US Market Wrap

9th January 2023: Stocks relinquish gains despite further dovish Fed pricing

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: China reopens borders; 1yr consumer infl. expectations fall; Manheim used vehicle index posts record Y/Y decline; Daly & Bostic hesitant to declare victory, but 25bps an option; AAPL to replace AVGO and QCOM chips for its own.
- **COMING UP**: **Data**: Chinese M2 **Speakers**: Fed's Powell, ECB's Schnabel & BoE's Bailey **Supply**: Netherlands, UK & US.
- **WEEK IN FOCUS**: Highlights include US & Chinese CPI, Chinese Trade, UK GDP and US Earnings Season. To download the report, please click here.

MARKET WRAP

Stocks were mixed on Monday, initially extending their post-NFP gains as Fed pricing continues to reprice dovishly and 'soft landing' chatter gains traction. Most of the strength was made in the NY morning for the major stock indices before paring off highs into the afternoon, with the SPX flirting with negative into the close. Adding to the current dovish tailwinds today were the declines in both the Manheim used vehicle index and the NY Fed's 1yr-ahead consumer inflation expectations, all in the lead-up to Thursday's CPI, which will be a crucial data point for the Fed in determining 25 or 50bps at the February 1st FOMC. Fed's Daly and Bostic were on the wires, both non-voters, and neither gave much away in terms of when the Fed should step down to 25bps, leaning instead on data dependence, albeit they did give lip service to the possibility of reducing the hike increment again to 25bps, data-willing. The Dollar saw notable downside in reflection of the reduced yield pick-up with the DXY making lows beneath 103, a long way from the highs of over 105.50 on Friday, with the Euro outperforming in G10 FX. The Dollar weakness, in combination with more China reopening progress, supported oil prices earlier on, although prices came off highs in latter trade.

FED

DALY (non-voter): In an interview with WSJ's Timiraos, Daly said she absolutely expects the economy to continue slowing while noting her views are broadly consistent with the December Summary of Economic Projections (SEPs). She said she believes it would be reasonable and likely for the terminal rate to be between 5.00-5.25%. However, she stressed several times the Fed is very data-dependent, adding her views could change if the data adapts. For the February meeting, she said both a 25 and 50bp hike is on the table. She sees inflation coming down in Q1, alongside a slowing labour market. More specifically, she said she has seen goods prices come down but core services (ex-housing) are showing no sense of coming down, which she says have historically been persistent and related to employment strength and wage growth. In conversations around her district, she noted "inflation" is top of mind and "It beats out a recession by quite a lot", indicative of the Fed's primary focus on inflation rather than growth, that's despite data points such as last week's tumble in the ISM surveys. To hammer the point, Daly said her biggest risk would be a rise in inflation expectations. On the December jobs report, she spoke on the fall in wages and stressed it is just one month of data and it is too early to declare victory and stop rate hikes but wages coming down is consistent with a slowing labour market, with supply and demand coming into better balance. On a pause, she highlighted how the Fed does not need to see inflation get to 2%, or even down to a stone's throw away before they would stop raising rates. Daly expects PCE inflation in the low 3% range later this year, closer to 2% by 2024-end, and 2% in early 2025.

BOSTIC (non-voter) spoke again on Monday noting how he eventually wants to get to 25bp increments but the timing of that will depend on the data. He said if the upcoming CPI is consistent with trends seen in the jobs report, then the Fed will have to take the 25bp argument more seriously. As a base case, Bostic does not see any cuts through 2023, but he did state the confidence bands around that are wide. Bostic wants some confidence that when rates are to be reduced, they can remain lower. Bostic also said he was "very hesitant" to declare victory in efforts to cool prices, flagging that services inflation has surpassed goods inflation as the problem, and he expects it to prove persistent. Bostic also noted it is fair to say the Fed is willing to overshoot.

