US Market Wrap

6th June 2024: Stocks and Bonds chop to ECB and US data ahead of NFP

- **SNAPSHOT**: Equities mixed, Treasuries flat, Crude up, Dollar down
- **REAR VIEW**: ECB cuts rates, July cut seen as unlikely; Jobless Claims rise; US Labour Costs & Productivity revised down; Saudi and Russia question oil downside post OPEC+; US warns Israel of expanding war to Lebanon, warning Iran could intervene; NVDA and MSFT subject of DoJ and FTC investigation.
- **COMING UP**: **Data**: Japanese All Household Spending, German Industrial Output, UK Halifax House Prices, EZ GDP (R), US NFP, Canadian Employment, US Wholesale Sales **Events**: RBI Policy Announcement **Speakers**: RBA's Hauser; ECB's Schnabel; Lagarde.

MARKET WRAP

Stocks and bonds chopped to the ECB rate decision and US data while Euro upside weighed on the Dollar but the Swissy, Yen and Aussie outperformed. Crude prices were bid. The ECB cut rates as was widely expected, although it did not give clear future guidance on future rate cuts while Lagarde noted the decision was not unanimous with reports stating that Holzmann wanted to keep rates unchanged. Sources later revealed that a few hawks may have preferred to keep rates unchanged today had there not been a pre-meeting commitment. The hawkish ECB cut did support the Euro while Bunds were hit; T-notes were also briefly dragged lower. Nonetheless, above-expected jobless claims and a larger downward revision to the Q1 Unit Labour Costs data from the US helped support T-notes with attention turning to the US NFP on Friday. Crude prices were bid after both Saudi and Russia questioned the recent downside in oil prices after OPEC+, while the US had also warned Israel about expanding the war into Lebanon on account that Iran may intervene and thus expanding the war in the Middle East. Note, elsewhere Nvidia (NVDA) weakness weighed on semis after reports suggested the US FTC and DoJ are to proceed with antitrust investigations into both NVDA's and Microsoft's (MSFT) AI dominance. Meanwhile, Meme stocks (GME, AMC) surged after RoaringKitty scheduled a live stream on YouTube for Friday at 12:00 EDT / 17:00 BST.

CENTRAL BANKS

ECB REVIEW: As expected, the ECB cut rates for the first time since September 2019, lowering the deposit rate by 25bps to 3.75%. Within the accompanying statement, the main highlight was that the "Governing Council is not pre-committing to a particular rate path". Furthermore, the ECB reiterated its pledge to "keep policy rates sufficiently restrictive for as long as necessary". With regards to its assessment of the economy, from a qualitative perspective, the statement read that "despite the progress over recent quarters, domestic price pressures remain strong as wage growth is elevated, and inflation is likely to stay above target well into next year". For the accompanying macro projections, 2024 and 2025 headline and core inflation forecasts were raised, with the 2026 headline print held at 1.9%. From a growth perspective, the 2024 GDP forecast was raised by more than expected, and 2025 was lowered as expected. At the follow-up press conference, President Lagarde remarked that she would not say that the ECB is in a 'dialling back phase', but there is a strong likelihood that the ECB is dialling back. With regards to the unanimity of the decision, Lagarde said that all but one governor backed the decision to lower rates; it was later revealed by Reuters that Austria's Holzmann was the lone dissenter, voting for an unchanged policy rate on account of the increase in inflation projections. Elsewhere, Lagarde made the point that the ECB is far from the neutral rate, and refused to commit to deciding on rates only on projection round meetings, but noted that policymakers do have more data available at these meetings. Overall, market pricing has moved in a slightly more hawkish direction given the lack of an explicit endorsement for another near-term rate cut, with October now no longer fully priced for a rate reduction, and the probabilities around a December cut are a coin-flip (vs. circa 56% pre-release). The latest ECB sources via Bloomberg and Reuters had both suggested that a July rate cut is unlikely, although Bloomberg said September was unclear, while Reuters sources suggested the focus is now on September. One Reuters source added "a rate cut would be warranted in September if the ECB's inflation forecast for the last quarter of 2025 remained where it has been for some time, that is at 1.9%-2.0%."

US

JOBLESS CLAIMS: Initial Jobless Claims rose to 229k from the revised up 221k, above the consensus for 220k. The 4wk average saw a slight decline given the prior was revised up, taking it to 222.25k from 223k. Unadjusted, initial claims totalled 195k, -17k from the prior week, while the seasonal factors had expected an 8k decrease. The rise in the weekly claims is consistent with the softness of the labour market seen recently, although it is not yet something to be overly concerned about but many do expect the claims numbers to tick up throughout the Summer. Nonetheless, analysts at Pantheon Macroeconomics suggest that some of the rise this week is due to seasonals, but they do acknowledge the trend of claims is still rising.

