US Market Wrap

7th July 2023: Cyclicals recover after solid US jobs report

- **SNAPSHOT**: Equities mixed, Treasuries steeper, Crude up, Dollar down.
- **REAR VIEW**: NFP misses for first time in over a year, but still over 200k with rising wages and prime-age participation; Fed's Goolsbee still undecided for July; Novartis heart failure drug patent rejected; largest nat gas rig increase in six years.
- **COMING UP**: **Data**: Chinese CPI, Norwegian CPI, EZ Sentix, Chinese M2 **Event**: NY Fed SCE, Riksbank Minutes **Speakers**: Fed’s Barr, Daly, Mester Bostic; BoE’s Bailey.
- **WEEK AHEAD PREVIEW**: US and China CPI; BoC, RBNZ, BoK; ECB and Riksbank Minutes; UK Data. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing Riksbank, ECB Minutes, BoC, RBNZ, BoK; Reviewing FOMC minutes, RBA. To download the report, please click here.

MARKET WRAP

Stocks were choppy on Friday with earlier gains in the SPX and NDX in the fallout from the largely solid NFP report unwinding into the close. It's worth noting that the SPX and NDX significantly underperformed the cyclically-levered Russell 2k small-cap index and broader global equities, the mirror image of Thursday's trade. That was also reflected in the FX space with broad Dollar weakness Friday amid cyclicals playing some catch-up whilst funders (Yen, Swissy, Euro) also benefited from the short-covering in the US Treasury front end, with pronounced steepening along the curve seen: 2yr -7bps at 4.94% and 30yr +4bps at 4.05%. The Dollar weakness and cyclical bid gave a helping hand to the commodity complex with oil hitting its highest levels since early June and metals also catching a strong bid, although note the largest rise in US nat gas rigs in six years saw nat gas futures tumble. Fed pricing remains around 90% implied for a July hike (as it was entering the session) with the terminal rate also similarly priced at just above 5.40% in November, with the data not doing much to change the near-term Fed outlook ahead of CPI next Wednesday.

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NFP: The 209k jobs added in June (vs exp. 225k in a 110-350k f/c range) marks the first miss in headline jobs added for the BLS survey since Q1 2022, and just about the lowest since 2020, falling from the prior 306k, which was downwardly revised from the initial 339k, with two-month net revisions at -110k. Given the 497k ADP print on Thursday, there was an upside bias going into the BLS figures Friday, which ultimately didn't come to fruition. Regardless, 209k jobs added is still a far cry from a recession warning, with the 3m avg. at 240k, albeit, 60k of those jobs were government payrolls, raising some eyebrows on the health of the private sector. The rise in average hourly earnings figures caught particular attention, raising concerns on the inflation outlook ahead of CPI next Wednesday, with the M/M rising to 0.4% from the prior (and expected) 0.3%, while the Y/Y rose to 4.4% from 4.3%, against expectations for a fall to 4.2%. Note also that average workweek hours rose back up from cycle lows to 34.4hrs from 34.3hrs, alleviating some fears that layoffs could be imminent - something which the more timely move back lower in initial jobless claims gives weight to. Elsewhere, the unemployment rate ticked lower to 3.6% from 3.7% as expected, with the prime age (25-54yr old) unemployment steady at a lower 3.1% as some of the more volatile age bracket U rates, such as the 55yr+, fell back down after spiking in May. The labour force participation rate was unchanged at 62.6%, but the prime age (25-54yr old) participation rate continued to rise to 83.5% from May's 83.4%, now at the highest since 2002. Extrapolating to the policy outlook, there is nothing here to give the Fed any reason not to hike in July and even beyond, with the wage growth pick-up it's unlikely those in favour of the second hike have seen anything to give them pause for thought.

FED:

WSJ's Timiraos (non-voter) writes the jobs report and keeps the Fed on track to raise rates in July. Adding, June employment figures do little to clarify the outlook for additional increases after this month, however. Timiraos noted several Fed officials could push to follow a July hike with another in September, though others have called for a more patient approach.

