

US Market Wrap

March 19th: "Sell the rumour, buy the news" after SLR rule expiry sees bond dip reverse

- **SNAPSHOT:** Equities mixed, Treasuries mixed, Crude up, Dollar up.
- **REAR VIEW:** Fed announces SLR exemption will expire; questions over future bank buybacks; US-China talks bare no fruit; NKE earnings disappoints while FDX delivers.
- **NEXT WEEK:** Fed's Powell and Clarida; US personal income, spending, PCE; Eurozone flash PMIs; PBoC LPR; UK inflation, jobs, retail sales; SNB, Banxico, SARB. *To download the report, [please click here](#).*
- **CENTRAL BANK WEEKLY:** Previewing: Fed's Powell/Clarida, PBoC, SNB; Reviewing: BoE, BoJ, RBA, Norges Bank, BCB, CBRT, CBR. *To download the report, [please click here](#).*

MARKET WRAP

Indices were mixed on quad-witching day after the losses seen Thursday, although yields dominated the narrative once again with US 10-year yield initially rising above 1.75% after the Fed announced it would NOT extend SLR relief beyond the end of the month; UST's in a knee jerk reaction sold off hard although quickly pared before drifting lower throughout the rest of the session, seeing the 10-year rather unchanged around 1.73%. Despite yields remaining in cycle high territory, the duration sensitive equities looked past the move today with NDX and RUT outperforming, although it follows the prior day's steep sell-off, while growth stocks outperformed their value peers, again, after the heavy losses seen yesterday. By the close, SPX was -0.1%, while DJIA lagged after taking a hit amid Financial sector underperformance due to the lack of Fed SLR extension on the worry that with no SLR exemption, capital disbursements could be more at risk. Meanwhile, Visa (V) tumbled after reports it is the subject of a DoJ investigation, and Nike (NKE) weighed after a poor earnings report. On financials, Bank of America announced it does not expect the expiration to constrain its capital return plans to shareholders; however, this is not too surprising given that analysts have highlighted that most major banks would still be SLR compliant even if the exemption was not made, instead, the fears resolve around the Fed, who could put limits on bank buybacks out of concern they might limit intermediation in the Treasury market. Elsewhere, Real Estate lagged due to its sensitivity in yields, while the recovery in Facebook (FB) and Amazon (AMZN) saw and Communication Services and Consumer Discretionary outperform. Elsewhere, crude was bid, paring some of the extreme losses seen yesterday (worst sell-off in 6-months), without one main fundamental catalyst although the Houthi rebels attacked Saudi once again, targeting Saudi Aramco in Riyadh, although Saudi announced oil supplies were not impacted. In the background, US-Sino talks have started, and to summarize, the overall tone has been rather sour with the two throwing accusations back and forth.

GLOBAL NEWS

SLR: The Fed [announced this morning](#) that relief from SLR bank capital requirement rule will expire, as scheduled, on March 31st; the exemption will expire both at the subsidiary bank operating co, in addition to the bank holding co. The Fed implemented temporary "carve-outs" last year where Treasuries and reserves were excluded from the SLR calculations and allowed banks to expand their balance sheets more freely amid the pandemic. But, as things stand major banks would still be compliant with the SLR rule without the exemption being extended, analysts have noted, so it is unlikely that banks would have to sell Treasuries, at least in the near-term, with fears that expanding Treasury supply and reserve growth via QE could see SLR issues arrive again in the not too distant future; Treasuries knee-jerked lower at the announcement, but soon reversed. Although, there are now concerns on the path for US bank dividends and buybacks. Whereby some analysts have suggested that the Fed could walk back on its plans to allow the resumption of capital disbursements in efforts to ensure that banks remain intermediaries in the Treasury market; remember that Fed Chair Powell said at Wednesday's FOMC that an update on bank capital disbursements would be made in the coming "weeks". Meanwhile, some market participants took comfort after the Fed said the board will shortly seek comment on measures to adjust the SLR [at the holding co level](#) and it is to ensure any SLR changes won't erode bank capital demands. However, there was not a similar "constructive" [statement at the operating co level](#) - the more vulnerable section of banks given that is where the majority of growth in holdings of Treasuries and reserves has occurred, leaving the least amount of balance sheet buffer before the SLR constraint becomes binding - where the Fed has to act bilaterally with the FDIC and OCC, and [where inter-agency politics are at play](#).

