US Market Wrap

26th January 2023: Stocks, yields, and oil rise on strong GDP and falling jobless claims

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: US GDP beat expected, 9-month lows in initial jobless claims, and massive aircraft-led surge in durable goods; Strong TSLA earnings; Upbeat reopening commentary from LVS; Weak LUV & DOW numbers; Solid 7yr auction; CVX lifts dividend & share buyback programme; Dovish SARB rate hike; FERC approves some Freeport LNG restarts; CRM board shake-up.
- **COMING UP**: **Data**: EZ M3, US PCE Price Index, Personal Income & Consumption **Speakers**: ECB's Lagarde **-** No Text **Holiday**: China (Lunar New Year).
- **THIS WEEK'S EARNINGS**: INTC, V, CVX, AXP. To download the report, please click here.

MARKET WRAP

Stocks were firmer on Thursday and closed at highs after a choppy open amid the deluge of US data which largely came in hot. The NDX led the index strength in markets after Tesla (TSLA) saw double-digit gains post-earnings. There was a plethora of other earnings, with some of the highlights being weak reports from Southwest Airlines (LUV) and Dow (DOW), but decent numbers from Mastercard (MA) and American Airlines (AAL). On macro, Q4 advanced GDP beat expectations, accentuated by 9-month lows in initial jobless claims and a massive beat on headline durable goods orders in December, although a lot of that came from the volatile aircraft sector. The Treasury curve flattened amid the hot data keeping the pressure on the Fed, with duration finding support after the solid 7yr auction concluded a month of coupon offerings that didn't see a single tail. Oil prices were supported by the data also. While in FX, the DXY firmed mainly at expenses of the Yen, Euro, and Franc, while activity currencies benefitted from cyclical asset bias.

US

GDP: GDP came in above expectations at 2.9% (exp. 2.6%), but slowed from Q3's 3.2% and was beneath the Atlanta Fed GDP Now tracker for 3.5%. The consumer spending component rose 2.1%, beneath the 2.9% expectation and cooling from the 2.3% pace previously. The deflator rose 3.5%, above the 3.3% expectation, but cooler than the 4.4% prior. The Core PCE Prices rose 3.9%, cooler than the 4.0% consensus and 4.7% in Q3, although the more timely December PCE data was released on Friday. Although the headline looks strong, when looking into the report the headline figure was buoyed by inventory builds, contributing c. 1.5% of upside. The surprise cooling on consumer spending is a worry and analysts are cautious for what this means in the months ahead after the January retail sales slowed more than expected. Analysts at ING also point out they are concerned the inventory builds are involuntary and are a result of weaker than expected demand from consumers, highlighting "consumer demand is softening at a time when improved supply chains have boosted the stock of products available". The desk also highlights the improvement in net trade is due to lower imports rather than exports rising, also a sign of a weak demand outlook. ING concludes "to sum up, we have good growth but not for great reasons."

DURABLE GOODS: US durable goods surged 5.6% in December, reversing the prior -1.7%, and more than the expected +2.5%, as the headline got a significant lift from transportation, as orders jumped 16.7%, after falling 5% in November, largely thanks to a 115.5% rise in nondefense aircraft orders, namely Boeing (BA). Note, transportation can be very volatile and as such Oxford Economics notes, “the new data doesn’t warrant any change to the baseline forecast nor does it alter the risks that a recession begins in Q2. Manufacturing is going to weaken in the first half of this year as past appreciation in the US dollar, a deteriorating global economy a past tightening in financial market conditions take their toll”. Meanwhile, Durables ex-transport orders fell 0.1% (prev. 0.1%, exp. -0.2%), while nondefe cap ex-air was inline with consensus at -0.2% (prev. 0.1%), a lot more measured vs the headline surge. Overall, OxEco adds “there are some ominous signs for manufacturing, as ISM manufacturing survey’s new order index fell in December, (third consecutive month beneath 50), and new orders index is the lowest it’s been since the teeth of the pandemic.”

