US Market Wrap

14th July 2023: Stocks struggle despite solid earnings while disinflation trades take profit

- **SNAPSHOT**: Equities flat/down, Treasuries down, Crude down, Dollar up
- **REAR VIEW**: Strong UoM survey, inflation expectations rise; Import/export prices fall again; Strong JPM, WFC earnings, C & STT disappoint; Waller says September is live; Australia names Dep Gov Bullock as next RBA governor; WDC and Kioxia aiming for merger agreement by August.
- **COMING UP**: **Data**: Chinese GDP, Industrial Output & Retail Sales, US NY Fed **Speakers**: ECB's Lagarde, Lane, Elderson **Earnings**: Nordea, Richemont.
- **WEEK AHEAD PREVIEW**: Highlights include; China activity data, PBoC LPR, US retail sales, UK, NZ, Canada & Japan CPI, RBA minutes & Aussie jobs. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing RBA Minutes, PBoC LPR; Reviewing RBNZ, BoC, BoK, Minutes from ECB and Riksbank. To download the report, please click here.

MARKET WRAP

Stocks were subdued Friday where the solid earnings figures from the major US banks (JPM, Wells) failed to keep indices supported. The Nasdaq was flat however ahead of the rebalancing announcement while the Dow outperformed thanks to strong United Health (UNH) earnings. The macro theme was one of profit taking with the Dollar seeing some support, with the Treasury curve seeing pronounced bear-flattening, and oil prices paring from multi-month highs. Adding to the pullback in dovish Fed pricing was the Uni of Michigan consumer survey for July (prelim.), which surged higher, while the Fed-followed inflation expectation gauges also nudged higher. That came on the heels of a late Thursday speech from Fed's Waller (voter, hawk) who dashed aside the (dove-affiliated) monetary lags theory, calling for two more Fed hikes.

GLOBAL

FED: **Waller (voter, hawk)** said the Fed will likely need two more 25bp hikes this year, and he favours a hike in July, noting the September meeting is a live one and he is increasingly confident that banking stress will not derail the economy. Note, Waller made these remarks after the cooler inflation metrics. Said jobs market and economic strength give the Fed space to hike further. Waller said cooler CPI data is welcome but we need to see it sustained, warning inflation has shown false dawns before. Waller added while the job market has slowed, it remains very strong. On policy lags, said policy changes are moving through the economy more quickly and the bulk of past rate hikes have already impacted the economy. Waller toed the line that fighting inflation remains the main goal and the Fed will succeed. The Fed governor noted the biggest shock is the job market and economic strength in the face of the rate hikes, noting a soft landing is still possible but the economy can still face turbulence as Fed works inflation down

US UOM: Prelim UoM for July saw the headline soar to 72.6 from 64.4, and well above the expected 65.5. The report notes the sharp rise in sentiment was largely attributable to the continued slowdown in inflation along with stability in labour markets, while analysts point out the recent rise in stock markets was also likely supportive. The 1yr and 5yr inflation expectations remain elevated and rose to 3.1% (prev. 3.0%) and 3.4% (prev. 3.3%), respectively, offsetting some of the coolness seen in wake of the CPI and PPI reports this week. As such, the stickiness in the longer-term expectations will likely be highlighted by the Fed hawks, who appear to remain keen on at least two more hikes this year, despite the ongoing improvement in the hard inflation numbers. Forward-looking expectations soared to 69.4 (exp. 61.8, prev. 61.5) and current conditions to 77.5 (exp. 70.4, prev. 69.0). Overall, Oxford Economics notes, "the new data on sentiment does not justify an immediate change to its near-term forecast for either real consumption or GDP, where real GDP is seen rising 1.8% and 1.4% at an annualized rate in Q2 and Q3, respectively."

US IMPORT & EXPORT PRICES: US import prices declined 0.2% in June, albeit not as much as the prior fall of 0.6% but deeper than the expected 0.1% fall. Ex-fuel prices declined 0.4% following an unchanged read previously, while foods, feeds and beverages fell 0.3% (prev. -1.3%). Meanwhile, prices for each of the major finished goods import categories were down in June. On the other side, export prices declined 0.9% from the prior drop of 1.9%, but deeper than the expected -0.2%. On a Y/Y basis, import prices declined 6.1%, the largest 12mth drop since May 2020 while export prices fell 12%, the largest decline since the data's inception in September 1984. Agricultural exports fell 1.6%

(prev. -2.4%), while ex-ags fell 0.9% after a -1.9% drop in May. Meanwhile, prices for each of the major finished goods export categories were up in June. The drop in import prices helps support the disinflation narrative of consumer goods, particularly after the cool CPI and PPI reports this week. However, this release will do little to alter Fed thinking with a July hike almost fully baked in. Attention in coming months will turn to whether the Fed commits to their June dot plots of two more hikes in 2023, with great attention on inflation and labour market metrics ahead of the September meeting - Note, Fed Governor Waller labelled the September meeting as a "live" one.

