



US Market Wrap

11th July 2023: Tight, thin, and choppy stocks and bonds, while Dollar dips on eve of CPI

- **SNAPSHOT:** Equities up, Treasuries mixed/flatten, Crude up, Dollar down.
- **REAR VIEW:** Hawkish UK wage metrics; German ZEW provides another bleak indicator; MSFT wins US court nod to buy ATVI; JPM upgraded at Jefferies; CRM to raise prices by 9%; EIA LIFTS 2023 US world oil demand growth view but cuts 2024; Solid US 3yr auction.
- **COMING UP: Data:** US CPI **Events:** RBNZ & BoC Policy Announcements **Speakers:** Fed's Barkin, Kashkari, Bostic & Mester; ECB's Lane; BoC's Macklem & Rogers **Supply:** Germany, UK & US.

MARKET WRAP

It was thin, choppy, and tight trade for stocks and bonds on Tuesday with a dearth of catalysts amplifying the void ahead of the expected decline in June Core CPI on Wednesday. US equity indices had a hairy open with the NDX coming under a temporary flutter of selling with desks pointing to the impending rebalancing decision for the index, but that weakness unwound through the session with stocks catching a late bid into a chunky buy-side imbalance - note the Russell 2k, alongside Europe, continued to outperform the SPX and NDX. Treasuries were flatter (2s +3bps and 30s -3bps) in rangebound trade, with the strong 3yr auction failing to drive any bullish momentum; UK Gilt yields and BoE rate pricing lacked upside momentum despite the latest hot wage data amplifying expectations for another 50bp BoE hike; Bunds unwound initial support from the strong Bobl auction and tumble in the ZEW index. In FX, the DXY was lower, Kiwi lagged ahead of RBNZ, Scandis steamed higher on NATO approval and the oil rip, and Sterling firmed after the hot wage data. While oil ripped higher into the NY afternoon after surpassing recent peaks, aided by the softening Dollar. In stocks, the big story was the US court giving the nod for Microsoft (MSFT) to buy Activision (ATVI), against the FTC's wishes, seeing ATVI shares surge higher. Note also that SAP (SAP GY) in Germany surged, lifting the Dax and Euro Stoxx, on reports competitor Salesforce (CRM) is to raise list prices by an average of 9%.

FIXED INCOME

T-NOTES (U3) SETTLED 4 TICKS HIGHER AT 111-08+

Treasuries were flatter in choppy and thin trade ahead of CPI and auctions. 2s +3.2bps at 4.894%, 3s +0.9bps at 4.562%, 5s -0.3bps at 4.243%, 7s -1.4bps at 4.126%, 10s -2.2bps at 3.984%, 20s -2.1bps at 4.227%, 30s -1.9bps at 4.023%.

INFLATION BREAKEVENS: 5yr BEI -3bps at 2.185%, 10yr BEI -2.3bps at 2.254%, 30yr BEI -2.6bps at 2.238%.

THE DAY: A tight/quiet session for APAC on Tuesday with futures troughing at 111-04 and failing to break above 111-09 until Europe came in and lifted the offer again, with some block buys in the T-Note. Contracts went on to print highs of 111-16 late in the European morning, with a strong German auction providing some tailwinds out of EGBs while govies, including gilts, failed to sustain any moves on the hot UK wage data, with a seeming position unwind in SONIA as terminal BoE rate pricing fell.

The bid failed to sustain as US participants arrived, and similar to Monday, there was some selling momentum as cash bonds opened up in NY, which was met by some block buying in the 2yr and 5yr futs. With no tier 1 US data Tuesday, participants were very much looking ahead to the Treasury auctions, not to mention some book squaring into CPI after the rally post-NFP. T-Notes eked out fresh lows of 111-03+ as cash equity trade got underway, only to recover into the NY afternoon, albeit respecting earlier ranges with activity very low. Note that further in the curve, contracts didn't recover as much, having a flattening effect, with the solid 3yr auction failing to sustain any further recovery.

