US Market Wrap

13th July 2023: Stocks and Bonds extend gains on soft PPI and DXY dips south of 100

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: PPI cooler-than-expected; Fall in initial jobless claims; Bullard stepping down; 30yr auction saw chunky tail but encouraging internals; Daly resolute on two more hikes; Sharara oil field to be halted; Stellar DAL & PEP earnings; ECB minutes reiterated policymakers desire to continue hiking rates.
- **COMING UP**: **Data**: US Import & Export Prices, UoM Sentiment (Prelim), Swedish CPI **Events**: US Treasury Dealer Meeting Agenda **Earnings**: UnitedHealth, JPMorgan, Wells Fargo, BlackRock & Citigroup.

MARKET WRAP

Stocks and Bonds grinded higher as the cooling inflation momentum followed through to Thursday, aided by a softer than expected PPI release, while the lower than expected jobless claims release did little to limit the gains with analysts cognizant of the noise around the 4th July holiday. The gains were led by the tech heavy Nasdaq, supported by the lower yields but also due to the large gains in heavyweights GOOGL/GOOG and NVDA on AI related developments. Fed's Daly spoke after the data, and repeated the line that two more hikes this year is a reasonable projection, although markets are largely pricing in just one final hike from the Fed in July. The cool inflation data saw the dollar tumble to see DXY reside sub 100 for the first time since April of 2022 accompanied by EUR/USD now above 1.12. Oil prices were also buoyed, but saw a pre settlement jump on reports Libya's largest oil field, the Sharara field has halted activity due to protests. Attention turns to Fed's Waller after-hours, bank earnings on Friday, and the preliminary UoM survey. Note, crypto soared on the weaker buck but gains extended after Ripple posted multi year highs after a US judge ruled in favour of Ripple Labs over the SEC in a win for the crypto industry.

DATA

US PPI: The PPI data was lower than expected. Headline PPI cooled to a 0.1% pace M/M in June, beneath the expected 0.2% and prior -0.3%, which was revised down to -0.4%. The Y/Y cooled to just 0.1% (prev. 1.1%), beneath expectations of 0.4%, with the prior revised down to 0.9% from 1.1%. The Core M/M also slowed, rising just 0.1% (exp. 0.2%, prev. 0.2%, rev. 0.1%), while the Y/Y eased to a 2.4% pace from the prior revised 2.6% and beneath expectations of 2.6%. All metrics saw revisions lower too, the M/M metrics were revised down. The Supercore (ex-food, energy and trade), however, marginally rose by 0.1% M/M, following the prior month's unchanged read while the Y/Y cooled to 2.6% from 2.8%. Overall, it is another encouraging sign for the Fed, although it was somewhat expected with a lot of the sting taken out of this release given the CPI report on Wednesday which alluded to easing price pressures in June. Similar to the CPI, this report will likely do little to alter the Fed's view for another hike in July, but it may help lower their view on the terminal rate. Analysts at Oxford Economics note the PPI report adds weight to their view that July will be the last hike of the cycle.

JOBLESS CLAIMS: The Initial Jobless Claims data came in beneath expectations at 237k (exp. 250k), and fell from the prior 249k, seeing a move lower in the 4wk average to 247k from 254k. The non-seasonally adjusted data totalled 259k, rising 6.9k from the prior week. The DoL noted the seasonal factors had expected an increase of 20k from the prior week. The high-frequency data shows the resilience of the labour market even as the Fed's tightening cycle approaches an end, while inflation is also returning to a more normal-ish pace, bolstering hopes for a soft-landing. However, it is worth noting it was for the week ending July 8th, therefore it includes the 4th July holiday week, therefore, the data for this week is often seen as "noisy".

CHINA TRADE: China's trade surplus widened to USD 70.62bln in June (exp. 74.8bln, prev. 65.81bln), as imports declined to -6.8% Y/Y (prev. -4.5%), and exports fell to -12.4% Y/Y (prev. -7.5%). Exports fell by the most since March 2020, hitting a six-month low, with analysts suggesting that the global downturn in goods demand continues to impact. Import volumes were relatively stable by comparison. Looking ahead, analysts at Capital Economics say exports are anticipated to decline further before recovering, while imports are expected to increase due to fiscal stimulus and recovering international travel.

