



US Market Wrap

20th June 2024: Tech weakness hits stocks ahead of quad-witching

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** Jobless claims fall, but not as much as expected, Disappointing US housing data, Soft Philly Fed, Prices Paid rise; Dovish BoE & SNB, Hawkish Norges; Fed's Kashkari says wage growth might still be too high; BYD approached PENN with an acquisition offer
- **COMING UP: Data:** Japan CPI, Australia, EZ, UK, & US Flash PMIs, UK Retail Sales, US Existing Home Sales, Baker Hughes Rig Count, **Speakers:** ECB's Schnabel, Fed's Barkin, **Supply:** Australia

MARKET WRAP

Stocks were predominantly lower on Thursday with downside led by the Nasdaq with weakness led by AI-darling Nvidia (NVDA) paring from all-time highs despite gains seen in the pre-market. SMCI and DELL also pared their pre-market gains (Musk confirmed the two companies' tech is to be used for xAI, but the two stocks failed to hold onto the initial gains). Tech was the clear laggard with the majority of sectors green, outperformance was seen in Energy, Utilities and Financials. Despite a lack of news explaining the tech downside, it is worth noting it is quad-witching on Friday with Goldman estimating Friday's OpEx will be the largest ever with over USD 5.1tn of notional options set to expire. The macro highlights saw a plethora of CB activity and several US data points. On the former, the BoE held rates in a 7-2 vote split but the dovish reaction was seen on remarks in the minutes that the decision to hold or cut was "finely balanced" for some. The SNB cut rates by 25bps earlier, in line with the consensus, but a third of analysts surveyed expected a hold. Norges Bank left rates unchanged but with hawkish rate guidance. Meanwhile, the PBoC maintained its LPR rates as expected overnight. On US data, Initial Jobless Claims fell, but not as much as expected, while Continuing Claims for the week prior saw a notable rise, similar to what was seen in last week's Initial Claims. The Housing data surprised to the downside, while the Philly Fed also disappointed, although the Prices Paid rose. T-notes initially spiked on the data before quickly paring in what appears to be preparation for supply next week, as well as entering month/quarter end next week. The Dollar was supported by the gains in US yields, which in turn weighed on the Yen but the Franc underperformed after the SNB rate cut. Crude prices rallied through the session as geopolitical tensions remained rife despite a larger-than-expected crude stock draw.

US DATA

JOBLESS CLAIMS: Initial jobless claims, for the week that coincides with the usual survey period for the BLS jobs report, trimmed back to 238k from last week's, marginally revised higher, 243k, but above the expected 235k. The 4-week average rose to 232.75k (prev. 227.25k). Continued claims (w/e 8th June) rose to 1.828mln above the expected 1.805mln and the previous 1.813mln. Note, that the seasonal factors had expected a decrease of 4,133 (-1.8%) from the previous week on the initial claims. On the release, Oxford Economics notes "Initial claims suggest that the gain in nonfarm employment in May won't be duplicated in June. The risks to the labor market should be garnering attention by the Fed." As such, and as the consultancy alludes to, the softening in job growth has, so far, been primarily driven by a deceleration in hiring via reduced labour demand. The job openings rate has declined noticeably, but that hasn't translated into a significant rise in the unemployment rate.

PHILLY FED: The headline disappointed in June, falling to 1.3 from 4.5, its lowest reading since January, and short of the consensus of 5.0. Internally, the inflationary gauge of prices paid, and prices received lifted to 22.5 (prev. 18.7) and 13.7 (prev. 7.7), respectively, while the Capex index tumbled to 12.1 (prev. 20.1). New orders and employment rose, albeit both remained in contractionary territory, at -2.2 (prev. -7.9) and -2.5 (prev. -7.9), respectively, while shipments dropped to its lowest reading since December. Looking ahead, the 6m index tumbled to 13.8 from 32.4, while future new orders and shipments also sank, and future prices paid/received lifted. Overall, as the report notes, "On balance, the firms continued to indicate a decline in employment, and the current price indexes suggest overall increases in prices. Most of the survey's broad indicators for future activity fell but remained positive, suggesting less widespread expectations for growth over the next six months."

