



US Market Wrap

26th June 2023: Big tech losses weigh on the market ahead of month-end

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude up, Dollar flat.
- **REAR VIEW:** Weak German IFO with downbeat commentary; Russian Wagner group mutiny called off over the weekend; Solid US 2yr auction; Constructive NZ and China trade talks; Japanese officials note one-way price action in FX will not be tolerated; GS downgrades TSLA; ARES to acquire USD 3.5bln speciality finance portfolio from PACW.
- **COMING UP: Data:** US Durable Goods, Consumer Confidence, New Home Sales-Units, Canadian CPI **Speakers** : ECB's Lagarde, Panetta, Elderson, Schnabel; BoE's Dhingra & Tenreyro; BoC's Kozicki **Supply:** Japan, Netherlands, Italy & UK.
- **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

Stocks finished the session predominantly lower although small caps outperformed amid gains in the regional banking ETF KRE. The downside was led by Communication, Consumer Discretionary and Technology names, leading to NDX underperformance. Tesla lost 6% following cautious commentary from Goldman, while Meta, Amazon and Microsoft fell between c. 1-3%. Gains elsewhere were solid with the Equal Weighted S&P rising, while the majority of sectors were also green with outperformance in Real Estate, Energy, Materials & Utilities. The only Fed commentary was from Williams who stressed the importance of price stability while data saw the Dallas Fed mfg. survey remain in contractionary territory, albeit not as deep as the prior week. Attention turns to a slew of tier 1 Central Bank speakers throughout the week at the Sintra conference while Tuesday sees Richmond Fed, Consumer Confidence (June), Durable Goods and New Home Sales (May), with a key focus on Friday's US PCE report. Treasuries were bid throughout the European morning following a dire German IFO business survey with a woeful outlook, however, T-Notes pared from highs on a slew of supply, including the 2yr note auction and the USD 2bln launch from Prologis (PLD) to fund part of its USD 3.1bln purchase of the industrial property portfolio from Blackstone (BX). Geopolitical tensions were rife over the weekend with the Wagner Group staging a "coup" / "March", albeit a short-lived one after agreeing to back down on the Sunday, which ING notes the "failed move by the Wagner group suggests that any upside in prices will likely be limited." In FX, moves were rather limited but NZD outperformed on positive talks with China, while CHF and JPY saw mild gains vs the Dollar, with plenty of attention on official commentary regarding the recent Yen weakness that sees USD/JPY test intervention territory.

GLOBAL

DALLAS FED MANUFACTURING: Dallas Fed manufacturing index for June printed -23.2 (prev. -29.1), with the production index, a key measure of state manufacturing conditions, falling to -4.2 (prev. -1.2) indicating a slight contraction in output. Other measures of manufacturing activity also indicated contraction, highlighted by new orders remaining steady at -16.6, but it has remained in negative territory for more than a year. The growth rate of orders edged lower to -23.7, its lowest value since mid-2020, while capacity utilization dipped to -6.0 (prev. -4.9), on top of shipments plunging 14 points to -17.0. Perceptions of broader business conditions continued to worsen, as the general business activity and company outlook indices remained negative, although they did move up. Labour market measures suggest weaker employment growth and declining work hours, as the employment index dipped to 2.2 (prev. 9.2). The report adds price pressures evaporated, while wage pressures remained elevated as the raw materials prices index dropped 12 points to 1.4. Concluding, the survey notes expectations regarding future manufacturing activity were mixed. The future production index moved up 12 points to 24.2, while the future general business activity index remained negative, though it rose from -12.7 to -4.5.