UK GDP: The GDP growth data May showed a cooling in growth dynamics, although was a little better than expected. The UK registered 0.0% growth in 3m/3m terms (exp. -0.1%, prev. 0.1%); the monthly stat was -0.1% M/M in May (exp. -0.3%, prev. +0.2%), while the annual measure was -0.4% Y/Y (exp. -0.7%, prev. 0.5%). Pantheon Macroeconomics argued that the figures indicate that the economy is sluggish, and the anticipated recovery has not materialised. It said the extra public holiday for the King's coronation had a limited impact on GDP. Construction output declined due to higher interest rates, while warm weather led to a drop in energy supply sector output. The impact of public sector strikes faded, and increases in health, education, and public administration sectors boosted GDP growth slightly. Looking ahead, Pantheon says that the economy is expected to gain some momentum in H2, primarily driven by increased household spending, and as real disposable income is projected to rise, supported by declining energy prices and stabilizing goods prices. However, PM says that the impact of mortgage refinancing and households rebuilding savings may limit the growth of household expenditure. Additionally, higher borrowing costs could lead to downturns in business and residential investments.

FED

Daly (non-voter, neutral), in a CNBC interview, said it's too early to say we have declared victory on inflation and the economy has momentum and that is why she has said two more rate hikes seem reasonable. It is notable she is repeating this line even after the cool inflation reports this week, suggesting she is still aligned with the Fed's median dot plot. Daly said she remains resolute in bringing inflation down to 2% and the Fed must do enough to get rates to a sufficiently restrictive level and hold until inflation is well on its way back to the 2% target. She repeated there is not as much credit tightening as initially thought; policy effects need to go through the system. When asked about rate cuts in the future, she said her attention is on how much more we need to hike by to get inflation to 2%. On the June meeting, she said she fully supported holding rates, noting prudent policy is moving more slowly when there is uncertainty. When asked about market pricing for one more hike, says markets looking at Thursday's CPI, Daly said "optionality" is where we want to be. As inflation starts coming down, we can start lowering the nominal rate to bring real rates down to a neutral level (in October 2022, Daly said she is comfortable with 3-3.5% as a neutral estimate, while the latest Fed dot plots had a range for the neutral estimate between 2.4-3.6%).

Bullard (departing) announced he is to retire in August to become head of the Purdue Business School. The release noted "Bullard stepped down from his position as president and CEO today but will remain available to the Bank's leadership in an advisory capacity until Aug. 14 to help ensure a smooth transition. He has recused himself from his monetary policy role on the Federal Reserve's Federal Open Market Committee and other related duties and has ceased all public speaking."

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 25 TICKS HIGHER AT 113-01+

Treasuries saw continued bull-steepening as soft PPI added to the CPI momentum. 2s -12.8bps at 4.614%, 3s -15.1bps at 4.228%, 5s -13.5bps at 3.935%, 7s -11.7bps at 3.856%, 10s -10.0bps at 3.761%, 20s -6.7bps at 4.069%, 30s -5.4bps at 3.897%

INFLATION BREAKEVENS: 5yr BEI -3.1bps at 2.188%, 10yr BEI -3.2bps at 2.259%, 30yr BEI -1.6bps at 2.273%.

THE DAY: Treasuries were directionless in APAC trade on Thursday with weekly MoF data showing a decline in foreign bond buying by Japanese accounts (although strong auctions this week and the Yen's strengthening suggest buying could pick up again). China's trade balance data came in well beneath expectations, with falls in both imports and exports, reflective of the lack of recovery going on in the region currently, alas not too surprising in the grand scheme of things.

T-Notes traded in a 112-07+/112-12 range before Europe came in and lifted the offer - a common theme this week - aided by a 17k block buy in the 5yr fut with dealers relaying aggressive demand for the belly and short-covering in the front-end also at play. Trade very was much driven by catch up/momentum to the soft CPI data and solid US 10yr auction Wednesday in lack of fresh catalysts in Europe, with better-than-forecast UK GDP not even capping Gilt strength. T-Notes hit resistance at 112-24+ in the European morning before paring somewhat into the NY handover.

Two-way flows were seen to the US data with the soft US PPI figures printing before the fall in initial jobless claims. T-Notes spiked from 112-20 to 112-25 before reversing lower as the claims figures were released to troughs of 112-12+. Treasuries grinded higher through to settlement with contracts managing to stretch to a peak of 113-01+ with the 2bp tail in the 30yr bond auction doing little to stop the move (albeit internals were more encouraging, more below).

30YR AUCTION: The 30yr bond auction saw a large 2bp tail, especially when compared to recent auctions, highlighted by the prior auction stopping through by 1.1bps vs a six auction average of a 0.2bp stop through. However, the internals weren't as bad as the chunky tail suggests. The bid to cover was marginally above averages but not as impressive as the very strong prior auction, while dealers took home an average amount of supply. There was a slight step up in direct participation, which was above the six auction average. Indirect bidders stepped back slightly, taking 69% of the auction vs the prior 73%, but still in fitting with recent averages. The problem with Thursday's auction saw a large richening going into the auction, following the cooler-than-expected CPI and PPI report this week.

