US Market Wrap

13th January 2023: Falling inflation expectations helps pare earnings-induced stock losses

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW**: Strong UoM, 1yr inflation expectations decline, but 5-10yr rise; Yellen says debt limit to be hit on Jan 19th; Soft bank NII guidance; Weak IB and equity S&T revenues, but buybacks to resume shortly (ex-Citi); BoJ to conduct additional long term bond purchases Monday.
- **WEEK AHEAD**: Highlights include US retail sales, China activity data, ECB minutes, UK data. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing BoJ, ECB minutes, Norges Bank, PBoC LPR, CBRT; reviewing BoK. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: GS, MS, PNC, PLD, SCHW, TFC, PG, NFLX, SLB. To download the report, please click here.

MARKET WRAP

Stocks were ultimately firmer Friday, closing at highs into the long weekend as banks kicked off the Q4 earnings season. There was no one catalyst for price action to end the week, with US data seeing a strong Uni of Michigan consumer survey, which saw 1yr inflation expectations fall to 4% from 4.4%, while the 5-10yr gauge edged up to 3% from 2.9%, similar to the NY Fed's survey. Improved global growth outlook continues to be a theme, with oil prices closing the week at highs amid improved China reopening/demand, while the outlook in Europe has also improved. Those factors are perhaps behind Treasuries selling into the close, although the pronounced bear-flattening on the session is likely part a result of CPI longs taking profits, not to mention the Treasury undertaking 'Extraordinary Measures' to retain debt borrowing capacity in the near-term. We had JPM, Citi, BofA, and Wells Fargo all report Q4 earnings, with a mixed back of figures, which saw largely cautious net interest income guidance for 2023, where FICC trading continues to outperform Equities and Investment Banking. The banks also reported increases in credit provisions as they build buffers for a potential growth slowdown. The general consensus appeared to be that consumer spending remains strong for the time being, however, à la Michigan survey.

US

UoM SURVEY: The preliminary January University of Michigan survey was strong. Headline sentiment rose to 64.6 from 59.7, beating the rise of 60.5 and above the top end of analyst forecast ranges, lifted by the current conditions component. The current conditions index saw a huge rise to 68.6 from 58.0, above the 60.0 expectation. The forward-looking expectations rose to 62 from 59.9, above the 59.5 consensus. The highly-eyed inflation expectations saw similar to what was seen in the December NY Fed consumer inflation expectations. The short-term (1yr) saw a notable decline to 4% from 4.4%, back to levels not seen since June 2021. The longer-term expectations (5-10yr) nudged up slightly to 3.0% from 2.9%. Note, WSJ's Timiraos highlighted a recent SF Fed research paper noting that although the Fed and economists tend to focus on longer-run expectations, the research piece flagged a risk that short-term expirations are influential in wage setting when inflation is high. Therefore, the short-term inflation expectations could help wages cool even further after the recent slowdown we saw in the December jobs report. The improvement in headline sentiment was supported by lower energy prices and better financial conditions, OxEco highlighted. However, the consultancy added, "it doesn’t warrant any change to our near-term forecast for real consumer spending because the relationship between sentiment and consumption is loose, at best."

FED

Bostic (non-voter) said the inflation report was welcome news and may allow the Fed to move more slowly, adding it would be comfortable moving at 25bps if conversations with business leaders are consistent with slowing inflation. Bostic also added that signs of slowing wage increases are also positive.

Harker (voter) didn't touch much on monetary policy or the outlook, but he did suggest the Fed should look into a price-level target or some other kind of framework change that could counteract the asymmetry of a low-neutral-rate environment. He also noted it is time to put more weight on surveys and other soft data, noting they are perhaps equally as important to getting a full understanding of the economy, adding an overemphasis on hard data can lead to policy errors, ie when the Fed thought inflation was transitory.

