US Market Wrap

27th January 2023: Stocks bought and Bonds sold into a key risk week

- **SNAPSHOT**: Equities up, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: PCE prices inline, but consumer spending weakens; UoM inflationary gauges revised lower; Woeful INTC earnings; Solid AXP guidance & V numbers; BA plans to hire 10k workers in '23; Pending home sales surprisingly rose; Hot Japanese CPI; Japan & Netherlands have agreed to join the US on China chip curbs.
- **WEEK AHEAD**: Highlights include FOMC, ECB and BoE policy announcements, PMI data, EZ CPI, GDP & US Jobs. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing FOMC, BoE, ECB and BCB; Reviewing BoC. To download the report, please click here.
- **NEXT WEEK'S EARNINGS**: [TUES] UPS, CAT, XOM, PFE, MCD, AMGN, AMD; [WED] NVS, TMUS, TMO, META; [THURS] SONY, LLY, HON, MRK, BMY, COP, GOOGL, QCOM, AMZN, GILD, SBUX, AAPL; [FRI] SNY, CI. To download the report, please click here.

MARKET WRAP

Stocks accelerated gains on Friday with E-mini S&P futures briefly rising above 4100 before falling back beneath the figure ahead of the closing bell. The upside was led by the large caps, once again, which helped the Nasdaq outperform amid strong gains in Tesla (TSLA), Amazon (AMZN), Google (GOOG) and Apple (AAPL) with the latter three set to report earnings next Thursday. US data saw PCE prices in line with expectations, while personal spending saw a deeper decline than expected, adding to the weakening consumer narrative. Meanwhile, the Final UoM survey in Jan. was mixed with expectations improving but current conditions falling, although both 1yr and 5-10yr inflation expectations were revised 0.1% lower. Treasuries were sold into the weekend in lack of fresh catalysts as participants position into FOMC week, alongside quarterly refunding, ISMs and US NFP. Energy prices stumbled ahead of OPEC next week with some desks attributing the downside to strong Russian supply. The Dollar was bid with DXY trading either side of 102.00 while JPY outperformed after hot Japanese inflation data overnight. On the earnings front, Intel (INTC) closed over 6% lower after woeful numbers, but on the other end Visa (V) and American Express (AXP) firmed after a profit and revenue beat and strong guidance, respectively.

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PERSONAL INCOME & SPENDING/PCE: The Core PCE Price index rose 0.3%, in line with expectations and up from the prior pace of 0.2%, while Y/Y cooled to 4.4% from 4.7%, also in line with expectations. Looking into the report, the prices for goods showed a continued decline, falling 0.7%, accelerating from the prior decline of 0.4% in November. However, the services prices, one of the Fed's main concerns, accelerated to +0.5% from +0.4% - not something the Fed will be happy with given fears that services inflation is more sticky than goods inflation which is moving as a function of improved supply chains. After the miss in Q4 personal spending on Wednesday, the December Personal consumption also missed, falling 0.2% (exp. -0.1%), with the prior revised lower to -0.1% from +0.1%. Another sign that consumer demand is weakening with consumers holding back from expenditure. This is also shown in the increase in the savings rate from 2.4% to 3.4% in December. Overall, it is a mixed report for the Fed with prices showing evidence of slowing but the services prices remain a problem. Meanwhile, consumer demand is weakening as evidenced by the personal spending decline and rise in savings rate.

UOM: The final revisions to the University of Michigan data in January was mixed. Headline sentiment saw a slight revision higher to 64.9 from 64.6, above expectations for an unchanged print. The revision higher was led by a rise in the forward looking expectations to 62.7 from 62.0, but was hampered by a revision lower to the current conditions to 68.4 from 68.6. Meanwhile, the inflation expectations saw an improvement. The 1yr expectations fell to 3.9% from 4.0%, while the 5-10yr fell to 2.9% from 3.0%. Note, a SF Fed paper a few weeks ago noted Fed and most economists pay attention to longer run expectations, but the research paper flagged a risk that short-term expectations are influential in wage setting when inflation is high. Note, analysts at Oxford Economics write "Consumer sentiment continued to remain upbeat in January aided by moderating inflation, and lower energy prices, but 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."

