



## US Market Wrap

### 29th May 2024: Treasury yields rise to month highs, weighing on stocks ahead of key data

- **SNAPSHOT:** Equities down, Treasuries down, Crude down, Dollar up
- **REAR VIEW:** Weak 7yr auction; Fed Beige Book notes prices increased at a modest pace; Beth Hammack to replace Fed's Mester; Mixed German inflation; Hot Australian inflation; COP to buy MRO; AAL cuts guidance.
- **COMING UP: Data:** Spanish CPI, Swiss GDP, EZ Sentiment, EZ Unemployment Rate, Italian Producer Prices, US GDP Estimates, US PCE (Q1), IJC, Advance Goods Trade Balance **Events:** SARB Policy Announcement **Speakers:** SNB's Jordan; Fed's Williams, Logan; RBNZ's Orr **Supply:** Japan, Italy **Earnings:** Marvell, Dollar General, Best Buy.

### MARKET WRAP

A session which lacked fresh macro catalysts saw US equity futures lower, with higher yields once again acting as a headwind for stocks. The docket was quiet, but a 7yr auction catalysed another sell-off in Treasuries, resulting in the curve bear steepening again. Amid a lack of Fed speak, attention is moving towards US PCE inflation data out on Friday; overnight, Australia saw higher than expected CPI metrics, while German HICP topped expectations (though has not diminished the prospects of an ECB rate cut next week); the US PCE data on Friday is expected to show a cooling, analysts have said, following signals from the PPI and CPI data for the month. The Fed's Beige book was digested without much fanfare, and noted that national economic activity expanded from early April to mid-May, with varying conditions across industries and Districts; most Districts reported slight or modest growth, while prices increased modestly. Traders will be looking to comments from the Fed's Williams on Thursday, as well as an appearance from the Fed's Logan; data-wise, a second look at Q2 GDP and weekly claims data will be released.

### FIXED INCOME

#### T-NOTE (M4) FUTURES SETTLE 17 TICKS LOWER AT 107-24+

**Bear steepening continued on Wednesday with lows seen in wake of another weak auction as eyes turn to key data and Fed speak.** At settlement, 2s +2.8bps at 4.985%, 3s +4.6bps at 4.804%, 5s +6.8bps at 4.642%, 7s +8.1bps at 4.642%, 10s +8.2bps at 4.624%, 20s +8.5bps at 4.834%, 30s +8.9bps at 4.745%.

**INFLATION BREAKEVENS:** 5yr BEI +1.6bps at 2.379%, 10yr BEI +2.8bps at 2.376%, 30yr BEI +3.3bps at 2.372%.

**THE DAY:** T-Notes meandered overnight and through the European morning with little reaction to hotter-than-expected Aussie inflation data overnight while the German State CPI releases resulted in some upside in T-notes, while the overall national German prints had little impact. After the US cash equity open, T-notes started to tumble in a continuation of the trade seen on Tuesday after two soft auctions with lows of 107-21+ printed in the wake of another dismal auction, this time from the 7yr bucket. Nonetheless, the move had pared somewhat heading into settlement with auction risk now out of the way ahead of a second look at US GDP for Q1 and Fed's Williams on Thursday, and then US Core PCE on Friday. It is worth noting that given the steepening in Treasuries seen this week in the wake of hot consumer confidence and weak auctions; Rabobank also attributed the two-sided remarks from Kashkari on Tuesday, resulting in some policy uncertainty and thus higher term premium. The moves this week across the curve has resulted in UST yields looking to end May at monthly highs despite the cooler-than-expected inflation reports seen early in the month.

**7YR AUCTION:** After Tuesday's weak 2yr and 5yr auctions, the 7yr experienced a similar dynamic, with front-end/belly buyers perhaps sat on the sidelines ahead of PCE on Friday. The 4.650% high yield tailed the when-issued yield by 1.3 bps, a fatter tail than the prior auction which came in on the screws, and larger than the six-auction average tail of 0.5 bps. The bid cover of 2.43x is softer than both the prior and six-auction average. On the breakdown, direct demand fell to 16.1% from 21.0%, similar to the 5yr auction on Wednesday, whereas indirect demand ticked higher slightly to 66.9% from 65.1%. The fall in direct demand resulted in dealers taking home 17% of the auction, a larger proportion of the prior 13.9%, but beneath the six auction average of 21.3%.

