



US Market Wrap

3rd June 2024: Stocks chop and yields flop after soft ISM

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude down, Dollar down.
- **REAR VIEW:** Manufacturing PMI misses expectations, prices paid ease but employment gains; Kashkari repeats rates are to stay on hold for an extended time (said last week, released today); China PMI revised up; OPEC+ extend production cuts; Mexico's Sheinbaum wins by more than expected; Norway Langed pipeline gas exports to UK halted; NVDA unveils Rubin.
- **COMING UP: Data:** Swiss CPI, German Unemployment, US Durable Goods, Factory Orders, NZ Trade **Speakers** : BoJ's Himino; UK PM Sunak & Labour leader Starmer debate **Supply:** Japan, UK, Germany.

MARKET WRAP

Stocks ultimately finished the Monday session mixed. Growth fears initially weighed on sentiment after the US Manufacturing ISM headline fell by more than expected. Within the data the Prices Paid component slipped beneath all analyst expectations. The data supported Treasuries across the curve but the downside in yields and softer prices data was not enough to provide a convincing tailwind to stocks. Stocks did close off the lows with outperformance in NVDA shares which helped the Nasdaq outperform after its slew of AI/Chip updates over the weekend. The fall in yields gave a helping hand to traditional havens with the Yen and Franc outperforming in FX while gold also saw decent upside. Crude prices slumped in the aftermath of the OPEC+ decision, which ultimately extended the official crude output cuts in 2025, while Saudi Arabia and Russia would also extend their voluntary production until the end of Q3 24, before being restored gradually until the end of September 2025. There will also be increased supply from the UAE by 300k BPD from Jan-Sept 2025.

US

ISM MANUFACTURING PMI: The ISM Manufacturing PMI saw the headline drop to 48.7 from 49.2, beneath the consensus forecast of 49.6, and matching the lowest analyst estimate. The series has now printed blow 50, the level that separates expansion and contraction, for a second straight month, indicating that the manufacturing side of the economy is contracting. It had largely been sub-50 since the end of 2022, aside from the large jump in the March data. The highlight within the report, however, was the notable drop in the Prices Paid component, to 57.0 from 60.9 and beneath the consensus 58.5; it was also beneath the lowest forecast (57.8), which shows that prices are still rising in the manufacturing sector, but at a slower pace. Elsewhere within the report, the New Orders component dropped to 45.4 from 49.1, while the employment component returned to expansionary territory at 51.1, up from the 48.6 prior, indication of job growth in the manufacturing sector from the prior (NOTE: the US NFP jobs data is due for release at the end of the week). On the employment metrics, ING warned that although it is the highest level since March 2022, with production slowing and orders looking weak, there are questions about how sustainable this will be. The bank says that it may be that companies are merely being able to fill a backlog of vacancies, rather than actually increasing hiring plans. The bank concludes that overall "the data consistent with the view that the manufacturing sector is not going to add meaningfully to economic activity this year."

FED'S KASHKARI: Kashkari spoke to the FT on May 27th in a podcast that was released today (during the FOMC blackout period). The Minneapolis Fed President repeated the need for rates to stay on hold for an "extended time". He also noted it is best to wait for "a lot more data" to convince the Fed, one way or the other, that underlying inflation really is on its way down. He also said that the strength of the US economy gives the Fed the luxury of time to get more evidence that inflation is returning to target.

FIXED INCOME

T-NOTE FUTURES (U4) SETTLE 24+ TICKS HIGHER AT 109-18

Treasuries bull flatten after ISM Manufacturing PMI misses while prices paid also ease dip beneath all analyst forecasts. 2s -7.0bps at 4.823%, 3s -8.3bps at 4.620%, 5s -10.6bps at 4.422%, 7s -11.3bps at 4.413%, 10s -10.6bps at 4.406%, 20s -10.3bps at 4.628%, 30s -9.8bps at 4.554%



INFLATION BREAKEVENS: 5yr BEI -3.0bps at 2.331%, 10yr BEI -2.3bps at 2.338%, 30yr BEI -2.1bps at 2.335%.

THE DAY: T-notes traded sideways overnight with little reaction seen to the upside revisions to the China PMI data but saw some slight upside on the softer Final Italian and French PMI's, as well as a slight revision lower to the Eurozone PMI as a whole. There was a small grind higher in T-note futures throughout the European morning as attention turned to the US ISM Manufacturing PMI, which ultimately was dovish. The headline missed the consensus, matching the most pessimistic analyst forecast while the prices paid component saw a notable move lower after the surge in April. The data set the tone for the day with T-notes grinding higher throughout the session to peak at 109-18, settling around that high. There is plenty of key US data due this week to drive price action, including JOLTS on Tuesday, Services ISM on Wednesday and NFP on Friday, while the BoC rate decision on Wednesday and ECB on Thursday will also be key in terms of global central banking policy.

