US Market Wrap

27th June 2023: Stocks rally after strong data ahead of Powell

- **SNAPSHOT**: Equities up, Treasuries down, Crude down, Dollar down
- **REAR VIEW**: Strong US durable goods; New Home Sales beat; Consumer Confidence accelerates, inflation expectations fall; Slew of hawkish ECB speak & sources; Soft Canada CPI; State banks support Yuan, Firmer PBoC CNY fix than expected; 5yr auction sees first tail since Feb; DAL raises guidance; WBA earnings miss; FDA rejects REGN larger dose of Eylea.
- **COMING UP**: **Data**: Australian CPI, EU M3 Growth, Italian CPI (Prelim), US Mortgage Applications **Speakers**: ECB's Lagarde, de Guindos, Lane; Enria; BoE's Pill **Supply**: UK & US.

MARKET WRAP

US equity futures gained, Treasuries sold off, and the Dollar Index was a little lower on Tuesday. Economic data releases all surprised to the upside, with consumer confidence data showing Americans were feeling more upbeat about the economy as inflation eases, while housing data continued to surprise to the upside, despite continuing Fed rate hikes, and durable goods data rose above expectations. There were some jitters early doors after disappointing earnings from Walgreens (WBA), which issued weak guidance, but the data dispelled the negative sentiment. The airlines sector was supported broadly after Delta (DAL) upgraded its guidance. In Canada, CPI data eased by more than expected, helped by base effects, although pricing for the BoC’s July meeting was more-or-less steady. A 5yr US Treasury auction was ho-hum, though saw a tail for the first time since February. Traders’ attention will pivot onto Fed Chair Powell, who is due to appear on a panel at the ECB’s Sintra monetary policy conference; analysts think Powell will likely reiterate his messaging from last week and argue that further rate hikes are appropriate. Heading into the overnight session, traders will be eyeing the PBoC’s yuan fix, which was set at a stronger-than expected level again overnight; there were also reports suggesting that state banks were selling USD to support the Chinese currency.

DATA

CANADA CPI: May consumer prices were below expectations, printing 0.4% M/M (exp. 0.5%, prev. 0.7%), though the annual measure fell in line with expectations, to 3.4% from 4.4%. RBC said that over 60% of the slowdown in the headline measures can be traced back to lower energy prices with both gasoline and fuel oil prices well below levels a year ago, adding that, overall, the breadth of inflation pressures was little changed, still well-above pre-pandemic levels. The BoC Core measure of inflation eased to 3.7% (exp. 3.9%, prev. 4.1%), while an average of the three BoC Core CPI measures (Median, Trim, Common) eased to 4.3% in May (prev. 4.7%). Ahead, RBC thinks the headline rates of inflation will continue to fall further next month, and potentially down to the top-end of the BoC’s 1-3% inflation target range, though it says that beyond that, further slowing in broader inflation readings all the way back to the 2% target will be much harder to come by. The market’s implied pricing for the July BoC meeting eased only slightly, with markets pricing around 60% chance of a +25bps rate hike to 5.00% (vs around 65% before the release). “Higher interest rates are cutting into household purchasing power, but spending to-date has been firm, while labour market conditions are also more resilient than expected in 2023 to-date,” RBC says, “GDP data and the BoC’s own Q2 Business Outlook Survey later this week will be watched closely for signs that the economy is losing momentum, but absent a large downside surprise from those data releases, we continue to expect the bank to hike the overnight rate by another 25bps in July, before stepping back the sideline for the rest of this year.”

US DURABLE GOODS: Durable goods for May surprisingly rose 1.7%, above the expected -1.0% and accelerated from the prior 1.1%. Looking into the sub-metrics, ex-transport rose 0.6% (exp. -0.1%, prev. 0.3%), while ex-defense lifted 3.0% (prev. -0.7%). Nondefense cap ex-air lifted 0.7% (exp. 0.0%, prev. 1.3%). The May durable goods orders and shipments data helped to quell fears that a recession is just around the corner. However, the economic backdrop is set to become more discouraging for manufacturers as tighter lending standards and higher interest rates weaken demand for goods. As such, Oxford Economics “Continue to think that the economy will eventually fall into a recession, but it looks increasingly unlikely to begin in Q3.” Back to the metrics, the unexpected jolt higher in transportation equipment orders was predominantly responsible for the shock rise in the headline. Oxford adds, “Core orders - nondefense capital goods orders excluding aircraft - rose and the underlying trends remained buoyant, while Core shipments, our preferred business equipment spending gauge, rose and signal positive real equipment spending growth in Q2.”

