newsquawk

US Market Wrap

12th June 2024: Stocks jump on soft CPI, looks through hawkish Fed dot plot

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down
- **REAR VIEW**: Cool US CPI; Fed median dot only sees 1 2024 rate cut; Powell sticks to script, stressing Fed needs more confidence; Surprise EIA crude build; Heightened geopolitical tensions; Bullish ORCL AI commentary; Mixed China inflation data
- **COMING UP: Data:** Australian Employment, German Wholesale Price, Swedish Inflation, EZ Industrial Production, US IJC, PPI (F), NZ Manufacturing PMI **Speakers:** ECB's de Guindos; BoC's Kozicki; Fed's Williams **Supply:** Italy, US **Earnings:** Adobe

MARKET WRAP

The cooler-than-expected inflation data set the tone for the day with stocks closing well in the green with T-Notes firmer across the curve and the buck in the red. The softer-than-expected inflation metrics saw money markets revert to fully price in two 25bp rate cuts this year, albeit back to 1 after the Fed. The focus then turned to the FOMC, which saw rates left unchanged as expected, with only a slight tweak to the statement to acknowledge "modest further progress" on inflation, vs "lack of further progress" beforehand. The focus, however, was on the dot plot, which saw the median pencil in just one rate cut in 2024, on the more hawkish side of expectations while the 2025 dot was raised, 2026 was unchanged but the longer run median view ticked up. There was only a slight reaction, with the Dollar coming off lows and Treasuries off highs but stocks were quite resilient. Nonetheless, the pressure in bonds ensued with Powell's press conference which largely stuck to the script although the Chair stressed they need more confidence inflation is returning to target. Yields were still lower by c. 5-9bps across the curve and money markets now price in c. 45bps of easing throughout the year. Elsewhere, oil prices settled in the green but off highs with pressure seen after a surprise inventory build. Attention turns to US PPI and the 30yr bond auction on Thursday.

FED

FOMC STATEMENT & SEP ANALYSIS: The Fed left rates on hold, as was widely expected, but the updated dot plots now signals only one rate cut in 2024 vs. three in the March projections, while money markets and analysts were looking for two rate cuts in 2024. Four policymakers even see no rate cuts this year, with seven penciling in just one cut. Eight, however, expect there to be two rate cuts this year. Looking ahead, the 2025 median dot plot is at 4.1%, up from 3.9% in March, while the 2026 dot was unchanged at 3.1%, but the longer run rate ticked up again to 2.8% from 2.6%. Elsewhere, headline and Core PCE projections were raised for 2024 and 2025, with 2026 unchanged. Unemployment was left unchanged at 4.0% for 2024, but was raised by 0.1% in both 2025 and 2026, to 4.2% in 2025, and to 4.1% in 2026. Real GDP growth forecasts were left unchanged throughout the horizon. The statement also saw very few changes, the only alteration was that it acknowledged "modest further progress" towards the 2% inflation objective has been seen, vs the May statement noting a "lack of progress". There has been very little reaction aside from a slight move lower in bonds and a slight bid into the Dollar, perhaps with the relatively split dot plots (eight seeing two rate cuts, seven seeing one, four seeing zero) offsetting the shift higher in the median with the market largely trading off the cooler than expected CPI data earlier today; money market pricing is little changed.

CHAIR POWELL PRESSER: Fed Chair Powell's Press conference unveiled little new, and he largely repeated what had been said before. He stressed the Fed needs to see more evidence that inflation is returning to target in a sustainable way and that if the economy remains solid, and inflation persists, the Fed is prepared to maintain rates at current levels for as long as appropriate. He also noted, in fitting with the dot plots, that no one has rate hikes as their base case. The Chair repeated that if there was an unexpected weakening in the labour market, the Fed would be prepared to act, and he suggested that if unemployment comes in above what the Fed expects, that would be considered an unexpected weakening - note, the 2024 median unemployment projection is at 4.0%. Powell welcomed the May inflation report and said he would like to see more of that, repeating inflation is still too high and they need more data to gain confidence, stressing they do not want to be too motivated by just one print. On the labour market, he acknowledged it is still strong, but quits and job openings have been moving down. He also revealed he likes to look at the 3 and 6mth series on payroll reports. Powell also toed the usual post-SEP line that the dot plots are not a plan or any kind of decision, stressing the assessment of policy will adjust. He added that no one has a strong commitment to a rate forecast and that everyone would say the rate path is data-dependent. Markets were relatively tame throughout the presser (and FOMC) with the market letting the data guide the way.

