# US Market Wrap

## 21st June 2023: Stocks post third down day as NDX underperforms ahead of BoE bombshell

- **SNAPSHOT**: Equities down, Treasuries flat, Crude up, Dollar down.
- **REAR VIEW**: Dismal UK CPI; Bostic ready for a 'pause'; Powell stuck to FOMC script; Goolsbee undecided on July meeting; Solid 20yr auction; AMZN dismisses FTC claims for enrolling Prime customers without consent; Dovish BoJ Adachi rhetoric; BoC Minutes underscores data dependant approach.
- **COMING UP**: **Data**: US IJC, Existing Home Sales, EU Consumer Confidence (Flash) **Events**: BoE, SNB, Norges, CBRT, Banxico announcements **Speakers**: Fed's Powell, Bowman, Barkin, Waller; ECB's de Guindos, Panetta; SNB's Jordan; Norges Bache **Supply**: Japan.

## MARKET WRAP

Stocks were sold on Wednesday with the Nasdaq leading the losses in what many cite as pre-emptive month-/quarter-end flows providing a much-needed pullback in the absence of major catalysts. It was a choppy session in USTs, but ultimately flat, after initial losses post-hot UK CPI and higher oil prices were unwound after Bostic called for 'pause' and a solid 20yr auction. Wednesday has a "calm before the storm" feel to it regardless given a BoE meeting with massive hawkish risks (markets imply 50% probability the Bank goes for a larger 50bp hike) but simultaneous concerns the Bank be able to match the market's hawkish expectations - raising fears of a large position unwind given the heavy Pound strength and Gilt selling over the past week or so - Gilts were sold after the CPI data with the Pound actually lower. There is two-way risk Thursday (from the US) as well given the slew of hawkish Fed speakers, initial jobless claims, and a heavily anticipated existing home sales report. Aside from Sterling and Yen (dovish BoJ commentary earlier on) the Dollar was generally weaker across the board. While the crude complex broke out higher buoyed by the weaker Dollar in the absence of any oil-specific catalysts ahead of inventory data.

## FED

**BOSTIC**: Atlanta Fed President Bostic (2024 voter) gave some particularly dovish remarks with some open pushback against further rate hikes. In his prepared speech, he said he is in the camp of saying, "let's pause and give policy time to work and assess how rapidly it is gripping the real economy." Bostic added that letting restrictive policy work for a while is prudent because the policy has been truly restrictive for less than a year. He warned that pressing ahead now with additional rate increases could "needlessly drain" momentum from the economy. Although he did make a point of noting the risk of contagion from the banking turmoil had not materialised. Bostic also said the Fed has good reasons to expect its policy tightening will be increasingly effective in the coming months. He caveated his views by saying that the risk of waiting is that inflation rebounds, but "that is not my baseline". Bostic also provided what is likely to become a staple viewpoint for doves, "If inflation continues to fall in coming months, our current policy stance effectively becomes tighter, as the real interest rate—which is the difference between our rate and the rate of inflation—will increase. I think of this dynamic as "passive tightening," and it should help us continue on the path to our target if recent inflation trends persist."

**POWELL**: In broad strokes, Chair Powell stuck to the script in his testimony to the House on Wednesday ahead of his Senate hearing on Thursday. His prepared remarks were word-for-word with his comments at last week's FOMC presser, reiterating that the process of getting inflation back down to 2% has a long way to go and that "nearly all" FOMC participants expect it will be appropriate to raise interest rates somewhat further by year-end. There was nothing too groundbreaking in his Q&A either. Although there were some comments that did not make their way into the FOMC, such as him saying the balance sheet should be smaller than now, but there needs to be a buffer so that the Fed doesn't bump up against scarce reserves similar to the last cycle - but for context, he said at FOMC that he doesn't think reserves are likely to become scarce in the near term or even over the course of the year. When asked, Powell said the Fed is not considering changing the 2% inflation target. He said factors contributing to inflation's decline are happening, but much later, and taking longer than Fed hoped. After he said at the FOMC that he shouldn't call the June meeting a skip, he said in Congress Wednesday that he has never used the word pause and wouldn't use that here today. And perhaps most interestingly, and something which sets him apart from the more dovish members on the Board, was his comment that officials' median economic projections for two more rate increases this year, "is a pretty good guess of what will happen if the economy performs as expected."

