newsquawk

US Market Wrap

5th July 2023: Stocks and bonds fall on Independence Day hangover ahead of key data

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: FOMC minutes provide little new, but confirm some would have accepted a June hike; US opposes China export controls; US factory orders miss; Iran tried to seize two oil tankers; CPC resumed oil loadings in Kazakhstan; Chile's Codelco estimates 7k tonne loss due to rain; TSLA cut Japan prices; UPS and Teamsters talks break down; KNX profit warning.
- **COMING UP**: **Data**: Australian Trade Balance, UK Construction PMI, US IJC, JOLTS, Challenger, ADP, ISM Services & Final PMIs, Canadian Trade Balance **Events**: OPEC International Seminar **Speakers**: Fed's Logan; BP's Looney, UAE's Minister of Energy Al Mazroui, OPEC Secretary General Al Ghais **Supply**: Spain & France.

MARKET WRAP

Stocks were predominantly lower on Wednesday on the US' return with the real-economy levered Russell 2k suffering on the weak global macro data (soft China and European PMIs) while the Nasdaq 100 held up much better around the unchanged mark. The FOMC minutes were a non-event. Big Tech was mixed with Meta (META) and Google (GOOGL) seeing strength (Meta on watch ahead of 'Threads' release on Thursday) whilst Microsoft (MSFT), Amazon (AMZN), and Apple (AAPL) were flat or down. In sectors, Communications, Utilities, and Real Estate outperformed, while Tech, Industrials, and Materials underperformed. Treasuries saw pronounced bear-steepening flow through the US session in lack of an obvious catalyst as traders position for key June employment data. In FX, the Dollar was bid and supported by the higher yields, with activity currencies, CAD and AUD, seeing particular weakness in the majors; there was also strong weakness in the Yuan with rising export tensions adding to the weak PMI data. In commodities, oil prices saw a modest upside, despite the weak macro data, with continued support from Saudi jawboning adding to the Saudi/Russia production cuts earlier this week. Metals prices were hit with a stronger dollar and weak data.

GLOBAL

FOMC MINUTES: The June FOMC minutes held little surprises with the market's outlook for policy unchanged: 85% implied probability for a July hike with a terminal rate of 5.40% in November. Almost all participants judged it appropriate or acceptable to leave the target rate unchanged, but some indicated that they favoured raising the target range by 25bps at the June meeting or that they could have supported such a proposal. Those favouring a hike noted that the labour market remained very tight, momentum in economic activity had been stronger than earlier anticipated, and there were few clear signs that inflation was on a path to return to the Committee's 2% objective over time. Many also noted that, after rapidly tightening, the Committee had slowed the pace of tightening and that a further moderation in the pace of policy firming was appropriate in order to provide additional time to observe the effects of cumulative tightening and assess their implications for policy. Most participants observed that post-meeting communications, including the SEPs (which pencilled in two more hikes this year), would help clarify their assessment regarding the stance of monetary policy. Ahead of the NFP reading on Friday, it's worth noting that some participants pointed out that payroll gains had remained robust but noted that some other measures of employment—such as those based on the BLS' household survey, the Quarterly Census of Employment and Wages, or the Board staff's measure of private employment using data from the payroll processing firm ADP—suggested that job growth may have been weaker than indicated by payroll employment. A couple of participants also drew attention to the subdued growth in hours worked.

RARE EARTHS: China’s restrictions on exporting gallium and germanium metals crucial for semiconductors and electric vehicles have companies scrambling to secure supplies. Concerns have also arisen about potential curbs on rare earth exports, further disrupting global supply chains. Analysts view this as a response to US efforts to limit China’s technological progress. Some fear China could follow with new restrictions on rare earth exports. Chinese officials will meet with major producers of the metals on Thursday to discuss the export restrictions, Reuters reported. The move by China could prompt North American and European governments to establish supply chain alternatives. The industry expects disruption, but semiconductor companies may explore alternative materials if prices rise due to supply shortages, Reuters said, adding that the risk of escalating tension between the US and China remains significant. The US Commerce Department said it firmly opposes export controls announced by China on Gallium and Germanium and that the US will engage with allies and partners to address the export controls announced by China.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLE 18+ TICKS LOWER AT 111-11+