US CPI

The inflation report was cool across the board - Core CPI M/M rose 0.2% (unrounded 0.163%), shy of the expected, and prior, +0.3% (prev. unrounded 0.292%) with the Y/Y +3.4% (prev. 3.5%, exp. 3.6%). Headline metrics were also light with M/M at 0.0% (exp. 0.1%, prev. 0.3%) and Y/Y at 3.3% (exp. 3.4%, prev. 3.4%). Delving deeper into the report, Core CPI was largely thankful for a 3.6% plunge in airline fares, and a surprise 0.1% decline in auto insurance prices, and as Pantheon Macroeconomics says, “a far cry from YTD average monthly increases of 1.7%.” The consultancy adds, airline fares and motor vehicle insurance components of the core PCE deflator are derived from PPI, not CPI data, and often diverge substantially M/M. Do note, there are areas of lingering strength in pricing power as the housing numbers aren't really showing any softening with owners' equivalent rent holding at +0.4% M/M for the fourth consecutive month and primary rents doing the same. Overall, Pantheon add, two-thirds of the components of the core PCE deflator are derived from CPI data, with the bulk of the remainder derived from the PPI numbers. After CPI, PM provisionally forecast that the core PCE deflator increased 0.16% in May, far short of the 0.34% average increase in the first four months of this year, but it will update its estimate after Thursday’s PPI data. As a result, and ahead of the Fed, a broad-based dovish reaction was seen (upside in stocks and bonds, downside in dollar) with pre-Fed 50bps (2 cuts) priced in by year-end vs. 39bps (1 cut) pre-data.

FIXED INCOME

T-NOTE FUTURES (U4) SETTLE 24+ TICKS HIGHER AT 110-10

T-Notes saw gains on Wednesday, albeit off highs, as the cooler-than-expected US CPI report led the move higher, with a little bit of unwind seen post-Fed. At settlement, 2s -6.9bps at 4.765%, 3s -8.1bps at 4.514%, 5s -8.6 bps at 4.332%, 7s -8.5bps at 4.323%, 10s -7.2bps at 4.330%, 20s -5.5bps at 4.572%, 30s -5.0bps at 4.485%.

INFLATION BREAKEVENS: 5yr BEI -7.3bps at 2.189%, 10yr BEI -5.7bps at 2.235%, 30yr BEI -3.5bps at 2.267%

THE DAY: Treasuries were horizontal throughout the EZ morning as participants awaited the pivotal US CPI report (+ Fed), which saw a broad-based dovish market reaction amid a soft report, highlighted by money markets fully reverting to price in two rate cuts by year-end after the metrics (vs. one being fully priced pre-data). However, since the Fed it has gone back beneath 50bps to 45bps. Nonetheless, after the inflation report, T-Notes immediately rose to 110-16 from 109-16, before extending to highs of 110-21+. As the dust settled from CPI, attention turned to the Fed, accompanying SEPs followed by Powell's presser. Albeit not garnering much of a reaction, the key takeaway was that the updated SEPs saw only one rate cut in 2024, vs. three in March and expectations for two, and the statement also saw very few changes, with the only alteration was that it acknowledged "modest further progress" towards the 2% inflation objective has been seen, vs the May statement noting a "lack of progress". Treasuries had pared some of the post-CPI gains in response to the dot plot, with T-notes selling marginally throughout the presser with Powell sticking to the script despite a soft inflation report. Into settlement, Tsys pared some of the CPI-induced gains, but still remained firmly up on the session.

THIS WEEK'S SUPPLY: US to sell USD 22bln 30yr bonds (vs. exp. USD 22bln) on Thursday, to settle on June 17th.

STIRS

- Market Implied Fed Rate Cut Pricing: September 17bps (prev. 14bps D/D), November 26bps (prev. 22bps), December 44bps (prev. 40bps).
- NY Fed RRP op demand at USD 447bln (prev. 410bln) across 77 counterparties (prev. 75).
- SOFR at 5.32% (prev. 5.32%), volumes at USD 1.946tln (prev. 1.847tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 95bln (prev. 93bln).

CRUDE

WTI (N4) FUTURES SETTLE USD 0.60 HIGHER AT 78.50/BBL;BRENT (Q4) FUTURES SETTLE USD 0.68 HIGHER AT 82.60/BBL

Oil settled in the green, albeit in a choppy session, but was overall buoyed by geopolitical premia. In the European morning, WTI and Brent saw strength and hit highs of USD 79.32/bbl and 83.34/bbl, respectively, as there was retaliation to an Israeli strike overnight, whereby the retaliation has seen multiple missiles/rockets fired from Lebanon. Note, soft US CPI had little impact on oil prices. However, the complex saw notable weakness in wake of the weekly EIA data as crude stocks saw a surprise build. As such, WTI and Brent fell to lows of USD 77.89/bbl and 81.96 /bbl, but has seen pared much of the weakness. Note, after FOMC….. For the record, and although no reaction was seen to the IEA oil market report, it lowered 2024 demand growth forecast by 100k BPD to 960k BPD, with 2025 oil demand growth seen at 1mln BPD amid a muted economy and clean energy tech deployment. The report added a major oil surplus is seen this decade as demand peaks. As a reminder, the EIA STEO raised its 2024 oil demand growth forecast by 180k BPD while the OPEC MOMR kept its forecasts unchanged.