JOBLESS CLAIMS: Initial jobless claims fell to 186k in the week ending Jan. 21st, well beneath the expected rise to 205k from the upwardly revised prior 192k. That brings the 4wk average to 197.5k from 206.8k. While continued claims rose to 1.675mln from 1.655mln, above the expected 1.659mln. Seasonal factors or not, initial claims have now fallen to the lowest since April 2022 and will be of concern for policymakers looking for a loosening in the labour market.

However, some economists point to the rise in continued claims as an indication that employers may be slowing their hiring pace, despite being reluctant to lay off workers.

HOME SALES: US new home sales in December rose slightly to 616k from the downwardly revised 602k, more or less in line with the expected 617k. Pantheon Macroeconomics, to wit, "sales have been broadly flat since August, despite mortgage applications suggesting that sales should have fallen sharply since then." Pantheon says, "This disconnect likely is explained largely by a lack of existing homes coming to the market, which is pushing buyers towards the new home market, but it's not clear how much longer this can last."

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 9 TICKS LOWER AT 114-27

The Treasury curve flattened after hot US data kept the pressure on the Fed and the strong 7yr auction concludes a month of no tails. At settlement, 2s +4.6bps at 4.183%, 3s +4.5bps at 3.886%, 5s +4.7bps at 3.591%, 7s +4.0bps at 3.549%, 10s +3.3bps at 3.495%, 20s +2.1bps at 3.760%, 30s +0.5bps at 3.629%.

Inflation breakevens: 5yr BEI +5.5bps at 2.314%, 10yr BEI +4.3bps at 2.340%, 30yr BEI +1.8bps at 2.337%.

THE DAY: Treasuries drifted sideways through thin APAC Thursday trade before coming under pressure in the European morning, aided by a 6.2k T-Note block seller. The IMF's hawkish BoJ proposal added to the pressure on global govvies, with the belly weakest on the curve entering the NY session. Note also the weekly MoF data saw Japanese accounts net sellers of foreign bonds for the first time in a little while. Treasuries were edging lower as US players arrived, aided by another 4k T-Note block seller. T-Notes fell to session lows of 114-21+ in a knee-jerk reaction to the 08:30ET US data deluge, with hot Q4 GDP data accentuated by 9-month lows in initial jobless claims and a massive beat on headline durable goods orders in December. However, the selling couldn't last, and Treasuries soon pared the move. But the front-end retested lows as curve flatteners were plied on into the NY afternoon, at the same time the belly was hesitant to extend too far ahead of the 7yr auction with Dealers in concession mode. But that proved futile after yet another solid auction, seeing T-Notes reclaim 115-00 into settlement and the front-end weakest as the curve inverted further.

7YR AUCTION: Another strong auction to conclude the January auction cycle, completing the trend of nothing but tails. The 3.517% high yield marked a 2.1bp stop-through, better than the prior tail of 0.9bps and the six-auction avg. 0.1bp tail. The 2.69x bid/cover ratio was comfortably above the prior (2.45x) and average (2.51x). Dealers (forced surplus buyers) were left with a minuscule 6.1%, compared to the average 13.9%, and similar to the other auction this month, that was a result of a big step-up in Indirects participation to 77.1% (avg. 67%), coming as foreign demand surges more broadly alongside the recent slide in the Dollar.

AHEAD: Treasury participants now enter a hairy period with Friday's PCE and final UoM survey concluding the week from a data standpoint, with attention now on next week's Employment Cost Index on Tuesday, FOMC, refunding, and ISM mfg. on Wednesday, with payrolls and ISM Services on Friday.

STIRS:

- SR3H3 -1.5bps at 95.86, M3 -3bps at 96.61, U3 -3.5bps at 96.765, Z3 -3.5bps at 96.845, H4 -5bps at 96.895, M4 -6.5bps at 96.925, U4 -6.5bps at 96.94, Z4 -6.5bps at 96.935, H5 -5.5bps at 96.915, H6 flat at 96.745, H7 flat at 95.543.
- NY Fed RRP op demand at USD 2.024tln (prev. 2.032tln) across 97 bidders (prev. 99).
- US sold USD 76bln of 1-month bills at 4.500%, covered 2.59x; sold USD 61bln of 2-month bills at 4.525%, covered 2.57x.
- Next Monday's 3- and 6-month bill auction sizes left unchanged at USD 60bln and 48bln, respectively.

