



US Market Wrap

23rd May 2024: Stocks fade NVDA induced upside as yields rise on hot US PMI data

- **SNAPSHOT:** Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW:** NVDA gains after stellar report; US PMIs beat expectations; Mixed European PMIs, France miss & Germany beat; UK Services PMI short; Jobless claims softer than expected; BA CFO confirms delayed plane deliveries to China; TSLA omits 2023 sales goal from latest impact report; OCC announces enforcement action against CMA.
- **COMING UP: Data:** Japanese CPI, UK Retail Sales, US Durable Goods, Canadian Retail Sales **Speakers:** ECB's Schnabel, de Cos; Fed's Waller; SNB's Jordan.

MARKET WRAP

The morning upside in equity futures had completely faded, and more, by the time of market close with upside in yields seen in wake of the hot services PMI data supporting the Dollar and hitting stocks. The selling pressure in equities accelerated once Europe had packed up for the day with little fresh fundamentals driving the move lower. However, it is worth noting we are heading into a long weekend and month-end next week given the US and UK market holiday on the 27th May, which perhaps could see some early month-end rebalancing after the pronounced May upside so far. The only sector to close in the green on Thursday was tech, largely buoyed by Nvidia (NVDA) which closed +9% after a strong earnings report Wednesday night, which initially boosted other semis but by the close the SOXX ETF closed in the red. Note, the equal weighted SPX (RSP) closed lower by 1.4%. T-Notes bear flattened after the hot US PMI data which was buoyed by the stellar Services PMI, which came in above all analyst forecasts. The data also gave a helping hand to the Dollar from lows seen in the morning after strong German and EZ PMI data. Elsewhere on US data, jobless claims fell by more than expected but did little to change the narrative, while New Home Sales disappointed, but also sparked little reaction. Oil prices also gave up their gains after the US PMIs, with a firmer Dollar and downbeat risk tone weighing. Gold prices also slumped throughout the session. There was little fresh on Fed speak other than Fed's Bostic who reiterated familiar language with attention turning to UoM Final data in May after the prelim survey saw upside moves in the inflation expectations. US Durable Goods are also released on Friday, with commentary from Fed's Waller the Fed speak highlight. Elsewhere, Japan's CPI overnight and UK Retail Sales in the morning will be of note.

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FLASH PMIs: The S&P Global Flash PMI data for May was hotter than expected, led by an upside in services. The manufacturing PMI rose to 50.9 from 50.0, while the Services PMI surged to 54.8 from 51.3, taking it to the highest level in 12 months. Overall, this lifted the composite to 54.4 from 51.1. The report highlighted that "The US economic upturn has accelerated again after two months of slower growth, with the early PMI data signalling the fastest expansion for just over two years in May. The data put the US economy back on course for another solid GDP gain in the second quarter." On prices however, it notes that "Selling price inflation has meanwhile ticked higher and continues to signal modestly above-target inflation". S&P also note that the main inflationary impetus is now coming from manufacturing rather than services, "meaning rates of inflation for costs and selling prices are now somewhat elevated by pre-pandemic standards in both sectors to suggest that the final mile down to the Fed's 2% target still seems elusive". On the labour market, overall it notes that "Although companies continued to report lower employment, the rate of job losses moderated amid improved business confidence for the year ahead and higher order book intakes."

JOBLESS CLAIMS: Initial claims, for the week that coincides with the latest jobs report, rose 215k (prev. 223) beneath the expected 220k and on the bottom end of the forecast range. The unadjusted data totalled 192k, -5.6k from the prior week, while seasonal factors had expected an increase of 1.1k. The 4wk average (w/e 18th May) ticked higher to 219.75k from 218k, and continued claims (w/e 11th May) slightly lifted to 1.794mln from 1.786mln, and in line with the consensus. The low level of claims continues to underline the strength of the labour market, and Oxford Economics adds the volatility in initial claims due to the timing of school spring breaks is now firmly in the rear-view mirror. Looking ahead, the consultancy adds job growth is likely to moderate further as the labour market rebalances, but expect that will continue through a slowdown in hiring, not a notable pickup in layoffs.



NEW HOME SALES: The headline came in slightly light of expectations at 634k (exp. 679k), showing a -4.7 % M/M slowdown from the downwardly revised 665k. Regarding the headline miss, Pantheon Economics comments the drop in sales is probably noise, however, the underlying trend is weak. Going forward, the agency expects sales will likely bounce in May but then struggle to make further headway. Elsewhere in the report, the supply of new home rose to 9.1 months in April (prev. 8.5 months M/M), edging the three-month average higher. Despite supply rising, prices seem to have found a stable footing in the wake of aggressive declines in late 2022, with the median new home price falling by just over 2% but do note the numbers are volatile.

