



US Market Wrap

22nd May 2024: Markets await NVDA as FOMC Minutes barely makes markets blink

- **SNAPSHOT:** Equities down, Treasuries down, Crude down, Dollar up
- **REAR VIEW:** FOMC Minutes reveal participants confidence has not increased from recent data that inflation is in progress towards 2% inflation goal; UK CPI hotter than expected; Hawkish RBNZ holds rates; ADI beat on top and bottom line; TGT earnings miss; EIA data shows smaller than expected crude build from private inventories.
- **COMING UP: Data:** Japan, EZ, UK, US PMIs; US IJC, EZ Consumer Confidence, Q1 Negotiated Wages **Events:** CBRT Policy Announcement **Speakers:** Fed's Bostic; RBNZ's Orr **Supply:** US **Earnings:** IDS, National Grid, Ralph Lauren, Medtronic, Intuit.

MARKET WRAP

US indices were lower on Thursday, with underperformance in the small-cap Russell 2000 as traders await the pivotal Nvidia earnings after-hours. The Dollar was flat for the majority of the session, but saw gains into the close to print a high of 104.970, which saw most G10 peers see losses vs. the Buck and resulted in the NZD wiping out all of its post-RBNZ gains. As a brief recap, it was a hawkish RBNZ hold, as it kept the OCR unchanged at 5.50%, as expected, but noted that monetary policy needs to be restricted, raised OCR projections, and the Minutes revealed the committee discussed the possibility of increasing the OCR at this meeting. UK CPI was hotter-than-expected and has pushed out the first fully priced cut to November (vs. Sept. pre-release). Treasuries saw weakness on account of the aforementioned UK inflation metrics, albeit not as large as European peers, and the US 20yr auction had little sway. The dated FOMC Minutes added little new, and largely echoed what Fed officials have recently said with attention now turning to Flash PMIs (Thurs), Prelim UoM (Fri), ahead of Core PCE on May 31st. The crude complex saw further weakness with a continuation of the recent trend, amid a lack of notable geopolitical developments, as gains in wake of the not as large as expected crude EIA build swiftly pared. Lastly, copper and spot gold gave back some of the gains from recent ATHs

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FOMC MINUTES: In FOMC minutes, members evaluated from recent data that it would take longer than previously thought to gain further confidence in inflation moving sustainably to 2% and suggested the disinflation process would take longer than previously anticipated. Participants mentioned recent data had not increased confidence in progress towards 2% inflation goal and many commented on their uncertainty about the degree of policy restrictiveness. In addition, various participants mentioned willingness to tighten policy further should risks to outlook materialise and make such action appropriate. Given the stale nature of the Minutes, it largely echoed the recent commentary from officials and still highlights progress is still to be made. In reaction, a slight hawkish reaction was seen, although it swiftly pared the move.

FIXED INCOME

T-NOTE FUTURES (M4) SETTLED 6+ TICKS LOWER AT 109-01

Treasuries were lower as UK CPI initially weighed, albeit settling off worst levels. At settlement, 2s +4.4bps at 4.878%, 3s +4.4bps at 4.653%, 5s +3.3bps at 4.469%, 7s +2.6bps at 4.446%, 10s +1.6bps at 4.430%, 20s -0.1bps at 4.656%, 30s -0.7bps at 4.547%.

INFLATION BREAKEVENS: 5yr BEI -0.4bps at 2.340%, 10yr BEI -0.1bps at 2.339%, 30yr BEI -0.3bps at 2.339%.

