US Market Wrap

19th July 2023: Stocks and bonds chop on mixed earnings, underwhelming AI updates, and soft economic data

- **SNAPSHOT**: Equities mixed, Treasuries flattened, Crude down, Dollar up.
- **REAR VIEW**: Cooler-than-expected UK inflation data; Soft US housing data; Mixed GS report; Weak 20yr auction; Bearish EIA inventory data; Stellar ELV earnings; July Russia oil exports below quarterly plan; Russia will consider all ships travelling to Ukrainian ports on Black Sea as potential military cargo carriers; Stournaras toes a familiar dovish line; AAPL "races" to catch ChatGPT.
- **COMING UP**: **Data**: Japanese Trade Balance, Australian Employment, US IJC, Philly Fed, Existing Home Sales, EZ Consumer Confidence **Events**: CBRT & SARB Policy Announcements **Supply**: Spain, France & US **Earnings** : SAP, Abb; JNJ, Abbott, Phillip Morris.

MARKET WRAP

Stocks were mixed in choppy trade Wednesday with a mixture of soft economic data, various stock stories, and earnings reports all making their mark. The Nasdaq peaked at midday in NY as AAPL surged to ATHs after Bloomberg reports that it was racing to develop its own generative AI tools to catch OpenAI, but the details were thin, and the news ultimately had a negative effect on the tape with competitors (MSFT, GOOGL) falling and the gains in AAPL soon paring, seeing the index reverse into the red. In earnings, GS reported a very mixed report but the stock held up well with analysts noting the quarter was more about the bank getting itself in shape for the future. In fact, banks in general did well on the session. Treasuries ultimately bull-flattened (2s +2bp, 30s -5bps) in choppy trade amid soft UK CPI and falling US housing starts the data highlights, while a weak 20yr auction failed to cap the afternoon recovery. In FX, Sterling tumbled on the first inflation miss since January while the Dollar, broadly, retraced a little weakness. Oil prices were choppy and ultimately lower, with initial strength unwound into the NY afternoon after bearish EIA inventory data, risk aversion, and the firmer Dollar weighing. Ags were in focus with wheat, maize, and rapeseed futures in Paris and Chicago surging higher after Russia warned it would treat all vessels heading to Ukraine's ports as military threats from July 20th.

DATA

HOUSING STARTS/BUILDING PERMITS: Housing starts declined 8% in June to 1.434mln (exp. 1.48mln, prev. 1.559 mln), while building permits dipped 3.7% to 1.44mln (exp. 1.49mln, prev. 1.496mln). On the former, the 8% decline with the downward revisions to the prior ("just" a 15.7% jump instead of initial +21.7%) marked a reversion to the mean after the historically exuberant May numbers. The waning of strength comes amid housing starts outperforming the existing home sales data (due Thursday) this year amid high mortgage rates, and the lack of incentive to remortgage, seeing the latter market dry up, leading to a boom in the home building sector amid the lack of available homes on the market. Overall, the softness in both data sets was driven more by the multi-family sector, as Oxford Economics adds, the building permits data and upbeat homebuilder sentiment suggest some positive momentum for single-family starts as builders continue to see strong demand in the face of a scarce supply of existing homes for sale. Concluding, the consultancy’s baseline forecast assumes housing starts will approach 1.3mln later in the year as the economy enters a recession with starts to decline in the second half to be concentrated in the multifamily sector. Caveats that the single-family permits data suggest an upside risk to our forecast.

UK INFLATION: Data released today showed UK headline consumer prices eased to 7.9% Y/Y in June (exp 8.2%, prev. 8.7%); the core measure eased to 6.9% Y/Y (exp. 7.1%, prev. 7.1%), while the all-services measure of CPI cooled to 7.2% Y/Y from 7.4%. The lower than expected prints triggered a rally in Gilts, which also buoyed other major fixed income peers. Pantheon Macroeconomics noted that the data was underpinned by slowdowns in core CPI and food CPI, while unusually warm weather also provided temporary support for clothing demand. It says that ahead, the headline rate of CPI inflation is expected to continue falling quickly, averaging about 7.00% in Q3 and 4.5-5.0% in Q4, as electricity and natural gas prices decline, and food CPI inflation falls sharply in Q3. Pantheon says the June inflation data will give the BoE the green light to increase the rates by 25bps next month, rather than the larger 50bps that was expected by markets. Money market pricing tilted towards the lower hike in wake of the release, and now price around a 66% probability of a 25bps move (vs around 42% prior to the release). Expectations of the terminal rate also pared back, with markets pricing the peak at around 5.8% in February next year (vs around 6% before the release).

