US Market Wrap

30th June 2023: Stocks soar, yields and Dollar fall after cool core PCE on month-end

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Cooler-than-expected Core PCE report; UoM sentiment revised higher with inflation expectations unchanged; Chicago PMI disappointed; NKE profit miss with weak guidance; Nat gas rigs tumble in Baker Hughes; AAPL closes above $3tln market-cap.
- **COMING UP**: **Data**: Japanese Tankan Survey, Chinese Caixin Manufacturing Final, Swiss CPI, EZ/UK/US Manufacturing PMI, US ISM Manufacturing PMI **Holidays**: US Independence Day Early Closure.
- **WEEK AHEAD**: Highlights include FOMC Minutes, US ISMs, RBA, BoJ Tankan, US & Canada jobs reports. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing RBA, FOMC Minutes; Reviewing BoJ SOO, Riksbank. To download the report, please click here.

MARKET WRAP

Stocks rallied on the final trading day of June with outperformance in the Nasdaq as the rally ensuing after a cooler than expected Core PCE report, which was also accompanied by a cooling in housing prices, as well as the core services ex-housing components. However, goods prices accelerated. Aside from PCE, the final UoM sentiment was revised higher for June but inflation expectations were unchanged while the Chicago PMI disappointed expectations, primarily due to soft aircraft orders from Boeing. Treasuries bull flattened after the PCE data which was accentuated by a wave of long-end buying into quarter and month end. Crude prices were buoyed by the soft PCE data and the weaker dollar while cyclical currencies outperformed, particularly the Antipodeans. Elsewhere, Nike (NKE) tumbled after a weak quarterly report which saw its first earnings miss in three years. Additionally, Apple (AAPL) market-cap closed above USD 3tln, to become the first company to reach the mark.

US

PCE: Core PCE came in a touch beneath the expected at 4.6%, cooler than the prior, forecast and what Fed Chair Powell guided us to of 4.7%. The M/M core rose 0.3%, in line with the expected but cooler than the prior 0.4%. Headline Y/Y was in line at 3.8%, cooling from the prior 4.4%, with the M/M at 0.1%, cooling from 0.4%. The pricing metrics are a welcome sign for the Fed in its battle against inflation but there are concerns that a hot jobs market will keep prices sticky going ahead. The cooler than expected report is fitting with the cooler than expected CPI in May, as well as PPI. Looking into the internals, core goods prices accelerated to +3.2% from 2.1%, while housing cooled to +6.4% from 7.2%. Core services ex-housing printed +3.9% from the prior 4.4%, with the cooling in house prices and core services ex-housing key for the Fed, but the upside in core goods shows that getting goods prices lower is appearing more difficult than initially thought. WSJ's Timiraos notes commentary from Fed's Goolsbee that "The puzzle has been why haven't goods prices come down even more.”

CHICAGO PMI: Chicago PMI rose to 41.5 from 40.4 (exp. 44.0) but disappointed expectations in the wake of the 8.2 decline in May. Although, it is extremely sensitive to the lagged trend in aircraft orders due to the presence of Boeing in Chicago. As such, Pantheon Macroeconomics notes “The sharp drop in Q1 civilian aircraft orders likely will continue to weigh on the Chicago PMI for another few months, so the index will tell us little about the broader outlook for manufacturing.” Nonetheless, the indication from the regional Fed manufacturing surveys is similarly discouraging, and as a result, the consultancy is looking for a dip in the June ISM manufacturing index (Mon), to 46.5 from 46.9, leaving it just a hair above its recent cycle low of 46.3, in March.

MICHIGAN SURVEY: The final Uni of Michigan survey for June saw the headline consumer sentiment index revised up to 64.4 from 63.9. The majority of the bump higher in the headline was driven by the current conditions index rising to 69.0 from 68.0, while the forward-looking Expectations index saw a smaller rise to 61.5 from 61.3. The report notes that the "striking upswing reflects a recovery in attitudes generated by the early-month resolution of the debt ceiling crisis, along with more positive feelings over softening inflation. Views of their own personal financial situation were unchanged, however, as persistent high prices and expenses continued to weigh on consumers." On the inflation expectations, they remained unchanged from the initial readings at 3.3% for the 1yr ahead and 3% for the longer term 5yr ahead period.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 4+TICKS HIGHER AT 112-08+

Treasuries bull-flattened after softer PCE data was accentuated by a wave of long-end buying into quarter /month-end. At settlement, 2s +0.1bps at 4.879%, 3s +0.1bps at 4.504%, 5s -1.0bps at 4.133%, 7s -2.1bps at 3.977%, 10s -3.7bps at 3.817%, 20s -5.4bps at 4.064%, 30s -6.0bps at 3.852%.

