

WEEKLY MARKETS ROUND-UP

Executive Summary

5th June 2023

Top news: Debt Ceiling deal, NFP and Nasdaq100 blow-off – over the weekend, the White House signed the Debt Ceiling deal which had passed through the House and Senate earlier last week. The deal which gathered bi-partisan support is rather consensual and suspends the debt ceiling until 2025. Broadly, it brings some limited spending caps, slightly stricter rules to receive Welfare and avoids new taxes on the wealthier. More importantly, a debt default has been avoided. Yet, this also implies huge new Treasury issuances in the near term, and these could also have adverse effects on financial markets over the next few months (see next page). This week also saw further retreat of inflation data in the EuroZone for May (down to 6.1% from 7.0% in April) as well as strong US Non-Farm Payrolls (339k vs 190k expected and the highest reading year-to-date). Hourly wages also decreased from 0.4% last month to 0.3%. In this rather positive environment, the Nasdaq100 climbed again to new highs topping 14'500 and Weekly fund flows into Tech were the highest since 2000. The coming week is rather quiet on the data front, awaiting the FED on June 14th.

Equity: the Nasdaq100 continued its outstanding rally this week, while also lifting other markets. The Soft-landing narrative is gaining traction boosted by A.I. and hopes that the FED will pause its rates hikes in 10 days. As detailed on the next page, we are concerned by the upcoming huge Treasury debt issuance, which could drain market liquidity. Yet, it may still take another few weeks before we start noticing its impact (which usually comes with a slight lag).

Fixed Income: Treasury and Bunds yields did decrease slightly last week and could continue to do so into the FED meeting mid June. Tightening liquidity thereafter may shift the whole US yield curve higher again into the Summer.

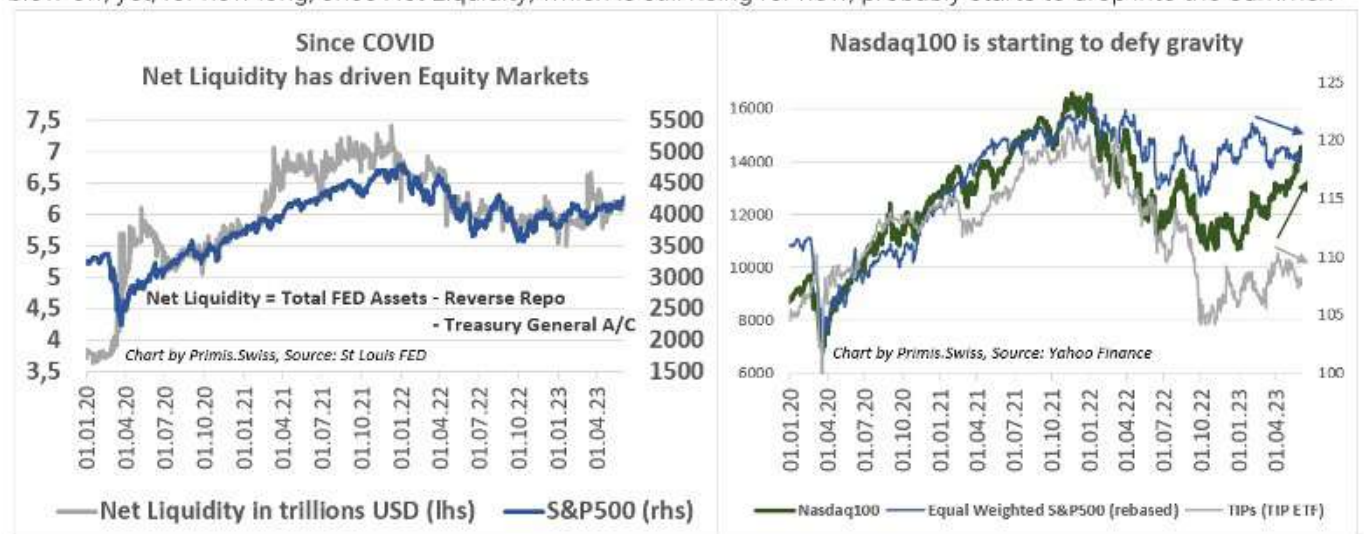
FOREX: The US Dollar could also retrace into the FED meeting next week yet could then continue to bounce into July.

Commodities: yesterday, OPEC+ extended its cuts, while Saudi Arabia took an extra voluntary 1m b/day cut. The US strategic reserve is depleted, and the US driving season is starting. We believe Oil could rebound into the Summer. Gold remains under pressure, inversely to USD. It could continue to do so into the Summer and the 1'900-1'800 range.