Treasuries saw pronounced bear-steepening flow in lack of an obvious catalyst as traders position for key June employment data. 2s +0.5bps at 4.945%, 3s +3.2bps at 4.606%, 5s +5.9bps at 4.246%, 7s +7.5bps at 4.102%, 10s +8.2bps at 3.940%, 20s +7.5bps at 4.162%, 30s +6.6bps at 3.943%.

INFLATION BREAKEVENS: 5yr BEI -1.1bps at 2.236%, 10yr BEI -0.6bps at 2.276%, 30yr BEI -0.7bps at 2.258%.

THE DAY: T-Notes were initially supported by the soft China PMI data on Wednesday, with Citi's rates desk in Tokyo noting some fast money interest in flatteners before some better selling beneath 112 crept in ahead of European trade. Downward revisions to EU PMIs for June, alongside a fall in 1yr EU consumer inflation expectations, saw better buying return, which was accentuated by a solid DMO UK gilt auction, taking contracts to peaks of 112-04 late in the London morning - a chunky 10.7k T-Note block buy went through after the auction, while Citi's rates desk noted buying interest in cash 20yr at the time (for what it's worth).

The US return from the July 4th holiday saw a lack of appetite to chase the bid, and before long, contracts were making fresh lows (although 2yr and 5yr futures initially remained anchored within ranges) in the absence of an obvious catalyst, instead, likely positioning (taking profit on flatteners, or even new steepeners) ahead of the key labour market data on Thursday and Friday, not to mention CPI next Wednesday. T-Notes initially troughed at 111-24+ ahead of the cash equity open in NY, but the selling gained more momentum heading into the afternoon with soft May factory orders an afterthought - this time even the front-end futures began making new lows. The trundle lower extended all the way through into the settlement for troughs in T-Notes at 111-11, with the FOMC minutes doing little to alter the trend (or policy outlook) - key support is seen at the March 2nd low of 110-27+. While on the curve, there was a clear steepening bias with 2yr yields little changed from their close on Monday.

STIRS:

- SR3M3 +0.5bps at 94.78, U3 +1bps at 94.605, Z3 +2.5bps at 94.645, H4 +1.5bps at 94.85, M4 -1bps at 95.165, U4 -3bps at 95.525, Z4 -4bps at 95.85, H5 -4.5bps at 96.08, M5 -5.5bps at 96.22, U5 -6.5bps at 96.31, U6 -9bps at 96.515.
- SOFR falls back to 5.06% on July 3rd from month-end high of 5.09% on June 30th, volumes rise to USD 1.579tln from 1.549tln, activity now at highest in over a month.
- NY Fed RRP op demand falls to USD 1.867tln from 1.910tln, across 102 counterparties (prev. 101).
- USD 43bln RRP fall comes amid a USD 60bln bill settlement and takes the facility to its lowest level since May 2022, with the recent TGA increase (funded through bill issuance) draining balances in the facility.
- EFFR remains elevated at 5.08% as of July 3rd after rising on June 30th, volumes rise to USD 124bln from 97bln.
- US sold USD 46bln of 17-week bills at 5.250%, covered 3.31x.