HOUSING DATA: Building permits fell 3.8% in May to 1.386mln (exp. 1.450mln, prev. 1.44mln) and housing starts dipped 5.5% to 1.277mln (exp. 1.378mln, prev. 1.352mln), taking both figures to their troughs since June 2020. The declines were quite evenly spread between the single-family and multi-family sectors. As Pantheon Macroeconomics states, "starts are more sensitive to weather conditions, and May was slightly wetter than normal, with a larger-than-



usual number of storms, which may have dented starts at the margin.” However, the consultancy adds that it fails to explain the significant drop in building permits, which are much less volatile and less heavily influenced by the weather. As such, PM believes the numbers point to a genuine softening in residential construction in Q2, reflecting the rebound in long-term interest rates and weak housing demand.

FED

Kashkari (2026 voter, hawk) said it will probably take a year or two to get inflation back to 2%, noting wage growth might still be a bit too high to get back to 2% right now. He also stated the interest rate outlook depends on the path of the economy, which has proven to be remarkably resilient. He also acknowledged the US is getting disinflation despite remarkable economic growth but there is some evidence of some softening around the edges of the economy. He is also optimistic that the fundamentals of the economy are very strong.

FIXED INCOME

T-NOTE FUTURES (U4) SETTLE 8 TICKS LOWER AT 110-17+

T-notes were lower across the curve despite dovish data, likely in anticipation of supply next week, alongside month/quarter end. 2s +2.3bps at 4.727%, 3s +2.9bps at 4.459%, 5s +3.0bps at 4.264%, 7s +3.5bps at 4.247%, 10s +3.3bps at 4.250%, 20s +3.5bps at 4.497%, 30s +3.6bps at 4.390%.

INFLATION BREAKEVENS: 5yr BEI +4.2bps at 2.233%, 10yr BEI +3.4bps at 2.256%, 30yr BEI +1.7bps at 2.273%.

THE DAY: T-Notes sold off overnight before meandering in the European morning, but highs were seen in the wake of the US data. Initial Jobless Claims fell, but not as much as expected, while continuing claims for the week prior saw a notable rise, similar to what was seen in last week's initial claims. The Housing data surprised to the downside, while the Philly Fed also disappointed, although the Prices Paid rose. The data saw a knee-jerk higher in T-notes to session highs of 110-23 before swiftly paring, perhaps the upside in the Prices Paid was cause for concern, but the reversal was likely in anticipation of supply next week. The US is to sell 2-, 5- and 7-yr notes next week, which also coincides with the month and quarter end. Meanwhile, Fed's Kashkari (hawk) noted that wage growth might still be a bit too high to get back to 2% right now, and it will probably take a year or two to get inflation back to target. Elsewhere, the results of the Treasury's buyback targeting coupons maturing 2029-31 bonds saw the Treasury accept USD 1.86bln, vs the USD 6.339 bln offered. There was also a 5yr TIPS auction, which was ultimately very strong, seeing 5yr TIPS yields slump to lows, but it ultimately saw little follow through into T-notes. Outside the US, there was a plethora of central bank activity. The BoE held rates in a 7-2 vote split but Gilts were bid on remarks in the minutes that the decision to hold or cut was "finely balanced" for some. The SNB cut rates by 25bps earlier, in line with the consensus, but a third of analysts surveyed expected a hold. Norges Bank left rates unchanged but with hawkish rate guidance. Overnight, the PBoC maintained its LPR rates as expected.

NEXT WEEK'S SUPPLY: US to sell USD 69bln 2-yr notes on June 25th, to sell USD 70bln 5-yr notes on June 26th, to sell USD 44bln 7-yr notes on June 27th; all to settle on July 1st. To sell USD 28bln in reopened 2yr FRN on June 26th, to settle on June 28th.

