



# US Market Wrap

## 24th July 2023: Stocks rise and Treasuries flatten after mixed PMI data

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** Mixed US PMIs, but accompanying commentary concerning; Weak Eurozone and UK PMI data; BoJ reportedly mulling a large increase in its 2023 inflation outlook; China's Politburo pledges further support with little specifics; AAPL look to ship similar iPhone levels to 2022 & mulls raising pro models price; Better-than-average US 2yr auction; Bayer cuts FY guidance.
- **COMING UP: Data:** German Ifo, US Consumer Confidence **Supply:** UK, Italy & US **Earnings:** EssilorLuxottica, Kering, LVMH, UniCredit, Unilever, Microsoft, Alphabet, Visa, Moody's & GE.
- **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 were ultimately firmer on Monday in a choppy days trade while Treasuries bear flattened and oil prices surged with gold lower but the Dollar higher. The highlights on Monday ahead of the Fed on Wednesday was the global PMI data, which saw a bout of weakness in the Eurozone and the UK whereas the US figures were more mixed but accompanied with some dire commentary and warning of persistent inflation. China's Politburo also released a statement, pledging more support but with little specifics which did help China ADRs outperform. The Treasury curve bear flattened after the data and was led by a hefty block sale in the 2yr ahead of the auction, which overall was better than averages but not as strong as the prior. Crude prices rallied on China stimulus hopes following the aforementioned Politburo statement while the Dollar upside was driven by the weaker Euro following weak PMI data.

## US

**PMI:** The US S&P Global Manufacturing PMI survey beat, rising to 49 from 46.3 and above expectations of 46.4 - also above the top end of analyst forecasts which ranged between 45.3-47.5. The Services PMI missed, however, falling to 52.4 from 54.5 and beneath expectations of 54.1, albeit still remaining in expansionary territory. The services data was towards the bottom end of forecasts, ranging between 52-55.9. Overall, the composite fell, but remained in expansionary territory, printing 52 from the prior 53.2. It also noted the overall rate of output growth is consistent with GDP expanding at an annualized quarterly rate of 1.5% at the start of Q3, down from the 2% signalled in Q2 (note Q2 GDP due Thursday). Commentary within the report was quite dire. Looking ahead, the report noted business optimism has deteriorated sharply to the lowest seen so far this year. It also noted that growth is being entirely driven by the service sector, particularly rising spend from international clients which is helping offset a becalmed manufacturing sector and increasingly subdued demand from US households and businesses. Commentary on inflation saw it not stickiness of price pressures remains a major concern; "As the survey index of selling prices has acted as a reliable leading indicator of consumer price inflation, anticipating the easing to 3% in June, it sends a worrying signal that further falls in the rate of inflation below 3% may prove elusive in the near term." On employment, it noted firms expanded workforce numbers at the start of Q3, but the rate of job creation was only marginal and at the weakest since January. New Orders were more encouraging, remaining in expansionary territory, but still at a softer pace where it noted a sustained rise in new export orders for services helped support the upturn as domestic demand lost some momentum, often due to higher interest rates.

## FIXED INCOME

### T-NOTE FUTURES (U3) SETTLED 5+ TICKS LOWER AT 112-02



**Treasuries bear flattened ahead of supply and in wake of PMI data and huge 2yr block trade ahead of the auction**. At settlement, 2s +4.3bps at 4.891%, 3s +3.6bps at 4.483%, 5s +3.0bps at 4.123%, 7s +2.2bps at 3.994%, 10s +1.6bps at 3.855%, 20s +1.0bps at 4.116%, 30s +1.1bps at 3.918%.

**INFLATION BREAKEVENS:** 5yr BEI +4.6bps at 2.397%, 10yr BEI +3.3bps at 2.382%, 30yr BEI +2.0bps at 2.322%.

**THE DAY:** Treasuries started the session grinding higher in wake of disappointing EZ PMI reports as well as in the UK. The upside was also buoyed by more Chinese stimulus hopes following the Politburo meeting statement which highlighted the challenges it faces with insufficient domestic demand and that it will be actively expanding domestic demand, essentially pledging more support but without much specifics. T-Notes topped out at 112-17+ just before the US equity open and ahead of the S&P Global PMI data. The data was mixed, seeing manufacturing beat (but remain in contractionary territory) while services missed, seeing the composite fall. Commentary around inflation was quite concerning too, noting the persistence of sticky inflation and worries that further falls in rate of inflation below 3% may prove elusive in the near-term. Treasuries then sold off into the 2yr auction, aided by some future sales while the front end selling was led by a huge block sale of c 43k in the 2yr at 101-213, a few hours before the 2yr auction, which ultimately was better than average but not as strong as the prior, but it did see a 0.3bp tail.

