US Market Wrap

26th July 2023: Markets chop as Powell avoids future rate commitments

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Fed hike 25bps, as expected; Powell stresses a data-dependent approach and no decision has been made about future meetings; Smaller-than-expected DoE crude draw; Soft Australian CPI; KO earnings beat & raised FY guidance; Strong GOOGL report driven by core advertising units growth; MSFT issue disappointing AI guidance.
- **COMING UP**: **Data**: German Gfk, US Durable Goods, PCE Prices Advance, IJC, GDP Advance **Events**: ECB Policy Announcement **Speakers**: ECB's Lagarde **Supply**: Japan, Italy & US **Earnings**: L'Air Liquide, BNP Paribas, Mercedes-Benz, ArcelorMittal, L'Oreal, Poste Italiane, Renault, Schneider Electric, STMicroelectronics, TotalEnergies, Volkswagen, Anglo American, Barclays, BT, Shell, McDonalds, Ford, Abbvie, Mastercard, Intel Corp.

MARKET WRAP

Stocks headed lower ahead of the Fed rate decision which saw a 25bp hike as expected with the statement a copy & paste job from June, albeit with the acknowledgement activity grew at a moderate pace (prev. modest). The statement and rate decision sparked little reaction but the press conference saw two-way movements. Markets perceived the initial half of the presser as dovish with Powell avoiding any commitment to future rate hikes and stressing a data-dependent approach, although he did note they are prepared to hike if the data deems it necessary. The SPX saw a peak of 4610 before paring with Powell repeating the June SEPs that the FOMC does not see inflation returning to the 2% target by 2025 (those forecasts incorporate one more rate hike after today, based on the dot plots in June). Stocks completely unwound their gains with the Nasdaq underperforming following MSFT earnings (disappointing AI guidance) from after hours Tuesday while the Russell 2k outperformed on a regional bank (KRE) rebound. The Dollar was ultimately lower, with the buck failing to recoup losses during Powell, as yields were also lower across the curve in a steeper fashion. Crude prices settled in the red with little influence from the FOMC, with primary price action following the smaller-than-expected draw from the DoE inventory report. Attention Thursday turns to US GDP data ahead of US PCE and ECI on Friday, alongside the resumption of Fed speak, as well as a plethora of earnings, all in the backdrop of the ECB Thursday and BoJ Friday.

CENTRAL BANKS

FOMC STATEMENT REVIEW: The Fed hike hiked its FFR by 25bps to 5.25-5.50%, as expected, with the IOR rate also hiked 25bps to 5.40%. The statement was largely a copy paste from the June FOMC with the key guidance remaining, "In determining the extent of additional policy firming that may be appropriate…". One slight adjustment was the description of economic activity, the statement said that economic activity has been expanding at a "moderate" pace vs a "modest" pace in the June statement. Elsewhere, it reiterated job gains have been robust, and the unemployment rate remains low. Crucially, the Fed retained the language that “inflation remains elevated… Committee remains highly attentive to inflation risks”, reflective of its cautiousness in overreacting to a single data print (the fall in June CPI). That sentiment chimes with WSJ's Timiraos tweet earlier, "Fed officials have probably felt burned by getting too excited by one or two months of solid inflation prints over the past two years, which is reason for them to curb their enthusiasm over the June CPI today".

POWELL PRESSER: Powell's prepared remarks were largely in fitting with prior commentary from the Fed Chair, noting that future rate decisions will be data-dependent, whilst reiterating that full effects of tightening are yet to be felt. He gave familiar commentary on the economy saying that there is still a long way to go to 2% inflation, whilst noting there are continuing signs of labour supply and demand coming into better balance. He did make a point of noting that growth in consumer spending has slowed from earlier in the year.

