US Market Wrap

31st July 2023: Dollar strengthens despite month-end selling flows; cyclical stocks prosper

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar up.
- **REAR VIEW**: Fed's Goolsbee is data-dependent; Chicago PMI misses; More China stimulus jawboning; XOM in talks with automakers to supply lithium; Fed SLOOS deteriorates as expected; Hot Core EZ CPI; BoJ steps in to stop JGB sell-off.
- **COMING UP**: **Data**: Caixin Manufacturing PMI, German Unemployment Rate, UK/EZ Final PMI, US ISM, JOLTS, New Zealand Labour Data **Events**: RBA Policy Announcement **Speakers**: Fed's Goolsbee **Supply**: Japan **Earnings**: Covestro, Deutsche Post, Daimler Truck, BP, Diageo, HSBC, American International Group Inc, Advanced Micro Devices Inc, Electronic Arts Inc, Merck & Co Inc.
- **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 were choppy on Monday with a strong outperformance in cyclicals with the Russell 2k surging to reclaim 2000, albeit amidst a lack of major data or catalysts with broader price action framed around month-end flows. The Fed's SLOOS survey saw bank lending standards tighten and loan demand decline, although hardly a surprise after Powell warned as much last Wednesday. The Chicago PMI rose less than expected and the Kansas Fed survey also remained subdued, but neither garnered much reaction. Fed Speak saw Goolsbee leave everything on the table for September ahead of key data releases. Elsewhere, China PMI data was subdued again but more assertive jawboning from government bodies on impending support measures was cited for oil ripping higher to post their best M/M gain since January 2022. The BoJ stepped in for a bond-buying operation as JGB yields hit new recent peaks, igniting Yen selling. In Europe, HICP flash Y/Y inflation data in July fell to 5.3% from 5.5%, as expected, although the core didn't improve as much as expected. Treasuries were slightly firmer with initial JGB weakness and corporate supply pressures absorbed, with attention now drifting to Wednesday's refunding announcement. The Dollar was bid despite month-end models pointing to selling, while a larger-than-expected Chile rate cut weighed on LatAm FX; AUD outperformed with RBA on deck.

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FED: **Chicago Fed President Goolsbee (voter, dove)**, in response to the PCE data, said it was fabulous news to see inflation come down this way, noting monthly readings have been quite good. In fitting to Chair Powell, Goolsbee did not commit to any future rate decisions, noting nothing is on or off the table for September and he doesn't know if the Fed should skip, stressing several key data points are due before the next meeting and that they will play it by ear on the restrictiveness of the policy rate. In regards to a soft landing, Goolsbee said so far we are on the 'golden path' and efforts to get inflation down thus far are working. He was very dismissive of the Phillips curve too, noting he does not think the historical relationship between unemployment and inflation has to exist in this case. Goolsbee also noted he has not seen anything tighter in credit conditions than what was expected and on the banking sector said he is a long-term advocate of higher capital in the banking sector. On wages, he repeated that they are not a leading indicator, while on housing he noted inflation is expected to start dropping in the sector.

SLOOS: In summary, the Fed's Q2 Senior Loan Officer Opinion Survey saw tighter standards reported across businesses and households with weakening loan demand; banks also said they expect to further tighten standards in the second half of the year. On loans to businesses, respondents reported tighter standards and weaker demand for C&I loans to firms of all sizes over Q2. Banks reported tighter standards and weaker demand for all CRE loan categories. On loans to households, banks reported that lending standards tightened across all categories of residential real estate (RRE) loans with demand also weakening. Banks reported both tighter standards and weaker demand for home equity lines of credit (HELOCs). Standards tightened for all consumer loan categories; demand weakened for auto and other consumer loans, while it remained basically unchanged for credit card loans. And on the outlook for H2 2023, banks said they expect to further tighten standards on all loan categories citing a less favourable or more uncertain economic outlook and expected deterioration in collateral values and the credit quality of loans. Note that Powell prefaced the release at last week's FOMC when he said, "[the SLOOS is] broadly consistent with what you would expect."