US

CONSUMER EXPECTATIONS: The NY Fed's December Consumer Survey saw median 1yr-ahead inflation expectations fall to 5% from 5.2%, the lowest since July 2021, the 3yr-ahead gauge was unchanged at 3%, while the 5yr-ahead nudged up to 2.4% from 2.3%. The median inflation uncertainty—or the uncertainty expressed regarding future inflation outcomes—was unchanged at the short-term horizon and decreased at the medium-term horizon. The component breakdown of the inflation expectations was in-fitting with the current consensus on the inflation outlook (services price pressures > goods/commodities price pressures). To quote, year-ahead price change expectations declined by 0.7 percentage points for both gas (to 4.1%) and food (to 7.6%), and 0.2 percentage points for both college education (to 9.2%) and rent (to 9.6%), while the median expected change in the cost of medical care rose by 0.1 percentage points (to 9.7%).

FIXED INCOME

T-NOTE (H3) FUTURES SETTLE 13 TICKS HIGHER AT 114-20

Treasuries bull-steepened as extended NFP momentum was aided by falling softening short-term consumer inflation expectations, with no concession made ahead of this week's supply. At settlement, 2s -5.9bps at 4.202%, 3s -4.9bps at 3.942%, 5s -5.9bps at 3.655%, 7s -5.6bps at 3.594%, 10s -5.0bps at 3.521%, 20s -4.4bps at 3.817%, 30s -3.6bps at 3.656%.

Inflation breakevens: 5yr BEI -0.7bps at 2.223%, 10yr BEI +0.7bps at 2.213%, 30yr BEI +1.6bps at 2.286%.

THE DAY: T-Notes had entered the Monday NY session on the backfoot with a catalyst-light overnight session and seemingly taking cues from EGBs ahead of a very busy sovereign supply calendar, with an eye to US supply as well. T-Notes found session lows at 114-00 in the European morning before drifting higher as US participants returned from the weekend. A record Y/Y decline in the Manheim used car index offset the supply concerns as another heavy slate of IG corporate supply came to the market. But the upside really got going in wake of the fall in the year-ahead NY Fed consumer inflation expectations survey, taking T-Notes to session highs of 114-23+ before Europe closed up shop. Participants now look to this week's sovereign supply and more broadly, the December CPI print on Thursday and remarks from Fed Chair Powell on Tuesday.

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 +2bps at 94.935, M3 +4.5bps at 94.89, U3 +6bps at 95.04, Z3 +7.5bps at 95.41, H4 +9.5bps at 95.90, M4 +10bps at 96.345, U4 +8.5bps at 96.64, Z4 +7bps at 96.80, H5 +5.5bps at 96.87, H6 +5.5bps at 96.935, H7 +6bps at 96.85.
- NY Fed RRP op demand at USD 2.199tln (prev. 2.208tln) across 103 bidders (prev. 100).
- US sold USD 63bln of 3-month bills at 4.560%, covered 2.61x; sold USD 53bln of 6-month bills at 4.710%, covered 2.48x.

CRUDE

WTI (G3) SETTLES USD 0.86 HIGHER AT 74.63/BBL; BRENT (H3) SETTLES USD 1.08 HIGHER AT 79.65/BBL

Oil prices were firmer Monday, albeit off highs, after more China reopening progress and Dollar selling was offset by softening consumer gas price expectations. The crude benchmarks were gaining upside momentum all the way through the APAC Monday session, finding new highs during the London morning in the wake of last week's losses, before losing momentum into the NY morning. Session peaks were found momentarily at USD 76.74/bbl and 81.37/bbl for front-month WTI and Brent contracts, respectively, before better selling developed into the European close. There was no obvious catalyst for the downside, although it did coincide with the NY Fed's consumer inflation expectation survey showing another move lower in gas price expectations. While on the supply side, Bloomberg reported that Russian oil output was holding stable at 10.9mln BPD in December and early January. While Bloomberg also reported that Trafigura is set to buy out Russia's Lukoil-owned ISAB refinery in Italy, which accounts for a fifth of Italy's products supply and was facing an uncertain future amid Russian sanctions.

EQUITIES

CLOSES: SPX -0.08% at 3,892, NDX +0.62% at 11,108, DJIA -0.34% at 33,518, RUT +0.17% at 1,796.

