US Market Wrap

4th June 2024: Soft JOLTs triggers further growth concerns, yields slide continues

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW**: JOLTS fall to lowest level since Feb. 2021; BoJ to consider reducing bond buys in June; Swiss CPI inline; German unemployment rises; TSM could raise service prices to NVDA; Gassco to repair Sleipner riser platform in next few days; TSLA to buy USD 3-4bln of NVDA chips
- **COMING UP**: **Data**: Australian GDP, Australian, Japanese, EZ, UK, Canadian & US PMI, US ADP National Employment, US ISM Services **Events**: NBP and BoC Policy Announcement **Speakers**: RBA's Bullock; BoC's Macklem & Rogers **Supply**: UK and Germany **Earnings**: B&M European, Inditex, Volvo Car AB, Lululemon, Dollar Tree

MARKET WRAP

The risk tone was cautious, with equity futures trading negative in premarkets, before paring losses as US traders arrived. Cash equities opened with a soft bias, and after some fleeting choppiness after the JOLTs jobs data, resumed to the downside as growth concerns continue to weigh in traders' minds. The JOLTs data saw a cooling of headline job openings, an unchanged quits rate, while the vacancy rate fell. That gave a bid to Treasuries, with the rally being led by the belly as the curve bull flattened. The dollar softened, and safe-haven FX came into demand, although EMFX was unable to take advantage of the USD's weakness, both due to risk-off sentiment as well as some idiosyncratic factors (see FX wrap, below). Equity futures went flat in later trading after Tesla (TSLA) CEO Musk detailed purchases of Nvidia (NVDA) chips, which saw the semiconductor company rally, lifting indices with it. But that foray into positive territory proved fleeting, and equities went back to flat levels shortly after. Meanwhile, Crude futures continued to fall on Tuesday, with traders continuing to cite the OPEC+ policy announcement from the weekend, along with demand concerns due to softening US economic momentum (JOLTs today, ISM on Monday, lower GDP trackers). Ahead, there are plenty of macro catalysts for traders to sink their teeth into; Wednesday sees the release of ADP jobs data, ISM Services data, as well as a BoC rate decision; Thursday sees an ECB rate decision, and on Friday, the nonfarm payrolls data is due.

GLOBAL

US JOLTS: Headline job openings pared to a rate of 8.059mln in April (vs an expected 8.35mln), the lowest level since February 2021 and below the consensus range (8.1 to 8.355mln); the prior months' data was revised down to 8.355mln from an initially reported 8.488mln. The quits rate was unchanged at 2.2% after revisions to the prior data, while the overall vacancy rate fell to 4.8% from a revised 5.0%. Despite a soft report, Oxford Economics highlights that layoffs remain low, so net job growth should continue to be positive. Meanwhile, OxEco add that the quits rate is at a level consistent with an ongoing moderation in wage growth. The desk adds that the Fed will welcome signs of cooler labour market conditions, but the data does not change their view that the Fed will be happy to keep rates at current levels until September. In wake of the release, implied pricing for the trajectory of Fed rate cuts this year moved dovishly, although he reaction proved to be fleeting; after the JOLTs data, as well as this week's soft ISM manufacturing report, money markets are discounting 45bps of rate cuts through the end of the year, with the first fully priced rate cut seen in November (before this week's data, markets were first fully pricing a December cut).

BOC PREVIEW: The Bank of Canada is expected to cut rates by 25bps at its June 5th meeting, taking its key rate to 4.75%. The majority of analysts expect this outcome, with 22 of 29 surveyed by Reuters looking for a cut, but the remaining seven expect rates to be left on hold at 5.00%. Recent data has seen inflation fall within the BoC's target band, while growth data has disappointed. Money markets currently assign an 80% probability of a 25bp rate cut in June, with those odds being priced since the dismal GDP data released last week. Nonetheless, there will still be attention on guidance from the central bank to assess the future policy path, with some analysts sceptical on how much the BoC can diverge from the Fed (the FOMC is not expected to cut rates until September at the earliest). There will be no MPR release at this meeting, but there will be the usual press conference with Governor Macklem afterwards, but the text will be released at the same time as the rate decision and statement. To download the full report, please click here.

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FIXED INCOME

T-NOTE FUTURES (U4) SETTLE 14+ TICKS HIGHER AT 110-00+

T-Notes caught a bid after a soft JOLTS report which hit the lowest level since February 2021. 2s -4.3bps at 4.775%, 3s -5.7bps at 4.558%, 5s -6.5bps at 4.352%, 7s -7.0bps at 4.337%, 10s -6.6bps at 4.336%, 20s -6.0bps at 4.565%, 30s -6.6bps at 4.484%.

INFLATION BREAKEVENS: 5yr BEI -3.5bps at 2.304%, 10yr BEI -2.5bps at 2.319%, 30yr BEI -1.9bps at 2.325%.