INFLATION BREAKEVENS: 5yr BEI +3.0bps at 2.209%, 10yr BEI +1.6bps at 2.246%, 30yr BEI +0.3bps at 2.236%.

THE DAY: T-Notes traded in a tight 112-04+/112-08+ through the APAC session on Friday with the in line Chinese NBS PMIs not causing a stir. Selling picked up as European trade got underway, with better-than-feared German retail sales kicking off the data slate in the region. UK Gilts saw acute selling on their reopening in lack of an obvious catalyst with the data in the region mixed: Q1 GDP print in line, Q1 current account deficit was larger than expected, and Nationwide's house price index fell less than feared in May. T-Notes themselves bottomed at 111-25+ not long after the above forecast German unemployment figures, recovering a few ticks into the NY handover, with a chunky 9.7k block seller capping the recovery attempt. The EU inflation data was slightly softer than expected, but no noticeable reaction was seen.

T-Notes rallied from 112-00 to session highs of 112-12+ just over 30 minutes after the softer-than-expected PCE data in the US. But, contracts failed to sustain their bid above the APAC highs of 112-08+, falling back within ranges ahead of the Chicago PMI and UoM final survey data. The former came in slightly softer than expected, garnering fleeting strength in USTs, whilst the Michigan survey saw the inflation expectation gauges unchanged but the headline sentiment index was revised higher, again garnering little reaction. As Europe began closing shop, the long end of the curve began making new yield lows, although the front and belly didn't join in. There were no obvious catalysts with traders instead pointing to some anticipation around late month-end duration extension flows (expected +0.07yr, according to Bloomberg), also there were some chunky block flatteners capping the strength in the belly. T-Notes eventually managed to break past their APAC highs again heading into the NY afternoon but struggled to breach the earlier peaks of 112-12+.

STIRS:

- SR3U3 +2.0bps at 94.600, Z3 +3.5bps at 94.640, H4 +3.0bps at 94.890, M4 +0.5bps at 95.250, U4 -2.0bps at 95.645, Z4 -3.0bps at 95.985, H5 -2.5bps at 96.220, M5 -1.5bps at 96.370, U5 -1.0bps at 96.465, U6 +1.0bps at 96.675.
- SOFR fixing flat at 5.06% as of June 29th, volumes rise to USD 1.542tln from 1.499tln.
- NY Fed RRP op demand rises to USD 2.034tln from 1.935tln, across 109 counterparties (prev. 102) - note month-end inflow factors apply, whilst we also have a USD 60bln build in TGA from coupon settlement.
- EFFR flat at 5.07% as of June 29th, volumes fall to USD 135bln from 140bln.

CRUDE

WTI (Q3) SETTLED USD 0.78 HIGHER AT 70.64/BBL; BRENT (U3) SETTLED USD 0.90 HIGHER AT 75.41/BBL

The crude complex ended the day and week, albeit mildly, in the black as oil eked to session highs in the wake of the cooler-than-expected US Core PCE with WTI and Brent printing highs of USD 71.04/bbl and 75.40/bbl, respectively, but coming off highs into settlement. Throughout the day there was a splattering of energy-specific newsflow, Russian PM Novak instructed oil companies to give priority to supplying gasoline to the domestic market, even in situations where exports seem more profitable. Novak later announced orders to work on export quotas for oil products. Looking ahead, newsflow may be thinner through the first half of the week amid the market holiday for Independence Day but attention will turn to FOMC Minutes (Wed) and NFP (Fri).

FORECASTS: HSBC lowers Brent oil price assumptions to USD 80/bbl in H2'23, 80/bbl in FY23, and 75/bbl in FY24 and long-term. The bank adds OPEC+/Saudi Arabian supply cuts are to lead to a substantial deficit in H2'23. Separately, a Reuters Poll sees WTI averaging USD 78.38/bbl in 2023 (prev. 79.20/bbl in May poll), and Brent USD 83.03/bbl (prev. 84.72/bbl).

OPEC: Several OPEC+ delegates see Saudi cut extended into August, according to Bloomberg, with Saudi Arabia seen prolonging million-barrel oil supply cut. Meanwhile, a Reuters survey indicates OPEC June output to fall 50k BPD May to 28.18mln BPD.

BAKER HUGHES: US nat gas futures saw upside in wake of the Baker Hughes rig count, where nat gas fell 6 to 124. Additionally, oil dipped 1 to 545, leaving the total down 8 to 674.

EQUITIES

CLOSES: SPX +1.22% at 4,450, NDX +1.60% at 15,179, DJIA +0.83% at 34,406, RUT +0.38% at 1,888.

