newsquawk

US Market Wrap

22nd June 2023: SPX and NDX snap losing streaks as Big Tech rallies amid Central Bank bonanza

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: BoE surprises with 50bps; Hawkish Norges Bank; Dovish SNB; Jobless claims unchanged, but above 260k, again; Bowman wants further rate hikes; Powell largely reiterates what he said to the House; Strong 5yr TIPS auction; SPR suspends factory operations, impacting BA; AWS announces a Generative AI Innovation center; Banxico & BCB on hold, as expected; CBRT hike disappoints
- **COMING UP**: **Data**: EU, UK, US PMI (Flash), Japan CPI (Core), UK Retail Sales **Speakers**: Fed's Bostic, Mester and Bullard; ECB's Lagarde, Panetta, Schnabel and Elderson.

MARKET WRAP

The S&P 500 and Nasdaq snapped their losing streak since last Friday with NDX outperforming and SPX posting marginal gains. The Russell was lower and Dow Jones was flat. The Nasdaq gains were predominantly led by upside in Amazon (AMZN) (+4.3%), Apple (AAPL) (+1.7%), Microsoft (MSFT) (+1%), Meta (META) (+1.2%), and Tesla (TSLA) (+2%) with the large caps doing the heavy lifting. The equal-weighted S&P (RSP) finished in the red while sectors were mixed. Consumer Discretionary, Communication, Tech, Health Care and Staples being the only sectors in the green and all others lower, with Real Estate and Energy underperforming. Treasuries were sold across the curve but chopped around the 50bp hike from the BoE while T-notes saw highs after another elevated jobless claims print but all gains pared after Bowman hinted at more hikes while Treasury issuance next week and corporate supply from Nasdaq also weighed. Crude prices tumbled lower throughout the session while the Dollar was supported by the move higher in yields. Elsewhere, the SNB hiked by 25bps disappointing those looking for a 50bp move, while the Norges Bank hiked by 50bps, greater than the 25bp expected. The CBRT hiked to 15% from 8.5%, towards the lower end of expectations that ranged from 12.5-30%. Banxico was unchanged as expected where it maintained guidance to hold rates at current levels for a prolonged period of time, but it did downgrade some of its near-term headline inflation forecasts. The hawkish BoE ultimately led to upside in Gilts and weakness in GBP, similar to what was seen in the hot CPI report, where the recent rally in GBP is being questioned given the expected impact of tighter monetary conditions on the UK economy and the consumer.

CENTRAL BANKS

Chair Powell largely repeated what was said to the House on Wednesday, but nonetheless noted the FOMC broadly feels it will be appropriate to raise rates again this year, and perhaps two more times (in fitting with the June dot plots). Powell said his own forecasts are very similar to that of the committees, noting we still have a long way to go. He repeated they have not seen much progress in services inflation, and there is no consensus agreement on how long it takes monetary policy to affect the economy. Powell did repeat the decision to give themselves more time to assess data, while noting we are close to the destination therefore it makes sense to move at a careful pace. He noted that tightening credit may substitute for one more rate hike. On repo, he said the reverse repo facility has shrunk since March and it doesn't account for a decline in bank deposits, noting shrinkage of the balance sheet has been orderly and he does not think reserves will be scarce any time soon.

Governor Bowman said additional policy rate increases will be needed to reach a sufficiently restrictive level and control inflation. She noted inflation is still unacceptably high despite the drop in the headline data. Bowman added that monetary policy has had some effects on the economy, but core inflation has essentially plateaued since the fall of last year. She will be looking for inflation on a consistent downward path in deciding appropriate policy steps at the coming meeting.