CRUDE

WTI (H3) SETTLED USD 0.86 HIGHER AT 81.01/BBL; BRENT (H3) SETTLED USD 1.35 HIGHER AT 87.47/BBL

The crude complex saw gains on Thursday on continued China optimism and solid US economic data all supporting the global demand outlook. Technicals are also in focus as WTI hit a high of USD 82.14/bbl, right after the strong US GDP and durable goods data, but once again failed to hold above USD 82/bbl, a level which is seemingly looking like a tough nut to crack.

FREEPORT: The FERC approved Freeport LNG's request to begin the restart process at its Texas LNG plant, but only approved the cool down of transfer piping and related systems. Freeport will have to seek additional regulatory approvals to restart the liquefaction trains.

RUSSIA: EU officials announced that the Commission has proposed a price cap on Russian premium oil products of USD 100/bbl and USD 45/bbl on discounted oil products. The proposal has been sent to EU governments and is to be discussed on Friday before entry into force on February 5th.

STRIKES: TotalEnergies (TTE FP) stated pension reforms strike action is interrupting shipments at French production sites, except for the Feyzin refinery (119k BPD), and as such continue to ensure petrol stations are supplied, with no shortage.

REFINERIES: Libya's NOC is to restart the Ras Lanuf (220k BPD) complex. In the US, Valero (VLO) is planning to start up its new coker at its 335k BPD Port Arthur Texas refinery by early May. Meanwhile, Reuters reported the DoE is to announce over USD 100mln funding to expand US biofuel production.

EQUITIES

CLOSES: SPX +1.10% at 4,060, NDX +2.00% at 12,051, DJI +0.61% at 33,948, RUT +0.67% at 1,903.

SECTORS: Energy +3.31%, Consumer Discretionary +2.03%, Communication Services +1.65%, Technology +1.61%, Real Estate +1.1%, Industrials +0.57%, Materials +0.48%, Financials +0.48%, Utilities +0.38%, Health +0.16%, Consumer Staples -0.28%.

EUROPEAN CLOSES: EURO STOXX 50 +0.62% at 4,173, FTSE 100 +0.21% at 7,761, DAX 40 +0.34% at 15,132, CAC 40 +0.74% at 7,095, FTSE MIB +1.32% at 26,217, IBEX 35 +0.87% at 9,035, SMI -0.70% at 11,325.

EARNINGS: **Tesla (TSLA)** reported top and bottom-line beats, but cash flow and operating margin came in soft. CEO Musk noted in January it is seeing the strongest orders in its history with orders almost twice the rate of production. He also said Tesla might be able to produce and sell 2mln vehicles in 2023, absent external disruptions. **IBM (IBM)** profit was in line while revenue slightly beat; Co. is to cut roughly 4k jobs, or 1.5% of its staff, which will result in a USD 300mln charge in the January-March quarter. **Dow (DOW)** missed on EPS and revenue; next quarter guidance was also light. Co. is cutting 2k roles and shutting down select assets with actions expected to deliver USD 1bln in cost savings. **Southwest Airlines (LUV)** posted a deeper loss per share than expected and missed on revenue as it saw a rise in flight cancellations. For the next quarter, it sees a surprise loss per share on cancellation impacts. **Comcast (CMCSA)** beat on top and bottom line; raised quarterly dividend 7.4%. Revenues propped up by higher broadband and wireless segment revenues outside of regions hit by Hurricane Ian. **American Airlines (AAL)** metrics were in line with expectations; whilst it lifted its FY23 profit view. **Las Vegas Sands (LVS)** reported a deeper loss per share than expected and missed on revenue. However, it gave upbeat commentary as it said a relaxation of travel restrictions in China enabled increased visitation and tourism spending in Dec/Jan and expects a broad recovery, including at its property in Macau. **Mastercard (MA)** posted solid numbers; but, guided FY EPS view beneath expectations. Macroeconomic and geopolitical uncertainty persists, but consumer spending has been remarkably resilient. **Seagate (STX)** beat on top and bottom line. **Sherwin-Williams (SHW)** missed on revenue and FY profit guide was way short of consensus. Exec said 2023 base case is to prepare for the worst and sees H1 'meaningfully better' than H2 '23.

