US Market Wrap

1st August 2023: Cyclicals lag in risk-off trade in wake of soft data

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Soft US ISM & JOLTS data; Bostic would have "grudgingly" voted for a rate hike in July; RBA keeps rate unchanged; EZ & UK Manufacturing continues to crumble though the PMIs differ somewhat on inflation implications; PFE revenue miss & cut guidance; Strong CAT earnings; Mexico shut its largest oil-export terminal on Sunday.
- **COMING UP**: **Data**: US ADP National Employment **Events**: BoJ Minutes **Supply**: Germany & US Quarterly Refunding Announcement **Earnings**: Hugo Boss, Telecom Italia, BAE Systems, Smurfit Kappa, Taylor Wimpey, Simon Property Group, Occidental Petroleum, Exelon, CVS Health, Qualcomm, MetLife.
- **WEEKLY US EARNINGS ESTIMATES**: [WED] CVS, QCOM, PYPL; [THURS] CI, COP, AMZN, AMGN, GILD, ABNB, SYK, AAPL, BKNG. To download the report, please click here.

MARKET WRAP

Stocks saw marginal downside on Tuesday albeit the cyclical-focused Russell2k underperformed on weak US economic data with the US ISM Manufacturing PMI missing expectations while JOLTS also came in beneath expectations. The Dow managed to post marginal gains, however, and outperformed thanks to a very strong report from Caterpillar (CAT). It was a risk-off day throughout the session with overnight appetite weighed on by downbeat China Caixin PMI while the Final July European PMI data highlighted recessionary woes in the commentary, but the headline figures were in line and unrevised. UST yields rallied ahead of quarterly refunding on Wednesday with the 10yr reclaiming 4% and the 30yr hitting the highest level of 2023 so far which supported the Dollar and weighed on the Yen but the Aussie underperformed after the RBA left rates unchanged vs some expectations for a 25bp rate hike. Crude prices sold off on risk appetite but pared from lows on supply woes out of Mexico and a bullish Bloomberg OPEC survey.

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FED: **Bostic (2024 voter)** hit the wires on Tuesday, and noted he would have "grudgingly" voted for a rate hike in July, and if the economy evolves as he expects, would be comfortable advocating for no rate hike in September. Bostic added they are in a phase where there is some risk of over-tightening. The Atlanta Fed President added if progress on inflation unexpectedly stalls, he would be comfortable contemplating a rate hike. On unemployment, he expects it to rise as inflation falls, but perhaps only to upper threes or 4% and he will be resolute not to change policy direction until he is sure they will get inflation to 2%. Bostic concluded the Fed should be cautious, patient and resolute and there is still considerable momentum in the economy, noting data is consistent with an 'orderly slowdown'. **Goolsbee (voter)** spoke again and largely reiterated what he said on Monday, although he did note the JOLTS data looks consistent with a strong labour market moving to a more balanced phase.

ISM MANUFACTURING: The Manufacturing survey for July missed expectations at 46.4 (exp. 46.8) but rose from the prior 48.1. New Orders helped with the rise, rising from 47.3 from 45.6, albeit still remaining in contractionary territory. Prices Paid rose in July, albeit still sub-50, printing 42.6, up from the prior 41.8 but short of the expected 42.8, showing prices are slowing but not as much as June. Employment saw a steep fall to 44.4 from 48.1, deeper than the expected decline to 48 - showing signs of a loosening labour market in the manufacturing sector ahead of Friday's NFP report. The Services ISM PMI is due on Thursday for a view of the services sector, which has been holding up better than manufacturing. This data is at odds with some of the strong US releases we have seen recently, helping those support the soft landing argument, although the broad contraction in manufacturing is worth monitoring given the nine consecutive months of contractions.

JOLTS: Job openings were modestly down in June, falling to 9.582mln from the revised 9.616mln and beneath the expected 9.610mln, while the quits rate printed 2.4% (prev. 2.6%). The headline fell to their lowest level since April 2021, but there is still a large gap between the long-term average level, or one consistent with slack in the labour market. In addition, while the quits rate fell, the measure is quite volatile, and Oxford Economics notes it remains at a level that indicates continued pressure on wages as many workers leave jobs in search of other (higher paying) opportunities. Overall, Oxford Economics adds, “though we expect last week's rate increase to be the last, risks are tilted towards additional tightening if the Fed determines the data warrant it." As such, the consultancy adds, June's JOLTS report sits squarely in the middle - continued, clear progress, but at potentially too slow a pace for the Fed's liking. Looking ahead, OxEco anticipate similar results from July's employment report, with job gains only slowing marginally.

