



US Market Wrap

7th May 2024: Stocks and Bonds chop as participants await next catalyst

- **SNAPSHOT:** Equities flat, Treasuries bull-flattened, Crude down, Dollar up..
- **REAR VIEW:** Dovishly perceived RBA hold; Strong US 3yr auction; Russia touted potential production increases, before Novak later denies; Plethora of Middle East rhetoric; DIS+ subscribers light with downbeat next quarter guidance; AAPL developing AI chips for data centres & announces new iPad Air; Softer Manheim used car vehicle index
- **COMING UP: Data:** German Industrial Orders, Italian Retail Sales, US Wholesale Sales **Events:** Riksbank Policy Announcement; BoC FSR **Speakers:** Riksbank Press Conference; ECB's Wunsch, de Cos; Fed's Cook, Jefferson, Collins **Supply:** Australia, Japan, UK, US **Earnings:** BMW, Munich Re, Henkel, Fresenius, Siemens Energy, Continental, Evonik, Puma, Lanxess, Bechtle, Emerson Electric, Airbnb, Uber.

MARKET WRAP

Stocks were choppy on Tuesday with the indices holding on to their recent strength with mixed performances under the surface. There were no major macro catalysts on Tuesday, with the softer Manheim used car vehicle index the data "highlight", while the US 3yr Treasury auction saw solid demand ahead of the 10yr and 30yr offerings on Wednesday and Thursday. Semiconductors were largely an area of weakness, weighed on by WSJ reports AAPL was developing its own AI chips for data center servers, meanwhile, AAPL also announced its new iPads that include its new AI-bolstered M4 chips. Elsewhere, Treasuries bull-flattened with traders front-running the auctions which are expected to see strong demand given last week's events, with yields out the curve (10yr and beyond) making fresh lows beyond last Friday's lows. Oil prices hit their lowest levels since mid-March, with the market becoming desensitised to Rafah headlines while Russia touted potential production increases. The Dollar Index saw mild gains. Gold and other metals saw losses.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 4 TICKS HIGHER AT 109-00+

Treasuries bull-flattened on Tuesday ahead of expectedly strong Treasury auctions. 2s +1.0bps at 4.833%, 3s +0.3bps at 4.646%, 5s -0.7bps at 4.476%, 7s -1.7bps at 4.466%, 10s -2.4bps at 4.465%, 20s -3.1bps at 4.706%, 30s -3.4bps at 4.609%.

INFLATION BREAKEVENS: 5yr BEI -3.5bps at 2.321%, 10yr BEI -3.1bps at 2.321%, 30yr BEI -2.9bps at 2.324%.

THE DAY: Treasuries were choppy at first on Japan's return from the long weekend before finding a bid on the dovishly received RBA meeting with rates left unchanged. The bid extended into the London handover with the UK also back from its long weekend, with Gilts playing catch up. T-Notes hit interim resistance at 109-03 which held until the NY morning.

New highs were made as the NY session got underway with little major fresh catalysts amid last week's soft NFP and dovish Powell sustaining bullish momentum ahead of Treasury supply. There was another fresh deluge of corporate supply which failed to make much of an impact with USTs holding firm. Note also a recent UBS note that said "CTAs' reaction function appears significantly skewed towards buying from here. We expect them to buy back \$30/40mln Dv01 over the next 2 weeks", with other analysts also flagging the potential for CTA buying in the weeks ahead. The front end lagged the duration bid ahead of the 3yr auction, which perhaps unsurprisingly, saw strong demand (details below). T-Notes hit session peaks of 109-09, just beneath the 109-09+ peak seen on Friday post-NFP data, before paring to the 109 area for the close.

Looking ahead, the week is on the light side for data leaving set up for the refunding auctions (details below) to dictate trading conditions with a slew of Fed appearances in between: [Weds] Jefferson (v), Collins (nv), Cook (v), [Thurs] Daly (v), [Fri] Bowman (v), Logan (nv), Goolsbee (v), Barr (v).

3YR AUCTION: A strong 3yr auction from the Treasury with last week's soft NFP and dovish Powell likely widening the demand base. USD 58bln worth of notes were sold at 4.605%, marking a stop-through of the When Issued yield by 0.3bps, better than the six-auction avg. tail of 0.1bps and prior month's tail of 2bps. The auction was covered 2.63x, better



than the prior 2.5x and avg. 2.57x. Dealers were left with 14.9%, down from the prior 19.3% and avg. 18.3%, with a slight fall from April in Directs demand (19.6% from 20.4%) more than offset by a pick-up in Indirects demand (65.5% from 60.3%). Attention now on Wednesday's USD 42bln 10yr auction and Thursday's USD 25bln 30yr auction.

