# US Market Wrap

## 5th January 2023: Hot ADP and lower jobless claims flattens bonds and hits stocks

- **SNAPSHOT**: Equities down, Treasuries flatten, Crude up, Dollar up.
- **REAR VIEW**: Jobless Claims and ADP add to tight labour market evidence; Mixed comments from Bullard, hawkish comments from George and Bostic; Russia calls for temporary ceasefire, Ukraine denies it; Colonial Pipeline outage and net bullish inventories.
- **COMING UP**: **Data**: German Retail Sales, EZ CPI (Flash), Retail Sales, Consumer Confidence, US & Canadian Labour Market Reports, US Factory Orders & ISM Services **Speakers**: Fed's Barkin, Bostic & Cook.

## MARKET WRAP

Stocks were lower Thursday after hot US employment data kept the hawkish pressure on the Fed. While Friday's NFP will be the main event, a chunky +235k jobs added in the ADP report and a notable decline in jobless claims were enough to ignite a hawkish reaction, particularly after the JOLTS and ISM Mfg. employment data on Wednesday, with Treasuries and stocks sold, while the Dollar ripped higher, seeing the DXY rise above 105 for the first time since Dec. 13th. Hawkish rhetoric from Fed's Bostic (non-voter) and George (departing; non-voter) only emboldened the moves, although two-way commentary from Bullard (non-voter) later on unwound some of the hawkishness into the close. February Fed pricing is currently tipped to 25bps over 50bps at 60% implied probability, albeit that reached 50% in wake of the strong US data. Commodities felt the pressure of the stronger Dollar, although oil prices managed to settle firmer with the EIA US inventory data leaning on the bullish side of the expectations set by the private data on Wednesday evening.

## US

**NFP PREVIEW**: The rate of payrolls growth is expected to cool, with the street looking for the addition of 200k nonfarm jobs in December, which would be beneath the prior 263k rise as well as recent averages. The unemployment rate is likely to be unchanged at 3.7%, although regional Fed activity surveys suggest there are upside risks. The Fed forecasts unemployment will rise to 4.6% by the end of this year, and the central bank is comfortable with seeing the tightness in the labour market ease as it tries to bring rampant inflation back under control. On that note, the street expects average hourly earnings to cool on an annual basis (by 0.1ppts to 5.0%). Traders will interpret the data as hawkish – and therefore a negative for risk assets – if the headline and wages numbers come in above expectations, and conversely, would likely react dovishly (positive for risk assets) if they miss consensus. To download the report, please click here.

**JOBLESS CLAIMS**: Initial jobless claims were lower than expected at just 204k, beneath the 225k consensus and beneath the lowest analyst forecast of 210k, taking the 4wk average lower to 213.75k from 220.5k. Meanwhile, the continued claims data was also beneath analyst expectations at 1.694mln. Note, this data does not coincide with the usual survey period for the NFP report due Friday but it is still another data point that adds to evidence of a (stubbornly) tight labour market after the ISM Mfg employment, JOLTS, and ADP all came in hotter than expected. On the claims data, analysts at Pantheon Macroeconomics note they thought the risk to the data was to the downside, but not by this much. However, PM gives the caveat that the data is less reliable than usual between Thanksgiving and mid-Jan. Nonetheless, the consultancy points out "The trend in initial claims appears to have flattened in recent weeks, but we need to wait until the holiday distortions fade from the numbers before we can be sure where the trend is headed". However, Pantheon adds the jump in Challenger Layoffs suggests the flattening in claims will be temporary.

**ADP**: The ADP National Employment report added 235k jobs in December, above all analyst forecasts and consensus of 150k, and accelerating from the prior 127k. However, within the report it did note that pay growth in December saw the largest decline in three-years. Although the jobs added were hotter than expected, the decline in pay growth will be a welcome sign for the Fed in its fight against inflation. Further within the release, it noted “the labor market is strong but fragmented, with hiring varying sharply by industry and establishment size." Adding, business segments that hired aggressively in H1 22 have slowed hiring and in some cases cut jobs in the last month of the year. The data comes ahead of Friday's NFP (preview above) but given the new methodology analysts have highlighted it is too soon to gauge a direct relation with the US NFP.

