US Market Wrap

31st May 2024: Monster month-end rally sees stocks close green

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar down
- **REAR VIEW**: Core PCE cooler than expected, Consumer spending softens; Woeful Chicago PMI; Blinken approves use of US weapons inside Russia; Hot EU inflation; Weak China PMIs; Canada GDP disappoints; Weak DELL guidance
- **WEEK AHEAD**: Highlights include OPEC+, ECB rate decision, and the US jobs report. To download the full report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing ECB, RBI. To download the full report, please click here.

MARKET WRAP

Stocks were choppy on month end with futures firmer in the premarket, with gains seen in the wake of the softer-than-expected Core PCE data. Gains were short-lived, however, with a woeful Chicago PMI print hitting sentiment thereafter. However, once Europe had left for the day, stocks gradually climbed into the US close to see the SPX reclaim positive territory while the Dow outperformed with a monster rally into the closing bell on account of month-end. The Nasdaq still closed flat, but it was well off the earlier lows, with weakness induced by the poor DELL and MRVL earnings after-hours hitting the tech space. Bonds were generally bid throughout the session, supported by the soft Core PCE data and abysmal Chicago PMI data, where the latter came in below even the most pessimistic analyst forecast. Oil prices were choppy but ultimately settled lower, with attention turning to the OPEC+ meeting on Sunday. The Dollar was sold on account of US data, while the Euro was bid after hotter-than-expected EZ inflation in the morning. Note that the Fed enters the blackout period starting on Saturday, but attention next week looks to the ECB and BoC rate decisions, as well as the May NFP report on Friday, and the US ISM PMI reports.

GLOBAL

US PCE: The PCE data for April was dovish overall, with the Fed's preferred gauge of inflation, Core PCE, rising 0.2% M/M in the month, beneath expected 0.3% (unrounded it was 0.249%, so only just rounding down to 0.2%, but still lower than the prior 0.317%). All the other PCE metrics were in line with expectations, with the Core Y/Y at 2.8% again, while the 3mth annualised rate eased to 3.46% from 4.4%, with the 6mth annualized rate at 3.18%, up from the 3% prior, marking the highest level since July, while the 12mth rate was 2.75%, a three year low. Headline PCE rose 0.3% M/M, matching the prior month pace, while the Y/Y also matched the prior at 2.7%. The super core metric eased from the prior, which will also be a welcome sign for the Fed; PCE Services ex-energy and housing dipped to 0.3% from 0.4%. The consumer side was also soft leaning, with Personal Income rising by 0.3% in April, in line with forecasts, easing from the 0.5% prior, while Consumer Spending rose 0.2%, beneath the 0.3% forecast and down from the revised 0.7% (initially 0.8%). Overall, it will be a welcome sign for the Fed but likely do little to influence their near term thought process, and the central bank still wants see several more months of price improvements before being convinced inflation is heading back to target. Analysts at ING suggested that the door for a September rate cut is still open, but we must see a series of 0.2% M/M readings between now and then for this to be confirmed, alongside further slack in the jobs market and more evidence that consumer spending is cooling. ING states that these are all certainly possible, but by no means guaranteed. Markets currently assign a 60% probability of a September rate cut.

OPEC PREVIEW: OPEC+ members are gearing up to meet virtually on June 2nd to review the global oil market and discuss oil policy for the second half of the year. Markets are largely of the view that the group will extend its 2.2mln BPD voluntary production cuts (which expire at the end of June) to at least Q3, with expectations tilted towards a year-end extension. Some desks do not discount the chance of a "plot twist" in the form of deeper cuts but suggest these are more likely at in-person gatherings. In short, the main focus will be on cut extensions beyond 2024 alongside the non-zero chance of any deeper cuts. To download the report, please click here.

FIXED INCOME

T-NOTE FUTURES (U4) SETTLE 8 TICKS HIGHER AT 108-25+

Treasuries catch a bid after soft PCE and woeful Chicago PMI. 2s -4.4bps at 4.885%, 3s -4.8bps at 4.696%, 5s -5.0 bps at 4.521%, 7s -4.7bps at 4.520%, 10s -4.6bps at 4.508%, 20s -3.8bps at 4.730%, 30s -3.5bps at 4.650%.

INFLATION BREAKEVENS: 5yr BEI -0.8bps at 2.363%, 10yr BEI -1.1bps at 2.359%, 30yr BEI -0.8bps at 2.357%.