STIRS:

- SR3M4 -1bp at 94.705, U4 -1bp at 94.895, Z4 -1bp at 95.125, H5 -1bp at 95.375, M5 -1bp at 95.59, U5 -1bp at 95.765, Z5 -0.5bps at 95.885, H6 -0.5bps at 95.965, M6 +0.5bps at 96.02, M7 +2bps at 96.135, M8 +3bps at 96.125.
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.855tln (prev. 1.863tln).
- NY Fed RRP op demand at USD 0.475tln (prev. 0.469tln) across 73 counterparties (prev. 67).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 75bln (prev. 82bln).
- US sold USD 75bln of 42-day CMBs at 5.280%, covered 2.91x.
- US raises 4- and 8-week bill auction sizes to USD 80bln, each, from USD 70bln and 75bln; leaves 17-week unchanged at 60bln; 4- and 8-week sold on May 9th, 17-week on May 8th; all to settle on May 14th.

CRUDE

WTI (M4) SETTLED USD 0.10 LOWER AT 78.38/BBL; BRENT (N4) SETTLED USD 0.17 LOWER AT 83.16/BBL

Oil prices hit their lowest levels since mid-March on Tuesday, with the market becoming desensitised to Rafah headlines while Russia touted potential production increases. Price action was choppy, however, with WTI (M4) and Brent (N4) futures hitting troughs of USD 77.55/bbl and 82.41/bbl, respectively, in the NY morning before reversing to highs of 79.17/bbl and 83.88/bbl, respectively, in the afternoon in lack of an obvious catalyst. In the European morning, some downside was seen on headlines via Interfax that Russian Deputy PM Novak had said the possibility of raising production under the OPEC+ deal is being analysed; however, Novak later on said there are no discussions about oil output increase at OPEC+. Elsewhere, the latest EIA STEO saw it cut its forecast for 2024 world oil demand growth by 30k BPD to a 0.92mln BPD Y/Y increase whilst raising its forecast for 2025 world oil demand growth by 70k BPD to a 1.42mln BPD Y/Y increase. Attention is now on the weekly US energy inventory, with the EIA data on Wednesday after the private released later on Tuesday, where current expectations (bbls) see crude stocks drawing 1.1 mln, gasoline drawing 1.3mln, and distillates drawing 1.1mln.

EQUITIES

CLOSES: SPX +0.13% at 5,187, NDX -0.01% at 18,091, DJIA +0.08% at 38,884, RUT +0.19% at 2,064.

SECTORS: Materials +1.17%, Utilities +1.12%, Consumer Staples +1.09%, Real Estate +1.07%, Health +0.81%, Communication Services +0.57%, Financials +0.32%, Industrials +0.24%, Energy -0.14%, Technology -0.53%, Consumer Discretionary -0.56%.

EUROPEAN CLOSES: DAX: +1.45% at 18,438.53, FTSE 100: +1.22% at 8,313.67, CAC 40: +0.99% at 8,075.68, Euro Stoxx 50: +1.14% at 5,013.65, IBEX 35: +1.50% at 11,080.90, FTSE MIB: +0.75% at 34,242.49, SMI: +1.62% at 11,511.10.

STOCK SPECIFICS:

- **Microchip Technology (MCHP)** -2%: Earnings in line, while next quarter guidance underwhelmed.
- **Disney (DIS)** -9.5%: Disney+ subscribers short and does not expect core subscriber growth at Disney+ in Q3, despite expectations for 1mln growth.
- **Lucid Group (LCID)** -14%: Deeper loss per share than forecasted with vehicles delivered also light.
- **Fidelity National Information Services (FIS)** +5.5%: Top and bottom line surpassed Wall St. consensus, as did next quarter and FY profit outlook.
- **Rockwell Automation (ROK)** -2%: Top and bottom line short, and cut FY EPS guidance.
- **Hims & Hers Health (HIMS)** +6%: Q1 metrics topped expectations, with guidance impressing.
- **Palantir Technologies (PLTR)** -15%: Top line outlook disappoints.
- **GlobalFoundries (GFS)** +7%: EPS and revenue exceeded expectations.
- **Simon Property Group (SPG)** +2.5%: EPS, revenue, and FFO beat alongside lifting FY FFO view.
- **Peloton (PTON)** +15.5%: PE firms circle Peloton for potential buyout, CNBC reports.



