newsquawk

US Market Wrap

March 4th: Bonds and stocks sold hard as Powell takes a light touch approach

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Fed gives no hints to more accommodation; OPEC+ rolls over cuts for April; Jobless Claims better than expected; Challenger Layoffs at post-COVID lows.
- **NEXT UP**: Data: US Labour Market Report. Event: China's Two Sessions (NPC), CERAWeek. Speakers: BoE's Haskel; Fed's Bostic.

MARKET WRAP

A laissez faire approach from Fed Chair Powell today saw a chunky sell-off in bonds and the wider risk market. The risk off saw the SPX reverse its gains for year, with Spooz hitting lows of 3720, although made a half decent recovery off that level into the close. VIX popped above 30. The DXY hit its highest level since the end of November, surging above 91.50, while spot gold fell beneath 1,700 for the first time since June with real rates tracking nominals higher. Bonds were the first to fall as participants shedded their duration in the wake of Powell making no mentioning of an operation twist, WAM extension, or SLR exemption, instead sticking to the script and taking a longer term view on the recovery, rather than delving into the recent bond selloff/illiquidity too much. 10s and 30s found support at 1.55% and 2.32%, while Eurodollar futures continued to indicate a more aggressive hiking schedule as the back half of the 2022 strip increasingly prices in a hike, despite Powell's dovish assertions that progress on the Fed's goals is a long way off. While indices and bonds were hardest hit, oil futures were a bright spot, as the OPEC+ meeting concluded with the cartel agreeing to a roll-over of the current cuts for the next month or so; energy (XLE +2.5%) stocks outperformed. Better than expected Jobless Claims data and a post-COVID low in Challenger Layoffs made little impact on the risk tone ahead of Powell. Attention now looms to February's NFP on Friday where the employment/recovery narrative will be balanced amid the bubbling market turmoil that emerged today.

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POWELL: The Fed Chair kept to the script and disappointed participants expecting any comments on an SLR adjustment, yield curve control or “operation twist”, while noting the current stance is appropriate. Overall, it suggests Powell is still happy with yields at these levels. On its asset purchases, Fed Chair Powell was asked about lengthening maturities, and he stated the current stance is appropriate; if conditions change materially, the committee is prepared to adjust as required. On “Operation Twist” Powell said he doesn't want to speculate. On a rate hike, he noted for the Fed to raise rates, the Fed wants to see inflation on track to reach 2% and moderately exceed it, but there is a lot of ground to cover before we get there, a familiar line from Fed officials. On market pricing for hikes, Powell said it will depend on path of economy; labour market conditions consistent with maximum employment; inflation on track to achieve target & moderately above while reiterating these conditions need to be seen before Fed hikes and the timing of a hike depends on this. On inflation Powell reiterated high inflation is a very bad state of affairs – note Evans yesterday stated inflation of 3% going on 4% would be worrying – Powell reiterated it is more likely prices will move up, but not stay up over the next year or so, and it certainly will not be enough to move inflation expectations above 2%.

NFP PREVIEW: Analysts are expecting the pace of nonfarm payroll growth to pick-up in February, following January’s disappointing report. However, the labour market signals are mixed going into the report: ADP’s gauge of payrolls missed expectations, noting only a sluggish labour market recovery; initial jobless claims data surged in the BLS jobs report survey week, although analysts suggest that the data might have been distorted by reporting issues and potential fraud, blunting the signal it provides for the BLS jobs report; the ISM report showed that while both employment sub-components remained above the 50 mark, the manufacturing jobs market improved, while the services jobs market cooled slightly; Challenger’s job cuts data was far more optimistic, however, seeing announced layoffs falling to Dec’19 levels, but warned that if the jobs market doesn’t improve soon, it could signal stagflation. Beyond the headline, desks are paying attention to the dynamic between the participation and wage growth; if participation continues to fall, it could buoy the wage growth metrics, but this should not be taken as a good sign, and would instead reflect the hardship low-paid workers are facing. Click here for full preview.

FIXED INCOME

T-NOTE (M1) SETTLED 21 TICKS LOWER AT 132-12+

By settlement, 2s+0.4bps 0.145%, 5s +5.3bps at 0.780%, 10s +8bps 1.550%, 30s +5.3bps at 2.304%; TYM1 volumes were strong, particularly in the wake of Powell's comments; the breakeven curve pulled back some of its inversion as short TIPS were sold the hardest. The Eurodollar strip continued to price in a more aggressive hiking cycle, with the September 2022 contract implying a 3m Libor rate of 30bps. Meanwhile, it's worth keeping an eye on current Libor fixings, which are now flirting with record low territory with the move lower in front-end rates.

USTs had been choppy and tight for most of the session up until the day's apex, Powell. It was what the Fed Chair didn't say rather than what he did say that ignited the aggressive selling in USTs, led by the belly. There had been questionable speculation on Wednesday of "operation twist" potentially getting a nod today, as well as potential other adjustments to its asset purchases, not to mention any update on the SLR exemption. Alas, no dice. As Powell reached the end of his interview, sticking to the script and not following up on some of the commentary (regarding QE/WAM/twist) that preceded him in the last few days, the selling was well underway across the curve, and on volume. Yield peaks for duration were eventually found at 1.55% on 10s and 2.32% on 30s; butterfly spreads such as the 2s5s30s also blew out again. NFP looms on Friday, although participants will likely be more attentive to market trading conditions given that the Fed has given more leeway for the yield curve to readjust higher, if it so chooses.