SECTORS: Technology +1.09%, Utilities +0.64%, Materials +0.6%, Consumer Discretionary +0.57%, Communication Services 0.00%, Real Estate -0.05%, Industrials -0.42%, Financials -0.43%, Energy -0.47%, Consumer Staples -1.03%, Health Care -1.66%.

EUROPEAN CLOSES: EURO STOXX 50 +1.26% at 4,069, FTSE 100 +0.33% at 7,725, DAX 40 +1.25% at 14,793, CAC 40 +0.68% at 6,907, FTSE MIB +0.81% at 25,385, IBEX 35 -0.07% at 8.695, SMI +0.61% at 11,213

STOCK SPECIFICS: **Apple (AAPL)** is reportedly aiming to drop the **Broadcom (AVGO)** chip by 2025 to use its own in-house design, and will start to replace **Qualcomm (QCOM)** modems as soon as 2024, according to Bloomberg. **Amazon (AMZN)** was supported alongside the gains in big tech/cons. disc. names, but specifically for AMZN, analysts at Jefferies noted they see the co.'s cost pressures easing in H2 2023. **Tesla, Inc. (TSLA)** has reportedly begun offering incentives in Singapore on existing models of Model 3 and Model Y vehicles. Elsewhere, Reuters reports that hundreds of Tesla owners gathered at showrooms in China over the weekend, demanding rebates and credit after sudden price cuts they said meant they had overpaid for electric cars they bought earlier. The delivery time is also longer now on some China models following the discounts. **Macy's Inc. (M)** expects Q4 revenue to come in at the bottom end of its previously issued USD 8.161-8.401bln guidance range (exp. 8.3bln), while EPS is expected to be within its 1.47-1.67 guidance range (exp. 1.60). **Lululemon (LULU)** updated revenue/earnings guidance for Q4 which missed on EPS while revenue was in line. **Goldman Sachs Group (GS)** will start cutting up to 3,200 jobs (around 6.5% of its workforce) within days, according to FT. **Salesforce.com (CRM)** Co-CEO Marc Benioff hinted at more potential layoffs after last week's job cuts where it said it would eliminate 10% of its workforce, CNBC reported. **Apple's (AAPL)** iPhone exports from India reportedly doubled to a record USD 2.5bln, via Bloomberg. Meanwhile, the Co. is reportedly re-organizing its USD 78bln Services division as Apple VP Peter Stern departs, according to Business Insider. Saudi Arabia's Public Investment Fund is emerging as a possible bidder for **WWE (WWE)** if the promotion puts itself up for sale, according to Front Office Sports citing sources. Meanwhile, Qatar is reportedly considering a takeover or minority stake in **Manchester United (MANU)**, according to Bloomberg. **Abercrombie & Fitch (ANF)** raised its Q4 net sales view to +1-2% (prev. -2 to -4%), while also raising its FY22 net sales view to -1% (prev. -2 to -3%). ANF's Q4 operating margin view was also raised to 6-8% (prev. 5-7%), while it lifted the bottom end of its FY222 OM guidance and now sees 2.5-3% (prev. 2-3%).

HEALTH CARE: The 2023 JPMorgan HealthCare Conference takes place this week and companies gave a slew of updates already on Monday. **Biogen Inc. (BIIB) & Eisai (ESALY)** won FDA approval for Leqembi (lecanemab-irmb) under the Accelerated Approval pathway for the treatment of Alzheimer's disease. BofA's analysts said the approval came with a "fairly benign" label, which should bode well for the company. **CVS Health (CVS)** expects FY22 EPS to be at the top end of its forecast range and affirmed its FY23 Adj. EPS view at 8.70-8.90. **J&J (JNJ)** CEO said they continue to drive towards their USD 60bln goal in pharmaceuticals by 2025, and they are confident about exceeding current expectations for 2025 sales and the co. is not averse to large acquisitions. **Pfizer (PFE)** expects to see approval of its mRNA flu vaccine in 2024, and it sees potential non-COVID revenue at USD 84bln in 2030, with 10% CAGR from 2025-2030. Also, talks to negotiate a lower price for Pfizer's COVID pill Paxlovid in China have failed, according to officials, after the two could not agree on a further cut. **Regeneron's (REGN)** FY22 US net product sales of EYLEA missed expectations heavily. **Teladoc (TDOC)** raised the lower end of its Q4 forecast and affirmed its adj. EBITDA. **DexCom (DXCM)** preliminary Q4 revenue guidance was a beat but FY23 revenue guidance disappointed. **Moderna (MRNA)** announced FY product sales of USD 18.4bln, and affirmed FY23 minimum product sales view of USD 5bln. MRNA also considers the price of USD 110-130 for its COVID vaccine when it goes commercial.