RBA GOVERNOR: The Australian Chancellor announced RBA Deputy Governor Bullock will be the next RBA governor, replacing Lowe when his term ends in September, and Bullock will start the seven-year term. Analysts at Oxford Economics note this appointment is expected to be received well by financial markets given she is currently Deputy Governor and sits on the RBA board. The consultancy also notes her promotion is being taken at a critical time for the RBA, noting policy decisions will be finely balanced in the coming months and the RBA cannot tolerate a slower path of inflation back to target than they have outlined, noting " if anything, a change in leadership could provoke a tighter stance of policy".

FIXED INCOME

T-NOTE (U3) FUTURES SETTLE 15+ TICKS LOWER AT 112-18

Treasuries saw big bear-flattening after hawkish Waller and hot Uni of Michigan accentuated profit taking from this week's rally. 2s +14.8bps at 4.759%, 3s +14.0bps at 4.368%, 5s +10.5bps at 4.040%, 7s +8.0bps at 3.936%, 10s +6.9bps at 3.828%, 20s +4.2bps at 4.110%, 30s +3.1bps at 3.926%.

INFLATION BREAKEVENS: 5yr BEI -0.9bps at 2.173%, 10yr BEI -0.2bps at 2.252%, 30yr BEI -1.0bps at 2.263%.

THE DAY: T-Notes dipped to 112-26 in the Tokyo morning on Friday amid the overhang from hawkish Fed's Waller and the average 30yr auction demand. Losses were unwound for contracts to peak at 113-01+ before Europe came in and hit the bid on govvies to see new lows made of 112-21. But, the BTD bias of govvies this week held true to see contracts yet again recover ahead of the NY handover, just failing to eclipse the Tokyo peak.

US traders arrived and hit the bid into the cash open, particularly at the front end, with perhaps some catch-up to Waller (who spoke late on Thursday) but also likely some profit-taking after the strong rally this week. The soft June import and export prices failed to provide support. T-Notes dipped further on the hot Uni of Michigan prelim. survey for July which saw the inflation expectation gauges nudge higher too. The front end led the sell-off into the NY afternoon with T-Notes ultimately bottoming at 112-16+, hovering near lows into the settlement.

STIRS:

- SR3U3 -3.5bps at 94.595, H4 -12.5bps at 94.995, U4 -21bps at 95.82, H5 -21.5bps at 96.375, U5 -16.5bps at 96.59.
- SOFR rises back to 5.06% as of July 13th from 5.05%, volumes rise to USD 1.445tln from 1.361tln.
- NY Fed RRP op demand at USD 1.741tln (prev. 1.767tln) across 98 counterparties (prev. 98).
- EFFR flat at 5.08% as of July 13th, volumes rise to USD 122bln from 116bln.

CRUDE

WTI (Q3) SETTLES USD 1.47 LOWER AT 75.42/BBL; BRENT (U3) SETTLES USD 1.49 LOWER AT 79.87/BBL

Oil prices pared from multi-month highs on Friday with profit-taking incentivised into the weekend, aided by the modest recovery in the US Dollar. WTI and Brent front-month futures hit troughs of USD 75.11/bbl and 79.64/bbl, respectively, still holding this week's breakout above the early June peaks of USD 75.06/bbl and 78.73/bbl, respectively. There were few price-moving catalysts to drive action ahead of the weekend, with the majority of the selling occurring in the NY morning as desks point to some due consolidation on the back of three consecutive W/W gains in the energy space. While not headline-grabbing, do note local press in Iraq Friday noted the country's Cabinet has once again approved funding for a major export infrastructure upgrade that would increase southern crude export capacity by 500k BPD in just over a year. Meanwhile, Reuters reported Russian crude oil exports from European ports are seen declining between 100-200k BPD in August from July, with Russian authorities instructing companies to cut oil exports. At the same time, TASS reports that Russia is looking at decreasing the discounts it gives on Urals crude to USD 20/bbl from September 1st - that follows reports this week that Urals is now trading above the USD 60/bbl price cap set by the West. Finally, US oil rigs were down three in the latest week to 537, according to Baker Hughes.

Nat gas futures extended their decline on Friday, with August futures settling down 0.6c at USD 2.539/MMBTU. US gas rigs were down 2 at 133 in the latest week, slightly offsetting the 7yr record spike of 11 from last Friday, but prices failed to recover. Note comments from Kinder Morgan's (KMI) El Paso Natural Gas Co., who said it remains concerned about the heatwave in the desert southwest and San Juan and Permian supply basins that could have an impact on natural gas delivery.