POWELL Q&A: In his Q&A, Powell said they hadn't made a decision to go every other meeting and haven't made any decisions about future meetings, which was received dovishly as markets look for any guidance/hints towards a September hike. Powell said the June CPI, while welcome, was only one month's report, and that the intermeeting data came in broadly in line with expectations. He leaned heavily on data dependence, saying it is possible the Fed could hike again in September if data warrants it, adding that we have eight weeks to September and looking at all the data until then. He later added that a more gradual pace does not automatically go to every other meeting, saying he thinks it makes "all the sense in the world" to slow down, caveating that the Fed is not taking moving at consecutive meetings off the table. A potentially hawkish comment was his line that stronger growth, over time, could add to inflation and may require a policy response; this could imply that above-forecast growth surprises could offset the dovish policy response from the fall in inflation. However, there was some discussion over rate cuts that caught the eye, namely, his line that if we see inflation coming down credibly, the Fed could move down to a neutral rate level and then below neutral at some point, albeit he pushed back on any rate cuts this year. On inflation, he said he needs to see inflation "durably down" and wants to see core inflation coming down, which is still pretty elevated. Powell said his base case is inflation gets to target without the worst outcome for the job market. In fact, he noted Fed staff no longer forecast a recession. Said that we have seen some labour market softening not through higher unemployment but through fewer openings and quits. And finally, ahead of the latest Employment Cost Index on Friday, Powell said he doesn't think wages were an important cause for inflation early on but will be an important part of bringing it back down from now.

ECB PREVIEW: The ECB is anticipated to raise its deposit rate by 25 basis points to 3.75%, according to market pricing and analysts' consensus. The decision will be driven by the Governing Council's concern that inflation is set to remain high for an extended period. Despite a slight cooling in headline inflation from 6.1% to 5.5%, the super-core metric has increased to 5.5% from 5.3%. With the rate hike widely expected, attention will turn to any future tightening measures from September onwards. Bloomberg reporting suggested a challenge for policymakers will be keeping options open for the September meeting, avoiding explicit signals for either another rate hike or a pause. Market pricing currently gives a 50% probability of another 25 basis points hike in September. ECB President Lagarde is expected to emphasize the Bank's reliance on data, given that July and August inflation reports and latest macro projections will be available by September. To download the full Newsquawk preview, please click here.

DATA

NEW HOME SALES: US new home sales rose by 697k in June, cooler than May's 715k (which was downwardly revised from 763k) and beneath expectations of 725k. The median sale price fell 4% Y/Y to USD 415k, while new home supply rose to 7.4mths worth vs the 7.2mths worth in May, which Pantheon Macroeconomics points out is still well beneath the cycle peak of 10.1 in July 2022, but significantly above the pre-COVID trend of c. 5.5. Pantheon expects "new home supply to remain ample, in part because of the recent rebound in housing starts". The consultancy also notes that despite the miss and fall in June, the trend in new home sales remains firmly upwards, "even as aggregate mortgage demand continues to bounce around the cycle low". PM also expects this divergence to persist for the foreseeable future because a lack of existing homes on the market continues to push buyers to new homes.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 17 TICKS HIGHER AT 112-04+

Treasuries bull steepened in the wake of Fed Chair Powell's reluctance to affirm a September rate hike. 2s -5.8 bps at 4.835%, 3s -7.1bps at 4.474%, 5s -7.3bps at 4.102%, 7s -0.1bps at 3.996%, 10s -5.1bps at 3.861%, 20s -2.8bps at 4.129%, 30s -1.9bps at 3.934%.

INFLATION BREAKEVENS: 5yr BEI -1.0bps at 2.392%, 10yr BEI -2.0bps at 2.363%, 30yr BEI -1.9bps at 2.295%.

THE DAY: T-Notes marked a thin 111-21+/111-26 range during APAC trade on Wednesday, with a fleeting bid on the back of Australian CPI hitting its slowest pace since September 2021. Some chop in the European morning saw contracts eventually stretch to new resistance at 111-29 with catalysts light ahead of FOMC, paring slightly into the NY handover.

Earnings in the US pre-market from the likes of Coca-Cola (KO), Boeing (BA), and AT&T (T) contained nothing to be alarmed by from a macro perspective. Some selling flow on the cash open for bonds in NY was absorbed fairly easily, and earlier lows were respected, with contracts reversing to print interim highs of 111-31+ shortly after. The miss and downward revisions in June new home sales data didn't make a dent, and T-Notes traded within ranges on light activity through into the FOMC.