FIXED INCOME

T-NOTE (H3) FUTURES SETTLE 15 TICKS LOWER AT 114-24+

Treasuries bear-flattened into the weekend as long took profits and the UoM survey came in hot. At settlement, 2s +10.3bps at 4.241%, 3s +9.5bps at 3.906%, 5s +7.0bps at 3.614%, 7s +6.6bps at 3.564%, 10s +6.6bps at 3.513%, 20s +5.0bps at 3.791%, 30s +4.8bps at 3.622%.

Inflation breakevens: 5yr BEI -0.3bps at 2.247%, 10yr BEI -1.9bps at 2.185%, 30yr BEI -4.8bps at 2.21%.

THE DAY: Treasuries entered the US Friday session already on the back foot, initially in a bear-steepener with little to dig into in the overnight session aside from JGBs breaking out of the BoJ's target range. There was a brief rally after the latest ECB TLTRO allotment came in smaller than expected, though, this was shortlived. T-Notes found interim lows of 114-30 in the NY morning before another brief rally into the NY cash equity open, although the front-end failed to find much momentum, further inverting the curve. The stronger-than-forecast Uni of Michigan survey, despite the fall in 1yr consumer inflation expectations, saw better selling develop and T-Notes went on to make fresh lows in the NY afternoon, settling at troughs, aided by oil prices extending to new WTD highs into the long weekend, not to mention profitable longs into-post-CPI closing positions. It's also worth a note that Treasury Secretary Yellen announced Extraordinary Measures are now being implemented, which gives more leeway for increased bill issuance in the near term, which could have been applying pressure to the front end as well.

STIRS:

- EDH3 flat at 94.965, M3 -3bps at 94.875, U3 -7.5bps at 94.98, Z3 -11.5bps at 95.34, H4 -12.5bps at 95.86, M4 -12.5bps at 96.32, U4 -11bps at 96.63, Z4 -9.5bps at 96.785, H5 -8bps at 96.87, H6 -5.5bps at 96.96, H7 -5bps at 96.87.
- NY Fed RRP op demand at USD 2.180tln (prev. 2.203tln) across 103 bidders (prev. 101).

CRUDE

WTI (G3) SETTLES USD 1.47 HIGHER AT 79.86/BBL; BRENT (H3) SETTLES USD 1.25 HIGHER at 85.28/BBL

Oil prices rallied again on Friday, closing the week at highs and marking five consecutive daily gains for the first time since early October. However, despite the USD 5+/bbl and 6+/bbl WTD gains in WTI and Brent front-month futures, that has only seen the benchmarks pare most of last week's losses, with futures still within recent trading ranges from the last few months. Energy catalysts were again on the light side Friday, with desks instead continuing to point to the improved global growth prospects, particularly in Europe and China, not to mention the improving Dollar conditions as the DXY continues to descend. Meanwhile, Reuters reported that Russian crude is being shipped to China and India in five VLCCs between December 2022 and January 2023, exhibiting Russia's ability to push back against the EU's oil embargos. While in the US, Reuters reported that Exxon's (XOM) Beaumont, Texas refinery, currently 366k BPD capacity, is planning to begin a USD 1.2bln expansion of 250k BPD by January 31st. Finally, the latest Baker Hughes US rig count (w/e Dec. 13th) saw oil rigs +5 at 623, Nat Gas -2 at 150, and Total +3 at 775.

EQUITIES

CLOSES: SPX +0.40% + 3,999, NDX +0.71% at 11,541, DJI +0.33% at 34,303, RUT +0.58% at 1,887.

SECTORS: Consumer Discretionary +0.97%, Financials +0.71%, Materials +0.67%, Communication Services +0.54%, Health Care +0.47%, Consumer Staples +0.46%, Technology +0.34%, Energy +0.14%, Industrials -0.12%, Utilities -0.44%, Real Estate -0.61%.