**GOOLSBEE**: Chicago Fed's Goolsbee (voter), speaking at a WSJ event, said the rate decision last week was a close call for him, highlighting the difficulty in trying to work out if the Fed has done enough and how much more needs to be done. He reiterated his comment from last Friday that it's "perfectly appropriate" to have a "reconnaissance mission" now. As his comments last Friday insinuated, he said Wednesday that he has not decided on the rate decision in July. He warned the monetary lags argument is a tremendously important one. The official noted that over the next several months, we will get some markers on whether the Fed has a handle on inflation. Said we will get a sense if goods inflation is coming down, noting that by the fall, housing inflation should begin falling. He said the puzzle has been why haven't goods prices come down more and when will housing prices come down. Providing an ultimatum that if goods inflation is going back to zero or negative, as it was before the pandemic, that should happen in the near term.

**JEFFERSON, COOK, KUGLER**: The three officials had their Senate hearings. Jefferson (voter), the Vice Chair nominee, who has been on the dovish side of the policy debate lately, said recent bank troubles represent downside economic risk, noting he is watching commercial real estate (CRE) for risks - his comments are at odds with some of the hawks such as Waller who have recently looked to distance bank stability from Fed policy. Cook (voter) had some vanilla comments, saying the Fed is not there yet on getting inflation back to target and there is a risk economic growth could slow. And Board nominee Kugler (not yet a voter) struck the party line also, saying both sides of the Fed's mandate are important, but pushing inflation down is Fed's main mission now. Added that inflation in the US is at "alarming" levels.

## CENTRAL BANK PREVIEWS

**BOE**: 64/64 economists surveyed by Reuters (pre-CPI data) expect the BoE to raise rates by another 25bps, taking the Base Rate to 4.75%. Following the release of the May inflation data, markets price in a 55% chance of a 25bps hike and 45% chance of a larger 50bps move (vs. 75% 25bps pre-release and 25% 50bps). Expectations for a more aggressive move from the BoE ratcheted up after latest CPI data saw the Y/Y headline rate hold steady at 8.7% vs. consensus 8.4% (MPC expected 8.3%), whilst core Y/Y advanced to 7.1% from 6.8%. In the labour market, headline earnings growth in the 3M/YY period in April rose to 6.5% from 6.1%, whilst the unemployment rate unexpectedly fell to 3.8% from 3.9% (consensus was for an increase to 4.0%). Focus will be on any tweaks to the Bank's guidance which notes that "if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required". In terms of market pricing, a total of 160bps (including June) is currently expected. However, many analysts suggest that this looks a bit aggressive with 50bps further hikes judged to currently be the base case. To download the full Newsquawk preview, please click here.

**SNB**: Expected to continue the tightening cycle from the current 1.50% policy rate in order to bring inflation back into the 0-2.0% target band from 2.2% YY in May. Further tightening is expected given inflation remains above forecast alongside the tone of recent SNB commentary. On the latter, expectations for a hike were cemented by hawkish remarks from Chairman Jordan, speaking after May’s CPI, that inflation is more persistent than thought and both second- and third-round effects are being seen. Currently, market pricing looks for a 25bp hike to 1.75% which would be a step-down from the recent 50bp pace that would be merited by the marked pullback from the prior in May’s CPI data; albeit, inflation is ultimately still above target. However, the domestic economy is experiencing a relatively mixed performance with the ZEW in particular highlighting areas of concern. Overall, Jordan’s remarks mean the SNB is unlikely to be dissuaded from further tightening, though the trajectory for inflation suggests the peak is near and thus the prudent magnitude is likely to be 25bp. Given this, 23/33 polled by Reuters think June’s hike will be the last for 2023. For reference, Citi calls for an unchanged announcement in June given the trajectory of CPI towards the target band. To download the full Newsquawk preview, please click here.

## FIXED INCOME

**T-NOTE (U3) FUTURES SETTLED UNCHANGED AT 113-10**

**Treasuries were flat after initial losses post-hot UK CPI and higher oil prices were unwound after Bostic called for pause and a solid 20yr auction**. 2s +1.5bps at 4.713%, 3s -0.3bps at 4.291%, 5s -0.3bps at 3.955%, 7s +0.0bps at 3.843%, 10s -0.4bps at 3.723%, 20s -1.2bps at 3.992%, 30s -1.4bps at 3.803%.

