US Market Wrap

13th June 2024: Stocks see two-way action after cool PPI as Dollar edges higher to detriment of peers

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude flat, Dollar down.
- **REAR VIEW**: Dovish US data; PPI cooler than expected, initial jobless claims rose more than forecasted; Solid US 30yr bond auction; BA investigating new quality problems on some undelivered 787 jets; Hezbollah launches largest attack since start of the war; Stellar AVGO report; TSLA's Musk expects shareholder resolutions to pass by 'wide margins'.
- **COMING UP: Data:** Swedish CPI, US UoM Survey **Events:** BoJ Policy Announcement; BoE/Ipsos Inflation Attitudes Survey **Speakers:** ECB's Lane, Schnabel, Lagarde, de Guindos; Fed's Goolsbee, Cook

MARKET WRAP

Stocks were mixed on Thursday (SPX +0.3%, RUT -0.9%, DJIA -0.2%) amid two-way action, as they were initially buoyed by dovish US data prints, before selling off later in the session, before clambering well off the lows into settlement. Meanwhile, the tech-heavy Nasdaq 100 (+0.4%) continued to outperform as it was buoyed by Nvidia (NVDA) (+3.5%), stellar Broadcom (AVGO) (+13%) earnings and Tesla (TSLA) (+2.7%) CEO Musk noting that both Tesla "shareholder resolutions are currently passing by wide margins". Back to the data, US PPI was cooler-than-expected with the headline M/M surprisingly declining 0.2% (exp. +0.1%, prev. +0.5%), and outside of the bottom end of the forecast range of -0.1%. Y/Y rose 2.2% (exp. 2.5%, prev. 2.3%). Core M/M was flat (exp. 0.3%, prev. 0.5%), also beneath the lower bound of 0.1%, while Y/Y rose 2.3% (exp. & prev. 2.4%). As such, it points towards core PCE coming in below the YTD average on June 28th. Regarding Fed pricing, money markets now price two full 25bps rate cuts in 2024 (vs. 44bps pre-data). For the record, initial jobless claims surprised to the upside. In wake of the data metrics, a dovish reaction was seen with Dollar falling to session lows of 104.640, before paring throughout the US afternoon to settle with firm gains and just off highs at around 105.20. T-Notes firmed after the data, before extending to fresh session peaks after the solid US 30yr auction. Elsewhere, it was a choppy day for the crude complex, albeit settling flat, amid continued geopolitical tensions as Hezbollah launched its largest attack since the start of the war. Looking ahead, Fed blackout ends tomorrow with Goolsbee (2025 voter) and Cook (voter) scheduled to speak, along with prelim UoM (Jun) data where attention will be on inflation expectations.

GLOBAL

US PPI: PPI was cooler-than-expected across the board. Highlighted by headline M/M surprisingly declining 0.2% (exp. +0.1%, prev. +0.5%), and outside of the bottom end of the forecast range of -0.1%. Y/Y rose 2.2% (exp. 2.5%, prev. 2.3%). Looking at the core figures, M/M was flat (exp. 0.3%, prev. 0.5%), also beneath the lower bound of 0.1%, while Y /Y rose 2.3% (exp. & prev. 2.4%). The report added that margins for fuels and lubricants retailing jumped 12.2% and the indices for food and alcohol retailing; outpatient care (partial); automobiles and automobile parts retailing; and apparel, footwear, and accessories retailing also advanced. Conversely, prices for airline passenger services fell 4.3%, with machinery and vehicle wholesaling, professional and commercial equipment wholesaling, portfolio management, and truck transportation of freight declining. As such, an initial broad-based dovish reaction was seen (upside stocks, Treasuries & gold, downside Dollar) with money markets pricing in 2 rate cuts or 51bps by year-end, vs. 44bps pre-data. Of course, this follows in the footsteps of the softer-than-forecast CPI data on Wednesday, and all attention turns to Core PCE on June 28th whereby Pantheon Macroeconomics say its mapping out of the PPI and CPI data suggests that the core PCE deflator increased by only 0.11% in May, well below the 0.32% average increase in the first four months of this year. The consultancy caveats this slightly noting that "It is impossible to predict the core PCE print perfectly, as the seasonal adjustment performed by the BEA is difficult to replicate for some components, and some components are based on non-CPI/PPI data sources. Nevertheless, the Fed's new forecasts imply they expect the core PCE deflator to rise at a 0.19% average pace between May and December." As such, PM adds, it lays the foundations for the first rate cut to come in September and multiple easings this year. For the record, prior to the next Fed meeting at the end of July, there is another CPI and PPI report alongside a jobs report and core PCE numbers.

JOBLESS CLAIMS: Initial jobless claims (w/e 8th June) rose to 242k from 229k, and above the expected 225k, which saw the 4wk average tick higher to 227k (prev. 222.25k). Continued claims (w/e 1st June) printed 1.820mln, above the expected 1.798mln and the prior 1.790mln. Note, the seasonal factors had expected an increase of 26,616 (or 13.6%)

from the previous week. Overall, these figures are the highest initial claims numbers since August last year and provide more evidence of a cooling labour market, which presents upside risk to the Fed's assessment that unemployment will hold at 4% between now and year-end.