RUSSIA: Over the weekend, Wagner group forces, led by leader Prigozhin, Marched towards Moscow in a move to confront the Kremlin, in what was framed as a potential coup after Prigozhin accused Russian forces of firing a rocket attack at them. However, Prigozhin stated it was just a March against the corrupt government. The March raised tensions over the weekend, but the leader pulled troops from the March following an agreement with Belarus President Lukashenko and agreed to send troops back to Ukraine. Russian President Putin later spoke on the matter, where he



thanked the soldiers and commanders for turning around, saying Wagner soldiers can either go to Belarus or join the Russian Army, but he noted the organisers of the rebellion will be brought to justice.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 5 TICKS HIGHER AT 113-07+

T-notes settle flat after weak German IFO induced rally pares on supply and into month-end. At settlement, 2s -1.9bps at 4.731%, 3s -2.5bps at 4.303%, 5s -3.0bps at 3.963%, 7s -2.3bps at 3.851%, 10s -1.8bps at 3.721%, 20s +0.0bps at 4.015%, 30s +0.4bps at 3.824%

Break-Evens: 5yr BEI -1.8bps at 2.168%, 10yr BEI -1.5bps at 2.217%, 30yr BEI -1.4bps at 2.222%.

THE DAY: T-Notes moved higher throughout the European morning in wake of a worrying German IFO data print which saw the headline June business climate come in beneath all analyst expectations at 88.5. The expectations component also fell short of all analyst forecasts raising concerns of an upcoming recession, similar to what was seen in the PMI data last week. The current conditions were more in-line however. T-Notes trended higher until the US morning where it saw a peak of 113-16 before selling throughout the remainder of the session ahead of the 2yr supply from the US, with the 5&7yr auctions due Tuesday and Wednesday, respectively, with likely dealer concession taking place. Meanwhile, the USD 2bln issuance from Prologis (PLD) to fund part of its USD 3.1bln purchase of the industrial property portfolio from Blackstone (BX). Aside from the aforementioned supply, attention turns to month-end trade as well as Friday's US PCE report, alongside central bank commentary throughout the week at Sintra.

2YR AUCTION: Overall a solid auction stopping through by 0.8bps, not as large as the prior 1.5bps but better than the six-auction average stop-through of 0.2bps. The Bid-to-cover was a touch softer than the last 2yr note auction but stronger than the 2.71x average. The break-down saw dealers, forced surplus buyers, take 13.3% of the auction vs the prior 16.2% and average 18.1%, with a pick up in direct demand to 18.2% from 15.6%, albeit not as high as the six auction average of 20%, while indirect demand only saw a minimal move higher to 68.5% from 68.2%, but remains well above the 61.9% average. The return of demand from direct bidders and the continued high demand from indirects helped the dealers take just 13% of the auction, the lowest this year.

STIRS:

- SR3M3 +0.0bps at 94.718, U3 +0.0bps at 94.670, Z3 -1.5bps at 95.080, H4 -0.5bps at 95.495, M4 +2.0bps at 95.925, U4 +3.5bps at 96.260, Z4 +5.5bps at 96.490, H5 +6.0bps at 96.620, M5 +5.5bps at 96.695, M6 +3.5bps at 96.820.
- Monday NY Fed RRP op demand at USD 1.961tn (prev. 1.969tn), across 102 counterparties (prev. 101)
- Friday US EFRF unchanged at 5.07% on USD 135bln in volume (prev. USD 132bln).
- US sold USD 70bln in 3mth bills at 5.18%, B/C 2.99x; USD 63bln in 6mth bills at 5.215%, B/C 2.73x.

CRUDE

WTI (Q3) SETTLED USD 0.21 HIGHER AT 69.37/BBL; BRENT (Q3) SETTLED USD 0.33 HIGHER AT 74.18/BBL

The crude complex settled slightly firmer, albeit newsflow was limited to start the week with the Russian Wagner group mutiny being swiftly called off over the weekend. Highlighting this, WTI and Brent traded between ranges of USD 68.71-70.11/bbl and 73.42-74.85/bbl, respectively, with the peaks seen just about the US cash equity open as risk-on sentiment was at its peak. Prior to the US session, during the APAC session prices were firmer in the aftermath of the weekend's brief Russian mutiny by the mercenary Wagner Group, although this was abruptly called off on Sunday. Analysts at ING suggested, "the failed move by the Wagner group suggests that any upside in prices will likely be limited." Moreover, the trough was seen in the European morning which coincided with the broader risk profile turning negative, whilst losses picked up after Germany's Ifo survey plunged in June raising the recessionary flag. Looking ahead, there is a slew of central bank speakers amid Sintra, as well as US PCE, EZ CPI, on top of the usual weekly oil data.

