuesday as Chinese growth concerns weighed while the Dollar strength post blowout housing starts data saw WTI fall sub USD 70/bbl before paring throughout the remainder of the session, particularly into settlement. Through the APAC session WTI and Brent were subdued amid the dampened risk tone and China's underwhelming 5-year LPR cut, but the losses pared in European trade, which was seemingly in line with a slight improvement in risk sentiment. Nonetheless, this pocket of strength was swiftly pared as US participants returned from the long holiday weekend and digested the aforementioned concerns as well as a slew of China growth projection cuts. Goldman Sachs, following in the footsteps on Nomura and UBS, cut its China GDP growth target for 2023 to 5.4% (prev. 6.0%) and 2024 target to 4.5% (prev. 4.6%). WTI then hit a low of USD 69.76/bbl as the Dollar peaked on Tuesday following a blowout housing starts number. Elsewhere, Iraqi Kurdish PM Barzani arrived in Turkey for talks with President Erdogan regarding the halted oil exports, according to Reuters citing sources. As a reminder, in March Turkey stopped exports via the northern Iraq-Turkey pipeline (450k BPD) following an ICC arbitration ruling, and on Monday, it was reported that further discussions will be required to recommence northern oil exports. Looking ahead, traders await the weekly (market-holiday delayed) private inventory (Wed) and EIA data (Thurs) on top of UK CPI, Flash PMIs, BoE, and Fed Chair Powell's testimonies.

EQUITIES

CLOSES: SPX -0.47% at 4,389, NDX -0.09% at 15,070, DJIA -0.72% at 34,054, RUT -0.47% at 1,867

SECTORS: Energy -2.29%, Materials -1.26%, Utilities -1.17%, Real Estate -1.11%, Industrials -0.76%, Cons Stpl -0.75%, Financials -0.69%, Technology -0.44%, Communication Svs -0.29%, Health -0.15%, Cons Disc +0.75%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.44% at 4,343, FTSE 100 -0.25% at 7,569, DAX 40 -0.55% at 16,111, CAC 40 -0.27% at 7,294, FTSE MIB -0.64% at 27,576, IBEX 35 +0.08% at 9,439, SMI -0.72% at 11,225.

STOCK SPECIFICS: **Alibaba (BABA)** Chairman and CEO Daniel Zhang stepped down to serve exclusively as Chairman and CEO of Alibaba Cloud Intelligence Group; Joseph Tsai and Eddie Yongming Wu named as next Chairman and CEO, respectively. **Rivian Automotive (RIVN)** owners will be able to access **Tesla (TSLA)** superchargers from 2024 with adapters, according to Reuters; RIVN said it will make Tesla-style charging ports standard on its vehicles from 2025. **Boeing (BA)** announced many new deals at its Paris Air show. Exec thinks this is the busiest he has seen the industry and believes they will see further orders. Expects to increase production of its best-selling 737 MAX to 38 jets (currently 31) a month "pretty soon," but is likely to see supply chain instability at every rate increase. **Philip Morris (PM)** upgraded to Buy at Citi and opened a 'Positive Catalyst Watch' citing the belief that the current stock price is "not fairly valuing the group's market-leading and high growth next generation products footprint". **Eli Lilly (LLY)** to acquire **Dice Therapeutics (DICE)** for roughly USD 2.4bln or USD 48/shr. Note, DICE closed Friday at USD 33.85 /shr. **Civitas Resources (CIVI)** to acquire assets in Permian basin for USD 4.7bln; to fund the deal it is to issue USD 2.7 bln of debt. Post-deal sees FY23 total production of 200-220 MBOE/d, with FY24 total production of 270-290 MBOE/d. **T-Mobile (TMUS)** CFO expects Q2 phone subscribers of roughly 700k (exp. 664k). On the flipside, **AT&T (T)** CFO expects around 300k new phone customers in Q2 (exp. 476k). **Adobe (ADBE)** USD 20bln deal to acquire Figma is under threat from EU investigation, according to FT. **PayPal (PYPL) and KKR (KKR)** sign an exclusive multi-year relationship for European pay later receivables. **Avis Budget Group (CAR)** was upgraded at Morgan Stanley; cited cos. proven track record of fleet risk management and lower operating expenses relative to sales. **Olin (OLN)** cuts Q2 adj. EBITDA view and is to cut sales and support staffing in Asia, resulting in roughly USD 12mln in costs. Morgan Stanley analyst noted **Nike's (NKE)** inventory challenges may impact FY24 guidance but expects Q4 EPS to come in-line or ahead of expectations. **NV5 Global (NVEE)** reportedly working with advisors to look into a sale, according to Reuters citing sources. **Cisco (CSCO)** launches networking chips for AI supercomputers that would compete with offerings from **Broadcom (AVGO)** and **Marvell (MRVL)**. In Europe, **Lanxess (LXS GY)** weighed on chemical names following a profit warning due to weak demand, but **Covestro (1COV GY)** later surged on Bloomberg source reports that ADNOC is looking to buy the co.