Fed's Goolsbee (voter, dove) repeated he has not yet made up his mind for July as he is waiting to see next week's CPI data. On the jobs report, he cautioned to never make too much out of any singular jobs report, but he noted it is clear the jobs market is strong, but it is cooling and that we are getting to a more sustainable pace of job gains. On the hot wages, he also said he would caution against wage data as a leading indicator of inflation, noting prices move first, then wages follow suit. On a recession, he said we do not need a recession to eliminate inflation concerns and he feels like we are on a "golden path" of avoiding a recession, noting we can get the unemployment rate to a non-recessionary level, and still get prices down. He agrees with his colleagues that inflation is still too high, although he noted that goods prices are the main reason inflation has been more persistent overall, stating services inflation is not the reason for its persistence given it was persistent pre-COVID as well. On policy Goolsbee repeated his view there is a lag to monetary policy, and he still thinks there is a decent chance of a fair amount coming through the pipeline. When quizzed on the Fed's dot plots, Goolsbee said he has not seen anything that says one or two more rate hikes this year is wrong, agreeing there could be one or two more, but the timing of which is a question.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 2 TICKS HIGHER AT 110-21+

Treasuries saw pronounced steepening after the mixed NFP report with the front-end bid and long-end sold. 2s -6.6bps at 4.940%, 3s -4.5bps at 4.654%, 5s -1.9bps at 4.349%, 7s +0.5bps at 4.226%, 10s +2.1bps at 4.062%, 20s +3.3bps at 4.271%, 30s +4.0bps at 4.043%.

INFLATION BREAKEVENS: 5yr BEI -0.6bps at 2.243%, 10yr BEI +0.3bps at 2.298%, 30yr BEI +1.3bps at 2.277%.

THE DAY: T-Notes drifted in a 110-16+/110-24+ range in the APAC Friday session, with little catalysts aside from Japanese May wage growth coming on the hot side (2.5% vs exp. +0.7%). Desks noted some decent volume front-end selling also in Asia. European trade saw steepening flows kick in with the front-end recovering somewhat whilst the belly underperformed, accentuated by a 28.7k 2yr/16.9k 10yr futures steepener across several blocks. Citi's rates desk, to wit, "we saw orderly flows as a rally attempt was relatively quickly snuffed out with little interest seen to fade the cheapening in the belly."

T-Notes knee-jerked higher from 110-14 area to session highs of 111-00 after the headline jobs added came in beneath expectations for the first time since Q1 2022. But, the moves failed to sustain as traders dwelled on the buoyant internals that keep the Fed from making any sudden dovish twists with above-forecast earnings growth, a rise in hours worked, and strong prime-age participation. T-Notes made session lows of 110-09+ an hour or so later, with the long-end weakest, but clawed back into the NY afternoon to hit resistance at 110-30 (just beneath the 111 peaks) alongside the rest of the curve, although the long-end notably lagged the recovery with the cash 30yr yield holding above 4%. Contracts trundled lower into settlement within earlier ranges with eyes on next Wednesday's CPI and refunding auctions. And on the curve, there was a clear steepening bias with short-end yields down and long-end yields up.

REFUNDING: 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:

- SR3U3 +1.5bps at 94.58, Z3 +3.5bps at 94.61, H4 +5.5bps at 94.825, M4 +7.5bps at 95.165, U4 +8bps at 95.54, Z4 +6bps at 95.835, H5 +5.5bps at 96.04, M5 +3.5bps at 96.135, U5 +2bps at 96.19, U6 -2bps at 96.325.
- SOFR flat at 5.06% as of July 6th, volumes fall to USD 1.573tln from 1.589tln.
- NY Fed RRP op demand at USD 1.822tln (prev. 1.854tln) across 99 counterparties (prev. 101).
- The USD 32bln fall comes in the lack of a T-Bill settlement on Friday with the market GC rate sitting comfortably above the RRP rate.
- EFFR flat at 5.08% as of July 6th, volumes fall to USD 119bln from 123bln.

CRUDE

WTI (Q3) SETTLED USD 2.06 HIGHER AT 73.86/BBL; BRENT (U3) SETTLED USD 1.95 HIGHER AT 78.47/BBL

Oil prices rallied as part of the broader cyclical recovery and Dollar selling on Friday with the overall strong US jobs report providing tailwinds. WTI and Brent front-month futures hit troughs of USD 71.19/bbl and 76.03/bbl, respectively, just before the US jobs report, only to reverse higher through the rest of the session after the data, settling at highs and now at levels not seen since early June. In the energy space specifically Friday, a day after Saudi hiked its OSPs broadly, Bloomberg reports some key purchasers in Asia and Europe are seeking lower volumes for next month after the hikes. Production in Norway is on watch after Equinor (EQNR NO) halted production at its Oseberg East field amid staffing shortages, with no timeline given for the return, but it's worth noting this is one of the smallest fields in the

Oseberg area. Meanwhile, Reuters reported Russia still intends to cut oil exports in August, with its baseline unclear, but Russia is unlikely to cut its output given the domestic need for more gasoline.

