newsquawk

US Market Wrap

24th January 2023: Dollar & Bonds choppy on mixed data and Geopolitical tensions

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW**: NYSE glitch; Better-than-expected US and EU PMIs but UK disappoint; Richmond Fed comp. falls into negative territory; US to send M1 Abrams tanks & Germany to send Leopard tanks to Ukraine; VZ & GE guidance light; JNJ lifts 2023 profit view; GOOGL sued by DoJ; Solid 2yr auction.
- **COMING UP**: **Data**: Australian CPI, German Ifo **Event**: BoC Policy Announcement, BoJ SOO **Earnings**: ASML; AT&T, Tesla, Boeing, IBM, Abbott **Supply**: Germany & US **Holiday**: China (Lunar New Year).
- **THIS WEEK'S EARNINGS**: MSFT, T, BA, FCX, LRCX, TSLA, IBM, CMCSA, MA, INTC, V, CVX, AXP. To download the report, please click here.

MARKET WRAP

Stocks traded sideways throughout most of the US session although some weakness was seen on the opening bell amid a flurry of halts on the NYSE on a technical glitch which triggered 84 LULD (Limit Up Limit Down) halts, while more selling was observed heading into the closing bell. On data, US and the EU PMIs were better than expected although the UK release painted a worrisome picture leading to GBP underperformance against a rather flat Dollar, albeit DXY hit highs in wake of the US PMI release before paring after a soft Richmond Fed release alongside lower Treasury yields on geopolitical updates. Treasuries were sold on the PMI data before being bought on the Richmond Fed, as well as finding haven demand on a WSJ report that the US is to send Ukraine M1 Abrams tanks to help in its war with Russia, reversing their initial stance to not send tanks - Germany is now poised to send Leopard tanks to Ukraine and authorise the re-export of tanks from Poland to Ukraine. The 2yr auction was very strong providing more support to the front-end. Earnings saw VZ post strong subscriber metrics but guidance disappointed while JNJ posted a solid report and LMT had a stellar quarter although guidance fell short of expectations.

GLOBAL

BOC PREVIEW: The BoC is expected to hike rates by 25bps in what will likely be the end of the tightening cycle and take rates to 4.50%. There will be eyes on the statement to see if the Bank explicitly signals an end of the hiking cycle, but it is expected to keep forward guidance unchanged after altering it in the December confab for the BoC to consider further hikes based on the data. There will also be an accompanying MPR with attention to inflation and growth forecasts, as well as the output gap. Note, this meeting will also see the BoC offer minutes from the meeting for the first time, which will be released on February 8th, although analysts do not expect the minutes to reveal too much. For the full Newsquawk preview, please click here.

RICHMOND FED: Richmond Fed composite index for January fell back into negative territory in January, as it dropped to -11 from 1.0. Each of its three component indices declined, with new orders sharply falling to -24 (prev. -4), while shipments and employment both dipped to -3, from 5.0 and 3.0, respectively. The wage index increased to 41.0 (prev. 37.0). Local business conditions fell further to -13.0 from -6.0, but expectations marginally improved to -17.0 (prev. -20.0), albeit firms generally reported pessimism regarding conditions over the next six months. Encouragingly, survey results indicated continued easing of supply chain constraints as order backlogs retreated further into negative territory, while vendor lead time remained well below 0, suggesting a continued decline in lead times. The inflationary gauges of prices paid and received both decreased in January, and expectations for both price growth measures over the next 12 months also decreased, as the survey adds to a level much lower than last year.

US FLASH PMIs: US flash PMIs for January surpassed expectations, as services rose to 46.6, above the expected 45.0 and the prior 44.7, while manufacturing lifted to 46.8 from 46.2 (exp. 46.0), which comes ahead of ISM on February 1st. As such, the composite rose to 46.6 from 45.0. The release notes "the US economy has started 2023 on a disappointingly soft note, with business activity contracting sharply again in January". It adds, “jobs growth has also cooled, with January seeing a far weaker increase in payroll numbers than evident throughout much of last year, reflecting a hesitancy to expand capacity in the face of uncertain trading conditions in the months ahead". Finally, it concludes that not only has the survey indicated a downturn in economic activity at the start of the year, but the rate of input cost inflation has accelerated into the new year, linked in part to upward wage pressures, which could encourage a further aggressive tightening of Fed policy despite rising recession risks.

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 11 TICKS HIGHER AT 115-10

Treasuries bull-flattened in a choppy session as data-led selling reversed amid geopolitical tensions. 2s -2.8bps at 4.212%, 3s -3.4bps at 3.863%, 5s -4.5bps at 3.580%, 7s -5.1bps at 3.521%, 10s -5.7bps at 3.466%, 20s -7.3bps at 3.737%, 30s -7.1bps at 3.619%

Inflation breakevens: 5yr BEI +1.4bps at 2.238%, 10yr BEI +0.9bps at 2.276%, 30yr BEI +1.4bps at 2.295%.