STIRS:

- SR3U3 +2.0bps at 94.630, Z3 +6.0bps at 94.740, H4 +12.5bps at 95.115, M4 +16.5bps at 95.580, U4 +19.5bps at 96.030, Z4 +21.5bps at 96.370, H5 +22.5bps at 96.595, M5 +22.5bps at 96.710, U5 +21.0bps at 96.760, U6 +12.0bps at 96.810.
- SOFR falls to 5.05% as of July 12th from 5.06%, volumes fall to USD 1.361tln from 1.439tln; coincided with a chunky rise in RRP usage as market-based RP rates drifted lower.
- NY Fed RRP op demand at USD 1.767tln (prev. 1.820tln), across 98 bidders (prev. 102)
- EFFR flat at 5.08% as of July 12th, volumes fall to USD 116bln from 121bln.
- US sold USD 71bln of 4-week bills at 5.230%, covered 2.79x; sold USD 61bln of 8-week bills at 5.230%, covered 2.87x.

REFUNDING: For next week, US to sell USD 12bln of 20yr bonds (reopening/size unchanged) on July 19th and USD 17bln of 10yr TIPS (size unchanged) on July 20th; both to settle on July 21st. For bills, US to sell USD 65bln of 13-week bills and USD 58bln of 26-week bills both on July 17th, both to settle on July 20th; both sizes unchanged. To sell USD 50bln of 6-week bills on July 18th (unchanged); to settle on July 20th.

FRIDAY: 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 1.14 HIGHER AT 76.89/BBL; BRENT (U3) SETTLED USD 1.25 HIGHER AT 81.36/BBL

The crude complex was firmer, settling at almost 3-month highs, after it was initially buoyed by another cooler-than-expected inflation print and bolstered into settlement by reports Libya's Sharara oil field is to be halted due to protests. As such, WTI and Brent printed highs of USD 76.94/bbl and 81.37/bbl, respectively, after the Libyan news took out the highs seen in the aftermath of US PPI. Nonetheless, oil had gradually pared off best levels through the US afternoon, potentially on continued China demand fears or momentum stalling after printing multi-month highs, but as mentioned after the Sharara field news (largest oilfield in Libya with a capacity of 300k BPD) oil retrieved back all the lost ground. In other news, there was the IEA/OPEC MOMR and Russian news (more details below). Lastly, Nigeria's forcados crude oil loadings were suspended due to a potential leak at an export terminal.

RUSSIA: Russian Urals oil price has moved USD 2-3/bbl above the price cap on Thursday, according to Reuters' calculations. Note, Bloomberg reported on Wednesday that it topped the G7 price cap of USD 60/bbl for the first time. Elsewhere, Novak said companies will decide for themselves whether to cut oil production in August, but Russia's task is to reduce supplies to world markets.

IEA MOMR: Oil demand is set to increase by 2.2mln BPD in 2023 and is to reach a record 102.1mln BPD (vs. June view of 102.3mln BPD). Looking ahead, IEA said persistent macroeconomic headwinds, apparent in a deepening manufacturing slump, have led it to revise its 2023 growth estimate lower for the first time this year, by 220k BPD. Overall, Russian oil exports fell 600K BPD to 7.3mln BPD in June, their lowest since March 2021, with lower production from Saudi Arabia and core OPEC+ members since production cuts were first implemented has, so far, been offset by higher output from other producers.

OPEC MOMR: World oil demand is expected to grow 2.4mln BPD in 2023 (prev. 2.3mln BPD in June) due to higher demand in China in Q2, and in 2024 world oil demand is expected to grow 2.2mln BPD, reaching 104.25mln BPD.

EQUITIES

CLOSES: SPX +0.85% at 4,510, NDX +1.73% at 15,571, DJIA +0.14% at 34,395, RUT +0.91% at 1,950.

SECTORS: Communication Services +2.32%, Technology +1.49%, Consumer Discretionary +1.08%, Materials +0.79%, Real Estate +0.67%, Consumer Staples +0.44%, Utilities +0.38%, Financials +0.37%, Industrials +0.15%, Health -0.01%, Energy -0.45%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.72% at 4,391, FTSE 100 +0.32% at 7,440, DAX 40 +0.74% at 16,141, CAC 40 +0.50% at 7,369, FTSE MIB +0.78% at 28,774, IBEX 35 +0.26% at 9,478, SMI +0.03% at 11,022.