- **Apple (AAPL)** +0.5%: Is developing AI chips for data centres, and it is expected to unveil them at its June's developer conference. At its "Let Loose" event announced new iPad Air, including first larger version; new iPad Air is 50% faster and has an M2 chip; 13-inch iPad Air starting at USD 799 and goes on sale next week. Also announced iPads with new M4 AI chips.
- **Target (TGT)** +1.5%: Upgraded at Citi; believes it has emerged as "one of the winners within the retail landscape".
- **International Paper (IP)** +5%: Brazil's Suzano (SUZB3 BR) has approached IP with an acquisition offer of USD 42/shr or USD 15bn, according to Reuters citing sources.
- **Tesla (TSLA)** -4%: To shut down German plant production for four days, according to Handelsblatt.
- **Boeing (BA)** -1%: FBN's Gasparino posts on X "Boeing looking for a strategic investment from Warren Buffett to begin its corporate healing process".
- **Pfizer (PFE)** -1.5%, **Sarepta Therapeutics (SRPT)** +0.5%: A young boy died in a trial for Pfizer's experimental gene therapy for Duchenne muscular dystrophy, the company told patient advocates Tuesday, according to STAT News.

US FX WRAP

The Dollar was firmer on Tuesday, albeit within thin ranges, and currently resides just of session highs of 105.440, in a day that lacked headline macro newsflow and tier 1 US data. As such, participants await fresh impetus following the slide on the back of the dovish FOMC and soft NFP ahead of next Wednesday's key US CPI release. Although it did not move the dial or garner a market reaction, Kashkari (non-voter, hawk) spoke numerous times noting the most likely scenario is the Fed stays put for an extended period on rates; if disinflation comes again, or saw marked weakening in job market that might lead to rate cuts. Looking ahead, Fed's Jefferson (voter), Collins (2025 voter), and Cook (voter) are on the speaker docket for Wednesday, absent of any notable data releases.

G10 FX (ex-Dollar) saw losses across the board against the Buck in lack of any currency-specific catalysts on the whole, aside from a few points detailed below.

For the **Aussie**, the RBA failed to deliver a hawkish pivot, and the accompanying statement acknowledged the slow progress on inflation. Overall, the bank kept rates unchanged at 4.35%, as expected, and reiterated it remains resolute in its determination to return inflation to the target and is not ruling anything in or out. In terms of forecasts, it raised its inflation forecasts for 2024 but trimmed forecasts for GDP and unemployment, while the RBA's forecasts assumed that rates will stay at 4.35% until mid-2025 which is nine months longer than previously assumed. In wake of the rate decision, Bullock stated they must be vigilant on inflation risks and the board discussed the option of hiking. AUD/USD traded within pretty tight ranges with a peak of 0.6643 and a low of 0.6588, with the latter as the Dollar saw strength in the NY afternoon.

JPY was the G10 underperformer as the cross hit a high of 154.75, with Japanese Business Lobby Keidanren Chief Tokura overnight noting USD/JPY above 150 is "too much", and while he does not know if the authorities intervened in the FX market, if they did, thinks timing was very good. Moreover, BoJ Governor Ueda had a regular exchange of views with Japanese PM Kishida, and he is to closely monitor how a weak JPY will impact prices.

GBP saw slightly steeper losses than the **EUR**, as Cable tested 1.25 to the downside, but managed to defend the psychological level as the EUR did with 1.0750. On the data docket, German industrial orders for March surprisingly declined, while EU retail sales was better than feared. For the Pound, S&P Global PMIs beat for April, but BRC data confirmed subdued retail trends - printing -4.4% Y/Y, shy of the consensus and previous at 2.0% and 3.2%, respectively. Pound traders are now gearing up for Thursday's BoE with Gilts playing catch up to peer strength today after the long weekend in the UK.

EMFX was majority softer vs. the Greenback, although the BRL saw gains and the TRY and COP were flat. CLP was weighed on by weaker Copper prices, and also after the Chilean Peso outperformed its LatAm peers on Monday. Ahead, Chilean CPI is on Wednesday, before the BCB meeting. EMs were largely weighed on by the aforementioned Buck strength, as opposed to anything currency-specific.

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