BOE REVIEW: Following the hotter-than-expected May inflation data yesterday which saw headline Y/Y CPI print at 8.7% vs. the MPC forecast of 8.3%, the BoE opted to deliver a 50bps hike in the Bank Rate to 5%. Heading into the release, consensus (polling was taken ahead of Wednesday's inflation report) was in favour of a 25bps adjustment, whilst market pricing was a near coin flip between 25 and 50bps. The decision to exceed analyst estimates was based on the judgement that "the second-round effects in domestic price and wage developments generated by external cost shocks were likely to take longer to unwind than they had done to emerge". Not everyone on the MPC subscribed to this view with Dhingra and outgoing external member Tenreyro opting for an unchanged rate on the basis that goods inflation is expected to fall sharply and the lagged effect of existing tightening. Elsewhere, the Bank opted to maintain guidance that "if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required". Note, some outside calls ahead of the meeting floated the idea that the Bank could reintroduce its "forceful" language around further policy measures. On the labour market (which was a factor in the hawkish expectations for today), the Bank notes "indications of future pay growth from the KPMG/REC survey and the Bank's Agents suggest that AWE growth will ease over the rest of this year". On the housing market, the statement noted "as set out in the May Report, the greater share of fixed-rate mortgages means that the full impact of the increase in Bank Rate to date will not be felt for some time". In terms of where we go from here, the MPC expects inflation to fall "significantly" over the course of the year, however, market pricing is indicative of further action to come with a 25bps hike for August priced at 69% and a total of 100bps of hikes forecast by December. In terms of desk views, Pantheon Macroeconomics suggests that such a path looks too aggressive and instead expects just 50bps of further tightening. In wake of the rate decision, Governor Bailey said we are not seeking to precipitate a recession and are not signalling what will come next on rates. On inflation, said the pattern of persistent and rather sticky inflation is seen in other countries too.

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JOBLESS CLAIMS: Initial Jobless Claims data for the week that coincides with the usual BLS survey print was unchanged at 264k, with the prior revised up to 264k from 262k, and above expectations of 260k, marking the third consecutive week above 260k. It is worth noting the large rise in jobless claims in California, +7k. Analysts at Southbay Economics suggest this is the impact from the Tech layoffs earlier in the year, with severance packages keeping them from filing for unemployment, but now it is starting to pick up steam as those severance payments expire. The high level of jobless claims implies a cooling labour market but the last three weeks of data have been very consistent around 260k. Attention will turn to the NFP report in two weeks time for a more accurate picture of the labour market, and today's data will do little to change the Fed's view. However, the continued claims data, for the week ending June 10th, declined to 1.759mln from 1.772mln, beneath expectations of 1.782mln, evidence there is still some signs of a tight labour market.

EXISTING HOME SALES: Existing home sales rose 0.2% in June to 4.30mln (exp. 4.25mln) marginally above the prior 4.29mln, while the supply of homes remained at 2.8 months of sales for the third consecutive month. The headline figure underscored that demand remains resilient despite scarce inventory and relatively high mortgage rates. However, Oxford Economics notes, "Sales are expected to lose momentum in the months ahead and we expect existing home sales to come under some pressure as the economy and labor markets soften during a mild recession." Back to the inventory, which rose in May, although the consultancy notes increases in the spring selling months are common, however, it did contract Y/Y for the first time since October. Concluding, Oxford adds the supply of existing homes for sale has been tight for several years, but the more recent rise in mortgages is also keeping some sellers on the sidelines.

FIXED INCOME

T-NOTE FUTURES SETTLED 18+ TICKS LOWER AT 112-23+

Treasuries were ultimately lower in the aftermath of a hawkish BoE, elevated jobless claims data, hawkish comments from Fed's Bowman and supply. At settlement, 2s +8.0bps at 4.787%, 3s +8.5bps at 4.373%, 5s +8.2bps at 4.037%, 7s +7.9bps at 3.922%, 10s +7.2bps at 3.795%, 20s +6.8bps at 4.067%, 30s +6.3bps at 3.871%.

Break Evens: 5yr BEI +3.9bps at 2.230%, 10yr BEI +2.3bps at 2.257%, 30yr BEI +1.6bps at 2.258%.

