



US Market Wrap

10th January 2023: Stocks and bonds diverge amid Damp Squib Powell

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar flat/up.
- **REAR VIEW:** Powell a non-event; Bowman says work to do on inflation; Kashkari pushes back on rate cut expectations; Goldman no longer sees EZ recession; ECB's Centeno says ECB is approaching end of hike process; Strong 3yr auction; Treasury raises bill auction sizes; IBD/TIPP slowed to 42.3 from 42.9.
- **COMING UP:** **Data:** Australian CPI **Supply:** Germany & US.

MARKET WRAP

Stocks were firmer Tuesday with a bias to the riskier sectors (NDX & RUT > SPX & DJIA) despite the move higher in yields with moves framed around pre-CPI positioning in lack of major catalysts. There was bullish momentum seen both at the NY cash open and again into the close. Treasuries bear-steepened, with the long-end up 10bps, into a heavy supply calendar, higher oil prices, and spillover weakness from an improving European growth outlook (Goldman no longer sees Eurozone recession); note the US 3yr auction saw solid demand, capping losses ahead of Wednesday's 10yr offering. In FX, the Dollar saw some mild strength after its heavy post-NFP slide, although the Euro did not unwind any of its recent strength. Fed Chair Powell's speech was a damp squib, giving little in the way of relevant policy commentary, while Bowman (voter) affirmed the need to remain hawkish, not biting into the dovishness that markets have humoured. No tier 1 US data of note, although we did get the US IBD/TIPP Jan. index that dipped lower, as did the December NFIB small business survey, with the inflationary sub-components moving to the downside, adding to the disinflationary momentum ahead of Thursday's CPI reading. While in commodities, oil prices were firmer, finding peaks after the EIA forecasted 2024 world oil demand reaching a record high, although prices pared off highs in post-settlement trade ahead of energy inventory data.

FED

Chair Powell's panel was a non-event. He did not comment on the current US economic or monetary policy outlook in his prepared remarks, aside from a brief line that restoring price stability when inflation is high can require measures not popular in the short-term.

Bowman (voter) said there is still a lot of work to do on inflation despite recent declines. She is committed to taking further actions to bring it back down, and deciding rate hike increments will be data-dependent. She is looking for compelling signs inflation has peaked, and more consistent indicators inflation is on a downward path. When a sufficiently restrictive rate level is reached, the Fed needs to hold the policy rate there "for some time". On the December jobs report, she said the strength of the labour market is further supported by last Friday's report.

Kashkari (voter) pushed back on market expectations of rate cuts; said in a NYT article that "They are going to lose the game of chicken."

FIXED INCOME

T-NOTE (H3) FUTURES SETTLE 20 TICKS LOWER AT 114-00

Treasuries bear-steepened into a heavy supply calendar and an improving European growth outlook. 2s +5.0bps at 4.249%, 3s +3.7bps at 3.976%, 5s +7.3bps at 3.724%, 7s +8.2bps at 3.671%, 10s +9.4bps at 3.611%, 20s +9.6bps at 3.907%, 30s +9.1bps at 3.741%.

Inflation breakevens: 5yr BEI +1.5bps at 2.239%, 10yr BEI +2.1bps at 2.234%, 30yr BEI +2.8bps at 2.312%.

THE DAY: Treasuries saw mild losses during APAC hours which gained momentum in the European session, taking cues from EGBs with hawkish Schnabel and the continued supply deluge from all fronts. Additionally, there was some growth optimism in the region with EU's Gentiloni saying eurozone GDP is to fall less than feared and Goldman's economists pulling back their Eurozone recession call, saying they no longer expect one. Fed Chair Powell's speech was a damp squib with no comments on immediate policy/outlook. T-Notes instead continued to move lower as the



Dollar IG supply pipeline built up (again), including a USD 10bln Saudi Arabia deal, and with an eye to Treasury supply and as energy prices bounced higher, with the long end of the curve leading the losses into the NY afternoon. T-Notes made session lows of 113-26+ ahead of the 3yr auction, where the solid demand reception saw losses capped.

3YR AUCTION: The USD 40bln auction saw solid demand, benefitting from the fixed income sell-off in the run-up on Tuesday. The auction stopped at 3.977%, coming through the WI by a chunky 2.3bps, better than the prior stop-through of 0.3bps and the six-auction average of a 0.1bps tail. The 2.84x bid/cover ratio was meaningfully higher than the prior 2.55x and avg. 2.52x. Dealers (forced surplus buyers) were left with 17.3% (avg. 21.5%) thanks to a meaningful step-up in Indirects demand to 69.5% from the prior 61.7% and well above the avg. 59.2%. Attention now moves to Wednesday's 10yr auction ahead of CPI and 30yr on Thursday.