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 8 TICKS HIGHER AT 113-00

Treasuries ultimately bull-flattened in choppy trade amid soft UK CPI and falling US housing starts the data highlights, while a weak 20yr auction failed to cap the afternoon recovery. 2s +1.1bps at 4.764%, 3s flat at 4.339%, 5s -2.0bps at 3.980%, 7s -3.3bps at 3.867%, 10s -4.3bps at 3.746%, 20s -5.5bps at 4.022%, 30s -6.4bps at 3.837%.

INFLATION BREAKEVENS: 5yr BEI +0.6bps at 2.259%, 10yr BEI flat at 2.240%, 30yr BEI -1.2bps at 2.243%.

THE DAY: T-Notes formed a base at 112-22 before APAC came in and gradually rose to resistance at 112-29, with hot New Zealand CPI the only highlight in the region. The tape came to life after UK Core CPI fell to 7.9% from 8.7%, beneath the expected 8.2%, with T-Notes ripping higher from 112-75 to 113-04+ within ten minutes on over 40k traded (decent for that time of day), stretching on to highs of 113-06+ later on as UK Gilts opened up - BoE pricing has shifted to a 60% implied for a 25bp hike to 5.25% at the Aug 3rd meeting vs 60% implied for a larger 50bps hike before the data, with terminal rate (at year-end) now priced at c. 5.8% vs over 6% beforehand.

There was a significant pullback from the highs as the dust settled from the UK data with debate on just how much it matters for global peers - note a disappointing 2028 Gilt sale from the UK DMO too. T-Notes found support at 112-28+ as US traders entered the session, and with cash bonds opening up, there was a spell of better buying, accentuated by the decline and downward revisions to US June housing starts and building permits ahead of existing home sales on Thursday.

But further govvie strength failed to materialise through the NY morning with a few corporate issuers entering the Dollar market ahead of the 20yr bond auction, Bunds seeing more acute selling, and a strong open for US stocks. T-Notes ultimately bottomed at 112-21 at midday before recovering through the afternoon as stocks reversed lower. It's worth noting that the afternoon recovery was particularly notable in the long end, both before and after the lacklustre 20yr auction (details below), with the Ultra Bond rallying over a point from its late morning troughs. Treasury participants are now casting half an eye to the front-loaded front-end supply next week (2s Mon and 5s Weds) ahead of FOMC on Wednesday, followed by 7yr auction on Thursday. More imminently, Thursday sees Philly Fed, jobless claims, and existing home sales data in the US.

20YR AUCTION: A weak auction by the 20yr's standards, with the highest yield on offer since November 2022 (4.036%) tailing the WI by 0.1bp, the first tail since April, significantly worse than the six-auction average stop-through of 1.1bps and last month's 1.8bp stop-through. The 2.68x bid/cover ratio was beneath the average 2.71x and prior 2.87x. The takedown was more respectable with Dealers (forced surplus buyers) left with 9.6%, in line with the average, but worse than June's 7.9%, with Directs showing above-average participation (21.7% vs avg. 18.5%), while Indirects stood back (68.8% vs prior 74.6% and avg. 71.8%).

STIRS:

- SR3U3 flat at 94.60, Z3 -0.5bps at 94.675, H4 -2bps at 94.985, M4 -2.5bps at 95.38, U4 -2.5bps at 95.795, Z4 -2 bps at 96.14, H5 -1bps at 96.395, M5 +1bps at 96.565, U5 +2bps at 96.665, U6 +4.5bps at 96.85, U7 +4bps at 96.81.
- SOFR flat at 5.06% as of July 18th, volumes fall to USD 1.482tln from 1.524tln.
- NY Fed RRP op demand rises to USD 1.733tln from 1.717tln, across 97 counterparties (prev. 94).
- EFFR flat at 5.08% as of July 18th, volumes fall to USD 106bln from 112bln, the lowest activity (outside of June month-end) since early April.
- US sold USD 46bln of 17-week bills at 5.270%, covered 3.29x.