US/CHINA: US/China talks led to no breakthrough with US Secretary of State Blinken stating the US had candid conversations with China, while WH National Security Adviser Sullivan said we had tough talks on a wide range of issues, but we will continue to work with China in the normal diplomatic channels going forward. Given the conclusion

came from a sole update from the US, and not a joint-statement, it is perhaps a sign the talks did not go well. Although, this was expected after the initial bout of comments last night from both sides showed a rather sour start to the talks. Talks in Alaska have so far underscored the icy US-China relations with plenty of rebukes from both sides, seeing a rather sour tone to the start of discussions. US Secretary of State Blinken told Chinese officials that US is committed to strengthening rules-based order and that US will raise issues of Xinjiang, Hong Kong, Taiwan and cyber-attacks, while he added that Chinese actions threaten rules-based order that maintains global stability. Chinese top diplomat Yang said the US has many problems regarding human rights and that many Americans don't have confidence in the US, while he claimed US uses military strength and financial supremacy to pressure countries, as well as abuses concepts of national security to threaten future of international trade and incites some countries to attack China. Yang also said Xinjiang, Hong Kong and Taiwan are inseparable Chinese territory and China firmly opposes US interference in its internal affairs and stated the US does not represent the western world nor global opinion, meanwhile labelling the US as "the champion of cyber-attacks". Chinese Foreign Minister Wang US and China shouldn't let relations continue to deteriorate and should stop the trend of difficulties, while he added the US should abandon the practice of interfering with China's internal affairs and that announcing sanctions is not the way to welcome guests.

FIXED INCOME

TREASURY (M1) FUTURES SETTLED 1+ TICKS LOWER AT 131-07

Treasuries were mainly firmer - barring some of the belly - after a knee-jerk UST sell-off after the SLR announcement ultimately faded. By settlement, 2s-1bps at 0.149%, 5s +1.2bps at 0.879%, 10s +0.1bps at 1.723%, 30s -2.5bps at 2.451%; TYM1 volumes were very strong earlier on, but thinned out in later trade. Front-end inflation breakevens were little changed while long-end ones were wider. While Treasuries faded the post-SLR move, Eurodollars didn't join in, with some traders attributing quiet trade for the dislocation. The Fed's RRP facility saw USD 18.908bln in demand at its RRP facility (prev. USD 26.570bln on Thursday), while some 3-month bills were reportedly offered at negative yields today; latest SOFR steady at 1bps.

USTs were bid out of APAC with short-covering being touted on profitable duration shorts made in the recent sessions. The belly felt some pressure heading into the US session on the back of the AT&T (T) deal announcement, with flashbacks to the selling seen after the Verizon (VZ) deal the other week. The corporate deal soon faded from traders attention, however, after the Fed announced that the SLR exemption would indeed not be extended, seeing a knee-jerk lower across the Treasury curve amid concerns of banks' willingness to hold and intermediate in Treasury markets. But, as analysts have said recently, there shouldn't be any immediate problems for bank balance sheets, and fears of wholesale selling by banks are overdone. Treasuries soon rebounded off the lows as traders bought the dip - after selling the rumour in recent weeks - with short-covering at play also. Furthermore, the 10-year hit the much anticipated 1.75% level, which desks noted triggered the step-in for many accounts. Yields pared a good portion of the move and moved sideways for the rest of the session, with many accounts likely calling it a week. The market now looks to next week's belly issuance from the Treasury, which is likely an additional factor weighing on that part of the curve today.

