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US Market Wrap

23rd June 2023: Stocks snap weekly gains streak amid net negative global PMIs

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar up.
- **REAR VIEW**: Poor European PMIs; Mixed US PMIs; Yellen said more banks will probably seek to merge this year; Daly said two more rate hikes this year is a very reasonable projection; Stellar KMX earnings; 3M reaches USD 10.3bln PFA drinking water settlement claims; Barclays cut NKE PT ahead of earnings.
- **COMING UP**: **Data**: German Ifo Survey **Events**: BoJ SOO **Speakers**: ECB's Lagarde at the ECB Sintra Forum **Supply**: EU, US.
- **WEEK AHEAD**: Highlights include US PCE, EZ Flash CPI, Canadian CPI, Riksbank and ECB TLTRO. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing BoJ SOO, Riksbank; Reviewing BoE, PBoC LPR, SNB, Norges, Minutes from RBA & BoC. To download the report, please click here.

MARKET WRAP

It was a choppy session with an early risk-off sparking from weak global PMIs although the US PMIs were more mixed, with a beat in the services PMI and some mixed commentary around inflation, where although cost inflation for firms is increasing, it noted the selling price of inflation for goods and services hit a 32-month low. Stocks hit lows around the cash open before paring somewhat which coincided with Treasuries moving off highs with participants' attention turning to supply next week while crude prices also jumped from the lows and the buck moved from highs to see DXY lose hold of 103. Fed speak today saw Bostic repeat he favours no more hikes this year, while Daly noted two more hikes this year is a reasonable projection. In FX, USD/JPY hit a fresh YTD high to test 144 to the upside, with the pair approaching potential BoJ intervention levels if the move continues higher. AUD was an underperformer on lower base metal prices aswell as a disappointing PMI report overnight. There is a lot of attention on banks with KRE -1.4% on Friday amid repeated commentary from Yellen that she still expects more bank mergers and warned of a profit hit to banks in the Q2 earnings next month.

US

FLASH PMIS: US Flash Manufacturing PMI for June fell to a 6-month low of 46.3 from 48.4, and beneath the expected 48.5. Moreover, the Composite dropped to 53.0 (prev. 54.3) but remained in expansionary territory, while Services dipped to 54.1 (prev. 54.9), albeit above the consensus of 54.0. Manufacturing Output plunged beneath 50.0 to 46.9 (prev. 51.0). Overall, the report notes, US companies signalled a further expansion of business activity at the end of Q2, although the rate of growth slowed to a three-month low. Manufacturers reported a renewed contraction in production while service providers saw a slower, but still solid, upturn in output. Jobs growth meanwhile sank to the slowest since January. Although higher wages added to firms' costs, selling price inflation for goods and services hit a 32-month low. Chief Economist Williamson added, in short, that US business activity growth remains strong in June, with GDP expected to rise around 2% in Q2. However, this is driven by the service sector, while manufacturing faces decline due to falling new orders. Despite previous rate hikes, service sector optimism is high. However, concerns persist over its resilience, the impact of future rate hikes, and labor market tightness. Encouragingly, the selling price inflation rate for goods and services is at its lowest since late 2020, suggesting the Fed is gaining on inflation.

Daly (non-voter) noted that two more rate hikes this year is a very reasonable projection, but it is only a projection and we do not know for sure - implying she is in-line with the median Fed dot plot in 2023. Daly echoed Powell noting it is prudent to slow the pace of policy tightening as the destination nears. Daly strongly supported the June decision to stand pat on rates and watch the data. She also noted, similar to Powell, that risks of under-tightening vs over-tightening are about balanced (Fed Chair Powell says some signs supply and demand in the labour market are coming into better balance but labour demand still substantially exceeds supply of workers). Daly added that credit tightening so far is consistent with what would have been expected without the March banking turmoil but she remains watchful on potential for extra tightening, which is another good reason to slow the rate hike pace. Daly noted that inflation expectations, frequency and magnitude of price changes are both on a downward trajectory, and that she wants to work resolutely and

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carefully to restore price stability. In speaking to numerous contacts, she said her banking contacts are 'thoughtful' about loan books, careful about balance sheets while community contacts are worried housing has hit a bottom, and rents are reaccelerating.