FIXED INCOME

T-NOTE (U3) FUTURES SETTLED 17 TICKS LOWER AT 110-28

Treasuries bear-steepened into Wednesday's refunding announcement, with soft ISM and JOLTS failing to stop the rot. At settlement, 2s +3.8bps at 4.912%, 3s +6.3bps at 4.579%, 5s +6.5bps at 4.244%, 7s +7.8bps at 4.156%, 10s +9.0bps at 4.047%, 20s +9.4bps at 4.311%, 30s +8.8bps at 4.104%

INFLATION BREAKEVENS: 5yr BEI -3.2bps at 2.385%, 10yr BEI -0.8bps at 2.362%, 30yr BEI +1.0bps at 2.299%

THE DAY: T-Notes traded in thin ranges during the APAC Tuesday session, finding support at 111-10+ with contracts struggling for direction. RBA left rates unchanged against some expectations of a 25bps rate hike, which gave a marginal steepening bias to the curve. There was a slew of PMI data across Asia, which was mixed, although China's Caixin mfg. final reading for July was revised into contractionary territory.

T-Noted edged to highs of 111-16 in the London morning before better selling kicked in, in lack of an obvious catalyst. The Eurozone saw its unemployment rate dip to a record low, while the EU mfg. final reading for July remained unchanged in contractionary territory; none of the data garnered much immediate reaction in govvies.

Contracts dipped into the cash bond open, with the belly and long end weakest on the curve with desks pointing to quarterly refunding after the chunky upward revisions to quarterly financing estimates on Monday evening. T-Notes saw a kneejerk spike on the miss in July ISM mfg. and the larger fall than expected in JOLTS June job openings, but that was not enough, and new lows were being made before long. T-Notes troughed for the session at 110-26+, although the long-end traded particularly weaker into the NY afternoon, with the cash 30yr yield hitting its highest levels of the year above 4.10%.

STIRS:

- SR3U3 +0.0bps at 94.590, Z3 -0.5bps at 94.620, H4 -1.0bps at 94.830, M4 -2.0bps at 95.140, U4 -3.5bps at 95.500, Z4 -5.0bps at 95.820, H5 -6.0bps at 96.070, M5 -6.5bps at 96.235, U5 -7.5bps at 96.325, U6 -9.0bps at 96.490, U7 -9.0bps at 96.470.
- SOFR rises back to 5.31% as of July 31st from 5.30%, volumes rise to USD 1.551tln from 1.419tln.
- EFFR flat at 5.33% as of July 31st, volumes fall to USD 103bln (prev. 106bln).
- US sold USD 50bln of 42-day CMBs at 5.280%, covered 3.24x.
- US left 4-, 8-, and 17-week bill auction sizes unchanged at USD 70bln, 60bln, and 46bln, respectively; 4- and 8-week to be sold on August 3rd and 17-week bills on August 2nd; all to settle on August 8th.

LATER THIS WEEK (US items bolded):

- 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 0.43 LOWER AT 81.37/BBL; BRENT (V3) SETTLED USD 0.52 LOWER AT 84.91/BBL

The crude complex was lower early on following growth concerns before moved off lows as risk sentiment improved somewhat while it was also reported that Mexico shut its largest oil-export terminal on Sunday. In the US afternoon, WTI and Brent pared off lows of USD 80.59/bbl and USD 84.21/bbl, respectively, which coincided with reports from Bloomberg that Mexico's largest oil export terminal was shut on Sunday due to a leak, but it is expected to resume service later this week. Meanwhile, the Bloomberg OPEC Survey stated crude output plunged by the most in three years in July, falling 900k BPD to average of 27.79mln BPD. In addition, Marathon Petroleum (MPC) assumes the Galveston Bay refinery (593k BPD) reformer to be down throughout Q3 '23 and expects crude throughput volumes of roughly 2.7mln BPD, or 94%, in Q3. Looking ahead, US NFP is on Friday, and a raft of earnings are also due with highlights from Apple (AAPL) and Amazon (AMZN), ahead of private inventory data after-hours. Current expectations (bbl): Crude -1.4mln, Distillate +0.1mln, Gasoline -1.3mln.

