US Market Wrap

28th July 2023: Stocks soar into month-end on strong earnings while Yen underperforms post BoJ puzzle

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar flat.
- **REAR VIEW**: BoJ implements "flexible" YCC; Mixed EZ inflation data; Dovish Core PCE; ECI rising less than expected adds to soft landing narrative; Federal regulators home in on LYV's Ticketmaster; Stellar INTC report, highlighted by a return to profitability; F forecast deeper 2023 EV losses
- **WEEK AHEAD PREVIEW**: Highlights include US jobs report, BoE, RBA and PMI data. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing RBA, BCB and BoE; Reviewing FOMC, BoJ and ECB. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [TUES]: CAT, MRK, PFE, UBER, SBUX, AMD; [WED] CVS, QCOM, PYPL; [THURS] CI, COP, AMZN, AMGN, GILD, ABNB, SYK, AAPL, BKNG. To download the report, please click here.

MARKET WRAP

Stocks advanced on Friday with outperformance in the Nasdaq with chip names soaring after Intel (INTC) posted a solid quarterly report where it returned to profit after two quarters of losses with strength attributed to a turnaround in the PC market. There were several key US data prints too, which were ultimately net-dovish. The Q2 ECI came in cooler than expected, PCE was broadly in line but the Core Y/Y was beneath analyst expectations and the Final UoM survey for July was revised lower, as were the 5-10yr inflation expectations, to 3.0% from 3.1%. Overnight, however, the BoJ had puzzled markets resulting in a very volatile Yen, where the Central Bank implemented a flexible YCC policy where it will buy unlimited 10yr JGBs at 1% but said it is not raising the yield cap of 0.5%. As we head to the end of the week the Yen is the underperforming currency with USD/JPY back above 141.00 from lows of 138.08. The Treasury curve bull steepened with the initial BoJ induced selling reversing while the soft US data did little to extend the bid. Crude prices closed the week at levels not seen since April as it tracked the positive risk sentiment. Attention next week turns to more large cap earnings with Apple (AAPL) and Amazon (AMZN) the highlights while the US jobs report on Friday will help with future Fed rate hike expectations, albeit there is still plenty of data between now and the September meeting. In Europe, EZ CPI is due after mixed regional reports and in wake of the 25bp hike from the ECB earlier in the week, who also put a lot of emphasis on data dependence for future rate decisions. There will also be interest rate decisions from the BoE and RBA, with the BoE expected to deliver a 25bp hike while views for the RBA are mixed between a 25bp hike and an unchanged decision.

GLOBAL

CORE PCE: The June Core PCE data was dovish overall, in fitting with what was seen in the CPI report, and supports the narrative about easing inflation. Core PCE printed 0.2%, in line with expectations, and cooling from 0.3%, while the annul measure eased to 4.1% from 4.6%, beneath expectations of 4.2%. Headline PCE rose 0.2% M/M (exp. 0.2%, prev. 0.1%) with the Y/Y rising 3.0% (exp. 3.0%, prev. 3.8%). Analysts at Pantheon Macroeconomics highlighted that the PCE core services ex-housing rose by 0.2%, matching the prior month’s pace. Overall, this is the latest report that shows evidence that inflation is falling and supports the soft landing narrative. With the Fed in data dependent mode, this report is unlikely to change the views of the FOMC and Fed Chair Powell; the Chair this week said there were still several data points between now and the next Fed meeting that would feature in their decision making, and he emphasised that the Fed was not on a pre-set path. Markets, however, are largely pricing in the Fed now at terminal, with only a 20% implied probability of another hike on September 20th. Between now and then we will see July CPI (Aug 10th), August CPI (Sept 13th), as well as two jobs reports on August 4th and September 1st. We will also see one more PCE report on August 31st. Therefore there is still a lot of data to digest when assessing how the Fed will react. Personal Income rose 0.3%, cooler than the 0.5% expected and 0.4% prior while consumption rose 0.5% from 0.1%, above the 0.4% expected. Real consumption rose 0.4%. Pantheon Macroeconomics add that "excess savings accumulated during Covid continue to dwindle, and the restart in student loan payments from September mean that outright declines in real consumers’ spending later this year are entirely plausible."