**INFLATION BREAKEVENS**: 5yr BEI -0.1bps at 2.192%, 10yr BEI -1.2bps at 2.232%, 30yr BEI -0.6bps at 2.240%.

**TOKYO/LONDON**: T-Notes gradually drifted lower through the APAC morning session on Wednesday with little catalysts barring some dovish-leaning BoJ official commentary (nothing major). Contracts hit interim support at 113-06 just before European arrived. The shock rise in UK Core CPI saw kneejerk selling in EGBs and USTs (with Gilts gapping lower on their reopen), with T-Notes tumbling from 113-09 to 112-31+ as aggressive BoE hike pricing sunk in ahead of Thursday's meeting. But, a recovery was seen not long after, and T-Notes managed to close the gap and hit resistance at 113-10+ after a solid German long-end auction.

**NEW YORK**: Gilts failed to close their gap and as US traders arrived, better selling resumed into the NY morning in both Gilts and USTs. T-Notes were flirting with sub-113 levels before Powell's copy/paste (from FOMC) Senate hearing speech release saw some brief strength in govvies, with the comments lacking any fresh hawkish impetus as some had positioned for. But it wasn't long before fresh lows were being made, with oil prices breaking higher, as T-Notes troughed at 112-27+, failing to clip the double-bottom Mon/Tues 112-23 lows, before haven (month-end?) demand crept in as cash stocks opened on the back foot. A 5.6k 5yr future buy helped the recovery into the NY afternoon. T-Notes managed to completely unwind their losses into the settlement, with a super strong 20yr bond auction given additional bullish momentum to by Fed's Bostic (2024 voter) saying his preference is for a rate "pause".

**20YR AUCTION**: A solid USD 12bln 20yr reopening from the Treasury with the second highest stop-through of the year at 1.8bps (largest was in Jan), for a stop of 4.010%, a chunky bid/cover ratio at 2.87x (six-auction avg. 2.64x), and surging Indirects participation to 74.6% (prev. 70.6%, avg. 69.6%) as Dealers plunged to 7.8% (prior/average both c. 11%). Given the much-touted expected month-end flows (big stock selling vs bond buying), it raises the question if some large accounts have seized the 20yr auction as a liquidity event. Regardless, 20yr auctions have tended to do well over the past few years with the relatively cheap part of the curve providing an attractive yield advantage for those willing to risk its less appealing liquidity profile, but even by its own standards, the June offering was particularly strong.

**STIRS**:

- SR3M3 -0.75bps at 94.77, U3 -0.5bps at 94.665, Z3 -1.5bps at 94.79, H4 -1bps at 95.11, M4 -0.5bps at 95.545, U4 +0.5bps at 95.97, Z4 +1bps at 96.29, H5 +1bps at 96.50, M5 +1bps at 96.62, M6 flat at 96.81.
- SOFR flat at 5.05% as of June 20th, volumes rise to USD 1.427tln from 1.405tln.
- NY Fed RRP op demand at USD 2.037tln (prev. 1.989tln) across 106 counterparties (prev. 102).
- The rise comes amid no Treasury settlements Wednesday, thus no cash drains are expected from RRP.
- Furthermore, we are now in the monthly GSE cash inflows period of the month, which gives the RRP facility an upward bias in the absence of Treasury settlements.
- EFFR falls back to 5.07% as of June 20th (prev. 5.08% on June 16th), volumes rise to USD 134bln from 129bln.
- US sold USD 46bln of 17-week bills at 5.220%, covered 3.27x.

**AHEAD**:

- 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) SETTLED USD 1.34 HIGHER AT 72.53/BBL; BRENT (Q3) SETTLED USD 1.22 HIGHER AT 77.12/BBL**

**The crude complex was firmer on Wednesday buoyed by the weaker Dollar in the absence of any oil-specific catalyst**. WTI and Brent saw one-way upward traffic throughout the US session to see highs of USD 72.72/bbl and 77.24 /bbl, respectively, coinciding with Dollar retracing from highs to lows. Although, gains in the European morning were hampered by the hotter-than-expected UK CPI data ahead of Thursday's BoE announcement. Back to crude specific, Russia's offline primary oil refining capacity for June was revised up by 9% to 4.029mln T, according to Reuters sources, with emergency stoppages at Krasnodar and Ilsky plants contributing to the upward revision of idle capacity. Meanwhile, total offline primary oil refining capacity seen falling to 1.683mln T in July. The rise in offline refining capacity usually leads to an increase in available crude oil volumes and a boost in exports. Separately, Phillips 66 (PSX) exec noted Bayway FCC repairs are underway and will go on for "next few weeks" and other systems are operational; forecasting utilization for Q2 at low-to-mid 90%. Looking ahead, traders await the weekly (market-holiday delayed) private inventory (Wed, expectations below) and EIA data (Thurs) on top of Flash PMIs, BoE, and a slew of further Fed speak. Current inventory expectations (bbls): Crude +0.3mln, Distillate +0.7mln, Gasoline +0.1mln.

