US Market Wrap

6th July 2023: Stocks and bonds hit on hot data ahead of NFP

- **SNAPSHOT**: Equities down, Treasuries down, Crude flat, Dollar down.
- **REAR VIEW**: Hot ADP report, Strong beat in ISM, Mixed jobless claims; fall in JOLTS, quits rate rises; Challenger Layoffs decline; Logan would have supported Fed hike in June; Yellen lands in China; META launches Threads, TWTR to sue; BAC raises dividend; FIS sells stake in Worldpay
- **COMING UP**: **Data**: German Industrial Output & Production, US NFP **Speakers**: ECB's President Lagarde & de Guindos.

MARKET WRAP

Risk off trading conditions on Thursday as the whole Treasury curve surged above 4% and 5% in the 2yr after a slew of hot US economic data releases extended the rot in global fixed income. Stocks were sold despite the hot ADP, sub 250k jobless claims, and spike in ISM Services, with particular weakness in the cyclical/value areas (Russell 2k and even more so in Europe) whilst the SPX and NDX held up relatively better vs peers. In FX, the Dollar was lower despite the hot US data and risk-off trade with Yen, Swissy, Euro, and the Pound all outperforming, whilst Kiwi, Aussie, and Loonie all underperformed in line with the cyclical aversion; there was particular weakness in carry favourites in the EMFX space too. Oil prices were choppy and ultimately flat with bullish EIA inventory data unwinding earlier losses.

US

NFP PREVIEW: Labour market proxies were mixed in June: initial jobless claims spiked in the comparable survey week, with the four-week moving average higher heading into the June data; within S&P Global's flash PMI data, the employment sub-indices eased, though remain above the 50-mark, which separates expansion and contraction; the ISM manufacturing data saw employment fall into contraction, but the services gauge saw the employment index rise into expansion; ADP's gauge of payrolls growth spiked higher in the month, while Challenger Layoff numbers tumbled lower. Currently, markets are expecting the Fed to lift rates in July, and it is assumed that only a very significant miss along with weakness in other metrics will derail that plan; meanwhile, some of the strong data released this week has seen expectations of the Fed terminal rate rise, to 5.45% in November 2023. To download the report, please click here.

ISM: The June Services ISM data was hot and emphasised the resilience of the services sector in the US to high-interest rates. The headline rose to 53.9 from 50.3, well above expectations of 51 and above the top end of analyst forecasts (43.5-53.3). The jump was led by a surge in business activity, which rose from 51.5 to 59.2, well above the 51.9 forecast and also above all analyst forecasts. The employment metric saw a strong rise, returning to expansionary territory at 53.1 from 49.2, which serves as an upside risk to Friday's NFP after the mfg. ISM employment index fell into contractionary on Monday. New Orders also rose to 55.5 from 52.9, laying the path for future activity. The only part of the report that cooled was the prices paid, falling to 54.1 from 56.2, a marginal improvement for the inflation picture, albeit remaining in expansionary territory. However, the strong services activity raises prospects for higher prices in the months ahead. The services sector has held up remarkably well, given it is less rate-sensitive than the manufacturing side of the equation, thus leading to a resilient US economy. However, there are concerns for (eventual) pressure from the lagged effects of monetary policy, something the doves have been arguing as a reason to pause rate hikes. Additionally, current guidance signals two more hikes ahead and for rates to be held at elevated levels until at least 2024, increasing the likelihood of a broader contractionary impulse through the economy. The report itself noted that the "majority of respondents indicate that business conditions remain stable; however, they are cautious relative to inflation and the future economic outlook."

ADP: The ADP report was particularly hot in June, rising 497k, well above the prior 257k and expected 228k, and well above analyst forecasts of between 95-334k. The report notes that job creation surged in June with strong gains in leisure and hospitality, trade and transportation, and education and health services. The large figure was the highest since December 2021, which saw a print of 807k, and was above the 475k seen in February 2022. Goldman Sachs reacted cautiously, "[we] suspect a distortion in the ADP seasonal factors contributed to the strength" and have thus maintained their view for the June NFP to be at an unchanged 250k. Analysts at Pantheon Macroeconomics also maintain their NFP forecast of +200k, given the lack of correlation between the two data points. On the other side, Wrightson warns that the ADP has been more accurate than its known to be lately, warning of an above consensus print on Friday - note that NFP has consistently printed above analyst forecast since Q1 2022. According to Reuters, the Street looks for a 225k print, with forecasts ranging between 110-288k.