CHICAGO PMI: Chicago PMI rose to 42.8 from 41.5 but was beneath the expected 43.2. The headline figure has risen for two consecutive months, albeit remains slightly down since January which is broadly consistent with month-to-month growth in manufacturing output growth, which is bouncing around zero. Moreover, Chicago PMI tends to lag the trend in civilian aircraft orders – due to Boeing - and Pantheon Macroeconomics notes “the June spike in aircraft orders signals a sharp upturn in the index later this year”. However, this will tell us little about the broader outlook for manufacturing, which remains bleak. Overall, the consultancy concludes, “capital spending intentions in the regional Fed surveys bounced in June, suggesting a rebound in the hard output data towards the end of this year, but the July numbers have been mixed.”

GLOBAL

RBA PREVIEW: There are mixed views regarding the RBA meeting on Tuesday as a recent Reuters poll showed 20 out of 36 economists surveyed expect the RBA to raise the Cash Rate by 25bps to 4.35% and the remaining 16 are calling for rates to be maintained at 4.10%, while money markets had priced in a 79% probability for the central bank to continue pausing on rates and just a 21% chance for a 25bps hike. To download the full Newsquawk preview, please click here.

CHINESE EXPORT CONTROLS: Chinese export controls on key chipmaking material will come into effect on Tuesday 1st August. On July 3rd, in response to Western sanctions on the Chinese semiconductor sector, Beijing announced export restrictions on gallium and germanium - essential elements for manufacturing semiconductors and other electronics, effective from August 1st. China's Commerce Ministry (MOFCOM) stated that these measures were implemented to protect national security and interests. As per the new guidelines, Chinese exporters of these materials will now need to seek the ministry's approval, providing information about the end-users and the intended use of the materials. Analysts at Rabobank clarify such export controls do not necessarily mean that China’s exports of the rare metal will be restricted, but the process to obtain gallium could become more cumbersome and would be at greater risk of being disrupted in future, should geopolitical tensions increase further. To download the full Newsquawk analysis piece, please click here.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 2 TICKS HIGHER AT 111-13

Treasuries were slightly firmer into month-end amid soft survey data, while JGB weakness and corporate supply pressures were absorbed. 2s -1.6bps at 4.881%, 3s -1.7bps at 4.525%, 5s -1.1bps at 4.184%, 7s -0.4bps at 4.085%, 10s -0.4bps at 3.965%, 20s -0.5bps at 4.225%, 30s -0.7bps at 4.023%.

INFLATION BREAKEVENS: 5yr BEI -2.2bps at 2.406%, 10yr BEI -2bps at 2.370%, 30yr BEI -3.3bps at 2.276%.

THE DAY: T-Notes hit initial peaks of 111-15 at the Globex open before better selling kicked in as the APAC session got underway on Monday, with JGBs leading the weakness. The selling momentum fizzed out after the BoJ made an unscheduled JGB buying announcement as the Japanese 10yr yield tested 0.60%. Chinese PMIs were mixed with strong mfg./weak services. Despite the pause for selling in APAC, T-Notes ultimately went on to print session lows at 111-02 as Europe returned from the weekend.

London's arrival coincided with a 6k T-Note block buy that initiated a recovery from there. EU Flash CPI was in line with expectations but core prints were hotter than expected, albeit garnered little market response. T-Notes saw a mild pullback in the NY morning amid a few corporate IG debt deals being announced, including chunky five-parters from both Mercedes-Benz and BAT, applying some supply pressure to govvies ahead of the Treasury's quarterly refunding announcement on Wednesday, where increased coupon auction sizes are expected.

111-08 served as support, and contracts began recovering as Chicago Fed's Goolsbee spoke on Yahoo! Finance. There was no explicit policy guidance from the official, who instead stuck to the party line of needing to see the totality of the data before a September rate decision, but he was quick to praise the Fed's progress along the "Golden Path" (lower inflation without rising unemployment). The slightly lower increase than expected in the Chicago Fed PMI only supported the rebound, breaking above the globex peak (111-15+), and was given weight to by the suppressed Dallas Fed index, while month-end buying was also on the radar. T-Notes ultimately peaked at 111-20, similar to Friday's 111-21 peak, before paring somewhat into settlement with an as-expected deterioration in the Fed's SLOOS survey (tighter lending standards and reduced loan demand) having little notable effect.