THIS WEEK:

- *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 (U3) SETTLED USD 0.37 LOWER AT 75.29/BBL; BRENT (U3) SETTLED USD 0.17 LOWER AT 79.46/BBL

Oil prices were choppy and ultimately lower Wednesday, with initial strength unwound into the NY afternoon after bearish EIA inventory data with risk assets also pressured and the Dollar firmer. WTI and Brent saw two spurts of strength, one in the European morning and then again in the NY morning, where the Sept'23 futures hit peaks of USD 76.87/bbl and 80.93/bbl, coinciding with a strong cash open for US stocks. The peak was made not long after Reuters reported that Russian oil exports for July have been set at 370k BPD below the quarterly plan initially set out, coming as the country tightens supply even before the pledged 500k BPD reduction in August. However, after the EIA reported US crude stocks drew a marginal 0.7mln bbls vs the expected 2.5mln bbl draw in the latest week, that catalysed a pullback into the NY afternoon, aided by US stocks also taking a little tumble. The selling accelerated into the futures settlement without an obvious catalyst. Note that the earlier strength was hard to pin on anything specific beyond overarching bullish themes, but some drew attention to China's State Council vowing to increase support for the private economy, albeit the tape was actually consolidating lower at the time those headlines hit.

EQUITIES

CLOSES: SPX +0.24% at 4,565, NDX -0.09% at 15,826, DJIA +0.31% at 35,061, RUT +0.45% at 1,984.

SECTORS: Real Estate +1.12%, Utilities +1.02%, Consumer Staples +0.93%, Energy +0.52%, Consumer Discretionary +0.52%, Health +0.49%, Financials +0.45%, Communication Services +0.23%, Industrials -0.05%, Technology -0.27%, Materials -0.52%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.17% at 4,362, FTSE 100 +1.80% at 7,588, DAX 40 -0.10% at 16,108, CAC 40 +0.11% at 7,326, FTSE MIB +0.02% at 28,712, IBEX 35 -0.04% at 9,451, SMI +0.12% at 11,117.

EARNINGS: **Goldman Sachs (GS)** mixed report; revenue and NII beat alongside raising quarterly dividend by 10% but EPS, FICC, and IB revenue fell short. CEO said equity capital markets and M&A dialogue are picking up but are going into a period of lower results. Added it feels better in the last 6-8 weeks for the IB business, while on headcount noted it feels good where it is. GS noted the profit miss was tied to write-downs in the CRE business and the sale of lending unit GreenSky. **US Bancorp (USB)** EPS came in line while revenue beat. However, NII and NIM missed on top of cutting FY23 and next quarter revenue guide. **ASML Holding (ASML)** beat on revenue, net income, and order bookings; next quarter revenue view topped and raised FY guide. **Elevance Health (ELV)** surpassed expectations on the top and bottom line alongside lifting FY profit view after lower-than-expected costs. **Interactive Brokers (IBKR)** missed on the top and bottom line. **Omnicom (OMC)** missed on revenue, although did beat on EPS. **Western Alliance (WAL)** missed on profit, NII and NIM but beat on revenue. Provision for credit losses and net charge-offs were also both lower than forecasted. **First Horizon (FHN)** beat on the top and bottom line, while adj. revenue fell 6% primarily due to an 8% decline in NII driven by a 50bps reduction in NIM. **Carvana (CVNA)** beat gross margins and revenue, although the latter fell 35% Y/Y, with sold retail units declining 24% Y/Y. In addition, CVNA may sell 35mln shares of Class A stock and have proceeds of at least USD 350mln. Moreover, Carvana reached a deal that will reduce its total outstanding debt by more than USD 1.2bln where the agreement will eliminate over 85% of its 2025 and 2027 unsecured note maturities.

STOCK SPECIFICS: **Apple (AAPL)**, according to Bloomberg sources, has created an internal ChatGPT-style bot for employees and is building a large language model AI framework dubbed ‘Ajax’. Co. reportedly "races" to develop its own generative AI tools to catch OpenAI. However, the piece noted AAPL has yet to devise a clear strategy for releasing the technology to consumers. **AT&T (T)** leaned back on a WSJ report regarding its Lake Tahoe cables, stating that they strongly disagree with the claim that the cables pose a public health concern. UK CMA has provisionally cleared the **Broadcom (AVGO)** and **VMware (VMW)** deal saying it is unlikely to harm innovation and would not weaken competition. **Microsoft (MSFT)** and **Activision (ATVI)** extend deadline to close the deal until October 18th, according to Bloomberg. In other news, MSFT saw several price target raises after its AI pricing announcement on Tuesday, with BofA, Wells Fargo, Barclays, and JPMorgan, amongst others. Separately, Microsoft plans to offer free some cybersecurity tools that can spot cyberattacks following last week's disclosure of a major security breach linked to Chinese hackers that was undetectable for some customers, according to WSJ. **Joby Aviation (JOBY)** downgraded at JPM; said Joby’s recent rally is “largely overblown” and likely the result of short covering.