Overnight, a surprise contraction in the Chinese Caixin Manufacturing PMI kept prices on the back foot, whilst the overall recessionary commentary from the European PMIs only kept prices subdued in the morning. The complex, however, trimmed earlier losses as participants await the OPEC+ JMMC on Friday, whereby participants expect the current pact (which does not include the voluntary cuts) to be rolled over, whilst eyes remain on whether Saudi will opt to roll over its 1mln BPD voluntary cuts or unwind offline production by 250-500k BPD.

MEXICO: Mexico's largest oil-export terminal, FPSO Yúum K'ak' Náab, was shut on Sunday due to a leak in one of its hose trains, according to Bloomberg sources. The FPSO and Salina Cruz are expected to resume service later this week, when Pemex will have a chance to clear a backlog of seven ships waiting to load 8mln bbls of oil for clients in the US, South Korea, China and India. Note, Pemex shut its Salina Cruz terminal in July after hoses loading a ship were blown off by strong winds.

BP: In earnings, the oil giant beat on revenue but missed on profit and noted it expects oil prices in Q3 to be supported by seasonal demand and the OPEC+ production restrictions. Moreover, BP expects industry refining margins to remain above historical average levels and expects the risk of an earlier-than-normal seasonal fill of European gas storage in Q3 to continue to weigh on European gas and Asian LNG prices absent disruptions to supply. In the US, Henry Hub gas prices are expected to find support from coal-to-gas switching in the power sector.

EQUITIES

CLOSES: SPX -0.27% at 4,576, NDX -0.25% at 15,718, DJIA +0.20% at 35,630, RUT -0.45% at 1,994.

SECTORS: Utilities -1.26%, Consumer Discretionary -1.15%, Consumer Staples -0.51%, Health -0.51%, Energy -0.48%, Materials -0.44%, Communication Services -0.29%, Real Estate -0.12%, Financials -0.03%, Technology +0.09%, Industrials +0.32%.

EUROPEAN CLOSES: DAX -1.26% at 16,240, FTSE 100 -0.43% at 7,666, CAC 40 -1.22% at 7,406, Euro Stoxx 50 -1.40% at 4,407, IBEX 35 -1.44% at 9,503, FTSE MIB -0.97% at 29,356.

STOCK SPECIFICS: **Pfizer (PFE)** missed on revenue and cut/narrowed FY guidance citing lower Y/Y revenues in FY23 due to declines for COVID-19 products. **Caterpillar (CAT)** beat on EPS and revenue, with quarterly machine retail sales topping in all geographical locations with APAC surprisingly rising. Expects higher H2 sales and revenues Y/Y. **Merck & Co (MRK)** posted a shallower loss per share than expected and beat on revenue and key drug sales; FY guidance was strong. **Uber Technologies (UBER)** gross bookings beat and posted a surprise profit per share but it missed on revenue. The next quarter gross bookings outlook topped the expected with trips seen rising at least 20% Y/Y. CFO Chai is to step down from January 5th, 2024. **Arista Networks (ANET)** surpassed expectations on the top and bottom line with the Q3 revenue guide impressing. Exec said it was aiming for at least double digits growth next year. **ZoomInfo (ZI)** fell short on revenue with revenue guide light for both the next quarter and FY. Note, EPS beat and co. approved a new USD 500mln buyback programme. **Woodward (WWD)** smashed expectations on both EPS and revenue and FY23 guidance topped consensus. Exec said Aerospace and Industrial businesses were improving, and output is increasing. **Global Payments (GPN)** topped Wall St. expectations on EPS and revenue; it also lifted its 2023 outlook. **Melco Resorts & Entertainment Ltd (MLCO)** earnings beat and also saw tailwinds from Macau Casino revenue for July soaring Y/Y. **Norwegian Cruise Line (NCLH)** is tumbling despite a fairly decent report, highlighted by EPS and revenue beating. As such, the hot RCL report last Thursday could be weighing on the name in addition to Q3 guidance slightly light. **JetBlue (JBLU** cut FY outlook and warned of possible loss in the current quarter as travellers look to go overseas and its partnership with American Airlines (AAL) ends. Note, EPS slightly beat with revenue in line. **Marriott International (MAR)** beat on EPS and revenue and said Greater China rebounded quickly once travel restrictions were lifted in January with Q2 RevPar surpassing pre-pandemic levels; it also raised FY23 adj. EPS and revenue outlook. **Zebra Technologies (ZBRA)** revenue fell short as did next quarter outlook. **Eaton (ETN)** beat on the top and bottom line; raised Q3 EPS view. Apollo is leading a bankruptcy loan deal for trucking firm **Yellow (YELL)**, according to Bloomberg.