The statement saw little reaction given it was largely a copy & paste job from June accompanied by the 25bp hike as expected. However, the press conference saw USTs rally across the curve in a steepener as Powell stressed data dependence and refused to give any firm commitments to future decisions seeing T-Notes hit a high of 112-05+ before paring on his remark the FOMC sees inflation returning to the 2% target in 2025 (in fitting with June SEPs). Once the dust settled, however, T-Notes reclaimed the 112 handle in post-settlement trade.

Events now come thick and fast into the end of the week with month-end, 7yr auction, ECB, BoJ, US GDP, ECI, Jobless Claims, and European flash inflation data all due.

STIRS:

- SR3U3 flat at 94.57, Z3 +2.5bps at 94.615, H4 +2.5bps at 94.865 M4 +4.0bps at 95.220, U4 +6.0bps at 95.615, Z4 +8.0bps at 95.960, H5 +9.5bps at 96.210, M5 +10.0bps at 96.365, U5 +10.0bps at 96.460, U6 +10.0bps at 96.670, U7 +8.0bps at 96.665.
- SOFR rises to 5.06% from 5.05% as of July 25th, volumes rise to USD 1.470tln from 1.365tln.
- NY Fed RRP op demand rises to USD 1.750tln from 1.721tln) across 96 counterparties (prev. 96); no T-bill settlements.
- US sold USD 24bln of 2yr FRNs at high discount margin of 0.125%, covered 2.58x (vs six-auction avg. 2.87x).
- EFFR flat at 5.08% as of July 25th, volumes dip further to USD 89bln from 101bln.

THIS WEEK:

- *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 0.85 LOWER AT 78.78/BBL; BRENT (V3) SETTLED USD 0.69 LOWER AT 82.56/BBL

The crude complex was lower on Wednesday with the downside initiated after crude inventories fell less than expected with participants also cognizant of the Fed's 25bps rate hike, albeit there was little reaction in crude to the statement or press conference. On the weekly EIA data, Crude stocks drew 0.6mln short of the expected -2.5mln, while in-fitting with the API data on Tuesday night Gasoline (-0.786mln) also saw a shallower draw than forecasted (-1.745mln). Although, Distillates were marginally greater than forecasted, with overall crude production declining to 12.2 mln (prev. 12.3mln) and refining utilisation declining -0.9% against an expected rise of 0.3%. Back to the Fed, little reaction was observed in the crude complex in wake of the 25bps hike, as expected, with the statement largely a copy and paste job. Elsewhere, Russia oil exports are expected to rise in September amid refinery maintenance after cuts in June-August, according to Reuters citing sources. Looking ahead, there is a slew of pivotal US data in the upcoming days ahead of further central bank decisions (ECB, BoJ), and mega-cap earnings.

REFINERIES: Exxon's (XOM) Baton Rouge, Louisiana refinery (540k BPD) shut a 110k BPD gasoline-making unit (FCC) on Thursday for unplanned repairs, which could be down for three to four weeks. Separately, Chevron (CVX) El Segundo, California refinery (290k BPD) reports unplanned flaring but it added the temporary operational issue does not impact its ability to supply petroleum products to its customers.

TC ENERGY: Following Tuesday's news of force majeure, TC Energy said the impacted section of the Columbia Gulf Transmission pipeline remains shut and they have determined plans to repair the pipeline. TRP later noted it is to boost capacity to Loudoun LNG interconnect, which followed Berkshire Hathaway Energy's Cove Point earlier noting that gas supplies from Columbia Gas's Loudoun LNG interconnect were currently at or near zero.

EARNINGS: Ahead of Shell (SHEL LN) earnings on Thursday, Hess (HES) surpassed expectations on the top and bottom line, alongside raising FY production view.

EQUITIES

CLOSES: SPX -0.02% at 4,566, NDX -0.40% at 15,499, DJIA +0.23% at 35,520, RUT +0.72% at 1,980.

