US Market Wrap

25th June 2024: NDX recoups recent losses amid NVDA snapback with Dollar rangebound ahead of risk events

- **SNAPSHOT**: Equities mixed, Treasuries flat, Crude down, Dollar up.
- **REAR VIEW**: Hot Canadian CPI; Bowman sees no rate cuts this year; US consumer confidence falls, but better than expected; Richmond Fed disappoints; Cook echoes known Fed rhetoric; US 2yr auction on the screws; BA offers to acquire SPR; NVDA snaps losing streak
- **COMING UP**: **Data:** Australian CPI, German Gfk Consumer Sentiment, **Events:** Fed Bank Stress Test, **Speakers:** ECB's Rehn, Panetta, Lane, **Supply:** Australia, UK, US, **Earnings:** Micron, Paychex, General Mills

MARKET WRAP

US indices were mixed (SPX +0.4%, DJIA -0.8%) as the tech-heavy Nasdaq 100 (+1.3%) recouped some of its recent losses, as it was led higher by Nvidia (NVDA) (+6.8%) snapping its three-day losing streak. Small-cap Russell 2000 (-0.5%) saw losses and gave back some of Monday's strength. Once again, it was a fairly quiet day as participants await the next AI risk event of Micron (MU) earnings on Wednesday, and of course the eagerly anticipated core PCE numbers on Friday. Nonetheless, Fed Governor's Bowman and Cook did little to alter the dial, and toed the usual Fed line, whereby the former was her usual hawkish self and confirmed she is one of the four dots who see no rate cuts this year. On the data footing, Richmond Fed notably declined, while US Consumer Confidence dipped, but was better than expected. Elsewhere in North America, Canadian CPI was hotter-than-expected which sparked saw brief Loonie strength. Elsewhere, the Dollar saw marginal gains and within contained ranges, while WTI and Brent were lower, albeit within tight ranges in light energy-specific newsflow. Lastly, T-Notes were seemingly hit on hot Canadian headline inflation and potential concession into the week's supply, which kicked off with the 2yr note auction on Tuesday, which overall was slightly better-than-average.

US

CONSUMER CONFIDENCE: The Conference Board's gauge of US consumer confidence surpassed expectations as it printed 100.4 in June (exp. 100.0), albeit falling from the prior, revised lower, 101.3. Present Situation index rose to 141.5 (prev. 140.8), however the forward-looking Expectations Index dipped to 73.0 from 74.9. The report noted, “Confidence pulled back in June but remained within the same narrow range that's held throughout the past two years, as strength in current labor market views continued to outweigh concerns about the future. However, if material weaknesses in the labor market appear, Confidence could weaken as the year progresses”. Elsewhere, average 12-month inflation expectations marginally fell to 5.3% (prev. 5.4%), with write-in responses revealing that elevated prices, especially for food and groceries, continued to impact consumers' views of the economy, followed by the labour market and US political situation. In addition, slightly fewer participants said jobs “were hard to get” compared to the prior month, but also less participants thought business conditions were “good” M/M, meanwhile looking ahead consumers were less optimistic about the short-term business conditions outlook.

RICHMOND FED: Richmond Fed composite manufacturing index fell to -10 (prev. 0) in June, with two of its three components declining – shipments and new orders tumbled to -9 (prev. 13) and -17 (prev. -6), respectively, while employment lifted to -2 from -6. On the inflationary footing, prices paid and received both jumped to 4.01 (prev. 2.92) and 2.58 (prev. 1.63), with the forward-looking expectations also rising, albeit to a lesser extent. Firms grew notably less optimistic about local business conditions, as the index fell to -15 (prev. 3), however, looking ahead it increased to 10 (prev. 6). In addition, the future indices for shipments and new orders remained solidly in positive territory, suggesting that firms continued to expect improvements in these areas over the next six months. Vendor lead time and backlog of orders remained negative, as did the forward looking indicators.

GOVERNOR BOWMAN stressed the Fed is not yet at the point where it is appropriate to cut rates, noting the baseline outlook continues to be inflation will return to 2% with the policy rate held steady for some time. She did note that should data show inflation is moving sustainably to 2%, it will eventually become appropriate to gradually lower the policy rate. However, she remains willing to raise the target rate at a future meeting if inflation progress stalls or reverses. She said she will remain cautious in her approach to future changes in the policy stance. She stated that there has only been modest further progress on US inflation seen this year (in fitting with the Fed statement), and she expects inflation to remain elevated for some time, and she still sees a number of upside inflation risks. She also explained that the labour market remains tight, despite some further rebalancing. Bowman repeated her call that she does not see any rate cuts for 2024, confirming she is one of the four dots who see no rate cuts this year.

GOVERNOR COOK spoke for the first time on policy in several months. Her views are aligned with the general consensus on the Fed. Cook said that policy is well positioned to respond to the economic outlook, and at some point it will be appropriate to cut rates, but the timing will depend on the data. She acknowledged that policy is restrictive, adding she is very attentive to inflation expectations and that a rise in inflation expectations would imply keeping monetary policy restrictive for longer. She also echoed the statement that risks to achieving inflation and employment goals have moved towards better balance, and while progress on inflation has slowed, she does expect the disinflation trend to continue. Ahead of the PCE data, Cook said that in the past two years, 12-month inflation in the PCE price index has fallen from a peak above 7% to 2.7% in April, and it likely moved a bit lower in May based on consumer and producer price data.

