US Market Wrap

28th June 2023: Stocks shake off NVDA troubles and bonds recover in wake of mixed Powell

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude up, Dollar up.
- **REAR VIEW**: US considering curbs on Chips to China; Little new added from Sintra; US Adv Goods trade deficit narrows; Japan MoF jawbone does little to help Yen; Cool Italy and Aussie CPI; AAPL has no plan to transfer supply chain out of China; Mixed GIS report.
- **COMING UP**: **Data**: Australia Retail Sales, German CPI, Spain CPI, US PCE Prices (Final), IJC & GDP (Final), **Events**: Riksbank Policy Announcement **Speakers**: Fed's Powell; ECB's de Cos, Bostic; BoE's Tenreyro

MARKET WRAP

SPX was flat while NDX and RUT saw modest gains with negative Nvidia (NVDA) sentiment shaken off through the session. Catalysts for risk sentiment were on the light side, with the WSJ reports on Tuesday night about impending export bans of AI chips to China initially weighing sentiment. Nonetheless, NVDA significantly pared losses through the US morning as many rationalised that the impact would not be as far-reaching as initially feared, although the stock reversed lower after the CFO warned of potential long term damage in US trade. Meanwhile, there was a slew of central bank speak with Powell, Lagarde, Bailey, and Ueda speaking together in a panel discussion at Sintra, but nothing really that new/incremental was said. Treasuries recovered from Tuesday's sell off, led by the belly, into a strong 7yr auction and month-end anticipation. Dollar was bid and USD/JPY printed fresh YTD high but Antipodeans underperformed after cool Aussie CPI briefly ramped up pause pricing for RBA next week but pricing since pared after some banks noted they still expect another hike in July. Oil prices, after initially testing long-term support levels in the European morning, bounced firmly into the NY afternoon in wake of the EIA reporting a massive crude stock draw.

SINTRA/DATA

POWELL: Fed Chair Powell, as expected, gave little in the way of groundbreaking comments at the Sintra panel discussion amongst his compatriot central bank chiefs, given his recent extensive remarks in Congress last week and the FOMC the week before, and was eager to strike a mixed tone as we await more data. On the dovish side, Powell said, "The bottom line is that policy hasn't been restrictive enough for long enough to see those effects", in reference to service sector inflation needing time to come down - implying that the policy enacted already still has work to do. That view, which Powell has echoed before, would chime with recent comments from Fed's Bostic, who has been calling for a 'pause' in order to let restrictive policy work for a while. While on the hawkish side, Powell said he would not take the possibility of moving at consecutive meetings off the table when he was pushed on whether the Fed is now in an "every other meeting" hiking path. Otherwise, his economic commentary was broadly in line with what he has been saying in recent weeks.

BAILEY, UEDA, LAGARDE: BoE Governor Bailey gave little away in terms of a policy outlook, referring back to the line that the Bank would do what is necessary to get inflation back to target and that the recent data justified the sudden shift to a 50bp move last week. Meanwhile, BoJ Governor Ueda spoke on Yen price action saying many factors influence it and intervention is in the jurisdiction of the MoF. When asked about YCC, said that if the BoJ's forecast of inflation picking up into next year comes true, that would be a good reason for reconsidering policy changes. Ueda said he sees signs of inflation expectations rising but not fully in line with the target. And finally, ECB's President Lagarde didn't provide anything too incremental either, warning there was still not enough tangible evidence of falling inflation whilst also warning about the manufacturing sector, saying Q2 was not great, and the sector does not give great hope for a strong recovery. Lagarde stressed again that the bank is data-dependent, but if the baseline outlook stands, ECB will likely hike again in July, whilst the September decision would also be data-dependent.

US ADVANCED GOODS TRADE: The May Advanced Goods Trade deficit narrowed to USD 91.13bln from USD 97.1 bln, with the decline in the deficit only partially reversing the April surge. Pantheon Macroeconomics notes, "Net foreign trade will subtract around 1.0ppt points from annualized GDP growth in Q2, if the deficit is unchanged in June." Although, the advance trade numbers for June are (unusually) due on the same day as the first estimate of Q2 GDP, 27th July, so the consultancy adds the margins of error in all GDP forecasts will be wider than usual. Back to the data set, the dip mostly reflects a 2.7% fall in imports, offsetting a 0.6% decline in exports. The drop in exports was exclusively in the industrial supplies and food components, which are very noisy month-to-month but are trending lower with falling prices. Meanwhile, the decline in imports was evenly split between industrial supplies/food and consumer goods, with PM noting the latter is likely reflecting the sharp drop in the pace of inventory building as businesses respond to significantly higher financing costs.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 13+ TICKS HIGHER AT 113-08

Treasuries recovered, led by the belly, into a strong 7yr auction and month-end anticipation, with Sintra a distraction. At settlement, 2s -5.0bps at 4.714%, 3s -6.5bps at 4.329%, 5s -6.8bps at 3.967%, 7s -6.8bps at 3.843%, 10s -5.8bps at 3.710%, 20s -3.6bps at 4.002%, 30s -3.3bps at 3.807%.

