newsquawk

US Market Wrap

20th July 2023: Stocks sink as earnings underwhelm and low jobless claims ignite the Dollar and yields

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Initial jobless claims hit early May low; Lacklustre Philly Fed; Existing home sales miss; Chinese ramps oil imports; Hot Australian jobs report; NFLX revenue miss with weak guidance; TSLA offers discouraging commentary; TSMC cuts guidance; FTC to pause MSFT/ATVI trial; SARB leaves rate unchanged.
- **COMING UP**: Data: UK Retail Sales, Japanese CPI Earnings: Danske Bank, Evolution AB; American Express, Schlumberger.

MARKET WRAP

Stocks tumbled on Thursday with the NDX posting its 2nd worst day of the year (-2.28%) behind February 21st's (-2.41%) as poor earnings receptions for NFLX and TSLA catalysed a sharp pullback. The SPX and RUT held up slightly better. It's worth flagging that we get monthly stock options expiry on Friday, the same day as the Nasdaq 100 rebalances, both factors that may be giving weight to Thursday's sell-off, with fingers also being pointed at the 0DTE option crowd. Treasuries saw heavy selling ahead of next week's auctions (10yr +10bps at 3.85%), accentuated by initial jobless claims (which chime with the July NFP survey week) hitting an early May low, with the lacklustre Philly fed mfg. survey and rise in continuing claims an afterthought, while the miss in existing home sales also had little sway. The DXY was firmer, just failing to clip 101 at its best, as it benefitted from the spike higher in US yields. Oil prices were just about firmer in what was another choppy session amid the mixed economic data and firmer Dollar; Chinese imports of crude oil surged in the latest monthly release. Nat Gas futures surged to their highest since early July with particularly low storage builds as hot weather, particularly in Texas, makes its mark.

US DATA

JOBLESS CLAIMS: US initial jobless claims fell to 228.0k from 237k in the latest week, shy of the expected rise to 242k, marking instead the lowest number of claims since early May and the second lowest since February. The figures' importance was amplified given they chimed with the survey week for the upcoming July NFP data. Seasonals look to be continuing to play a big factor at this time of year, with unadjusted claims falling just 326 to 257.976k, where seasonal factors expected an increase of 9,953. The biggest non-seasonally adjusted claims came from California (+5.1k), Georgia (+4.6k), and South California (+2.2k). At the same time, the week-delayed continued jobless claims rose to 1.754mln from 1.721mln, above the expected 1.729mln.

PHILLY FED: The headline marginally improved to -13.5 from -13.7, short of the consensus -10.0. The current indicators remain weak as new orders and shipments declined to -15.9 (prev. -11.0) and -12.5 (prev. 9.9), respectively. Meanwhile, employment remained pretty steady at -1.0 from -0.4. On the inflationary gauges, prices paid decreased 1 point to 9.5 (prev. 10.5) but prices received climbed to 23.0 (prev. 0.1), its highest reading since January. Looking ahead, the 6-month index jumped to 29.1 (prev. 12.7), highest reading since August 2021, while future new orders soared 24 points to 38.2 (prev. 14.1) and shipments to 37.3 (prev. 28.3). On balance, firms continued to expect increases in employment over the next six months, and the future employment index increased to 21.3 from 13.1. The future price indexes suggest that firms expect price increases over the next six months, but both indexes remained below their long-run averages. In conclusion, the Philly Fed was somewhat contrasting from the NY Fed Manufacturing report on Monday, as the NY Fed headline topped expectations and prices received cooled somewhat. In summary for the Philly Fed, firms reported overall increases in prices received and prices paid and the survey's future indices improved and suggest that respondents expect growth over the next six months.

EXISTING HOME SALES: Existing home sales fell 3.3% in June to 4.16mln, beneath both the expected (4.2mln) and the prior (4.3mln), as a backup in mortgage rates, high prices and limited inventory constrained weighed. The inventory was unchanged M/M but sharply down Y/Y as the supply of existing homes for sale has been tight for several years, but the more recent rise in mortgage rates is keeping many sellers on the sidelines. On home prices, Oxford Economics notes they rose to their second highest level on record, and while tight supply continues to support home prices, the consultancy adds some of the rise was seasonal. In addition, Oxford expects further weakness in home prices as the economy slows, but supply-demand dynamics will cushion the downside, while on the headline figure “expect it to come under some further pressure in H2 ’23 as the economy and labor markets soften during a mild recession”.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 27 TICKS LOWER AT 112-04+

Treasuries saw heavy selling ahead of supply and on low initial jobless claims, but the curve unwound its initial flattening bias as the front end recovered somewhat. 2s +6.9bps at 4.824%, 3s +10.1bps at 4.429%, 5s +11.5bps at 4.086%, 7s +11.4bps at 3.976%, 10s +10.2bps at 3.844%, 20s +8.5bps at 4.107%, 30s +7.1bps at 3.910%.

