US Market Wrap

19th January 2023: Stocks and bonds hit after hawkish ECB Speak and hot US data

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar down.
- **REAR VIEW**: Brainard leans dovish; jobless claims multi-month lows; Philly Fed survey better than feared; Housing starts beat, permits miss; Knot pushes back on dovish ECB sources; Norges bank unchanged.
- **COMING UP**: **Data**: UK Retail Sales, US Existing Home Sales **Event**: PBoC LPR **Speakers**: ECB's Lagarde & Elderson **Earnings**: Ericsson, Sandvik; State Street

MARKET WRAP

Stocks were lower on Thursday, extending the losses seen through the week with hawkish ECB Speak and strong US data serving as headwinds. Treasuries were sold out of Europe after hawkish ECB Speak from Knot, but the stronger US data (falling initial claims, better than feared Philly Fed mfg. survey, and mixed housing starts/permits) added additional pressure, although losses were capped by a solid 10yr TIPS auction and some dovish comments from Fed's Brainard (voter). The Dollar was sold, mainly against the Euro after the further pushback of dovish sources. While in commodities, oil prices firmed despite stock losses and another bearish inventory report as China optimism and the softer Dollar provided support.

US

JOBLESS CLAIMS: Initial jobless claims for the week that coincides with the NFP employment report survey period came in below expectations at 190k, the lowest print since September. The low print took the 4wk average to 206k from 212.5k, while the continued claims printed 1.647mln, beneath the 1.660mln expected. The lower claims help reduce the chance of a hard landing showing the labour market is still hot, and analysts at Pantheon Macroeconomics suggest a decline next week is a decent bet and note seasonals suggest claims will stay beneath 200k for most of Q1. However, the consultancy notes, "this is not definitive evidence that the labor market is defying the slowing in activity evident in other data". PM highlights the claims data lags the Challenger layoffs data which has been rising and points to higher claims in due course. The consultancy also notes that claims are a better leading indicator of upturns than downturns, thus when claims start to rise, the downturn will already be underway.

PHILLY FED: The January Philly Fed slowed at a slower pace than December, with the headline business index at -8.9 from -13.7, and not as slow as the -11.0 expected. Employment returned to expansionary territory at 10.9 from -0.9, while prices paid rose but at a slower pace than the prior at 24.5 from 36.3 (revised up from 26.4). Capex rose to 10.5, slower than the prior 16.2, while new orders came in at -10.9, up from -22.3, and the 6m index was at 4.9 vs -0.9 previously. The report summarizes, "The survey's indicators for general activity, new orders, and shipments rose from last month, but the former two remained negative. The employment index rebounded. The firms reported overall increases in prices: The prices received index remained elevated, while the prices paid index returned to average readings. Most future indicators were positive, but expectations for growth over the next six months were not widespread."

HOUSING STARTS & PERMITS: US housing starts in December fell 1.4% to 1.382mln from the downwardly revised 1.401mln, a smaller fall than the consensus estimate, 1.359mln. The 11.3% increase in single-family starts was overshadowed by the 19% tumble in multi-family starts. Oxford Economics note the figures were still respectable when taking into account the winter storms. The forward-looking building permits saw a surprise fall to 1.330mln from 1.351 mln, against analyst expectations for a rise to 1.37mln, with a decline in single-family permits more than offsetting the gains in multi-family. Regardless, Oxford Economics concludes, "after declining nearly 22% in 2022, we think the worst of the downturn in housing construction is behind us."

FED

BRAINARD (voter) said the recent downshift in the pace of rate hikes allows the Fed to assess more data as it moves policy to a "sufficiently restrictive" level, noting we are now in "restrictive" territory and are probing for a sufficiently restrictive level. Said as the Fed goes further into restrictive territory, there are more two-sided risks. She also hinted she is looking towards a 25bp hike in February, saying Fed downshifted the rate hike pace in December to absorb more data, and that logic is applicable today. Brainard said that policy will need to be sufficiently restrictive for some time, and the drag from policy on US growth and employment will likely increase in 2023. Brainard added she sees tentative signs of moderating wage growth, citing average hourly earnings; will be watching employment cost index data at the end of Jan. to see if deceleration from Q3 continues into Q4. The Fed Vice-Chair said it remains possible that a continued moderation in aggregate demand could facilitate continued easing in the labour market and a reduction in inflation without a significant loss of employment. Brainard said that recent data suggests slightly better prospects to avoid a recession. She also noted the US could see disinflation and still some growth but warned more adverse outcomes are also possible.

COLLINS (non-voter) reaffirmed her view that rates need to rise to likely just above 5%, and then the Fed needs to hold rates there for some time. Said it is appropriate to slow the pace of hikes particularly with risks now more two-sided. She highlighted noticeably slower goods inflation but services inflation remains persistently high. Collins believes we will see a moderation in shelter inflation in the spring of this year. Noted there is still a long way to go on moderating labour market demand. Said labour costs are still growing too rapidly and it is not consistent with the 2% goal. Collins said she is still reasonably optimistic that there is a path to reducing inflation without a significant economic downturn.