THE DAY: T-notes meandered overnight and in the morning with lows seen during the European session in wake of the hotter than expected Eurozone inflation report to see T-notes hit a low of 108-12. Price action was sideways since then until the US PCE data, which ultimately came in cooler than expected, lifting T-notes immediately. Upside continued in wake of the woeful Chicago PMI report released just over an hour later, supporting the T-note futures to highs just as Europe were leaving for the day, testing 109-00. This acted as resistance for the futures with T-notes gradually falling off highs before meandering into settlement. Despite the dovish data on Friday, money market pricing was little changed with markets still primarily looking for either a November or December Fed rate cut, but still pricing in a c. 60% probability of a 25bp cut in September. ING suggest that after April's PCE data, the door is still open for a rate cut in September, but there will have to be continued 0.2% PCE prints between now and then, alongside a continued slowdown in the labour market and consumer spending. The next main risk will be the May NFP report due a week today while the Fed now enter the blackout period ahead of the June 12th rate decision, accompanied with updated Dot Plots - the same day as the May CPI.

STIRS:

- NY Fed RRP op demand at USD 0.440tln (prev.0.452tln) across 71 counterparties (prev. 77)
- SOFR at 5.33% (prev. 5.33%), volumes at USD 1.824tln (prev. 1.807tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 96bln (prev. 88bln).

CRUDE

WTI (N4) SETTLES USD 0.92 LOWER AT 76.99/BBL; BRENT (Q4) SETTLES USD 0.77 LOWER AT 81.11/BBL

WTI and Brent chopped to US data ahead of OPEC+. Peaks were seen on Friday in the wake of the softer-than-expected US Core PCE report which weighed on the Dollar and briefly boosted demand prospects. However, the gains were shortlived and crude prices reversed with a woeful Chicago PMI report thereafter taking the benchmarks to lows while attention turns to the OPEC+ and JMMC meetings on the weekend. Some source reports suggested that OPEC+ has changed its agenda, and will be holding an in-person meeting in Riyadh; previously, the expectation was that it would be a virtual affair. This has raised expectations that the group could be tilting towards deeper cuts, analysts have said. That said, Energy Intelligence said that, according to OPEC, the meetings on June 2nd will still be held virtually, but given some energy ministers are flying to Riyadh, some speculate there could be a meeting on the sidelines. Before today's reports, analysts were of the view that the group would extend its voluntary curbs (which expire at the end of Q2) into Q3, with many seeking an extension to the end of 2024. Aside from OPEC and US data, US President Biden announced that Israel has offered a new cease-fire proposal in three stages. The first stage would be a ceasefire, the second a hostage exchange, and the final stage a major reconstruction plan for Gaza. Nonetheless, Israeli officials thereafter appeared upset with the announcement, calling it a win for Hamas.

EQUITIES

CLOSES: SPX +0.80% at 5,278, NDX -0.01% at 18,53, DJIA +1.51% at 38,686, RUT +0.66% at 2,070

SECTORS: Energy +2.49%, Real Estate +1.86%, Utilities +1.67%, Cons Stpl +1.46%, Health +1.41%, Financials +1.41%, Industrials +1.16%, Materials +1.09%, Communication Svs +0.56%, Cons Disc +0.15%, Technology flat

EUROPEAN CLOSES 18,483.07, FTSE 100: +0.54% at 8,275.38, CAC 40: + 0.18% at 7,992.87, Euro Stoxx 50: -0.05% at 4,979.55, IBEX 35: -0.14% at 11,332.00, FTSE MIB: +0.13% at 34,492.41, AEX: -0.22% at 903.61, SMI: +1.19% at 12,011.06

EARNINGS

- **Dell Technologies (DELL):** Saw a decent quarter but guidance disappointed with heavy AI investments expected to hit profit margins.
- **Marvell (MRVL):** Missed on EPS and revenue while profit guidance was also weak.
- **NetApp (NTAP):** Posted a strong quarter with strong guidance.
- **Zscaler (ZS):** Saw a strong profit beat and raised guidance.

- **MongoDB (MDB):** Gave weak next quarter and FY guidance.
- **Nordstrom (JWN):** Posted a deeper loss per share than expected.
- **Gap (GPS):** Beat on EPS, revenue and raised guidance on Old Navy Strength, SSS and margins also beat.
- **Ulta Beauty (ULTA):** Beat on EPS and revenue but it cut guidance beneath expectations.
- **Veeva Systems (VEEV):** Beat on EPS and revenue; maintains its FY25 EPS view but cut its revenue forecast.