BAKER HUGHES: The US Rig Count in the week ending July 7th saw Oil -5 at 540, Nat Gas +11 at 135, and Total +6 at 680. Nat Gas futures (U3) futures tumbled from 2.615 to lows of 2.550, with the +11 nat gas rigs the largest increase in six years.

EQUITIES

CLOSES: SPX -0.29% at 4,399, NDX -0.35% at 15,037, DJI -0.55% at 33,735, RUT +1.22% at 1,862.

SECTORS: Energy +2.06%, Materials +0.88%, Industrials +0.23%, Cons Disc +0.18%, Financials +0.16%, Technology -0.44%, Real Estate -0.5%, Communication Svs -0.58%, Utilities -0.74%, Health -1.16%, Cons Stpl -1.34%.

EUROPEAN CLOSES: DAX +0.48% at 15,603.40, FTSE 100: -0.32% at 7,256.94, CAC 40 +0.42% at 7,111.88, Euro Stoxx 50 +0.32% at 4,236.60, IBEX 35 -0.39% at 9,248.80, FTSE MIB +0.99% at 27,778.32, SMI -0.96% at 10,881.30.

STOCK SPECIFICS: **Apple's (AAPL)** Vision Pro is facing design difficulties with the high cost of Micro OLED screens leading the tech giant to temper ambitions for the rollout of the device, according to FT. Note, FT reported earlier in the week AAPL is being forced to make major cuts to its headset production. **Levi's (LEVI)** saw a slight beat on EPS while revenue was in line but it cut its guidance. **Meta (META)** CEO Zuckerberg said its Threads app topped 70mln sign-ups, way beyond expectations. **Biogen (BIIB)** and **Eisai (ESALY)** received full approval from the FDA for their Alzheimer's drug Leqembi. Analysts at Wedbush said the approval is as expected while Stifel noted the approval is somewhat of a mixed bag. Stifel adds one concern raised at the AdComm was that genetic testing may not be widely available and limit the uptake. **Costco Wholesale Corp. (COST)** June comparable sales disappointed expectations, falling 1.4% (exp. -0.4%), with net sales of USD 22.86bln (+0.4% Y/Y). **AbbVie Inc. (ABBV)** cuts Q2 and FY23 EPS forecast due to a USD 280mln milestone and research and development expenses. **Tesla (TSLA)** is offering cash bonuses to customers in China and the UK if they use a referral link to purchase vehicles. Chinese regulators fined **Alibaba (BABA)** affiliate Ant Group CNY 7.1bln to end its regulatory revamp. Elsewhere, BABA and Huawei showcased new products, including AI tools to help in the global AI race. **Fisker (FSR)** production disappointed prior guidance and it noted suppliers did not receive components from sub-suppliers in a timely manner. **Novartis' (NVS)** lost a patent ruling related to its Entresto drug; Co. said it would appeal. US PE firm 777 Partners says it is in talks with **Boeing (BA)** and ATR over a new jet order. **Ride-hailing names (UBER, DASH)** were supported after the NYC wage rule for delivery workers was temporarily halted by a judge.