THE DAY: T-Notes meandered overnight before catching a bid in the European morning after Swiss CPI was in line with expectations while a further lift was seen in response to a rise in German unemployment. A large chunk of the morning gains had then pared on reports the BoJ is considering reducing its bond buys as early as the June meeting. Nonetheless, the downside was short lived and T-Notes started to catch a bid with US players arriving, likely supported by the fall in energy prices in wake of OPEC+ on Sunday and as well the soft ISM data on Monday. T-Notes initially peaked at 110-02+ in wake of the US JOLTS report, which came in beneath all analyst forecasts to the lowest level since February 2021, while the prior was also revised down. T-notes swiftly pared as Europe shut up shop with a chunky block sale and likely profit taking supporting the move off the post-data highs. Nonetheless, once Europe had exited T-Notes gradually climbed into settlement to hit a fresh peak of 110-05. Money market pricing saw a slight dovish move with c. 45bps of easing priced by year-end, with the first rate cut now fully priced in November, with a near 80% probability of the first cut occurring in September.

STIRS:

- Market Implied Fed Rate Cut Pricing: September 19bps (prev. 16bps D/D), November 28bps (prev. 24bps), December 44bps (prev. 40bps).
- US to sell USD 60bln in 17wk bills on June 5th, USD 70bln in 4wk bills and USD 70bln in 8wk bills on June 6th; all to settle June 11th.
- US sold USD 60bln of 42-day CMBs at a high rate of 5.275%, B/C 3.08x.
- NY Fed RRP op demand at USD 0.378tln (prev. 0.387tln) across 77 counterparties (prev. 63)
- SOFR at 5.35% (prev. 5.34%), volumes at USD 1.912tln (prev. 2.061tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 93bln (prev. 99bln).

CRUDE

WTI (N4) FUTURES SETTLED 0.97 LOWER AT USD 73.25/BBL; BRENT (Q4) FUTURES SETTLED 0.84 LOWER AT USD 77.52/BBL

Crude prices continued their slump with markets still digesting the OPEC+ policy decision, while growth concerns are mounting after the weak ISM Manufacturing PMI on Monday was followed by a cooling in job openings today. WTI and Brent hit lows of USD 72.48 and USD 76.76, respectively as US players arrived before gradually reversing higher throughout the rest of the session with WTI reclaiming USD 73.00/bbl and Brent reclaiming USD 77.00/bbl. The upside appeared to be driven by the Dollar coming off its highs in wake of the US JOLTS report, which ultimately hit risk sentiment on growth fears, while yields tumbled. With much focus on OPEC+ this week, analysts at UBS expect some near-term volatility on supply concerns, but retain a modestly positive outlook for crude prices, and do not think the plan to unwind output cuts will tilt markets into a position of oversupply; the bank sees Brent trading around USD 87/bbl by year-end. Elsewhere, Russia's Rosneft's Komsolsky refinery, which has a capacity of 15.7k metric tonnes per day, reportedly halted operations for a month of maintenance from May 21st, according to Reuters.

In NatGas markets, TTF prices were hit after Gassco announced it received the repair schedule from the operator of the Sleipner Riser platform, and said repairs were only expected to take a few days rather than weeks. However, the operational problems at the Sleipner Riser platform has caused issues at the Nyhama processing plant, which is suffering a transportation outage to the Easington receiving terminal. Elsewhere, Chevron Australia confirmed that full LNG production has resumed at the Gorgon gas facility following the temporary outage on Monday. Meanwhile, Turkey and Azerbaijan agreed to extend a gas import contract until 2030, covering 3.5bcm per year to Turkey.

EQUITIES

CLOSES: SPX +0.15% at 5,291, NDX +0.29% at 18,655, DJIA +0.36% at 38,711, RUT -1.25% at 2,034

SECTORS: Energy -0.97%, Utilities flat, Industrials -0.23%, Materials -1.22%, Financials -0.44%, Real Estate +0.95%, Consumer Staples +0.93%, Consumer Discretionary +0.17%, Communication Services +0.33%, Health +0.33%, Technology +0.41%

EUROPEAN CLOSES: DAX: -1.02% at 18,417.54, FTSE 100: -0.37% at 8,232.04, CAC 40: - 0.75 at 7,937.90, Euro Stoxx 50: -1.01% at 4,953.25, IBEX 35: -0.97% at 11,286.40, FTSE MIB: -1.14% at 34,276.02, AEX: -0.38% at 901.68, SMI: +0.07% at 12,015.12