US FX WRAP

The Dollar was lower on Monday continuing the post-NFP and ISM Services decline as risk assets enjoyed a bid on the back of China reopening optimism, seen throughout Asia, Europe, before paring in the US afternoon. The DXY fell from highs of 103.86 to lows of 102.93. Data saw the latest NY Fed consumer inflation expectations which were mixed, with a cooling in the 1yr ahead expectations, which gained the most attention. but the 3yr ahead was unchanged and the 5yr expectation rose slightly. Fed speak was rife from Daly and Bostic, Bostic noted if the upcoming CPI data is consistent with trends seen in the jobs report, then the Fed will have to take the argument for 25bps in February as seriously. Meanwhile, Daly said her views are broadly in line with the SEPs but her opinion could change if the data does, while adding either 50 or 25bps are on the table for Feb. Attention now turns to Fed Chair Powell on Tuesday (primer here) and US CPI on Thursday, ahead of UoM on Friday.

The Euro reaped the benefit of the weaker Dollar, helping EUR/USD reclaim 1.07 and hover around 1.0750. German November Industrial Output was marginally above expectations while the French Trade deficit widened and Italian unemployment was in line with expectations, as was overall EU unemployment at 6.5%. The latest ECB bulletin looked at wages, and noted over the next few quarters wage growth is expected to be very strong by historical standards.

The Yen saw gains vs the buck with USD/JPY falling from highs of 132.65 to lows of 131.31 albeit in thin volumes with Japan away on holiday. Nonetheless, the Yen continues to benefit from Friday's US economic data in what may help towards dissuading the Fed from doing too much - albeit as it stands, Fed officials are still primarily concerned with inflation based on recent rhetoric.

The Franc strengthened, seeing USD/CHF fall beneath 0.9200, troughs not seen since Q1 2022, irrespective of narrowly divergent Swiss unemployment rates or another drawdown in domestic bank sight deposits.

Cyclical currencies all firmed vs the Dollar with outperformance in GBP in wake of commentary from BoE's Chief Economist Pill, who warned of more persistent inflation in the UK and the risks from higher gas prices. The inflationary comments saw a hawkish reaction to money market pricing which now looks for a 70% probability of a 50bp hike vs 65% pre-data. Aussie and Kiwi were supported by the aforementioned China optimism. The Aussie held comfortably above a pivotal chart level (200 DMA at 0.6838) against the Greenback and outpaced the Kiwi in tandem with another Yuan rally on China reopening from Covid optimism, but AUD/USD stalled ahead of 0.6950 and AUD/NZD peaked above 1.0850 while NZD/USD maintained elevation just shy of 0.6400.

The Yuan firmed, both onshore and off, vs the buck on China's border reopening over the weekend which gave hopes to its economic recovery while demand for Chinese stocks was also high with solid gains seen in the Hang Seng and Shanghai Comp. after Jack Ma ceded control of Ant Group, supporting China tech stocks. The PBoC also set the mid-point fixing firmer than expected at 6.8265 (exp. 6.8276, prev. 6.8912).

EMFX was mixed. The Real saw weakness vs the weak Dollar as riots broke out in the Capital led by pro-Bolsonaro supporters. The Lira was flat vs the Dollar while ZAR saw notable strength thanks to the bid into gold prices, while South African President Cyril Ramaphosa announced the energy department will take over responsibility for overseeing state utility Eskom.