



# US Market Wrap

## 13th May 2024: Bonds and stocks chop to NY Fed & AI ahead of key risk events

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude up, Dollar flat.
- **REAR VIEW:** "TheRoaringKitty" returns, boosting GME and AMC; NY Fed SCE sees 1yr & 5yr inflation expectations inch higher; OpenAI release GPT-4o; Jefferson echoes Powell's message; ARM to make AI chips.
- **COMING UP: Data:** Japanese Corporate Goods Prices, German & Spanish CPI (F), UK Employment Data, German ZEW, US PPI **Events:** OPEC MOMR **Speakers:** BoE's Pill; ECB's Schnabel; Fed Chair Powell, Cook **Supply:** Japan, Netherlands, UK, Germany **Earnings:** Flutter, Greggs, Vodafone, Porsche SE, Hannover Re, Bayer, ACS, Grifols, Home Depot.
- **WEEK AHEAD:** Highlights include US CPI and Retail Sales, PBoC, China inflation and activity data, Japan GDP, Australian and UK jobs. To download the report, please click [here](#).
- **CENTRAL BANK WEEKLY:** Previewing PBoC MLF; Reviewing BoE, RBA, Riksbank, BCB, Banxico, BoJ SOO and ECB Minutes. To download the report, please click [here](#).

## MARKET WRAP

It had a feel of calm before the storm on Monday with equities and bonds relatively flat by the end of the session. Equity futures ground higher in pre-market trade before selling off at the open with lows in stocks later seen in the US afternoon, seemingly on account of an underwhelming Open AI Spring Update, which announced Chat GPT-4o (which will be free), briefly weighing on chip names and Microsoft (MSFT), while Google (GOOGL) caught a bid on the lack of search engine announcement. The moves then pared to see the S&P at the unchanged level by market close. Treasuries also saw a bid throughout the morning with 10yr finding resistance at 109-00 before paring ahead of NY Fed SCE, which ultimately saw inflation expectations in the 1 and 5-yr hotter than the prior, extending the selling pressure before chopping into settlement. Similar was seen with the Dollar, which moved off lows after the NY Fed inflation expectations although the Yen and Franc lagged while Antipodes and the Loonie were flat. GBP outperformed ahead of key labour market data with Cable also back above the 200dma at 1.2540. Crude prices attempted to reverse some of the Friday downside while Gold prices completely pared Friday's upside. Elsewhere, Meme stocks (GME, AMC) surged on the return of "TheRoaringKitty" on X (formerly Twitter). Aside from the NY Fed Survey, Fed's Jefferson spoke but largely echoed Fed Chair Powell, there are a slew of Fed speakers scheduled for the week and plenty of tier 1 data, including US PPI on Tuesday, with US CPI and Retail Sales on Wednesday.

## US

**FED:** Vice-Chair Jefferson said that the economy has made a lot of progress and inflation has retreated; the labour market has been resilient. He views the economy as in a solid position, but noted the decline in inflation has attenuated and that inflation is a source of concern. Jefferson added he is focused even more so on inflation given the broader strength in price pressures, and that it is appropriate that the Fed maintains the policy rate in restrictive territory, noting it is important to look for more evidence that inflation is abating. Jefferson also stressed that it is appropriate to keep the policy rate restrictive until it is clear that inflation is ebbing.

## FIXED INCOME

### T-NOTE FUTURES (M4) SETTLED 4 TICKS HIGHER AT 108-26+

**Treasuries pare early gains after rising consumer inflation expectations ahead of inflation data and Fed Chair Powell.** 2s -0.5bps at 4.863%, 3s -0.6bps at 4.666%, 5s -1.2bps at 4.506%, 7s -1.4bps at 4.495%, 10s -1.8bps at 4.487%, 20s -1.6bps at 4.731%, 30s -1.5bps at 4.631%.