INFLATION BREAKEVENS: 5yr BEI +8.2bps at 2.342%, 10yr BEI +7.8bps at 2.319%, 30yr BEI +6.2bps at 2.304%.

THE DAY: After the recovery in Treasuries into the Wednesday close, Tokyo failed to extend the gains and some better selling picked up, albeit gradually, in the APAC Thursday session, with T-Notes finding support at 112-25 area ahead of Europe's arrival.

London hit the bid on arrival, which is the opposite of what it has been doing over the last week or so, with the weakness Thursday stemming from the front end of the curve and in lack of an obvious data point/news item with EGBs and Gilts also offered - it was noteworthy Bund traded particularly weak on Wednesday and that appeared to lead today's price action.

T-Notes hit support at 112-16+ as US traders arrived, with the curve entering the session significantly flatter with long-end futures holding up much better whilst front-end contracts broke beneath their Globex open/WTD lows with participation positioning for next week's front-loaded front-end Treasury supply ahead of the FOMC on Wednesday. But, the lowest initial claims figures since early May, despite the rise in continued claims and soft Philly Fed mfg. survey, saw T-Notes kneejerk lower to lows of 112-09, which held only briefly.

The selling momentum picked up again later in the NY morning and contracts trundled lower all the way to troughs of 112 on the nose, with the cash 10yr yield peaking at 3.87%. With Europe departed, and the selling powder running dry, the front end led a partial recovery into the futures settlement. That saw the curve sharply unwind its initial strong flattening bias, although the belly (5yr out to 10yr tenors) remained weakest at the close.

Friday's calendar literally has nothing on it from a US perspective, so expect book squaring/positioning to dominate flows. But watch out for external pressures amid Japanese CPI and UK retail sales, at risk of scraping the barrel.

STIRS:

- SR3U3 -1bps at 94.595, Z3 -2.5bps at 94.655, M4 -8bps at 95.31, U4 -9.5bps at 95.715, Z4 -10bps at 96.055, H5 -11.5bps at 96.295, M5 -13.5bps at 96.44, U5 -14.5bps at 96.53, U6 -15.5bps at 96.695, U7 -14.5bps at 96.67.
- SOFR falls to 5.05% from 5.06% as of July 19th, volumes fall to USD 1.456tln from 1.482tln.
- NY Fed RRP op demand at USD 1.721tln (prev. 1.733tln) across 100 counterparties (prev. 97).
- EFFR flat at 5.08% as of July 19th, as were volumes at USD 106bln.
- US sold USD 71bln of 1-month bills at 5.255%, covered 2.66x; sold USD 61bln of 2-month bills at 5.255%, covered 2.99x.
- US to sell USD 65bln of 13-week bills and USD 58bln of 26-week bills both on July 24th, both to settle on July 27th; both sizes unchanged.
- US to sell USD 50bln in 6-week CMBs on July 25th, to settle on July 27th; size unchanged.

CRUDE

WTI (U3) SETTLED USD 0.36 HIGHER AT 75.65/BBL; BRENT (U3) SETTLED USD 0.18 HIGHER AT 79.64/BBL

Oil prices were firmer Thursday in what was another choppy session amid mixed economic data, a firmer Dollar, and a ramp in Chinese oil imports. Price action rhymed with Wednesday's to a degree, with spurts of upside both in the European and US mornings, with WTI and Brent Sept contracts ultimately peaking at USD 76.15/bbl and 80.27/bbl, respectively, before tumbling to session lows of USD 74.52/bbl and 78.66/bbl as Europe closed shop, coinciding with the Dollar strength extending after the lowest US initial jobless claims reading since early May. However, prices recovered into the black again heading into the energy settlement. The story of note in the energy space was Chinese government data showing its imports of Russian oil hitting an all-time high in June as refiners soak up Russia's ESPO grade despite the narrowing price discounts, the data also saw solid import figures from other key suppliers also including the US and Saudi. But apart from that, there was little else to dig into. For the calendar, note Reuters reported OPEC+ has moved its online panel a day later to August 3rd.

