



US Market Wrap

23rd January 2023: Stocks rally as tech leads ahead of earnings.

- **SNAPSHOT:** Equities up, Treasuries down, Crude up/flat, Dollar up.
- **REAR VIEW:** Hawkish ECB speak; US leading index falls; Freeport prepares LNG export reopening; G7 considering two price caps for Russian oil products; Elliott takes a stake in CRM; AMD upgraded at Barclays.
- **COMING UP: Data:** German GfK, EZ, UK & US Flash PMIs **Speakers:** ECB's Lagarde **Earnings:** ABF, Logitech; Microsoft, Verizon, JNJ, General Electric **Supply:** Netherlands, Germany & US **Holiday:** China (Lunar New Year).
- **WEEK AHEAD:** Highlights include US PCE and GDP, BoC, Flash PMIs, Aus and NZ CPI. To download the report, please [click here](#).
- **CENTRAL BANKS WEEKLY:** Previewing BoC; Reviewing BoJ, ECB, Norges Bank, CBRT. To download the report, please [click here](#).
- **THIS WEEK'S EARNINGS:** JNJ, MMM, GE, RTX, VZ, MSFT, T, BA, FCX, LRCX, TSLA, IBM, CMCSA, MA, INTC, V, CVX, AXP. To download the report, please [click here](#).

MARKET WRAP

Stocks rallied on Monday with the tech sector leading in lack of major catalysts, as far as fundamental news is concerned. After the monthly options expiries on Friday, the tape is likely finding some technical support, add to that the dovish Waller speech (pre-FOMC blackout) late on Friday and WSJ Timiraos reports that the Fed is set for 25bps in February and will begin discussing when to end the hiking process. Positioning into this week's heavy earnings slate has also been a factor where we hear from a diverse set of corporates/sectors after the mixed financials reports last week. Despite the recent dovish Fed comms, Treasuries bear-flattened through the session, taking cues from EGBs after hawkish ECB commentary, weighed on further by both sovereign and corporate supply on both sides of the pond. Oil prices were choppy, closing off best levels, although nat gas futures were buoyed in wake of Freeport LNG requesting permission from federal regulators to restart the export plant in Texas after completing repairs. In FX, the DXY was slightly firmer, with notable Yen weakness as US yields climbed, activity currencies enjoyed the broader risk appetite, and havens were sold.

DATA

The Leading Index declined 1.0% M/M in December, deeper than the 0.7% contraction forecasted while the prior was revised lower to -1.1% from 1%, continuing to signal a recession for the US economy in the near term. The report said there was widespread weakness among leading indicators in December, indicating deteriorating conditions for labor markets, manufacturing, housing construction, and financial markets in the months ahead. It also said that "Overall economic activity is likely to turn negative in the coming quarters before picking up again in the final quarter of 2023."

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 12 TICKS LOWER AT 114-22

Treasuries bear-flattened amid hawkish ECB Speak and a busy debt supply schedule. 2s +5.5bps at 4.238%, 3s +5.9bps at 3.897%, 5s +6.0bps at 3.627%, 7s +5.3bps at 3.575%, 10s +4.2bps at 3.526%, 20s +3.4bps at 3.812%, 30s +3.6bps at 3.692%.

Inflation breakevens: 5yr BEI +5bps at 2.236%, 10yr BEI +3.7bps at 2.279%, 30yr BEI +3.2bps at 2.292%.

THE DAY: T-Notes made session highs of 115-07 during the APAC session in quiet trade amid lots of the region on holiday. That cleared the way for hawkish ECB Speak to hold sway during European trade and entering the NY session, with T-Notes taking cues from EGBs, albeit somewhat more contained after the latest dovish Fed communications into the FOMC blackout. However, a fairly busy Dollar IG debt supply pipeline, including a three-part, USD 2.1bln P&G (PG) deal, saw additional Treasury selling pressure into the NY morning, with an eye to this week's 2s, 5s, and 7s auctions on Tues, Weds, and Thurs, respectively. T-Notes made session lows of 114-19 before paring a few ticks into the NY afternoon, with any late upside momentum capped by a 9.2k block seller ahead of settlement.



AUCTIONS: 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.