FIXED INCOME

T-NOTE FUTURES (M4) SETTLED 10 TICKS LOWER AT 108-23

Treasuries chop to EZ PMI data before being hit on super strong services PMI in the US. At settlement, 2s +5.7bps at 4.935%, 3s +5.8bps at 4.714%, 5s +5.7bps at 4.530%, 7s +5.0bps at 4.500%, 10s +4.5bps at 4.479%, 20s +3.6bps at 4.681%, 30s +3.3bps at 4.584%.

INFLATION BREAKEVENS: 5yr BEI -1.7bps at 2.329%, 10yr BEI -2.0bps at 2.326%, 30yr BEI -2.0bps at 2.322%.

THE DAY: Treasuries meandered overnight but saw some chop around the Eurozone PMI before selling ensured in wake of the US PMI data later in the session, before settling off lows. The soft French PMI data supported T-Notes somewhat before swiftly reversing, and more, on the hotter than expected German PMIs. The move did gradually pare thereafter with US data coming into focus which saw a session high print of 109-06 several times before the Jobless Claims data. Initial claims fell to 215k, in line with the 215k low estimate, from a prior 223k which ultimately only resulted in a few ticks lower in T-Notes. The selling pressure was observed once the US S&P Global Flash PMI data was released which saw the Services PMI come in above all analyst forecasts, helping the composite see the largest M/M gain in 15 months; Manufacturing also beat, but not to the same extent as the Services component. T-Notes ultimately hit a low of 108-17+ shortly after the data before paring into settlement with fresh headline drivers other than profit taking.

NEXT WEEK SUPPLY: US to sell USD 69bln of 2yr notes on May 28th, USD 70bln of 5yr notes on May 28th and USD 44bln of 7yr notes on May 29th. Also to sell USD 28bln of 2yr FRN's on May 29th, all to settle May 31st.

STIRS:

- SR3M4 +0.0bps at 94.725, U4 -2.0bps at 94.890, Z4 -5.0bps at 95.010, H5 -7.0bps at 95.220, M5 -8.5bps at 95.415, U5 -8.5bps at 95.600, Z5 -8.5bps at 95.745, H6 -7.5bps at 95.865, H7 -6.0bps at 96.095, H8 -4.0bps at 96.135.
- US sold USD 80bln in 4wk bills at a high rate of 5.270%, B/C 2.77x; sold USD 80bln in 8wk bills at a high rate of 5.275%, B/C 2.63x.
- NY Fed RRP op demand at USD 0.467tln (prev. 0.496tln) across 79 counterparties (prev. 84)
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.900tln (prev. 1.929tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 80bln (prev. 76bln).

CRUDE

WTI (N4) FUTURES SETTLED USD 0.70 LOWER AT 76.87/BBL; BRENT (N4) FUTURES SETTLED USD 0.54 LOWER AT 81.36/BBL

Oil fell for the fourth straight session as the rising Dollar in wake of the Flash PMIs weighed. On the day, WTI and Brent prices were initially subdued in the EZ morning although climbed higher to session peaks following upbeat German Flash PMIs in which now forecasts "solid growth" for Germany. After this, hotter-than-expected US Flash PMIs, which supported the Dollar, saw the crude complex fall throughout the US afternoon to settle at lows. Elsewhere, Middle Eastern geopolitical newsflow has been light, although Israel noted it is advancing further into Rafah. Meanwhile, CIA director Burns will travel to Europe in the next few days to try and revive Gaza hostage talks, Qatari and Egyptian officials might also participate in the meeting, via Axios. Over in the East, China conducted a large military exercise around Taiwan as it deployed its army, navy, air force, and rocket force. Looking ahead, traders await the weekly Baker Hughes rig count on Friday, in addition to Durable Goods and Fed's Waller.

EQUITIES

CLOSES: SPX -0.74% at 5,267, NDX -0.44% at 18,623, DJIA -1.53% at 39,869, RUT -1.60% at 2,048.



SECTORS: Real Estate -2.16%, Utilities -1.7%, Consumer Discretionary -1.52%, Financials -1.51%, Industrials -1.22%, Consumer Staples -1.2%, Communication Services -1.15%, Health -1.08%, Energy -1.02%, Materials -0.88%, Technology +0.56%.

EUROPEAN CLOSES: DAX: +0.03% at 18,686.63, FTSE 100: -0.37% at 8,339.23, CAC 40: +0.13% at 8,102.33, Euro Stoxx 50: +0.23% at 5,036.55, IBEX 35: -0.16% at 11,311.1, FTSE MIB: +0.02% at 34,467.67, AEX: +0.41% at 914.27.