THE DAY: Treasuries trended lower overnight ahead of the BoE rate decision, primarily looking through an early morning hawkish Norges Bank and dovish SNB. In wake of the BoE rate decision, which hiked rates by 50bps (exp. 25bps) in a hawkish split, with the two doves voting for an unchanged print, but the remaining seven on the MPC voting for the 50bp hike saw T-notes hit fresh lows of 112-26+. The move was short-lived however, with Treasuries tracking gilts as they reversed higher with growth concerns in the UK seemingly becoming the priority with pronounced curve flattening. T-Notes later went on to hit fresh highs of 113-14 after the jobless claims print came in marginally above expectations at 264k (exp. 260k) and in line with the upwardly revised (+2k) prior. The data was enough to send T-notes to fresh highs with the last three consecutive weeks remaining above 260k showing signs of a (somewhat) loosening labour market. Once again, the move was shortlived and Treasuries sold off throughout the rest of the US session to hit lows of 122-21. Supporting the downside was hawkish commentary from Fed's Bowman, stressing more rate hikes are likely, while Fed Chair Powell largely repeated what was said on Wednesday to the House. The move also comes ahead of supply next week with the Treasury announcing it is to sell USD 42bln in 2yr notes, USD 43bln in 5yr notes and USD 35bln in 7yr notes next week, as expected. Meanwhile, the launch of the USD 4.25bln Nasdaq M&A 5-parter also weighed on the curve; USD 500mln in 2yr, USD 1bln in 5yr, USD 1.25bln in 10yr, USD 750mln in 30yr and USD 750mln in 40yr paper.

5YR TIPS AUCTION: A strong 5yr TIPS auction stopping through the WI by 3.8bps, better than April's stop through of 0.8bps. The Bid-to-cover was also strong at 2.56x, above the prior 2.34x with demand being led by a surge of indirect bidders. Indirect's took 85.1% of the auction vs the 72.6% in April, while Directs took just 11.03%, down from the 17.2%, leaving dealers (forced buyers) with just 3.87% of the auction.

STIRS:

- NY Fed RRP op demand at USD 1.995tln (prev. 2.037tln), across 103 counterparties (prev. 106)
- US EFFR unchanged at 5.07% with volumes falling to USD 130bln from 134bln.
- US to sell USD 65bln in 13wk bills, USD 58bln in 26wk bills (sizes unchanged) on June 26th, to settle June 29thTo sell USD 50bln in 42-day CMBs (prev. USD 50bln).
- US sells USD 71bln in 4wk bills at 5.01%, B/C 2.93x; sells USD 61bln in 8wk bills at 5.14%, B/C 2.78x.

CRUDE

WTI (Q3) SETTLED USD 3.02 LOWER AT 69.51/BBL; BRENT (Q3) SETTLED 2.98 LOWER AT 74.14/BBL

The crude complex was lower on Thursday and was weighed on by the broad Dollar bid as opposed to anything oil specific amid the central bank bonanza, including hawkish surprises from the Norges Bank and BoE. On the day, WTI and Brent futures price action was largely horizontal in APAC trade and throughout the early European hours, but as US participants entered the fray the complex trundled lower throughout the session to settle just off lows. Nonetheless, there was EIA data (more below) in addition to IEA's Birol noting the IEA still sees tight oil market in H2 even with a sluggish China, although there is very little new LNG coming onto the market this year. Meanwhile, analysts at ING suggest "Stronger buying from Asian refiners more recently has been supportive, whilst Chinese monetary easing earlier in the week has also been helpful.", however, central bank hawkishness may weigh on the momentum. Separately, Russia reduced planned oil exports via Transneft by 0.5% in Q3 from Q2 levels to 4.24mln BPD, according to Reuters citing sources and its own calculations. Looking ahead, after Thursday's plethora of rate decisions, namely BoE, SNB, Norges, attention will turn to Flash PMIs, any Fed speak, and Baker Hughes.

EIA: In fitting with the private inventory data on Wednesday night, crude stocks saw a surprise draw of 3.831mln, while gasoline saw a greater build than expected (0.479mln), also following in the footsteps the API's. Distillate saw a slightly smaller build than forecast, 0.433mln (exp. 0.705mln). Overall, refining utilization fell 0.6% (exp. 0.1%, prev. -2.1%) and production dipped 200k BPD to 12.2mln.