SECTORS: Technology +1.82%, Consumer Discretionary +1.36%, Utilities +1.21%, Health +1.06%, Communication Services +0.99%, Consumer Staples +0.92%, Materials +0.9%, Financials +0.9%, Industrials +0.87%, Energy +0.63%, Real Estate +0.5%.

EUROPEAN CLOSES: Euro Stoxx 50 +1.02% at 4,399, FTSE 100 +0.80% at 7,531, DAX 40 +1.26% at 16,147, CAC 40 +1.19% at 7,400, FTSE MIB +1.08% at 28,230, IBEX 35 +0.87% at 9,593, SMI +1.01% at 11,283.

STOCK SPECIFICS: **Nike (NKE)** marginally missed on profit, which was the first earnings miss in three years, although revenue and inventory were strong. However, it forecast Q1 revenue below expectations as cost-conscious consumers cut back on purchases in North America, cos. biggest market. **Dominion Energy (D)** cut Q2 guidance as extremely mild weather in electric service territories is expected to negatively impact Q2 operating earnings. Given the pending business review, D has not provided FY23 earnings guidance. Citi initiated coverage of **Apple (AAPL)** with a Buy rating, and price target of USD 240; believes AAPL could have a 30% upside and sees its ability to navigate macro challenges and gain market share. **Bausch + Lomb's (BLCO)** agreed to pay USD 1.75bln for Novartis's dry-eye treatment. UK's CMA said initial investigation finds **Adobe's (ADBE)** purchase of Figma could reduce innovation. **Spirit AeroSystems (SPR)** finalises a four-year contract with IAM, allowing operations to resume at its Wichita plant starting June 30th, and begin to fully resume production on July 5th. Activist investor Starboard Value acquired a stake of over 5% in **Algonquin Power (AQN)**; urges co. to proceed with a strategic review of its renewable-energy division, believing it to be undervalued. **XPeng (XPEV)** announced the official launch of its G6 Ultra Smart Coupe SUV. **Carnival (CCL)** was upgraded at Jefferies; cited changes during the first year of new CEO tenure and improving leverage as reasons to be optimistic about the stock. **ASML (ASML)** does not expect the Dutch government's chip export measures to have a material impact on its financial outlook. Note, the Dutch Foreign Ministry issued new computer chip equipment export rules; effective September 1st. **Abcam (ABCM)** has drawn interest from **Danaher (DHR)** and **Agilent (A)**, according to Bloomberg sources. **Coinbase (COIN)** shares slid in tandem with the downside seen in Bitcoin after the US SEC noted that the ETF filings are inadequate. Goldman Sachs initiated coverage of **Pacific Biosciences (PACB)** at a Buy rating; said the co. could be at an inflection point with a new sequencing instrument. Bank of America raised **SolarEdge (SEDG)** price target to USD 396 (prev. 379); said it has a healthy setup with a diversified structural growth story.

WEEKLY FX WRAP

soft PCE prices and weak Chicago PMI push Dollar off its pedestal

USD - It would be easy to say that price moves were driven by policy differentials or diverging rate outlooks, and that was certainly a major factor behind further Yen and Yuan depreciation against the Greenback, but the Euro and Sterling also lost ground vs the Buck even though the ECB remained hawkish and BoE tightening expectations ramped up again. Instead, the Dollar gathered upside momentum on the premise or perception that the US economy can cope better than others with higher rates, and data broadly backed this assumption until a weaker than forecast and near bottom of the range Chicago PMI. Indeed, durable goods defied consensus for declines in both headline and ex-transport terms, new home sales extended the run of recent of booming housing metrics, consumer confidence was exuberant, Q1 GDP got a healthy final upgrade and initial claims retreated markedly from peaks in the 260k region lodged over the previous three consecutive weeks. However, the DXY faded just above 103.500, at 103.540 to be precise, having advanced from a 102.320 low and shed more gains when core PCE came in a tad below expectations on a y/y basis, and the headline measure slowed sharply from the previous month. The cooler inflation prints will obviously be welcomed by the Fed and Williams as a current FOMC voter who said earlier in the week that restoring price stability is of paramount importance, but unlikely play into the hands of pause advocate Bostic given Chair Powell stating that a strong majority of policymakers see two or more rate rises by the end of this year. Next up, the manufacturing ISM at the start of an Independence Day holiday-shortened week that includes the services survey and culminates with NFP on July 7.