STIRS:

- Market Implied Fed Rate Cut Pricing: September 16bps, November 24bps, December 40bps.
- US sold USD 71bln in 6mth bills at a high rate of 5.155%, B/C 2.95x; Sold USD 71bln of 3mth bills at 5.250%, B/C 2.74x
- NY Fed RRP op demand at USD 0.387tln (prev. 0.440tln) across 63 counterparties (prev. 71); lowest take up since April 16th.
- SOFR at 5.34% (prev. 5.33%), volumes at USD 2.061tln (prev. 1.824tln).
- EFR at 5.33% (prev. 5.33%), volumes at USD 99bln (prev. 96bln).

CRUDE

WTI (N4) FUTURES SETTLE USD 2.77 LOWER AT 74.22/BBL; BRENT (Q4) FUTURES SETTLE USD 2.75 LOWER AT 78.36/BBL

Crude futures slid lower on Monday as traders digested the weekend's OPEC+ policy decision. While the group extended its supply cuts through the end of 2025, it outlined its intentions to ease the level of cuts from Q4 and through the end of next year. It's 2.2mln BPD of voluntary cuts will continue until September, and from October, will gradually unwind these cuts, depending on market conditions. Analysts were looking for these cuts to be extended through the end of this year. Next year, supply from the group is set to increase, with the Output cuts unwinding, and the UAE adding more barrels to the market. Capital Economics said that "combined with a pick-up in oil demand over the Northern Hemisphere summer, to push the oil market into a deficit over Q3 which could send oil prices towards USD 90 /bbl." But the consultancy adds that further out, "OPEC+ plans to raise production further in 2025, with higher output from the UAE and the planned unwinding of 2.2m bpd of voluntary cuts set to see total OPEC+ crude supply rise by around 2.5mln BPD by the end of the year," adding that "while the impact on oil prices would depend on other oil suppliers, particularly in the US, as well as the demand backdrop, at this stage it points to lower prices in 2025." Meanwhile, European NatGas has been gaining attention; reports suggest that a China-Russia pipeline deal had hit a sticking point (which the Kremlin subsequently pushed back on); additionally, news that Gassco had identified a crack on a platform used for the pipeline between Norway and UK stoked prices; Dutch TTF posted gains in excess of 10% at best on Monday.

EQUITIES

CLOSES: SPX +0.11% at 5,283, NDX +0.35% at 18,600, DJIA -0.3% at 38,571, RUT -0.5% at 2,060

SECTORS: Energy -2.6%, Utilities -1.26%, Industrials -1.24%, Materials -0.61%, Financials -0.6%, Real Estate -0.35%, Consumer Staples flat, Consumer Discretionary +0.14%, Communication Services +0.49%, Health +0.74%, Technology +0.98%

EUROPEAN CLOSES: DAX +0.61% at 18,610.27, FTSE 100: -0.15% at 8,262.75, CAC 40: + 0.06 at 7,998.02, Euro Stoxx 50: +0.39% at 5,003.35, IBEX 35: +0.66% at 11,397.20, FTSE MIB: +0.52% at 34,670.06, AEX: +0.16% at 905.10, SMI: -0.05% at 11,955.22

STOCK SPECIFICS

- **Nvidia (NVDA):** Announced its next-gen of AI chips while the CEO pledged to release new AI chip technology on a one-year basis, faster than its prior two-year timeline, reports CNBC. The new architecture is called "Rubin" and follows the announcement of its upcoming "Blackwell" model.