SELL SIDE: JPMorgan acknowledges the July upside in oil prices as being driven by multiple rounds of OPEC's production cuts and signs that Russia is making good on its pledge to curb exports are finally paying off in oil, adding, "Prices will likely continue to climb from here by another $6 by the end of 3Q23, but with stocks expected to start gradually building back, prices should ease in 2024."

NAT GAS: Nat Gas futures rallied to their highest levels since early July, aided by the smaller-than-expected storage build data via the EIA, with 41BCF added to storage, lower than the expected 48BCF. This was the lowest addition since early April, with desks pointing towards the particularly hot weather in regions such as Texas in preventing larger storage builds.

EQUITIES

CLOSES: SPX -0.68% at 4,534, NDX -2.28% at 15,466, DJIA +0.47% at 35,225, RUT -0.89% at 1,967.

SECTORS: Consumer Discretionary -3.4%, Communication Services -2.49%, Technology -2.04%, Real Estate -0.4%, Materials +0.24%, Industrials +0.41%, Financials +0.69%, Energy +1.29%, Health +1.65%, Utilities +1.85%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.25% at 4,373, FTSE 100 +0.76% at 7,646, DAX 40 +0.59% at 16,204, CAC 40 +0.79% at 7,384, FTSE MIB +0.36% at 28,815, IBEX 35 +0.72% at 9,519, SMI +0.72% at 11,199.

EARNINGS: **Tesla (TSLA)** beat on the top and bottom line, but margins saw further contraction. Production in Q3 will be down a bit sequentially amid planned factory upgrades, while the guidance on Cybertruck production remains vague. Musk noted cutting prices will be dependent on macro conditions. **Netflix (NFLX)** missed on revenue alongside disappointing next quarter guidance. On the flip slide, streaming paid net additions smashed expectations with next quarter view also decent. Nonetheless, it will take time for the cos. new money-making ventures to bring in returns. **IBM (IBM)** beat on profit and expanded its gross margin but missed on revenue and saw a slump in infrastructure revenue. Reaffirmed revenue guidance, albeit above expectations. **Johnson & Johnson (JNJ)** surpassed consensus on EPS and revenue alongside lifting FY23 outlook. **Discover Financial (DFS)** missed on EPS, NII, and net income in addition to pausing share buybacks as it announced unsurfaced issues from 2008. **Travellers (TRV)** beat on revenue and raised dividend 7.5%; said is very confident in its outlook with "terrific" underlying fundamentals in commercial businesses. **Blackstone (BX)** Q2 distributable earnings slumped nearly 40%, owing to a sharp drop in asset sales mostly from its real estate and credit businesses. **American Airlines (AAL)** beat on earnings and lifted FY view for adj. profit, powered by strong demand for domestic and international travel despite fears of a looming economic slowdown. On the North East Alliance (NEA) it is not anticipating any earnings impact but attention remains on it. **United Airlines (UAL)** beat on EPS and revenue, alongside lifting both Q3 and FY profit view. UAL is comfortable with its current level of liquidity, particularly given the uncertain macroeconomic backdrop. **D R Horton (DHI)** had a stellar report; beat on earnings on raised FY and Q4 revenue view. **TSMC (TSM)** cut Q3 and 2023 guidance; said China's economic recovery was weaker than what it thought it would be. On AI, said that demand is good, but it is not enough to offset weaker overall end markets due to macro weakness. **Zions (ZION)** beat on most major metrics, namely EPS, deposits, NII, and NIM, amongst others. **Abbott (ABT)** beat on EPS and revenue alongside reaffirming FY profit guidance.

STOCK SPECIFICS: Elliott Investment Management has reportedly built a significant stake in **Catalent (CTLT)**, and wants changes in the drugmaker's board, according to WSJ. Catalent has faced challenges recently, including financial losses and operational issues. **Apple (AAPL)** is reportedly facing challenges assembling its two upcoming new iPhone models, the iPhone 15 Pro and Pro Max, which could lead to a shortage of units at launch in September, according to The Information citing sources. FTC to pause **Microsoft (MSFT)/Activision (ATVI)** merger trial, allowing settlement talks, according to Bloomberg. Move would allow Microsoft and Activision to speak with commissioners.