STIRS:

- SR3H3 -2bps at 95.85, M3 -3bps at 96.63, U3 -4.5bps at 96.785, Z3 -7bps at 96.86, H4 -8.5bps at 96.90, H5 -8bps at 96.90, H6 flat at 96.68.
- NY Fed RRP op demand at USD 2.135tln (prev. 2.091tln) across 105 bidders (prev. 98).
- US sold USD 66bln of 3-month bills at 4.585%, covered 2.76x; sold USD 53bln of 6-month bills at 4.685%, covered 2.76x.

CRUDE

WTI (H3) SETTLED USD 0.02 LOWER AT 81.62/BBL; BRENT (H3) SETTLED USD 0.56 HIGHER AT 88.19/BBL

The crude complex optimism appeared to fade into the close, after earlier strength seen amid stronger economic outlook thanks to the expected economic recovery of top oil importer China in 2023. As such, WTI and Brent both hit highs of USD 82.64/bbl and 89.09/bbl, respectively. Fundamental newsflow was sparse, with the highlight arguably the G7 considering two price caps for Russian oil products, one for expensive products such as diesel or gasoline and another for cheaper products e.g. fuel oil, according to Politico citing EU diplomats. Elsewhere, Goldman Sachs noted commodities are set to generate superior total returns this year (up 30% for the S&P GSCI on a 12mth outlook), outperforming other asset classes. In terms of forecasts, it sees WTI and Brent averaging 92/bbl and 97.50/bbl, respectively, in 2023.

GAS: Freeport LNG asked federal regulators for permission to restart Freeport LNG export plant in Texas, as it declared it has completed repairs to Texas LNG plant. EU Securities Watchdog ESMA stated EU gas price cap could impact the orderly functioning of markets and impact financial stability, according to a draft report cited by Reuters. Note, ICE warned late in December that it may remove the trading market (TTF) from the Netherlands in the scenario that a price cap on gas was implemented, according to the FT citing a memo.

EQUITIES

CLOSES: SPX +1.18% at 4,019, NDX +2.18% at 11,872, DJI +0.76% at 33,628, RUT +1.25% at 1,890.

SECTORS: Technology +2.28%, Communication Services +1.77%, Consumer Discretionary +1.57%, Financials +1.11%, Industrials +1.09%, Materials +0.31%, Consumer Staples +0.3%, Health +0.28%, Real Estate +0.23%, Utilities +0.04%, Energy -0.2%

EUROPEAN CLOSES: EURO STOXX 50 +0.76% at 4,151, FTSE 100 +0.18% at 7,784, DAX 40 +0.46% at 15,102, CAC 40 +0.52% at 7,032, FTSE MIB +0.18% at 25,821, IBEX 35 +0.29% at 8,944, SMI +0.92% at 11,398.

STOCK SPECIFICS: Activist investor Elliott Management has built a multibillion-Dollar stake in **Salesforce (CRM)**, according to WSJ. DoJ is conducting a criminal investigation at **Abbott's (ABT)** infant-formula plant in Michigan that led to its shutdown last year, and worsened a nationwide formula shortage, WSJ reports. **Western Digital (WDC)** and Kioxia Holdings progressing with merger talks; reportedly agreed on a corporate structure that would eventually involve a dual-listing in Japan. **Spotify (SPOT)** is planning layoffs as soon as this week, around 6% expected to be cut. Currently has about 9,800 employees, so around 500/600 could be let go. **PayPal (PYPL)** had the German Federal Cartel Office initiate proceedings over potential hindrances against competitors. In other news, banks including **Wells Fargo (WFC)**, **Bank of America (BAC)** and **JPMorgan (JPM)** are said to be planning payment wallets to compete with the likes of PayPal, according to WSJ. **Xylem (XYL)** is to acquire **Evoqua (AQUA)** in an all-stock deal for USD 7.5bln or USD 52.89/shr. Note, Evoqua closed Friday at 41.03/shr. **Advanced Micro Devices (AMD)** upgraded at Barclays; sees potential upside from direct-current and generative artificial intelligence. **Wayfair (W)** double-upgraded at JPM; sees a positive shift in its market share trends and likes management's "newfound commitment" to controlling expenses and investments. **Shopify (SHOP)** upgraded at Deutsche Bank; said brands are growing increasingly interested in the Co. **Ford (F)** is looking to cut 3,200 jobs in Germany's Cologne factory, according to dpa cited by Reuters. **Microsoft (MSFT)** and OpenAI extend a multi-year agreement with MSFT to increase investment of up to USD 10bln over multiple years. **Apple (AAPL)** AR/VR headset to take new approach to eye and hand tracking; working with **Disney (DIS)** and **Dolby (DLB)** on content for headset. **Google (GOOGL)** CEO Pichai said Co. hired too many people during its pandemic growth and without job cuts problems would compound. **Rivian's (RIVN)** chief lobbyist, Jim Chen, is leaving, according



to WSJ; his departure follows numerous other senior leaders leaving in recent months, including its general counsel and head of supply chain, and as Rivian seeks to trim costs to preserve cash. **Disney (DIS)** announced that 'Avatar 2' crossed the USD 2bln mark worldwide after six weeks.