STOCK SPECIFICS:

- **Nvidia (NVDA)** +9%: EPS and revenue beat w/ strong data centre revenue. Announced a 10-for-1 stock split, raised cash dividend 150%, and impressive commentary surrounding the Hopper-Blackwell transition.
- **VF Corp (VFC)** -3%: Posted a surprise loss per share and top line missed, alongside noting revenue will remain challenged in the near term.
- **DuPont (DD)** +0.5%: Will divide into three separate businesses; CEO plans to step down to become executive chair of the board on June 1st.
- **Live Nation (LYV)** -8%: US DoJ is to seek a breakup of Live Nation-Ticketmaster.
- **TSMC (TSM)** +0.6%: Sees more than 10% semiconductor industry growth this year excluding memory chips, and foundry business growing 15-20%.
- **GlobalFoundries (GFS)** -8.5%: Announced pricing of USD 950mln secondary offering of ordinary shares at USD 50.75/shr. Note, closed Wednesday at USD 55.21/shr
- **News Corp (NWSA)** flat: Signs a landmark multi-year global partnership with OpenAI.
- **E.l.f. Beauty (ELF)** +19%: Top and bottom line surpassed expectations.
- **Cytokinetics (CYTK)** -17%: Announced a USD 500mln common stock offering.
- **Morgan Stanley (MS)** -1.8%: Gorman will step down as chairman on Dec 31st, according to Bloomberg.
- **Boeing (BA)** -7.5%: CFO confirmed Reuters reports on delayed plane deliveries to China due to Chinese regulatory reviews. Boeing (BA) now expects negative free cash flow in 2024, vs March estimate for the low single-digit billions.
- **Comerica (CMA)** -5.5%: The OCC announces enforcement action against Comerica; said it has found unsafe or unsound practices, including those relating to the bank's risk governance framework and internal controls.

US FX WRAP

The Dollar was firmer on Thursday and hit a high of 105.110, as the bid began after hotter-than-expected US Flash PMIs, which was led by the Services sector, and extended once European players left for the day. Recapping the data, the Manufacturing PMI rose to 50.9 from 50.0, while the Services PMI surged to 54.8 from 51.3, taking it to the highest level in 12 months. Overall, this lifted the composite to 54.4 from 51.1. For the record, Initial Jobless Claims fell by more than the lowest estimate, albeit only to 215k from 223k and doing little to change the dial. New Home Sales in April fell 4.7% to 634k, beneath the prior, revised lower, 665k and the expected 693k. Looking ahead, highlights on Friday include Durable Goods (Apr), Fed's Waller (voter), and UoM Final (May).

CAD, AUD, GBP, and EUR all saw losses to varying degrees against the rising Buck, as opposed to anything currency-specific, although the Loonie was additionally weighed on by falling oil prices. In the EZ morning, the EUR was initially hit by disappointing French PMI metrics before better results for Germany and (to a degree) EZ undid some of the damage. The cross hit a high of 1.0860, just falling short of Wednesday's peak at 1.0863. EZ Q1 wage metrics rose from the prior but are expected to decline throughout the year; ECB pricing was little changed. For the Pound, UK Services and Composite PMI metrics missed expectations, although Manufacturing beat, but it is worth noting Services inflation and wage data are more pivotal for the UK rate outlook. Cable went as high as 1.2746 but stopped shy of Wednesday's 1.2761 peak, but then hit a later low of 1.2686 in the wake of the aforementioned Dollar strength.

CHF saw marginal gains vs. the Buck, and potentially on its haven appeal as participants await SNB Chair Jordan speaking on Friday.

NZD and JPY were flat, although the Kiwi was initially the G10 outperformer as it continued on its trajectory after the hawkish RBNZ hold. Overnight, Governor Orr said another rate hike would only be meaningful if they believed inflation was getting away from us, and that patience on inflation not exhausted. As mentioned the Yen was flat but that only tells half the story as USD/JPY hit a peak of 157.18, but in quick order slipped to 156.46 before trimming the rest of the move, which could prompt talk of intervention. As a reminder, intervention data is due to be published at the end of the month. Ahead, Japanese inflation metrics will be watched with headline measures expected to cool from prior. Such an outcome could reduce pressure on the BoJ to hike but also prompt further JPY weakness.



EMFX was lower to flat, and without trying to repeat myself, hit by the rising Buck. TRY was unmoved after CBRT maintained its weekly repo rate at 50%, as expected, and reiterated it remains highly attentive to inflation risks. ZAR and CLP were weighed on by falling gold and copper prices, respectively. For the MXN, there was mixed economic data and Banxico minutes.

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