Bostic (non-voter, dovish) reiterated he does not see any more rate hikes this year but the Fed has some space before the mandated goals start to conflict, and suggests that PCE may meet the target at the end of 2024 or maybe 2025, noting it is going to take a while to get to the 2% inflation goal. Bostic expects financial-standards to tighten through the summer, and notes that will lead to a slower economy. He is not seeing elements of risk appearing in the Economy, and that the Fed is trying to return the economy to a supply/demand balance.

FIXED INCOME

T-NOTE FUTURES (U3) SETTLED 11 TICKS HIGHER AT 113-02+

Treasuries initially surged on the back of weak global PMI data before reversing in wake of the mixed US PMI data ahead of supply next week and as the risk tone improved somewhat. At settlement, 2s -5.0bps at 4.750%, 3s -5.7bps at 4.328%, 5s -5.3bps at 3.991%, 7s -5.5bps at 3.874%, 10s -6.0bps at 3.739%, 20s -5.4bps at 4.015%, 30s -5.3 bps at 3.820%.

BREAK EVENS: 5yr BEI -2.4bps at 2.197% 10yr BEI -1.7bps at 2.238% 30yr BEI -1.4bps at 2.243%.

THE DAY: Treasuries rallied from the European morning of 112-22 to north of 113 in wake of the woeful EU PMI data which flagged recessionary concerns. T-Notes advanced higher as US players arrived to peak around the US cash equity open at 113-15 ahead of the US PMI data. Treasuries meandered into the US data which sparked two-way price action, with a miss on the manufacturing and downgrade to the composite seeing a brief spike in T-notes, but the services data coming in marginally above expectations was enough to see the move reverse to pre-announcement levels. Note, the commentary in the report stated "Following a loss of momentum in May, price pressures gained intensity in June. The rate of cost inflation across goods and services picked up to a robust pace. The reigniting of cost inflationary pressures was driven by the service sector amid increased wage bills". However, despite the higher cost inflation, the selling price inflation for goods and services hit a 32-month low. The mixed data is unlikely enough to spark the huge reversal in Treasuries, while market contacts noted there were some large liquidations in Dec'23 SOFR upside with dovish positioning unwinding which likely contributed to the move lower. Also likely supporting the move off highs is the supply from the Treasury next week, meanwhile, the risk sentiment did improve from worst levels reducing some haven demand and as energy prices moved off the lows.

STIRS:

- SR3M3 +0.3bps at 94.713, U3 +0.0bps at 94.650, Z3 +7.0bps at 95.090, H4 +8.0bps at 95.495, M4 +7.0bps at 95.895, U4 +7.0bps at 96.220, Z4 +5.5bps at 96.430, H5 +5.0bps at 96.560, M5 +4.0bps at 96.635, M6 +4.0bps at 96.785.
- US EFFR unchanged at 5.07% on 22nd June while volumes rose to USD 132bln from USD 130bln.
- NY Fed RRP op demand at USD 1.969tln (prev. 1.995tln), across 101 counterparties (prev. 103).

CRUDE

WTI (Q3) SETTLED USD 0.35 LOWER AT 69.16/BBL; BRENT (Q3) SETTLED USD 0.29 LOWER AT 73.85/BBL

The crude complex ended the day, and week, in the red on account of the broad risk-averse sentiment after a series of grim global PMI reports. As such, WTI and Brent rolled to session lows of USD 67.35/bbl and 72.11/bbl, respectively, with the risk tone sour highlighted by stocks sliding and the Dollar rising. However, once Europe left for the day risk sentiment improved somewhat and the complex also came off worst levels, albeit still residing in the red into settlement. During APAC hours prices were also subdued amid the downbeat risk tone on top of Mainland Chinese markets away on a domestic holiday. Nonetheless, as mentioned, newsflow was few and far between for oil but note the White House hopes India will buy Russian oil at a rate dictated by the price cap. Elsewhere, the Baker Hughes failed to garner any market reaction, but oil rigs fell 6 to 546, with nat gas unch. at 130, seeing the total dip 5 to 682. Looking ahead to next week, traders await US PCE, EZ Flash CPI, BoJ SOO, and a slew of central bank speech.

EQUITIES

CLOSES: SPX -0.77% 4,348, NDX -1.00% at 14,891, DJIA -0.65% at 33,727, RUT -1.44% at 1,821.