# FED

**Bullard (non-voter)** initially sounded rather sanguine on inflation, noting inflation is likely to moderate in 2023 but Fed policy is not yet restrictive, although it will be soon with more hikes. The St Louis Fed President added Fed action with the prospect of more hikes is helping dampen inflation while contained inflation expectations are also moderating inflation pressures. On the economy, he said US GDP is likely moderating to its potential of around 2% and the job market remains "strong". He added that Fed transparency has lowered financial stability risks. Later, he struck a more hawkish tone, saying inflation is likely to ease slower than markets expect and he still expects the Fed to be higher for longer to lower inflation. Although he stated the money supply data bodes well for lower inflation and he highly doubts any change is coming on the inflation target setting, saying it would be a "terrible" idea to change it. Bullard also added the Fed is well aware of lagged housing impact on CPI. He said more progress needed on balance sheet reduction, but in 6-to-12 months it could be reassessed. Bullard hit the wires again Thursday evening, saying it would be good for the Fed to get to a restrictive stance quickly and that a strong jobs market gives the Fed a great opportunity to fight inflation. He also added the prospect of a soft landing in the US has increased from the fall of 2022. On the balance sheet, he said it is too soon to say when the Fed will change its balance sheet drawdown and it is unclear how much tightening impact the Fed gets from balance sheet cuts. On wages, he highlighted that real wage gains have fallen short of the inflation increase.

**George (retiring; non-voter)** stated high inflation requires Fed action and it will be key to hold rates up once hikes end. In fitting with the SEPs, George said she has raised her forecast for rates and noted Fed policy is having an impact on demand. George favours rates above 5% and behind held there for some time, noting rates will be held up into 2024. She is not forecasting a recession but did note there are risks. Said the recent inflation data shows welcoming signs of pressure easing. While on the balance sheet, said it is very important for the Fed to continue to reduce it. The departing official said she does not see something on the verge of blowing up in the financial system.

**Bostic (non-voter)** noted in prepared remarks that inflation is the biggest headwind to the US economy and officials remain determined to beat inflation, with little more said.

# FIXED INCOME

**T-NOTE (H3) FUTURES SETTLED 5+ TICKS LOWER AT 113-00+**

**Treasuries flattened Thursday after hot employment data and hawkish Fed rhetoric**. 2s +6.9bps at 4.456%, 3s +5.8bps at 4.205%, 5s +4.0bps at 3.915%, 7s +2.8bps at 3.834%, 10s +1.5bps at 3.724%, 20s -0.7bps at 3.972%, 30s -1.9bps at 3.800%.

**Inflation breakevens**: 5yr BEI +1.6bps at 2.252%, 10yr BEI +1.9bps at 2.225%, 30yr BEI +1.3bps at 2.279%.

**THE DAY**: T-Notes were sold into the APAC Thursday session and went on to find interim lows during the Tokyo/London handover at 113-03, before recovering to peaks of 113-11 in the NY morning amid a lack of major catalysts. However, activity picked up in Treasuries in the wake of the solid ADP employment report and fall in jobless claims which both highlight the "work to be done" mantra at the Fed. Treasuries were sold in due course, aided by hawkish affirmation from both Fed's George (non-voter; departing) and Bostic (non-voter), seeing T-Notes find session lows of 112-18+ before recovering to the 113 region by midday in NY. Additional recovery was made on later remarks from Fed's Bullard (non-voter) who said the Fed is nearing restrictive territory whilst reaffirming his view for the year being one of disinflation, although some of that was unwound by his later comment that inflation is likely to ease more slowly than markets anticipate. Traders now look to Friday's Dec. jobs report with half an eye to next week's Dec. CPI and Treasury supply.

**REFUNDING**: US to sell USD 40bln of 3yr notes on Jan 10th, USD 32bln of 10yr notes on Jan 11th, and USD 18bln of 30yr bonds on Jan 12th; all to settle on Jan 17th and all sizes unchanged as expected.

**STIRS**:

- EDH3 -4.5bps at 94.87, M3 -4.5bps at 94.77, U3 -7bps at 94.855, Z3 -8bps at 95.14, H4 -7.5bps at 95.555, M4 -6.5bps at 95.96, U4 -6bps at 96.26, Z4 -5bps at 96.45, H5 -3.5bps at 96.565, H6 flat at 96.69, H7 +1.5bps at 96.625.
- Fed February pricing was choppy, with 25bps/50bps hike priced at c. 65%/35% probability entering the session, moving to c. 50%/50% after the strong data, before paring to 60%/40% in wake of Bullard's comments.
- NY Fed RRP op demand at USD 2.242tln (prev. 2.230tln) across 106 bidders (prev. 108).

- US sold USD 46bln of 1-month bills at 4.100%, covered 2.79x; sold USD 46bln of 2-month bills at 4.430%, covered 2.29x.