US CONSUMER CONFIDENCE: Consumer confidence rose to 109.7 (prev. 102.3) above the expected 104.0. Within the data set, the Present Situation index jumped to 155.3 (prev. 148.9), while the forward-looking Expectations index encouragingly improved to 79.3 (prev. 71.5). Further highlighting the strong report, the 12-month forward inflation expectations gauge fell to 6% in June, the lowest reading since December 2020. The report notes, "While income expectations ticked down slightly in June, new questions included in this month's release found a notably brighter outlook for consumers' family finances: Around 30 percent expect their family's financial situation to be 'better' in the next six months, compared to less than 14 percent expecting it to be 'worse.' This might reflect consumers' belief that labor market conditions will remain favorable and that there will be further declines in inflation ahead".

US HOUSING DATA: Today's US housing data releases all saw upside surprises: May New Home Sales printed 0.763 mln (exp. 0.675mln, prev. 0.683mln); April's FHFA Home Price Index rose +0.7% M/M (prev. 0.6%), and 3.1% Y/Y (prev. 3.6%); April's CaseShiller Home Price Index rose +0.9% M/M (exp. 0.4%, prev. 0.5%), and -1.7% Y/Y (exp. -2.6%, prev. -1.1%). Pantheon Macroeconomics notes that new home sales have now risen in seven of the past eight months, and stand 41% above their recent low seen in July 2022. "The rebound in new home sales is in stark contrast to the ongoing deterioration in aggregate mortgage demand, largely reflecting the lack of existing homes available for sale," Pantheon writes, "that said, the relative resilience of new home sales does not change the fact that total home sales remain low and range-bound due to the extremely high mortgage payments faced by potential buyers." The inventory metrics were also bullish, with the number of new homes for sale falling to 6.7 months worth from 7.6 months worth in April - while this is beneath the High of 10.1 months in July 2022, it is and it is above the 2.8 months of sales in the existing home sales data. "Homebuilders are offering steep discounts on list prices and temporary buydowns on mortgage payments to keep sales ticking over, leading to a sharp divergence in new home prices, which are plunging, and existing home prices, which are flatlining," Pantheon adds.

RICHMOND FED: The Richmond Fed's services gauge rose to -3.0 in June (prev. -10.0), manufacturing shipments rose to -5.0 (prev. -13.0), leaving the composite index at -7.0 (prev. -15.0). The data indicated activity remained relatively flat in June, Richmond Fed said. Firms grew less pessimistic about local business conditions, as the index rose notably to -8 in June, while the index for future local business conditions increased to +3 from -16. The report noted that many firms continued to report reductions in orders backlogs and vendor lead times, as these indexes remained negative. Meanwhile, all three spending indexes increased, while the average growth rate of prices paid decreased somewhat, and the average growth rate of prices received decreased notably in June. Firms expect both growth rates to moderate over the next 12 months.

FIXED INCOME

T-NOTE FUTURES (U3) SETTLE 13 TICKS LOWER AT 112-26+

Treasuries sold after hot US data while 5yr auction sees first tail since February. At settlement, 2s +8.9bps at 4.760%, 3s +8.2bps at 4.389%, 5s +6.5bps at 4.029%, 7s +5.4bps at 3.906%, 10s +4.3bps at 3.762%, 20s +2.6bps at 4.036%, 30s +1.7bps at 3.836%.

BREAK EVENS: 5yr BEI -0.4bps at 2.166%, 10yr BEI -0.2bps at 2.215%, 30yr BEI -0.9bps at 2.215%

THE DAY: Treasuries were sold across the curve with the majority of the downside following the strong US data, particularly the New Home Sales data, which adds to the chorus of hot housing prints in the US as of late. Durable Goods data was also strong while Consumer Confidence was also solid leading JPMorgan to state that "this is what a soft landing feels like." Today's data shows no signs of a slowing economy and reduces any recessionary fears (in the US at least), while Goldman Sachs raised its Q2 GDP tracking estimate in wake of the releases; that said, the likes of HSBC and Bank of America were both out with predictions of US recession ahead. T-Notes hit a low of 112-24+ in wake of the New Home sales data which may complicate things for the Fed in its fight against inflation, albeit the inflation expectations in the CB's Consumer Confidence data fell to 6% for the year-ahead, the lowest since December 2020. Treasuries moved off lows into the 5yr auction, which ultimately was not as strong as recent averages nor as strong as Monday's 2yr supply, and Treasuries subsequently meandered into settlement. There was a slew of hawkish ECB speak and sourced reports, leaning back against the notion of a policy pause anytime soon. Attention now turns to Fed Chair Powell on Wednesday, as well as the US PCE report on Friday.