EQUITIES

CLOSES: SPX +0.37% at 4,381, NDX +1.18% at 15,042, DJIA -0.01% at 33,946, RUT -0.80% at 1,848.

SECTORS: Consumer Discretionary +1.53%, Communication Services +1.15%, Technology +0.92%, Health +0.65%, Consumer Staples +0.51%, Materials -0.29%, Industrials -0.71%, Financials -0.74%, Utilities -0.76%, Energy -1.3%, Real Estate -1.44%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.42% at 4,304, FTSE 100 -0.76% at 7,502, DAX 40 -0.22% at 15,988, CAC 40 -0.79% at 7,203, FTSE MIB -0.72% at 27,410, IBEX 35 -0.76% at 9,346, SMI +0.09% at 11,183.

STOCK SPECIFICS: **Amazon's (AMZN)** AWS announces a Generative AI Innovation center, investing USD 100mln that connects AWS machine learnings and AI experts with customers and partners. In other news, Amazon is unlikely to offer remedies during the prelim EU antitrust review of the **iRobot (IRBT)** deal, according to Reuters sources; regulators expect to open a full-scale investigation into the deal. Co. has one "final shot" to avert an investigation.**Accenture (ACN)** next quarter revenue guide disappointed. However, EPS and revenue beat alongside lifting FY profit view. **Spirit AeroSystems (SPR)** is to suspend factory operations due to an employee strike. In sympathy, **Boeing (BA)** saw weakness as Spirit AeroSystems manufactures Boeing's 737 Max fuselage. Activist investor Elliott is increasing pressure on **NRG Energy (NRG)** and is now seeking to oust the CEO. Following this, NRG is reportedly boosting its stock buyback programme to USD 2.7bln (prev. 1bln). **KB Home (KBH)** beat on EPS, revenue, net orders and deliveries on top of raising FY revenue view. **FactSet Research Systems (FDS)** surpassed expectations on the top and bottom line. Board approves USD 300mln share repurchase programme and it lifted FY23 adj. EPS view. **AlloVir (ALVR)** announced a USD 75mln common stock offering with 20mln shares offered at USD 3.75/shr. ALVR closed Wednesday at USD 4.93/shr. **Avid Biosciences (CDMO)** EPS printed in line while revenue marginally beat, but the FY24 revenue guide was light. **Logitech (LOGI)** board approves new USD 1bln buyback programme. **Tesla (TSLA)** downgraded at Morgan Stanley citing its steep valuation following the recent AI-fuelled rally. **Alcoa (AA)** downgraded at Morgan Stanley; said the co. is at risk of missing estimates on a key profit metric in the coming quarters. **Darden Restaurants (DRI)** surpassed expectations on the top and bottom line alongside raising quarterly dividend 8%. Board Chairman Eugene Lee, Jr is to retire. Looking ahead, the FY24 revenue view beat expectations. **Kroger (KR)** raised its quarterly dividend 11.5% to USD 0.29/shr (prev. 0.26).

US FX WRAP

The Dollar was firmer on Thursday, largely due to the pick-up in yields irrespective of US data that saw a knee-jerk move higher for the Treasury complex, but the gains were very short-lived with a hawkish leaning Bowman and supply supporting yields higher. The Initial Jobless Claims topped 260k for the third consecutive week, while the Q1 current account deficit came in wider than forecast and the national activity index turned negative, albeit from an upwardly revised prior level. Nonetheless, the Dollar furores higher to a peak of 102.470. There was a slew of Fed speak, albeit little new, with Chair Powell said the FOMC broadly feels it will be appropriate to raise rates again this year and perhaps two more times, and they kept rates on hold to give more time to make decisions. Bowman (voter, hawkish) noted additional policy rate increases will be needed to reach a sufficiently restrictive level and control inflation. To Friday, attention turns to Flash PMIs and any further Fed speak.