**XOM**: Exxon's consortium and Guyana are discussing the return of unexplored oil areas where 20% of unexplored acres could go back into the market, according to Reuters sources. Moreover, XOM's consortium separately aims to accelerate the start-up of the third oil production vessel, Prosperity, as early as September, bringing total production to

600k BPD in early 2024. Note, Exxon, alongside partners Hess (HES) and CNOOC (0883 HK) produce 375k BPD currently from two offshore vessels, but the Exxon-led group, which controls offshore production in Guyana, was required this year to return 20% of unexplored acres under the original 2016 production contract.

## EQUITIES

**CLOSES**: SPX -0.52% at 4,365, NDX -1.35% at 14,867, DJIA -0.30% at 33,951, RUT -0.20% at 1,863.

**SECTORS**: Technology -1.41%, Communication Services -1.36%, Consumer Discretionary -1.17%, Real Estate -0.44%, Financials -0.19%, Health +0.06%, Materials +0.35%, Consumer Staples +0.39%, Industrials +0.57%, Utilities +0.84%, Energy +0.92%.

**EUROPEAN CLOSES**: Euro Stoxx 50 -0.47% at 4,322, FTSE 100 -0.13% at 7,559, DAX 40 -0.55% at 16,023, CAC 40 -0.46% at 7,260, FTSE MIB +0.12% at 27,609, IBEX 35 -0.04% at 9,436, SMI -0.33% at 11,179.

**STOCK SPECIFICS**: **FedEx (FDX)** missed on revenue and said results were negatively affected by continued demand weakness and cost inflation; CFO Lenz is to retire effective July 31st. FY24 profit view in line and sees FY revenue growth of flat to low-single-digit percentage. Texas said it would require EV charging companies to include both **Tesla (TSLA)** standard as well as the nationally recognized CCS if they want to be part of a state programme to electrify highways using federal dollars. **Patterson Companies (PDCO)** topped expectations on EPS and revenue alongside lifting FY24 profit view. **Spotify (SPOT)** upgraded at Wolfe Research; cited price increases and growth in advertising should help grow its revenue. Citi opened a 'Positive Catalyst Watch' on **Molson Coors (TAP)**. **Exact Sciences (EXAS)** announced positive top-line results from the pivotal BLUE-C. In other news, EXAS signs research agreements with Broad Institute of MIT and Harvard. **Intel (INTC)** agreed to sell a minority stake in IMS nanofabrication business to Bain Capital, with the 20% stake worth roughly USD 4.3bln. Expected to close in Q3 '23. **JPMorgan Chase (JPM)** to cut around 20 IB jobs in Asia, according to a Reuters source; joining global peers in trimming headcount as dealmaking slows. **Amazon's (AMZN)** Prime Day event will be on July 11th and 12th. Separately, US FTC filed a lawsuit against **Amazon (AMZN)** for enrolling consumers in Amazon Prime without consent; FTC said AMZN duped millions of consumers into subscribing and sabotaged attempts to cancel Amazon Prime, according to a statement. Amazon responded saying FTC prime claims are false on the facts and the law, according to a statement. **La-Z-Boy (LZB)** beat on the top and bottom line. Q1 revenue guide light. **Google (GOOGL)** accused **Microsoft (MSFT)** of anticompetitive cloud practices in complaint to the FTC, according to The Information. **Intel (INTC)** said its transition to a new internal foundry model will be a key enabler to achieving its stated cost savings over USD 8-10bln exiting 2025. Execs say they are projecting a broad class of increased efficiencies that will be reflected in greater profitability as it pursues its long-term ambition to achieve non-GAAP gross margins of 60% and operating margins of 40%. **Netflix (NFLX)** has explored **Paramount (PARA)** for its studio business, according to Business Insider.

