US Market Wrap

25th July 2023: Tech leads stocks higher while Dollar is unperturbed ahead of mega-cap earnings and FOMC

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW**: Dismal German Ifo data; Strong US Consumer Confidence; Richmond Fed remains sluggish; Lacklustre 5yr auction; 3M earnings beat & raised profit outlook; RTX discovers manufacturing defect in its Pratt & Whitney unit; further Chinese stimulus touting; Decent LVMH metrics, but US sales fall; Columbia Gas Transmission pipeline declares force majeure; BANC in advance talks to acquire PACW.
- **COMING UP**: **Data**: Australian CPI, US New Home Sales **Events**: FOMC Policy Announcement **Speakers**: Fed's Powell **Earnings**: Poste Italiane, Leonardo, Porsche AG, Santander, Danone, Deutsche Bank, Stellantis, Equinor, Airbus, GSK, Lloyds, Boeing, Meta, Thermo Fisher, Coca-Cola.
- **WEEKLY US EARNINGS ESTIMATES**: [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 firmer Tuesday with tech (NDX) leading the gains, particularly semiconductors (aided by NXPI report), while the Russell 2k notably underperformed alongside regional banks (KRE) on the back of the PacWest merger takeover announcement. Earnings were largely solid, barring DOW who added to the general chemicals sector malaise, while RTX got hit hard after announcing engine flaws despite a solid report. Large-cap tech traded generally firmer too ahead of some key earnings reports. Consumer confidence was the data highlight in the US, with a mixed Richmond Fed index in the backdrop, while in Europe, the miss in the German Ifo survey was accentuated by a dismal ECB bank lending survey, raising speculation on whether the ECB would hike beyond this Thursday. As such, in FX, the Euro underperformed while the Dollar more broadly traded flat ahead of the FOMC; Yuan and Aussie outperformed on continued China stimulus momentum. Treasuries continued to bear flatten after the strong consumer data and weak 5yr auction capping any recovery. The crude complex continued its ascent higher to fresh multi-month highs, while nat gas futures saw spikey price action after a force majeure incident on the key Columbia Gas Transmission pipeline.

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FOMC PREVIEW: The Fed is widely expected to hike rates 25bps in July, taking the target for the Federal Funds Rate to 5.25- 5.50%. Markets, and the majority of economists, expect this to be the peak of the hiking cycle, despite Fed guidance for two more rate rises this year (including July). Therefore, attention will lie heavily on any guidance from Powell in his press conference, but he is likely to reiterate a data-dependent approach and not commit to any future decisions, noting they will be taking each meeting as it comes. Any language around the June dot plots, and whether they are still a reasonable estimate after cool inflation data will be key. Note, Fed speakers since the inflation data still noted two more hikes is a reasonable projection and Powell is likely to do the same. Many, including Goldman Sachs, see the Fed in an every-other-meeting stance, implying a skip in September, and then deciding what to do in November based on the data - but markets and economists primarily expect July to be the last hike with many forecasting a continued cooling of inflation. Recent data has shown an easing of price pressures alongside a resilient economy, although there has been some loosening in the labour market, it is still above pre-COVID averages, and the slowdown is not enough to signal an immediate recession. When combining the data, it supports the argument of a soft landing. However, it is worth noting that although inflation is slowing, the Fed will be reluctant to declare victory just yet in case of a repeat of the 1970s, but Powell did previously state the balance of risks is now more balanced in terms of doing too much or too little. To download the full Newsquawk preview, please click here.