EQUITIES

CLOSES: SPX +0.85% at 5,421, NDX +1.33% at 19,465, DJI flat at 38,712, RUT +1.6% at 2,057.

SECTORS: Utilities -0.67%, Materials +0.22, Real Estate +0.69%, Communication Services +0.17%, Consumer Staples -1.0%, Energy -1.09%, Consumer Discretionary +0.84%, Industrials +0.93%, Health -0.2%, Technology +2.46%, Financials flat.

EUROPEAN CLOSES: DAX: +1.49% at 18,644, CAC 40: +0.97% at 7,865, PSI: +0.4% at 6,661, FTSE 100: +0.83% at 8,215, IBEX 35: +0.63% at 11,245, FTSE MIB: +1.43% at 34,359, SMI: +0.78% at 12,167, Euro Stoxx 50: +1.39% at 5,034.

STOCK SPECIFICS

- **Oracle (ORCL) -** Gives bullish AI commentary in its Q4 report. Within its earnings report, it missed on EPS and revenue, with the next quarter profit view more or less in line.
- **Oracle (ORCL) and Alphabet (GOOG) -** Google Cloud announced a ground-breaking multicloud partnership in which OpenAI selected Oracle Cloud infrastructure to extend Microsoft's (MSFT) Azure AI platform.
- **Autodesk (ADSK) -** Better than expected FY25 guidance.
- **GameStop (GME) -** Announced it has completed its "at-the-market equity" offering programme, where it sold 75mln shares valued at c. USD 2.137bln.
- **Casey's General Stores (CASY) -** Earnings and revenue beat accompanied by higher than expected FY25 EBITDA guidance.
- **Rentokil Initial (RTO) -** Peltz's Trian has amassed a significant stake in the Co.
- **FedEx (FDX) -** Plans to cut 1.7-2k jobs in Europe and is expecting to save between USD 125-175mln on an annualised basis beginning in FY27.
- **Paramount (PARA) -** Shari Redstone's NAI decides to stop discussions with Skydance, according to WSJ. PARA says it is focusing on streamlining the organisation, reducing non-content costs, optimising the asset mix, and divesting some businesses to help pay down debt.
- **Target (TGT) -** Increased its quarterly dividend by 1.8% to USD 1.12/shr (prev. 1.10).
- **Caterpillar (CAT) -** Lifted its quarterly dividend 8% to USD 1.14/shr, and adds USD 20bln to its current buyback authorisation.
- **Elevance Health (ELV) -** Exec said Medicare earnings are growing this year, making it clear the company is making money in Medicare.
- **Toshiba (6588 JT) -** To invest USD 650mln in semiconductors with an eye to EVs and the electric grid, will expand a semiconductor plant near Osaka, and will open a new production line in Japan's Ishikawa prefecture, according to Nikkei.

US FX WRAP

The Dollar initially tumbled in response to the cooler-than-expected CPI print, with the DXY falling below its 200 DMA (104.457) with all eyes turning to the Fed. The Buck pared a slight amount of its intraday losses after the 2024 dot plot signalled only one rate cut in 2024 (prev. 3 in March), towards the hawkish end of expectations. The Fed left rates unchanged as expected, while the statement was also broadly unchanged. Fed's Powell press conference added little new but the Dollar did continue to pare from its lows, but ultimately, the DXY remains considerably lower for the day but heads into the APAC session above its 200 DMA.

All of the greenback G10FX peers perform to the upside after the CPI release lead by the Aussie, Euro and Kiwi, while the CAD underperforms. The Pound still posted gains after the UK economy stalled in April with GDP M/M at 0% (exp. 0%, prev. 0.4%), its weakest performance in four months, driven by a fall in industrial output and construction. The Yuan intraday strength stemmed from the US data, with the print offsetting the earlier China inflation rate Y/Y which came in lower than expected.

For EMFX, BRL underperforms amid remarks from the Brazil President Lula noting that higher tax revenue and lower rates allow for the public deficit to be cut, while there is also growing uncertainty in the government with Brazil's Finance Minister facing speculative attacks from within the government, which have been exacerbated by the recent rejection of a provisional measure in Parliament, according to local press. MXN similarly underperforms as fears remain over the impacts of Mexico's President-elect Sheinbaum proposed constitutional reforms. Senate leader of the Morena party responded to the concerns saying lawmakers are open to modifying aforementioned reforms. ZAR was stronger amid possible collaborations between parties trying to form a government of national unit ahead of lawmakers swearing in on Friday.