TREASURY FINANCING ESTIMATES: Treasury announced it expects to borrow USD 1.007tln in net marketable debt for Jul-Sept, up USD 274bln from the May estimate. Said the borrowing estimate assumes a September-end cash balance of USD 650bln and the estimate is higher than initially announced due to the lower beginning-of-quarter cash balance (USD 148bln) and higher end-of-quarter cash balance (USD 50bln), as well as projections of lower receipts and higher outlays (USD 83bln). Looking further ahead, Treasury said it is to issue USD 852bln in October-December 23, assuming a Dec-end cash balance of USD 750bln. Additional financing details relating to Treasury's Quarterly Refunding will be released at 08:30ET on Wednesday, where coupon auction size increases are expected.

STIRS:

- SR3U3 flat at 94.59, Z3 +1bp at 94.63, H4 +3bps at 94.85, M4 +4bps at 95.17, U4 +4.5bps at 95.545, Z4 +4.5bps at 95.88, H5 +5bps at 96.145, M5 +5bps at 96.31, U5 +5.5bps at 96.415, U6 +2bps at 96.585, U7 +1bps at 96.565.
- SOFR fell to 5.30% from 5.31% as of July 28th, volumes fell to USD 1.419tln from 1.501tln.
- NY Fed RRP op demand surges to USD 1.821tln from 1.730tln amid month-end factors, across 105 counterparties (prev. 99).
- EFFR flat at 5.33% as of July 28th, volumes rise to USD 106bln from 105bln.
- US sold USD 73bln of 3-month bills at 5.280%, covered 2.92x; sold USD 65bln of 6-month bills at 5.270%, covered 2.95x.

THIS WEEK (US items bolded):

- **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).

CRUDE

WTI (U3) SETTLED USD 1.22 HIGHER AT 81.80/BBL; BRENT (V3) SETTLED USD 1.02 HIGHER AT 85.43/BBL

Oil prices were firmer Monday, with China jawboning continuing to underpin the upward momentum that sees WTI and Brent post their best month since January 2022. Prices had been on the back foot during the APAC Monday session, with subdued Chinese PMI data the highlight. But, the later reaffirmations of incoming consumption support from Chinese government departments aided a reversal higher during the European session. The upside lost momentum as US trade got underway, albeit WTI (U3) and Brent (V3) contracts managed to hold onto their strength through the rest of the session before edging to session highs for settlement. In the energy space Monday, Reuters' latest monthly OPEC poll saw the cartel's July output fall 840k BPD from June to 27.34mln BPD amid Saudi output reductions and Nigeria's outages. While Reuters' latest analyst poll saw the third straight month of analyst price cuts: Brent is seen averaging USD 81.95/bbl in 2023 (prev. 83.03/bbl in June poll), WTI seen averaging USD 77.20/bbl (prev. 78.38/bbl). The latest Goldman Sachs note reaffirmed its price forecasts, citing an offsetting balance between a stronger demand outlook and the impact of higher realised inventories and sustained high-interest rates.

EQUITIES

CLOSES: SPX +0.15% at 4,589, NDX +0.04% at 15,757, DJIA +0.28% at 35,560, RUT +1.09% at 2,003.

SECTORS: Energy +2.00%, Real Estate +0.70%, Consumer Discretionary +0.56%, Materials +0.52%, Financials +0.44%, Industrials +0.23%, Technology +0.13%, Utilities +0.03%, Communication Services -0.03%, Consumer Staples -0.46%, Health -0.79%.

EUROPEAN CLOSES: DAX -0.14% at 16,446, FTSE 100 +0.07% at 7,699, CAC 40 +0.29% at 7,498, Euro Stoxx 50 +0.06% at 4,470, IBEX 35 -0.45% at 9,641, FTSE MIB +0.49% at 29,645, SMI -0.12% at 11,304.