CONSUMER CONFIDENCE: The Conference Board Consumer Confidence data for July rose to 117 from 110.1 in June, upwardly revised from 109.7. The jump was led by the forward-looking expectations component, where 17.1% of consumers expect business conditions to improve, up from 14.6%. Meanwhile, 14.0% expect business conditions to worsen, down from 17.7% in June. The Present Situation, however, was slightly less optimistic in July, 21.9% of consumers said business conditions were "good", down from 23.4% last month, and 15.2% said business conditions were "bad", essentially unchanged from the prior 15.3%. Signs of tightness in the labour market reemerged, where the percentage of respondents who said jobs were hard to get fell back nearly to cycle lows, with the widely-followed differential (jobs plentiful minutes jobs hard to get) widening significantly in July from its post-COVID lows in June. On a recession, consumers' perceived likelihood of a US recession over the next 12 months ticked up in July, but remained below the recent peak earlier in the year. On finances, families' current financial situation signalled still-healthy family finances, but the six-month outlook softened. Overall, the Conference Board's data gives weight to the spike in the prelim Uni of Michigan survey earlier in July, and in broad strokes, reduces the likelihood of any imminent recession.

RICHMOND FED: Richmond Fed manufacturing activity continued to be sluggish in July, highlighted by the composite index edging lower to -9.0 (prev. -8.0). Within this, two of its three components, shipments and new orders, dipped to -6 (prev. -5.0) and -20 (prev. -16), respectively. Although, the employment index rose to 5 (prev. -1.0). Delving further, firms remained somewhat pessimistic about local business conditions, as the index printed -9. The report adds, many firms continued to report reductions in orders backlogs and vendor lead time as these indices remained negative. On the inflationary footing, prices paid and received both ticked lower to 4.07 (prev. 4.56) and 4.01 (prev. 4.56), respectively.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 14+ TICKS LOWER AT 111-19+

Treasuries continued to bear flatten Tuesday with strong consumer confidence data and a lacklustre 5yr auction ahead of FOMC. 2s +5.6bps at 4.895%, 3s +6.0bps at 4.548%, 5s +6.6bps at 4.193%, 7s +6.6bps at 4.063%, 10s +5.3bps at 3.910%, 20s +3.8bps at 4.157%, 30s +3.1bps at 3.951%.

INFLATION BREAKEVENS: 5yr BEI +0.0bps at 2.417%, 10yr BEI -0.8bps at 2.390%, 30yr BEI -1.6bps at 2.315%.

THE DAY: T-Notes lacked direction for the APAC session on Tuesday with contracts in a 111-28/112-01+ range. Contracts edged to new lows as European trade got underway and were only temporarily supported on the back of the disappointing German Ifo survey and the ECB's Q2 bank lending survey showing demand for loans hitting its lowest level since the survey began in 2003.

T-Notes continued their slow descent into the NY handover with desks pointing to China stimulus catalysing concession into the 5yr and 7yr auctions with the FOMC in between the two offerings. Contracts made session lows of 111-17+ before bouncing off lows alongside a massive 25k 5yr future block buy that catalysed a lift of the whole curve into the NYSE stock cash open. 111-25+ served as resistance for the rest of the session with the strong consumer confidence data, weak 5yr auction, and new multi-month peaks in oil prices capping any meaningful recoveries. At the same time, the 111-17+ lows were respected with some caution ahead of the FOMC.

5YR AUCTION: A lacklustre auction from the Treasury with USD 43bln of 5yr notes sold at 4.170%, the highest yielding auction since October 2022, yet the concession wasn't enough as evidenced by the 0.4bp tail (vs six-auction avg. 0.7bp stop-through). The bid/cover ratio at 2.60x, north of the prior 2.52x and avg. 2.54x, was the silver lining. The buyer breakdown saw mixed activity, with Dealers (forced surplus buyers) left with a chunky 13.5% (prev. 12.2%; avg. 11.4%) with the tumble in Indirects demand to 64.4% from 68.1% more than offsetting the jump in Directs to 22.1% from 19.7%. A disappointing demand reception for the Treasury when taking into account the decent sell-off into the offering, but the results have to be taken in the context of the approaching FOMC with uncertainty over how the guidance will come in.