T-BILLS: The Treasury announced it has raised the size of its 1-month bill auction by USD 15bln to 60bln, raised its 2-month bills by USD 10bln to 55bln, and raised its 17-week bills by USD 3bln to 36bln. Furthermore, it introduced a USD 60bln 35-day Cash Management Bill. The issuance ramp-up and the new CMB came as a surprise and added to the rise in the 3- and 6-month auction sizes announced last week. Some analysts have suggested previously that if the Treasury were to start meaningfully ramping up its bill issuance ahead of a debt limit resolution, as it announced Tuesday, it could portend the invocation of 'extraordinary measures'.

STIRS:

- EDH3 -1.5bps at 94.92, M3 -2bps at 94.865, U3 -3.5bps at 95.00, Z3 -4.5bps at 95.36, H4 -4.5bps at 95.845, M4 -5.5bps at 96.28, U4 -6.5bps at 96.57, Z4 -8bps at 96.71, H5 -8.5bps at 96.78, H6 -9bps at 96.835, H7 -10bps at 96.735.
- NY Fed RRP op demand at USD 2.193tln (prev. 2.199tln) across 102 bidders (prev. 103).

CRUDE

WTI (G3) SETTLES USD 0.49 HIGHER AT 75.12/BBL; BRENT (H3) SETTLES USD 0.45 HIGHER AT 80.10/BBL

Oil prices were firmer Wednesday as European growth concerns abate and EIA forecast improved demand outlook. Upbeat Eurozone growth commentary from the EU's Gentiloni, who said GDP is to fall less deep than feared, in addition to Goldman removing its forecast for a Eurozone recession, saw oil prices unwind their APAC session losses during European hours. Some sell-side commentary from Barclays also underpinned the strength, who remain constructive on prices and reaffirmed their Brent 2023 forecast of USD 98/bbl, albeit, they did flag the potential for USD 15-25/bbl downside if the slump in global manufacturing activity worsens, similar to 2008-09. There was some choppy action in the NY morning before new highs were made in the wake of the EIA's STEO that saw it raise its world oil demand forecast for 2023 whilst giving its initial 2024 forecast for a record 102.20mln BPD. WTI and Brent front-month futures eked out session peaks in pre-settlement trade of USD 75.92/bbl and 80.89/bbl, respectively. Traders now look to the weekly US inventory data, with the private release due later on Tuesday ahead of the EIA figures on Wednesday. Analyst expectations (bbls): Crude -2.2mln, Gasoline +1.2mln, Distillates -0.5mln.

EQUITIES

CLOSES: SPX +0.70% at 3,919, NDX +0.88% at 11,206, DJIA +0.56% at 33,704, RUT +1.49% at 1,823.

SECTORS: Communication Services +1.29%, Consumer Discretionary +1.26%, Materials +1.02%, Health Care +0.83%, Energy +0.75%, Financials +0.65%, Technology +0.61%, Industrials +0.54%, Real Estate +0.34%, Utilities +0.04%, Consumer Staples -0.16%.

EUROPEAN CLOSES: EURO STOXX 50 -0.27% at 4,057, FTSE 100 -0.39% at 7,694, DAX 40 -0.12% at 14,775, CAC 40 -0.55% at 6,869, FTSE MIB -0.08% at 25,365, IBEX 35 +0.20% at 8,713, SMI -0.45% at 11,162

STOCKS: **Jefferies (JEF)** EPS was in line with expectations and revenue beat but profit was still -52.5% Y/Y as it was hit by lower underwriting fees and volatile markets that impacted trading income. **Boeing (BA)** was downgraded to underweight from equal weight at Morgan Stanley, citing concerns on overcapacity and how it could hurt pricing power. **Microsoft (MSFT)** is reportedly in talks to invest USD 10bln in OpenAI at a USD 29bln valuation, according to Semafor citing sources. **Amazon.com Inc. (AMZN)** plans to shut three UK warehouses, in a move that will impact 1200 jobs, according to Reuters. **Agilent Technologies Inc (A)** approved a new share repurchase programme of up to USD 2bln of common stock. **Virgin Orbit (VORB)** UK space flight failed to reach orbit. An FTC probe into **Pepsi (PEP)** and **Coke (KO)** soda pricing is said to be at preliminary stages and KO says it is complying with the FTC request. **FedEx (FDX)** is reportedly cutting more Sunday deliveries. **Conagra (CAG)** CEO spoke on inflation, saying we're starting to reach the