## US FX WRAP

**The Dollar** was lower on Wednesday, dipping through the US session, falling from highs of 102.710 to lows of 102.020 - some desks point to early month/quarter-end positioning in the lack of anything more obvious. Nonetheless, there was a slew of Fed speak in the NY afternoon, and recapping some of the highlights, Chair Powell in prepared remarks to House, reiterated that the process of getting inflation back down to 2% has a long way to go and nearly all FOMC participants expect it will be appropriate to raise interest rates somewhat further by year-end. In the following Q&A, Powell added the balance sheet should be smaller than now, but need a buffer so that don't bump up against scarce reserves. As such, do not want to be in the same position as the last reduction cycle. Separately, Vice Chair nominee Jefferson (voter, dovish) said recent bank troubles represent downside economic risk and watching CRE for risks. Nominee Kugler noted inflation in the US is at "alarming" levels, while Cook (voter) added the Fed is not there yet on getting inflation back to target and there is a risk economic growth could slow. Goolsbee (voter) denoted that the decision last week was a close call for him and is trying to work out if they have done enough and how much more needs to be done. Highlighting this, he said he has not decided on the rate decision in July. Lastly, Bostic (non-voter) struck a very dovish tone noting he wants to give the economy more time to adjust to rate hikes before doing more and monetary policy has not been restrictive long enough for its effects to be felt, so it is prudent to wait. Said he is in favour of a "pause". Looking ahead, there is a further raft of Fed speak on Thursday as well as the weekly jobless claims and existing home sales data.

**NZD, EUR, CHF, and CAD** all profited from the floundering Buck in spite of not much currency-specific newsflow. Although, the Loonie was already outperforming thanks to much stronger than forecast Canadian retail sales, the aforementioned Dollar weakness, aptly supported by strengthening crude, added further fuel to USD/CAD to see it extend to lows of 1.3158. BoC Minutes failed to garner any reaction but they did agree to assess the need for future rate hikes based on data after deciding to increase rates on June 7th. NZD/USD and EUR/USD hit peaks of 0.6217 and

1.0989, respectively, with 1.10 the big psychological hurdle for EUR/USD ahead of April's 1.1096 peak. The single-currency failed to derive any real impetus via the latest ECB officials reiterating that the battle against inflation is not won, and the Swissy recovered from near 0.9000 to c. 0.8920 ahead of the SNB on Thursday.

**The Aussie** recovered and saw slight gains vs the Buck, at pixel time, after being undermined by numerous negative factors. However, amid the Dollar's relapse the Aussie managed to take advantage and even breach 0.6800 to the upside, albeit briefly. Initially, broad risk aversion, another decline in the price of iron ore, ongoing Yuan weakness, a deterioration in the composite leading index and further fall-out from the RBA's finely balanced decision to hike rates earlier this month weighed.

**GBP** eventually settled flat on the widely flagged Buck breakdown, but that only tells half the story for Sterling on Wednesday. UK CPI was dismal, as headline and core CPI were both hotter-than-expected, seeing the latter (Y/Y) rise to its highest since 1992. As such, Cable initially spiked higher on the firmer inflation data and subsequent implications for the rate path, but the move was then subsequently faded given the squeeze on the UK economy from a more aggressive rate path in the face of inflation continuing to surprise to the upside - some also cite fears the BoE is behind the curve. Cable extended on its losses to print a trough of 1.2692, although it is now a way off this level ahead of the BoE on Thursday with a larger 50bp hike implied at 50% probability by money markets.

**JPY** was the G10 underperformer, but well-off worst levels, as it relented to an initial rebound in US Treasury yields that followed more dovish BoJ rhetoric, this time from Board member Adachi, and propelled USD/JPY up to a new 2023 high, albeit marginal at 142.39. However, and without sounding like a beaten drum, the Yen managed to pare some of the losses on account of the Dollar pullback. The Yen managed to stoutly defend the psychological 142.50 mark - desks noted the cross may need US claims on Thursday and Japan CPI on Friday to reinforce Fed-BoJ bullish divergence to clear 142.50.

**Scandis** firmed against the Buck, with the SEK regaining some poise after hitting a record low vs the EUR and the NOK extended to the upside as Brent bounced through the US session ahead of Norges rate decision on Thursday.

**EMFX** was predominantly in the black, although the TRY was flat ahead of the CBRT policy meeting on Thursday where it is expected to hike its One-Week Repo Rate, but the range is seen between 400bps to 2,150bps. The Yuan was also flat but managed to pare its initial weakness. BRL saw gains following Brazil's Senate Economic Affairs Committee approving the government's new fiscal rules, with participants awaiting the BCB meeting, where they are expected to keep the Selic rate unchanged at 13.75%, but eyes on guidance for future rate cuts. Lastly, CZK firmed up after a hawkish CNB hold.