STOCK SPECIFICS: **Salesforce (CRM)** is discussing appointing new board members; in talks to appoint Arnold Donald, while Valueact's Morfit and **Mastercard's (MA)** Mehra may also get seats, according to Bloomberg sources. **Chevron (CVX)** boosted quarterly dividend +6% to USD 1.51/shr; announced a USD 75bln share repurchase programme, with earnings due on Friday. **Chipotle (CMG)** is to hire 15k amid strong growth and has been raising wages to attract and keep staff. **Meta (META)** is paying **BuzzFeed (BZFD)** millions of Dollars as part of an effort to bring more creators to the social-media giant's platforms, according to WSJ citing sources. US Senator Warren has written to the FTC to express concern about **Amgen's (AMGN)** plan to buy **Horizon Therapeutics (HZNP)** and **Indivior's (INDV LN)** plan to buy **Opiant (OPNT)**. **Amazon (AMZN)** has been buying land for next-generation warehouses, whilst also selling its Bay Area office complex as sales growth slows, according to Bloomberg. **Bed Bath & Beyond (BBBY)** tumbled after it said in a filing it does not have sufficient resources to repay amounts under credit facilities.

US FX WRAP

The Dollar was choppy on Thursday, fleeting between a peak of 102.19 and a trough of 101.50, on the back of generally upbeat US data. Despite some underlying weaknesses, Q4 GDP came in at 2.9% vs 2.6% forecast, headline durable goods rose 5.6% against a 2.5% consensus and weekly claims dipped further below 200k, to 186k vs an anticipated rebound to 205k. Overall, the US economic updates also underscored hopes of a soft landing to the benefit of risk sentiment in general. Looking ahead, earnings season remains in focus, with Intel and Visa afterhours on Thursday, ahead of December PCE and final UoM survey on Friday. Of course, this all comes ahead of the pivotal FOMC next Wednesday, with payrolls two days later.

Activity currencies were mixed, where the CAD was the clear outperformer. NZD and AUD also saw mild gains, whilst GBP was flat in contained parameters. The Loonie managed to retrace some of its losses from Wednesday after the BoC rate decision, where it dialled down to a 25bps hike alongside a conditional pause. USD/CAD traded between 1.3304-3408, weighed on by the improving demand outlook, particularly for oil, but the Loonie could not manage to pierce 1.33 to the downside. For the Antipodes, there was little currency-specific newsflow, more just trading off general sentiment and macro headlines, and as such AUD/USD hit a high since June ’22 of 0.7142. Onto Friday, New Zealand ANZ survey and business outlook, in addition to Q4 Australian PPI. Sterling was hampered by another bleak CBI survey, and this time distributive trades, but Cable took its cues from Dollar moves to trade 1.2430-1.2359 parameters, although the Pound did claw back some losses against the Euro.

EUR, **CHF**, **and JPY** all saw weakness to varying degrees against the Dollar. EUR/USD hit a high and low of 1.0929 and 1.0851, respectively, with technicians noting the Euro manage to defend the semi-psychological level of 1.0850 after hitting a 9-month high earlier in the session. The Franc also ran into resistance, as USD/CHF hit a high of 0.9225 but the Swissy failed to break the level and as such the cross saw a low of 0.9159. Lastly, the Yen was the respective underperformer and was weighed on by rising Treasury yields, in addition to USD/JPY seeing upside in wake of the aforementioned US data. The BoJ's 50bps cap on 10yr JGB yields leaves the Yen vulnerable to yield rises elsewhere. Note there was some fleeting Yen strength after the IMF said the BoJ should allow bond yields to move in a more flexible manner.

EMFX was predominantly softer. The Real was flat, with state oil co Petrobras (PBR) appointing its new CEO ahead of a meeting with President Lula. The Yuan was the relative outperformer, seeing tailwinds from the continued optimism around China regarding its reopening of its economy. The Rand resides in the red as it was caught off-guard by the SARB rate decision, as it hiked by 25bps to 7.25% as opposed to the expected 50bps. Within the release, SARB said risks to inflation assess to the upside and it cut its 2023 GDP growth forecast due to extensive power cuts.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com