THE DAY: Gradual and modest strength for Treasuries seen out of APAC and into European trade, with EGBs initially finding support before fading after decent PMIs in Europe. T-Notes hit highs in the London morning at 114-30+ before paring into the NY morning as several Dollar-denominated IG debt deals came to market and with an eye to the Treasury auctions. An improvement in the S&P Global US Flash PMIs for January extended the Treasury selling to take T-Notes to lows of 144-14. However, that quickly unwound as the Richmond Fed mfg. survey saw a dip, with the WSJ reports that the US is preparing to send tanks to Ukraine adding to haven demand. T-Notes were making highs before midday in NY, and ultimately went on to settle at highs after the solid 2yr auction (details below), with traders now looking to the 5s and 7s on Wednesday and Thursday, respectively.

2YR AUCTION: A solid USD 42bln 2yr auction continues the trend in January of no tails and strong primary market demand. The 4.139% high yield stopped through the WI by 1.3bps, better than the six-auction avg. 0.2bps tail, but not quite as strong as December's 1.9bps stop-through. The 2.94x bid/cover ratio exceeded the prior 2.71x and avg. 2.59x. Dealers (forced surplus buyers) were left with a small 16.3% as opposed to December's 19.1% and avg. 21.2%, all thanks to a step-up in Indirects demand to 65%. The strong Indirects will naturally raise suspicions over a strong foreign demand base, particularly given recent US Treasury allotment data has indicated such, not to mention the Japanese MoF data showing net buying lately from Japanese accounts.

STIRS:

- SR3H3 +1.5bps at 95.885, M3 +1.5bps at 96.675, U3 +1.5bps at 96.840, Z3 +2.5bps at 96.915, H4 +4.0bps at 96.955, H5 +6.0bps at 96.960, H6 flat at 96.730.
- NY Fed RRP op demand at USD 2.048tln (prev. 2.135tln) across 100 bidders (prev. 105).
- US sold USD 38bln of 1yr bills at 4.470%, covered 2.87x.
- US left its 17-week bills and 2-month bill sizes unchanged at USD 36bln and 65bln, respectively, but increased its 1-month bills again to USD 70bln from 65bln.

CRUDE

WTI (H3) SETTLED 1.49 LOWER AT 80.13/BBL; BRENT (H3) SETTLED USD 2.06 LOWER AT 86.13/BBL

The crude complex was lower on Tuesday, with WTI and Brent trundling lower throughout the NY session, to settle at lows ahead of inventory data this evening. Some desks attributed the weakness to global economic slowdown fears, but PMI data was generally good as US and Eurozone figures both topped expectations, albeit UK’s disappointed. As a result, the oil downside appears more technical as WTI failed to convincingly hold above USD 80/bbl, similar to what was seen in both early December and early January. However, the fundamental argument is that oil is likely to be underpinned by a stronger economic outlook thanks to the expected economic recovery of top oil importer China in 2023. Separately, according to Energy Intel sources, US is said to weigh the cancellation of the next SPR sale, which follows earlier reports US Energy Secretary Granholm said President Biden would veto the House Republican bill on the SPR if it passes Congress. Elsewhere, ahead of the 1st February OPEC+ meeting, Reuters and Bloomberg sources suggested the OPEC+ JMMC panel is unlikely to recommend any changes to oil outlook policy at the meeting. Looking ahead, energy participants look to the private inventory data after hours. This week's expectations (bbls): Crude +1.0mln, Distillates -1.1mln, Gasoline +1.8mln.

EQUITIES

CLOSES: SPX -0.07% at 4,016, NDX -0.22% at 11,846, DJI +0.31% at 33,733, RUT -0.27% at 1,885.

SECTORS: Communication Services -0.69%, Health -0.65%, Energy -0.22%, Consumer Discretionary -0.17%, Technology -0.04%, Materials +0.04%, Financials +0.1%, Consumer Staples +0.38%, Real Estate +0.4%, Utilities +0.49%, Industrials +0.65%.

EUROPEAN CLOSES: EURO STOXX 50 +0.05% at 4,153, FTSE 100 -0.35% at 7,757, DAX 40 -0.07% at 15,093, CAC 40 +0.26% at 7,050, FTSE MIB +0.24% at 25,884, IBEX 35 +0.26% at 8,967, SMI -0.03% at 11,402.