SECTORS: Communication Services +2.65%, Industrials +0.66%, Financials +0.65%, Real Estate +0.34%, Technology -1.3%, Consumer Discretionary -0.06%, Utilities -0.05%, Energy -0.09%, Materials -0.28%, Health -0.08%.

EUROPEAN CLOSES: DAX -0.49% at 16,131, FTSE 100 -0.19% at 7,676, CAC 40 -1.35% at 7,315, Euro Stoxx 50 -1.04% at 4,346, IBEX 35 +0.85% at 9,600, FTSE MIB +0.05% at 28,980, SMI -0.48% at 11,177.

EARNINGS: **Alphabet (GOOGL)** surpassed St. expectations on the top and bottom line which was driven by core advertising units growth. Advertising, YouTube Ads, Google Other, and Cloud all came in above expectations. Separately, CFO Ruth Porat will assume newly created role of President and CIO, but will continue to serve as CFO as the company searches for her successor. **Microsoft (MSFT)** posted a fairly decent report all round, although next quarter revenue guide was slightly short, with disappointment on the AI commentary. **Coca-Cola (KO)** beat on profit and revenue alongside raising FY guidance amid resilient demand and higher prices. **Boeing (BA)** posted a shallower loss per share than expected and beat on revenue. Plans to ramp up production of 737 MAX narrow-body jets to 38 from 31 per month, indicating recovery in supply chains. Looking for stability at 38/mth and readiness in supply chain before approving the 42/mth rate for the 737. Said market is there for 60/mnth rate 737, but it's just not a simple thing to do. **Texas Instruments (TXN)** beat on the top and bottom line. Although, it issued lighter-than-expected guidance for the current period, citing sluggish demand. **CoStar Group (CSGP)** marginally beat and missed on profit and revenue, respectively. Q3 revenue guide was light and lowered FY23 revenue outlook due to expectations of lower property transaction volumes. **Waste Management (WM)** fell short on the top and bottom line. **Robert Half International (RHI)** missed on EPS and revenue, while next quarter guidance was well short. **Thermo Scientific (TMO)** posted a poor report; EPS & revenue missed while FY guidance disappointed. **Snap (SNAP)** issued weaker-than-expected guidance and sees Q3 adj. EBITDA loss much deeper-than-expected with revenue guide also light. Exec said revenue growth remained challenged in Q2 as some headwinds from ad platform changes continued into the quarter. On earnings, posted a shallower loss per share than expected and beat on revenue and DAUs. **Union Pacific (UNP)** naming Jim Vena its new CEO which overshadowed its disappointing results. UNP blamed softening consumer markets, inflation, a one-time labour expense and increased workforce levels but said resource levels were more aligned with demand to finish the quarter. Out of Europe, **Airbus (AIR FP)** missed on revenue but reaffirmed A320 75 jets/month production rate by 2026; removed mention of the previous guide of 65/m by 2024-end, instead saying it would make tactical adjustments in response to volatile supply chains.

STOCK SPECIFICS: **Wells Fargo (WFC)** raised quarterly dividend to USD 0.35/shr (prev. 0.30/shr), announces new USD 30bln share repurchase programme. **Banc of California (BANC)** confirmed it will purchase **PacWest (PACW)**, a deal that was first reported on by the WSJ during trading on Tuesday. **Dish (DISH)** confirmed reports it is to offer unlimited wireless postpaid services for a fixed price of USD 25/mnth to **Amazon Prime (AMZN)** customers. **Gap (GPS)** poached Richard Dickson, President and COO at **Mattel (MAT)** and the driver behind Barbie's revival, as its new CEO, according to WSJ. **Volkswagen (VOW3 GY)** to jointly develop two electric models for mid-size segment with **XPeng (XPEV)**. **Amazon (AMZN)** Cloud unit adds AI models from startup Cohere to Amazon bedrock service; Exec said to Reuters that its Cloud has drawn thousands of customers to try it out.

