US Market Wrap

17th July 2023: Stocks rally with US mfg. data softening the blow from disappointing China GDP

- **SNAPSHOT**: Equities up, Treasuries flat, Crude down, Dollar flat.
- **REAR VIEW**: Soft China activity data; NY Fed mfg survey supports soft landing; Ford cuts F-150 EV prices; MSFT clears another hurdle over ATVI acquisition; Erroneous Saudi oil cut headlines; NDX rebalancing deemed non-event; US corporates enjoy tax relief.
- **COMING UP**: **Data**: US Retail Sales, Business Inventories & Industrial Production, Canadian CPI, New Zealand CPI **Events**: RBA Minutes **Speakers**: Fed's Barr **Supply**: UK & Germany **Earnings**: Dassault Aviation, Novartis, Ocado, Morgan Stanley & Bank of America.
- **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

US stocks were firmer on Monday with tech sentiment improved after the Nasdaq rebalancing decision lacked the bite that some feared. NDX and Russell 2k outperformed the SPX, with the improvement in the NY Fed's Empire manufacturing index supporting the small-cap index whilst global cyclicals traded much worse amid the disappointing Chinese GDP data - note luxury-led weakness in European indices after the GDP data and Richemont (CFR SW) earnings. The US stock outperformance also comes amid the Treasury Department's latest negotiations that have secured US companies some relief from the global minimum tax deal, which either delays or reduces the taxes anticipated to be paid to foreign countries. Ford (F) was a notable underperformer, down c. 6%, after announcing steep price cuts for its electric F-150 Lightning models, citing lower battery costs and increased plant capacity as the reason, although the cuts have naturally raised concerns over demand. Cross-asset, Treasuries were choppy and ultimately flat in particularly thin trade with the losses after hot Empire survey data failing to sustain ahead of Tuesday's retail sales figures. Note a separate NY Fed credit access survey released that saw the overall rejection rate for credit applicants increased to 21.8%, the highest since June 2018, something which could serve as a headwind for consumer spending in the months ahead. Meanwhile, the DXY was a touch softer with Euro and Swissy outperformance, while Antipodes and Yuan hit on the soft China activity data - note other commodity currencies also suffered with copper and oil prices feeling the pain.

DATA

NY FED: The NY Fed Manufacturing survey for July remained in expansionary territory at 1.1, but slower than June's 6.6 albeit still above the forecast of a contraction print of -4.3. New orders saw a marginal increase to 3.3 from 3.1, while shipments cooled to 13.4 from 22 (note the June reading saw a marked jump to 22 from -16.4). Inventories continued to dwindle, falling to -10.8 from -6. Prices continued to moderate, prices paid cooled to 16.7 from 22, indicative of rising prices, but at a slower pace than the prior month, while prices received eased to 3.9 from 9. The prices paid index has now fallen nearly fifty points over the past year, and the prices received index has fallen a cumulative twenty-seven points. On employment, the number of employees returned to positive territory to 4.7, the first positive read since January. Looking ahead, the index for future business conditions edged down to 14.3 from 18.9, indicating that while conditions are expected to improve, optimism remained subdued. The outlook for new orders edged down, as did employment, capex, shipments and inventories. Prices meanwhile were more stable with prices paid at 26.5 (prev. 26), but prices received increased to 22.5 from 17 - which may be indicative of sticker inflation ahead following the slowdown in prices seen so far this year.

CHINA ACTIVITY DATA: China's economy grew +6.3% Y/Y in Q2 (exp. 7.3%, prev. 4.5%), and at a rate of 0.8% Q/Q (exp. 0.5%, prev. 2.2%); Pantheon Macroeconomics said the data showed China's reopening rebound has faltered. "The domestic demand revival is losing steam after the initial release of pent-up demand built during the zero-Covid policy era, while exports are falling amid ebbing global demand." PM notes that the acceleration of annualised GDP growth in Q2 is distorted by base effects, given the strict Covid lockdowns in Q2 2022. China's Industrial Output was up 4.4% Y/Y in June (exp. 2.7%, prev. 3.5%); the data was underpinned by infrastructure and manufacturing investment as China pushes for energy security, and invests in electricity grid upgrades, and investment in solar, wind and coal-fired power stations. Retail Sales sales growth pared to 3.1% Y/Y in June (exp. 3.2%, prev. 12.7%), with the data highlighting the sluggish consumer recovery. Once again, the Y/Y rate is distorted by base effects, and PM points to the the broad services index and the services PMIs report that even the services sector recovery is starting to fade. Looking at the data in aggregate, Pantheon argues that Chinese policymakers are concerned about the weakening domestic demand and are considering a stimulus package to achieve their annual GDP growth target. They aim for high-quality growth amid uncertainties, and may implement limited measures to boost infrastructure investment and ease home purchase restrictions.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLE 5 TICKS HIGHER 112-23

Treasuries were choppy in particularly light trade with the losses after hot Empire State survey data pared with soft China GDP data overhanging. 2s +0.2bps at 4.753%, 3s -1.1bps at 4.348%, 5s -1.1bps at 4.022%, 7s -0.7bps at 3.921%, 10s -0.9bps at 3.811%, 20s +0.2bps at 4.109%, 30s +1.0bps at 3.935%.