ECI: Employment Costs Index for Q2 rose 1.0%, less than the expected 1.1% and the prior 1.2%, which was the lowest Q/Q growth since Q2 2021, while it grew 4.5% Y/Y against +4.8% in Q1. Moreover, over the quarter, wages and salaries rose 1.0%, down from Q1's +1.2%, while benefit costs rose at a lower 0.9%, down from Q1's +1.2%. On the report, the deeper-than-expected fall in ECI adds to the soft landing narrative on the margin and will serve as a dovish data point in the Fed's calculus. We know that after Fed Chair Powell namechecked the report specifically on Wednesday, alongside the two more CPI and job reports, before the September FOMC. It's worth a caveat that since June, we have seen the more timely initial jobless claims print from the BLS tumble to their lowest levels since February, igniting concerns that the labour market could be retightening. Of course, this warrants close inspection in the months ahead to see if this reignites wage growth - the average hourly earnings figures in the July NFP report next Friday will be the next piece of evidence.

MICHIGAN SURVEY: The final Uni of Michigan survey in July saw the headline consumer sentiment index downwardly revised to 71.6 from 72.6, which still marks a large jump from June's 64.4. Both the current conditions and forward-looking expectations sub-indices saw downward revisions to 76.6 and 68.3 from the initial 77.5 and 69.4 readings, respectively. In all, still a solid pick-up for the consumer outlook in July, which has been given additional weight to by the surge in the Conference Board figures earlier this week. Meanwhile, the closely-followed consumer inflation expectations were unchanged at 3.4% in the year-ahead window, although the longer-term 5-10yr gauge saw a downward revision to 3.0% from 3.1%, which on the margin, alleviates some anxiety around any unanchoring of inflation expectations.

BoJ REVIEW: BoJ kept its policy settings unchanged, as expected with the Bank Rate held at -0.10% and YCC parameters maintained to target 10yr JGB yields around 0%, but it will guide yield curve control more flexibly with its daily fixed-rate purchases of 10yr JGBs at a rate of 1.0% (prev. 0.5%). This essentially means the +/- 50bps band for the 10yr JGB target will now be used as a reference point in market operations, allowing for greater flexibility. This means that the actual yield could occasionally move outside of this range. The BoJ also increased the amount of purchases to JPY 900bln from JPY 875bln. Meanwhile, the Outlook Report saw an upgrade to the FY23 Core CPI forecast to above the BoJ’s 2% inflation target. Delving a bit deeper into the core CPI forecasts, the fiscal 2023 median forecast was raised to 2.5% from 1.8%, but the 2024 median forecast was trimmed to 1.9% from 2.0%, and the 2025 median forecast was maintained at 1.6%. The announcement resulted in plenty of confusion, although the JPY ultimately weakened with the move less hawkish than a recent Nikkei report suggested. At the post-meeting presser, Governor Ueda emphasised the need for continued monetary easing, stating that the Bank is prepared to further ease policy if required. The focus is on enhancing the sustainability of Yield Curve Control, with the BoJ ready to conduct fixed-rate purchases if long-term yields exceed 1.0%. The Bank has created a 0.5-1.0% frame to respond to future risks, with 1.0% defined as a 'just-incase cap'. Despite some progress towards inflation goals, Ueda expressed uncertainty about future price rebounds, citing risks from a weaker global economy. Ueda said the BoJ is not targeting FX levels, but is including currency market volatility in its measures. Economic uncertainty remains high, and the Bank is prepared to respond flexibly to any materialised risks. Ueda denied any bias towards policy tightening, stating that the aim is to make YCC more sustainable, not to normalise policy. Analysts at Oxford Economics say “Despite today's surprise tweak to YCC policy, we continue to believe that Governor Ueda is determined to avoid premature tightening and will spend another year or so to carefully assess whether the economy is on track to achieve 2% inflation within his five-year term”, although the desk does highlight that “It is not clear at this stage how the 10-year yield will move under the new ceiling of 1.0% and how actively the BoJ will intervene in the market to enhance appropriate yield formation based on economic fundamentals.”