CRUDE

WTI (Q3) SETTLES USD 2.00 HIGHER AT 71.79/BBL; BRENT (U3) SETTLES USD 0.40 HIGHER 76.65/BBL

Oil prices saw modest upside on Wednesday with continued support from Saudi jawboning adding to the Saudi/Russia production cuts. The price appreciation was gradual and the notable outperformance of WTI futures is on account of the lack of settlement on Tuesday due to July 4th holiday. There was a slew of commentary out of OPEC given the group's International Seminar taking place, where Saudi Energy Minister Abdulaziz had his Draghi moment, saying that OPEC+ will do "whatever is necessary" to support the market, which was good for a 40c lift in Brent in the European morning. Kuwait's energy minister announced that oil output capacity will be 3.2m BPD by the end of 2024, greater than the 3mln BPD by 2025 figure given in mid-June; the official also denied Al Arabiya reports that Kuwait is requesting an OPEC+ quota increase. OPEC Secretary General said that OPEC is in discussions with Azerbaijan, Malaysia, Brunei, and Mexico to join the group (Azerbaijan already rejected the offer). Meanwhile, supply risk in the Gulf was in focus after the US confirmed reports that Iran tried to seize two oil tankers near the Strait of Hormuz early Wednesday before backing off after a US Navy response - Iran denies the claims. While in Kazakhstan, the issues from power outages from Monday appear to be abating with the CPC pipeline announcing Wednesday it had resumed oil loadings in the region, following earlier reports from the energy ministry that oil production was down 21% on July 4th vs July 2nd, with refining volumes down 46%. Participants now look to the US energy inventory data with the private figures released Wednesday evening ahead of the official EIA data on Thursday. Current expectations (bbls): Crude -1.8mln, Gasoline -1.1mln, Distillate +0.5mln.

EQUITIES

CLOSES: SPX -0.2% at 4,447, NDX -0.03% at 15,204, DJI -0.38% at 34,288, RUT -1.26% at 1,872.

SECTORS: Materials: -2.47%, Industrials: -0.6%, Technology: -0.56%, Energy: -0.54%, Financials: -0.33%, Cons stpl: -0.09%, Health: -0.05%, Cons disc: +0.08%, Real estate: +0.46%, Utilities: +1.1%, Communication svs: +1.21%.

EUROPEAN CLOSES: DAX -0.63% at 15,937.58, FTSE 100: -1.03% at 7,442.10, CAC 40 -0.80% at 7,310.81, Euro Stoxx 50 -0.92% at 4,350.71, IBEX 35 -1.06% at 9,486.30, FTSE MIB -0.59% at 28,220.18, SMI -0.21% at 11,193.92.

STOCK SPECIFICS: **TSMC (TSM)** expects to see a significant revenue rebound in H2 23, driven by the launch of new **iPhones (AAPL)** and strong demand for AI chips from **Nvidia (NVDA), Broadcom (AVGO), and AMD (AMD)**. **Apple Inc. (AAPL)** lost an appeal in a London court, confirming patent infringement on iPhones and iPads. **Microsoft Corp. (MSFT)** should see USD 40-50/shr added to its share price with ChatGPT/AI monetisation on both the consumer and enterprise fronts and it should see MSFT join the USD 3tln club, according to Wedbush. **Amazon (AMZN)** is introducing custom electric vans from **Rivian (RIVN)** in Europe, starting with Germany. Over 300 electric delivery vans will be deployed in cities like Munich, Berlin, and Dusseldorf, expanding its existing fleet of thousands of electric vans in Europe. **Meta (META)** lost a fight against a German data curb order in the Court of Justice of the EU, according to Reuters, which notes the ruling gives antitrust authorities potentially more leeway in probes into Big Tech. **Tesla (TSLA)** delivered 93.68k units in China in June (prev. 77.7k in May), according to prelim data. It also cut Model 3 and Y prices in Japan. **UPS (UPS)** walked away from negotiations with Teamsters, Teamsters committee unanimously rejected the package. No additional talks are scheduled. Subsequently, UPS says we are encouraged the Teamsters are ready to continue negotiations and discuss our most recent proposal. **Knight-Swift Transportation (KNX)** warned Q2 results will be beneath expectations. **Teva (TEVA)** is considering a sale of its USD 2bln active pharma ingredients unit, according to Bloomberg. Canada's government is to stop advertising on **Meta's (META)** Facebook and Instagram; says they have a path forward on resolving the dispute over online new law and are willing to continue talking to **Google (GOOGL)** and Meta, according to official. The preliminary injunction hearing today for the FTC vs Microsoft (MSFT) and Activision (ATVI) could arrive as early as this week, for a Newsquawk primer on the event, please click here.