STIRS:

- SR3U3 -2bps at 94.565, Z3 -3bps at 94.59, H4 -3.5bps at 94.84, M4 -4bps at 95.18, U4 -5.5bps at 95.555, Z4 -7 bps at 95.88, H5 -7.5bps at 96.12, M5 -8.5bps at 96.265, U5 -8.5bps at 96.36, U6 -8bps at 96.57, U7 -7bps at 96.59.
- SOFR flat at 5.05% as of July 24th, volumes fell to USD 1.365tln from 1.400tln.
- NY Fed RRP op demand falls USD 50bln to 1.721tln across 96 counterparties (prev. 99), coinciding with a USD 35bln T-bill settlement.
- EFFR flat at 5.08% as of July 24th, volumes fall to USD 101bln from 110bln.
- US sold USD 50bln of 42-day CMBs at 5.275%, covered 3.53x.
- Treasury leaves 4-, 8-, and 17-week bill auction sizes unchanged at USD 70bln, 60bln, and 46bln, respectively.

THIS WEEK:

- *WED: **FOMC Announcement**, US New Home Sales (Jun), 2yr FRN auction, Australian CPI (Jun).*
- *THU: **ECB Announcement, US GDP Advance/PCE (Q2)**, Durable Goods (Jun), Jobless Claims, Pending Home Sales (Jul), KC Fed index (Jul), **7yr auction**.*
- *FRI: **BoJ Announcement & Outlook Report, French Flash CPI (Jun), Spanish Flash CPI (Jun)**, EZ Business Confidence Survey (Jul), **US PCE (Jun), ECI (Q2)**, UoM survey final (Jul).*

CRUDE

WTI (U3) SETTLED USD 0.89 HIGHER AT 79.63/BBL; BRENT (V3) SETTLED USD 0.77 HIGHER AT 83.25/BBL

The crude complex continued its ascent higher to fresh multi-month highs amid further stimulative pledges by China alongside potential supply concerns. Nonetheless, WTI and Brent initially trimmed some of their recent gains in the European morning on German growth concerns, where the Ifo survey missed and declined, indicating a growth contraction in Q3. However, throughout the US session and in fitting with improving risk sentiment/stock strength, WTI and Brent grinded higher to peaks of USD 79.87/bbl and 83.46/bbl, respectively, ahead of the FOMC on Wednesday. Back to newsflow, Kazakhstan Energy Minister noted there are no issues with shipping Kazakh crude via Russia amid Black Sea tensions, although due to unplanned maintenance, Tengizchevroil has reduced daily output by 12-13k/T. Looking ahead, US energy inventory data is on deck, with the private figures due after-hours; current analyst expectations (bbl): Crude -2mln, Distillates -0.1mln, Gasoline -2.0mln.

NAT GAS: Henry Hub futures ripped higher - but struggled to sustain the gains later on - after TC Energy's (TRP) Columbia Gas Transmission declared a force majeure on line VB due to an unplanned event near Strasburg, Virginia, with physical deliveries to Loudoun LNG interconnect having been impacted. The force majeure followed updates not long before that TC Energy detected a pressure drop on the Columbia Gas Transmission pipeline located alongside Interstate 81 in Strasburg, Virginia, where it notified of a fire in the vicinity and said it was working with local authorities to investigate and respond. For reference, the Columbia Gas Transmission system extends from New York state to the Midwest and Southeast, serving as a link between major natural gas basins and major markets.

EQUITIES

CLOSES: SPX +0.28% at 4,567, NDX +0.73% at 15,561, DJIA +0.08% at 35,438, RUT +0.02% at 1,966.

SECTORS: Materials +1.76%, Technology +1.19%, Energy +0.57%, Communication Services +0.43%, Utilities +0.22%, Consumer Staples -0.05%, Health -0.06%, Industrials -0.13%, Consumer Discretionary -0.23%, Financials -0.73%, Real Estate -0.74%.

EUROPEAN CLOSES: DAX 40 +0.13% at 16,211, FTSE 100 +0.17% at 7,691, CAC 40 -0.16% at 7,415.45, Euro Stoxx 50 +0.21% at 4,391, IBEX 35 -0.25% at 9,519, FTSE MIB +0.20% at 28,966, and SMI +0.55% at 11,239.