BOJ PREVIEW: The BoJ is expected to maintain its policy rate when it concludes its 2-day policy meeting on Friday with the short-term interest rate target likely to be kept at 0.0%-0.1% as money markets are pricing a 91% chance for no changes in rates and just a 9% chance of a 10bps hike at this meeting, while attention will be on the JGB purchase programme as there was a recent report in the Nikkei that the BoJ is expected to consider whether to scale back its roughly JPY 6tln in monthly government bond purchases as it moves toward policy normalisation. For a full Newsquawk preview, pleaseclick here.

FIXED INCOME

T-NOTE (U4) FUTURES SETTLED 13 TICKS HIGHER AT 110-23

Treasuries saw gains on Thursday after PPI-induced buying provided the initial catalyst and later buoyed by a strong 30yr note auction. At settlement, 2s -5.5bps at 4.695%, 3s -5.9bps at 4.431%, 5s -6.3bps at 4.239%, 7s -5.8bps at 4.231%, 10s -5.3bps at 4.242%, 20s -4.2bps at 4.494%, 30s -4.9bps at 4.401%.

INFLATION BREAKEVENS: 5yr BEI -2.7bps at 2.164%, 10yr BEI -7.8bps at 2.213%, 30yr BEI -4.6bps at 2.255%.

THE DAY: Treasuries were initially downbeat in the European morning, albeit not to a great extent, as T-Notes printed a trough of 110-03. However, the move faded as US participants entered for the day before being boosted by the aforementioned PPI print. On the data and following in the footsteps from Wednesday's CPI report, it was softer-than-expected across the board highlighted by headline M/M surprisingly falling 0.2% (exp. 0.1%, prev. 0.5%) and underneath the bottom end of the forecast range. In an immediate reaction a broad-based dovish reaction was seen, with T-Notes rising to an intraday high of 110-24+ from circa 110-06 pre-data. Overall, it was another dovish read heading into the pivotal Core PCE release on June 28th, whereby Pantheon Macroeconomics now see the core PCE deflator increasing by only 0.11% in May, well below the 0.32% average increase in the first four months of this year. For the record, initial jobless claims also surpassed expectations. Tsys pared some of the PPI move, although still up on the session, before seeing another leg higher after a solid US 30yr bond auction, which saw T-Notes hit a fresh intraday peak of 110-27. Looking ahead, Fed blackout ends tomorrow with Goolsbee (2025 voter) and Cook (voter) scheduled to speak, along with prelim UoM (Jun) data where attention will be on inflation expectations.

30YR AUCTION: In a solid 30yr auction, the US sold USD 22bln of 30yr bonds which stopped through by 1.5bps, against the prior 0.7bps stop-through. Bid-to-cover was 2.49x, greater than the previous 2.41x. Looking at the breakdown, primary dealers took 13.7% (prev. 15.4%), while Directs took 17.8% (exp. 19.8%), and Indirects took 68.5% (prev. 64.9%).

NEXT WEEK'S SUPPLY: US to sell USD 13bln of 20yr bonds (exp. USD 13bln) on June 18th, to settle on July 1st, and to sell USD 21bln of 5yr TIPS (exp. 21bln) on June 20th to settle on June 28th. To sell USD 70bln of 13-wk and 26-wk bills and USD 60bln of 42 CMBs all on June 17th to settle on June 20th.

STIRS

- Market Implied Fed Rate Cut Pricing: September 19bps (prev. 17bps D/D), November 29bps (prev. 26bps), December 49bps (prev. 44bps).
- US sells USD 70bln in 8-week bills at 5.265%, covered 2.98x; sells USD 70bln in 4-week bills at 5.260%, covered 2.95x.
- NY Fed RRP op demand at USD 429bln (prev. 447bln) across 77 counterparties (prev. 77).
- SOFR at 5.31% (prev. 5.32%), volumes at USD 1.957tln (prev. 1.946tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 93bln (prev. 95bln).

CRUDE

WTI (N4) SETTLED USD 0.12 HIGHER AT 78.62/BBL; BRENT (Q4) SETTLED USD 0.15 HIGHER AT 82.75/BBL

It was an up-and-down day for the crude complex, albeit settling flat, amid geopolitical tensions and US data. On the day, WTI and Brent were subdued through the European morning and hit lows of USD 77.67/bbl and 81.80/bbl, respectively, before paring all its losses, and more, after further heightened geopolitical tensions between Israel and Lebanon alongside Russia and the West. As such, WTI and Brent eked out session peaks of 78.89/bbl and 83.05/bbl, respectively. Back to geopols, to recap, Hezbollah fired 150 rockets and 30 drones on 15 Israeli bases in northern Israel, its largest attack since the start of the fighting in the northern border, according to an official cited by Al Jazeera. Elsewhere, the Russian Foreign Ministry said France is getting more deeply involved in the Ukraine conflict, thus, increasing the risk of a direct clash with Russia. Regarding data, it was another cool inflation report with PPI softer-than-expected across the board accompanied by higher-than-expected initial jobless claims.