FX WRAP

The Dollar rose on Wednesday with participants returning from the Independence Day holiday to see DXY rise back above 103.00. The latest FOMC minutes revealed little new to what the Dot Plot and commentary since has told us, although it confirmed that some policymakers would have been happy to accept a 25bp hike in June which did give some support to the Buck. US data saw May factory orders miss expectations at 0.3% (exp. 0.8%), with factory orders ex-transport falling 0.5% (prev. -0.2%). Meanwhile, the durable goods revisions saw upside revisions to the ex-transport metric and the headline. The move higher in the Dollar was supported by the move higher in UST yields, with pronounced bear-steepening seen.

The Euro saw some downside as the Dollar rose with EUR/USD falling from peaks of 1.0907 to lows of 1.0852 heading into the US closing bell. The final EU HCOB Composite PMI in June was revised lower to the contractionary territory of 49.9 from 50.3, despite expectations for it being left unchanged, raising the recessionary alarm. Meanwhile, the latest ECB poll of consumer inflation expectations had fallen to 3.9% from 4.1% for the 1yr outlook, but the 3yr ahead metric was stable at 2.5%. On commentary, ECB's Visco said he doesn't understand and doesn't agree with those who prefer the risk of tightening too much rather than too little, adding that more rate hikes are not the only way to curb inflation.

The Yen was marginally weaker vs the buck but it did initially strengthen to test 144 to the downside coming in within 9pips of the round level before paring back above 144.50 with participants cognizant of Japanese intervention around the 145 level and above. The upside in UST yields was the driver for the reversal in the Yen with positioning into steepeners, or profit taking in flatteners, ahead of key US data prints throughout Thursday and Friday (Services ISM, ADP, JOLTS, IJC, layoffs, and NFP).

The Yuan saw weakness vs the buck after a miss in the Caixin PMI data while tensions also rise with the West following the export controls on Gallium and Germanium with the US opposing the move. The weakness in the Yuan (both offshore and offshore) came despite a firmer Yuan fixing overnight and on reports in PBoC-backed press (Financial News) that China has ample policy tools to stabilise FX markets, which provided some marginal, fleeting strength in the Yuan but the Dollar gains more than offset that.

Cyclicals were weaker vs the Dollar, particularly the Aussie after the RBA left rates unchanged earlier in the week with participants returning today to react to the decision while attention turns to May trade balance data Thursday. The weaker Yuan also weighed on the Aussie, keeping AUD/USD beneath the 200 and 55dmas, at 0.6694 and 0.6674, respectively, while the 200dma acted as resistance. NZD saw marginal weakness vs the Dollar with the Kiwi propped up from the AUD/NZD cross. GBP saw mild weakness vs the buck, seeing it just lose 1.27 while it saw mild gains vs the Euro while hawkish market bets helped the Pound after JPMorgan flagged the risks of a 7% peak rate - note UK gilt yields saw strong upside again with the strong DMO auction only providing temporary relief. CAD saw weakness despite gains in oil prices, seeing USD/CAD near 1.33 to the upside.

Scandis were mixed. NOK outperformed the SEK thanks to gains in Brent despite a decline in Norwegian house prices.

EMFX saw weakness in TRY after cooler-than-expected CPI while reports noted the treasury-run part of the forex-protected Lira deposit accounts scheme is to be transferred to the central bank. BRL was flat and saw little reaction to the announcement that Brazil's Lower House Speaker will announce tax reforms will be debated on today, and voted on tomorrow, while the Planning and Budget Minister Tebet expressed optimism about the economy and prospects of +2.5% growth in 2023. ZAR weakened despite hawkish SARB rhetoric, while in CEE, HUF lagged despite hawkish NBH minutes. MXN was an outperformer as USD/MXN fell beneath 17 for the first time in nearly eight years, with desks pointing to the ongoing attractive carry profile of the currency amid Banxico's hawkish tone, strong data, and strong inflows from both remittances and US corporate investment.