CRUDE

WTI (J1) SETTLED USD 2.55 HIGHER AT 63.83/BBL; BRENT (K1) SETTLES USD 2.27 HIGHER AT 66.74/BBL

Crude prices surged on Thursday as OPEC and OPEC+ opted to roll over the current status quo, maintaining oil prices curbs, while the Saudis are reportedly to delay the reversal of their voluntary 1mln BPD cut; some reports said the Saudis would be gradually bringing back that supply from May (it was expected to bring it back in April). Ahead of the meeting, Saudi Arabia's energy minister said that the oil market had improved, but the uncertainty surrounding the recovery had not receded, and urged caution and vigilance in the oil market, suggesting that the right course of action was to keep its dry powder. The Russian Deputy PM also gave some cautious remarks: Deputy PM Novak said that the oil market had not fully recovered yet, but was in much better shape, although COVID remained an uncertainty. OPEC+ are set to meet again in April to decide output for May and beyond, source says.

EQUITIES

CLOSES: SPX -1.28% at 3,771, NDX -1.73% at 12,464, DJI -1.11% at 30,924, R2K -3.08% at 2,146.

SECTORS: ENERGY +2.47%, COMMUNICATION SVS +0.03%, UTILITIES -0.17%, CONS STPL -0.53%, REAL ESTATE -0.77%, FINANCIALS -1.21%, HEALTH -1.33%, INDUSTRIALS -1.61%, CONS DISC -2.02%, MATERIALS -2.06%, TECHNOLOGY -2.26%.

EUROPEAN CLOSES: EURO STOXX 50 -0.1% AT 3,709; FTSE 100 -0.3% at 6,655; DAX -0.2% at 14,058; CAC 40 flat at 5,832; IBEX 35 +0.3% at 8,354; FTSE MIB +0.2% at 23,091; SMI -0.3% at 10,741.

STOCK SPECIFICS: UK CMA launched an investigation into **Apple (AAPL)** over suspected anti-competitive behaviour, but no decision has yet been made on whether the Co is breaking the law. CMA will also consider whether Co imposed unfair or anti-competitive terms on developers using the App Store. **The Walt Disney Company (DIS)** announced it is to close at least 60% of its retail stores in North America this year and is evaluating a significant reduction of its retail stores in Europe. **Walmart (WMT)** reportedly mulling a Flipkart IPO in the US with SPAC as an option. **Amazon.com Inc. (AMZN)** and the NFL are on the verge of signing new rights deals with media partners that could see Amazon carry many games exclusively and TV networks pay as much as double their current rate, according to WSJ sources. **General Electric (GE)** had its PT raised to a street high of USD 17/shr from USD 13/shr, based in part on a significant recovery on its aviation unit. **DraftKings (DKNG)** announced it is partnering with UFC in the US and Canada. **CoreLogic (CLGX)** concluded the updated proposal from **CoStar (CSGP)** is not superior and needs improvement. **Splunk Inc (SPLK)** beat on revenue, but missed on EPS, while its revenue view was light. **Marvell Tech (MRVL)** earnings and guidance were in line with expectations. **Kroger (KR)** EPS and SSS beat but revenue fell short, said it sees sales turning negative in 2021. For **chipmakers (SOXX)**, Senators are reportedly mulling a USD 30bln funding for chip making incentives approved last year, and the goal is to bring a bill including the funding to a full Senate vote in April.

FX WRAP

The dollar was bid and reclaimed 91.50 to see its highest level since December 1st after Powell had finished speaking where he kept to the script and left us in the dark regarding any SLR adjustments, yield curve control or “operation twist” while noting the current stance is appropriate but Committee remains prepared to adjust its tools if required when asked about lengthening maturities of asset purchases. Overall, it suggests Powell is still happy with yields at these levels, seeing Treasury yields return to their upside momentum, supporting the buck and weighing on equities. The buck strength dictated price action across other currencies, driving USDJPY to levels just shy of 108, while EURUSD fell beneath 1.20 and spot gold dipped beneath USD 1,700/oz, a level not seen since June last year. Cyclical currencies were softer as the market tumbled with underperformance in NZD today amid a number of earthquakes, there is currently a Tsunami warning out. AUD was lower in fitting with risk appetite but AUDNZD firmed to above 107.50. Overnight, Aussie retail sales rose by 0.5% a miss on the expected 0.6% gain, while the trade balance saw a wider surplus driven by a 6% rise in exports while imports fell 2%. The dollar strength saw Cable test 1.39 to the downside where it briefly managed to dip below the level before returning, while EURGBP fell to sub 0.8600 but also returned to just above the level. CAD was relatively unchanged although still marginally softer as the hefty upside in oil offset the majority of the dollar strength and fall in risk.

EMFX also fell victim to the stronger buck and BRL pared its initial strength after reports last night dismissed speculation more emergency aid would breach the spending cap. RUB was initially a relative outperformer and managed to enjoy the surge in oil prices, although reports the US and UK are weighing more Russia sanctions and could possibly target debt hit the currency. ZAR was particularly softer amid a chunky fall in metal prices.