EQUITIES

CLOSES: SPX +0.23% at 5,434, NDX +0.57% at 19,577, DJI -0.17% at 38,647, RUT -0.88% at 2,039.

SECTORS: Communication Services -0.98%, Energy -0.89%, Industrials -0.64%, Consumer Discretionary -0.2%, Financials -0.2%, Materials flat, Consumer Staples flat, Health flat, Utilities +0.23%, Real Estate +0.49%, Technology +1.36%.

EUROPEAN CLOSES: DAX: -1.97% at 18,264, CAC 40: -1.99% at 7,708, PSI: -1.44% at 6,566, FTSE 100: -0.63% at 8,164, IBEX 35: -1.59% at 11, 066, FTSE MIB: -2.18% at 33,610, SMI: -0.65% at 12,089, Euro Stoxx 50: -1.94% at 4,937.

STOCK SPECIFICS:

- **Broadcom (AVGO) -** Reported strong earnings highlighted by beating on adj. EPS and revenue alongside lifting its FY24 revenue view. Meanwhile, it announced a 10-for-1 forward stock split to commence on July 15th.
- **Tesla (TSLA) -** CEO Musk said that both Tesla "shareholder resolutions are currently passing by wide margins", regarding Musk's pay package and moving the headquarters to Texas.
- **Virgin Galactic (SPCE) -** Announced a 1-for-20 reverse stock split.
- **Corning (GLW) -** Downgraded at Morgan Stanley; said Corning's stock has a more balanced risk-to-reward ratio after a notable rally this year.
- **Pfizer (PFE)** - Phase 3 CIFFREO study failed to meet the primary endpoint.
- **JPMorgan Chase & Co (JPM) -** Raised investment banking revenue outlook to 30% from 25%.
- **Alphabet (GOOGL)** - Austrian advocacy group NOYB filed a complaint against Google for allegedly monitoring users of its Chrome Web browser.
- **Disney (DIS)** - Reached agreement with Ron DeSantis to end their feud, clearing the way for the USD 17bln planned development at Walt Disney World, according to the NYT
- **Williams - Sonoma (WSM) -** Declared a two-for-one stock split.
- **Boeing (BA) -** Investigating new quality problems on some undelivered 787 jets involving incorrect installation of fasteners, via Reuters citing sources.
- **Healthcare names -** Medicare will recalculate quality ratings of Medicare advantage plans, according to WSJ; plans with high ratings can get lucrative bonus payments. A redo would mean hundreds of millions of dollars in additional payments
- **Paramount (PARA) -** Investor Mario Gabelli's legal threat to Paramount's (PARA) merger deal with Skydance, was a major factor in the termination of Shari Redstone's USD 8bln deal, according to NYPOST.

US FX WRAP

The dollar headed into the US PPI release slightly firmer, but swiftly pared any gains in reaction to the softer-than-expected print, highlighted by the Dollar Index reaching lows of 104.642. As the session progressed, DXY regained its strength, almost removing all of Wednesday's gains peaking at 105.459, shrugging off both the cooler-than-expected PPI and CPI, with its strength perhaps fuelled by the hawkish dot plot on Thursday, which saw the Fed expect one 25bps rate cut in 2024 (prev. three). Initial Jobless Claims were well above market expectations at 242k (exp. 225k), its highest reading since August 2023; furthering the narrative that the job market is softening. Markets will use PPI (and CPI) as a gauge for the upcoming PCE release on June 28th; while attention in the short term turns towards Prelim UoM (Jun) on Friday, and the return of Fed Speak with both Goolsbee (2025 voter) and Cook (voter) scheduled.

The Euro is among the worst G10 FX performers in Thursday's session amid a lack of EZ releases. Euro showed little reaction to remarks from ECB's Vasle, Nagel, and Muller and a lower-than-expected Eurozone Industrial production Y/Y release. EUR/USD reached lows of 1.0719 as the single currency looks to experience a second consecutive weekly decline amid growing political uncertainty within Europe and mixed US data.

Cyclical currencies all saw losses against the greenback, with the CAD 'outperforming' while the Aussie lagged. Aussie underperformance follows its earlier 4% unemployment rate (in line with expectations) and a monthly unemployment change of +39.7k the most in three months, above market expectations (exp. +30k).

Haven currencies outperform their G10FX peers, although there wasn't much excitement in the space as both finished flat. That said, attention is on the Yen, with the BoJ expected to hold rates in Friday's meeting at 0.00-0.1%. For a full Newsquawk preview, please click here.

EMFX was mixed against the Dollar. BRL notably outperforms despite underwhelming Retail Sales as M/M rose 0.3% (exp. 1.3%). MXN strengthens, furthering its bounce off Wednesday's three-month low. The CLP is flat after a poll indicated the central bank rate at 5.75% in June and 4.5% in 12 months, with inflation rising to 3% over the next 12 months from -0.1% in June. ZAR and COP underperform, with the latter at yearly lows.