3YR AUCTION: A solid demand reception was seen for July's USD 40bln 3yr auction, with the 4.534% high yield (a 0.2 bp stop-through) marking the highest yield auction since March and bringing out the buyers, not to mention some added RV tailwinds with the belly underperforming on the curve in recent weeks. The underlying auction metrics were all better than average with strong end-user demand.



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 94.57, Z3 -3bps at 94.605, U4 -3bps at 95.62, Z4 -2bps at 95.94, H5 -1bps at 96.155, M5 -0.5bps at 96.27, U5 +0.5bps at 96.34, U6 +4bps at 96.50.
- SOFR flat at 5.06% as of July 10th, volumes fall to USD 1.506tln from 1.547tln.
- NY Fed RRP op demand at USD 1.776tln (prev. 1.812tln) across 101 counterparties (prev. 102).
- The USD 36bln decline in RRP comes amid a USD 45bln T-Bill settlement on Tuesday.
- EFFR falls to 5.07% (back to where it sat in late June) as of July 10th from 5.08%, volumes nudge lower to USD 125bln from 127bln.
- US sold USD 50bln 42-day CMBs at 5.210%, covered 2.81x; sold USD 41bln of 1yr Bills at 5.130%, covered 2.88x.
- US leaves 4-, 8-, and 17-week bill sizes all unchanged at USD 70bln, 60bln, and 46bln, respectively, with 4- and 8-week sold on July 13th and 17-week on July 12th; all to settle on July 18th.

WEEK AHEAD:

- **WED:** *BoC Announcement, RBNZ Announcement, German CPI Final (Jun), German ZEW Survey (Jul), US CPI (Jun), Fed's Barkin (nv), Kashkari (v), Bostic (nv), Mester (nv), US 10yr auction, and Fed's Beige Book.*
- **THU:** *ECB Minutes, BoK Announcement, OPEC MOMR, IEA OMR, EU-Japan summit, UK GDP (May), US PPI final Demand (Jun), Jobless Claims, US 30yr auction, Fed's Waller (v).*
- **FRI:** *German Wholesale Price, US University of Michigan Prelim. (Jul), US Import & Export Prices (Jun), Treasury dealer meeting agenda, US bank earnings.*

CRUDE

WTI (Q3) SETTLED USD 1.84 HIGHER AT 74.83/BBL; BRENT (U3) SETTLED USD 1.71 HIGHER AT 79.40/BBL

Oil was firmer, settling near highs, as it appeared buoyed by continued momentum after surpassing recent key levels accompanied by Dollar weakness in lack of any clear catalysts. On the former, in the wake of WTI and Brent breaching Monday's highs (USD 74.15/bbl and 78.77/bbl, respectively), the complex continued to the upside highlighted by WTI hitting a peak not seen since early June, while Brent saw its best level since early May. Supporting the favoured sentiment was the slightly weaker Dollar, rather than a clear headline driver, with oil edging higher through the US afternoon as the Dollar trundled to session lows. The upgraded 2023 world oil demand forecast from the latest EIA STEO could have only helped (more below). Looking ahead, the pivotal US June CPI data looms (Wed), followed by Prelim UoM and big bank earnings on Friday, in an otherwise thin US calendar. Nonetheless, in the immediacy, private inventory data is due later Tuesday ahead of the EIA figures on Wednesday with current expectations (bbls): Crude +0.5mln, Distillate -0.3mln, Gasoline -0.7mln.

SELL SIDE: JPM estimates that OPEC+ needs to deepen cuts by another 0.7mln BPD in H2 which would need to be extended into 2024 to offset both non-OPEC supply growth and rising output from some non-core members.

EIA STEO: 2023 world oil demand growth forecast raised by 170k BPD to 1.76mln BPD Y/Y increase with 2024 forecast cut by 60k BPD to a 1.64mln BPD Y/Y increase. Meanwhile, the EIA expects 2023 US crude oil production to rise 670k BPD to 12.56mln BPD (prev. 720k BPD rise), with 2024 lifting 290k BPD to 12.85mln BPD. In commentary, the report added it expects crude oil prices to reach USD 80/bbl in Q4 '23.