US FX WRAP

The Dollar was bid on Wednesday and hit a high of 100.540, after a July which has seen pronounced weakness for the Buck. On the day, the Buck retained a firm underlying bid between 99.923-100.540 parameters despite softer than forecast US housing data via building permits and starts. Nonetheless, the week began with whether the Dollar could still suffer from the residual effect of the disinflation surprise amid a quiet data calendar ahead of the FOMC meeting (26th July) drawing closer. However, ING notes all in all markets aren’t lacking evidence of slowing activity in the US, and the addition of the favourable disinflationary backdrop now weakens the case for another hike beyond July. Although, the lagging unemployment remains the last piece of the puzzle to smoothen the transition to a more dovish rhetoric, and one ING adds that may keep the Fed leaning on the hawkish side by keeping all options open in July. Furthermore, next week's FOMC meeting could be the opportunity to recover some lost ground, but ING cannot exclude the possibility that markets will position ahead of the meeting by closing some freshly-built speculative dollar shorts, which could help close the short-term USD undervaluation gap against the Euro. In the immediacy, the calendar is light amid blackout with only earnings, jobless claims, and Philly Fed mfg. out of the US really of note.

Pound is the G10 underperformer and was hit in wake of cooler-than-expected inflation data which saw Cable print a low of 1.2869. In short, headline and core inflation came in below consensus for the first time since January and the Y/Y prints were both eye-catching as they slipped beneath 8% and 7%, respectively. The data prompted a marked dovish shift or less hawkish repricing of BoE rate expectations with the probability of a 25bps hike in August up to around 63% from circa 42% pre-release. Later in the session, BoE's Ramsden noted the MPC will continue to monitor closely indications of persistent inflationary pressures in the economy and if there is evidence of further persistent pressures then more tightening would be required. Moreover, he added the latest UK inflation data shows indicators of inflation persistence are still a bit higher than the BoE expected in May.

Safe-havens, CHF and JPY, saw losses to varying degrees with the Yen underperforming its counterpart as USD/JPY saw a high of 139.99, as the Yen just managed to defend 140 to the upside. Many believe USD/JPY's recovery from oversold July dive still has room to run. The Swissy traded within tight ranges, highlighted by a peak and trough of 0.8613 and 0.8568, respectively. Looking ahead, Japanese export data Thursday ahead of CPI on Friday.

Antipodeans were lower as the Aussie saw greater losses than the Kiwi, as they lost momentum after they swanned above 0.6800 and 0.6300, respectively. Kiwi likely finding some relative support on the hotter than expected CPI data, but otherwise, newsflow was light and appeared the AUD fell in sympathy with the Yuan on fundamental and technical grounds. For the record, AUD/USD hit lows of 0.6751 with NZD/USD troughing at 0.6226.

Loonie was the relative 'outperformer', albeit only flat vs the Greenback as it derived some impetus from the initial gains in the crude complex, which faded later anyway.

Euro struggled to keep hold of big figure levels at 1.1200 despite the improving yield differentials. There was more ECB commentary with Stournaras warning that more tightening could hurt the economy and just one more 25bps hike would be enough, Simkus called on the need for a July hike with debate still over September, while Nagel warned about pulling back from tightening too quickly. Focus will be on EU flash consumer confidence for July due on Thursday in an otherwise quiet calendar.

EMFX was mixed. TRY and BRL saw gains, while MXN was flat, and the CNY and ZAR saw weakness. On the underperformers, the Rand was hindered by softer than expected SA headline and core CPI, while the Yuan was weighed on after China's Commerce Ministry stoked economic fears after stating that foreign trade faces an extremely severe situation in H2 in addition to losing technical support via the 21DMA. For the Real watchers, the Brazilian economy ministry lifted its 2023 GDP forecast to +2.5% (prev. +1.9%) and left 2024 forecast unchanged at +2.3%, in addition to cutting 2023 inflation forecast to +4.85% (prev. +5.58%) and 2024 to +3.30% (prev. +3.63%). Following this, Economic Policy Secretary Mello was on the wires noting there is a significant increase in the chance of inflation ending this year within the upper limit of the inflation target band. On rates, he echoed prior sentiment from other officials that there is no technical reason for the interest rate to be at the current level.