US Market Wrap

21st July 2023: Markets trundle into the weekend ahead of pivotal risk events

- **SNAPSHOT**: Equities mixed, Treasuries flat, Crude up, Dollar up.
- **REAR VIEW**: Punchy rhetoric from Putin; Dovish BoJ sources; AXP revenue miss; CBR hikes more than expected; CSX revenue misses; Firmer-than-expected UK retail sales.
- **WEEK AHEAD PREVIEW**: Highlights include FOMC, US GDP, PCE; ECB, BoJ; PMIs; Spain elections. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing FOMC, ECB, BoJ; Reviewing RBA minutes, PBoC. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [TUES] DHR, GE, RTX, NEE, VZ, TXN, GOOGL, MSFT, V; [WED] TMO, T, KO, BA, UNP, META, NOW; [THURS] HON, BMY, CMCSA, MCD, SPGI, ABBV, MA, TMUS, INTC, MDLZ; [FRI] AZN, CVX, XOM, PG. To download the report, please click here.

MARKET WRAP

Stocks gave up moderate gains on Friday as stocks traded in a choppy fashion. The Utilities sector was the outperformer, while Tech stocks lagged. Further choppiness was seen towards the end of the session, which traders attributed to the Nasdaq 100's special rebalancing. Despite the equity market jitters on Thursday, indices (SPX, DJIA) end the week with gains. Treasury yields saw modest declines on Friday, though the 2s sector lagged ahead of next week's 2s, 5s, 7s supply, as well as the FOMC confab, where the central bank is expected to lift rates by 25bps - traders will be looking for clues as to whether this is the final hike of the cycle. On the week, Treasuries are lower amid some mixed data and Fed terminal rate uncertainty. The most notable development in FX was the JPY's slide against the Buck after dovish BoJ sources report ahead of next week's confab, which sent USD/JPY to the highest level since July 10th. In addition to the FOMC and BoJ meetings next week, the ECB will also make a policy announcement, while the corporate earnings docket is heavy.

DATA

CANADIAN RETAIL SALES: Retail sales rose +0.2% M/M in May, short of the expected +0.5% rise, and cooling in pace vs April's +1.1% gain. StatsCan's flash estimate for June suggested that retail sales would be unchanged in the month. Capital Economics says the data calls into question the BoC's recent claim about "persistent excess demand", and is another reason to doubt that the central bank will raise interest rates further. "The latest preliminary estimate implies that retail sales values were unchanged in June which, given gasoline prices rebounded last month, implies that retail sales volumes fell again," it writes, "while the continued disruption from wildfire smoke in June may explain some of that weakness, it still leaves retail sales looking weaker than the BoC seems to have expected when it noted in its policy statement earlier this month." CapEco adds that "with the other data this week showing that headline CPI inflation also fell by more than expected in June, we would be surprised if the Bank continued to raise interest rates at its next meeting in September."

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 3 TICKS HIGHER AT 112-07+

In absence of any major data releases, and a generally quiet macro environment, Treasury yields saw some moderate downside, with outperformance in the belly of the curve, while the short-end underperformed ahead of next week's FOMC meeting, where a 25bps rate rise is expected. At settlement, 2s +0.9bps at 4.848%, 3s +0.6bps at 4.449%, 5s -0.3bps at 4.097%, 7s -1.3bps at 3.976%, 10s -1.3bps at 3.841%, 20s -0.5bps at 4.109%, 30s -0.1bps at 3.910%.

INFLATION BREAKEVENS: 5yr BEI +0.1bps at 2.355%, 10yr BEI +2.1bps at 2.351%, 30yr BEI -0.9bps at 2.302%

Treasury traders will also note the front-loaded supply docket for next week, where 2s, 5s and 7s will be sold ahead of the Fed meeting, settling on Thursday. The curve bull-flattened, with 2s30s around 1bps narrower on the day, while the inversion in 2s10s deepened to over 102bps. In addition to the Fed, next week brings the US advanced GDP report for Q2, which will help shape expectations about the terminal rate, while the tail-end of the week will see the release of the Fed's preferred gauge of inflation, which is expected to see price pressures cool in June, in line with what was seen in the CPI data for the month, while flash PMI data will help shape expectations for the ISM reports, due early August.

STIRS:

- SR3U3 +0.5bps at 94.595, Z3 +0.5bps at 94.645, M4 -2.5bps at 95.270, U4 -3.5bps at 95.665, Z4 -2.5bps at 96.010, H5 -1.5bps at 96.260, M5 -1.5bps at 96.410, U5 -1.0bps at 96.505, U6 +0.0bps at 96.685, U7 +1.5bps at 96.680.