EUROPEAN CLOSES: EURO STOXX 50 +0.57% at 4,150, FTSE 100 +0.68% at 7,847, DAX 40 +0.19% at 15,086, CAC 40 +0.69% at 7,024, FTSE MIB +0.18% at 25,781, IBEX 35 +0.58% at 8,879, SMI -0.03% at 11,285

EARNINGS: **JPMorgan (JPM)** beat on EPS and revenue although NII guidance for FY23 fell short of expectations, while its expenses forecast rose. Its FICC, Equities and IB trading revenues disappointed. Provisions for credit losses were above expectations. The stock was initially lower but it clawed back the losses and more after the earnings call where it highlighted it could buy back up to USD 12bln of stock in 2023, with buybacks set to resume in Q1. Similar was seen at **Wells Fargo (WFC)**, which beat on EPS, NII and NIM in Q4 although revenue disappointed while its FY23 NII guidance of +10% was also soft, WFC is also looking to resume buybacks in Q1 23, although provisions for credit losses were also above expectations. **Bank of America (BAC)** beat on EPS and revenue with strong FICC figures while equities trading was in line. NII fell short however, NIM was in line at 2.22% and non-interest income fell but not as much as expected. BAC expects Q1 NII at USD 14.4bln, beneath expectations of 14.9bln and the Q422 14.8bln. **Citigroup (C)** beat on EPS and revenue and FY23 revenue guidance was strong, but expenses guidance rose while FICC revenue beat expectations but Equities and IB trading revenue missed. In the conference call, the CFO also announced the Co. will continue to pause buybacks. **Bank of NY Mellon (BK)** EPS beat but revenue missed; it also announced a USD 5bln buyback. Meanwhile, WSJ reported BK plans to cut about 3% of its workforce this year, or 1.5k jobs, in efforts to streamline expenses. **Blackrock (BLK)** beat on EPS and revenue but AUM declined. **United Health (UNH)** beat on EPS and revenue but FY23 adj. EPS outlook fell short while revenue guidance was in line. **Delta Airlines (DAL)** beat on EPS and revenue but Q1 adj. EPS guidance was light, while its passenger load factor, ASM and revenue passenger miles missed expectations - failing to live up to the high standards of AAL's pre-announcement on Thursday. For a list of next week's earnings with expectations, please click here.

STOCK SPECIFICS: **Tesla (TSLA)** is to cut prices of new models in the US and Europe. Wedbush's Dan Ives noted the move has started an EV price war with European and US automakers. **Bed Bath & Beyond (BBBY)** is reportedly in talks with Sycamore partners to sell assets, including its Buy Buy Baby stores, as part of a possible bankruptcy process, according to NYT. Note, Bloomberg reported the co. is in talks with lenders over bankruptcy financing. **Wendy's (WEN)** increased its regular cash dividend to 0.25/shr, and announced a new USD 500mln share repurchase authorization. It also gave guidance where it sees Q4 revenue of 537mln (exp. 519mln), and sees FY22 revenue of 2.095bln (exp. 2.08 bln). **Johnson & Johnson (JNJ)** is cutting production of its COVID-19 shot, according to WSJ. **Comcast (CMCSA)** is reportedly interested in buying **WWE (WWE)**, according to Cultaholic.com. **YouTube (GOOGL)** is reportedly testing a new hub of free, ad-supported streaming channels, the latest in a series of moves by the company to expand its ambitions in video, according to WSJ, who note the effort could rival **Roku (ROKU)** and **Fox (FOXA)**. **Apple Inc. (AAPL)** CEO Tim Cook will see his annual pay package slashed by more than 40% this year after criticism from shareholders and Cook himself, BBC reported. Trian Fund Management announced it received inquiries and messages from **Disney (DIS)** investors, and Peltz says he's gotten expressions of support for a Disney seat, according to a filing.