EARNINGS: **3M (MMM)** beat on the top and bottom line; raised FY EPS view. **General Motors (GM)** surpassed expectations on EPS and revenue; lifted FY guidance after showing strong Q2 sales. However, weakness was seen in the name after CEO said Ultium battery production has been delayed by problems at an equipment supplier, and also GM are planning a new generation of its Bolt EV (prev. said it would discontinue the Bolt at the end of this year). **Dow (DOW)** beat on the quarter metrics, but Q3 revenue guide fell short and is the latest chemical name to offer a concerning update, after Bayer, Evonik, Lanxess, BASF, and FMC Corp all gave woeful updates over the last month. **Verizon (VZ)** beat on profit but missed on revenue; confident in achieving FY financial targets, and as such reaffirmed guidance. **Biogen (BIIB)** beat on earnings and reaffirmed FY profit outlook; plans to cut 1000 jobs and net USD 700mln in cost reductions by 2025. **NXP Semiconductors (NXPI)** posted a strong report; top and bottom line beats in addition to Q3 guidance topping St. consensus. **Danaher (DHR)** cut annual sales growth and sees Q3 sales to be down low single digit Y/Y. Note, EPS and revenue beat. **General Electric (GE)** exceeded expectations on profit and revenue alongside lifting FY EPS view. **Nucor (NUE)** fell short on revenue and expects earnings in Q3 to decrease vs Q2. Note, EPS did come in above expectations. **Sherwin-Williams (SHW)** beat on EPS and revenue; upgrade FY23 guidance. **Spotify Technology (SPOT)** posted a much deeper loss per share than expected and missed on revenue and ARPU. Q3 revenue guide also disappointed. Note, total premium subscribers beat, as did MAUs which grew 27% Y/Y while Q3 MAUs guide was better than forecasted. **RTX (RTX)** discovered a manufacturing defect in its Pratt & Whitney unit from a rare condition in powered metal used to make certain engine parts. However, EPS and revenue beat and raised FY guidance. **Pultegroup (PHM)** beat on EPS, revenue, and net new orders with the latter rising 24%. FY deliveries view topped expected. F5 Networks (FFIV) posted a top- and bottom-line beat. **LVMH (LVMUY)** beat on revenue, but US sales fell 1% but is very pleased with China. On the macro front, it does not expect further price hikes in the near term. Meanwhile, the Wines & Spirits segment sales grossly disappointed as it declined 8% against an expected 0.7% fall.

STOCK SPECIFICS: **Banc of California (BANC)** is in advanced talks to buy **PacWest Bancorp (PACW)**, in a deal that could be announced as early as Tuesday, according to WSJ. **Intel (INTC)** is reportedly planning price hikes across all “Core” CPUs as part of restructuring policy, according to wffctech citing sources. **Walmart (WMT)** upgraded at Piper Sandler; said Walmart could take greater market share in the grocery business as inflation eases. **Amazon (AMZN)** and **iRobot (IRBT)** revise offer price, AMZN will pay IRBT USD 51.75/shr (prev. 61.00/shr). Teamsters reached tentative agreement for workers of **UPS (UPS)**; existing full-and-part time UPS/Teamsters will get USD 2.75 more per hour in 2023 and USD 7.50 more per hour over the length of the contract. **Meta (META)** offered to limit use of ad data to address EU antitrust concerns but offer was rejected by EU antitrust enforcers, according to Reuters sources. **Progressive (PGR)** downgraded at Morgan Stanley; said too many negative catalysts as its reason for the downgrade.

US FX WRAP

The Dollar was ultimately flat, and within thin ranges (101.180/101.650 DXY range), on Tuesday as participants await the FOMC meeting (preview here) on Wednesday. Briefly, the Fed is widely expected to hike rates 25bps, but markets, and the majority of economists, expect this to be the peak of the hiking cycle, despite Fed guidance from the June SEPs for two more rate rises this year (including July). Therefore, attention will lie heavily on any guidance from Powell in his press conference, but he is likely to reiterate a data-dependent approach and not commit to any future decisions, noting they will be taking each meeting as it comes. Elsewhere, earnings have been at the forefront today, but on the data docket, the Richmond Fed Manufacturing index remained sluggish in July while Consumer Confidence smashed expectations.