- **AMD (AMD):** Announced a series of next-gen architecture and products aimed at ushering in a new era of AI experiences. Unveiled the Ryzen AI 300 and Ryzen 9000 series processors.
- **Edwards Lifesciences (EW):** To sell its Critical Care product group to Becton Dickinson (BDX) for USD 4.2bln in an all-cash deal.
- **Autodesk (ADSK):** Announced the results of its audit investigation and named Betsy Rafael as interim CFO. It also gave guidance above expectations.
- **Spotify (SPOT):** Raised its price for Premium in the US.
- **Paramount (PARA):** The latest Skydance deal values the co. at USD 15/shr, a 26% premium to Friday's close, via WSJ. CNBC says the deal should be announced very soon. Bloomberg reports that Skydance will offer USD 23/shr for voting shares.
- **BestBuy (BBY):** Double upgraded at Citi.
- **GameStop (GME):** "Roaring kitty" (Keith Gill) shows in a Reddit post his USD 116mln bet on GME.
- **GlaxoSmithKline (GSK):** Delaware judge allows over 70k Zantac lawsuits to go forward.
- **Waste Management (WM):** Confirmed reports that it is to acquire Stericycle (SRCL) +15% for USD 62.00/shr in cash
- **Honeywell (HON):** Completed acquisition of Carrier's Global Access solution Business and raised its FY outlook.
- **United Airlines (UAL):** CEO says that demand is steady at the moment but industry seat growth is expected to moderate in H2, noting that some low-cost carriers will struggle to survive.
- **Delta Airlines (DAL):** Announced it is running its largest-ever transatlantic schedule this year as it sees healthy travel demand, especially on international routes.
- **Boston Beer (SAM):** Said it is aware of the WSJ article on Friday re. the sale of its company to Suntory but that it does not comment on market rumours. Adding, "We are fully focused on our business as an independent company and our return to growth."
- **Toyota Motor (TM):** Reported vehicle sales +15.7% Y/Y at 216,611 for May 2024
- **Indie Semiconductor (INDI):** To explore options including sale, according to Bloomberg
- **Boeing (BA):** Jet deliveries to China remain halted as regulators in China criticise the design of the new, 25-hour cockpit voice recorder used in the 737 max, and 787 Dreamliner, according to Bloomberg.

US FX WRAP

The Dollar traded flat early in the session before it was hit after the headline ISM Manufacturing PMI which showcased two consecutive months of contraction and was weaker than analysts forecasts. Within the report, the prices paid component dipped beneath all analyst forecasts, suggesting the rate of price increases in the manufacturing sector slowed in May from April. The soft data and corresponding fall in UST yields saw the buck fall under its 200 DMA (104.39) with technicians now eyeing the May low of 104.07; DXY sits just above the level currently. Attention later in the week turns to US JOLTS on Tuesday, Services ISM on Wednesday and NFP on Friday.

The Euro was stronger on Monday. Initially trading sideways after the release of mixed final revised European PMI's (Italian, French, German, EU), but the soft US ISM data and aforementioned Dollar weakness gave the Euro a helping hand to see EUR/USD peak at 1.0891, with technicians eyeing 1.0900 as next level of resistance. As a reminder, the focus this week will be on the ECB rate decision, which is largely expected to cut rates by 25bps but focus will be on guidance for the future rate path. Money markets currently price a c. 95% chance of a 25bps rate cut in June, with 60bps of easing priced by year-end.

Cyclical currencies were somewhat mixed, with GBP, CAD, AUD and NZD initially seeing gains on the aforementioned ISM data given the Dollar weakness. In the UK, ahead of elections the Reform Party announced that Nigel Farage will lead the party, although this had limited impact on the Pound. The upside in Cable was capped by the May high and coinciding psychological level of 1.2800, peaking today at 1.2793. Meanwhile, there was a slight revision lower to UK Manufacturing PMI data, but it garnered little reaction in the Pound. With GBP, AUD and CAD seeing gains, the CAD was the relative cyclical underperformer on account of lower oil prices while attention turns to the BoC's interest rate decision on Wednesday.

The Yen and Franc both outperformed among their G10 FX peers as US yields were lower across the curve (10yr yield fell from 4.6 to 4.4%) driven largely by the weaker ISM data. The downside in stocks was also supportive of the traditional haven currencies, while gold prices were also bid to see the precious metal briefly reclaim USD 2,350/oz.

The Yuan initially appreciated in response to the revision higher in the Chinese Caixin Manufacturing PMI overnight, but gains were shortlived and the Yuan was only marginally firmer vs the softer Dollar by the end of the US session.

EMFX: The MXN was the clear laggard across the FX space as Mexico's Sheinbaum won the election by a larger than expected majority. The size of the win has taken markets aback, with fears of potentially winning a supermajority putting



the party in a position able to pass controversial constitutional reforms, particularly in the energy sector, and on state-owned energy co. Pemex. There will be plenty of focus on the 2025 budget provided in September. The ZAR saw notable gains, reversing some of its post-election weakness. The final results confirmed that the ANC lost its majority, and it will now have to find coalition partners, the market friendly option would be a coalition with the Democratic Alliance, who secured 21.8% of the vote, vs the ANC's 40.2%. Analysts have suggested South African assets may remain volatile until a coalition partner is secured. The TRY underperforms despite a surprise inflation print to the upside, although analysts, like those at CapEco, are confident that inflation has now reached a peak. INR saw sizable gains as the current Prime Minister Modi is expected to win a decisive majority for the third time in a row, which will enable Modi's party to pass policies that are seen as vital by some investors for boosting economic growth.

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