WEEKLY FX WRAP

Buck claws back, but Yen remains well beyond its clutches

USD/JPY: The Dollar derived a bit of traction from deeper post-US CPI lows with the aid of some yield retracement and perhaps short covering ahead of a long weekend (MLK Day holiday on Monday), but the DXY only retrieved a portion of its losses between 103.860-101.970 weekly parameters as the inflation data cemented expectations for another scale down in the pace of Fed policy tightening, to 25 bp at February's FOMC meeting from 50 bp last time and 75 bp increments prior to that. Moreover, the index came under increasing pressure from the Yen amidst positioning for another YCT tweak by the BoJ, if not next week then perhaps soon after. To recap, a Yomiuri report contended that the Bank will assess the side effects of its huge monetary easing at the upcoming meeting due to skewed market interest rates irrespective of December's YCC adjustment. The benchmark/targeted 10 year JGB subsequently breached the top of its new, wider zero +/- 50 bp tolerance band to prompt more emergency bond purchases and the announcement of an unlimited buying operation for January 16, while Usd/Jpy plunged from a circa 132.87 midweek peak through a series of recent lows and chart props to probe 127.50 into Friday's late London fix. Note also, the Greenback was grounded by declines in one year inflation expectations via NY Fed and University of Michigan surveys plus several officials acknowledging encouraging or welcome signs of a peak in prices after a third consecutive cooling in CPI metrics, and with no pushback from Fed Chair Powell at a Riksbank symposium.

AUD: Aside from relative weakness in its US and NZ counterparts, Aussie gains within 0.6860-0.6994 and 1.0799-1.0931 respective ranges were forged on the back of data including final retail sales, inflation (headline and trimmed median) and trade, the Yuan's revival on Chinese reopening grounds, an associated recovery in iron ore prices and other commodities, plus China's decision to lift the embargo on coal imports.

GBP: The Pound got some relief from all the UK doom and gloom on the final session of the week when monthly GDP data defied expectations for a negative m/m print and offered hope that a technical recession may be avoided. However, as strikes continue and the cost of living crisis bites harder, Cable's recovery from sub-1.2100 to almost 1.2250 owed more to Buck weakness and a better gauge of Sterling's performance may be summed up by the Eur/Gbp cross that rallied from 0.8770 to just shy of 0.8900 before topping out.

CHF/EUR: Perceptions about BoJ/Fed policy convergence driving the aforementioned slump in Usd/Jpy will likely grab headlines, but the Franc fell prey to SNB vs ECB divergence dynamics as Eur/Chf spiked from just over 0.9850 to nearly 1.0100 in wake of a major US bank upgrading its outlook for the Eurozone economy to mild growth from recession. The cross gathered momentum when parity was cleared convincingly and relatively soft vs still elevated, albeit easing Swiss compared to EZ inflation levels were factored in on the basis that the SNB may hike 25 bp in March, but the GC remains inclined to stick with 50 bp next month (thereby widening rate differentials further). Nevertheless, this also had a knock-on effect in Usd/Chf that topped 0.9350 from 0.9168 at the other end of the spectrum, in stark contrast to Eur/Usd forming an effective double top around 1.0867-68 against 1.0638 bottom amidst a raft of mainly hawkish-leaning ECB rhetoric, bar comments from Centeno alluding to end end of the hike cycle approaching.

CAD/NZD: Not a lot in terms of independent or specific factors for the Loonie or Kiwi to trade off, so moves were broadly determined by external developments, like broad sentiment, the Greenback and Aussie down under in context of Aud /Nzd flows. Usd/Cad decoupled somewhat from crude as it swung either side of 1.3400 between 1.3454 and 1.3322 extremes and Nzd/Usd trailed Aud/Usd for the most part within a 0.6417-0.6323 band.

SCANDI/EM: The Sek gleaned some support from firmer than forecast Swedish inflation readings and the Nok from a bounce in Brent, but both lost out to the Eur on fundamental and technical impulses. Conversely, the Cnh and Cny challenged key chart resistance against the Usd with impetus from more support for China’s property sector, a wider Chinese trade surplus and appreciating PBoC midpoint fixes for the onshore Yuan, not to mention the return from zero-Covid vibe and Russian demand for its wealth fund. The Zar was impressed by Gold’s rush from Usd 1864.19/oz to Usd 1909.63 and the SA Government underscoring plans to underwrite Eskom’s debt load, the Pln, Huf and Czk acknowledged hawkish minutes and/or remarks from the NBP, NBH and CNB, but the Try was not overly convinced by a marked drop in CBRT year-end survey expectations for Turkish CPI and the Brl was hampered by political unrest as supporters of ex-Brazilian President Bolsonaro staged protests.