STOCK SPECIFICS: **EARNINGS**: **ON Semiconductor (ON)** beat on the top and bottom line alongside lifting Q3 guidance. **Loews (L)** Q2 profit more than doubled as a jump in investment income cushioned a hit from higher catastrophe losses in its insurance unit. It also reported a higher return on investments, helped by a broader market rally. **AerCap (AER)** beat on the top and bottom line as well as raising FY23 profit view and announcing a new USD 500mln share buyback programme. **SoFi Technologies (SOFI)** beat on revenue, EPS, and EBITDA; Q4 revenue view was in line but it lifted its FY revenue guide.

STOCK SPECIFICS: Morgan Stanley boosted its **Adobe (ADBE)** price target as well as upgrading the stock citing AI tailwinds. **Disney (DIS)** hired former executives Kevin Mayer and Tom Staggs to advise CEO Bob Iger on dealing with the company's TV businesses, according to FT; the two were once seen as potential successors to Iger but left when their chances diminished. A judge ruled that **Johnson & Johnson (JNJ)** cannot use a unit's bankruptcy case to force cancer victims to drop lawsuits and accept a USD 8.9bln settlement related to talc products; JNJ plans to appeal the decision. **Walmart (WMT)** paid USD 1.4bln to buy out Tiger Global's shares in Flipkart valuing the Indian e-commerce giant at USD 35bln; gives Walmart more access to the growing digital consumer market. **Ford (F)** downgraded at Jefferies, citing weakness in Model E guidance. **New Relic (NEWR)** to be acquired by Francisco Partners and TPG for USD 87/shr or USD 6.5bln in cash. NEWR closed Friday at USD 74.05/shr. **Sweetgreen (SG)** surged following a Piper Sandler upgrade; noted that the tide may be turning for the co. **XPeng (XPEV)** tumbled in wake of a UBS downgrade; said cos. near-term gains may now all be priced in after shares more than doubled in price this year. Morgan Stanley downgraded **Salesforce (CRM)** noting the cos. near-term catalysts, including margin expansion and price increases, are in the “rear-view mirror.” Lithium miners (SQM, ALB) were supported, particularly **Albemarle (ALB)** after it was reported **Exxon (XOM)** is in talks with **Tesla (TSLA), Ford (F) and Volkswagen (VOW3 GY)** on supplying lithium, with ALB among producers XOM is in talks with, Bloomberg reported. Elsewhere, Electrek reported that **Uber (UBER)** is buying 100 **Tesla (TSLA)** Model Y vehicles to deploy in Tokyo.

US FX WRAP

The Dollar caught a bid on month-end despite many sell side models pointing to Dollar selling. Credit Agricole’s month-end saw "real money USD selling & corporate EUR buying again" whilst also noting flows are likely to be mild USD selling across the board, with the strongest sell signal in USD/JPY, while the corporate model is indicative of EUR buying. Barclays meanwhile says the passive rebalancing model at month-end shows weak USD selling against all majors. The data highlight in the US was the Chicago PMI data which rose from the prior 41.5 to 42.8, but was beneath expectations of 43.3. Meanwhile, Fed’s Goolsbee (voter) and Kashkari (voter) spoke, albeit Kashkari was over the weekend where he said he is not sure when the Fed will be done raising rates and they are making good progress but will let the data guide them and they may or may not hike in September. Goolsbee added he does not know if they should skip the September meeting, noting nothing is on or off the table, although did take comfort in the Fed being on the 'Golden Path', as in lowering inflation without unemployment rising. DXY rose from lows of 101.520 about an hour after the Chicago PMI data before gradually paring throughout the rest of the session to highs of 101.89 at time of writing.