#### STIRS:



- SR3M4 +0.0bps at 94.700, U4 +0.0bps at 94.840, Z4 +0.0bps at 94.970, H5 -1.5bps at 95.155, M5 -3.0bps at 95.340, U5 -4.5bps at 95.510, Z5 -5.0bps at 95.655, H6 -6.0bps at 95.760, M6 -7.0bps at 95.830, M7 -8.5bps at 95.965, M8 -10.0bps at 95.970.
- US sold USD 60bln in 17-week bills at 5.24%, covered 2.8x.
- NY Fed RRP op demand at USD 0.459tln (prev. 0.418tln) across 75 counterparties (prev. 71).
- SOFR at 5.32% (prev. 5.32%), volumes at USD 2.013tln (prev. 1.909tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 88bln (prev. 90bln).

## CRUDE

**WTI (N4) SETTLE USD 0.60 LOWER BY AT 79.23/BBL; BRENT (Q4) SETTLE 0.51 LOWER AT 83.43/BBL**

**Crude oil futures slid lower on Wednesday, as the US dollar picked-up, putting pressure on commodities.**

Traders are beginning to focus on Sunday's OPEC+ virtual confab; a report today said that delegates were of the view that the rise in oil storage is supporting the case for the Group to keep policy steady, adding that the rise in OECD stocks was a concern, with OPEC's supply and demand balances pointing to large inventory drawdowns in H2. Separately, China said it would reduce energy intake and carbon dioxide emissions per unit of GDP by about 2.5% and 3.9%, respectively, in 2024, and will reasonably control oil consumption, promote advanced biofuels and sustainable aviation fuel. Chinese officials will also "sternly" manage petrol consumption and promote sustainable jet fuel, and hasten the development of unconventional natural gas resources. In company news, ConocoPhillips (COP) will acquire Marathon Oil (MRO) in a USD 17bln all-stock deal, a move that aims to bolster its shale assets, and add 2bln bbls of resources to ConocoPhillips' portfolio. Elsewhere, Exxon (XOM) gave some longer-term energy forecasts, where it sees oil demand at 100mln BPD in 2050, similar levels to what exists today. Afterhours, the API will release its gauge of energy inventory data for the week, ahead of the more widely-viewed DoE report due Thursday; analyst expect headline crude stocks to draw down by 2mln bbls, distillates to draw down by 200k, while gasoline stocks are expected to draw by 500k (note: an earlier poll had suggested that gasoline stocks would build by 1mln bbls, according to Reuters, during the week ending May 24th, and ahead of the peak summer driving season over the Memorial Day weekend - that earlier estimates was cited by some analysts as a sign of weak gasoline demand conditions, that may have been contributing to the downside in energy).

## EQUITIES

**CLOSES:** SPX -0.74% at 5,267, NDX -0.70% at 18,737, DJI -1.06% at 38,442, RUT -1.48% at 2,036

**SECTORS:** Energy -1.76%, Industrials -1.42%, Materials -1.42%, Utilities -1.32%, Real Estate -0.92%, Financials -0.85%, Health -0.80%, Consumer Staples -0.75%, Consumer Discretionary -0.56%, Communication Services -0.56%, Technology -0.36%.

**EUROPEAN CLOSES:** DAX: -1.09% at 18,474.88, FTSE 100: -0.86% at 8,183.07, CAC 40: -1.52% at 7,935.03, Euro Stoxx 50: -1.31% at 4,964.25, IBEX 35: -1.16% at 11,145.10, FTSE MIB: -1.47% at 34,150.54, AEX: -0.70% at 905.83

## STOCK SPECIFICS

- **American Airlines (AAL):** Cut Q2 EPS guidance and total revenue per available seat mile guidance.
- **United Airlines (UAL):** reaffirmed guidance.
- **ConocoPhillips (COP):** To acquire Marathon Oil (MRO) in an all-stock transaction. The deal puts the enterprise value at USD 22.5bln.
- **Robinhood (HOOD):** Authorised a USD 1bln share repurchase programme.
- **Abercrombie & Fitch (ANF):** Earnings beat and raised guidance.
- **Dick's Sporting (DKS):** earnings beat and it raised EPS guidance.
- **Advance Auto Parts (AAP):** earnings missed expectations.
- **Microchip Technology (MCHP):** Announced a proposed offering of USD 1.1bln senior convertible notes
- **Amazon (AMZN):** Bid to dismiss FTC lawsuit was rejected by a US judge
- **Chewy (CHWY):** Beat on Q1 24 adj.EPS and revenue; announced a share repurchase programme.
- **Apple (AAPL)** reportedly plans to use custom chips for confidential computing techniques and is looking for Android engineers to help build new app.
- **N-Able (NABL)** is exploring a sale, according to Reuters.
- **General Mills (GIS)** executive says co. has seen some challenges in China as consumers face some pressure, and says going forward consumers are in a tough place.
- **Disney (DIS)** sales executive is leaving.