INFLATION BREAKEVENS: 5yr BEI +1.3bps at 2.184%, 10yr BEI +2bps at 2.270%, 30yr BEI +1.5bps at 2.277%.

THE DAY: T-Notes extended their Friday pullback lower to troughs of 112-14 at the futures reopen on Sunday. But any additional selling momentum in APAC was lacking with market closures in the region, with contracts tentatively recovering, hitting initial resistance later on at 112-20 after the soft China GDP data. Two-way flows were seen initially as European trade got underway, but fresh highs were being made before long, with EGBs and Gilts also advancing with desks citing the China data in addition to the bullish govvies trend post-US CPI. T-Notes peaked at 112-19+ before paring slightly into the NY handover.

A 7.5k block 2yr fut buy accompanied a brief spurt higher was seen along the curve on the NY cash bond open, but price action reversed lower after the Empire State mfg. survey for July rebounded into positive territory, despite the lower prices paid component. The selling had more weight out the curve, with desks pointing to both the hot eco data (which only gives weight to views that the neutral rate is now higher, ergo, more term premium required) but also some supply preparation with some corporate issuers starting to appear on the other side of their earnings reports, not to mention the USD 12bln 20yr bond auction on Wednesday.

Given the light tape, these supply hedging flows make a larger dent on the tape with less depth to absorb the flow. T-Notes stretched past their APAC 112-14 globex open low to ultimately trough at 112-13. Contracts then gradually recovered into the NY afternoon, managing to claw back all their losses with particularly thin summer trade. All eyes to Tuesday's retail sales, which if the expected uptick is confirmed, will add to the positive (dare I say Goldilocks) economic backdrop spurred by the Empire survey Monday.

STIRS:

- SR3U3 -0.5bps at 94.60, Z3 +1.5bps at 94.695, H4 +2bps at 95.03, M4 +1bps at 95.435, U4 +0.5bps at 95.845, Z4 +1bps at 96.175, H5 +2bps at 96.41, M5 +3bps at 96.555, U5 +3.5bps at 96.635, U6 +4.5bps at 96.775, U7 +4bps at 96.735.
- SOFR falls to 5.05% as of July 14th from 5.06%, volumes edge higher to USD 1.448tln from 1.445tln.
- NY Fed RRP op demand falls to USD 1.728tln from 1.741tln, across 96 counterparties (prev. 98) - note a small USD 5bln cash drain from coupon settlement.
- US sold USD 70bln of 3-month bills at 5.250%, covered 3.11x; sold USD 63bln of 6-month bills at 5.250%, covered 3.05x.
- EFFR flat at 5.08% as of July 14th, volumes fall to USD 115bln from 122bln.

THIS WEEK:

- TUE: US Retail Sales (Jun), Industrial Production (Jun), NAHB index (Jul), Canadian CPI (Jun), New Zealand CPI (Q2), RBA Minutes, SARB Press Release.
- WED: US Housing Starts/Building Permits (Jun), USD 12bln 20yr Bond auction, UK Inflation (Jun), EZ Final CPI (Jun).
- THU: Philly Fed (Jul), Jobless Claims, Existing Home Sales (Jun), USD 17bln 10yr TIPS auction, PBoC LPR, CBRT Announcement, Japanese Trade Balance (Jun), Australian Jobs Report (Jun).
- FRI: CBR Announcement, Japanese CPI (Jun), UK Retail Sales.

CRUDE

WTI (Q3) SETTLES USD 1.27 LOWER AT 74.15/BBL; BRENT (U3) SETTLES USD 1.37 LOWER AT 78.50/BBL

Note WTI August options expire Monday, with futures interest now rolling into the September contracts.

Oil futures sold off on Monday with the disappointing China GDP data accelerating the pullback from recent peaks, with some misleading OPEC headlines providing a transient spike higher. There was a further technical breakdown of the late June/early July bullish run amid front-month WTI and Brent futures breaking back beneath the early June (and multi-month) peaks of USD 75.06/bbl and 78.73/bbl, respectively, after peaking late last week at USD 77.33/bbl and 81.75/bbl. The contracts settled near lows although if one looks at the chart you can spot a USD 2/bbl rip higher in prices in the European morning that swiftly unwound, that was due to Reuters re-running by mistake an old headline from June 4th that Saudi Arabia is to extend its voluntary production cut until the end of December 2024. Otherwise, desks were attributing the selling to both the slower-than-anticipated Q2 China GDP data, but also the weekend's news of two of Libya's three oilfields resuming output.