NZD/GBP/AUD - The aforementioned benign PCE report boosted risk sentiment as the clock ticked down to the end of a month that also aligned with the final trading session of Q2 and H1, but the Kiwi, Sterling and Aussie only clawed recouped part of their declines against the Greenback within 0.6200-0.6051, 1.2759-1.2592 and 0.6720-0.6596 respective weekly ranges. Nzd/Usd hardly reacted to minor tweaks to the RBNZ's Charter and Remit that requires the MPC to achieve and maintain inflation between 1%-3% rather than keep it there, but did glean some traction from improvements in ANZ's business outlook, own activity and consumer sentiment. Meanwhile, the Pound largely ignored speeches from BoE's Dhingra and Tenreyro for obvious reasons aside from the fact that the latter is due to leave the MPC imminently, as the dovish dissenters have become increasingly isolated and ineffectual, but did take note of Governor Bailey at Sintra spelling out why the Bank upped the ante with a 50 bp hike in June and perhaps more pertinently not pushing back against aggressive market pricing (peak now beyond 5.5% and 6%+ per several analysts). Back down under, the Aussie was undermined by its close links with China and Yuan contagion, while independent impulses were very conflicting as May's weighted CPI was well below forecast and significantly softer than previous in stark contrast to the final retail sales revision for the same month. Accordingly, it appears highly likely that another 'live' RBA policy meeting hangs in the balance.

EUR/CHF - As noted earlier, the Euro was prone to economic fallout amidst the ongoing barrage of mostly hawkish ECB guidance that was prevalent during the Sintra Forum, as macro releases continued to show cracks and stagflationary /recessionary tendencies. Germany's Ifo survey was bleak along with downbeat commentary from the institute, while EZ M3 revealed much slower money supply growth plus lending to households and non-financial entities. Nevertheless, inflation remains too high, sticky and persistent, with the GC highly likely to raise rates by another 25 bp next month and open to the same in September or increasing the pace of QT as a potential compromise, as Bank staff prepare for a new era of tighter monetary policy, per sources. Elsewhere, the Franc took on board a similar message from the SNB via Maechler reiterating that underlying price dynamics are really persistent and inflation pressures too high to create trust in money, as he highlighted that price rises are becoming broad-based with 65%+ of all goods and services in Switzerland seeing increases. Nonetheless, Eur/Usd laboured to get back on the 1.0900 handle between 1.0976-1.0836 parameters, whereas Usd/Chf reversed from 0.9017 towards its 0.8913 w-t-d base in wake of an uptick in the Swiss KOF indicator and retail sales falling at a slower pace.

JPY/CAD - The Yen simply fell victim to the BoJ retaining its ultra-easy stance regardless of any upbeat Japanese data points or the threat of incessant official jawboning actually turning into physical intervention, as Usd/Jpy breached all sorts of tech hurdles, option expiry barriers, psychological levels on the way from 142.95 to 145.07 before stalling. In fact, Governor Ueda was especially adamant about the rationale for keeping the status quo under cross examination and questioning at a panel discussion on the last day of Sintra where the divergence in stances was glaring compared to the ECB, Fed and BoE. Conversely, the BoC is back in hike mode and tipped to tighten again, before the FOMC gets a chance to either twist or stick after skipping a move this month, but the Loonie lost out to its US rival within 1.3117-1.3285 bounds on the back of some sub-consensus Canadian inflation readings, a flat monthly GDP outturn vs 0.2% growth forecast and elements of the latest Business Outlook Survey, such as firms continuing to expect weak sales growth, weaker growth in commodity prices, including outright declines for fuel and steel amidst softer demand conditions.

SCANDI/EM - There was scope and grounds to anticipate a more pronounced Sek revival following the Riksbank's ¼ pt rate rise, but the higher repo rate path implying at least one more in 2023 and the absence of dissension was overshadowed by disappointment from those looking for a Norges Bank style 50 bp and bonds sales only set to go up by Sek 1.5 bn/month from September rather than a bigger increment. On the flip-side, the Nok was underpinned by stability in Brent crude and the Norges Bank lowering its daily foreign currency purchase quota to Nok 1 bn for July from Nok 1.3 bn at present. In the EM region, the Cny and Cnh were only propped up briefly by the PBoC using its midpoint fixes to try and stem the bearish trend propagated by more worrying Chinese data and PMIs, or even large state banks buying to defend certain lines in the sand, while the Zar fell in sympathy with Gold, the Brl was subject to more Government vs BCB division on rates, the Ils angst over proposed bank interest payment reform and the Try remained on the backfoot before a bit of a reprieve from the Turkish Finance Ministry and CBRT. To recap, the former said efforts are being stepped up to obtain additional foreign resources to further strengthen reserves and Turkey will continue to make Lira instruments attractive and the latter took measures aimed at enhancing the functionality of market mechanisms and strengthening macro-financial stability.