CRUDE

WTI (U3) SETTLED USD 1.42 HIGHER AT 77.07/BBL; BRENT (U3) SETTLED USD 1.43 HIGHER AT 81.07/BBL

The crude complex ended the day and week on a firmer footing, though catalysts few and far between as participants await next week's risk events via a slew of a central bank decisions. WTI and Brent both grinded to session highs of USD 77.08/bbl and 80.96/bbl, respectively, after the US cash open, albeit without any specific headline driver, and the complex chopped around thereafter into settlement. According to Interfax, Russian Deputy PM Novak noted that Russia was not ruling out introducing oil export products quotas, and added some domestic refineries postponed maintenance to a later date. Elsewhere, UAE Energy Minster said current OPEC+ actions were sufficient for the market, and was not worried about oil demand. Further on the production front, Venezuelan oil minister said it is producing 831k BPD of crude so far, in July, and is to reach 1mln BPD by year-end. Lastly, in the Baker Hughes Weekly Rig Count (w/e 21st July), oil rigs fell 7 to 530 and natgas dipped 2 to 131, to leave the total declining 9 to 666.

EQUITIES

CLOSES: SPX +0.03% at 4,536, NDX -0.26% at 15,425, DJIA +0.01% at 35,228, RUT -0.35% at 1,960.

SECTORS: Technology -0.31%, Financials -0.34%, Industrials -0.46%, Communication Services -0.50%, Materials -0.01%, Consumer Discretionary +0.04%, Consumer Staples +0.34%, Real Estate +0.44%, Energy +0.82%, Utilities +1.50%, Health +1.01%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.20% at 4,391, FTSE 100 +0.23% at 7,663, DAX 40 -0.17% at 16,177, CAC 40 +0.65% at 7,432, FTSE MIB +0.14% at 28,855, IBEX 35 +0.55% at 9,571, SMI +0.05% at 11,207

EARNINGS: **American Express (AXP)** missed on revenue while commercial business slowed sharply both in goods (from 4% to 0%) and travel services (+8% from +41%) vs Q1. Aside from that, the report was good, as profit beat and provided upbeat commentary. **Roper Technologies (ROP)** beat on EPS and revenue alongside raising FY and Q3 EPS view. **CSX (CSX)** EPS came in line while revenue missed and fell 3% Y/Y with the decline mainly due to lower fuel recovery, pricing declines in export coal and lower intermodal volume. **Intuitive Surgical (ISRG)** beat on the top and bottom lines alongside raising FY23 procedure growth view, but reported weaker-than-expected systems revenue. **Capital One Financial (COF)** surpassed expectations on EPS and NIM, although revenue and NII fell short. **Interpublic Group of Companies (IPG)** cut FY23 organic revenue growth guide as it noted tech continued to weigh significantly on growth while modesty heightened macro uncertainty impacted certain speciality assets and traditional consumer agencies. Additionally, organic revenue fell short and while EPS beat it included a 0.17 tax benefit which it would have missed without. **PPG (PPG)** missed on profit, but aside from that revenue beat, raised guidance and noted supply chains have returned to pre-pandemic levels. **SLB (SLB)** fell short on revenue while profit beat. **Autoliv (ALV)** surpassed expectations on the top and bottom lines. FY guidance is unchanged and said H2 operating margins will be "back-end loaded". **Knight-Swift (KNX)** missed on EPS while revenue was in line but it cut FY23 adj. EPS view. **Scholastic (SCHL)** announced it would increase its share repurchase amount by USD 100mln. **Sunnova Energy International (NOVA)** downgraded at BMO Capital Markets; said although it is "constructive" on growth in the long term, the current macro environment for the residential solar industry in the US remains challenging.