**2YR AUCTION:** Overall, a better-than-average auction but not as strong as the prior one. Although we did see a 0.3bp tail at this auction (prev. stop through of 0.8bps and avg stop through of 0.1bp), the B/C at 2.78x (prev. 2.86x) was marginally above the six-auction average, but not as strong as last month's auction. Dealer take down was also better than the average with direct demand rising to 20.8% from 18.2%, above the 19.9% average. Indirect demand was also stronger than recent averages, but not as strong as the prior month's auction.

#### STIRS:

- SR3U3 -2.0bps at 94.580, Z3 -2.5bps at 94.620, M4 -3.5bps at 95.230, U4 -5.0bps at 95.615, Z4 -6.0bps at 95.950, H5 -6.0bps at 96.200, M5 -6.0bps at 96.350, U5 -6.0bps at 96.445, U6 -3.0bps at 96.650, U7 -1.0bps at 96.665 Z7 -1.0bps at 96.635.
- US sold USD 70bln of 3-month bills at 5.270%, covered 2.82x; sold USD 62bln of 6-month bills at 5.270%, covered 2.89x
- NY Fed RRP op demand unchanged at USD 1.771tln across 99 counterparties
- SOFR falls to 5.05% from 5.06% as of July 21st, volumes fall to USD 1.4bln from 1.46bln.
- EFFR flat at 5.08% as of July 21st, with volumes falling to USD 110bln from 111bln.

## CRUDE

**WTI (U3) SETTLED USD 1.67 HIGHER AT 78.74/BBL; BRENT (V3) SETTLED USD 1.60 HIGHER AT 82.48/BBL**

**The crude complex was firmer to start the week with WTI and Brent front-month futures hitting 3-month highs on China's stimulus hopes.** Regarding this, China's Politburo meeting will be eyed for hints of further stimulus measures in the world's second-largest economy and the [initial statement](#) vowed to optimise and adjust property policies while adding the economy faces new difficulties and challenges mainly due to insufficient domestic demand but it will actively expand domestic demand. Nonetheless, oil ground higher throughout the duration of the US session to see WTI and Brent hit highs of USD 79.28/bbl and 82.90/bbl, respectively, as market participants await the week's key risk events in the form of central bank meetings (FOMC, ECB, BoJ), data, and earnings. Elsewhere on the day, according to Ria, Russia is reportedly looking at limiting the number of gasoline exporters and deputy PM Novak has supported proposals to limit number of oil product exporters. As a reminder, on Friday he noted Russia is not ruling out introducing oil export products quotas and that some domestic refineries postponed maintenance to a later date.

## EQUITIES

**CLOSES:** SPX +0.40% at 4,554, NDX +0.14% at 15,448, DJIA +0.52% at 35,411, RUT +0.28% at 1,965.

**SECTORS:** Energy +1.66%, Real Estate +0.99%, Financials +1.01%, Consumer Discretionary +0.52%, Communication Services +0.46%, Materials +0.31%, Consumer Staples +0.38%, Technology +0.26%, Industrials +0.24%, Health -0.23%, Utilities -0.28%.

**EUROPEAN CLOSES:** DAX 40 +0.08% at 16,191, FTSE 100 +0.19% at 7,679, CAC 40 -0.07% at 7,427, Euro Stoxx 50 -0.20% at 4,383, IBEX 35 -0.29% at 9,544, FTSE MIB +0.18% at 28,908, SMI -0.27% at 11,177.



**STOCK SPECIFICS:** **Apple (AAPL)** suppliers are to ship about 85mln iPhones in 2023, which would be similar to 2022 levels, and it reportedly mulls raising the price for pro models, according to Bloomberg. **Tesla (TSLA)** was downgraded at UBS; noting the recent uptick fully accounts for the demand boost prompted by recent price cuts. In other news, Tesla execs are to meet with the Indian Commerce Minister this month to discuss plans for a factory to build a new USD 24k car, according to Reuters sources. **AMC (AMC)** had a court reject a settlement that would have allowed the co. to sell more shares. The court ruled the deal was unfair to preferred shareholders, blocking any future legal claims. **Domino's Pizza (DPZ)** beat on profit and international SSS, but revenue and US SSS missed expectations. **American Express (AXP)** was downgraded at Piper Sandler amid concerns over the co. hitting its revenue and profit growth targets. **Kodiak Sciences (KOD)** decided to discontinue the development of its experimental drug to treat a type of eye disorder. The decision comes after it failed to meet the main goal in two late-stage studies testing its antibody-based drug. **Chevron (CVX)** prelim profit beat and announced long-time co. veteran Eimear Bonner would become the next CFO next year. **Shopify (SHOP)** was upgraded at MoffettNathanson; said that Shopify's enterprise business is approaching an inflection point. China Stocks in the US surged with some desks attributing it to Politburo signalling property easing and its focus on investment concerns. China's top leaders on Monday signalled more support for the housing sector, even though they fell short of announcing mass-scale stimulus to support a waning economic recovery. **Verizon (VZ)** reportedly plans to boost wireless internet by USD 10/month, according to Bloomberg.