EQUITIES

CLOSES: SPX +0.67% at 4,439, NDX +0.49% at 15,119, DJIA +0.93% at 34,261, RUT +0.96% at 1,913.

SECTORS: Energy +2.2%, Utilities +1.24%, Industrials +1.2%, Financials +1.19%, Real Estate +1.17%, Communication Services +1.06%, Materials +0.97%, Consumer Discretionary +0.86%, Technology +0.19%, Consumer Staples +0.14%, Health unch.

EUROPEAN CLOSES: Euro Stoxx 50 +0.71% at 4,286, FTSE 100 +0.12% at 7,282, DAX 40 +0.75% at 15,790, CAC 40 +1.07% at 7,220, FTSE MIB +0.68% at 28,061, IBEX 35 +0.85% at 9,331, SMI +0.35% at 10,960.



STOCK SPECIFICS: EU is reportedly set to clear **Broadcom's (AVGO)** USD 69bln acquisition of **VMware (VMW)** leaving competition authorities in the UK and US as holdouts to finalising one of the biggest tech takeovers, according to both FT and Reuters sources. Ahead of bank earnings beginning on Friday, **JPMorgan (JPM)** was upgraded at Jefferies as it said it is "best-in class". Jefferies also prefers major US banks such as **Goldman Sachs (GS)**, **Morgan Stanley (MS)**, **Bank of New York Mellon (BK)** and **State Street (STT)** as ways to have exposure with less NII/credit risk and better capital positioning. As such, it downgraded regionals **Truist (TFC)**, **Zions (ZION)**, and **Hancock Whitney (HCW)**. **Salesforce (CRM)** to raise list prices by an average of 9%, effective August 2023. **Uber (UBER)** CFO Nelson Chai plans to leave, although the timing is uncertain. Chai played a role in improving Uber's financial performance since joining in 2018. **Amazon's (AMZN)** "Prime Day" kicked off on Tuesday and will carry deeper discounts including travel deals, as inflation hits consumers' wallets, but hopes to boost sales with discounts on items like clothing, headphones, and exercise bikes. Although, some analysts think despite slower growth and consumer caution, AMZN could generate between USD 4-6bln in revenue. **Zillow Group (ZG)** upgraded at Piper Sandler; said product optionality, new initiatives, as well as sequential improvements in the housing macro environment are among the reasons. **JetBlue (JBLU)** downgraded at Evercore; cited the recent sharp rally in shares and balance sheet concerns. **3M (MMM)** upgraded at Bank of America on recent positive catalysts after PFAS drinking water claims came in below buy-side and legal experts' expectations. **Illumina (ILMN)** to face record EU antitrust fine on Wednesday for closing Grail acquisition, according to Reuters source.

MSFT/ATVI: **Microsoft (MSFT)** won its key US court nod to buy **Activision (ATVI)**, which would be a loss for the FTC. The ruling means Microsoft can seek to close its merger ahead of a July 18th deadline everywhere except for in the UK, which previously vetoed the deal in May. In the wake of this, the UK CMA said it stands ready to consider any proposals from MSFT to restructure the transaction in a way that would address the concerns set out in its final resort. Furthermore, MSFT/ATVI agreed with the CMA that a stay of litigation in the UK would be in the public interest and all parties have made a joint submission to the competition appeal tribunal. As such, Microsoft announced it is considering how the transaction might be modified in order to address those concerns in a way that is acceptable to the CMA. In addition, CNBC's David Faber said Microsoft is offering a small divestiture on the Activision deal to UK's CMA.