Euro was the G10 underperformer and some pressure was seen in the currency following the disappointing German Ifo release, the headline business climate fell beneath analyst expectations, primarily led by a decline in current conditions, although on the plus side expectations beat expectations, and only marginally declined from the prior. We also saw the latest Euro area bank lending survey which saw demand for loans by firms in Q2 fall to the lowest level since the survey began in 2003 as access to credit continues to be tightened. With the ECB on Thursday, the survey allied with the soft PMI metrics on Monday, will be food for thought for the ECB and will likely temper some of the more hawkish views on the Governing Council over how much more tightening is required/the bloc can handle.

Antipodeans were firmer against the Buck, albeit to varying degrees, with the AUD outperforming and continuing to climb on account of the coattails of the Yuan's strength as participants await Australian Q2 CPI for a new catalyst. In addition, AUD/USD got nearer to the 10 DMA just shy of 0.6800 as the cross hit a high of 0.6792, while AUD/NZD rebounded further towards 1.0920 as the Kiwi lagged behind, albeit establishing a firmer foothold above 0.6200 vs. the Buck. Domestically, HSBC economists expect the Australian monthly inflation indicator to decline to 5.3% Y/Y (exp. 5.4%), while price pressures during Q2 should fall to 1.1% Q/Q (exp. 1.0%), slightly lower than the RBA's forecast of 1.2%.

The Yuan was supported after Reuters source reports noted China's major state-owned banks are seen selling Dollars in the offshore and onshore spot FX markets. There were several personnel changes in China too, as it appointed Pan Gongsheng as the new PBoC Governor after removing Yi Gang, and also appointed Wang Yi as Foreign Minister, replacing Qin Gang. It was also later reported that the Chinese Securities Regulator is to further deepen the reform and opening up of the capital market, noting it continues to maintain stable financing channels for real estate enterprises in capital markets.

Pound and **Swissy** both firmed with similar gains vs the Dollar as the former was supported by improved UK manufacturing orders in addition to profiteering off the Euro's slide. EUR/GBP reversed to lows around 0.8566 amid the prospect of ECB rate hikes falling further behind the BoE. Meanwhile, the Swissy was resilient and seemed to draw encouragement from the fact that it held very close to 0.8700 against the Greenback when the pressure really mounted and USTs fell to session lows.

Yen saw slight gains as the currency is perhaps benefitting from an element of pre-BoJ positioning, while desks note Yen weakness on expectations BoJ policy will be unchanged on Friday have mostly been priced in, but there's still some cautiousness over a Yen bullish shock hike to its JGB yield cap, despite the formal pushback last week.

EMFX was predominantly lower aside from the ZAR which saw pronounced strength vs the Greenback, as the Rand continues to extend its current recovery and benefit from the improving risk sentiment. Furthermore, desks note against a backdrop of Chinese economic stimulus, falling inflation at home and abroad and a potential near-term peak in US interest rates, the Rand is set to record back-to-back monthly gains versus the Dollar, and while the South African economy is still at risk from Eskom power outages, the current power generation situation is more favourable than expected despite increased seasonal demand for electricity. Meanwhile, BRL, MXN, and HUF were all lower with the Real weighed on by slightly weaker-than-expected 15-day inflation data for July. Ahead of the release, HSBC noted, "any significant downside surprise in the release could increase market pricing of rate cuts for the central bank meeting on 2nd August, which would curtail the recent rally". HSBC economics expects a 25bps cut, but the market is pricing in close to 50bps, but the bank still expects BRL to continue to perform fairly well regardless of near-term BCB action given the strong external fundamentals and subdued political risks. HUF weakened after the NBH narrowed its rate corridors again and the MXN did not get a boost from stronger-than-consensus Mexican IGAE economic activity. CZK made headway regardless of rather conflicting CNB comments as the debate on when cuts can take place gains traction.

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