## US FX WRAP

**The Dollar** was firmer on Monday aided by the EUR and GBP weakness (more below) and a rebound in US Treasury yields. The Greenback hit a high of 101.42 in quiet trade, aside from a few nuggets, ahead of the week's key risk events where the main event is the FOMC (preview here), followed by ECB, BoJ, a slew of earnings and data. Nonetheless, back to Monday, the highlight was mixed US PMIs where the composite fell to 52.0 (prev. 53.2), manufacturing rose to 49.0 (prev. 46.3) above the expected 46.4, albeit still in contractionary territory, while services dipped to 52.4 (prev. 54.4, exp. 54.1). Accompanying the release there was some cautious commentary, as it noted business optimism about the year-ahead deteriorated sharply to the lowest seen so far this year, and the stickiness of price pressures remains a major concern sending a worrying signal that further falls in the rate of inflation below 3% may prove elusive in the near term. Overall, this report is unlikely to do too much to sway the Fed's thinking on Wednesday with no other tier 1 data points scheduled beforehand. A 25bps hike is widely expected and attention will lie on Fed Chair Powell's commentary for future decisions, which will be made on a meeting-by-meeting and data-dependent basis.

**EUR** was the G10 underperformer vs the Buck, with **GBP** not far behind, after the disappointing Eurozone and UK PMIs in the European morning where misses were seen across the board. As such, EUR/USD hit a low of 1.1061 vs a high of 1.1146, and resides around the trough at pixel time as participants await the ECB on Thursday where a 25bps is as close to a dead-cert as possible. For the Pound watchers, Cable hit a low of 1.2799, but only briefly succumbed beneath 1.2800.

**Antipodeans** were firmer, with the NZD continuing to outperform, albeit with a large helping hand from its Antipodean counterpart rather than NZ specifics as AUD/NZD retreated sharply when the Aussie was undermined by declines in two out of three PMIs. Aside from this, newsflow was light for the Antipodes as traders await the risk events later in the week. AUD/USD traded within very narrow ranges (0.6716-56) while NZD/USD saw a peak of 0.6215 vs a low of 0.6157. Looking ahead, Australian CPI is on Wednesday followed by PPI on Friday.

**CAD** saw marginal gains vs the Buck and in light of anything Loonie specific, it seemed to be aided by the firmer crude complex after China stimulus tailwinds. Do note, a BoC Survey (June 8th-19th) finds most Canadian market participants see BoC holding rates at 5.0% until end-2023 and starting to cut rates in 2024.

**Safe-havens** were mixed. JPY firmed and regained some poise amid assistance from latest BoJ source reports suggesting the Bank could upgrade its projection for inflation in the current fiscal year to circa 2.5%, but came off best levels as US Treasury yields recovered. As such, this aforementioned Treasury yields fightback also weighed on the Swissy with USD/CHF printing a high of 0.8690. As stated, the Yen watchers will be awaiting the BoJ rate decision on Friday which will be accompanied by its latest Outlook Report which contains Board members' median forecasts for Real GDP and Core CPI. Press reports have noted expectations that the BoJ could raise the inflation forecast above the 2% target level at the upcoming meeting, which if confirmed, could be seen to pave the way for policy normalisation.

**EMFX** was mixed vs the Dollar, with MXN, BRL, and ZAR sitting atop of the pile. The Mexican Peso saw slightly firmer first-half inflation metrics, while the Rand was initially propped up in tandem with Gold but the yellow metal could not sustain its gains. The Yuan initially derived traction via tech support in addition to Chinese President Xi saying the Government will strive to achieve the annual development goals and China's FX regulator issuing draft measures on facilitating cross-border trade and investment, including relaxed restrictions on upfront costs for overseas direct investment. In addition, the Yuan saw some strength on the Politburo reports. TRY was flat, while CLP, HUF and ILS



were all lower with the Israeli Shekel weighed on reports that the Israel judicial compromise talks have collapsed in addition to Parliament ratifying the contested law limiting some supreme court powers.

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