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 10+ TICKS HIGHER AT 111-11

Treasuries pare some losses into the weekend/month-end after initial BoJ-induced selling is unwound, but soft US data failed to extend the bid. At settlement, 2s -3.8bps at 4.901%, 3s -5.1bps at 4.545%, 5s -5.3bps at 4.198%, 7s -4.7bps at 4.093%, 10s -3.9bps at 3.973%, 20s -3.2bps at 4.233%, 30s -2.8bps at 4.031%.

INFLATION BREAKEVENS: 5yr BEI +1.8bps at 2.430%, 10yr BEI +1.4bps at 2.394%, 30yr BEI +0.5bps at 2.312%.

THE DAY: T-Notes saw two-way price action after the BoJ announced the increased flexibility to its JGB yield target, trading at 111-04 before the release, they then initially hit a peak of 111-10+ before bottoming at 110-25+ around 45 minutes after the release. However, as the dust settled, contracts recovered gradually into the London handover with attention on Ueda's presser, who provided some dovish offsets, who stressed the need for continued monetary easing, stating that the bank is prepared to further ease policy if required.

It was hard to garner much impetus from the inflation prints in Europe, with hot Spanish figures offset by soft French figures, while the regional German data was mixed ahead of the recently printed national level figures that saw M/M in line at +0.5% but Y/Y at 6.5% (exp. 6.6%). Dealers relayed below-average activity in London hours despite the surge in Tokyo activity.

T-Notes recovered gradually but steadily into the NY morning, going on to peak at 111-21 on back of the release of the Core PCE data - where M/M was in line while Y/Y was slightly soft - and the simultaneously released Q2 ECI, which saw the Fed-followed gauge come in on the soft side. But bulls had to be quick to turn a profit with a real lack of appetite seen to extend the bid before swiftly paring lower to form a base at 111-06. Modest strength was seen on the downward revision to the UoM sentiment survey (which included a slight fall in the long-term inflation expectation gauge), but very much within earlier ranges.

Contracts respected their NY morning ranges into the settlement with no other catalysts on the calendar. Those banking on signs of month-end Treasury buying in the NY afternoon were also disappointed, and perhaps the prospect of next week's quarterly refunding, where coupon sizes are expected to be increased, is keeping the offer heavy, particularly now that Japanese accounts may begin to look closer to home for yield after JGB yields hit highs not seen in nearly a decade.

NEXT WEEK (US items bolded):

- MON: **Chicago PMI (Jul), Dallas Fed Mfg. (Jul), SLOOS, Treasury Financing Estimates*, *Japanese Retail Sales (Jun), Chinese Official PMI (Jul), German Flash GDP (Q2), New Zealand Labour Cost Index (Q2).*
- TUE: **Final Manufacturing PMIs (Jul), ISM Manufacturing PMI (Jul), JOLTS (Jun)**, RBA Announcement, Chinese Caixin Manufacturing Final PMI (Jul), German/EZ Unemployment Rates (Jul), EZ/UK Final Manufacturing PMIs (Jul), New Zealand Jobs Report (Q2).
- WED: **ADP Employment (Jul), Quarterly Refunding**, BCB Announcement.
- THU: **Services and Composite Final PMI (Jul), Durable Goods R (Jun), ISM Services PMI (Jul), Productivity (Q2), Jobless Claims, Fed's Barkin (nv)**, BoE Announcement and MPR, CNB Announcement, Chinese Caixin Final PMI (Jul), Swiss CPI (Jul), EZ/UK Services and Composite Final PMI (Jul).
- FRI: **Jobs Report (Jul)**, RBA SoMP, EZ Retail Sales (Jun), Canadian Jobs Report (Jul).

