US Market Wrap

14th May 2024: Markets see two-way action after PPI ahead of CPI

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Hot M/M US PPI, but not as bad as first looks; BoE's Pill talks up possibility of rate cuts; OPEC+ has reportedly reopened fraught debate on members' oil capacity; AMC & GME circus continues; SONY rethinking PARA bid; Google I/O event.
- **COMING UP**: **Data**: Australian Wage Price Index, EZ Employment, US CPI, Retail Sales **Events**: Riksbank Minutes, IEA OMR **Speakers**: Fed's Kashkari **Supply**: Australia, UK, Germany **Earnings**: Merck, RWE, Thyssenkrupp, Allianz, Commerzbank, JD Sports, Compass, Ubisoft, Telecom Italia, Cisco Systems.

MARKET WRAP

Markets saw two-way action on Tuesday, as the initial broad-based hawkish reaction seen post-PPI (downside in Treasuries and stocks, upside in Dollar) swiftly pared as participants digested the details and awaited remarks from Fed Chair Powell, albeit he said little new with the takeaway arguably him noting confidence in inflation moving back down is lower than it was before. Back to PPI, headline and core PPI M/M metrics were hotter-than-expected, printing 0.5% M/M (exp. 0.3%, prev. -0.1%) and 0.5% M/M (exp. 0.2%, prev. -0.1%), respectively, both outside of the upper bound of the analyst forecast range. Headline Y/Y was in line with expectations at 2.2%, with the previous revised lower to 1.8%; the Core rate was unchanged at 2.4%, as forecast, although analysts note details under the bonnet were more encouraging for PCE than the headline suggests, along with revisions lower to prior data. As such, US indices saw gains (SPX +0.5%, NDX +0.7%, DJIA +0.4%) with outperformance in the RUT (+1.2%) amid continued tailwinds from the AMC (AMC) (+33%), albeit way off earlier highs in excess of 120%. Elsewhere in stocks, Alphabet (GOOGL) (+1%) had its Google O/I event, Musk's xAI reportedly nears USD 10bln deal to rent Oracle's (ORCL) (+4%) AI servers, and Sony (SONY) is reportedly rethinking Paramount (PARA) (-5%) bid. Treasuries pared post-PPI losses and curve steepened, while the crude complex was lower, as US inflation data and OPEC sources weighed. On the latter, Bloomberg source reports noted OPEC+ has reopened fraught debate on members' oil capacity; UAE, Kazakhstan, Iraq, Kuwait and Algeria are among countries whose potential to pump more next year is under scrutiny. In FX, the Dollar Index reversed from its post-PPI high of 105.470 to a 104.950 low, as G10 peers (ex-JPY) benefited off the Dollar weakness. USD/JPY hit a high of 156.75, with little in the way of resistance ahead of 157.00. Looking ahead, as mentioned all focus is on US CPI on Wednesday (primer below), alongside Retail Sales with a deluge of other data later on.

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PPI: US headline and core PPI M/M metrics were hotter-than-expected, printing 0.5% M/M (exp. 0.3%, prev. -0.1%) and 0.5% M/M (exp. 0.2%, prev. -0.1%), respectively, both outside of the upper bound of the analyst forecast range. Headline Y/Y was in line with expectations at 2.2%, with the previous revised lower to 1.8%; the Core rate was unchanged at 2.4%, as forecast. The report noted that "nearly three-quarters of the April advance in final demand prices is attributable to a 0.6-percent increase in the index for final demand services. Prices for final demand goods moved up 0.4 percent." However, analysts note that the details under the bonnet are more encouraging for PCE than the headline figure suggests, along with revisions lower to prior data, so despite the hotter-than-expected M/M metrics the report is not as bad as it appears on first glance. Note, the report comes ahead of US CPI on Wednesday; both the CPI report and the PPI report will be used together to help gauge expectations for the Fed's preferred gauge of inflation, Core PCE, which is due at the end of the month.

NFIB: US NFIB business optimism index rose to 89.7 in April from 88.5, but remains close to its average during past recessions. Within the report, 22% of owners reported that inflation was their single most important problem in their business, down three points from March but still the number one problem for small business owners. NFIB's chief economist said that cost pressures remain the top issue for small business owners, and overall, they remain historically very pessimistic as they continue to navigate challenges. Oxford Economics highlights that the recessionary signal is due to an unusually large gap that has opened between the index's "hard" and "soft" components. The "soft" components, which are made up of firms' expectations, are at rock bottom levels. In contrast, the "hard" components, which include firms' hiring and capex plans and the extent of their job vacancies, point to an economy that is cooling but still far from a recession. Overall, as the consultancy says, "reduced hiring plans have driven the recent decline in the 'hard' components, but we are not too worried. This is consistent with a lower hiring rate, while layoffs remain low and stable. Small business job creation is normalizing from outsized strength last year."