STIRS:

- **Market Implied Fed Rate Cut Pricing: September 18bps (prev. 18bps D/D), November 27bps (prev. 28bps), December 47bps (prev. 49bps).**
- NY Fed RRP op demand at USD 389bln (prev. 376bln) across counterparties 74 (prev. 68).
- SOFR at 5.33% (prev. 5.31%), volumes at USD 2.021tln (prev. 1.975tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 85bln (prev. 83bln).
- US sold USD 70bln in 8wk bills at a high rate of 5.26%, B/C 2.65x; Sold USD 70bln in 4wk bills at a high rate of 5.23%, B/C 2.93x
- US to sell USD 70bln 26-wk bills on June 24th, and USD 70bln of 13-wk bills; to settle on June 27th.

CRUDE

WTI (Q4) SETTLES USD 0.58 HIGHER AT 81.29/BBL; BRENT (Q4) SETTLES USD 0.64 HIGHER AT 85.71/BBL

The crude complex was firmer for the duration of the session with geopolitical tensions rife. Elsewhere, macro data focussed on US initial jobless claims falling less than expected, a miss on Philly Fed accompanied by rising prices paid, and disappointing housing data. On Geopolitics, CNN reported, citing US officials, that we are entering a very



dangerous stage between Lebanon and Israel, noting Israel informed Washington they are preparing for a possible attack on Hezbollah. Meanwhile, Lebanon's Foreign Minister said they must stop Iran now before it is too late, and the Hezbollah Chief said on Wednesday (Juneteenth) that nowhere in Israel will be safe from the group's attacks. For energy-specific headlines, the weekly EIA energy data saw a slightly larger-than-expected draw, while Gasoline and Distillates both saw surprise draws. Crude production was unchanged at 13.2mtn. Nonetheless, the Crude and distillate draws were at odds with the builds seen in the private inventory data on Tuesday. Looking ahead, Flash PMIs are due on Friday in addition to the weekly Baker Hughes rig count.

EQUITIES

CLOSES: SPX -0.25% at 5,473, NDX -0.79% at 19,752, DJIA +0.77% at 39,135, RUT -0.39% at 2,017.

SECTORS: Technology -1.6%, Real Estate -0.25%, Consumer Staples -0.2%, Materials flat, Industrials flat, Health +0.37%, Consumer Discretionary +0.45%, Communication Services +0.5%, Financials +0.56%, Utilities +0.89%, Energy +1.86%.

EUROPEAN CLOSES: DAX: +0.95% at 18,239, CAC 40: +1.34% at 7,671, PSI: +1.67% at 6,651, FTSE 100: +0.82% at 8,272, IBEX 35: +0.94% at 11,161, FTSE MIB: +1.37% at 33,675, SMI: +0.54% at 12,124, Euro Stoxx 50: +1.3% at 4,949.

STOCK SPECIFICS

- **Advanced Micro Devices (AMD)** - Incurred a data breach involving sensitive information of future products. The company believes the breach will not have a material impact. In addition, Piper Sandler names it a top pick citing "bright prospects" entering H2.
- **Apple (AAPL)** - A notorious hacker, thought to be behind many recent breaches of large tech companies, has added Apple to the list, according to Forbes.
- **Hewlett Packard Enterprise (HPE)** - Continues to expect to close the Juniper Networks (JNPR) deal by the end of 2024 or early 2025, in response to the CMA probe.
- **Toyota Motor (TM)** - To halt six production lines at five plants in Japan from Thursday evening amid parts shortages, according to Chunichi.
- **Boeing (BA)** - CEO Calhoun faced calls for immediate resignation during a Senate hearing on Boeing's safety culture. Co. is shifting engineers away from X-66A development, according to Air Current
- **DELL (DELL) and Super Micro (SMCI):** Tesla (TSLA) CEO Musk said in a post on X that Dell and Super Micro Computer will be building the supercomputer for xAI.
- **Oracle (ORCL)** - To invest over USD 1bln in AI and cloud computing in Spain. ByteDance and TikTok - Urged US court of appeals to block a law that would compel divestiture or impose ban app on the app in US by January 19th, in a court filing.
- **United Airlines (UAL)** - Expects 2024 July 4th weekend to be the busiest on record with over 5mln passengers expected to fly with UAL between June 28th and July 8th. Forecasts summer 2024 travel season will be 5% higher than 2023.
- **Boyd Gaming (BYD)** - Made an acquisition approach to Penn Entertainment (PENN), according to Reuters citing sources. BYD would also need to win over Walt Disney (DIS), which through its sports network ESPN has a partnership with PENN. Sources said there was no certainty PENN would engage in negotiations with Boyd.