EQUITIES

CLOSES: SPX -0.1% at 4,506, NDX -0.04% at 15,566, DJIA +0.33% at 34,510, RUT -1.01% at 1,931

SECTORS: Energy -2.74%, Financials -0.67%, Communication Svs -0.61%, Materials -0.57%, Utilities -0.41%, Industrials -0.32%, Technology -0.15%, Real Estate -0.01%, Cons Disc +0.27%, Cons Stpl +0.35%, Health +1.51%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.20% at 4,400, FTSE 100 -0.07% at 7,435, DAX 40 -0.22% at 16,105, CAC 40 +0.06% at 7,374, FTSE MIB -0.31% at 28,686, IBEX 35 -0.44% at 9,436, SMI +0.82% at 11,112.

EARNINGS: **JPMorgan (JPM)** topped on EPS, revenue, and net interest income; and it raised FY23 NII guidance. After earnings, CEO Dimon said the headwinds in the economy are substantial and somewhat unprecedented and that deposit beta's are going to go up, that is a given. CFO expects modest deposit decline across the franchise. **BlackRock (BLK)** profit beat while revenue marginally missed on top of net inflows falling short. **Wells Fargo (WFC)** surpassed expectations on the top and bottom line and lifted FY23 NII guidance. The upside was driven by NII and expenses while credit is deteriorating at a modest pace, and no worse than feared. CFO said they are still early in the CRE cycle and expect further weakness in the office property market. Added consumer spending largely driving the decline in deposits. **State Street (STT)** beat on profit and intends to continue to execute on share buyback authorization of up to USD 4.5bln during 2023. However, it missed on revenue and guided Q4 NII down 2-6% Q/Q. **UnitedHealth (UNH)** beat on EPS, revenue and other key metrics such as HMO revenue and Optum sales. UNH raised FY23 adj. net guidance while the CFO expects medical care ratio to be a little bit lower in Q3 vs Q2. **Citigroup (C)** surpassed expectations on EPS, revenue and FICC revenue. But, revenue fell 1% Y/Y as the decline in markets and IB businesses weighed. **Leslie's (LESL)** prelim Q3 adj. EPS and revenue were well short of expected with comp. sales expected to decline by 12%. FY23 guidance was also very disappointing. CFO is to step down. **Nokia (NOK)** missed on revenue and cut FY23 sales outlook.

STOCK SPECIFICS: **Alcoa (AA)** was downgraded at JPM as it revised its aluminium price forecast to incorporate weaker near-term fundamentals, including planned capacity restarts in China "amid muted demand." **Microsoft (MSFT)** was upgraded at UBS; said the "steep" Azure growth deceleration set to moderate, AI catalysts ahead, and the recent stock underperformance, a more positive stance on Microsoft seems warranted. **AT&T (T)** was downgraded at JPMorgan over increased competition in both its wireless and cable segments. **Walgreens (WBA)** is to offer **Perrigo's (PRGO)** OTC birth control pill. **Eli Lilly (LLY)** is to acquire Versanis, in the cardiometabolic disease space, for up to USD 1.93bln in cash. **Pfizer (PFE)** and **Seagen (SGEN)** received a second request from the FTC on their deal, according to Dealreporter. Tesla (TSLA) to tap ABS market for first time since credit upgrade, according to Bloomberg. **JPMorgan Chase (JPM)** plans to open about 130 Chase branches nationwide per year over the next two to three years, executives told Nikkei, part of the bank's push to gain retail and small-business customers and reliable sources of deposits.

WEEKLY FX WRAP

Dollar trashed as data supports the peak rate thesis

USD - It's often the case, but not always as blatant that the Greenback's rivals were so inextricably linked to its fortunes, or misfortune to be precise. In fact, US data and Fed policy implications were the key drivers as a series of inflation indicators propagated the disinflation narrative and resulted in market expectations shifting towards the probability that it could be one more 25 bp hike and done after July's FOMC. To recap, the week began with a hefty fall in the Manheim used-vehicle price index and continued with softer than expected CPI metrics before PPI readings missed consensus, import prices came in a tad below forecast and export prices declined much more than anticipated. Meanwhile, the latest NY Fed survey of consumer expectations showed a marked slowdown in the one year ahead projection (lowest since April 2021) to just about overshadow and unchanged three year forward estimate and rise in the five year (latter to joint highest level since the longer-term view was introduced in January last year). On the flip-side, weekly jobless claims dropped vs expectations for a small rise, preliminary UoM sentiment was strong, inflation expectations firmer and Fed rhetoric mixed, with hawks still touting the likelihood of two further ¼ point tightening moves this year. However, the DXY peaked on Monday at 102.560 and never recovered until finding some bids ahead of 99.500, at 99.574 and peering back over 100.000, albeit briefly with the aid of the aforementioned upbeat University of Michigan survey plus an understandable bout of pre-weekend short covering.