FIXED INCOME

T-NOTE (U4) FUTURES SETTLED 2 TICKS HIGHER AT 110-19

THE DAY: T-Notes were seemingly hit on hot Canadian headline inflation and potential concession into the week's supply, which kicked off with the 2yr note auction on Tuesday. At settlement, 2s -0.2bps at 4.732%, 3s -1.0bps at 4.457%, 5s -1.3bps at 4.258%, 7s -1.6bps at 4.236%, 10s -1.8bps at 4.230%, 20s -1.5bps at 4.469%, 30s -1.7bps at 4.361%

INFLATION BREAKEVENS: 5yr BEI -0.7bps at 2.189%, 10yr BEI -0.4bps at 2.225%, 30yr BEI +0.8bps at 2.250%.

THE DAY: T-Notes traded sideways overnight before selling off in the European morning and then reversing higher as US players arrived accompanied by a decent German auction. The move was led by the long-end alongside some 30yr block buys to see T-Notes peak at 110-25 ahead of the Canadian inflation data. Canadian inflation was hotter than expected which led to pressure in US Treasuries on fears of hotter global inflationary pressures. The move lower was likely extended by dealers preparing for the supply this week. Including the 2yr auction on Tuesday, which ultimately came in on the screws (review below). Meanwhile, US data saw the Philly Fed services outlook survey continue to expand, while the Richmond Fed composite index slipped to -10 from 0. US Consumer Confidence was little changed. Elsewhere, there were several Fed speakers with Governor Bowman toeing her usual hawkish tone, noting they are not yet at the point to cut and she currently does not expect any rate cuts this year (in fitting with prior remarks pre-FOMC). Governor Cook also spoke, echoing the Fed line that policy is restrictive, well positioned, and the timing of any adjustment will depend on the data. After the Canada data there was a 5k block sale in the 5yr T-Note future, while ahead of the 2yr auction there was a chunky 2yr/ultra10yr flattener.

2YR: The US sold USD 69bln in 2yr notes which came in on the screws with a high yield of 4.706%. The 0bp tail compares the last 1.0bps tail and a six auction average of a 0.1bps tail, while the bid to cover of 2.75x was notably above the prior 2.41x and six auction average of 2.57x. Primary dealers took just 13.48% of the auction, beneath the prior 16.6% and six auction average of 15.5%. Indirect demand jumped after the dismal takedown in the prior auction, rising to 65.58% from 57.9%, above the 63.7% average. Directs meanwhile took just 20.93%, down from 25.5% in May, but in line with the 20.8% average. Overall, a slightly better-than-average auction but a welcome improvement from the weak May supply.

STIRS:

- Market Implied Fed Rate Cut Pricing: September 18bps (prev. 19bps D/D), November 27bps (prev. 28bps), December 47bps (prev. 49bps).
- NY Fed RRP op demand at USD 466bln (prev. 436bln) across 74 counterparties (prev. 71).
- US sold USD 60bln in 42-day CMBs at 5.250%, covered 2.87x.
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.992tln (prev. 1.991tln).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 76bln (prev. 78bln).

CRUDE

WTI (Q4) SETTLED USD 0.80 LOWER AT 80.83/BBL; BRENT (Q4) SETTLED USD 1.00 LOWER AT 85.01/BBL

The crude complex was lower on Tuesday, albeit within tight ranges, as a slightly firmer Dollar weighed in light energy-specific newsflow. As such, WTI and Brent trundled lower through the European session to hit troughs of USD

80.83/bbl and 85.10/bbl, respectively, but as US players entered for the day energy rallied off lows to hit peaks off 81.90 /bbl and 86.23/bbl, before residing back towards the bottom end of ranges at settlement. As mentioned, newsflow was thin although Russia's oil loadings from Western ports in July is set to decline 23% M/M as refinery runs are expected to rise, according to Reuters sources, and as such Russia will cut oil exports via western ports to 1.5mln BPD, down almost 500k BPD from June, as processing at its refineries is set to rise after maintenance. Elsewhere, Exxon (XOM) plans new Guyana oil project to boost output into 2030s; also for Exxon, it said French Gravenchon refinery still blocked by strike and if they continue, they may have to suspend production. On the geopolitical footing, there were no meaningful developments, although do note overnight reports of a US drone being shot down in the Black Sea were denied by US defence officials. Ahead, traders await the weekly private inventory data after-hours, ahead of EIA's on Wednesday. Current expectations are (bbls): Crude -2.9mln, Distillate -0.3mln, Gasoline -1mln.

EQUITIES

CLOSES: SPX +0.39% at 5,469, NDX +1.16% at 19,701, DJI -0.76% at 39,112, RUT -0.42% at 2,022.