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SECTORS: Utilities -1.51%, Consumer Discretionary -1.1%, Technology -1.1%, Real Estate -1.09%, Energy -0.79%, Materials -0.78%, Industrials -0.75%, Consumer Staples -0.59%, Financials -0.42%, Health -0.32%, Communication Services -0.25%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.76% at 4,271, FTSE 100 -0.54% at 7,461, DAX 40 -0.99% at 15,829, CAC 40 -0.55% at 7,163, FTSE MIB -0.73% at 27,209, IBEX 35 -1.06% at 9,265, SMI +0.40% at 11,228.

STOCK SPECIFICS: **3M (MMM)** confirmed resolution of PFA drinking water claims as is to pay a settlement amount of USD 10.3bln over 13 years; expects to report the pre-tax charge for Q2. Note, analysts see the settlement as not as bad as feared. **Carmax (KMX)** beat on EPS and revenue; noted deliberate actions are driving improved trends in the business, despite the challenging macro environment. **Starbucks (SBUX)** Union said workers at more than 150 stores (or 3.5k workers) will strike after claims they were not allowed to put up Pride decorations in stores. **Virgin Galactic (SPCE)** successfully raised USD 300mln via common stock offering and aims to raise a further USD 400mln; intends to use the funds to develop and expand its spacecraft fleet. **Ford (F)** prepares a new round of layoffs for US salaried workers, according to WSJ. **Under Armour (UAA)** downgraded at Wells Fargo; said UAA had overexposure to North America, excess inventory and a CEO at the helm for just six months. **Abcam (ABCM)** is to explore strategic alternatives, including a sale. FDA declined to grant accelerated approval for **Intercept Therapeutics' (ICPT)** drug to treat a type of fatty liver disease. Separately, ICPT announces restructuring and a workforce reduction of about 33%; lowered FY23 adj. operating expense view and anticipates achieving profitability in 2024. **Goldman Sachs (GS)** is reportedly likely to take a large write-down for its 2021 acquisition of Greensky after seeking to offload the business, according to CNBC. **Nikola (NKLA)** said a fire occurred behind Phoenix HQ, which affected multiple battery electric trucks; suspects foul play. **Apple (AAPL)** is reportedly considering a switch to a more affordable manufacturing process for the upcoming iPhone 15 Pro chip, which could reduce efficiency but improve overall performance, according to Apple Insider. AAPL likely plans to introduce the A17 Bionic chip in the iPhone 15 lineup, which may be produced using **TSMC's (TSM)** 3nm manufacturing process. US Treasury Secretary Yellen said more banks (XLF, KRE) will probably seek to merge this year as higher interest rates and recent banking turmoil are making it more expensive for them to hang onto depositors, according to WSJ. She also noted paying higher rates for deposits is denting banks' profitability, which could become apparent in Q2 earnings next month. Washington state plans to require **Tesla's (TSLA)** charging plug at state and federally funded sites. Germany aims to purchase 60 chinook helicopters from **Boeing (BA)** for up to EUR 8bln, including necessary infrastructure works in Germany, according to Reuters citing a parliamentary source. Barclays cut their PT on **Nike (NKE)** ahead of earnings next week to USD 127/shr from USD 154. Barclays see potential risk to Nike's FY24 guidance

WEEKLY FX WRAP

recession risk heightened whether Central Banks eased or tightened

USD - The Dollar looked destined to extend its retracement from end of May highs after several faded recovery rallies and irrespective of further gains vs the Yen and Yuan on Fed-BoJ/PBoC policy differentials, but it regained momentum towards the end of the week and reached peaks on Friday when global growth concerns ramped up on the back of mostly weaker than consensus preliminary PMIs. In truth, the threat of stagflation or recession was already weighing more heavily on sentiment following a spate of rate hikes and some larger than expected, if not priced in, and this prompted renewed demand for the Greenback as a safe haven and given its reserve status. For the record, flash US PMIs were mixed vs forecast to keep the Buck underpinned and DXY elevated between 103.170-101.900 w-t-d parameters. In terms of Fed rhetoric, nothing really new emanated from Chair Powell during semi-annual testimony or a raft of other officials, with the central message that inflation remains too high, the latest dot plot configuration charting two additional 25 bp rate increases this year is about right and July's FOMC will be a live meeting. On the (hard) data front, May housing starts were super strong and the NAHB index bodes well for the current month, but weekly jobless claims topped 260k for the 3rd time in succession and on this occasion will feed into June's NFP report.