US FX WRAP

The Dollar was marginally bid on Tuesday as US participants returned from the long weekend with the DXY hitting a peak of 102.79 in the aftermath of the huge jump in US Housing Starts. The highs failed to hold however as Treasury yields extended their descent on technicals, positioning, and tracking their European counterparts. As such, DXY pared the majority of its gains but still held above 102.50 with investors eyeing Fed Chair Powell's Humphrey Hawkins Testimonies on Wednesday and Thursday, while UK CPI Wednesday and the BoE rate decision Thursday will also be key.

The Euro saw marginal losses vs the Dollar and dipped beneath 1.09 as the Dollar peaked but managed to reclaim the level while EUR/GBP firmed, rising from lows of 0.8528 to highs of 0.8580. There were several ECB speakers once again, Rehn noted it is important to see core inflation in steady decline, while Vujcic said sometimes a soft landing is not possible, and they have to consider the risks of doing too much vs doing too little, stressing core inflation pressures remain in the EZ. Villeroy later added that inflation is past the peak in France and the Euro area, noting future ECB decisions will depend on inflation data, but most of the ECB rate-hike path is complete.

The Yen saw gains vs the buck thanks to the decline in UST yields which saw USD/JPY fall from peaks of 142.25 overnight to lows of 141.22 in the US afternoon with the yield curve flattening and the 10yr yield hitting a low of 3.71%. Attention on Wednesday turns to the Tankan survey while UK CPI and Fed Chair Powell's comments will be eyed.

The Yuan was weaker after the PBoC cut both its 1yr LPR and 5yr LPR by 10bps, although expectations for the 5yr LPR were for a 15bp cut, with many now questioning whether a 10bp cut in the 5yr rate is enough to help revive the flagging Chinese economy. For the Newsquawk analysis on the PBoC, please click here. Note also that Citi joined Goldman in slashing its China GDP forecasts.

Antipodeans saw notable weakness and were the underperforming currencies, particularly the Aussie after dovish RBA minutes overnight saw the June hike was "finely balanced" with the board also discussing leaving rates unchanged, while there was no signal for a follow-up hike in July, seeing market pricing fall from c 58% pre minutes to c. 40% at pixel time. For the Newsquawk analysis on the RBA, please click here. The dovish minutes and China growth concerns led the Aussie to its underperformance, while NZD also lagged on China woes ahead of New Zealand trade data Wednesday.

Loonie saw marginal weakness and remained above 1.32 vs the Dollar with downside in oil keeping the cross elevated. CAD watchers will be looking to the BoC Minutes on Wednesday for appetite of further hikes following their resumption of lifting interest rates.

Pound was weaker vs the buck and the Euro with cyclical currencies weaker in general while UK Gilts fully reversed, and more, the Monday slump as all eyes look to UK CPI data on Wednesday, ahead of the BoE rate decision where markets fully price in a 25bp hike with a c. 30% probability of a larger 50bp move. Cable hit a low of 1.2715 before paring as risk assets pared from lows taking the pair back to 1.2750, with technicians eyeing 1.27 and 1.28, depending how the CPI data is on Wednesday.

In **LatAm**, BRL saw marginal weakness after an impressive rally on Monday ahead of the BCB rate decision, where markets look for an unchanged print but are pricing in a 25bp cut in August. MXN saw notable weakness ahead of the Banxico decision on Thursday, where they are expected to keep rates at 11.25% for the second time. The retail sales data in Mexico was very strong, albeit did little to support the Peso. CLP saw weakness after Chile's Central Bank maintained its interest rate at 11.25% as expected, but the decision was not unanimous where the Vice Chairman Garcia and Director Griffith-Jones opted for a 50bp cut. The statement also noted if recent trends continue (lower inflation, slowing economy) they could lower the monetary policy rate. Meanwhile, the central bank also cut the high end of its growth forecasts for 2023, but lifted its 2024 forecast in a hint of potential, upcoming interest rate cuts. COP, meanwhile, saw gains vs the Dollar, bucking the LatAm trend.

Lira also saw strength after it lifted the minimum wage by 34% to address inflation as attention turns to the CBRT rate decision on Thursday where they are expected to hike rates by a hefty amount, from the current 8.5% to a median consensus of 20%, with analyst forecasts ranging between a rate of 12.5 and 30% to address rocket high inflation. The return to more orthodox policies and more predictable economic policymaking is "unequivocally credit positive", Moody's said.

In **CEE**, the HUF saw gains vs the Euro after the NBH left its base rate and O/N Deposit rate unchanged as expected at 13% and 12.5%, respectively. However, it cut the collateralized loan rate to 18.5% from 19.5%, as well as the one-day rate to 16% from 17%, as had been expected once again. However, its commentary noted that a cautious and gradual approach is warranted and it is necessary to maintain tight monetary conditions in order to achieve price stability, but it did note if improvement in risk perceptions persists, it is to continue the gradual convergence of rate cuts of one-day tenders to the base rate.

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