5YR: The 5yr auction was not as well received as the 2yr sale on Monday, tailing by 0.7bps – the first tail since February – and vs the six auction average tail of -0.8bps. The B/C was more in line with recent averages, but not as strong as the prior auction, while dealer take down was also in line with averages. Similar to Monday's 2yr sale, Direct participation increased, although indirect demand dipped beneath both the prior and six auction average. There may have been some reluctance to partake in this auction ahead of Fed Chair Powell on Wednesday and PCE data on Friday, and particularly after a the well-received 2yr auction which suggests that participants opted to be more active in the shorter 2yr supply instead for the higher yield while markets currently look for a 75% probability of a Fed hike in June, with little priced thereafter despite the more hawkish Fed dot plots. Analysts at BMO note that June is seasonally negative for 5yr auctions, and while the Fed is in data dependent mode, there may be some apprehension to buy 5s ahead of the June NFP and CPI data over the next couple of weeks.

STIRS

- SR3M3 +0.0bps at 94.715, U3 -3.5bps at 94.625, Z3 -10.0bps at 94.980, H4 -12.5bps at 95.375, M4 -13.0bps at 95.795, U4 -12.5bps at 96.140, Z4 -11.5bps at 96.375, H5 -10.5bps at 96.520, M5 -9.0bps at 96.610, M6 -5.0bps at 96.775.
- US sells USD 50bln 42-day cash management bills at 5.105%, B/C 2.79x
- US EFFR unchanged at 5.07%, volumes rise to USD 138bln from USD 135bln.
- NY Fed RRP Op demand at USD 1.951tln (prev. 1.961tln) across 101 counterparties (prev. 102)

CRUDE

WTI (Q3) SETTLES USD 1.67 LOWER AT USD 67.70/BBL; BRENT (Q3) SETTLES USD 1.92 LOWER AT USD 72.26 /BBL

Crude prices eased on Tuesday as August Brent options expire, and ahead of Brent's August contract expiry on Friday.

In terms of crude market fundamentals, the hawkish central bank narrative in G10 continues to cast a shadow over the demand side of the equation; Bank of America's CEO, for instance, today said he expects a mild US recession in the first part of next year, while HSBC sees the US falling into recession this year.

Saudi Aramco CEO said oil market fundamentals remained generally sound for the rest of the year, and developing countries -- especially China and India -- were driving oil demand growth of more than 2mln bpd this year. Meanwhile, OPEC's Secretary General sees global oil demand rising to 110mln bpd by 2045.

US economic data came in on the strong side today, with durable goods, consumer confidence, and housing metrics all surprising to the upside, though did little to stoke crude prices.

On the supply side, BP said that operations at its Whiting Refinery in Indiana (435k BPD) stabilised after Monday's weather related disruptions. Meanwhile, Shell's Norco Louisiana refinery (250k BPD) is set to return to normal production on Thursday.

Elsewhere, following Monday's reports that OPEC was courting Guyana, the cartel put out a statement denying that it had invited Guyana to become a member.

After the US close, the API will report weekly energy inventory data, ahead of the DoE's more comprehensive report due Wednesday; analysts expect US crude stocks to draw 1.8mln this week, distillates are expected to build 0.8mln, while gasoline inventories are seen drawing 0.1mln.

EQUITIES

CLOSES: SPX +1.15% at 4,378, NDX +1.75% at 14,945, DJIA +0.63% at 33,927, RUT +1.46% at 1,850.

SECTORS: Consumer Discretionary +2.06%, Technology +2.04%, Materials +1.4%, Industrials +1.25%, Communication Services +1.12%, Real Estate +1.11%, Financials +0.71%, Consumer Staples +0.34%, Energy +0.23%, Utilities +0.04%, Health -0.2%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.58% at 4,305, FTSE 100 +0.11% at 7,461, DAX +0.21% at 15,846, CAC 40 +0.43% at 7,216, FTSE MIB +0.58% at 27,401, IBEX 35 +1.28% at 9,393, SMI +0.01% at 11,143.