WEEKLY FX WRAP

Dollar unable to enjoy spoils of US data or rampant yields

USD/JPY: The Buck slumped in wake of fewer than forecast non-farm payroll gains in June and a net -110k two month revision before gleaning some support from hotter than expected average earnings that kept the odds heavily stacked in favour of a 25 bp hike at the next FOMC policy meeting. However, the DXY remained under pressure and succumbed to more all round selling that saw the index lose 102.500+ status from a 103.570 w-t-d peak only posted in the prior session when an upbeat non-manufacturing ISM survey extended a run of strong macro releases, including Challenger Layoffs, ADP and IJC (continued rather than the initial weekly count). Instead, the Greenback gradually decoupled from US fundamentals and lost impetus from hawkish vibes in the FOMC minutes, not to mention remarks from Fed's Williams and Logan along the way, as the Yen mounted a major and broad recovery rally. The marked turnaround in Usd /Jpy, and Jpy crosses, came after a lot more verbal intervention from Japanese officials, but nothing really new aside from a nuance by Finance Minister Suzuki who said Japan is keeping in close contact with the US on a Vice Ministerial level regarding FX. Nevertheless, the headline pair reversed from just under 145.00 towards 142.00, and irrespective of an extended Treasury rout that propelled 2 year cash beyond 5% at one stage and the 10 year benchmark over 4% where it stayed, with a string of chart levels merely or barely interrupting the technical retracement and ongoing correction.

NZD/AUD: A pick-up in risk appetite helped the activity currencies end the week on the front foot, though the Kiwi and Aussie also displayed a degree of resilience during bouts of aversion, barring extreme slides in global equities and commodities. Nzd/Usd was underpinned between 0.6124-0.6219 parameters by Aud/Nzd tailwinds within a 1.0878-1.0738 range following a hawkish RBA hold on Tuesday that caught around half the market off guard given that odds between what could have been a third consecutive 25 bp hike or pause were roughly even. Meanwhile, Aud/Usd faced headwinds from weaker PMIs and China where the Yuan was undermined by further angst with the US over global issues and the latest trade spat, albeit taking advantage of its US rival's demise to bounce from 0.6618 towards 0.6690 inside 0.6600-0.6705 weekly bounds.

GBP/CHF/EUR/CAD: Having fretted about the consequences of considerably higher BoE rates of late, Sterling seemed more aware of and content with the potential premium as Cable climbed from 1.2659 to 1.2835, notwithstanding several wobbles in the process, while Eur/Gbp retreated from 0.8605 to 0.8521, although also in zig-zag fashion rather than straight line. Perhaps the Pound took on board upward tweaks to final UK PMIs, bar construction, in contrast to largely downbeat Eurozone surveys and the fact that hawkish ECB guidance remained limited to the prospect of another ¼ point tightening move in September following the already priced 25 bp next month. Whereas, markets are now factoring a BoE peak of 6.5% by February 2024 and JPM upped the ante with talk of a terminal 7% (not a base case it must be stressed). Back to the Euro, and it also outpaced its US peer, over time, with Eur/Usd rebounding firmly and mostly post-NFP to clear 1.0950 from a 1.0835 trough that was just 10 pips off key chart support in the shape of a DMA and Fib retracement level. Elsewhere, the Franc regained poise from a Swiss CPI setback right at the start of the week, and not really due to SNB's Maechler downplaying the sharp slowdown, but thanks to its US counterpart's fall from grace as Usd/Chf recoiled from circa 0.9000 to sub-0.8900. Conversely, the Loonie laboured in parts when overall sentiment was bearish and crude prices were weak on supply/demand dynamics before Saudi Arabia decided to roll its output cut through August, and had to wait until the tail end of the week to get 'confirmation' that the BoC will likely hike again next week via a Canadian headline LFS beat (that would have been even more above forecast if accounting for full time jobs only). Usd/Cad collapsed from 1.3387 to 1.3285, so far, compared to an earlier 1.3204 low.

SCANDI/EM: Some respite for the Sek and Nok as Swedish and Norwegian monthly GDP both came in above consensus, former fractionally and latter convincingly, but not before deeper depreciation vs the Eur, while the Cny and Cnh needed daily sustenance from the PBoC via multiple big figure midpoint fixings against prevailing spot levels and expectations to contain declines against the Usd on top of deeper cuts to Dollar deposit rates by large Chinese state-owned banks. In Turkey, softer than forecast CPI and various new CBRT provisions hardly helped the Try, but it eventually pared some losses with President Erdogan managing to secure an initial Usd 10 bn investment from his Gulf State tour, according to reports. In Latam, more pressure on the BCB and the Brl as a result from the Brazilian Government urging lower rates and dovish Banxico minutes for the Mxn to digest as the disinflation process is deemed to have started. In CEE, softer than consensus core Hungarian CPI hindered the Huf to an extent, the Czk underperformed on chart factors as much as anything else and the Pln had to contend with mixed NBP messages via the accompanying statement following the latest unchanged verdict and separate commentary.