US FX WRAP

The Dollar was marginally lower on Tuesday, albeit within very contained ranges and thin newsflow as market participants await the key June CPI data on Wednesday, ahead of prelim Michigan survey and big bank earnings on Friday. There was no tier 1 data, although the NFIB Business Optimism Index rose to a seven-month high of 91 from 89.4. The rise continues to echo the rebound in consumer sentiment and equity prices, with Oxford Economics noting the details were also a touch stronger, with the early evidence suggesting that investment is holding up as tighter credit conditions are yet to bite. The consultancy adds, "Worryingly for the Fed, the planned prices index rebounded sharply, suggesting that inflation will remain sticky over the second half of the year." Note Fed's Williams spoke to the FT, where said he doesn't have a recession in his forecasts, but thinks the US has pretty slow growth, lowering his growth forecasts for next year due to tightening effects from policy and credit.

Kiwi was the G10 underperformer with NZD/USD hitting a low of 0.6168 as the currency traded defensively ahead of the RBNZ rate decision Wednesday amid expectations that the OCR will be maintained at the current 5.5% level and thereby confirm the end of the tightening cycle.

Aussie was marginally firmer against the Buck, but did initially suffer in sympathy with the Kiwi, before it later reversed these losses coinciding with the general Dollar pull-back lower. The currency failed to garner much momentum initially from the Australian NAB Business Conditions (Jun) and Consumer Sentiment (Jul) both improving.

Safe-havens, JPY and CHF, saw gains as participants favoured risk-averse assets ahead of big data releases later in the week in thin newsflow. USD/CHF retraced from a peak of 0.8863 to a low of 0.8796 as the Swissy even managed to continue its momentum to breach through the round 0.8800. Meanwhile, USD/JPY traded between 140.17-141.46 and currently resides towards the lower end of the ranges as traders note another close beneath a Fib at 140.97 - the Yen appears one of those most at risk of any upside surprises in the US CPI data given its big rally over recent sessions.

Pound saw gains with Cable surpassing 1.2900 to a peak of 1.2934, the best level seen in well over a year, after gaining impetus from the UK labour market metrics. Overall, Sterling gleaned upside momentum from the [hot wage metrics](#) which means another 50bp hike is a real option for the BoE on August 3rd. Further out, the unexpected increase in the unemployment rate and the jump in the claimant count point to a loosening of labour conditions and could serve to stem wage pressures in the medium term.



Euro was flat with EUR/USD just about clawing back above 1.10 at pixel time amid the Dollar pullback, with the cross trading in narrow parameters despite the bleak German ZEW survey. The single currency had been holding ground above 1.10 level earlier in the session before relinquishing it as US traders arrived, perhaps taking impetus from the aforementioned ZEW.

Loonie saw slight gains as it was aided by the continued momentum in the crude complex, as WTI settled at 10-week peaks. Nonetheless, CAD watchers will be eagerly awaiting the BoC rate decision on Wednesday where after a five-month 'pause', the consensus looks for rates to be lifted by 25bps for the second straight meeting, taking its key rate to 5.00% ([Full preview here](#)).

Scandis saw strong gains against the Greenback as fortunes improved markedly for the SEK on technical and Swedish NATO entry grounds, while the NOK was boosted by Brent topping USD 79/bbl.

EMFX was predominantly firmer. CLP was an underperformer, weighed on by weaker copper. MXN was flat, with the currency unresponsive to the latest Same-Store Sales figures in Mexico rising 9.3% Y/Y in June (prev. +1.3% Y/Y in May), with YTD growth now at a 12.4% Y/Y increase vs the same period in 2022, according to ANTAD. ZAR was the outperformer and seeing some tailwinds from gains in the yellow metal, with some analysts noted Gold tripped a few stops beyond twin peaks near USD 1,935/oz. The Yuan was constrained by chart impulses, ongoing Chinese-US tensions and domestic economic concerns, but the TRY coped relatively well with a wider Turkish current account deficit as the Finance Minister reiterated aims to bolster reserves and attract foreign investment. Lastly, NBH Deputy Governor Virag pushed back on speeding up rate cuts despite noting a likely inflation slowdown.

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