US FX WRAP

The Dollar was firmer Thursday, with the index peaking at 100.97 as it just failed to clip the round figure, after multi-month lows in initial jobless claims helped the Buck furore higher with the accompanying jump higher in US yields, not to mention the risk aversion in stocks. Initial claims printed 228k (exp. 242k, prev. 237k) the lowest since early May, while continuing claims rose to 1.754mln (exp. 1.729mln, 1.729mln). Philly Fed (Jul) diverged from NY Fed on Monday, as current indicators remain weak, highlighted by the headline miss, and prices received index soared higher, although prices paid did decline. The US calendar for Friday is very quiet with only a few earnings as market participants position into the key FOMC meeting next week.

Swissy underperformed amid the rampant Treasury yields, and other bond yields for that matter, as USD/CHF reversed from a low of 0.8562 to a high of 0.8684.

Aussie was the G10 outperformer, albeit only flat in the end against the resurgent Buck, as it saw a boost on the hot jobs report as the headline beat and the unemployment rate unexpectedly fell. As such, AUD/USD posted a peak of 0.6846 but pared a large part of the move throughout the US session to hit a trough of 0.6766. Despite the bout of Aussie strength, **the Kiwi** was lower vs the Buck on general risk-aversion, as opposed to anything currency specific, with NZD/USD trading between 0.6214-0.6308, and unsurprisingly resides towards the bottom end of the range at time of writing.

Yen saw slight losses, and while it managed to defend 140 at the NY cut amid 3.7bln of option expiries around the big figure, it only proved transitory as the cross soon burst through the key level to highs of 140.49, within touching distance of the 50DMA at 140.50. A slight paring off lows in Treasuries in the NY afternoon catalysed a pullback towards the 140 figure later on. Market participants await the pivotal Japanese CPI overnight where the Core Y/Y (Jun) is expected to marginally rise to 3.3% (prev. 3.2%). Although, analysts do note BoJ Governor Ueda's steady policy outlook, weakening Japanese exports, government growth forecasts and likely less fiscal stimulus argue in Ueda and Yen bears' favour.

Euro and **Sterling** saw similar losses vs the Greenback, as while the single-currency initially derived some short-lived traction via not as weak as anticipated flash Eurozone consumer confidence, coinciding with sub-consensus US existing home sales, it soon reverted to the downside. EUR/USD hit a low of 1.1119, managing to defend 1.1100 to the downside. Meanwhile, Sterling continued to suffer in wake of softer UK CPI data and Cable tested the resolve of underlying bids around the semi-psychological 1.2850 mark after losing sight of a Fib that helped contain declines on Wednesday. Looking ahead, UK participants will be awaiting Friday’s retail sales (Jun).

Loonie was more-or-less flat and while general risk sentiment did not support the Loonie, the crude complex did with the marginal gains seen. In terms of levels, USD/CAD traded within narrow ranges illustrated by a low of 1.3120 and a high of 1.3194. The calendar slate is sparse for Friday, with only the dated Canadian retail sales (May) scheduled.

Yuan managed to reside in the black amid supportive comments for the Chinese economy and a huge boost from the PBoC reference rate. PBoC also hiked a technical cross-border financing tool, which in short, allows a greater influx of foreign capital, but whether that provides support is dependent on the demand for foreigners to invest in the region. Meanwhile, China is reportedly considering mortgage easing to spur buying in the large cities and Vice Premier noted it will prevent fiscal and financial risks in new infrastructure.

EMFX was almost exclusively in the red vs the Buck. TRY was flat and left in limbo by the CBRT that underwhelmed in terms of tightening (250bps hike was half the consensus) and only partly compensated with credit and QT measures. HUF underperformed irrespective of the Hungarian government announcing a budget review for September and pledging to take measures if necessary, adding that there is no need for further action to contain the deficit for now, but the PLN coped quite well with more dovish talk from the NBP (Dabrowski said if the share of wages in GDP is under control and inflation falls quickly then there will be space for rate reductions) and mainly sub-par Polish data. The MXN was rattled by Mexican retail sales undershooting expectations.

ZAR saw immediate weakness in wake of the SARB rate decision, where the central bank held rates at 8.25%, as Refinitiv expected, although some did have expectations for a 25bps to 8.50%. Nonetheless, the board voted 3-2 in favour for holding rates, with the other two opting for a 25bps hike. Inflation forecasts were downwardly revised across the board but the bank did note risks are assessed to the upside. Numerically, 2023 CPI seen at 6.0% (prev. 6.2%) with core at 5.2% (prev. 5.3%), while 2024 seen at 5.0% (prev. 5.1%), and core at 4.9% (prev. 5.0%). Regarding GDP, 2023 is now seen at 0.4% (prev. 0.3%) with 2024 left unchanged at 1.0%.