EARNINGS

- **Accenture (ACN)** - Raised its revenue growth forecasts and reaffirmed its FY24 cash flow. Note, the company missed on EPS and revenue in its Q1 report.
- **Kroger (KR)** - Beat on Q1 top and bottom line. Exec said Q1's better-than-expected performance from the grocery business helped offset results in the health and wellness business and spending from premium and mainstream customers continue to be strong.
- **KB Home (KBH)** - EPS, revenue, and deliveries surpassed expectations alongside raising FY housing revenue view.

US FX WRAP

The Dollar was convincingly stronger throughout the session, buoyed by rising US yields, with the DXY peaking at session highs of 105.655 and vs the lows and open of 105.204. The index showed little care towards the softer-than-expected Initial Jobless Claims for the week that coincides with the survey window for the BLS NFP report, which fell 5k to 238k (exp. 235k), easing a touch from the spike higher last week. Headline Philly Fed data eased to its lowest reading



in five months, to 1.3 (prev. 3.2, exp. 5), displaying slowing activity for the second month in a row, however the Prices Paid component did rise.

The Euro lost ground against the Dollar in Thursday's session, following a three-day winning streak that saw the EUR/USD touch a high of 1.0761, nonetheless, most of the rally has been wiped out in today's session as the Euro nears the 1.07 level at 1.0710, trading flat on the week. For those monitoring French election risk, OAT/BUND spreads slightly narrowed to 71.46 from 74.55, but still remain massively elevated vs pre-European elections.

The Pound immediately fell from 1.2698 to a low of 1.2676 in wake of the BoE rate decision, which left rates unchanged as expected at 5.25%. The pound's weakness continued throughout the session, forming a trough at 1.2660, with Cable residing at lows at the end of the US session. Markets reacted dovishly to the rate decision upon commentary within the voting count, which revealed that for some on the MPC, the decision was "finely balanced" as higher services inflation reflected factors that would not push up medium-term inflation.

Haven FX (Yen and Franc) are among the worst performers against the greenback in the G10FX space, with the CHF leading the downside, dipping below its 200DMA (1.1245). The SNB cut its Policy Rate by 25bps to 1.25% in line with expectations, although a third of analysts surveyed had been looking for rates to be unchanged. This saw the market unwind any hawkish bets with the Franc underperforming on the session. Some analysts said the cut was justified by the purported SNB's view of inflation in its statement, saying that "the underlying inflationary pressure has decreased again compared to the previous quarter". USD/JPY finished near session highs of 158.79, with Yen watchers eyeing the upcoming 160 level as a possible prompt for intervention from the BoJ.

Scandi currencies were mixed with SEK weakening, while NOK was the sole outperformer against the buck in the G10FX space. EUR/NOK extends into a three-day decline, reaching session lows of 11.2661. The decline was sparked after the Norges Bank rate decision, which left rates on hold as expected but gave hawkish guidance. Norges bank said it 'will be a need to maintain a tight monetary policy stance for somewhat longer than previously projected; the Central Bank looks for the policy rate to be gradually reduced in 2025, with forecasts indicating the first cut around Q2. The SEK was softer vs the Euro, however, with NOK outperformance weighing on the SEK through the NOK/SEK channel.

EMFX: MXN outperformed following a stronger-than-expected Retail Sales print for April of 0.5% (exp. -0.3%) while gains were also seen as President-Elect Sheinbaum named a few members to her cabinet, including Erbrard as economy minister. PLN was weaker amid reporting soft Employment Growth Y/Y and a big miss on Industrial Production Y/Y of -1.7% (exp. 1.5%); TRY underperforms with Turkey Consumer Confidence declining; ZAR weaker as its five-day rally comes to an end.

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