EARNINGS: **Johnson & Johnson (JNJ)** had a mixed report; topped on profit but missed on revenue. FY23 EPS outlook was strong as it bets on stronger demand for its pharmaceuticals products and a recovery in its medical devices business. **General Electric (GE)** beat on the top and bottom line; guidance was weak, as both FY and next quarter profit guidance fell short. Renewable energy operating loss was deeper than expected as it continues to see persistent problems in the subsector. **Verizon (VZ)** posted solid metrics; revenue and postpaid phone net customers topped expectations. However, FY profit guide was light. **3M (MMM)** missed on profit but beat on revenue; will cut about 2,500 global manufacturing roles. Q1 and FY23 profit guidance disappointed as it expects macroeconomic challenges to persist in 2023. **Lockheed Martin (LMT)** surpassed St. consensus on the top and bottom line; FY guide was slightly light of expectations. **Paccar (PCAR)** beat on EPS and revenue. **Halliburton (HAL)** profit topped Wall St. expectations while revenue was inline; raised quarterly dividend to USD 0.16/shr (prev. 0.12/shr). **D R Horton (DHI)** surpassed expectations on profit and revenue. **Union Pacific (UNP)** missed on profit and revenue.

STOCK SPECIFICS: DoJ sued **Google (GOOGL)** over the search giant’s dominance over the digital advertising market and is seeking the divestiture of Google ad manager suite, including Google's ad exchange, ADX, and said Google sought to fight rivals using anti competitive tactics for 15 years. **Magna (MGA)** warned that EBIT margins for 2022 will fall short of its prior guidance due to numerous reasons, including decreased contribution on lower sales, operating underperformance at certain facilities and higher labour and other operational inefficiencies. **Lyft (LYFT)** was upgraded at KeyBanc; said it should feel positive impacts from cost-saving measures. JPMorgan upgraded **Blackstone (BX)**; said BX is a “best in class” business that’s set for a soft landing. **Walmart (WMT)** will start investing in higher wages for associates. **Paramount Global (PARA)** is reportedly discussing rebranding its Showtime cable channel “Paramount+ With Showtime” and stocking the network with content from its Paramount+ streaming service, according to WSJ sources.

US FX WRAP

The Dollar was flat on Tuesday with DXY trading on either side of 102.00 between lows of 101.71 and highs of 102.43. The highs were seen just after the US equity open which saw several stocks halted on NYSE due to limit up/limit down rules on some extreme, sporadic moves in 84 stocks (the moves had reversed once trade resumed), while better than expected S&P Global PMI data also gave the buck a helping hand, alongside reports the US is moving towards providing Ukraine with Abrams tanks. Germany is also said to be planning to give Poland the green light to also send tanks to Ukraine. The geopolitical updates also led to a bid in US Treasuries before the move lower in yields took the buck back to unchanged levels.

The Euro saw mild gains with two-way price action on PMI day although the EU PMIs as a whole saw the services and manufacturing prints above expectations, taking the composite back to expansionary territory. The report noted a steadying of the eurozone economy at the start of the year adds to evidence that the region might escape a recession. There were several ECB speakers on Tuesday too, Villeroy suggested the ECB will reach peak rates by the summer, although Simkus said this may be unlikely but the ECB should continue with 50bp hikes. Nagel said the ECB is not done on inflation that remains far too high, and Panetta said the ECB should not commit to any specific policy move beyond February.

The Yen saw strength vs the buck thanks to the fall in US Treasury Yields although USD/JPY hit a high just after the equity open in a Dollar led move in wake of the PMI data and aforementioned geopolitical tank updates. The move in USD/JPY saw a high of 131.11 although the move was short lived as US yields began to fall across the curve.

The Franc was marginally weaker vs the dollar and the Euro despite a widening trade balance in December although Swiss watch exports slowed while SNB's Schlegel reiterated remarks last week. Schlegel said the SNB cannot rule out further interest rate rises at present, while it expects a weak growth dynamic in the coming quarters and it is too early to sound the all clear for inflation in Switzerland.

Cyclical currencies were mixed. GBP was the underperformer after dismal PMI data in the morning which missed on the services, manufacturing and composite while the commentary was also downbeat and underscored the risk of the UK slipping into a recession. AUD and NZD both saw marginal gains vs the Dollar while the Australian PMI's improved on services and composite, but the manufacturing PMI slipped into contractionary territory. Meanwhile, Aussie business confidence wasn't as bad as November, but conditions had worsened. CAD was flat vs the Dollar despite the slump in crude prices while attention turns to the BoC rate decision on Wednesday, full preview available here.

EMFX was mixed. BRL saw notable gains after Brazilian mid-month inflation came in hotter than expected, albeit desks still expect disinflation despite the stall. MXN was flat despite mid-month inflation data that came in hot for Mexico in Jan., keeping Banxico on its hawkish toes, although economists point to higher indexation as a technical factor behind the firmer reading. Banxico's Heath noted there is still a lot to worry about in terms of inflation, and the data is not showing any clear signs we have reached a peak, but it is possible. The HUF firmed notable vs the Euro after the NBH left rates unchanged as expected at 13% while pledging to maintain its tight policy in a patient approach.