	Currencies	Price	Performance since 52 Week Low			Performance since 52 Week High			Performance	Trend	Exaggeration
			Date Low	Low Price	Rise %	Date High	High price	Decline %			
S&P500 Index	USD	4 282	Oct-22	3 577	19,7%	Aug-22	4 305	-0,5%	11,5%	up	slightly OB
Nasdaq100 Index	USD	14 547	Dec-22	10 679	36,2%	Jun-23	14 547	0,0%	33,0%	up	slightly OB
Dow Jones Industrials Index	USD	33 763	Sep-22	28 726	17,5%	Nov-22	34 590	-2,4%	1,9%	neutral	neutral
EuroStoxx50	EUR	4 324	Sep-22	3 279	31,9%	Apr-23	4 409	-1,9%	14,0%	up	neutral
Swiss Market Index	CHF	11 444	Sep-22	10 073	13,6%	May-23	11 595	-1,3%	6,7%	neutral	neutral
Nikkei225	JPY	31 524	Jan-23	25 717	22,6%	Jun-23	31 524	0,0%	20,8%	up	OB
Shanghai Composite	CNY	3 229	Oct-22	2 893	11,6%	Jun-22	3 409	-5,3%	4,5%	neutral	neutral
US 10Y Treasury Yield	%	3,70%	Aug-22	2,58%	1,1%	Oct-22	4,25%	-0,5%	-0,2%	neutral	neutral
German 10Y Bund Yield	%	2,31%	Aug-22	0,76%	1,5%	Mar-23	2,75%	-0,4%	-0,3%	neutral	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	102	Nov-22	92	11,0%	Aug-22	119	-14,5%	4,6%	neutral	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	107	Oct-22	98	9,6%	Aug-22	113	-5,3%	3,8%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	75	Oct-22	69	7,5%	Aug-22	77	-2,5%	3,5%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	85	Oct-22	76	11,3%	Jun-22	89	-4,6%	2,0%	neutral	neutral
EUR/USD		1,07	Sep-22	0,96	11,6%	May-23	1,11	-3,2%	0,0%	neutral	neutral
GBP/USD		1,25	Sep-22	1,07	16,6%	May-23	1,26	-1,4%	3,0%	neutral	neutral
USD/JPY		140	Jan-23	128	9,5%	Oct-22	150	-6,7%	6,7%	neutral	slightly OB
USD/CHF		0,91	May-23	0,88	2,8%	Nov-22	1,01	-10,3%	-1,7%	neutral	neutral
AUD/USD		0,66	Oct-22	0,62	6,5%	Jun-22	0,72	-8,7%	-3,1%	neutral	slightly OS
Brent Oil (per Barrel)	USD	76	May-23	72	5,3%	Jun-22	124	-38,4%	-11,4%	down	neutral
Gold Spot (per Ounce)	USD	1 948	Sep-22	1 624	19,9%	May-23	2 050	-5,0%	6,8%	up	neutral

Liquidity focus: Treasury issuance could negatively impact financial markets

With the Debt Ceiling deal behind us, the US Treasury now needs to quickly replenish its cash buffer. Morgan Stanley estimates that up to 730 bn USD in Treasuries could be issued over the next three months (1.25 trillion over the next year). Such debt issuance could have a large negative impact on Net liquidity, boosting the Treasury General A/C (see formula below, courtesy of [@maxjanderson](#), left-hand graph), while crowding out such liquidity from other financial assets. Indeed, as the graph shows, since March 2020, the S&P500 has been very closely correlated to Net Liquidity which over the period explains almost 90% of its moves. This liquidity drainage could be further exacerbated by the ongoing Quantitative Tightening at the FED, while Cash Hoarding behaviors are already entrenched given the ongoing regional banking crisis. Short term yields may also need to retest up to gather demand for this avalanche of Treasury bills. Tips and most Equities are already rolling over (right-hand graph). The A.I. boosted Nasdaq100 is continuing to blow-off, yet, for how long, once Net Liquidity, which is still rising for now, probably starts to drop into the Summer.



Notes:

- Trend last 6 months:** this Primis original algorithm, weighs the slope of the trend over the last 6 months vs the slope of the trend over the last 3 months yet factorised by the Fibonacci retracement ratio (0.618). Values are normalised using the average price over each period. If this combined slope is above +0.05% the trend is then "up", below -0.05% then "down", otherwise it is "neutral".
- Overbought (OB) / Oversold (OS) measures:** this Primis original algorithm is computed by comparing the difference between the 8 days moving average and the 100 days combined with the 3 days vs the 15 days one and normalises this difference by dividing it by the 1 year standard deviation (circa 260 open market days). Values above 225% or under -225% are Overbought "OB", resp. Oversold "OS", values above 100% or under -100% are "slightly OB", resp. "slightly OS", otherwise there is no relevant exaggeration and the situation is then "neutral".

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