STIRS:

- SR3U3 +1.0bps at 94.590, Z3 +2.5bps at 94.620, H4 +4.0bps at 94.825, M4 +5.0bps at 95.140, U4 +5.0bps at 95.510, Z4 +5.0bps at 95.845, H5 +5.5bps at 96.100, M5 +6.0bps at 96.265, U5 +6.5bps at 96.365, U7 +6.0bps at 96.560.
- SOFR rises to 5.31% from 5.06% as of July 27th (in line with Fed 25bp hike), volumes rise to USD 1.501tln from 1.452tln.
- NY Fed RRP op demand at USD 1.730tln (prev. 1.736tln) across 99 counterparties (prev. 103).
- EFFR rise to 5.33% from 5.08% as of July 27th (in line with Fed hike), volumes rise to USD 105bln from 98bln.

CRUDE

WTI (U3) SETTLED USD 0.49 HIGHER AT 80.58/BBL; BRENT (V3) SETTLED USD 0.62 HIGHER AT 84.41/BBL

The crude complex ended the day, and fifth consecutive week, firmer after initially seeing losses on Friday amid mixed oil earnings and Dollar strength but soared into settlement despite no headline catalyst. On the day, oil seemingly tracked broader risk sentiment with complex-specific newsflow light aside from the release of global tier 1 data. Nonetheless, as mentioned, WTI and Brent hit session lows in the US morning of USD 79.07/bbl and 84.50/bbl, respectively, after disappointing reports from Exxon (XOM) and Chevron (CVX). XOM had mixed earnings, as profit missed but revenue beat, while CVX beat on profit and missed on revenue with sales and other operating revenues falling Y/Y, primarily due to lower commodity prices. In addition, CVX said that production was at the low end of guidance. Looking ahead, the key risk events next week reside around the US jobs report, global PMIs, mega-cap earnings from the likes of AAPL/AMZN, and rate decisions from the BoE, and RBA.

LOADINGS: North Sea Ekofisk crude oil stream is to load 11 cargoes in September (prev. 10 in August), according to a trade source cited by Reuters. Meanwhile, North Sea Oseberg 3 cargoes (prev. 3), Troll 3 (prev. 4), North Sea Brent 1 (prev. 2), and North Sea Forties 8 (prev. 6).

PEMEX: Said Q2 crude processing reached 826k BPD (prev. 835k BPD in Q1). In commentary, added the volume of missed crude production at Balam Ta was "not significant" after separate incident and hopes to finish works and return to full operations at the offshore platform in the first days of August. On production, will process in average of 900k BPD of crude in 2023, and expects to reach 1mln in 2024.

RUSSIA: WSJ reported that Russia's Rosneft oil in recent weeks wrapped up one its largest tenders in years. It noted that Russia struck deals to sell a substantial portion of its petroleum output to a group of previously little-known oil traders, locking in a stream of cash from its lifeblood industry.

BAKER HUGHES: At the week ending July 28th, Oil fell 1 to 529, Nat Gas dipped 3 to 128, leaving the total declining -5 to 664. As context, US drillers cut oil and gas rigs for the third week in a row and cut oil rigs for the eighth month in a row.

EQUITIES

CLOSES: SPX +0.99% at 4,582, NDX +1.85% at 15,750, DJIA +0.50% at 35,459, RUT +1.36% at 1,981.

SECTORS: Communication Services +2.3%, Consumer Discretionary +1.85%, Technology +1.48%, Consumer Staples +0.99%, Materials +0.69%, Industrials +0.62%, Health +0.29%, Financials +0.13%, Energy +0.1%, Real Estate -0.25%, Utilities -0.27%.

EUROPEAN CLOSES: DAX +0.39% at 16,469, FTSE 100 +0.02% at 7,694, CAC 40 +0.15% at 7,476, Euro Stoxx 50 +0.44% at 4,467, IBEX 35 -0.10% at 9,685, FTSE MIB -0.33% at 29,500, SMI -0.49% at 11,317.