STOCK SPECIFICS

- **Tencent Holdings (TCEHY/0700 HK):** Has reportedly been asked by Chinese regulators to reduce the mobile payment market share of WeChat, via Nikkei citing sources; aimed at the market share of in-person payments rather than online shopping.
- **Google (GOOGL):** Reportedly hired two cloud executives from Amazon (AMZN) Web Services and Microsoft (MSFT), as it builds AI ranks with the goal of boosting its cloud business, according to The Information. Reportedly conducted sweeping layoffs in its Cloud unit, according to Business Insider.
- **Tesla (TSLA):** Recalling 125k US vehicles as a seat belt warning system fails to alert occupants of an unbelted seat belt.
- **General Motors (GM):** Has reportedly restarted its driverless car business, according to NYT.
- **Gilead (GILD):** Announced its Phase 3 TROPiCS-04 study did not meet its primary endpoint.
- **Sony (SONY):** Announces several new video games for the PS5.
- **Paramount Global (PARA):** Directors are reportedly backing the Skydance deal, while two parties have expressed interest in purchasing Redstone’s National Amusements, according to WSJ.
- **Caesars (CZR):** Carl Icahn took a stake in CZR, later noting “I like Caesars and I own some stock, I would never do activism in Caesars”.
- **MetLife (MET):** To aim for a deal for European’s direct lender Hayfin, according to Bloomberg.
- **Boston Beer (SAM):** Is in talks to sell to Suntory, according to WSJ.
- **Disney (DIS)** and **Comcast (CMCSA):** Have hit an impasse in late talks on Hulu, according to WSJ.
- **Snowflake (SNOW):** Was reportedly the subject to a massive breach according to Hudson Rock on X.

US FX WRAP

The DXY declined throughout the session, dipping beneath its 200DMA at 104.425 in wake of the US Core PCE release. The softer Core PCE print and consumer spending/income numbers saw DXY push lower but the lows of the session were seen in response to the woeful Chicago PMI report which came in beneath even the most pessimistic analyst forecast. Nonetheless, the Dollar weakness pared as yields moved off lows losses but the index still saw its first monthly decline since December 2023.

The Euro was slightly firmer in Friday’s session, initially weakening in the session, though strength did pick up ahead of EZ data, where the Euro was lifted to the upside modestly following EZ’s hotter CPI print. The Euro gains extended after the soft US Core PCE data; seeing EUR/USD peak at 1.0882. That said, as the Dollar has moved off lows, EUR/USD has eased off highs back beneath 1.0850. Focus turns to the ECB's meeting on Thursday next week for any further commentary on the sequencing of rate cuts with a 25bp rate cut widely expected.

Cyclical currencies experienced a mixed session. GBP underperforms in the absence of any key releases as attention looks at the upcoming election, although a late Citi/YouGov update saw inflation expectations for both the 1yr and 5-10yr ease. The Kiwi outperformed its cyclical peers while the Aussie saw mild gains with both currencies largely influenced by the Dollar. CAD was one of the better performers against the dollar, starting the session at 1.3716 and strengthening ahead of the Canadian GDP QQ annualised release. Nonetheless, a soft report was offset by the softer Dollar in reaction to US PCE. Attention turns to the BoC next week where markets are now pricing in 20bps of easing next week vs 15bp pre GDP. The consensus looks for a 25bp cut, but analysts are not unanimous in that call with some looking for a hold.

The Yen and Yuan both underperformed in FX against the greenback. The Yuan was weighed on after China’s contractionary PMI result (first sub-50 print since February). The Yen saw little reaction to the stronger Japan retail sales Y/Y, which saw machinery and equipment increase the most, and traded flat upon the in-line Tokyo Core CPI Y/Y print (note: the Tokyo CPI is considered by some as a leading economic indicator of nationwide price trends). USD/JPY hit lows of 156.57 in wake of the US PCE data but the cross pared to rise back above 157.00. It is also worth noting that recent data confirmed that Japan had stepped into the FX market to support its currency about a month ago, where the MoF purchased JPY 9.788tln (USD 62.2bln) between April 26th and May 29th, surpassing the record annual intervention of JPY 9.188tln in 2022.

EMFX was mixed. CLP saw slight strength as manufacturing production turned positive, offsetting declines in the copper space. BRL saw sizeable weakness after a local holiday on Thursday, while Brazil's Finance Minister Haddad said that the country is not planning to change its inflation target. ZAR continued its weekly decline as election poll results still get counted with ANC looking set to lose their majority and will have to form an alliance. TRY traded flat in a muted session; JPMorgan however noted it is now overweight on Turkish domestic government bonds, and expects USD/TRY to rise to 35.50 (prev. 36.00) by year-end before hitting 42.00 by the end of 2025. USD/TRY currently trades around 32.20.