THE DAY: T-Notes curve flattened on Wednesday and was softer in the UK morning following broader market dynamics in the wake of the hotter-than-expected UK CPI metrics, although losses were not as extreme as European peers. As such, T-Notes hit a low of 108.31+, which matched Tuesday's level, however as US players entered for the day, they extended lower to a new trough of 108-28 just after the cash open. Thereafter, T-Notes pared some of the losses in quiet trade, with the 20yr auction having little impact (more details below). Post-auction, there was a ~20k Treasury block in ZTM4 at 101-198 vs 5.5k ZBM4 at 117-18, which was a flattener. In the wake of the FOMC Minutes, USTs saw



a slight hawkish reaction before paring some of the move, as they noted participants assessed it would take longer than previously anticipated to gain greater confidence in inflation moving sustainably to 2%. Participants also noted recent data had not increased confidence in progress toward 2% inflation goal and suggested disinflation process would take longer than previously thought, albeit very in keeping with recent Fed rhetoric. Elsewhere, the 2Y10Y is at -44.9 bps, which is below the 200 day (41.4 bps), and is the most inverted level since mid-March and the first time it's gone below the 200 day since the third week of September 2023. Looking ahead, all participants await Nvidia earnings after-hours.

20YR AUCTION: US sold USD 16bln of 20yr bonds, with a stop-through of 0.2bps, not as strong as the prior 2.5bps stop-through but better than the six-auction avg. of on the screws. Bid-to-cover was 2.51x, shy of the prior 2.82x and the avg. 2.61x. Dealers, the forced buyers, took up 10.1% (prev. 9.1%, avg. 13.2%), with Directs 19.2% (prev. 16.2%, avg. 18.5%), and Indirects 70.8% (prev. 74.7%, avg. 68.3%).

STIRS:

- SR3M4 -1.5bps at 94.725, U4 +0.0bps at 94.935, Z4 -3.5bps at 95.065, H5 -5.0bps at 95.295, M5 -6.5bps at 95.505, U5 -6.5bps at 95.690, Z5 -6.0bps at 95.835, H6 -5.0bps at 95.950, H7 -2.5bps at 96.160, H8 -1.0bps at 96.180.
- NY Fed RRP op demand at USD 0.496tln (prev. 0.491tln) across 84 counterparties (prev. 81).
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.929tln (prev. 1.866tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 76bln (prev. 75bln).

CRUDE

WTI (N4) SETTLED USD 1.09 LOWER AT USD 77.57/BBL; BRENT (N4) SETTLED USD 0.98 LOWER AT 81.80/BBL

The crude complex saw further weakness on Wednesday with a continuation of the recent trend, amid a lack of notable geopolitical developments. Adding to this, WTI and Brent saw weakness after the surprise crude build in the private inventory data on Tuesday night. However, in the weekly EIA data there was also a surprise build, but not as large as the API had reported, which saw WTI and Brent rise to session highs of USD 78.41/bbl and 82.63/bbl, respectively. Briefly recapping the data, crude +1.825mln (exp. -2.55mln), while Distillates also saw a surprise build and Gasoline a smaller than expected draw. Overall, crude production was unchanged at 13.1mln with refining utilisation of 1.3% (exp. 0.5%, prev. 1.9%). Nonetheless, swiftly after the metrics oil continued back on its downward path to settle around lows. Looking ahead, focus slowly turns to the June 1st OPEC+ meeting where producers are expected to roll over their voluntary cuts.

EQUITIES

CLOSES: SPX -0.27% at 5,306, NDX -0.05% at 18,705, DJIA -0.51% at 39,671, RUT -0.79% at 2,081.

SECTORS: Energy -1.84%, Utilities -1.18%, Materials -0.99%, Real Estate -0.86%, Consumer Discretionary -0.85%, Financials -0.5%, Consumer Staples -0.26%, Communication Services -0.26%, Technology +0.07%, Industrials +0.15%, Health +0.21%.

EUROPEAN CLOSES: DAX: -0.24% at 18,621.11, FTSE 100: -0.56% at 8,368.95, CAC 40: -0.61% at 8,092.11, Euro Stoxx 50: -0.47% at 5,023.15, AEX: -0.11% at 910.52, IBEX 35: -0.06% at 11,328.50, FTSE MIB: -0.41% at 34,460.52, SMI: -0.43% at 11,955.41.