INFLATION BREAKEVENS: 5yr BEI -0.9bps at 2.154%, 10yr BEI -0.7bps at 2.205%, 30yr BEI -1.0bps at 2.203%.

THE DAY: After troughing at 112-24+ in pre-settlement Tuesday trade, T-Notes made a gradual recovery into APAC Wednesday trade, hitting interim resistance at 112-30 post-soft Australian CPI data with RBA rate pause pricing back on the table. Meanwhile, the late Tuesday WSJ reports of impending US restrictions on exporting AI chips to China could have only provided govvie support.

Fresh highs in T-Notes weren't made again until the European morning with Bunds leading the charge. Desks cited the softer bank lending data in the Eurozone, with lending growth to businesses falling to 4.0% in May from 4.6% in April, while household credit growth fell to 2.1% from 2.5%, the lowest level since the end of 2016. There was an accompanying dip in oil prices supporting govvies via the commodity inflation channel, with WTI testing levels beneath USD 67/bbl, which chimes with the lows of longer-term ranges.

T-Notes continued their ascent ahead of the Sintra central bank chief panel discussion and were little reactive to the May advanced goods trade deficit narrowing by USD 6bln to USD 91.1bln, somewhat offsetting the prior month's USD 14.6 bln spike - contracts hit interim resistance at 113-04. There was a quick flush out of longs as the Sintra discussion got underway, with some framing Powell as hawkish after his comment that he wouldn't rule out hikes at consecutive meetings again if needed. But better buying returned later in the NY morning in anticipation of a strong 7yr auction (that proved true) with month-end buying pointed to in the absence of other catalysts. T-Notes extended to new highs again before long and ultimately peaked at 113-09+ in pre-settlement trade.

7YR AUCTION: A solid USD 35bln 7yr auction from the Treasury, more akin to the solid 2yr on Monday than Tuesday's weak 5yr offering, despite the 5s7s spread near its most inverted levels of the cycle. The 3.839% auction high yield marked a chunky 1.1bp stop-through the WI, that's despite the existing bid earlier in the session and outperforms the prior 0.8bp stop-through and six-auction avg. tail of 0.3bps. The 2.65x bid/cover ratio exceeded both the prior (2.61x) and average (2.51x). Dealers (forced surplus buyers) were left with just 8.1% of the auction (vs avg. 12.7%) with Indirects stepping up to take 75.3% (avg. 68.4%). The strong end-user demand adds to the notion that funds may be using the auction as a liquidity event to add duration going into month- and quarter-end, especially given secondary market liquidity is thinner than usual on Wednesday with some erratic price action.

STIRS:

- SR3M3 +0.75bps at 94.795, U3 flat at 94.635, Z3 +1.5bps at 94.725, H4 +4.5bps at 95.03, M4 +6bps at 95.44, U4 +7.5bps at 95.875, Z4 +8bps at 96.225, H5 +8bps at 96.46, M5 +8bps at 96.60, U5 +7.5bps at 96.68.
- Note particularly strong volumes in September SOFR futures in the absence of a known catalyst, although some point to some potential last-minute transition from legacy Libor contracts ahead of final publication on June 30th.
- US SOFR flat at 5.05% as of June 27th, volumes rose to USD 1.481tln from 1.429tln.
- NY Fed RRP Op demand at USD 1.945tln (prev. 1.951tln) across 101 counterparties (prev. 101) - Note there were no Treasury debt settlements on Wednesday.
- EFFR flat at 5.07% as of June 27th, volumes fall to USD 132bln from 138bln.
- US sold USD 46bln of 17-week bills at 5.225%, covered 3.44x.
- US sold USD 22bln of 2yr FRNs at high discount margin of 0.134%, covered 3.39x (six-auction avg. 3.06x), Dealers take 38.9% (avg. 35.6%).