CHALLENGER LAYOFFS: Challenger data showed 63.8k layoffs in May, relatively similar to the 64.8k in April. The report highlights that “Job cuts remained flat in May as companies assess performance and make plans for Q3 and Q4. Meanwhile, hiring announcements are at their lowest levels in a decade. The typical churn in a healthy labor market appears to be stalling,” said Andrew Challenger, Senior Vice President of Challenger, Gray & Christmas, Inc. “Cuts in the Technology sector dominated announcements last year. While the sector continues to make cuts, it isn’t nearly at the same pace,” he added. Tech is leading the layoffs, led by Automotive, Energy, Aerospace/Defense, Entertainment /Leisure, Retail, Apparel and then Media & News.

LABOUR COST/PRODUCTIVITY REVISIONS: The Unit Labor Costs were revised notably down for Q1 to 4.0% from 4.7%, despite expectations for a revision higher to 4.9%. Productivity meanwhile was revised down to 0.2% from 0.3%, but it was not as much as expected with the consensus looking for a revision to 0.1%. The dip in labour costs will likely be welcome for the Fed as it shows signs of easing wages, but looking into the details, Oxford Economics highlight the drop in ULC was due to lower compensation costs than previously estimated. The consultancy notes that "Productivity and unit labor cost growth are very volatile quarter to quarter, so it makes sense to focus on the longer-running trends. Year over year, productivity is growing at close to 3%, almost double the average for this cycle". OxEco also highlights that whether this fast productivity growth can be sustained is key for the economic outlook, but all else equal, faster productivity growth means wage growth can run hotter without being inflationary, by curbing the growth of unit labour costs.

NFP PREVIEW: Analysts expect the rate of monthly payroll additions to tick up slightly in May, although still remain beneath recent trend rates. Wage growth is seen accelerating slightly on a monthly basis, but is likely to be unchanged on an annualised basis; analysts have noted that the Quits Rate in the recent JOLTs data (for April) is consistent with a moderation in wage pressures ahead. Labour market proxies have been mixed in the month, with jobless claims little changed in the survey windows that coincide with the jobs report. The ADP’s gauge of payrolls disappointed to the downside, however. The ISM surveys both saw a tick up in the employment subindex, with the manufacturing sector’s gauge back into expansion territory. Meanwhile, the consumer view of the jobs market has improved in the month. The market reaction will be based on both the headline and the wage metrics in conjunction; if both came in hot, analysts think it would pressure risk assets, and Treasury yields could rise; conversely, a miss on both may support Treasuries, but equities could succumb to the growth concerns narrative. To download the report, please click here.

FIXED INCOME

T-NOTE FUTURES (U4) SETTLE 2 TICKS HIGHER AT 110-11+

T-notes ultimately little-changed despite choppy action to US data and ECB as eyes turn to NFP. At settlement, 2s -1.3bps at 4.718%, 3s -1.4bps at 4.498%, 5s -1.6bps at 4.291%, 7s -1.3bps at 4.281%, 10s -1.0bps at 4.279%, 20s -0.8bps at 4.510%, 30s -1.2bps at 4.429%

INFLATION BREAKEVENS: 5yr BEI -1.3bps at 2.280%, 10yr BEI -1.7bps at 2.290%, 30yr BEI -1.2bps at 2.298%.

THE DAY: T-Notes saw some gradual selling overnight and into the European morning with eyes turning to the ECB rate decision. The ECB cut rates as expected while providing little guidance about future moves, which saw kneejerk selling pressure, tracking the Bund lower. However, shortly after the move had completely pared with the rising US jobless claims and revisions lower to Q1 Unit Labour Costs supporting the move up. There was then renewed selling pressure in the Bund during ECB's Lagarde conference, which also dragged Treasuries lower, on a remark that she would not say the ECB is in the "dialling back phase", although she swiftly changed tone noting there is a strong likelihood that the ECB is dialling back, to see the move swiftly pare and more. Nonetheless, source reports in the wake of the ECB showed that some of the hawks were upset with today's rate cut, but ultimately agreed to the move given the pre-meeting commitment, but recent worrying wage and price data had made them question whether inflation was heading back to target by mid-2025. Other sources had also noted that a July rate cut is off the cards, with the focus turning to September, perhaps seen as an olive branch to offset some of the hawk's distaste. With US data and the ECB out the way, T-Notes ground higher into the settlement to the unchanged mark with all eyes turning to the US NFP on Friday.