STOCK SPECIFICS

- **TSMC (TSM)**: Chairman is reportedly considering raising production fees for **Nvidia (NVDA)**, according to Nikkei.
- **Nvidia (NVDA)**: CEO says his interest remains in using **Intel (INTC)** fabs for the Co.'s chips.
- **Intel (INTC)**: Launched its next-gen Xeon server processors in a bid to regain data centre market share, and revealed that its Gaudi 3 AI accelerator chips would be priced much lower than its rivals' products, via Reuters.
- **Social Media (META, SNAP)**: New York is reportedly planning to ban social media firms from using algorithms to steer content to children without parental consent under a tentative agreement reached by state lawmakers, WSJ sources said. Separately, Meta's (META) Instagram is reportedly testing ad breaks, according to The Verge.
- **Alphabet (GOOG)**: Reportedly laying off employees from several teams in Google's cloud unit, one of its fastest-growing businesses, CNBC sources reported.
- **Tesla's (TSLA)**: China-made EV sales declined in May by 6.6% Y/Y to 72,573 units, amid output cuts of China-made electric vehicles. Separately, Elon Musk ordered Nvidia (NVDA) to ship thousands of AI chips reserved for Tesla (TSLA) to X and xAI, according to CNBC.
- **Illumina (ILMN)**: Announced that its Board of Directors has approved the spin-off of GRAIL.
- **HubSpot (HUBS)**: Reportedly rumoured to attract interest from another tech giant other than Google (GOOGL), according to Betaville.
- **Viking Therapeutics (VKTX)**: Announced its VK2809 Phase 2b NASH study achieved its primary endpoint with patients experiencing statistically significant reductions in liver fat vs a placebo.
- **Axos Financial (AX)**: Named a new short at Hindenburg Research.
- **Bath & Body Works (BBWI)**: EPS and revenue beat but guidance was soft.
- **Ford (F)**: Started mass production of its new EV Ford explorer at its first EV facility in Europe. EV sales increase +64.7% Y/Y to 8,966 units for May, while total vehicle sales units for May were reported at 190,014.
- **Nvidia (NVDA):** To sell approx. USD 3-4bln of chips this year to Tesla (TSLA), says TSLA CEO Musk.
- **Core Scientific (CORZ):** Offered to be bought out at c. USD1bln by Coreweave valuing CORZ at 5.75/shr, according to Bloomberg,
- **Apple (AAPL):** Reportedly held discussions with China Mobile to bring Appl TV+ to China, according to The Information.
- **Cisco (CSCO):** Launched a USD 1bln global AI investment fund; also announced new AI-powered innovations and investments to help customers unlock a more connected and secure future.

US FX WRAP

The Dollar initially clawed back a notable amount of Monday's losses early in the session as it looked to reverse some of the weakness over the last three trading days. That said, the buck lost its intraday strength in wake of the soft JOLTS data. The print came in lower than the forecast range to the lowest level since Feb 2021, with the drop in April led by a fall in health care and social assistance job openings. The JOLTS data also led to a slump in UST yields, which exacerbated the pressure on the buck. Note, the Quit Rates component of the JOLTs report remained unchanged for the sixth month in a row, a level which analysts at Oxford Economics suggest is consistent with an ongoing moderation in wage growth. Focus now turns to the US Services ISM on Wednesday and NFP on Friday.

The Euro was weaker in the Tuesday session with downside stemming from the European morning after a rise in German unemployment numbers to see EUR/USD hit a low of 1.0860. The Euro had pared from lows after the soft US JOLTS report. Attention turns to the ECB rate decision on Thursday, a 25bp rate cut is widely expected while looking ahead, the market currently prices in 60bps of easing by year-end, which implies two fully priced 25bp rate cuts, with a 40% probability of a third.

Cyclical Currencies all trade weaker vs the Dollar, but similar to the Euro, were off lows in wake of the soft US JOLTS data which tempered the Dollar. CAD watchers turn their attention to the BoC's interest rate decision on Wednesday. Money markets are pricing in a c. 80% chance of a cut, with 65bps of easing priced through year-end, although some are sceptical on how much the BoC and Fed can diverge. For the Aussie, attention turns to the Australian GDP growth rate, where the Q/Q number is expected to maintain the prior 0.2% pace while the Y/Y print is seen easing to 1.2% from 1.5%.

Haven Currencies (Franc, Yen) outperform among their G10 FX peers for the second consecutive day in a row as US yields continue to fall (US 10-year yield fell from 4.39% to 4.33%) in wake of the softer JOLTs data. The Franc did decline initially in reaction to an inline Swiss CPI print for May, matching the prior 1.4% print, which ultimately saw the market increase the odds of a 25bp cut at the June meeting to 51% (prev. 40%). The Yen was the clear outperformer with Bloomberg sources suggesting the BoJ is considering a reduction of bond purchases as early as the June meeting.

EMFX: The TRY underperformed in the EMFX space, where hawkish CBRT commentary from the governor was offset by reports that Turkey is considering taxing profits from stocks and crypto assets, according to Bloomberg. MXN continued its decline as investors weigh future reforms in the country, pushed by Mexico's Sheinbaum. BRL was also weaker, note that Brazil's Finance Ministry expects GDP growth to slow in Q2 due to Rio Grande do Sul floods. The ZAR gave back the Monday gains with a lower-than-expected GDP report, although the prior saw a revision higher, perhaps offsetting some of the growth fears. Meanwhile, headlines suggested that petrol and diesel pump prices are to drop in South Africa, although election risks do remain; Fitch stated the election outcome raises new risks for South Africa's credit profile.