AHEAD:

- (THURS) Riksbank Announcement, Japanese Retail Sales (May), EZ Sentiment Survey (Jun), German Prelim. CPI (Jun), US GDP Final (Q1) and PCE (Q1)

- (FRI) Japanese Tokyo CPI (Jun), Chinese NBS PMIs (Jun), German Unemployment (Jun), EZ Flash CPI (Jun), US PCE (May), US Chicago PMI (Jun), and Uni. of Michigan Final (Jun)

CRUDE

WTI (Q3) SETTLED USD 1.86 HIGHER AT 69.56/BBL; BRENT (U3) SETTLED USD 1.73 HIGHER AT 74.24/BBL

The crude complex was firmer on Wednesday and gained in wake of the larger-than-expected decline in the weekly EIA crude data. Prior to this, WTI and Brent whipsawed between gains and losses as they printed their respective lows of USD 67.05/bbl and 71.57/bbl in the European morning on further hawkish central bank speak which continued to stoke further interest rate hike fears. Nonetheless, crude-specific newsflow was light, aside from the aforementioned EIA's (more below), with a slew of central bank speak at Sintra taking the headlines. As such, oil continued to tick higher into settlement and settled around highs. Elsewhere, JPMorgan said global oil demand will likely reach 106.9mln BPD in 2030, +7.mln BPD vs 2022 levels. Additionally, the bank sees oil supply rising from 99.1mln BPD in 2022 to a peak of 104.5mln BPD in 2027 before falling back to 102.6mln BPD in 2030. Looking ahead, market participants will be awaiting core PCE on Friday.

EIA: In-fitting with the API metrics on Tuesday night, albeit far deeper today, crude stocks saw a draw of 9.603mln, much greater than the expected -1.7mln and prior -3.831mln. Meanwhile, gasoline stocks noticed a surprise build of 0.603mln (exp. -0.181mln) alongside distillates building slightly more than forecast at 0.124mln (exp. 0.89mln). Overall, refining utilisation fell 0.9% (exp. 0.4%) with crude production unchanged.

EQUITIES

CLOSES: SPX -0.04% at 4,377, NDX +0.12% at 14,965, DJIA -0.22% at 33,853, RUT +0.47% at 1,859.

SECTORS: Energy -1.02%, Communication Services +0.8%, Consumer Discretionary +0.25%, Real Estate +0.21%, Technology -0.02%, Industrials -0.04%, Financials -0.18%, Health Care -0.35%, Consumer Staples -0.59%, Materials -0.68%, Utilities -1.48%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.92% at 4,344, FTSE 100 +0.52% at 7,500, DAX 40 +0.64% at 15,949, CAC 40 +0.98% at 7,286, FTSE MIB +0.86% at 27,637, IBEX 35 +0.94% at 9,481, SMI +0.42% at 11,190

STOCK SPECIFICS: **General Mills (GIS)** posted a mixed report; beat on profit and raised dividend 9% but missed on revenue. Exec said he expects more price increases this year due to inflation. **Semiconductors (SOXX)** were hit on reports the Biden admin may restrict AI chip exports to China to prevent US rivals from gaining technological power, according to WSJ. Following this, **Nvidia (NVD)** CFO said they are aware of reports on new China export restrictions but expects no immediate material change to earnings from rules, however, over the long term, restrictions prohibiting sale of datacenter GPUs to China would impact future business financial results. NVDA added that China accounts for 20-25% of Data Center sales. **Pinterest (PINS)** was upgraded at Wells Fargo; said its Amazon partnership going live ahead of the 2023 holidays, improving engagement trends and higher advertising load will allow co. to deliver "accelerating and above-consensus" revenue growth. **Foxconn (FXCOF)** CEO said **Apple (AAPL)** has no plan to transfer its supply chain out of China. **Boeing (BA)** said roughly 90% of its China 737 max fleet has resumed commercial operations. Arcline Investment submitted a proposal to acquire **Circor International (CIR)** for USD 57/shr, in an all-cash deal. CIR closed Tuesday at USD 51.49/shr. **Samsung Electronics (SSNLF)** laid out its roadmap to expand its chip manufacturing business, including leading-edge chips, as it looks to catch up with **TSMC (TSM)**; will start mass production of 2nm process for mobile applications in '25. Needham initiated coverage of **ZoomInfo (ZI)** with a Buy rating; said the co. has "best in class unit economics." Morgan Stanley also reiterated its overweight rating. **Pfizer's (PFE)** and **OPKO Health (OPK)** announced the US FDA has approved NGENLA. **Tesla (TSLA)** is set to hit another record quarter with its China sales while it faces mounting pressure from local competitors such as BYD into its share in the world's largest auto market, according to traders. **Microsoft (MSFT)** previously considered acquiring Final Fantasy publisher, Square Enix, according to The Verge citing internal documents releases as part of the **FTC** hearings for **Activision (ATVI)** takeover. The US State Department approved a potential sale of integrated air and missile defense battle command system and related equipment to Poland for estimated USD 15bln. **Activision Blizzard (ATVI)** CEO told a judge it will likely abandon the USD 69bln takeover bid by **Microsoft (MSFT)** if the US FTC wins a ruling pausing the deal, according to Bloomberg.