JPY/AUD - A somewhat unusual duo to group together, but among the biggest losers on Friday as the Buck attempted to stop the rot. Usd/Jpy rebounded relatively sharply from 137.26 to top 139.00 and Aud/Usd drifted down from 0.6894 to probe 0.6850, but the Yen and Aussie both retained the bulk of hefty net gains made against their US counterpart within extremes extending to 143.00 on the topside and 0.6624 at the base respectively. As noted earlier, it was largely if not wholly a Usd story and evidenced by the fact that RBA Governor Lowe was arguably a bit more dovish in commentary about further tightening on Wednesday when he said it remains to be determined whether monetary policy has more work to do, while ANZ now expects the Bank to keep rates at 4.10% for an extended period instead of hiking again. Moreover, the Aussie could have suffered more contagion with the Yuan after weak Chinese CPI and PPI data and bleak exports weighing on the trade surplus. On that note, Japanese macro releases were mostly downbeat and news that the BoJ is not planning to host the first long-term policy review workshop until December, to discuss monetary policy and financial systems, tempered some speculation about a near term YCC tweak, though the Bank could raise its inflation outlook this month.

CAD/NOK/SEK - The Loonie and Nokkie were rattled by an end of the week downturn in WTI and Brent, but remained firmly on course to finish stronger with fuel from crude and independent impulses. In short, Usd/Cad slumped from 1.3304 to 1.3093 at one stage and was steered by some encouraging Canadian data either side of a hawkish 25 bp BoC hike as building permits and manufacturing sales surpassed consensus. In terms of the BoC, there was some initial uncertainty about guidance given that the language from June that monetary policy was not sufficiently restrictive to bring supply and demand back into balance and return inflation sustainably to the 2% target was removed from the accompanying statement, but enough in addition or replacement to keep the door ajar for another rate rise in September. Specifically, the Bank highlighted that as the large 2022 price increases are now out of the annual data, there will be less near-term downward momentum in CPI inflation, underlying price pressures appear to be more persistent than anticipated and this is reinforced by the Bank’s business surveys, which find that firms are still increasing their prices more frequently than normal. Sticking with that theme, Norwegian and Swedish inflation was hotter than forecast across the board, though the reversal in Eur/Nok and Eur/Sek from 11.6920 to circa 11.1600 and 11.8985 to around 11.4050 was mainly technical or corrective following recent marked depreciation. Indeed, hawkish-sounding Riksbank minutes did not boost the Swedish Crown appreciably, at the time, but it saw some relief when Turkey withdrew its objection to Sweden’s NATO membership.

CHF/NZD/GBP/EUR - Aside from the mini Greenback revival, profit-taking and consolidation probably pushed the Franc off peaks as Usd/Chf bounced from 0.8569 to 0.8631 or so, but still held well beneath the 0.8900+ weekly apex, while Eur/Chf only retraced some ground between 0.6909-0.9762 parameters. Back down under, the Kiwi may lost impetus in NZ holiday-thinned volumes, with Nzd/Usd slipping from a lofty 0.6411 perch vs 0.6167 w-t-d trough, but the Aud/Nzd cross notching a new w-t-d base around 1.0735 compared to 1.0840 pinnacle after taking a midweek RBNZ hold in stride as the Bank basically confirmed the end of the OCR’s hike cycle with a hawkish element in the guise of the need to keep it at the restrictive 5.5% level for the foreseeable future. Elsewhere, the Pound and Euro were almost entirely at the beck and call of their US peer, as Cable soared on perceived UK/US rate divergence to 1.3144 at best from 1.2751 at worst and Eur/Usd to 1.1244 from 1.0944 on the basis that the ECB will deliver at least one more 25 bp hike even though Eurozone data continues to deteriorate. In contrast, UK average earnings topped forecasts for a second consecutive month and public sector workers secured 6-7% pay rises, though Eur/Gbp bounced from 0.8505 towards 0.8600 as ECB minutes revealed hawkish GC leanings (a very broad consensus supported the 25 bp rate increase proposed by Mr Lane, while a preference was also initially expressed for raising the key benchmarks by 50 bp in view of the risk of high inflation becoming more persistent).

EM - Contrasting fortunes amidst the broad trent of benefiting at the Usd’s expense and a generally risk-on week due to less aggressive Fed rate pricing, but the Cny and Cnh required more PBoC fix prompting to overcome soft Chinese inflation and more worrying trade data, exports especially, while the Try failed to take advantage as the price of imported oil spiked and CBRT survey findings were dire on all counts. Conversely, the Zar gleaned impetus from Gold, the Brl and Mxn via supportive Brazilian and Mexican data.