**BILLS**: US is to sell USD 57bln of 3-month bills and USD 48bln of 6-month bills on Jan 9th, both settling on Jan 12th. Note both the 3- and 6-month bills have been increased in size by USD 3bln each, which marks the first increase in bill auction sizes seen in a little while which is a bit surprising given the debt ceiling overhang. With the Treasury General Account (TGA) currently at a fairly low USD 428bln, it could be that the increased bill sizes are a precaution to prevent the TGA balance from falling too low. For colour, JPM's analysts said in early December that they expect the TGA to be kept in a USD 400-450bln range until the debt ceiling limit is resolved, so it's conceivable the Treasury is reaching an internal floor it has set itself for its cash balances.

## CRUDE

**WTI (G3) SETTLED USD 0.83 HIGHER AT 73.67/BBL; BRENT (H3) SETLLED USD 0.85 HIGHER AT 78.69/BBL**

**Oil prices were firmer but choppy on Thursday amid mixed inventory data, pipeline issues, Saudi price cuts, and a soaring Dollar**. There was a degree of bullishness stemming from the products market during APAC hours after reports of the Colonial Pipeline outage (more below). London lifted the offer on arrival to take WTI (G3) and Brent (H3) to session highs of USD 74.92/bbl and 79.97/bbl, respectively. But, the strong labour market data in the US saw the Dollar rip higher amid a hawkish Fed repricing, weighing on oil and the broader commodity complex, taking WTI and Brent to session lows of USD 72.46/bbl and 77.61/bbl in the NY morning. Saudi Aramco slashing its OSPs global of Arab Light for February delivery only added to the bearishness. However, the EIA inventory data managed to stop the rot as prices bounced back into earlier ranges in wake of the figures.

**INVENTORIES**: EIA reported crude stocks building 1.7mln bbls in the latest week, although once factoring in the 2.7mln SPR release that's a net draw of 1mln, which comes as a bullish surprise against the +3.3mln indicated in the private data. In the products, gasoline stocks drew 0.3mln bbls, which was a surprise after the 1.2mln bbl build indicated in the private data, while distillates drew 1.4mln bbls, which wasn't as large as the 2.4mln bbl draw in the private data. Meanwhile, crude production rose 100k BPD to 12.1mln BPD; on the topic, note that the Hess (HES) CEO said Thursday the US can produce up to 13.0-13.5mln BPD of oil before production plateaus. Finally, EIA reported that refinery utilisation tanked 12.4%, although one has to factor in the refinery closures related to winter storms.

**COLONIAL**: Colonial Pipeline announced its Line 3, which transports distillates and gasoline to the New York Harbor market from North Carolina, has been shut down after some product was released at its Witt delivery station near Danville, Virginia. Co. said it is planning a restart at 12:00ET on Saturday, so the impact should be limited, and didn’t provide the cause of the leak or the volume discharged, but did say the impact had been contained within its property. On capacity, note that line 3 has a minimum batch of 25k bbls and the Co. schedules batches in 5-day cycles (72 each year).

## EQUITIES

**CLOSES**: SPX -1.17% at 3,808, NDX -1.59% at 10,741, DJIA -1.02% at 32,930, RUT -1.09% at 1,753

**SECTORS**: Real Estate -2.89%, Utilities -2.22%, Technology -1.96%, Materials -1.60%, Industrials -1.09%, Health Care 1.03%, Consumer Staples -0.99%, Consumer Discretionary -0.95%, Financials -0.92%, Communication Svs. -0.55%, Energy +1.99%.

**EUROPEAN CLOSES**: EURO STOXX 50 -0.36% at 3,959, FTSE 100 +0.64% at 7,633, DAX 40 -0.38% at 14,436, CAC 40 -0.22% at 6,761, FTSE MIB -0.11% at 24,832, IBEX 35 +0.56% at 8,607, SMI -0.79% at 11,052.

**STOCK SPECIFICS**: **Amazon (AMZN)** CEO announced it is cutting more than 18k jobs, representing around 5% of its corporate workforce. **Apple (AAPL)** is expected to enlist Chinese manufacturer Luxshare to produce its premium iPhone models, breaking Foxconn’s (FXCOF) hold on production after worker protests over COVID curbs erupted at its mega factory in Zhengzhou last year, according to the FT. **Western Digital (WDC)** and Japan's Kioxia Holdings reportedly restarted merger talks, according to Bloomberg citing sources. **Bed Bath & Beyond (BBBY)** disclosed going concern qualification filing and continues to pursue actions to improve cash position. **Dell Technologies (DELL)** is reportedly aiming to stop using chips made in China by 2024 and has told suppliers to significantly reduce the amount of other "made in China", according to Nikkei. **Silvergate Capital (SI)** laid off roughly 200 employees or 40% of staff, according to WSJ; collapse of FTX forced SI to sell assets at a steep loss to cover some USD 8.1bln in withdrawals. **CrowdStrike (CRWD)** was downgraded at Jefferies; noted 2023 “will be a more challenging fundamental year for growth names” and firm expects less upside for CrowdStrike from here. **Slack (CRM)** is cutting 10% of its product and engineering organisation, according to Business Insider. **Shopify (SHOP)** was downgraded at Jefferies; cited uncertain macro challenges ahead.