JOLTS: Job openings in May fell to 9.824mln from the prior 10.320mln, which was revised lower from the initial 10.103 mln and coming in beneath the expected 9.935mln. The figures are always digested with a pinch of salt, given how volatile the data release is, but we are now reapproaching the lows of 9.745mln seen in March with the 3m average down to 9.963mln, the lowest since June 2021, albeit still well north of pre-COVID norms. Meanwhile, the Quits Rate rose to 2.6% from 2.4%, which crudely, is indicative of improved confidence in workers finding new jobs vs April.

JOBLESS CLAIMS: Initial Jobless Claims rose to 248k in the week ending July 1st from the downwardly revised 236k (initially 239k), just above the expected 245k, further indication that the spike to the 260k+ figures earlier in June was a red herring, at least for now with many analysts expecting a deterioration later in the year. The 4wk moving average fell 3.5k to 253.3k. Seasonal adjustment factors, which are expected to be noisy over the next few weeks, anticipated a rise of 9k in the latest week, with the non-SA figure rising 21k. On a state-by-state level, the largest increases in claims were in Michigan (+6.7k), New York (+4.3k), and Ohio (+3k). Meanwhile, continuing claims in the week ended June 24th fell to 1.72mln, against the expected rise to 1.745mln, with the prior revised lower to 1.733mln from 1.742mln. On a side note, it was interesting that the June Challenger layoffs report released Thursday saw a sizeable decline, given the early June spike in initial claims alongside the elevated layoffs figures were seen as potential signs the labour market might be on the cusp of a downturn, albeit, both data sets have since moved back lower.

FED'S LOGAN (voter, hawk): Logan, speaking at a NY Fed event Thursday, confirmed she would have accepted a 25bp hike in June and noted that more hikes will likely be necessary, in fitting with the Fed's Dot Plot, although she did not give a specific amount on how much, but said it is important for the Fed to deliver on its June rate outlook projections, implying she sees at least two more hikes. She also said she is sceptical about the lagged impact of past Fed rate hikes, throwing shade on the dovish line of thinking that time is needed to let restrictive policy work its way through. Logan said the June pause was enabled due to the challenging and uncertain environment. But now Logan believes a more restrictive policy is needed to reach the Fed's goals. She stressed that tighter credit is due to tighter policy, not due to bank stress. Logan expressed great concern as to whether inflation will cool quickly enough, noting the process of rebalancing the economy is slower than expected, with the job market and inflation both hotter than expected in H1 23. She pushed back on any imminent labour market turn, saying she sees no sign of an abrupt worsening in conditions. On the balance sheet, the ex-Markets Desk chief said she does not see the Fed's balance sheet dynamic causing any liquidity pressures, saying the balance sheet outlook should not affect the rate outlook, adding that the Fed has room to shrink the balance sheet for quite some time.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLE 24 TICKS LOWER AT 110-19+

Treasuries were sold further after hot ADP, sub-250k jobless claims, and hot ISM Services, with the belly ultimately weakest after the front-end recovered significantly. 2s +4.4bps at 4.995%, 3s +7.3bps at 4.688%, 5s +10.6bps at 4.361%, 7s +10.6bps at 4.214%, 10s +9.6bps at 4.041%, 20s +7.5bps at 4.243%, 30s +6.5bps at 4.009%.

INFLATION BREAKEVENS: 5yr BEI +1.0bps at 2.243%, 10yr BEI +2.2bps at 2.296%, 30yr BEI +1.7bps at 2.273%.

FED PRICING: July hike now 90% implied vs 85% entering Thursday. Terminal rate is now priced at 5.45% in November vs 5.40% before, still not quite fully baking in the second hike ahead of NFP and CPI.

THE DAY: Treasuries entered the US session on the backfoot with dip buyers getting steamrolled, that's despite dealers relaying some real money attempts to get long the belly during the Tokyo and London sessions. It wasn't just USTs either, with Bunds and Gilts extending their rot - a rebound in German factory orders was a cited catalyst in the European session but the moves appeared more in line with recent bearish momentum than particularly a result of a data point.