NEXT WEEK'S SUPPLY: US to sell USD 58bln 3yr (vs. exp. USD 58bln), USD 39bln 10yr (vs. exp. USD 39bln), USD 22bln 30yr (vs. exp. USD 22bln) all to settle on June 17th

STIRS

- Market Implied Fed Rate Cut Pricing: September 21bps (prev. 21bps D/D), November 31bps (prev. 30bps), December 50bps (prev. 49bps).
- NY Fed RRP op demand at USD 378bln (prev. 371.8bln) across 72 counterparties (prev. 76)
- SOFR at 5.33% (prev. 5.35%), volumes at USD 1.898tln (prev. 2.092tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 105bln (prev. 100bln).
- US sold USD 70bln in 4wk bills at a high rate of 5.270%, B/C 2.81x; sold USD 80bln in 8wk bills at a high rate of 5.265%, B/C 3.23x.

CRUDE

WTI FUTURES (N4) SETTLES USD 1.48 HIGHER AT 75.55/BBL; BRENT (Q4) SETTLES USD 1.46 HIGHER AT 79.87 /BBL

WTI and Brent saw decent gains on Thursday in response to Saudi and Russia commentary aswell as geopolitics. There was some chop around macro events, however, where the ECB cut rates as expected, although a July rate cut seems unlikely. Meanwhile, US Initial Jobless Claims rose above forecasts, adding to signs of a slowing labour market within the US. Nonetheless, crude prices rallied as Europe was closing up for the day, seemingly in response to Russia and Saudi commentary about the post OPEC+ crude weakness, aswell as geopolitics. Russia's Deputy PM Novak was quizzed on why oil prices declined in the wake of the OPEC+ meeting, stating there are many speculative factors and wrong interpretations of the agreement. Novak sees oil price to be at USD 80-85/bbl until year-end. The Saudi Energy Minister also spoke on the recent downside in the wake of the OPEC+ meeting, responding with "Give it a day or two, and reality will fall in". Meanwhile, reports in Axios that the US has cautioned Israel against a "limit war" in Lebanon, warning that such an idea could push Iran to intervene, gave a helping hand to the upside in Crude. Note, WTI and Brent peaked at USD 75.79/bbl and USD 80.08/bbl, respectively, in the US afternoon, but ultimately settled slightly off highs alongside a risk-off move, but still settling well in the green.

EQUITIES

CLOSES: SPX flat at 5,353, NDX flat at 19,021, DJI +0.20% at 38,886, RUT -0.70% at 2,049.

SECTORS: Energy +0.55%, Utilities -1.03%, Industrials -0.6%, Materials +0.08%, Financials flat, Real Estate +0.19%, Consumer Staples +0.35%, Consumer Discretionary +0.97%, Communication Services +0.21%, Health +0.33%, Technology -0.47%

EUROPEAN CLOSES: DAX: +0.38% at 18,646.51, FTSE 100: +0.47% at 8,285.34, CAC 40: + 0.42 at 8,040.12, Euro Stoxx 50: +0.67% at 5,069.65, IBEX 35: +0.80% at 11,444.00, FTSE MIB: +0.95% at 34,834.30, AEX: +0.51% at 923.36, SMI: +0.76% at 12,242.49

Earnings

- **Lululemon Athletica Inc. (LULU)** beat on EPS and revenue as well as reporting strong guidance, and raising its buyback programme.
- **Five Below (FIVE)** missed on top and bottom line and gave poor guidance.
- **JM Smucker (SJM)** beat on adjusted EPS and gross margin but missed on revenue and EPS guidance.

STOCK SPECIFICS

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- **AI Dominance (MSFT, NVDA, OpenAI):** US DoJ and FTC reached a deal that allows them to proceed with antitrust investigations into the dominant roles that Microsoft (MSFT), OpenAI and Nvidia (NVDA) play in the AI industry, according to NYT citing sources. DoJ will take the lead in investigating whether NVDA violated antitrust laws, while the FTC will examine the conduct of OpenAI and MSFT, the report added.