The Euro was weighed on by the Dollar strength with EUR/USD briefly falling sub 1.10 heading into APAC trade Tuesday, with the cross hovering around that level despite hot inflation data and a strong GDP report. Eurozone inflation data saw the Y/Y HICP in line at 5.3%, cooling from the prior 5.5%, however the core metric (ex Food & Energy) was hotter than expected at 6.6% (exp. 6.4%, prev. 6.8%) while the super core was also hotter than expected at 5.5% (exp. 5.4%), but in line with the prior 5.5%. On the marginally hotter than expected data, there was little reaction in European assets or ECB market pricing, given there is another flash reading ahead of the September 14th meeting. Currently, market pricing is steady around a 25-30% probability of a 25bp hike in September. EU GDP data saw a 0.3% Q/Q gain, accelerating from the prior -0.1% and above expectations of +0.2% while Y/Y rose 0.6%, cooler than the prior 1.0% but above expectations of 0.6%.

The Yen was markedly weaker to start the week following on from the BoJ puzzle last week. During APAC trade on Monday, the BoJ, in an unscheduled announcement, offered to buy an unlimited amount of JGBs at a fixed rate with maturities of 5-10yr bonds and JPY 300bln in JGBs with residual maturity of 5-10yrs. The announcement follows the BoJ policy tweak on Friday where it 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%. The Yen rose back above 142 to see a high of 142.6, levels not seen since early July.

The Yuan saw marginal gains vs the Dollar, on both offshore and onshore currencies with the PBoC setting a firmer than expected Yuan fix. However, there was more policy jawboning from officials, noting they will adjust and improve its policies on property. Meanwhile, on data, the Chinese PMIs were mixed, the manufacturing saw a marginal beat at 49.3 (exp. 49.2, prev. 49.0) while the services data slipped to 51.5 from 53.2, beneath the 53 consensus - albeit remaining in expansionary territory. It is also worth noting the Chinese export controls on key chipmaking material will come into effect on Tuesday 1st August, a full Newsquawk analysis can be found here.

Cyclical currencies predominantly outperformed, although the GBP softened vs the Dollar and only saw marginal gains against the Euro. AUD was the clear gainer on more jawboning support from China while the China PMI data was mixed, the Manufacturing did top expectations. It’s also worth keeping an eye on Australian coal demand as China’s export bank on germanium comes into effect Tuesday - germanium is primarily obtained as a by-product of zinc production (75%) and from coal (25%). Furthermore, traders will be waiting for the RBA policy decision Tuesday with markets split between a hike or hold following the cooler-than-expected Aussie CPI data. NZD/USD also saw solid gains, rising from lows of 0.6150 to highs of 0.6225 where it briefly rose above the 100dma at 0.6198. AUD/NZD saw gains ahead of the RBA rate decision. CAD saw gains vs the buck, with USD/CAD falling from 1.3261 at the highs to lows of 1.3152 as oil prices surged throughout the session on Chinese stimulus hopes.

EMFX was mixed, but generally weaker following the Chile rate cut. MXN was weaker vs the buck while the prelim growth estimate came in line with expectations, but at a slower pace than the prior, posting 0.9% growth in Q2 vs 1.0% previously. The BRL saw gains but the CLP underperformed following Friday's larger than expected 100bp cut on Friday (more below). The BCB is also set to cut rates on Wednesday, albeit not by the same magnitude as Chile with the street looking for a 25bp cut to 13.5% from 13.75%, albeit some do look for a 50bp cut. COP was weaker in the session with the Columbia Central Bank keeping rates unchanged as expected in a unanimous decision while Governor Villar noting the bank will not provide forward guidance on rate moves.

CHILE: The Chile Central Bank cut rates by 100bps on Friday, taking its key rate to 10.25%, 50bp deeper than the analyst consensus of 10.75%, but in fitting with forecasts from Pantheon and Scotia. The decision was unanimous, it also noted how with developed country policy pointing to prolonged periods of tighter policy, the impulse the Chilean economy will receive will remain limited. Within the statement, it noted that the government has evolved broadly in line with estimates from the June Monetary Policy Report, and it has initiated its easing cycle based on the consolidation of the inflationary convergence process. However, it does acknowledge interest rates will accumulate a stronger reduction than what was considered in the June Monetary Policy Report. Given the larger-than-expected cut, the markets are pricing in an even more dovish outcome in September with 159bps of rate cuts implied, suggesting a 62% probability of a 150bp cut and a 38% probability of a 175bp cut.