T-Notes rolled unsuspectingly to the ADP data (which has been fairly well correlated to NFP in recent months and more often than not understates the BLS figures), which spiked to 497k from the prior 267k, sending contracts down from 111-04+ to 110-24. The sub 250k initial jobless claims figure 15 minutes later extended the move lower, with the early/mid-June spike above 260k seemingly a red herring for now, and T-Notes ultimately found support at 110-12. Contracts hovered near lows with particularly hawkish comments from Fed's Logan (voter, hawk) not enough to extend the sell-off. It wasn't until the big jump in ISM Services later in the NY morning that T-Notes troughed at 110-05 in a kneejerk reaction, although failed to sustain the selling with the fall in prices paid and the simultaneously released fall in JOLTS job openings capping the hawkishness.

There was nothing out through the rest of the session, with the curve re-steepening as the front-end saw a big recovery: the 2yr sits back at 5% after earlier printing new peaks of 5.12% (above the pre-SVB high of 5.08%), while both the 10yr and 30yr yield sit just on top of the 4% figures.

SUPPLY: US to sell USD 40bln of 3yr notes on July 11th, USD 32bln of 10yr notes (reopening) on July 12th, and USD 18bln of 30yr bonds (reopening) on July 13th; all to settle on July 17th.

STIRS:

- SR3M3 -0.5bps at 94.775, U3 -4bps at 94.565, V3 -5bps at 94.54, H4 -5.5bps at 94.785, M4 -5bps at 95.105, U4 -4.5bps at 95.475, Z4 -5bps at 95.79, H5 -7bps at 96.00, M5 -10bps at 96.11, U5 -11.5bps at 96.18, U6 -16.5bps at 96.345.
- SOFR flat at 5.06% as of July 5th whilst volumes rise again to USD 1.589tln from 1.579tln.
- NY Fed RRP op demand falls to USD 1.854tln from 1.867tln, across 101 counterparties (prev. 102).
- The USD 13bln fall in RRP only accounts for a minority of the USD 71bln T-Bill settlement Thursday.
- EFFR flat at 5.08% as of July 5th whilst volumes nudge lower to USD 123bln from 124bln.
- US sold USD 71bln of 4-week bills at 5.150%, covered 2.54x; sold USD 61bln of 8-week bills at 5.200%, covered 2.88x.
- Treasury announced it is to sell USD 65bln of 13-week bills and USD 58bln of 26-week bills both on July 10th, both to settle on July 13th and both sizes unchanged; to sell USD 38bln of 52-week bills on July 11th, to settle on July 13th (size unchanged).

CRUDE

WTI (Q3) SETTLES USD 0.01 HIGHER AT 71.90/BBL; BRENT (U3) SETTLES USD 0.13 LOWER AT 76.52/BBL

Oil prices were choppy on Thursday, with bullish EIA inventory data unwinding earlier losses that built on the back of hawkish Fed repricing in reaction to strong US employment data. Rather than rejoice in the improved demand outlook for the US on strong ADP employment and stubbornly low initial claims figures, oil also fell victim to the general risk aversion with a big hawkish shift in Fed pricing seen, not to mention the kneejerk Dollar buying. WTI (Q3) and Brent (U3) futures bottomed at USD 70.22/bbl and 75.03/bbl later in the NY morning. However, once the bearish momentum subsided, crude futures recovered into latter trade, aided by the EIA energy inventory data showing US crude stocks drawing 1.5mln bbls in the latest week vs the expected draw of 1.3mln, with the products also seeing larger draws than expected. Also helping the recovery was Saudi Arabia raising its OSPs broadly for the month of August, a positive demand indicator. While Reuters sources reported that OPEC will maintain an upbeat view on oil demand growth for next year when it publishes its outlook on July 13th, predicting a slowdown from this year but still above-average increase.

EQUITIES

CLOSES: SPX -0.79% at 4,412, NDX -0.75% at 15,089, DJI -1.07% at 33,923, RUT -1.64% at 1,842.