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 8+ TICKS LOWER AT 115-20+

Treasuries were sold with modest curve flattening seen after hawkish ECB Speak and strong US data, limited by a solid TIPS auction and dovish Brainard. At settlement, 2s +3.8bps at 4.114%, 3s +4.1bps at 3.760%, 5s +4.8bps at 3.481%, 7s +3.4bps at 3.433%, 10s +1.8bps at 3.393%, 20s +3.1bps at 3.693%, 30s +2.1bps at 3.563%.

Inflation breakevens: 5yr BEI +11.3bps at 2.245%, 10yr BEI +10.7bps at 2.224%, 30yr BEI +7.9bps at 2.243%.

THE DAY: Govvies rallied after the Australian jobs report, a strong JGB auction, and the latest Japanese MoF data for the w/e Jan. 14th showing the strongest weekly demand (of foreign bonds) in over a year. Those factors led T-Notes to session highs of 116-08 before Europe came in and hit the bid with hawkish ECB's Knot applying pressure, trundling lower from there. A pre-US data attempt at a rally was unwound after initial jobless claims and the Philly Fed mfg. survey indicated a hotter labour market and better activity than feared, US housing starts also fell less than feared, albeit permits saw a surprise fall. T-Notes went on to make session lows of 115-14+ in the NY afternoon, with a 5k block sale adding pressure before recovering slightly after the strong 10yr TIPS auction, which stopped through the when issued yield by 4bps. A dovish-leaning Brainard (v) speech also gave some support.

REFUNDING: US to sell USD 42bln of 2yr notes on Jan. 24th, USD 43bln of 5yr notes and USD 24bln of 2yr FRNs on Jan. 25th, and USD 35bln of 7yr notes on Jan. 26th; all to settle on Jan. 31st. In bills, Treasury left 3-, 6-, and 12-month bill sizes all unchanged at USD 60bln, 48bln, and 34bln, respectively.

STIRS:

- SR3H3 -1.5bps at 95.165, M3 -3.5bps at 95.13, U3 -4.5bps at 95.13, Z3 -5.5bps at 95.70, H4 -5.5bps at 96.28, H5 -4bps at 97.30, H6 -5bps at 97.34.
- In options, heavy SOFR call activity, with the largest trade being 60k (across the session) of the SR3M3 95.00/95.125/95.25/95.375 call condors for 3.5.
- NY Fed RRP op demand at USD 2.110tln across 100 bidders (prev. USD 2.132tln across 103 bidders).
- US sold USD 60bln 44-day CMBs at 4.525%, covered 2.85x; sold USD 71bln of 1-month bills at 4.480%, covered 2.41x; sold USD 61bln of 2-month bills at 4.520%, covered 2.53x.

CRUDE

WTI (H3) SETTLED USD 0.81 HIGHER AT 80.61/BBL, BRENT (H3) SETTLED USD 1.18 HIGHER AT 86.16/BBL

Oil prices were firmer on Thursday despite stock losses and another bearish inventory report as China optimism and the softer Dollar provided support. Russian Energy Minister Novak spoke, via Interfax, saying Russian oil output in January was in line with December, not falling, which echoes the recovery in export data in the region. Novak also said, via TASS, that Russia is not discussing with OPEC+ the possibility of its oil production cuts. Meanwhile, Bloomberg reported Washington is pushing for the Russian oil price cap to remain at USD 60/bbl. IEA's Birol also gave some bullish remarks regarding China's recovery.

EIA INVENTORIES: Crude stocks built 8.4mln bbls with no SPR releases this week, a bearish surprise against the consensus draw of 0.6mln bbls and larger than the 7.6mln bbl build indicated in the private data on Wednesday. Cushing, Oklahoma stocks saw a massive 3.6mln bbl build, the largest since April 2020. It's worth noting that there are still likely some after-effects from the winter storms in the data, playing into the eye-catching crude builds. Crude production was unchanged at cycle peaks of 12.2mln BPD. In the products, gasoline built 3.5mln bbls while distillates drew 1.9mln bbls; refinery utilisation rose 1.2%, less than the expected 3.8%.

BIROL: IEA Chief Birol spoke on the sidelines of the Davos WEF and suggested he does not see tightness in [the oil] market currently but has to be aware of uncertainties, but may see tighter markets in 2023 - more so than some others may think. Birol singled out Russia and China as being the two uncertainties and said If China's economy rebounds this year as expected, will see stronger demand. Birol also suggested that Russian oil exports seem more resilient than initially thought but will fall further in Q1 and beyond.

EQUITIES

CLOSES: SPX -0.76% at 3,899, NDX -1.00% at 11,296, DJIA -0.76% at 33,045, RUT -0.97% at 1,836

SECTORS: Industrials -2.08%, Consumer Discretionary -1.69%, Financials 1.2%, Technology -1.14%, Consumer Staples -1.02%, Utilities -1.00%, Materials -0.77%, Real Estate -0.45%, Health Care +0.23%, Communication Services +0.9%, Energy +1.11%.