FIXED INCOME

T-NOTE FUTURES (M4) SETTLE 8+ TICKS HIGHER AT 109-03

Treasuries pare post-PPI losses ahead of US CPI. At settlement, 2s -3.8bps at 4.819%, 3s -4.2bps at 4.616%, 5s -4.3 bps at 4.456%, 7s -4.1bps at 4.447%, 10s -3.6bps at 4.445%, 20s -3.0bps at 4.694%, 30s -2.9bps at 4.593%.

INFLATION BREAKEVENS: 5yr BEI -1.8bps at 2.327%, 10yr BEI -1.4bps at 2.332%, 30yr BEI -0.9bps at 2.342%.

THE DAY: T-Notes were eventually bid on Tuesday, although they hit a low of 108-15 after PPI metrics. On the face of it, headline and core M/M metrics were hotter-than-forecasted, but under the bonnet details were more encouraging for PCE than the headline suggests, along with revisions lower to prior data. As such, and as participants digested the data and awaited Chair Powell, the whole move pared and T-Notes ground higher through the afternoon to hit peaks of 109-03, and remain there at settlement. There was little reaction from Chair Powell comments, with the main takeaway arguably him noting confidence in inflation moving back down is lower than it was before. Attention now turns to the previously mentioned US CPI on Wednesday (Newsquawk primer available here).

Looking ahead, the data slate picks up again this week with Wednesday's CPI the highlight: [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: [Weds] Kashkari, [Thurs] Harker, Mester, and Bostic. There is no US coupon supply this week.

STIRS:

- SR3M4 +0.0bps at 94.695, U4 +1.5bps at 94.890, Z4 +0.0bps at 94.995, H5 +2.5bps at 95.120, M5 +3.5bps at 95.365, U5 +5.0bps at 95.585, Z5 +6.0bps at 95.765, H6 +6.5bps at 95.895, M6 +6.0bps at 95.985, M7 +5.0bps at 96.140, M8 +3.5bps at 96.145.
- US sold USD 75bln in 42-day CMBs at 5.280%, covered 2.81x; sold USD 51bln in 1yr bills at 4.895%, covered 3.00x.
- NY Fed RRP op demand at USD 0.468tln (prev. 0.492tln) across 76 counterparties (prev. 77).
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.805tln (prev. 1.816tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 76bln (prev. 79bln).

CRUDE

WTI (N4) SETTLED USD 0.95 LOWER AT 77.65/BBL; BRENT (N4) SETTLED USD 0.98 LOWER AT 82.38/BBL

The crude complex was lower on Tuesday, as US inflation data and OPEC sources weighed. WTI and Brent hit session lows of USD 77.26/bbl and 82.10/bbl, respectively, after the hotter-than-expected headline and core M/M PPI metrics, but oil was already heading that lower after Bloomberg source reports noted OPEC+ has reopened fraught debate on members' oil capacity; UAE, Kazakhstan, Iraq, Kuwait and Algeria are among countries whose potential to pump more next year is under scrutiny. However, through the US afternoon oil was choppy, albeit settling around lows. Elsewhere on the day, OPEC MOMR said demand growth for 2024 and 2025 remain broadly unchanged vs prior month at 2.2mln BPD and 1.8mln BPD, respectively. Looking ahead, private inventory data is after-hours, ahead of the weekly EIA data on Wednesday, where the formers current expectations are: Crude -0.5mln, Distillate 0.8mln, Gasoline 0.5mln.

EQUITIES

CLOSES: SPX +0.48% at 5,246, NDX +0.68% at 18,322, DJIA +0.32% at 39,557, RUT +1.14% at 2,085.

SECTORS: Technology +0.93%, Real Estate +0.69%, Financials +0.48%, Communication Services +0.47%, Consumer Discretionary +0.44%, Health +0.43%, Utilities +0.21%, Materials +0.08%, Industrials unch., Energy -0.15%, Consumer Staples -0.22%.

EUROPEAN CLOSES: DAX -0.10% at 18,723, FTSE 100 +0.16% at 8,428, CAC 40 +0.20% at 8,225, Euro Stoxx 50 -0.01% at 5,078, IBEX 35 +0.78% at 11,239, FTSE MIB +0.96% at 35,151, SMI +0.14% at 11,785.