STOCK SPECIFICS: **PepsiCo (PEP)** beat on the top and bottom line; raised annual revenue and profit forecasts after price hikes and steady demand. **Delta Air Lines (DAL)** surpassed consensus on EPS and revenue and provided stellar guidance. Expects record September quarter revenue with Q3 and FY profit view beating consensus. **Disney (DIS)** CEO Bob Iger's contract was extended for two more years. Iger added challenges are greater than he expected and there is a lot more work to do to get the company on track. **Tesla (TSLA)** is reportedly in talks with the Indian government to establish a car factory in the country with a capacity of up to 500k EVs per year. **Goldman Sachs (GS)** is about to report its worst quarterly earnings in years, according to SEMAFOR; writedowns on Greensky consumer-lending business and CRE holdings are likely to exceed USD 2bln. Return on equity in the low single digits. US appeals court opens docket on FTC effort to overturn loss in fight against **Microsoft (MSFT)** plan to buy **Activision (ATVI)**. FTC asked the appeals court to pause Microsoft/Activision deal and reportedly seeks an emergency stay to delay the deal closing. **ViaSat (VSAT)** disclosed an issue with its recently launched communications satellite called the ViaSat-3 Americas satellite. **Carvana (CVNA)** was downgraded at JPM; said cos. valuation has disconnected materially from fundamentals. **3D Systems (DDD)** raised its offer to Stratasys (SSYS) with the new proposed deal of roughly USD 28/shr or USD 2bln. MillerKnoll (MLKN) beat on the top and bottom line but Q1 guidance was well short of expectations. **Exxon (XOM)** is to acquire **Denbury (DEN)** for USD 89.45/shr, or USD 4.9bln, in an all-stock deal. Note, DEN closed Wednesday at USD 87.75/shr. **Fastenal (FAST)** marginally missed on the top and bottom line. **Meta (META)** upgraded at Cowen. **Conagra Brands (CAG)** posted a mixed report; EPS and revenue both beat alongside raising annual dividend but organic net sales was well short and FY24 profit view was light. **Alphabet (GOOGL)** gained after Google launched its large-language model, Bard AI, in Brazil and the EU. **Amazon (AMZN)** said the first day of Prime Day was the single largest sales day ever on Amazon.

US FX WRAP

The DXY fell sub 100 for the first time since April 2022, a month after the Fed's tightening cycle kicked off. The move saw EUR/USD rise above 1.12 for the first time since March 2022, while USD/JPY briefly dipped beneath 138 to the downside. The selling pressures from the cooler-than-expected CPI on Wednesday continued to weigh on the buck on Thursday and was only aided by another soft inflationary print, the June PPI - albeit somewhat expected given the CPI release on Wednesday. Nonetheless, the jobs market showed further signs of resilience with initial claims coming in beneath expectations but analysts were quick to caveat the release given it includes the 4th July holiday period and therefore can be quite noisy. Nonetheless, many expect the Fed to only follow through with one more hike to let policy lags work its way through the economy and to keep helping bring inflation down. However, Fed's Daly, who doesn't vote until 2024, spoke after the data and repeated the line that two more rate hikes this year seems appropriate - seemingly suggesting she has not changed her mind on the terminal rate just yet, and is sticking with the dot plot forecast.

The move in the **Euro** also came in wake of the latest ECB minutes, where it reiterated policymakers desire to continue hiking rates, revealing a 50bp hike was also discussed at the latest meeting. Meanwhile, it repeated it was seen as essential to communication that monetary policy still had more ground to cover.

Regarding the **Yen**, Japanese Top FX Diplomat Kanda said he is closely watching FX market moves, adding there is a view that speculative Yen short positions are unwinding rapidly and there is a view that the deflationary norm may be changing.

Cyclical currencies saw notable gains, particularly the Antipodes with AUD/USD testing 0.6900 to the upside from lows of 0.6785 while NZD/USD tested 0.6400 from lows of 0.6288. **Cable** hit highs north of 1.31, the highest level since March 2022 with the move clearly a dollar story on Thursday but the Pound did also eke gains vs the Euro with UK GDP contracting less than feared in May.

In EMFX, LatAm's saw gains vs the weaker Buck with the CLP only seeing a marginal gain despite surging copper prices. MXN and BRL also appreciated against the Greenback as participants look for an end to the Fed rate hikes after the slew of cool inflation data. COP saw notable gains, supported by a rally in crude prices, particularly after reports Libya's Sharara oilfield is to shut due to protests. ZAR saw impressive gains posting a three-month high despite the marginal gains in gold prices, but silver surged.

Disclaimer