COMMENTARY: Saudi Aramco CEO suggested oil market fundamentals remain generally sound for the rest of the year and developing countries, especially China and India, are driving oil demand growth of more than 2mln BPD this year. He also stated that China's transport and petrochemical sectors are still showing signs of demand growth despite economic headwinds, while he added that renewable energy growth has not met growth in global energy consumption.



Meanwhile, OPEC Secretary General said they see global oil demand rising to 110mIn BPD by 2045, according to Reuters. Elsewhere, Eastern Libyan authorities threatened to blockade oil exports over the distribution of state energy revenue.

EQUITIES

CLOSES: SPX -0.44% at 4,329, NDX -1.36% at 14,689, DJIA -0.03% at 33,715, RUT +0.09% at 1,823.

SECTORS: Communication Services -1.88%, Consumer Discretionary -1.25%, Technology -1.03%, Health -0.6%, Financials -0.2%, Consumer Staples +0.03%, Industrials +0.79%, Utilities +0.98%, Materials +1%, Energy +1.71%, Real Estate +2.21%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.21% at 4,280, FTSE 100 -0.11% at 7,453, DAX 40 -0.11% at 15,813, CAC 40 +0.29% at 7,184, FTSE MIB +0.12% at 27,242, IBEX 35 +0.09% at 9,274, SMI -0.64% at 11,149.

STOCK SPECIFICS: Goldman Sachs downgraded **Tesla (TSLA)**; analysts believe Tesla's recent stock surge reflects its positive long-term outlook, with the positive long-term view priced in, and GS notes challenges in the pricing environment; still, GS emphasised Tesla's strong competitive position in EVs. Separately, Barron's said everything was going right for Tesla, and it was now time to sell the stock citing four factors. **Ares Management (ARES)** to acquire USD 3.5bln speciality finance portfolio from **PacWest (PACW)**; consists of high quality, senior secured, asset-backed loans. **Aston Martin (ARGGY)** announced the formation of a new supply agreement with **Lucid Group (LCID)**. LCID will take a 3.7% stake in Aston Martin as part of a strategic tie-up. **Moderna (MRNA)** upgraded at UBS; said the stock's current valuation isn't pricing in potential upside from other vaccines. **Pfizer (PFE)** is discontinuing the clinical development of its experimental obesity and diabetes drug. **Alphabet (GOOGL)** downgraded by UBS; said the co. faces near-term revenue headwinds from new search competition and stiffer generative AI competition. **UnitedHealth's (UNH)** Optum is to purchase **Amedisys (AMED)** for USD 101/shr in cash (prev. closing price USD 91.21/shr). Note, on 5th June it was reported Optum offered to combine with Amedisys for USD 100/shr. **Prologis (PLD)** is to acquire USD 3.1bln industrial property portfolio from **Blackstone (BX)**. **Apollo (APO)** and a group of investors plan to invest over USD 1bln in **Wolfspeed (WOLF)**. **Carnival (CCL)** beat on the top and bottom alongside seeing continued acceleration in demand with cumulative advanced booked position for FY24 above high end of historical range at strong prices. Although, Q3 EPS midpoint view was slightly short of the expected. US Supreme Court declined to hear **Apple (AAPL)** and **Broadcom (AVGO)** bid to revive challenges to Caltech data-transmission patents to USD 1.1bln dispute. **AWS (AMZN)** announced estimated investment of USD 7.8bln by 2030 to expand data center operations in Ohio. **Enfusion (ENFN)** is reportedly attracting takeover interest from private equity firms and others, according to Reuters sources. **Masimo (MASI)** shareholders are reportedly poised to elect Politan's two directors to the board, according to Reuters citing sources.