SECTORS: Energy: -2.44% Cons Disc: -1.64% Utilities: -1.21% Communication Svs: -1.06% Financials: -0.91% Health: -0.86% Industrials: -0.74% Materials: -0.71% Real Estate: -0.6% Cons Stpl: -0.34% Technology: -0.16%

EUROPEAN CLOSES: DAX -2.57% at 15,528.54, FTSE 100: -2.17% at 7,280.50, CAC 40 -3.13% at 7,082.29, Euro Stoxx 50 -2.93% at 4,223.09, IBEX 35 -2.12% at 9,285.00, FTSE MIB -2.53% at 27,506.91, SMI -1.80% at 10,992.20

STOCK SPECIFICS: **Nvidia (NVDA)** may pick **Samsung Electronics (005930 KS)** to produce some of its GOUs used in AI as **TSMC (2330 TT/TSM)** output capacity for these chips are reaching near the limit, according to DigiTimes. Meanwhile, **TSM** said it does not expect any direct impact on its production from China's decision to restrict exports of two metals widely used in semiconductors and electric vehicles, reported Reuters. **NXP Semiconductors (NXPI)** also announced it expects no material impact on its business from the new Chinese export curbs. **JetBlue (JBLU)** is to end its alliance with **American Airlines (AAL)** as ordered by a judge, protecting its planned purchase of **Spirit Airlines (SAVE)**. AAL plans to appeal the ruling. **Microsoft Corp. (MSFT)** PT was lifted at Morgan Stanley, joining Wedbush in saying AI could bring the market valuation of MSFT to above USD 3tln. A piece in Variety claims that **Disney (DIS)**, which has been a highly successful movie studio in the past, is facing challenges in terms of the profitability of its recent release. **Meta (META)** CEO Zuckerberg said its new Threads service passed 30mln sign-ups on the first day, while Twitter is reportedly threatening to sue Meta over the release, according to Semafor. **Bank of America Corp (BAC)** announces plan to increase quarterly dividend 9% to USD 0.24/shr from Q3; discussions on stress test results with Fed are ongoing. **FIS (FIS)** announced it is to create two independent companies and sell its majority stake in Worldpay to GTCR, valuing Worldpay at USD 18.5bln. **Thermo Fisher Scientific (TMO)** is to acquire CorEvitas for USD 912.5mln in cash; expected to be immediately accretive to adj. EPS by USD 0.03/shr in 2024. **SVB Financial (SIVB)** won approval to sell the investment bank back to the founder for USD 100mln, according to Bloomberg. **Toyota (TM)** will suspend operations at its component packaging plant for exports on Friday, following a Nagoya port cyber-attack, JiJi reports. Toyota sees no impact on its domestic auto production and overseas plant operations. **Google (GOOGL)** reportedly delayed the release of a fully custom phone chip until 2025, according to The Information. **Ford Motor (F)** Q2 total US vehicle sales printed 531,662 (prev. 483,688); Mustang Mach-E sales quickened at Q2-end with sales in June +110% Y/Y; overall EV sales +35.5% in June. **DoorDash (DASH), UberEats (UBER) and Grubhub** are suing New York City regarding a minimum wage law, via WSJ. **American Express (AXP)** is being investigated over sales practices, according to Business Insider. EU Antitrust Regulators opened an in-depth investigation into **Amazon's (AMZN)** USD 1.7 bln proposed purchase of **iRobot (IRBT)**. **Affirm (AFRM)** was hit after a downgrade from Piper Sandler, who warned higher rates and resumption of student loan payments could hurt the stock. **Keurig Dr Pepper (KDP)** was upgraded at Morgan Stanley, noting its valuation is too low. **Disney (DIS)** CEO Iger is likely to seek a contract extension beyond his current one (expiring in Dec 2024) as the company giant faces hurdles in finding a successor, according to FBN's Gasparino citing sources. **Cronos Group (CRON)**, backed by **Altria (MO)**, is reportedly exploring a sale amid acquisition interest, according to Reuters citing sources.

FX WRAP

The Dollar fell on Thursday but DXY did manage to hold onto 103, the downside in the index came despite a slew of hot data prints, particularly ADP and the ISM services, while Jobless claims were mixed and JOLTS came in beneath expectations. The strong data sparked selling pressure to both bonds and stocks, and the risk-off tone gave support to traditional havens (JPY, CHF) that weighed on the buck, despite the downside in stocks and upside in yields.