STOCK SPECIFICS: **Walgreens (WBA)** missed on EPS but beat on revenue while it cut FY23 EPS guidance but raised revenue guidance. Its Q3 margins were soft. **Delta Airlines (DAL)** raised 2023 outlook and reiterates 2024 targets. Sees Q2 EPS between USD 2.25-2.50 (Exp. 2.11). Sees FY23 EPS at the top end of its USD 5.00-6.00 range. Also notes robust customer demand and international strength, believes there is still pent up demand and adds that corporate demand remains steady. **Microsoft Corp. (MSFT)** had previously considered acquiring both Bungie, which has since been acquired by Sony (SONY), and Sega (SGAMY), according to The Verge. **Meta (META)** PT was raised to a street high of USD 360/shr at Citigroup. Meanwhile, **Google (GOOGL)** is ending its Project AR, according to Business Insider. **Eli-Lilly (LLY)** announces its obesity treatment met its primary endpoint. US FDA rejected the larger dose treatment of **Regeneron's (REGN)** Eylea. **3D Systems (DDD)** and **NanoDimension (NNDM)** raised their individual offers for **Stratasys (SSYS)**. **Lucid (LCID)** announced the Saudi Public Investment Fund purchased 266mln shares of LCID for an average price of USD 6.83/shr for USD 1.8bln, and now owns c. 65% of the co. (prev. 60%). **Brookfield Reinsurance (BNRE)** is to acquire **American Equity (AEL)** for USD 4.3bln or USD 55/shr. Note, AEL rejected a USD 45/shr offer in December from Prosperity Life Insurance. **Baidu (BIDU)** announced its own iteration of its ChatGPT-style service, Ernie 3.5, surpassed the **Microsoft (MSFT)** backed OpenAI chatbot on multiple key metrics, according to Reuters. **TSMC (TSM)** reportedly plans to start building a 1.4nm chip fab in 2026 with mass production seen around 2027/28, according to Liberty Times Net. **Lordstown Motors (RIDE)** filed for US bankruptcy protection and seeks a buyer, while it sues **Foxconn (FXCOF)** over a disputed investment agreement. Auto industry group noted that Tesla's (TSLA) charging technology is on a fast track to become the US standard.

US FX WRAP

USD sold into month-end; Yuan reportedly buoyed by state bank support; Yen tests intervention territory

The Dollar sold off on Tuesday ahead of month-end, where models from Citigroup and Credit Agricole pointed to USD selling. Meanwhile, it was a risk on day, reducing the demand for the Dollar further, with Gold and Yen softer on the session too, albeit CHF saw notable gains against the Buck. US data was very strong: Durable goods surprised to the upside with decent ex-defense and transport numbers, while New Home sales also beat, adding to the slew of recent strong housing data prints. Consumer Conference also shot up, while inflation expectations hit the lowest level since December 2020, albeit still at 6%. DXY fell from highs of 102.80 seen overnight in wake of the firmer than expected CNY fix by the PBoC.

The Yuan saw gains on the aforementioned firmer fix, but also on reports that state banks were selling dollars in offshore currency markets to prop up the Chinese currency, while there was also jawboning from Chinese Premier Li, who said China is expected to achieve its economic growth target of around 5% for 2023. The Premier also noted it will support development of foreign companies in China, and will not abuse security checks on foreign firms.

The Euro saw gains as the Dollar sold-off, but it was also accompanied by several hawkish ECB speakers . ECB's Kazaks pushed back on rate cuts in 2024, noting he sees rate hikes past July, "but when and by how much will be data dependent". President Lagarde noted that it cannot declare victory on inflation yet, but also noted we have not yet seen the full impact of rate hikes so far, but she continues to expect another hike in July. A sourced reports from Reuters also pushed back on the idea of a pause in July or September.

The Yen was weaker despite the softer buck as it primarily traded off rising UST yields, sending USD/JPY back above 144 briefly after the set of strong US economic data points. The recent slide in the Yen has participants cognizant of more jawboning from officials or even the prospect of actual intervention.

Cyclical currencies were mixed, AUD and GBP outperformed while CAD softened after inflation data, and the NZD was flat. Gains in GBP tracked more hawkish market pricing, with Cable briefly rising above 1.2750 before returning to the level, while Bloomberg reported that traders have raised BoE rate hike bets, and placed a one-in-five odds on a 6.5% peak rate. AUD saw gains on optimistic China commentary and support for foreign firms ahead of Aussie CPI tonight. NZD failed to extend on its outperformance on Monday but it did hold the gains and was flat vs the Dollar. Note, there was a slight adjustment to the RBNZ mandate, albeit perhaps not too surprising with inflation above target, the MPC is now required to achieve and maintain inflation between 1-3%. CAD saw weakness on the softer than expected CPI report, albeit this only saw a little budge to market pricing for July with a 60% probability still priced for a hike in July (prev. 65% pre-data).

EMFX was mixed: BRL saw weakness in wake of the BCB minutes which signalled it may start cutting rates at its next meeting if inflation remains under control while the mid-month inflation numbers saw a further easing of price pressures, albeit marginally above expectations. Elsewhere, MXN and CLP saw gains thanks to encouraging China commentary and support for foreign firms, which has been helping major trading partner currencies. COP failed to benefit however with weaker oil prices weighing. ZAR saw gains on less extreme power outages at Eskom, but also as analysts speculate that the recent Russia rebellion could see President Putin skip the BRICs summit, where South Africa would be legally required to arrest him following the ICC (International Criminal Court) arrest warrant in March, according to Reuters; if South Africa were to arrest him, there would be a huge fallout with Russia, but if they don't there would be a fallout with the West – a lose-lose.

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