- **Nvidia (NVDA) and Oracle (ORCL):** The two companies have had their top-quality chips rented by some large Chinese firms for AI computing, according to The Information.
- **TSMC (TSM)** China competitors are reportedly developing less powerful processors to keep access to TSM production in fear of US sanctions, according to Reuters.
- **ASML Holding (ASML)** will ship its new chipmaking machine to TSMC (TSM) and Intel Corporation (INTC) by the end of the year, according to Bloomberg.
- **Hertz (HTZ)** considers selling at least USD 700mln of debt and convertibles, according to Bloomberg.
- **Gamestop (GME)** strength attributed to “RoaringKitty” scheduling a YouTube stream on Friday at 17:00 BST / 12:00 EDT.
- **Salesforce (CRM)** Director Morfit purchases USD 100mln of Salesforce (CRM) stock.
- **Warner Bros. Discovery (WBD)** and TNT are reportedly in talks for a possible fourth NBA rights package, according to Front Office Sports.
- **NIO (NIO)** missed on Q1 24 vehicle deliveries at 30,053 (exp. 31.33k, prev. 50,045 in Q4).
- **Moderna (MRNA)**: Announced that the FDA has selected mRNA-3705 for the START pilot programme.
- **Old Dominion (ODFL)** sees its Q2 revenue per day up 5.6% from last year, driven by an increase in less-than-truckload shipments per day. The CEO commented on their position, saying they are in a "strong position to win market share and increase shareholder value over the long term.". Nonetheless, Bank of America cut their PT on the name to USD 192/shr from USD 205/shr.
- **Monster Beverage (MNST)** Announced prelim results of its modified "Dutch auction" tender offer. A total of 77.4 mln shares of MNST were validly tendered and not validly withdrawn at a purchase price of USD 53.00/shr. Additionally, 41.6mln shares were tendered through notice of guaranteed delivery at such purchase price or as purchase price tenders.
- **Newmont Corp (NEM)** CEO stated the industry is ripe for further consolidation driven by demand for metals like copper that are needed in the energy transition and challenges accessing capital.
- **Meta (META)** reportedly plans to use new artificial intelligence features to amplify its efforts to generate revenue in messaging services, according to WSJ.
- **Robinhood (HOOD)** to buy global cryptocurrency exchange Bitstamp, with the deal valued at approx. USD 200mln in cash.
- **Eli Lilly (LLY)** donanemab-treated participants were reviewed by the FA with reviewers saying the higher number of deaths in these patients vs a placebo cannot be completely explained by deaths due to aria or cerebral haemorrhage.
- **Chipotle (CMG)** shareholders approved a 50-1 stock split; record date is June 18th and stock will begin trading on a post-split basis on June 26th.
- **Blackstone (BX)** said it has no plans to change its BREIT repurchase programme.
- **Altria (MO)**: US FDA reportedly to rescind the ban on Juul e-cigarettes, via WSJ.

US FX WRAP

The Dollar saw some mild upside overnight and into the European session before taking a hit in reaction to the ECB rate decision and US data. There was some chop in the afternoon but the buck ultimately sold off into the end of the session. On US data, Initial Jobless Claims jumped above market expectations of 220k to an eight-month high of 229k, further strengthening the notion that the US labour market is softening. Meanwhile, Unit Labour Costs Q/Q were revised down in Q1 to 4.0% from 4.7%, despite expectations of a rise to 4.9%. Also, the US trade deficit fell to USD 74.6bln, the highest deficit since October 2022. Attention in markets turns towards Nonfarm payrolls release on Friday, which is expected to see the US economy add 185k jobs in May, up from the prior 175k in April, while the unemployment rate is expected to remain unchanged at 3.9% M/M.

The Euro was trading flat just before Thursday's ECB interest rate decision, initially reacting to the upside following the ECB's decision to cut rates by 25bps as widely expected, though trade did remain choppy thereafter for some time. Ultimately, the Euro is firmer following the rate decision and lack of clear guidance while there was also some hawkish dissent. Holzmann was the lone dissenter, but other hawks were displeased with the decision to cut but went ahead with it anyway given the pre-meeting commitment. Nonetheless, sources do note a further interest rate cut in July is unlikely after some stronger-than-expected economic data, but the focus is now on the September meeting, according to Reuters. The theme gathered from the statement is that the governing council is not pre-committing to a particular rate path; as such, money markets have become slightly more hawkish, forecasting a December rate cut with a probability of approx. 50% (c. 56% before release).

Cyclical Currencies performance is mixed post-ECB rate cut and US data. The Aussie was the cyclical outperformer to see AUD/NZD rise above 1.0750 but both Aussie and Kiwi benefitted from the Dollar weakness while equity performance was ultimately flat with eyes turning to US NFP. CAD saw mild gains, supported by upside in Crude and also by the latest trade deficit data, which was narrower than expected. Eyes turn to the Canadian and US jobs report on Friday.

The Franc and Yen saw decent strength, similar to the Aussie, further continuing their weekly overperformance upon more dovish US data with upside in US Jobless Claims and downward revisions to Unit Labour Costs in Q1. Meanwhile, BoJ’s Ueda spoke earlier in the session with commentary, including "Inflation expectations must accelerate to 2% and stay there.” The JPY initially moved higher by 10 pips as Ueda added they would proceed cautiously on rates.

In EMFX, BRL outperforms following concerns from BCB’s Galipolo and Neto over inflation expectations, saying “dissonance between current inflation and expectations is widening." COP was slightly weaker, despite gains in oil prices while Colombia’s finance ministry said it will freeze some spending in expectation of better tax revenue in 2024 H2. Note, MXN saw considerable weakness in the final hour of US trade as post-election vol continues. In CEE, PLN is higher after hawkish commentary from NBP’s Governor Glapinski. ZAR is flat, with recent weakness taking a pause.