JPY was the G10 underperformer with USD/JPY printing a fresh YTD high of 143.22 and breaching the key 142.50 level, with technicians noting if it closes above the level after Friday's Japan CPI report it could be on the road to 145 next, and perhaps the 76.4% Fib at 146.10. Further on this, desks note if Japan's core CPI on Friday retreats to 3.1% from 3.4%, as expected, and the Fed's determination to see the inflation fight through with one or two more rate hikes keeps Treasury yields aloft, that ought to be enough to get prices to 145, which is where the MOF's November USD/JPY intervention broke support.

CHF was lower vs the Buck and saw some weakening in the aftermath of the SNB rate decision. SNB hiked by 25bps as expected, albeit disappointing some who looked for a 50bp move. The SNB noted it cannot be ruled out that additional rate hikes will be necessary. On FX, it said the focus is on selling foreign currency, while on inflation it noted it has again increased over the medium-term. From 2024 onwards, it noted the new forecast is higher than in March due to ongoing second round effects, higher electricity prices and rents, as well as more persistent inflationary pressure from abroad. In the aftermath, Chairman Jordan said most likely we will have to tighten monetary policy again, but we can also take a more gradual approach.

GBP was volatile after the BoE delivered a larger than expected 50bp hike with 7 members opting for the 50bp move, while usual doves Dhingra and Tenreyro voted for an unchanged rate. The bank-maintained guidance further tightening would be required if there was more evidence of persistent pressures. The decision saw USD/GBP hit a high of 1.2838 in a knee jerk reaction before reversing the move and eventually hitting lows of 1.2728 in a similar vein to the UK CPI report on Wednesday with concerns of the tighter policy and its impact on the consumer and the ever-rising mortgage rates. Given the recent rally in the Pound, the economic growth concerns and impact on the consumer has seen GBP sold on hawkish releases as traders struggle to justify an elevated pound as recession fears build.

NOK was flat against the Buck. Norges bank hiked by 50bps, above expectations of a 25bp move, taking the rate to 3.75% from 3.25%. It noted the current assessment of the outlook and balance of risks implies the policy rate will most likely be raised further in August. Norges also raised their peak rate forecast to 4.25% and also raised the inflation projections throughout the forecast horizon. Looking ahead to 2025, the Norges Bank see rates at 3.98%, implying 25bps of cuts next year. The reason to hike 50bps today was to combat higher inflation as well as a way to arrest the slide in the NOK.

Antipodeans and EUR were all in the red, on account of the Dollar rebound. The Aussie continued to underperform in wake of less hawkish RBA minutes earlier in the week and lost momentum vs the Kiwi that had some positives to take from NZ trade overnight, like a pick-up in exports. AUD/USD and NZD/USD hit lows of 0.6746 and 0.6175, respectively, and hover around these levels at pixel time. Market participants will await Aussie PMIs overnight. EUR was choppy against the Greenback but eventually trending lower, with EUR/USD hovering around its trough of 1.0949, ahead of PMIs and a slew of ECB speak on Friday.

EMFX was almost exclusively lower vs the Buck, albeit to varying degrees with the TRY the clear underperformer. ZAR was hit by lower gold prices, while the MXN saw little move in wake of Banxico where they held rates, as expected, at 11.5% but downgraded headline CPI forecasts for the rest of 2023 and for Q1 '24. Within the release, they noted in order to achieve an orderly and sustained convergence of headline inflation to the 3% target, it considers that it will be necessary to maintain the reference rate at its current level for an extended period. TRY subsided as USD/TRY hit fresh record highs of 24.86 in wake of the CBRT rate decision, which hiked rates to 15% from 8.5%, albeit that was towards the bottom end of analyst forecasts between 12.5-30%. The underwhelming decision saw little reaction at first with state banks reportedly halting the slide with offers ahead of 23.70, according to Reuters. However, it was not enough and 30 minutes later the Lira tumbled to see it hit record lows. BRL was weaker as the Dollar strengthened, and as the BCB removed language of the possible resumption of the tightening cycle if the disinflationary process does not proceed as expected.