EUROPEAN CLOSES: EURO STOXX 50 -1.92% at 4,094, FTSE 100 -1.07% at 7,747, DAX 40 -1.72% at 14,920, CAC 40 -1.86% at 6,952, FTSE MIB -1.75% at 25,596, IBEX 35 -1.57% at 8,793, SMI -0.95% at 11,259

STOCK SPECIFICS: JPMorgan cut its Apple (AAPL) price target to USD 180 from USD 190/shr (Wednesday close of USD 135.21/shr) but maintained an Overweight rating on the Co. Alphabet Inc (GOOGL) is reportedly working on a location tracker like Apple's AirTag codenamed "Grogu," Engadget reported. JPMorgan Chase & Co. (JPM) won approval to take full ownership of its Chinese mutual fund venture, according to China's securities regulator. Ford Motor (F) PT was cut at Evercore ISI suggesting Ford could struggle in a recession but see sales come back in 3-6 months thereafter, reported CNBC. ACI Worldwide (ACIW) has reportedly received interest from Clearlake and Silver Lake, according to traders citing an article on M&A blog Dealreporter. Fidelity National Information Services (FIS) rose on speculation of a takeover. Bear Cave announced it was short Planet Fitness (PLNT). A US judge ordered Boeing (BA) to come before a court on the 2021 737 MAX fraud conspiracy charge, according to a filing. WEC Energy (WEC) raised its quarterly dividend to USD 0.78/shr, +7.2%. JB Hunt (JBHT) raised its quarterly dividend to USD 0.42/shr, +5% from USD 0.40/shr.

EARNINGS: Discover Financial Services (DFS) lifted provisions for credit losses, and saw a higher-than-expected net charge-off rate for FY23, both contributing to a negative macro read. Kinder Morgan (KMI) EPS saw a slight beat but revenue missed expectations. It also announced a USD 1bln increase to its share buyback programme. Procter & Gamble (PG) EPS was in line and revenue saw a slight beat, maintained EPS growth outlook but raised sales growth forecasts.

US FX WRAP

The Dollar sold off on Thursday although DXY managed to hold onto 102.00 in wake of "strong" economic data with a hot jobless claims report, a not as bad as feared Philly fed and better than expected housing starts and building permits prints. There was also commentary from Fed's Collins (nv) who repeated it is appropriate to slow the pace of hikes with risks more two-sided while Brainard also warned of two-sided risks and hinted she prefers 25bp in February, but rates are going to have to be held at a sufficiently restrictive level for some time. The Dollar downside was led by gains in the Euro.

Euro rose above 1.08 against the Dollar to highs of 1.0838 from lows of 1.0783 with the single currency supported by further pushback on dovish sources with ECB's Knot, a known hawk, that the ECB is planning to hike 50bps multiple times and that market developments of late (easing financial conditions) are not entirely welcome. After the cool inflation data in the EZ, Knot warned that there are no signs of underlying inflation pressures abating and core inflation shows no signs either, saying the ECB will begin tightening mode until at least mid-year. The latest ECB minutes saw little reaction but they were hawkish, as was expected, noting that a large number of members initially expressed a preference for increasing the key ECB rates by 75bps (as was previously explained) while it also noted loosening financial conditions was seen as an unwelcome development.

The Yen firmed vs the buck helping keep USD/JPY sub 129.00 and beneath 128.50 at pixel time. The Yen held onto its post-BoJ recovery ahead of inflation data that could have further policy implications down the line with the BoJ opting to stand pat this week, although many view a policy switch as inevitable from the BoJ.

The Franc saw gains vs the buck but was weaker vs the Euro after remarks from SNB's Jordan who noted some tightening is probably on the cards, and reiterated if the CHF is too strong, the SNB will not hesitate to act but caveated the CHF is not really a problem given the current inflation environment with domestic inflation now much broader. SNB's Schlegel also spoke noting higher costs can be passed onto customers and that he expects an inflation uptick of 0.5% in January. Schlegel also noted it is hard to determine at what level the terminal interest rate lies and he does not expect a domestic recession.

Cyclical currencies were mixed. GBP continues to gain vs the Dollar after a hot jobs report and hot core CPI print earlier in the week. The currency overlooked commentary from BoE Governor Bailey who noted the MPC does not target a particular peak in rates; EUR/GBP was flat. The Aussie was weaker following the weak jobs report with the unemployment rate rising to 3.5% from 3.4%, above expectations of an unchanged print. The Kiwi was weaker however in wake of the resignation of NZ PM Ardern. Meanwhile, the antipodeans were weighed on by the downbeat risk tone too with stocks tumbling in the US. The Loonie firmed vs the Dollar taking USD/CAD to lows of 1.3447 before hovering around 1.3450 supported by an afternoon bounce in crude prices helping offset the miss on wholesale trade data.

In **Scandis**, NOK saw gains vs the buck but not the Euro after the Norges bank left rates unchanged at 2.75% vs a split consensus for unchanged or a hike of 25bps in a unanimous decision while it guided the bank will most likely hike rates in March.

EMFX was generally weaker than the Dollar on the risk environment, with BRL initially tumbling on remarks from President Lula questioning high interest rates and the need for central bank independence, but BCB Chief Neto reassured markets they will remain independent. The TRY was only marginally weaker after the CBRT left policy unchanged as expected.