PENDING HOME SALES: US pending home sales rose 2.5%, above the expected -0.9% and downwardly revised prior –2.6%. The rise in pending home sales in December, alongside the lift in mortgage purchase applications over recent weeks, makes Oxford Economics suggest that existing home sales are close to bottoming out around their current rate of 4mln annualised. Oxford Economics adds, the recent fall in mortgage rates looks to be feeding through to some stabilisation in housing demand, albeit at weak levels. As such OxEco concludes “with the Fed set to hike rates further and continue sounding hawkish, and the economy likely to enter recession in the coming quarters, any recovery in home sales will be modest at best and most likely delayed until later in 2023.”

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 8 TICKS LOWER AT 114-19+

Treasuries were sold into the weekend in lack of fresh catalysts as participants position into FOMC week. 2s +2.9bps at 4.207%, 3s +2.3bps at 3.906%, 5s +3.3bps at 3.621%, 7s +3.3bps at 3.576%, 10s +2.5bps at 3.516%, 20s +0.5bps at 3.764%, 30s +0.4bps at 3.632%

Inflation breakevens: 5yr BEI -0.1bps at 2.315%, 10yr BEI -0.7bps at 2.330%, 30yr BEI -0.9bps at 2.325%.

THE DAY: Govvies trundled lower through the APAC and European session on Friday with catalysts on the light side barring the firmer-than-expected Tokyo CPI report. The solid 7yr auction on Thursday, which marked the first month of no coupon auction tails since 2016, failed to sustain strength into Friday. T-Notes made session lows of 114-12 ahead of US players arriving. PCE data confirmed expectations for a fall, with shorts covering in reaction, seeing T-Notes pare losses. However, 114-21+ served as resistance with the contracts hovering beneath into settlement. The nudge lower in the UoM survey consumer inflation expectations didn't make much difference either.

NEXT WEEK: Treasury participants now enter a hairy period with next week's Employment Cost Index on Tuesday, followed by FOMC, refunding, and ISM mfg. all on Wednesday, then payrolls and ISM Services on Friday.

STIRS:

- SR3H3 +0.0bps at 95.815, M3 -0.5bps at 96.560, U3 -2.0bps at 96.720, Z3 -3.0bps at 96.810, H4 -4.5bps at 96.860, M4 -6.0bps at 96.885, U4 -5.0bps at 96.895, Z4 -4.0bps at 96.885, H5 -3.5bps at 96.865, H6 flat at 96.675, H7 flat at 95.545.
- NY Fed RRP op demand at USD 2.004tln (prev. 2.024tln) across 96 bidders (prev. 97).

CRUDE

WTI CRUDE (H3) SETTLED USD 1.33 LOWER AT USD 79.68/BBL; BRENT (H3) SETTLED 0.81 LOWER AT 86.66/BBL

The crude complex was lower, to post a week of losses with potential profit taking place and some other nuanced factors. On this, some desks allude to the potential indications of strong Russian supply as a reason, highlighted by oil loadings from Russia's UST-Luga port set to rise to 1mln tonnes for February 1-10th (prev. 0.9mln tonnes M/M). Elsewhere, G-7 suggested EU cap Russian diesel exports in USD 100-110 range, which is in-fitting with what an EU official said on Thursday of a 100/bbl cap on premium oil products. Looking ahead, aside from the key macro risk events next week, such as Fed, NFP, ISM etc, attention will fall on OPEC JMMC.

EARNINGS: Chevron (CVX) posted a record profit for 2022, which was more than double a year earlier, but it fell short of the expected, but it did beat on revenue. However, CEO did note Permian production will be "a little bit" lower than planned in 2023, and petroleum demand is recovering on China reopening.

CARGOES: North Sea Forties to load 12 cargos in March (vs 9 in Feb), according to a trade source cited by Reuters. North Sea Oseberg crude oil stream to load 4 cargoes in March (prev. 3 cargoes in February), according to Reuters.

STRIKES: Strikes at TotalEnergies (TTE FP) sites have been suspended, and will be proposed again on January 31st, via CGT Union.

EXPANSION: Exxon (XOM) Beaumont, Texas refinery (366k BPD) reportedly reset its initial start date for crude unit to early February from late Jan. XOM is set to spend USD 1.2bln on a 250k BPD expansion.