STOCK SPECIFICS: **Intel (INTC)** posted a stellar report; returned to profitability and beat on revenue while Q3 guidance was also better than expected. An exec said all programmes in chip manufacturing were on schedule. The CEO, speaking on Bloomberg TV, said earnings are indicative of a turning point and execution and momentum are building but they still have a bit of work to do on data centre while inventory levels in PCs are now healthy, adding INTC is making progress with two big foundry customers. **Procter & Gamble (PG)** surpassed expectations on EPS, revenue and organic revenue. **Exxon (XOM)** had mixed earnings; profit missed but revenue beat. Kept production and cash distribution targets unaltered and in Q3 sees lower scheduled maintenance for energy products. **Chevron (CVX)** beat on profit and missed on revenue. Sales and other operating revenues fell Y/Y, fell primarily due to lower commodity prices. Said production was at the low end of guidance. **DexCom (DXCM)** surpassed Wall St. expectations on top and bottom line; raised FY revenue view. **Ford Motor (F)** beat on the top and bottom line, but the commentary was concerning. CFO sees 2023 EV losses at USD 4.5bln, up from USD 3bln earlier projection, adding that the new UAW labour contract will raise costs and that the slowdown in EV demand was because vehicles are too expensive, not because of demand. **Roku (ROKU)** saw better ads in Q2 and gave upbeat sales guidance. EPS was a much shallower loss per share than expected while revenue and active accounts beat. **First Solar (FSLR)** surpassed Wall. St expectations on the top and bottom line; will invest USD 1.1bln in 5th US mfg. facility. **Juniper Networks (JNPR)** earnings beat, but Q3 outlook was weak and added in Q3, expects to see continued weakness in bookings, particularly with Cloud and, to a lesser extent, Service Provider customers. **Enphase Energy (ENPH)** missed on revenue and next quarter's guide was well short of expectations. Mondelez (MDLZ) beat on the top and bottom line and lifted its outlook on organic revenue and adj. earnings growth. **Biogen (BIIB)** is to buy **Reata Pharmaceuticals (RETA)** for USD 172.50/shr in cash for about USD 7.3 bln. Note, RETA closed Thursday at 108.55. Federal regulators home in on **Ticketmaster (LYV)** antitrust case, according to Politico.

WEEKLY FX WRAP

dovish hikes from Fed and ECB especially vs hawkish BoJ ‘hold’

USD/EUR/JPY - Scheduling in terms of calendar events effectively preordained that the DXY and its major constituents were likely to be inextricably linked by the policy actions of their respective Central Banks given that the FOMC, ECB and BoJ meetings ran consecutively from Tuesday to Friday. However, Eur/Usd and the index by default were already on the move at the start of the week when preliminary Eurozone PMIs were decidedly weaker than forecast (and downright bleak in certain instances) and flash US versions held up better (or even beat consensus in the case of manufacturing). Eur/Usd backed off accordingly from just under 1.1150 at best to a circa 1.1060 low, while the DXY bounced towards 101.500 from sub-101.00 at one stage with the Dollar also deriving impetus from elsewhere, like the Pound that was undermined by worse than expected UK PMIs. The Euro subsequently suffered another blow to the benefit of the Buck and other rivals, such as Sterling, when two out of three German Ifo survey metrics missed on the downside and Eur/Usd retreated to 1.1020 while the index topped 101.600 with an independent boost via considerably more exuberant than anticipated US consumer confidence. Consolidation followed as attention turned to the Fed and then the Greenback fell from grace as the all but priced in 25 bp hike came with dovish guidance in the accompanying statement and parts of Chair Powell’s press conference. The DXY reversed through 101.000 and pulled back further in dovish follow-on reaction to the brink of 100.500 as the spotlight switched to the ECB that matched the FOMC in context of tightening magnitude, but delivered what was arguably if not undoubtedly more dovish forward guidance. The GC left the door ajar for another hike in September, based on data ala the Fed, though there was enough to suggest key rates may have peaked as it tweaked forward guidance and President Lagarde said the change in language was not random or irrelevant. Moreover, in the Q&A she reiterated that rates will be ‘set at’ sufficiently restrictive levels to work towards the inflation goal rather than ‘brought to’ from the previous statement, adding that data and our assessment of this will tell us ‘if any’ and how much ground we will have to cover instead of the explicit there ‘is’ more to do before answering another question about the prospect of additional rate rises (voluntarily for that matter) with a ‘at this point I would not say so’. In response, Eur/Usd relapsed from a fractionally higher 1.1149 w-t-d peak 1.0966 or so and the Dollar index reclaimed all and more of its post-FOMC losses to reach 101.840, and again aided by US data that was super strong virtually across the board (including advance Q2 GDP, durable goods, weekly initial and continued jobless claims, plus pending home sales). Fast forward to Friday, and the stage was almost left clear for the BoJ that probably stole the whole show by tinkering with YCC and essentially lifted the lid on 10 year JGB tolerance to 1% from 50 bp. There was plenty of speculation about a YCT tweak, but no real validation from Bank officials and Governor Ueda in particular. Indeed, Usd/Jpy and Yen crosses had been retracing lower in advance of the BoJ, while the break-even per implied volatility spiked to 200+ pips, but even that paled in comparison to the resulting price action. Using Usd/Jpy as a proxy, the headline pair recoiled virtually three full big figures between 141.05-138.08 extremes and prevented the DXY from extending 102.000, for a while until the Euro resumed its slide (to around 1.0944) and the Yen ceded ground amidst remarks from Ueda in the presser framing the wider yield curve control zone as a move designed to provide more flexibility and enhance sustainability as opposed to tighter policy per se. Nevertheless, Usd/Jpy remained well off Monday’s approximate 141.81 weekly apex on the eve of month end when rebalancing models suggest the strongest selling against the backdrop of mildly/moderately negative Greenback flows.