- **Chevron (CVX)** CEO expects to move FTC proposal on Hess (HES) deal to the upcoming weeks.
- **General Motors (GM)** says it will start sales in Autumn 2024 of its new Cadillac 2025 Optiq, selling in over 10 regions with a price tag starting from USD 54k.
- **Boeing (BA)** CEO to meet on Thursday with FAA's administrator to discuss BA's quality plan.
- **Walmart (WMT)** files reveal wrong prices charged at 1600 stores.

## US FX WRAP

**The Dollar** saw decent strength on Wednesday, from its open of 104.67 to hit a high of 105.090 with firmer UST yields supporting the move. Heading into the month end the dollar looks set to see its first monthly decline since December 2023, where a string of hot inflation reports pushed back Fed rate cut expectations in Q1. Highlights left in the week include the 2nd estimate of US GDP growth on Thursday and US Core PCE on Friday, as well as several Fed speakers, including Williams at the Economic Club of NY on Thursday.

**The Euro** was weaker vs the dollar on account of the Dollar strength. Focus in Europe was on Germany's CPI print, which was inline with market expectations, and a stronger German GfK Consumer Sentiment release. The Euro initially saw downside on the German State CPI data although there was little impact on ECB pricing. Subsequently, the downside had reversed with EUR/USD testing earlier peaks of 1.0860 after the German national print was released which saw a slightly hotter than forecast HICP print, although the CPI M/M was a touch softer. The Euro then fell victim to the stronger buck as US yields rose throughout the rest of the session. Attention turns to Spanish and French flash numbers due later in the week ahead of the EZ Flash HICP print on Friday.

**The Yen** was softer vs the stronger buck on Wednesday in the face of rising US yields (yields rose to monthly highs). The moves weighed on the Yen, but the Japanese currency fared better than cyclical currencies which were hit by the downbeat risk environment. USD/JPY remained above 157.00, seeing a peak of 157.74. There were remarks from BoJ Board Member Adachi, who stated that if excessive Yen falls are prolonged and expected to affect the achievement of the BoJ's price target, responding with monetary policy becomes an option. He did note that they must absolutely avoid raising rates prematurely and that they are not yet at a stage where they are convinced there is sustained achievement of their price target so they must maintain accommodative conditions. Adachi also noted at some point in the future the BoJ will likely reduce JGB purchases, noting it is desirable to reduce purchases in several stages. On consumer inflation, he said it is slowing now but is likely to re-accelerate from summer through autumn this year. If Yen declines accelerate or become prolonged, inflation could re-accelerate faster than expected and may require BoJ to accelerate interest rate hikes.

**Cyclical currencies** all trade weaker vs the dollar. The Aussie, and to some extent the Kiwi, saw short lived strength in reaction to Australia's hotter weighted CPI release overnight, although the strength faded and both the AUD and NZD currencies resumed their weakness, tracking risk appetite. CAD and GBP both followed a very similar trajectory to the Antipodes weak session. EUR/GBP fell sub 0.8500 and briefly beneath the 2023 low of 0.8492 to the lowest level since August 2022 at 0.9482. EUR/GBP has been edging lower on account of the divergence of BoE and ECB policy expectations, with the ECB set to cut rates next week with the first BoE rate cut not convincingly priced until either November or December. Another risk to bare in mind is the UK General Election on 4th July. Note, the CAD saw weakness due to the firmer buck, downside in equities and soft crude prices.

**EMFX** was generally softer vs the Dollar on Wednesday with BRL, MXN and COP seeing notable weakness although CLP was the clear laggard amid notable weakness in copper prices. BRL downside came despite slightly hotter than expected inflation data and a lower-than-expected unemployment rate. ZAR saw some weakness on election day after strength was seen into the election while weaker gold prices also hit the Rand. TRY was the EMFX outperformer as it benefitted from the slide in oil prices.

**Elsewhere, in CEE**, HUF, PLN and CZK were all weaker vs the Euro. HUF was the CEE laggard while the CZK was the relative outperformer. Note, in Poland, NBP's Wnоровski noted he is worried about wage growth and inflation expectations adding that the likelihood of discussing rate cuts this year is getting lower, while NBP's Maslowska said there may be a small rate cut next year.

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