The Yen had been bid against the Dollar throughout the European morning in a risk-off fashion, but that had briefly pared to see USD/JPY hit a high of 144.65 in the wake of the super hot ADP metric which sent US yields flying. The move was short-lived however as the risk off move extended following the US data, providing more support to the Yen and a reluctance for the Dollar to extend. CHF had also firmed vs the Dollar but was more or less flat vs the Euro. Note there was a first interview by BoJ Deputy Chief Uchida to Nikkei, who overall tempered expectations for a swift adjustment in policy. Uchida urged a balanced decision on yield curve control, noting they will continue YCC for the time being. He also noted there is still a long way to go before rate hikes and there are no plans to change the 2% inflation target, very fitting with recent BoJ comms.

The Euro gained vs the softer buck but EUR/USD failed to breach 1.09 after testing the level several times. The main supporter of the Euro was the outperformance of Bund yields vs USTs with European stocks and bonds seeing heavy selling pressure throughout the day. Note a rebound in German factory orders.

The Yuan was relatively flat for both the onshore (CNY) and offshore (CNY) where it set the USD/CNY midpoint at 7.2098, above than the prior 7.1968 but not as high as the expected print of 7.2510. The PBoC also noted it has been actively supporting construction in Shanghai and supports a healthy development of the offshore bond market in the Shanghai free trade zone.

Pound saw gains vs the Dollar and was flat vs the Euro with Cable maintaining its gain above 1.27 but not holding its gain above 1.2750. Attention still remains on the BoE and its peak rate with a lot of the early upside in GBP attributed to the lofty terminal rate pricing, with a Wednesday JPM note warning of a risk of a 7% peak rate getting newswire attention. UK interest rate swaps saw a 53% chance of rates reaching 6.5% by December and over an 80% chance of that being reached by March 2024. However, and seemingly not affecting pricing, the latest BoE Decision Maker Panel saw one year ahead CPI expectations decrease to 5.7% in June (prev. 5.9% in May), with the release supportive of cooling inflation pressures ahead.

Loonie saw weakness vs the Dollar on the risk-off trading tone with stocks being slammed while oil was initially lower, albeit did pare into settlement to settle unchanged. Canadian trade data saw a surprise deficit of CAD 3.44bln despite expectations for a surplus of 1.15bln, down from the prior surplus of 1.94bln. Attention turns to the Canadian jobs report on Friday, as well as the US NFP, but also the BOC next week, and the latest poll sees 20/24 analysts surveyed expect a 25bp hike next Wednesday.

Antipodes were weaker vs the buck but once again the NZD outperformed its Aussie counterpart with the downbeat risk tone weighing on both, as well as lower metal prices while the Aussie found little support from a wider trade surplus than expected.

EMFX was mixed. TRY saw mild weakness while the majority elsewhere saw pronounced weakness on what appears to be an unwind of the carry trade where high-interest rate currencies saw sharp weakness despite the otherwise weaker Dollar. ZAR, HUF, BRL, MXN and COP saw extreme weakness after a slew of hot US economic data prints saw participants avoid riskier areas of the market. COP was particularly hit while CLP fared relatively well in comparison ahead of the Chile Central Bank minutes with particular attention on what led two voters to opt for a 50bp cut at the last meeting, while others voted to leave rates unchanged, but with added guidance for upcoming rate cuts. MXN saw weakness from 8yr highs, while the latest Banxico minutes saw it repeat rates are likely to be held at current levels for an extended period. However, one member said it cannot be ruled out that the level of monetary restrictions attained should be maintained for longer than anticipated, or that a greater or lesser tightening may be required. BRL weakness was also seen, while Reuters sources suggest the Brazil Lower House might postpone the vote on the fiscal framework to August, noting a vote was scheduled for this week but lawmakers are busy on the tax reform bill this week, which President Lula says he expects to pass. RUB saw further deterioration, with USD/RUB surging above 90 to highs of 94.57, levels not seen since the initial Ukraine invasion, with the Kremlin pointing to "speculation"; CBR said it was willing to intervene if it sees risks to financial stability, whilst saying rate hikes are possible.