CRUDE

WTI (K1) SETTLED USD 1.42 HIGHER AT 61.42/BBL; BRENT (K1) SETTLED USD 1.25 HIGHER AT 64.53/BBL

Oil prices were modestly firmer after the strongest sell-off in six months on Thursday on a flush-out of overextended longs. There wasn't particularly anything too new either today to explain price action, rather just a slight bounceback as the energy complex regained its composure. Commenting on the sell-off that put the nail in the coffin for oil's weekly performance, Citi's energy desk warns that suggestions of "buy the dip" may warrant caution, "Just the jump in volatility and the weekly reversal to the downside argues in favor of smaller long positions rather than larger ones... calendar spreads are sometimes used to confirm where the fundamentals stand and those were weakening even before Thursday's drop." Despite muted price reaction, we did have some updates today, including Yemen's Houthis saying they launched drones targeting Saudi Aramco in Riyadh. Energy Intel, citing sources, reported that a power generator and oil storage tank at the refinery were hit by the drone. However, Saudi Arabia said its oil supplies were not impacted by the attack. Elsewhere, Goldman Sachs said it expects OPEC+ output to increase by 2.8mln BPD by August and sees Brent rising to USD 80/bbl in summer, while it views recent sell-off as a transient pullback in a large oil price rally and a buying opportunity. Across the pond, the latest Baker Hughes US Rig Count (w/e March 19th): Oil +9 at 318, Nat Gas unch. at 92, Total +9 at 411. Note, April WTI futures will expire on Monday.

EQUITIES

CLOSES: SPX -0.06% at 3,913, NDX +0.61% at 12,867, DJI -0.71% at 32,629, R2K +0.91% at 2,288

SECTORS: COMMUNICATION SVS +0.8%, CONS DISC +0.8%, HEALTH +0.36%, CONS STPL +0.25%, UTILITIES +0.22%, ENERGY +0.01%, TECHNOLOGY -0.25%, MATERIALS -0.48%, INDUSTRIALS -0.73%, FINANCIALS -1.2%, REAL ESTATE -1.26%

EUROPEAN CLOSES: EURO STOXX 50 -0.70% at 3,841; FTSE 100 -0.95% at 6,715; DAX -0.87% at 14,647; CAC 40 -0.83% at 6,012; IBEX 35 -1.50% at 8,494; FTSE MIB -0.76% at 24,176; SMI -0.21% at 10,951

EARNINGS: Nike (NKE) earnings disappointed. Nike, EPS beat (0.90, exp. 0.76), revenue however fell short at 10.4bln (exp. 11.02bln); Gross margins beat 45.6% (exp. 44.4%); Total Nike Brand revenue fell short at 9.8bln (exp. 10.37bln), while North America revenues were soft due to supply chain issues: 3.56bln (exp. 4.09bln); EMEA revenues were soft on regional lockdowns: 2.61bln (exp. 2.95bln); China revenues: 2.28bln (exp. 1.88bln); APLA revenues: 1.32bln (exp. 1.47bln). NKE stated its Jordan brand sales rose double digits in Q3, and Jordan women's brand business was up almost triple digits. NKE expects FY rev. growth at low- to mid-teens Y/Y and Q4 rev. growth of 75%, falling shy of expectations. Nike also expects to resume share repurchases under its existing share repurchase programme in Q4. FedEx Corporation (FDX) beat on EPS, (3.47, exp. 3.22), Revenue 21.5bln (exp. 19.96bln). FY adj. EPS view 17.60-18.20 (exp. 17.39); operating results increased primarily due to strong volume growth in US domestic residential package and FedEx International Priority services and pricing initiatives across all transportation segments. These factors were partially offset by costs to support strong demand and expand services, variable compensation expense, higher labour rates, and one fewer operating weekday; CEO said he expects demand for its e-commerce and international express solutions to remain very high for the foreseeable future. FDX said severe winter weather during February reduced the quarter's operating income by an estimated USD 350mln; the weather significantly impaired operations at several of the company's largest facilities, including the primary FedEx Express hub in Memphis and FedEx Express hubs in Indianapolis and North Texas.