WEEKLY FX WRAP

Dollar aided by US data and abetted by default

USD/GBP/JPY - What a difference a week made for the Greenback that weathered several bouts of weakness before finding a base and gathering recovery momentum, partly on supportive macro fundamentals and largely at the expense of others. The DXY failed to garner any lasting impetus from an upbeat NY Fed manufacturing survey (in current terms rather than forward-looking components) in similar vein to its post-UoM sentiment fade, but the index held just above 99.500 and never looked back again. Retail Sales data was mostly weaker than expected and IP missed consensus by some distance, but the Buck's saving grace came via the control group that was twice as strong as forecast and feeds into GDP. However, the real turning point for the Dollar arrived on Wednesday when Sterling swooned on the back of cooler than anticipated UK CPI metrics and the first undershoot against expectations since the start of the year. Moreover, the slowdowns in headline and core inflation likely prompted a bigger reaction due to optics as y/y rates fell from 8.7% to 7.9% and 7.1% to 6.9% respectively, not to mention the fact that the latter was seen unchanged. Cable collapsed and the DXY took advantage of the Pound's plunge along with contagion to end Wednesday's session above 100.000. Back to US specifics, and the latest weekly claimant count defied consensus for a rise, to print at the lowest level since May and only second smallest tally in four months instead. Moreover, it carried more weight as the sample for July NFP and propelled the Dollar up to a higher plane, with the index only stalling a fraction shy of 101.000 and Cable reversing further from its pre-inflation (and w-t-d) peak of 1.3126 to the brink of the 21 DMA sub-1.2850. Fast forward to Friday, and in theory a reprieve for Sterling given better than anticipated UK retail sales, but Cable barely peered over 1.2900 before falling in sympathy with the Yen in wake of BoJ sources chiming with official guidance signalling scant prospect of a YCC tweak next week. In truth, Usd/Jpy had already rebounded firmly from around 137.71, through various option expiries, Japanese exporter offers and especially big barriers at 140.00 before running into more resistance at 140.50 as the semi round number aligned with the 50 DMA, but the subsequent rally to almost 142.00 was fast and furious. Indeed, 141.00 did not pose a problem and the headline pair hurdled 141.16 without fuss even though the latter marked the 50% retrace of the fall from June apex to July nadir. There was some retrenchment when Japan's top currency diplomat responded to the moves with the usual words of warning, but the Greenback remained well bid on dips and DXY on track to end the week bullishly after reaching a 101.190 apex, while Cable looks increasingly vulnerable in the low 1.2800 zone.

NZD/AUD/CAD - Positive vibes and impulses for the Kiwi and Aussie seem to fly by, but for the record NZ Q2 CPI readings were a tad above forecast, albeit much much softer than previous on a y/y basis, RBA minutes revealed another close call between hiking 25 bp and the decision to pause delivered and the latest Australian jobs report was stellar, though not as bumper as the prior month. Meanwhile, Aud/Usd derived some external traction from strenuous efforts to prop up the Yuan, but only intermittently as it eventually tumbled from 0.6849 to 0.6723 and Nzd/Usd underperformed as it faced Aud/Nzd headwinds within a rising 1.0727-1.0903 channel and dropped to 0.6170 from 0.6368 against the backdrop of the broad Buck revival and virtual 100% probability that the Fed will hike 25 bp this month. Conversely, the Loonie had to contend with softer than consensus Canadian inflation and retail sales data vs a housing starts beat and buoyant crude prices, as Usd/Cad climbed from 1.3120 to 1.3243 at the extremes.

CHF/EUR - The Franc gleaned some comfort from softer yields at the tail end the week, but still lost out to its US rival with Usd/Chf elevated between 0.8556+0.8684 bounds, while the Euro endured a similar fate and was also undermined by unusually dovish rhetoric from renowned hawk Knot along the way. To recap, he described a July hike (25 bp priced in and flagged) as a necessity, but tightening beyond that only a possibility and added that inflation could have plateaued and more tightening shifts the balance of risks towards too much. Hence, Eur/Usd breached a series of chart supports and option expiry strikes as it descended to within single digit pips of 1.1100 from 1.1275 at best.

SCANDI/EM - Nok outperformance compared to the Sek or vice-versa, and vs the Eur should be taken in context of Brent forming a solid platform around Usd 80/brl, while the Cny and Cnh needed a lot to supplement heavily skewed PBoC midpoint fixings to contain declines against the Usd after Chinese Q2 y/y GDP disappointed on the downside and sparked a string of downgrades to 2023 growth forecasts. In short, China reportedly eased cross border funding via the macro-prudential parameter by lifting the adjustment for firms and financial institutions to 1.50 from 1.25, while a raft of support measures were unveiled, including a multi-point initiative aimed at boosting household consumption. Elsewhere, the Mxn was underpinned by WTI and the Rub by the CBR hiking rates double the 50 bp consensus, but the Try was short-changed by the CBRT again as it raised 'just' 250 bp vs forecasts averaging 500 bp and tried to compensate via a combination of quantitative and credit tightening. The Zar was not expecting the SARB to do anything, so relied on Gold for protection and was mostly obliged as the yellow metal rose in value from Usd 1945.65/oz to Usd 1987.39 before easing back when the Usd bounced.

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