US FX WRAP

The Dollar was lower and saw pronounced weakness, to lows of 100.850, as Fed Chair Powell answered his first question in the Q&A of his presser where he noted the Fed have not made a decision to go every other meeting and haven't made any decisions about future meetings, but could hike again in September if data warrants it. Powell continued to reiterate his data dependency and on June's CPI report, added it was welcome but it was only one month's report. On the rate decision, the FOMC hiked the FFR by 25bps to 5.25-5.50%, as expected, with only cosmetic tweaks to the statement vs June's meeting. Looking ahead, there is a slew of US economic data on Thursday with US GDP Advance/PCE (Q2) the highlight, accompanied by Durable Goods (Jun), Jobless Claims, and Pending Home Sales (Jul). Just for the record, the Dollar gyrated ahead of the Fed amidst somewhat conflicting impulses given risk-off positioning in equities and commodities that benefited safe-haven assets such as US Treasuries.

JPY was the G10 outperformer and as Powell continued through the Q&A USD/JPY even breached 140.00 to the downside, albeit briefly, to a low of 139.94. Nevertheless, the outlook now depends on whether the BoJ makes good on Governor Ueda's repeated indications policy will not be tightened on Friday, though economic projections at the meeting could sustain speculation a JGB yield cap rise is an eventuality. On month end, Credit Agricole notes, the moves in equity markets, when adjusted for market capitalisation and FX performance this month, suggest month-end portfolio-rebalancing flows are likely to be mild USD selling across the board with the strongest sell signal in the case of the USD vs JPY.

EUR was the next best performer vs the Buck, with EUR/USD ascending higher on the aforementioned Dollar pullback as opposed to anything Euro specific. The cross hit a peak of 1.1106 even though EZ economic data remains woeful, as focus now turns to the ECB meeting on Thursday where attention will be on clues over the ECB's tightening ambitions beyond July. On the headline, consensus and market pricing look for a 25bps hike, taking the deposit rate to 3.75%.

AUD was the underperformer, and this was largely due to the cooler-than-expected Australian CPI overnight, which supported the argument for the RBA to continue its pause on rates at next week's meeting. AUD/USD pulled back from

0.6793 to 0.6729, but was propped up within a zone that included 21 and 200 DMAs, while AUD/NZD reversed through 1.0900 to the brink of 1.0850 from 1.0920 to underpin NZD/USD between 0.6233-0.6184 bounds.

CAD was also lower and weighed on by the decline in crude prices, as opposed to anything Loonie-specific. Although, ahead of the FOMC we did get BoC Minutes which were largely a non-event, but noted the Governing Council debated keeping rates unchanged on July 12th and is waiting for more evidence to solidify the case for another hike. However, the consensus was that the cost of delaying action was larger than the benefit of waiting. For the rest of the week there is little scheduled for Canadian watchers, so catalysts will be on broader macro fundamentals and other key risk events.

CHF and **GBP** saw similar gains vs the Greenback, and without sounding like a broken record, strengthened through the aforementioned Powell Q&A with USD/CHF and USD/GBP hitting best levels of 0.8598 and 1.2960, respectively. Prior to the Fed, Pound and Franc were both largely sidelined in absence of anything specific, aside from slightly more negative Swiss investor sentiment.

EMFX was mixed. CLP, BRL, and MXN saw gains, TRY flat, while RUB, ZAR, and CNH were weaker. For the latter, Chinese economic stimulus buzz faded somewhat following a much more in line PBoC onshore reference rate. Although, the recent stimulus measures announced have provided some support to cyclical commodity prices such as copper, thus boosting the CLP in recent days. Nonetheless, HSBC writes “it remains to be seen if the positive momentum can be continued in terms of China’s growth prospects, but think that the CLP should continue underperforming the market in the days ahead given central bank USD purchases”. Although, there is a risk the Chilean central bank cuts by less than the 100bps the market is expecting on Friday (HSBC expects 75bp), and as such HSBC notes “a smaller-than-expected cut will also likely provide near-term support to the currency, but much will depend on the composition of the vote and the tone of the forward guidance.” The Real got a boost after Fitch upgraded Brazil to BB from BB-, with a stable outlook. Later on, Finance Minister Haddad hopes Brazilian interest rates end this year at 12% (currently 13.75%).