GBP/AUD - The Pound and Aussie seemed set to end a very volatile and hectic final full week of the month at opposite sides of the G10 divide and appropriately perhaps. UK macro releases were mixed besides the aforementioned disappointing PMIs and came via CBI surveys, while Aussie data was largely below forecast and top tier in nature in the form of CPI and retail sales to push the odds firmly in favour of an RBA pause next week. Conversely, there is still an outside chance that the BoE will stick to a half point pace of tightening as it continues to combat inflation and if not then the probability of 25 bp is lofty at just shy of 75%. Assuming the markets are accurate, the RBA benchmark will stay at 4.10% and diverge further from the BoE’s Bank rate at 5.25%, let alone 5.5%. Hence, Cable recovered to 1.2850+ within 1.2764-1.2995 bounds and Aud/Usd floundered nearer 0.6623 than 0.6821.

CHF/CAD/NZD - All largely on the sidelines or fringes of the main action, as the Franc, Loonie and Kiwi tracked their US peer’s changing fortunes, with some direction taken from cross pairings, crude and other commodities. Usd/Chf whipsawed from 0.8553 to 0.8736 irrespective of net downside in Eur/Chf and some decent Swiss data/surveys, Usd /Cad climbed to 1.3249 from 1.3148 regardless of hawkish BoC minutes, monthly Canadian GDP growth and WTI’s robust revival, and Nzd/Usd descended from 0.6273 to 0.6122 despite Aud/Nzd tailwinds and no help from a decline in consumer sentiment.

SCANDI/EM - The Sek sharply underperformed, partly on technical grounds and external factors, but also on the back of a stack of worrying Swedish data highlighted by a significantly deeper than feared Q2 GDP contraction, while the Nok only really held up better thanks to the buoyancy in Brent oil. Meanwhile, the Cny and Cnh owed their resurgence to the persistence of the PBoC on the midpoint fixing front, the Politburo’s multi-pronged stimulus pledge and Chinese state bank intervention. The Rand relied on a combo of gold gains and constructive chart impulses to a large extent, the Brl got a helpful ratings upgrade from Fitch and the Mxn stronger Mexican IGAE economic activity to compound the upside in crude prices, but the latter hampered the Try alongside spikes in CBRT quarterly survey inflation projections, not to mention uncertainty over more new appointments at the Turkish Central Bank, and state banks had to prop it up. The Huf lost puff after the NBH continued its rate corridor adjustment (narrowed by another 100 bp) and the Ils was rattled by Israel’s Parliament ratifying parts of the controversial judicial reform bill following the breakdown of talks designed to find a compromise. On the flip-side, the Czk coped well with conflicting CNB comments, as Governor Michl said the Bank has to remain hawkish given that inflation is still not on a satisfactory level and the Hkd kept its Usd peg via a like-for-like HKMA 25 bp hike in footstep with the FOMC.