**EARNINGS**: **Conagra Brands (CAG)** surpassed St. consensus on top and bottom line; raised FY23 outlook but continues to plan for supply chain inefficiencies. **Constellation Brands (STZ)** missed on profit but beat on revenue; cut FY23 EPS view. **Lamb Weston Holdings (LW)** posted a stellar report; topped on EPS and revenue alongside raising FY23 outlook. **Walgreens (WBA)** reported a top and bottom line beat, as well as raising FY sales guidance. However, it reported a quarterly loss on opioid litigation charge.

## FX WRAP

**The Dollar** was bid with DXY rising above 105.00 from lows of 103.980, where the buck found support during APAC around the 5 and 10dma's at 103.973 and 103.992, respectively. The DXY then powered through the 20dma at 104.236 in the European morning before catching a hefty bid in wake of the hot US employment data (ADP and IJC) before extending to highs later in the session. The ADP report rose 235k, above all analyst forecasts and the consensus of 150k. However, within the report it did note that pay growth in December saw the largest decline in three years. Initial jobless claims were lower than expected, albeit this week's report does not coincide with the survey period for the BLS report on Friday (preview here), but it is another hot employment print following the Mfg. ISM employment, JOLTS, and ADP this week. Analysts at RaboBank highlighted (pre-data) that speculators long DXY positions are at their lowest levels since mid-2021 and note, "The wash-out in long USD positions combined with the continued hawkish position of the Fed, should be a warning to USD bears. Even if the USD has peaked, we anticipate that this will be a choppy and potentially lengthy process."

**The Euro** was unable to wriggle from the Buck’s strong hold, and as such EUR/USD lost touch of 1.0600 to hit a trough of 1.0516 on Thursday. There was more cool inflation data in Europe, Italian CPI cooled from the prior but was in line with expectations Y/Y. Elsewhere, EU producer prices M/M were in line with expected, whilst Y//Y was ever-so-slightly cooler. On Friday, aside from the US data points, there is a plethora of European data, in the form EU Flash December HICP, economic sentiment, and final consumer confidence amongst others. Meanwhile, ECB’s Villeroy on Thursday said it would be desirable to reach the terminal rate by summer but is too soon to say at what level, and ECB needs to be pragmatic and guided by data without a fetishism for too mechanical rate increases.

**Safe havens**, JPY and CHF, also saw weakness against the Buck, but not quite to the extremes of high beta FX, as they managed to glean a little traction, albeit not much, from its haven properties. Nonetheless, price action continues to be more a function of the broad macro sentiment, Dollar momentum and policy divergence. For the Yen, there were Reuters source reports overnight which noted an upward revision to BoJ's inflation forecast is unlikely to trigger immediate rate hikes, and the BoJ is said to be increasingly focused on super core CPI in gauging price trends. As such, the BoJ is likely to raise its FY22 and FY23 forecasts. USD/CHF traded between parameters of 0.9262-9378, while USD /JPY topped out at 134.05, but only briefly managed to scale the psychological 134.00 level.

**Activity currencies**, AUD, GBP, NZD, and CAD were significantly lower against the Dollar on account of the broader Buck bid and weakness in US equities rather than anything currency specific. Nonetheless, the Loonie was the relative 'outperformer’, but still notably softer against the Buck. CAD was aptly supported by the gains in the crude complex, which managed to contain some of the Loonie’s losses, but nonetheless it was still unable to contain the surging Dollar as the USD/CAD hit a high of 1.3595, just short of the psychological 1.3600. Elsewhere, Sterling and antipodeans were hit by the Greenback bid in wake of the aforementioned hotter-than-expected US labour market reports. Highlighting this, Cable printed lows of 1.1874, a level not seen since late November, while AUD/USD and NZD/USD printed troughs of 0.6736 and 0.6212, respectively. Looking ahead, the key macro risk events are in the form of US payrolls report (preview here) and ISM Services on Friday, but Australian AIG services index is also due out on Thursday.

**EMFX** was mixed. BRL saw notable gains vs the buck after the Brazilian Planning Minister noted they will take care of public spending with austerity, but with a conciliatory side noting there is no room for waste or mistakes. The minister added there is an urgent need to take care of public spending and approve a tax reform. MXN was relatively flat vs the Buck while CNH saw mild gains. ZAR was notably weaker with gold prices while Rouble was also an underperformer albeit off its weakest levels after it called for a temporary ceasefire albeit Ukrainian officials have dismissed the idea.

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