STOCK SPECIFICS: Facebook (FB) has been sued by its pension fund regarding antitrust and advertising issues. Elsewhere, WhatsApp has hired a top Amazon (AMZN) executive to lead its payments business in India, according to sources. Johnson & Johnson (JNJ) is reportedly testing booster shots and new vaccines in case they are required for new virus variants, according to WSJ. Tesla (TSLA) vehicles have reportedly been banned from Chinese military complexes and housing compounds due to concerns TSLA may be collecting sensitive data through the vehicles built-in cameras, according to sources. The DoJ is reportedly investigating Visa (V) over anticompetitive practices in the debit-card market, according to WSJ citing sources, with many questions focusing on online transactions. Ford Motor (F) said the global chip shortage is forcing it to build F-150 and Edge models in North America without certain parts, including electronic modules, while it will build and hold for completion of assembly for weeks then ship them once completed; it also said that it was cancelling some shifts at its Louisville assembly plant amid chip shortages. Delta Airlines (DAL) announced it will introduce nine brand-new routes and add flights to more than 20 leisure destinations this summer. Royal Caribbean (RCL) marks 2021 as a return to the Caribbean with cruises from the Bahamas.

XLF: The Fed announced relief from SLR expires on March 31st, to ensure any SLR changes won't erode bank capital demands. The board will shortly seek comment on measures to adjust the SLR, but only at the parent holding co level where the Fed has unilateral power, unlike the subsidiary bank operating co level, where inter-agency politics play more of a role. The exemption will now expire both at the subsidiary bank operating co, in addition to the bank holding co. In reaction to this announcement, the US 10yr yield spiked higher from 1.6998% to 1.7424%, before paring essentially all of the move. US banks are seeing some downside in the pre-market, presumably on the notion that with no SLR exemption, capital disbursements could be more at risk. Bank of America (BAC) stated it does not expect the expiration of SLR relief to constrain its capital return plans to shareholders.

WEEKLY FX WRAP

DXY: Another wild ride for the Buck, but paling in comparison to moves in bonds that have whip-sawed through bouts of consolidative trade before ultimately falling prey to bears yet again and printing fresh cycle lows/highs in futures and cash yield terms. A 'dovish' FOMC in context of dot plots rather than SEP forecasts, and guidance from Fed chair Powell maintaining accommodation pending substantial progress towards twin inflation and employment goals provided some respite for US Treasuries and alike, but only short-lived as APAC debt was slammed the very next day on a bumper Aussie jobs report and Nikkie article suggesting that the BoJ would tweak its 10 year JGB target band to allow more flexibility. In response, the Greenback bounced firmly and retrieved a chunk of its declines prompted by median projections for no change in rates until the end of 2023, albeit with more FOMC members leaning towards earlier hikes this time compared to December. However, the index only forged a new peak for the week on Friday when the Fed announced that SLR exemptions will not be extended beyond March 31 and USTs swooned again to test pinnacles seen yesterday over 1.75% in 10s and 2.50%+ for the long bond. Meanwhile, data has been quite disappointing in marked contrast to surveys, like the Philly Fed in particular, especially retail sales, ip and weekly jobless claims for this month's BLS report, though private consumption should pick up once COVID-19 relief cheques are cleared and cashed,

hopefully. Looking at the DXY in more detail, 92.000 continues to prove pivotal both technically and psychologically, but a close above between 92.166-91.300 bodes well and exposes 92.243 from March 10 and last week's 92.506 apex assuming 92.500 does not turn out to be as sticky as the round number below.