US FX WRAP

The Dollar was flat to start the week in thin newsflow and traded within extremely tight ranges, highlighted by a low of 102.610 and a high of 102.830. As mentioned, there was little news to report for the Buck to start the week, as market participants await a slew of central bank speakers due to Sintra as well as a raft of US data on Tuesday in the form of Richmond Fed, Consumer Confidence (June), Durable Goods and New Home Sales (May). Nonetheless, Williams (voter) said restoring price stability is of paramount importance while Dallas Fed manufacturing business index remained deep into contractionary territory, but not as bad as the prior month.

NZD was the G10 outperformer and saw tailwinds after New Zealand's Trade Minister said he had positive discussions with China on joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). As such, NZD/USD hit a high of 0.6177 against a low of 0.6138. Its antipodean counterpart **AUD** was flat vs the Buck with the AUD/USD within extremely narrow parameters, highlighted by a peak and trough of 0.6694 and 0.6668, respectively.

Safe-havens, CHF and JPY, were both marginally firmer vs the Greenback. For the Yen, Japan's Chief Cabinet Secretary Matsuno said it is important for FX to move stably reflecting economic fundamentals and is closely watching FX moves with a high sense of urgency, noting the sudden and one-sided moves seen in FX markets. On top of this, top FX diplomat Kanda mentioned Japan is not pleased with the one-sided trading of the Yen, while the [BoJ Summary of Opinions](#) from the June meeting stated it is appropriate to maintain current monetary easing. In the European morning, Yen was among the outperformers amidst softer US Treasury yields but as they came off worst levels the Yen pared some gains.

EUR was more-or-less flat as EUR/USD traded between 1.0888-0920, as although the single-currency lost a tentative grip of the 1.0900 handle on the back of a bleak German Ifo survey and downbeat accompanying commentary, in



managed to reclaim it later in the session. On the data set, the Business Climate index fell to 88.4 (exp. 90.7, prev. 91.5) and Expectations plunged to 83.6 (exp. 88.0, prev. 88.3), but current Conditions marginally topped the expected at 93.7 (exp. 93.5, prev. 94.8). Ifo's economist said storm clouds were forming over the German economy, with weak demand for industry and order backlog falling; export expectations were noticeably lower as global rate hikes dampen demand, though the number of German companies wanting to raise prices decreased in June. Ahead, there is a plethora of ECB speakers scheduled to speak at the Sintra conference with Lagarde expected to speak with a text release in the European morning.

CAD was firmer and saw slight tailwinds from the crude complex as USD/CAD continued to pivot 1.3150 on the eve of Canadian CPI and other inflation metrics with support via StatsCan estimating rises in wholesale trade and manufacturing sales rather than choppy crude prices or the prospect of any policy revelations from BoC Deputy Governor Kozicki at the ECB's Sintra Forum tomorrow.

EMFX was mixed. MXN gleaned traction against the USD via firmer-than-forecast Mexican IGAE economic activity and the BRL firmed after an improvement in Brazilian consumer sentiment overshadowed a narrower-than-consensus current account surplus plus Brazil's Treasury Secretary Ceron repeating that inflation is moving towards the target band that it will allow the BCB to cut rates at some point. Conversely, the CNY returned from the Dragon Boat Festival holiday under renewed pressure due to heightened growth concerns and ongoing angst with the US over Taiwan and Cuba. RUB weakened as tensions rise after the Wagner Group Coup, albeit it was eventually aborted over the weekend. The TRY slumped to deeper record lows irrespective of the CBRT taking measures aimed at enhancing the functionality of market mechanisms and strengthening macro-financial stability.

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