US FX WRAP

The Dollar was firmer to start the week, but it did come after the Buck stoutly defended 101.50 to the downside to rebound to highs of 102.280. The Dollar bounce back came as it extended gains against the Yen and retraced losses against other G10 counterparts, as opposed to anything currency-specific or headline-driven trade. Newsflow on Monday has been thin, but looking ahead, the Fed is currently in blackout prior to the meeting next week, but there is a couple of data points that will be released that has the potential to influence policymaker's thinking (the PCE data, along with wage costs data being the two key releases). Elsewhere, focus will fall on US earnings season with Microsoft (MSFT) and Verizon (VZ) on Tuesday, and other large cap names such as Tesla (TSLA) and AT&T (T) due later in the week. For the record, US leading index for December was released today, falling 1%, deeper than the expected -0.7%, while the prior was revised marginally lower to -1.1%, continuing to signal a recession for the US economy in the near term.

Activity currencies were mixed as the AUD was the clear G10 outperformer and saw decent strength against the Buck, while the NZD was marginally firmer. However, CAD was flat, and GBP saw slight losses. AUD/USD hit a peak of 0.7039 on Monday, as it benefitted from risk-on flows, and as such the Aussie maintained a clear advantage over the Kiwi with the backing of Deutsche Bank predicting a two-big figure rise in AUD/NZD to 1.1000. As such, NZD/USD lagged having failed to breach 0.6500 and will now look towards NZ Business PSI for impetus ahead of CPI on Tuesday, while AUD/USD will get preliminary PMIs before NAB Business Conditions and Confidence in the run-up to inflation data on Wednesday. Meanwhile, the Loonie awaits the key BoC meeting on Wednesday ([preview here](#)), where the central bank is expected to hike by 25bps to mark the peak of its tightening cycle, with eyes on the MPR for inflation and growth forecasts, as well as the output gap estimate. **The scandis** were buoyed by the lift in risk appetite as well as Brent topping USD 89/bbl to the upside.

Safe-havens, CHF and JPY, were the underperformers with the latter the clear laggard as desks cited their weakness amid risk-on flows linked to China's COVID reopening hopes. For the Yen, BoJ December meeting minutes stated the central bank will add some easing if necessary and several members said the effect of powerful monetary easing will continue even if BoJ widens the band around the yield target. Further, the Yen was undermined by strength in JGBs overnight when the Bank announced a JPY 1tn liquidity injection. There was little Franc-focused newsflow, although Credit Suisse does look for the SNB to hike by 50bp in March, against its prior forecast of 25bps, followed by a final 25bps hike to 1.75% in June.

Euro was flat and traded between tight parameters, highlighted by EUR/USD peaking at 1.0926 and seeing a low of 1.0847. Nonetheless, there was a slew of ECB rhetoric ahead of the ECB meeting next week. President Lagarde said inflation in Europe is far too high and must bring it down, and the ECB have made it clear that ECB interest rates will still have to rise significantly at a steady pace. Knot continued in his hawkish vein as he sees two more 50 bp hikes then further tightening in May and June, while Kazmir and Vujcic followed in a similar suit but was in contrast to the more reserved Villeroy, Stournaras and Visco. In data, Eurozone flash consumer confidence for June improved M/M but was slightly lower than expected. Looking to Tuesday, the highlight is flash January Eurozone PMIs.

EMFX was mixed, as MXN and BRL firmed, but RUB, ZAR, and HUF all reside in the red against the Buck. BRL was supported by news Brazil and Argentina signed a bilateral agreement to create a guarantee fund to stimulate Brazilian exports, according to sources cited by Reuters, which followed news the Brazilian government is reportedly considering postponing a meeting of the National Monetary Council scheduled for Thursday. HUF was hindered by Fitch revising Hungary's outlook to negative from stable.

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