US FX WRAP

The DXY continued its bid to start August with DXY reclaiming 102.00 to find a high of 102.43 as UST yields surged with the 10yr rising back above 4% and the 30yr yield seeing its highest level in 2023. The moves came despite net-soft US economic data with US ISM manufacturing PMI missing on the headline, with both prices and employment easing while the latest JOLTs data came in beneath expectations and the quit rate fell. Meanwhile, Fed's Goolsbee spoke again, largely reiterating what was said on Monday but noting the JOLTS data looks consistent with a strong labour market moving to a more balanced phase. In a research note Monday, Barclays noted that disinflation in the US has pushed the Buck to a downward spiral since last year, and at the same time, USD speculative futures positioning is very low, is also showing signs of bottoming. Barclays note that "while we are no dollar bulls", an acceleration of US growth can trigger "pockets of tactical dollar strength", adding a key risk is if China stimulus comes in more aggressive than expected.

The Euro was weaker as the dollar advanced with EUR/USD only briefly rising back above 1.10. In the EU, the EZ unemployment rate ticked lower to 6.4% despite expectations for an unchanged print of 6.5%. In Germany specifically, the unemployment change fell by 4k, better than the expected 20k, taking the unemployment rate to 5.6% from 5.7%. Meanwhile, the Final Manufacturing PMI data was in line and unchanged in the eurozone at 42.7. For the full Newsquawk EU data wrap, please click here.

The Yen weakness continued post-BoJ last week with the surge in UST yields weighing, as well as other traditional havens, CHF and XAU. USD/JPY peaked above 143.50 before paring marginally heading into APAC trade. Gold prices fell beneath USD 1,950/oz while USD/CHF rose above 0.8750 and EUR/CHF rose above 0.9600.

AUD underperformed after its rally on Monday following the RBA rate decision which opted to leave rates unchanged vs mixed expectations for either a 25bp hike or standing pat. The RBA did note some further tightening may be appropriate while reiterating the board remains resolute in its determination to return inflation to target. Alongside the unchanged rate decision, the weak China Caixin PMI only added to Aussie woes, as did a downbeat risk environment. AUD/USD hit a low of 0.6603 finding support at the round level, which it hovered around heading into the APAC session.

Other **cyclical currencies** also fell victim to the USD strength but NZD was another underperformer as it tracked the Aussie lower but AUD/NZD fell sub 1.08 on the Aussie pressure. CAD was weighed on by the lower oil prices and risk off tone as well as the gaining Dollar. GBP saw similar price action with Cable sub 1.28 again while EUR/GBP briefly rose above 0.8606 but failed to hold onto the psychological level with eyes on the BoE rate decision due Thursday.

The Yuan was weaker on both offshore and onshore currencies after the Final July Caixin Manufacturing PMI fell into contractionary territory and missed analyst expectations at 49.2 from the prior 50.5 (exp. 50.3). The Caixin survey now joins the NBS PMI survey in contractionary territory, albeit that saw a marginal beat on Monday, while services missed. There was once again more support jawboning from officials, where the PBoC is to support a healthy and stable development of the real estate market and is to prevent and fend off financial risks in key areas.

EMFX was generally weaker after the China data, while the aforementioned risk-off tone and strength in the dollar only added to the EM woes with ZAR lagging on the downside as gold prices tumbled. BRL saw notable weakness, despite decent industrial output data. Note, with the BCB due on Wednesday evening, Credit Agricole notes with USD/BRL hovering near the 2022 lows since last April, "we believe the BRL is once again primed for a sharp reversal". Noting the obvious culprits could be the BCB's pivot towards easing and the looming 2024 budget proposal. MXN, COP and CLP all saw weakness too.