JPY/GBP/NOK/TRY/BRL/RUB: The Yen has endured a similar chart and sentimental big figure battle, at 109.00 vs the Dollar, given its proximity to the 200 WMA, but confirmation of a tweak to the aforementioned tolerance around 0% in 10 year JGBs to +/- 25 bp from +/- 20 bp has nudged Usd/Jpy back under within 109.36-108.62 extremes. Japanese data has also been weak on balance, including the export side of trade, though market observers note domestic offers for month and fy end around 109.30 that may cap the headline pair. Conversely, no change in any of the BoE's policy settings and a somewhat mixed account of the MPC meeting as members expressed differing views on UK economic recovery prospects post-lockdown and in light of the nation's faster-track vaccination efforts, left the Pound at whim of external influences, positioning and technical impulses. Sterling has not been able to breach 1.4000 and is now near the bottom of the range circa 1.3850 vs 1.3810, but has had considerably more success against the Euro that is plagued with new pandemic waves, worse immunisation supply shortages and tighter restrictions to try and stop the spread of infections and fatalities. Hence, Eur/Gbp is around 0.8580 vs 0.8534 at the new 2021 trough and compared to a 0.8640 high. Elsewhere, the Norwegian Crown got a belated 2nd wind after the Norges Bank upgraded its rate projections to signal a full 10 bp increase by year end vs mid-2022 previously and the gradient of the path lifted accordingly, but Eur/Nok stopped just short of 10.0000 and a subsequent collapse in crude prices plus the country's own worsening coronavirus situation has resulted in all gains wiped out and reversed to 10.2200+ at one stage. No such fall from grace for the Turkish Lira, as the oil spill means less imported inflation and the CBRT had already front-loaded tightening in an effort to stop CPI soaring further above target with an aggressive 200 bp hike in the 1 week repo to 19% vs +100 bp almost unanimously expected. Moreover, the Bank pledged to maintain a hawkish stance and followed up by adjusting the Try swap rate from 17% to match the benchmark rate and the Energy Ministry announced a fuel price cap after the Finance Minister put wheels in motion to form a price stability committee. In response, Usd/Try is now eyeing 7.2100 from 7.6340+ at the other end of the spectrum, Usd/Brl has touched 5.4500 vs 5.6800+ prior to the BCB delivering more than anticipated when increasing the SELIC rate 75 bp against a 50 bp consensus and also giving guidance for another hike of the same magnitude next time. On the flip-side, a 'surprise' 25 bp rise from the CBR has only nudged Usd/Rub off peaks within a 74.4610-72.5400 band marginally as the Bank signalled the likelihood of 125 bp in total for the year in advance of the March convene and the Rouble is still suffering from sanctions and conflict with the US and EU, not to mention the Brent capitulation from Usd 70/brl or so to nearly Usd 62.

AUD/NZD/CAD: The Aussie has been from pillar to post against its US and Antipodean counterparts (0.7849-0.7700/1.0840-1.0743 respective ranges), with RBA minutes upstaged by Governor Lowe and echoed by Deputy Kent as both stuck to the dovish line that envisages no shift from the lower rate bound until 2024 at the earliest when inflation is expected to be in the 2-3% remit band. However, another caveat is wages reaching and if the labour market continues to improve at the pace seen last month then guidance may have to be tweaked. To recap, payrolls smashed expectations and solely down to full time jobs, while the unemployment rate fell far more than forecast, but the week ended on a sour note as retail sales surprisingly fell. On that note, the Kiwi got a nasty shock via Q4 GDP that contracted 1% q/q to compound a decline in credit card sales and never really recovered as Nzd/Usd languishes towards the base of 0.7269-0.7144 extremes, while the Loonie lost its stellar Canadian jobs mojo alongside oil following benign CPI metrics, overall, mixed housing and manufacturing sales. Usd/Cad is currently around 1.2500 within 1.2547-1.2365 extremes.

EUR/CHF/SEK: A key chart hurdle ahead of 1.2000 and some big option expiries at the strike hampered the Euro in addition to the waves of downside pressure in Eur/Gbp that spilled over to Eur/Usd, but widening differentials between EGB (Bund) and UST yields have also weighed as the Euro struggles to keep in touch with the 1.1900 level. Nevertheless, Eur/Chf is closer to 1.1100 than 1.1000 as the Franc underperforms ahead of the SNB's quarterly policy review next week and Usd/Chf could not fill bids into 0.9200 and is on track to finish the week around 0.9300 in the ongoing absence or need for intervention as far as Swiss bank sight deposits infer. Back to Scandinavia, the Swedish Krona has gradually unwound losses vs its neighbour towards parity, but is still lagging in Euro cross terms amidst dovish sounding Riksbank rhetoric and conflicting actual inflation data vs money market expectations.

EM/PM/CRYPTO: The Yuan has been remarkably rangebound either side of 6.5000 against the Dollar despite an aptly, though not encouraging or helpful, frosty atmosphere in Alaska where high rank officials from China and the US have been meeting to try and clear the air. Meanwhile, Gold has been fixated with real yields again within a Usd 1755-1718.50 range approx., but Bitcoin has set a new ATH over Usd 61k.

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