AUD/NZD - It's hardly surprising that the Aussie and Kiwi were hit hard by broad aversion, as high betas and activity currencies, but the former also bore the brunt of its close tie with the Yuan and bearish vibes from June's RBA minutes revealing that the decision to hike 25 bp or hold fire was tight. Aud/Usd slumped in excess of 200 pips from circa 0.6882, while Nzd/Usd only managed to contain its slide within a 0.6237-0.6118 range by virtue of the fact that the Aud/Nzd cross tumbled to 1.0875 from just over 1.1050 at one stage.

EUR - As noted above, prelim PMIs exacerbated economic jitters and none more so than the French prints that were especially feeble as the services sector fell into contractionary territory and pulled the composite down with it to join the already sub-50 manufacturing malaise. Prior to that, the Euro was bid on dips amidst the ongoing ECB mantra that

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inflation is still too high, core in particular and there may well be more work to be done after a July hike, with Eur/Usd advancing steadily from around 1.0900 through some Fib resistance and beyond bands of hefty option expiries to top 1.1000 briefly on Thursday before erasing all and more of its gains to trade at 1.0845.

JPY/CAD - The Yen gleaned transitory traction from soft Treasury yields and certain bouts of risk-off positioning rather than any supportive Japanese macro releases, but ultimately Usd/Jpy spiked from 141.22 towards 144.00 on the aforementioned Fed/BoJ dynamic after more dovish guidance from the Bank (Governor Ueda yet again, plus Board members Adachi and Noguchi), and with bullish technical factors compounding the move. On that note, 142.50 put up some resistance as a Fib backed up by semi-psychological and export offers, though once stops were tripped on a break the headline pair never looked back again. Conversely, the Loonie derived some impetus from Canadian retail sales exceeding expectations to offset slowdowns in producer and raw material prices, on top of hawkish BoC minutes, but Usd/Cad bounced from sub-1.3150 to 1.3200+ as crude prices remained depressed.

GBP/CHF/NOK - In theory and logistically, Sterling and the Norwegian Crown should have been supplemented by BoE and Norges Bank policy action as both delivered half point hikes that were not entirely anticipated, albeit justified by hotter than forecast CPI in the run up. However, Cable only knee-jerked and Eur/Nok dipped within 1.2838-1.2688 and 11.8170-11.5300 respective extremes before reversing course sharply on the repercussions of higher rates and perceptions or projections of loftier cycle peaks. To recap, analysts and markets are pencilling in 6% as terminal for the UK (vs current 5%), while the Norges Bank lifted its repo path apex to 4.25% from 3.6% previously (and 3.75% at present). Elsewhere, the Franc paid an arguably unfair price for the SNB scaling down to a 25 bp tightening pace, which was in line with consensus via wire polls, but not the 50 bp many were looking for. Indeed, Usd/Chf jumped in the region of one big figure even though the Bank maintained that additional rate hikes cannot be ruled out and its intervention is focused on foreign currency selling.

SEK/EM - The Sek clambered off record lows against the Eur, but likely needs sustenance from the Riksbank next week to keep clawing back declines, while the Cnh will be looking for the Cny to take some of the strain when China returns from the Dragon Boat break and perhaps some PBoC assistance to counter all the rate cuts as another key chart prop gave way at 7.2200 vs the Usd. Meanwhile, the Try fared even worse and plunged to deeper all time lows following a 'disappointing' CBRT hike to 15% from 8.5% in context of forecasts spanning 400 bp to a whopping 2150 bp and the Zar unwound a chunk of its corrective advances with no assistance from Gold that recoiled from approx Usd 1960/oz to Usd 1910 or so. In LatAm, the Mxn was undermined by the downturn in WTI to the extent that Banxico stating it considers it will be necessary to maintain the reference rate at its current level for an extended period to achieve an orderly and sustained convergence of headline inflation to the 3% target only offered some protection, but the Brl held up well regardless of the BCB removing the reference to a possible resumption of tightening if the disinflationary process does not proceed as expected as the Government's new fiscal bill was passed by Brazil's Senate Economic Affairs Committee. Turning to CEE, the Pln, Czk and Huf all sustained bullish trends vs the Eur on a mixture of attractive rate premiums and hawkish Central Bank vibes, with not lasting deviation after the NBH continued to narrow Hungary's rate corridor via 100 bp reductions to collateralised and 1-day loan facilities.

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