STOCK SPECIFICS:

- **Target (TGT)** -8%: Earnings missed as it was driven by a Y/Y sales decline of about 3% as consumers bought fewer discretionary items.
- **Analog Devices (ADI)** +10.9%: Top and bottom-line beat, alongside better-than-expected next quarter.
- **Amazon (AMZN)** flat: AWS is to invest EUR 15.7bln in data centres in Spain.
- **Lululemon (LULU)** -7.2%: Will implement a new integrated design structure and announced the departure of its chief product officer.
- **PDD (PDD)** +1.1%: EPS and revenue surpassed expectations - powered by strong adoption of its international shopping site, Temu, and as it attracted more price-conscious customers.
- **TJX Companies (TJX)** +3.5%: EPS topped alongside raising FY25 outlook for pre-tax profit margin and profit.
- **Shopify (SHOP)** +3%: Upgraded at GS; said its shares are at an attractive entry point following a rough year to date.
- **Sysco (SYY)** -3.4%: Missed on long term EPS growth



- **Boeing (BA) +0.1%:** Saw weakness after Reuters sources reported that its planes deliveries to China have been delayed in recent weeks.

US FX WRAP

The Dollar was slightly firmer on Wednesday, albeit still within contained ranges, and hit a high of 104.970 but ran out of steam ahead of 105.00. On the day, there was no Fed speak and FOMC Minutes garnered little market reaction as not much new was said, with the highlight arguably participants assessing it would take longer than previously anticipated to gain greater confidence in inflation moving sustainably to 2%. Participants also noted recent data had not increased confidence in progress toward 2% inflation goal and suggested disinflation process would take longer than previously thought, a message many Fed speakers have recently echoed. Nonetheless, Nvidia earnings after-hours is the next highlight ahead of S&P global flash PMIs (Thurs) and UoM (Fri), and there after it is a case of waiting for next week's PCE metrics and the NFP and CPI reports that follow thereafter.

G10 FX saw broad-based weakness against the Buck, with the initially outperforming Kiwi now flat. On the latter, the NZD is seeing strength after a hawkish RBNZ hold, as it kept the OCR unchanged at 5.50%, as expected, but noted that monetary policy needs to be restricted, raised OCR projections, and the Minutes revealed the committee discussed the possibility of increasing the OCR at this meeting. NZD/USD hit a high of 0.6152, before retracing to a low of 0.6084 as the Dollar saw strength towards the close. The relative outperformer was the GBP, albeit now flat and off earlier peaks, in the wake of a hotter-than-expected inflation report, which was disappointing for the BoE. Odds of a June cut fell from around 50% to circa 13%, the first full cut is now priced in November (vs. September pre-release) with just 38bps of loosening seen by year-end vs. 55bps pre-release. Cable vaulted to a high of 1.2761 before scaling back upside. Note, UK PM Sunak announced a 4th July national election will be held.

Elsewhere, headline catalysts were light, as the CAD was weighed on by the lower oil prices and once again there was a couple of ECB speakers. Rehn said there was a strong case to start ECB easing in June and not pre-committing to any rate path, and Schnabel stated if data confirms the outlook, a June cut likely, very in fitting with recent commentary. Looking ahead, Australian PMI data is due overnight, ahead of EU PMIs and Consumer Confidence on Thursday.

EMFX was almost exclusively lower vs. the Greenback on account of the strength seen in late trade, as opposed to anything currency-specific. ZAR was weighed on by weaker gold prices, while South African inflation was softer than forecasted. CLP was also hit by significant weakness in copper prices, although do note they hit ATHs in recent days. Ahead, traders await the Chilean rate decision where it is unanimously expected to cut rates by 50bps to 6.0%. For EMs, CBRT is on Thursday who are anticipated to leave rates unchanged at 50%, in addition to plenty of Mexican data.

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