EARNINGS:

- **Tencent (TCEHY)** +4.5%: Revenue and net income beat, with revenue breakdown also strong. Said it is investing in AI technology, platform enhancements and high production value content.
- **Home Depot (HD)** flat: Revenue light while comparable sales and US SSS declined more than expected.
- **Alibaba (BABA)** -6.5%: Reported an 86% drop in profits Y/Y.
- **Sony (SONY)** +6.5%: Strong results highlighted by net sales and net income smashing expectations.

STOCK SPECIFICS:

- **Walmart (WMT)** -1%: To lay off and relocate workers as it is cutting hundreds of corporate jobs and asking some staff to move to large corporate hubs, according to WSJ.
- **B. Riley Financial (RILY)** -2%: Announced it has delayed its 10-Q filing; sees Q1 net loss of c. USD 51mln.
- **AMC (AMC)** +33%, **GameStop (GME)** +60.5% continue to surge after extensive gains on Monday.
- **Plug Power (PLUG)** +20.5%: Receives USD 1.66bln conditional commitment loan guarantee from DoE for green hydrogen development pipeline.
- **Amazon (AMZN)** +0.5%: AWS CEO Selipsky is to step down, with Matt Garman replacing him, effective June 3rd.
- **Oracle (ORCL)** +4%: Musk's xAI reportedly nears USD 10bln deal to rent Oracle's AI servers, according to The Information.
- **QuidelOrtho (QDEL)** +6%: Activist investor Jana Partners built a new stake in the Co. during Q1, according to Reuters citing sources.
- **Paramount (PARA)** -5%: Sony (SONY) is reportedly rethinking Paramount bid, according to CNBC.
- **Alphabet (GOOGL)** +1%: Had its Google O/I event; said more than 1.5mln developers use Gemini AI models and launching AI overviews in search across US this week. DeepMind CEO announces Gemini 1.5 flash model, and is built to be fast and cost efficient. Within the event, Co. announced many news AI tools.

US FX WRAP

The Dollar was lower on Tuesday, after seeing two-way action post-US PPI, as the initial hawkish reaction quickly pared, highlighted by the Dollar Index hitting a high of 105.470 before a low of 104.950. Briefly recapping the data, headline and core M/M metrics were hotter-than-expected, printing 0.5% (exp. 0.3%, prev. -0.1%) and 0.5% (exp. 0.2%, prev. -0.1%), respectively, with both outside of the upper bound of the forecast range. Headline Y/Y was in line with expectations at 2.2%, with the previous revised lower to 1.8%, with Core unchanged at 2.4%, as forecasted. Nonetheless, analysts noted that details under the bonnet were more encouraging for PCE than the headline suggests, along with downward revisions to prior data. Of course, this comes ahead of US CPI on Wednesday, where both reports will be used to help gauge expectations for the Fed's preferred gauge of inflation, Core PCE, due at the end of the month. Elsewhere, Fed Chair Powell said confidence in inflation moving back down is lower than it was before, and on the PPI reading, said it was actually quite mixed.

NZD, EUR, GBP, AUD, CHF all saw slight gains vs. the Greenback, albeit to varying degrees on account of the aforementioned Dollar's movement, as opposed to much currency specific. Despite this, the Pound saw some of its own risk events in the UK morning, as Cable was choppy on jobs data which saw an uptick in the unemployment rate and hotter-than-expected wage metrics. Thereafter, it was dragged lower by comments from BoE's Pill who continued to talk up the possibility of rate cuts. These remarks saw Cable print a trough at 1.2510 before being hitting later peaks of 1.2592. For the EUR, German ZEW Economic Sentiment was better than forecasted in May, while ECB's Wunsch said the first 50bps of total cuts are close to a no-brainer, via Handelsblatt; should proceed gradually and not commit to a second move in July. EUR/USD traded between 1.0768-1.0825. The Aussie was unreactive to the inline Australian budget. AUD/USD and NZD/USD were between 0.6580-0.6627 and 0.5996-0.6038, respectively, ahead of Aussie employment figures on Thursday.

JPY was the G10 underperformer and was flat against the Buck, seeing a high of 156.75, with not much in the way of resistance ahead of 157.00. For the record, Japanese Finance Minister Suzuki was out jawboning after USD/JPY crossed back above 156.00.

EMFX was mixed. COP, BRL, and CLP firmed with the latter buoyed by strength in copper prices amid a couple of separate headlines from the Chilean Government, Codelco, and Cochilco. Meanwhile, BCB's Picchetti stated the bank is fully committed to CPI goal, and within the Minutes (May) all members agreed the adoption of a tighter and more cautious policy with no indications on the path ahead was more appropriate. Yuan and ZAR were flat, with MXN noticing slight weakness. For the Mexican Peso, USTR's Tai says stay tuned on actions involving imports from Mexico.