CHINA: China's stats bureau announced Monday that domestic crude oil production in June rose 1.9% Y/Y to 17.5mln metric tons, and H1 crude output rose 2.1% Y/Y to 105.1mln tons, while June natgas output rose 5.5% Y/Y to 18.3BCM and H1 natgas output rose 5.4% Y/Y to 115.5BCM. Meanwhile, and ahead of the data, BNP said it believes current sentiment on Chinese oil demand is too bearish, "reflecting inaccurate reading of monthly oil data and an overreaction to excessively bullish expectations not coming to fruition." The desks adds, "While we think China's oil demand growth will moderate in H2 from H1's healthy 1.4 mbd y/y, we continue to assume full-year growth of about 1mbd y/y, supporting our constructive narrative for oil for the balance of 2023."

RUSSIA: Reuters sources reported that India's Russian oil imports could decline amid payment problems and disagreement on discounts, with India's head being turned by Iraq, who is reportedly offering more volumes at better discounts and is willing to offer more oil to India. That follows last week's reports that Russia's crude oil price had risen above the USD 60/bbl price cap. Note that India is a key buyer now for Russian crude and will have attributed to the higher prices the sanctioned state has been receiving. Meanwhile, Reuters reported Monday that Russia's June seaborne oil product exports were up +1.2% vs May levels.

VENEZUELA: Venezuela's PDVSA has restarted the Amuay refinery's FCC and is now up and processing 70k BPD (vs capacity of 108k BPD), according to Reuters. Report added that the neighbouring 310k BPD Cardon refinery has been unable to restart its FCC which has been out of service since early June. Workers are trying to put a naphtha reformer back in service in the coming days in that refinery to ramp up the production of motor fuels.

EQUITIES

CLOSES: SPX +0.39% at 4,523, NDX +0.95% at 15,713, DJIA +0.22% at 34,585, RUT +1.04% at 1,951.

SECTORS: Technology +1.33%, Financials +1%, Industrials +0.42%, Cons Disc +0.32%, Materials +0.08%, Energy -0.12%, Cons Stpl -0.3%, Health -0.43%, Communication Svs -0.65%, Real Estate -0.83%, Utilities -1.18%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.98% at 4,356, FTSE 100 -0.38% at 7,406, DAX 40 -0.23% at 16,068, CAC 40 -1.12% at 7,291, FTSE MIB -0.19% at 28,608, IBEX 35 0.00% at 9,438, SMI -1.21% at 10,975.

STOCK SPECIFICS: **Tesla (TSLA)** finally begun production of its electric pickup truck, the Cybertruck, after nearly four years since its initial prototype was revealed. The automaker is also planning to double the size of its factory near Berlin to produce up to one million electric cars a year, which could make the plant the largest auto manufacturing facility in Germany, according to WSJ citing documents filed in recent days. **Ford (F)** lowered its F-150 Lightning prices and said the it is taking advantage of increased plant capacity, continued work on scaling production and cost, and improving battery raw material costs. **Meta (META)** is to be fined USD 100k per-day over privacy breaches unless it takes remedial action, Norway's data protection authority said. **Paramount (PARA)** "Mission: Impossible - Dead Reckoning Part One" performed below expectations at the weekend box office, Variety reported. **Chewy (CHWY)** was upgraded at Goldman Sachs; said the co. has an attractive risk-reward profile and could see margins expand. **PepsiCo (PEP)** was downgraded at Morgan Stanley; said cos. strong earnings report and potential upside are now priced into the stock, resulting in limited upside ahead. **AT&T (T)** was downgraded at Citi; believes the telecommunication industry's historical use of lead sheathed cabling is likely to remain an overhang for the stocks and valuations for at least a few months and potentially longer until the market can better measure the financial risk. **State Street (STT)** was downgraded at UBS, JPM, and Keefe Bruyette. A safety bulletin distributed to eye doctors had a notice that warned of six cases of occlusive retinal vasculitis, a serious inflammatory side effect, reported in people injected with **Apellis Pharmaceuticals (APLS)**

recently approved eye disease treatment, according to STATnews. FTC announced it is suing **IQVIA (IQV)** over its acquisition of Propel Media citing antitrust concerns. Alzheimer's association statement on donanemab phase 3 data showed **Eli Lilly's (LLY)** drug significantly slowed cognitive and functional decline in people with early symptomatic Alzheimer's. **Black Knight (BKI)** announced it will sell its Optimal Blue business to a subsidiary of Constellation Software for USD 700mln, paving the way for its acquisition by **Intercontinental Exchange (ICE)**. **BridgeBio Pharma (BBIO)** reported positive results from ATTRibute-CM, its Phase 3 study of acoramidis in transthyretin amyloid cardiomyopathy. **Lockheed (LMT)** risks a USD 400mln payment delay over an F-35 software issue, according to Bloomberg.