**INFLATION BREAKEVENS:** 5yr BEI -1.7bps at 2.343%, 10yr BEI -1.4bps at 2.346%, 30yr BEI -1.5bps at 2.351%.

**THE DAY:** T-Notes were bid on Monday with the curve bull flattening. T-Notes hit a peak of 109-00 as US players arrived with eyes turning to the NY Fed Survey of Consumer Inflation Expectations. The data saw the 1-year and 5-year



forecasts move higher while the 3-year expectations eased slightly. The hot one and five-year prints were enough to weigh on Treasuries from the session peaks. The move had pared gradually throughout the rest of the session but failed to test 109 again. There was little reaction to comments from Fed Vice Chair Jefferson (pre-NY Fed), who said the economy has made a lot of progress and inflation has retreated with a resilient labour market, although he did note that inflation is still a cause for concern and the Fed should maintain the policy rate in restrictive territory. Overall, a similar line to what we have heard from other Fed speakers and Fed Chair Powell. Attention now turns to the US PPI data and Fed Chair Powell on Tuesday, before the US CPI on Wednesday.

Looking ahead, the data slate picks up again this week with Wednesday's CPI the highlight: [Tues] NFIB, PPI, [Weds] CPI, Retail Sales, Empire mfg., NAHB, [Thurs] Housing Starts, Import Prices, Philly Fed, Jobless Claims, Industrial Production, and [Fri] Leading Indicators. On Fed Speak: [Tues] Powell, [Weds] Kashkari, [Thurs] Harker, Mester, and Bostic. There is no US coupon supply this week, although European scheduled fixed supply is expected to rise to EUR 32bln from 19bln last week, with Gilt issuance at GBP 3.6bln, and JGB issuance at JPY 3.3tln.

## STIRS

- SR3M4 -0.8bps at 94.693, U4 -1.0bps at 94.870, Z4 +0.0bps at 95.000, H5 -1.0bps at 95.085, M5 -0.5bps at 95.320, U5 +0.5bps at 95.530, Z5 +1.0bps at 95.700, H6 +1.5bps at 95.825, M6 +2.0bps at 95.920, M7 +2.5bps at 96.085, M8 +2.0bps at 96.100.
- US sold USD 77bln of 3-month at 5.250%, covered 2.77x; sold USD 77bln of 6-month bills at 5.165%, covered 3.02x.
- NY Fed RRP op demand at USD 0.492tln (prev. 0.486tln) across 77 counterparties (prev. 72)
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.816tln (prev. 1.871tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 79bln (prev. 79bln).

## CRUDE

**WTI (M4) SETTLED USD 0.86 HIGHER AT 79.12/BBL; BRENT (N4) SETTLED USD 0.57 HIGHER AT 83.36/BBL**

The crude complex was firmer to start the week, albeit settling off highs, in a day with light oil-specific newsflow as participants await the next catalyst, such as US inflation data. On that footing, in the NY Fed SCE, both the 1yr and 5yr ticked higher, although the 3yr declined, while overnight, China CPI came in slightly firmer than forecasted. Additionally over the weekend, the Iraqi oil minister said they would not be agreeing to any future OPEC production cuts, however, they later backtracked and made clear that they are part of OPEC and compliance is necessary. Meanwhile, Middle East updates obviously remain in focus, albeit with little new on Monday, although the complex extended on gains seen in the morning after Al Jazeera reported that a US-British craft reportedly launched a raid on Hodeidah Airport in Yemen. As such, WTI and Brent hit highs of USD 79.49/bbl and 83.84/bbl, respectively, as Europe was leaving for the day before paring slightly, as previously mentioned.

## EQUITIES

**CLOSES:** SPX -0.02% at 5,221, NDX +0.21% at 18,198, DJIA -0.21% at 39,431, RUT +0.11% at 2,062.

**SECTORS:** Technology +0.48%, Real Estate +0.29%, Utilities -0.01%, Materials -0.08%, Health -0.1%, Communication Services -0.18%, Consumer Discretionary -0.22%, Energy -0.23%, Consumer Staples -0.28%, Financials -0.41%, Industrials -0.45%.

**EUROPEAN CLOSES:** DAX: -0.18% at 18,738.47, FTSE 100: -0.22% at 8,414.99, CAC 40: -0.12% at 8,209.28, Euro Stoxx 50: -0.14% at 5,078, IBEX 35: +0.42% at 11,152.00, FTSE MIB: +0.46% at 34,815.91, SMI: -0.07% at 11,745.73.