US FX WRAP

Dollar bid and USD/JPY prints fresh YTD high but Antipodeans underperform after cool Aussie CPI briefly ramps up pause pricing for RBA next week

The Dollar was bid on Wednesday, paring the downside seen earlier in the week with DXY briefly rising above 103 again in wake of the Sintra panel discussion with Fed Chair Powell, ECB President Lagarde, BoJ Governor Ueda and BoE Governor Bailey. However, there was little new information revealed at this discussion, but Powell reinforced Fed messaging that two rate hikes this year seems appropriate, but it will ultimately be determined by the data. Powell repeated they have not seen progress in the non-housing services inflation, but he noted there is significant disinflation in the pipeline from rents, but it will take time. Aside from the discussion, there was little else on Wednesday but markets chopped around reports the US is to curb chip exports to China, which particularly hit Nvidia (NVDA) initially. On data, the May US Advance Goods Trade Balance printed a deficit of USD 91.13bln, narrower than the prior deficit of USD 97.1 bln, partially offsetting the USD 14.6bln spike in April.

The Euro sold off vs the Dollar but it saw gains vs the Pound. EUR/USD tested 1.09 to the downside but failed to make a convincing break of the psychological level while the latest Italian inflation metrics came in cooler than expected. With the ongoing Sintra conference, there were plenty more ECB speakers today, albeit all singing from the same hymn sheet; there is more work to do, September will be driven by data, etc... However, some of the hawks appeared more open to a rate hike in September as well as July. There were more source reports, focusing on QT, where Bloomberg suggested officials are considering a faster reduction of its bond portfolio, but Econostream, citing ECB insiders, said they are happy with the current pace.

The Yen weakened once again vs the Dollar, remaining around intervention territory with USD/JPY printing a fresh YTD high of 144.61 despite more jaw-boning from the Finance Minister who noted they will respond appropriately to excessive FX moves if necessary, while Ueda in the Sintra discussion said the Yen is being influenced by multiple factors and they are monitoring the situation, but intervention is under the jurisdiction of the Ministry of Finance. USD /JPY failed to reach 145 on expectations Japan will stop the Yen's decline beyond that level.

Cyclical currencies were softer vs the rising buck with Antipodeans underperforming. The soft Australian inflation data set the tone for the Aussie, with AUD/USD falling from highs of 0.6689 to lows of 0.6598. The weighted CPI Y/Y for May slowed to 5.6% from 6.8%, cooler than the expected 6.1% print. The data saw money markets increase dovish bets, pricing in a 78% probability of rates being left unchanged at the July 4th meeting vs 68% before the data. However, that had pared by the time of writing with some banks maintaining the RBA will deliver back-to-back 25bp hikes in June and July, but AUD still remains heavily sold on the day. Nonetheless, the NZD was the even greater laggard as it also fell victim to the weaker Aussie, as well as the weaker Yuan, while it pared some of its recent outperformance with AUD /NZD now flat on the week so far.

GBP saw weakness vs both the Euro and the Dollar with Cable falling from highs of 1.2752 to lows of 1.2608, before paring to c. 1.2650. EUR/GBP rose from lows of 0.8595 to 0.8658. The move saw a continued unwind of the Pound's recent strength with perhaps some weaknesses attributed to some unnerving commentary from the BoE Chief Economist Pill, noting their forecasts are conditional, and they got those conditions wrong. Meanwhile, at Sintra Governor Bailey stuck to the hawkish BoE tone seen last week, adding little new.

CAD weakness was in fitting with the buck strength and cyclical weakness while it failed to find support from the rally in crude prices after the much larger than expected EIA inventory draw while it still digests the cooler CPI report earlier in the week.

Scandis were mixed vs the Euro where a much stronger than expected Norwegian retail sales data helped the NOK outpace the single currency, which was also supported by the crude rally - note late reports that oil workers have agreed not to go on strike in the region after reaching a wage agreement. However, the SEK remained on the defensive ahead of the Riksbank when implied volatility suggests more uncertainty than the 25bp markets are pricing in; Newsquawk Riksbank Preview available here.

EMFX was mixed. The BRL continued to weaken as investors brace for rate cuts from Brazil, potentially as soon as August with markets pricing in a 85% probability of a 25bp cut to 13.5% and a 15% probability of a larger, 50bp move to 13.25%. MXN was flat vs the Dollar however with Banxico guiding us to keeping rates at current levels for a prolonged period of time, perhaps benefitting from the carry trade in EM. CLP saw weakness as copper prices tumbled (note, the Chile Central Bank have also signalled cuts are coming). COP outperformed however thanks to the rally in crude prices. ZAR saw some weakness after Tuesday's strength as the Dollar advanced. TRY was flat while Rouble saw weakness despite encouraging economic data but geopolitical tensions remain rife with what happens next re Wagner Group and

Prigozhin. The Yuan was weaker vs the buck following a weaker than expected Yuan fixing while Industrial profits dropped 18.8% in May Y/Y while US/China tensions remain after reports suggest US could restrict AI chip exports to China.

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