MSFT: **Microsoft (MSFT) and Sony (SONY)** reached an agreement that will allow "Call of Duty" to remain available on PlayStation even after Microsoft's purchase of **Activision Blizzard (ATVI)**, resolving Sony's concern about Microsoft gaining exclusive control over the game. MSFT also cleared another hurdle as the UK Competition Appeal Tribunal said a case challenging the UK CMA's proposed ban could be conditionally paused after last week's move to open up fresh talks on remedies, according to Bloomberg. Elsewhere, Microsoft (MSFT) is to face an EU probe over competition concerns regarding its bundling of Teams with Office. The European Commission could issue formal charges against Microsoft (MSFT) as early as the Autumn, according to FT citing sources. Sources added that talks with EU had stalled over whether MSFT's proposed concessions would only apply to the EU with Brussels wanting them implemented worldwide. Sources noted even with talks continuing this week, it was very unlikely MSFT would succeed in avoiding a formal investigation.

US FX WRAP

The Dollar was more or less flat on Monday, trading either side of 100 with highs seen around the NY option expiry cut at a time when UST yields were at their highs taking DXY to a brief peak of 100.18 before sharply paring and trading sub 100 throughout the rest of the session. Similar price action was seen in **USD/JPY** which rebounded from lows of 138.00 in the European session to highs at the NY cut of 139.40 - again in reaction to the move in yields, as well as some likely option flow with 1bln rolling off at 140.00. There was little US data to digest other than the NY Fed Manufacturing report which beat on the headline while prices eased and employment returned to expansionary territory, a mark in favour of those looking for a soft landing, or no landing. Note the Fed is now in its blackout period ahead of the July 26th FOMC. Focus Monday was initially on the China activity data which saw a miss in retail sales and GDP, emphasising the downbeat reopening efforts in the country, although industrial output came in above expectations. The data weighed on the **Yuan** alongside PBoC action where it left the 1yr MLF rate unchanged at 2.65% in line with expectations, which also suggests the PBoC will likely maintain its benchmark LPRs on Thursday. Note, the Yuan fix of 7.1326 was marginally weaker than the prior but not as weak as expected.

The Euro saw marginal gains vs the buck, maintaining its 1.12 handle throughout the session with final Italian CPI data all in line as expected and unrevised, while ECB's Nagel spoke once again stating he expects a 25bp hike in July but is data dependent for September, adding a hard landing is unlikely and he does not currently see a risk of over-tightening. Note also the Bundesbank's monthly report that noted inflation should fall from September as unfavourable base effects from items such as fuel subsidies and discounted rail tickets fade.

Cyclical currencies were generally softer vs the greenback, failing to benefit from the upside in US stocks with AUD and NZD instead falling victim to the soft China data. AUD briefly lost hold of 0.68 when the Dollar peaked but the cross managed to reclaim the level shortly after and have held hold above it since. NZD/USD found support at 0.6300. GBP was flat vs the buck but softer vs the Euro with all attention on CPI this Wednesday. CAD saw gains vs the buck ahead of CPI on Tuesday with markets currently assigning just a 25% probability of another hike in September after consecutive 25bp hikes in June and July.

EMFX was generally weaker, particularly LatAm FX following the China data with weakness in copper prices weighing on CLP, while BRL and MXN were also softer although COP saw notable gains after paring the earlier weakness in an impressive turnaround. BRL weakness was also accompanied by the downbeat economic activity data, which declined 2% in May following a 0.56% gain in April, while the July IGP-10 inflation index fell 1.1%, extending the 2.2% decline previously with both signs building the case for the BCB to cut rates - markets currently assign a 32% probability of a 50bp cut in August and a 68% probability of a 25bp cut. Note hedge fund manager Greg Coffey, via a Bloomberg article, believes the BCB has the scope to cut a much greater 100bps. Elsewhere, the TRY was softer vs the Dollar after a marked deterioration in Turkey's budget balance plus increases in special consumption taxes for oil, gas and petroleum (latter in the region of 200%) in the run up to Thursday's CBRT rate meeting. ZAR saw notable gains ahead of SARB on Thursday while Fitch affirmed the country's credit rating of BB- with a stable outlook.

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