SECTORS: Real Estate -1.41%, Materials -1.28%, Utilities -0.98%, Industrials -0.84%, Financials -0.83%, Consumer Staples -0.65%, Health -0.31%, Consumer Discretionary -0.28%, Energy +0.14%, Technology +1.79%, Communication Services +1.85%.

EUROPEAN CLOSES: DAX: -0.89% at 18,163, CAC 40: -0.58% at 7,662, PSI: -0.36% at 6,567, FTSE 100: -0.41% at 8,248, IBEX 35: -0.48% at 11,119, FTSE MIB: -0.38% at 33,707, SMI: -0.65% at 12,078, Euro Stoxx 50: -0.33% at 4,935.

STOCK SPECIFICS

- **Spirit AeroSystems (SPR)** - **Boeing (BA)** offered to acquire SPR for about USD 35/shr, almost a 6% premium over Spirit's closing price of USD 33.07 on Monday.
- **Apple (AAPL), Meta Platforms (META)** – Cos. are not in talks to integrate Meta AI into Apple Intelligence.
- **Alphabet (GOOG) -** Developing a challenger to Meta's and Character.AI chatbots, The Information reports.
- **SolarEdge Technologies (SEDG) -** Announced a proposed USD 300mln private offering of convertible senior notes.
- **Microsoft (MSFT)** - EU said Microsoft's unbundling of Teams from some products is insufficient to deal with competition concerns.
- **Amazon (AMZN)** - Prime Day event will return on July 16-17th.
- **Walmart (WMT) -** Said "not every quarter is going to be as good as the last quarter and certainly the quarter that we're in, the second quarter, we said is our most challenging quarter from the comp perspective for the year," in a BofA conference.
- **Visa (V)** and **Mastercard (MA) -** USD 30bln swipe-fee deal blocked by judge.
- **Tesla (TSLA)** - RBC expects Q2 deliveries of 410k, lower than Wall St. estimates of around 450k.
- **Airbus (EADSY)** - Reportedly poised to take over all or part of the operations of four **Spirit AeroSystems (SPR)** plants as part of an impending deal that involves a carve-up of SPR with **Boeing (BA)**, according to Reuters citing sources.
- **Paramount (PARA) -** CEO said Co. is in talks with international streaming partners, according to Bloomberg.

US FX WRAP

The Dollar Index spent much of the European session hovering around the 105.50 mark, before lifting modestly higher through the US session to a peak of 105.78. On the Fed footing, Bowman reiterated her known hawkish tendencies and does not see any rate cuts for 2024 and shifted cuts to 2025. In other Fedspeak, Cook said monetary policy is restrictive and current policy is 'well positioned' to respond to the economic outlook, and "at some point" it will be appropriate to cut rates. US data for the day saw the Richmond Fed Comp Index fall to -10, below the prior 0, with the decline propelled by a further drop in new orders and shipments falling into contractionary territory for June. US Consumer Confidence fell from 102.0 to 100.4 in June, albeit above the expected 100.0. Looking ahead, participants await the pivotal core PCE on Friday.

The Euro is slightly lower against the Buck, and dipped back below the 1.07 level earlier in the session, although it did break back above the level to reside around 1.0710, at pixel time, amid quiet newsflow. On the French election footing, the RN party aimed to mitigate risks related to its party and the perceived risks with it; subsequently, the GE/FR spread has narrowed since mid-June.

Cyclical currencies were mostly flat against the Buck, with slight underperformance in the Aussie despite Westpac Consumer Confidence rising 1.7% M/M in June, its highest figure since February; Aussie watchers turn towards the CPI for May on Wednesday. Newsflow in the space for the day was centered around the CAD, with Canadian CPI coming in hotter-than-expected, highlighted by the headline M/M +0.6% (exp. 0.3%) and Y/Y at 2.9% (exp. 2.6%); USD/CAD initially dropped to 1.3620 from 1.3675, albeit pared most of the losses since. Money market pricing reacted hawkishly to the data, albeit has come off extremes since, with 24bps of cuts in September (prev. 30bps pre-data), October 38bps (prev. 45bps), and December 48bps (prev. 56bps).

Haven currencies saw little currency-specific newsflow, with the Yen flat following a lower-than-expected Services PPI for May 2.5% (exp. 3.0%, prev. 2.8%). Japanese Finance Minister Suzuki continued to hit the wires, noting it will continue to respond appropriately to excessive FX moves and that it's desirable for FX to move stably. Franc modestly underperforms and sees slight losses against the Dollar.

EMFX was largely in the red against the Greenback in Tuesday's session, with losses led by the Brazilian Real following investors mulling over the minutes from BCB. Briefly recapping, they noted balance of risks was again under discussion, emphasized that the reassessment of the output gap had already been incorporated into the central scenario part of the upside asymmetry related to activity. MXN ended its three-day rally, with the USD/MXN pushing back above the 18 handle, peaking at 18.20. A Reuters Poll found 15/20 analysts see Banixico leaving rates on hold at 11% on Thursday, with the remaining 5 looking for a 25bps cut. For CEE, the Hungary Central Bank increased its countercyclical capital buffer rate to 1% from July 2025; HUF is weaker. INR and TRY are flat.