other side, inflation is coming down but it has been persistent. CAG added the co. raises prices to recover margins, not boost them. CNBC reported **Apple's (AAPL)** latest App Store revenue stat shows slowing growth. FT reported that **Goldman Sachs (GS)** is embarking on its biggest cost-cutting drive since the financial crisis. **Broadcom (AVGO)** CEO said the article released on Monday re. Apple (AAPL) was irresponsible and added that demand continues to hold up well. **Agricultural names (MOS, CF, NTR)** took a hit on weaker commodity pricing in the industry. **Boeing (BA)** delivered 69 jets in December, gross orders at 250; 2022 deliveries of 480 and 2022 gross orders at 935. **Franchise Group (FRG)** is mulling going private in a management buyout, with a potential price of between USD 30-35/shr, according to WSJ. **Tesla (TSLA)** has applied for a USD 700m expansion of its Gigafactory in Texas, according to Electrek.

HEALTHCARE: CVS Health (CVS) is considering an acquisition of Medicare primary care centres operator **Oak Street Health (OSH)**, according to Bloomberg. The deal could be worth USD 10bln+ including debt. **Pfizer Inc. (PFE)** CEO told JPMorgan's healthcare conference that it was working with a partner in China to make its COVID drug Paxlovid available there starting in H1 2023. CEO also dismissed a report from last week that said companies are working to make generic versions available in China. **CureVac (CVAC)** said it plans further patient trials of its mRNA vaccines for COVID-19 and the flu; meanwhile a **Sanofi (SNY)** veteran, Alexander Zehnder, will become CEO of CVAC in April.

US FX WRAP

The Dollar was flat on Tuesday and within a tight range, with highs seen pre-Powell at 103.490 but with markets being left with no relevant commentary from the Fed Chair, the pre-Powell hawkish market positioning unwound, taking the Dollar to lows of 103.02, before paring to the unchanged handle with support seen at 103.00. There was little data released other than the IBD/TIPP Economic Optimism index which slowed in January, while November wholesale sales posted a surprise decline, and the inventory revisions were left unchanged. The latest Atlanta Fed GDPNow tracker has Q4 growth at 4.1%, up from 3.8%, which incorporates the latest jobs report, M3-2 manufacturing, ISM Services, and wholesale trade data.

The Euro was relatively flat against the Dollar, albeit with a slight upside bias with EUR/USD trading within 1.0713 and 1.0758 parameters. Note, a German government policy advisor said inflation in Germany has probably peaked and if nothing happens, there is no need for the ECB to raise rates by more than 50bps at the next meeting. Note, the messaging of "no more than 50bps" is not necessarily too much of a surprise given that a step-down from 75bps increments to 50bps (for potentially the next three meetings) was a key feature of ECB President Lagarde's messaging at the December meeting. As a guide, markets currently price in 50bps hikes for the Feb and March meetings before stepping down to 25bps by May. However, it is worth highlighting commentary from ECB's Centeno who said the ECB is approaching the end of the rate hike process.

In havens, The Yen was slightly weaker vs the Dollar as US Treasury yields headed higher into the NY afternoon. USD /JPY fell from highs of 132.47 to lows of 131.39 albeit pared to above 132.00 in US trade. Note, APAC trade saw Tokyo CPI in line with forecasts while Japanese household spending missed expectations. The Franc was also weaker vs both the buck and the Euro trading on yield dynamics despite the Dollar's initial slump from highs.

Cyclical currencies were generally weaker vs the buck. NZD "outperformed" and was flat, while the AUD was softer, seeing AUD/NZD test 1.0800 to the downside, albeit was met with support. GBP was weaker vs the buck and the Euro while Cable failed to breach above 1.22 in the morning before paring back to the 1.2150 region. CAD watchers were on the lookout for remarks from BoC's Macklem, but he primarily focused on climate. For the Aussie, Global Times reported Chinese steel firms are resuming coal imports from Australia, with the first batch expected to arrive late-February.

Scandis were weaker vs the Euro while SEK saw weak GDP data but NOK was the clear underperformer following a mixed inflation report, which saw the headline softer than expected, but the core was stronger than expected.

EMFX was mixed. The Real saw gains after its recent riot-induced weakness with the aid of firmer than expected IPCA price data and the Senate passing Federal intervention laws in Brasilia where ex and ailing President Bolsonaro's supporters have been rioting. Peso also saw gains. The Rand was weaker despite mild gains in gold prices albeit accompanied with more loadshedding in South Africa, which was raised to 'stage 6' at certain hours. Meanwhile, the CZK and PLN were flat but cushioned by hawkish CNB and NBP commentary in contrast to the HUF that snapped its winning streak.



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