## STOCK SPECIFICS:

- **Nvidia (NVDA)** +0.5%: Will accelerate quantum computing efforts at national supercomputing centres. In other news, Chinese regulators tell local tech firms to buy fewer Nvidia chips, according to The Information.
- **Arm (ARM)** +7.5%: Will foray into the development of AI chips, and aims to build a prototype by spring 2025, with mass production scheduled to begin in Autumn 2025.
- **Apple (AAPL)** +1.5%: Plans to announce that it will bring generative AI to iPhones after the Cos. most significant reorganisation in a decade.
- **Squarespace (SQSP)** +13%: Is to go private for USD 44.00/shr in cash with Permira. Note, SQSP closed Friday at USD 38.19/shr.



- **Gamestop (GME)** +74%: "TheRoaringKitty" posted for the first time in roughly three years. The post, a picture on X of a video gamer leaning forward on their chair to indicate he's taking the game seriously. Note, **AMC Entertainment (AMC)** (+80%).
- **Incyte (INCY)** +8.5%: Announces intention to buy back up to USD 2bln of its common stock.
- **Intel (INTC)** +2%: In advanced talks with Apollo (APO) which would see the firm supply over USD 11bln to construct a plant in Ireland.
- **Walgreen Boots Alliance (WBA)** +5.5%: Reportedly to contact potential buyers for the drug-chain Boots, according to Bloomberg.
- **AI**: OpenAI released the new flagship model called GPT-4o; it will be available for free because it is more efficient. There was no update on a Google (GOOGL) Search competitor as was suggested in reports last week, but OpenAI CEO Sam Altman did state on Friday no search announcement would be made soon.

## US FX WRAP

**The Dollar** was flat to start the week, and within very contained parameters (105.050-360) ahead of the next key risk events, which comes from Fed Chair Powell at a Netherlands banking event on Tuesday, and US PPI (Tues) and CPI (Wed). Nonetheless, some strength was observed after the April NY Fed Survey of Consumer Expectations saw the 1yr ahead and 5yr ahead tick higher to 3.3% (prev. 3.0%) and 2.8% (prev. 2.6%), respectively, in-fitting with the Michigan data on Friday for May, while the 3yr moved lower to 2.8% from 2.9%. Fed wise, Jefferson (voter) noted the economy has made a lot of progress and inflation has retreated, while the labour market has been resilient.

**G10 FX** was largely rangebound against the Buck in a quiet day of news, although the GBP was the relative outperformer and the CHF and JPY the laggards. For the Yen, the cross breached 156.00 to the upside to a high of 156.28, after seeing lows of 155.57 overnight after the BoJ said it reduced its purchases of 5yr-10yr JGBs. Regarding the Swissy, and despite garnering little market reaction, SNB Chair Jordan said the fight against inflation is far advanced and the outlook for Swiss inflation is now much better, while uncertainty remains and the SNB must follow it.

**The Pound** was seemingly boosted by technicals, as Cable hit a peak of 1.2568, taking out its 200DMA of 1.2542 on the way, with the next level to the upside being the 7th May high at 1.2570. Ahead, traders await UK employment data on Tuesday in addition to BoE Chief Economist Pill.

There was little headline-driven newsflow for the **Euro**, but the cross hit a peak of 1.0806, also taking out its 200DMA. There was no tier 1 data either, with German ZEW and European inflation metrics tomorrow.

**AUD, CAD, and NZD** were all flat against the Greenback. Overnight, Australian NAB Business conditions were slightly weaker than expected, with Confidence in line while New Zealand 2yr inflation forecasts were softer than forecasted. In the week ahead, Australian Employment (Thurs) is the highlight. For the Loonie, oil prices were slightly firmer and Canadian building permits slumped 11.7% (exp. -3.3%, prev. +8.9%), outside of the lowest in the forecast range of -9.3%.

**EMFX** was mixed. RUB, ZAR, and CLP firmed vs. the Buck with the latter seeing support from surging copper prices. COP, TRY, and BRL were more-or-less flat, while MXN saw losses. For the Mexican Peso, Banxico's Rodriguez said resuming interest rate cuts is on the table for the June 27 meeting, and progress made in disinflation will allow Banxico to discuss the possibility of rate cuts starting from June. He added they need to proceed with additional rate cuts gradually considering there are still challenges and risks. For the RUB, CBR said it is not possible to say if the rate should be lowered or raised for now, and see the possibility to cut in H2 if disinflation continues. The Yuan was flat, and over the weekend inflation data was mixed, with CPI hotter than expected and PPI cooler.

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