BAKER HUGHES: Baker Hughes US Rig Count (w/e Jan. 27th): Oil -4 at 609, Nat Gas +4 at 160, Total unchanged at 771.

GAS: ICE is preparing to launch a parallel market for TTF futures and options contracts on its ICE Futures Europe from February 20, 2023, subject to completion of relevant regulatory processes. TTF futures contracts on ICE Futures Europe will mirror those on ICE Endex but will not be subject to the MCM Regulation and related TTF price cap. As a reminder, ICE warned late-December that it may remove the trading market (TTF) from the Netherlands in the scenario that a price cap on gas was implemented.

EQUITIES

CLOSES: SPX +0.25% at 4,070, NDX +0.96% at 12,166, DJIA +0.08% at 33,977, RUT +0.44% at 1,911.

SECTORS: Consumer Discretionary +2.27%, Real Estate +0.95%, Communication Services +0.88%, Technology +0.44%, Industrials +0.35%, Financials +0.05%, Utilities -0.04%, Consumer Staples -0.26%, Materials -0.34%, Health -0.69%, Energy -2%.

EUROPEAN CLOSES: EURO STOXX 50 +0.10% at 4,178, FTSE 100 +0.05% at 7,765, DAX 40 +0.11% at 15,150, CAC 40 +0.02% at 7,097, FTSE MIB +0.83% at 26,435, IBEX 35 +0.27% at 9,060, SMI +0.13% at 11,332.

EARNINGS: **Intel (INTC)** missed on top and bottom line; next Q guidance disappointed as revenue missed and it sees a surprise loss per share. Sees persistent economic headwinds expected through at least H1 2023. **Visa (V)** topped consensus on EPS and revenue, and cross-border volumes - a key measure that tracks spending on cards beyond the country of issue - jumped 22% Y/Y. **American Express (AXP)** missed on profit and revenue; but it raised quarterly dividend 15% to USD 0.60/shr alongside FY23 EPS view topping expectations. **KLA Corp (KLAC)** beat on past quarter metrics, but next quarter guidance was light on the expected. **HCA Healthcare (HCA)** posted disappointing results, highlighted by profit and revenue missing expectations. Guided initial FY23 outlook beneath analyst expectations. **L3 Harris (LHX)** earnings impressed; topped on EPS and revenue alongside lifting FY23 guidance. **Chevron (CVX)** posted a record profit for 2022, which was more than double a year earlier, but it fell short of the expected, but it did beat on revenue. **Charter Communications (CHTR)** missed on the top and bottom line. **Hasbro (HAS)** reported prelim Q4 results which missed expectations alongside soft guidance; will layoff 1k staff in 2023 (approx. 15% of global workforce) and COO Eric Nyman is to step down.

STOCK SPECIFICS: **Intel (INTC)** said the EU commission has revisited one part of an old antitrust case and it could face a fresh EU fine; follows EU court last year toppling watchdog's EUR 1.06bln penalty, according to Bloomberg. **Goodyear Tire (GT)** said Q4 results fell short of expectations given the significantly weaker industry backdrop; plans to fire about 5% of its workforce. In reaction to this, peers such as Michelin, Continental, and Pirelli saw downside in European trade. **Silvergate Capital (SI)** suspended series A preferred stock dividend in order to preserve capital. **Lucid Motors (LCID)** surged after it was the subject of buyout chatter on M&A blog Betaville. **Bed Bath & Beyond (BBBY)** faltered in an effort to find a buyer in bankruptcy. **Boeing (BA)** plans to hire 10k workers in 2023 after adding 15k in 2022. **Chewy (CHWY)** was upgraded at Wedbush as it expects it to benefit from steady demand for consumables in 2023. **Amazon (AMZN)** will reportedly charge fees on US grocery orders of less than USD 150; previously offered free delivery on some orders over USD 35.

WEEKLY FX WRAP

Several market-moving data points and some dovish policy pivots

USD - The Dollar had a lengthy wait for tier one US macro releases to arrive, but preliminary PMIs and a semi-surprise from the BoC prompted price action along the way as the DXY fluctuated around 102.00 within an almost equidistant 102.430-101.500 range. To recap, the flash PMIs were better than expected, albeit still sub-50, and helped the index hit highs for the week before a fade and retreat to marginal new y-t-d low in the run up to a raft of data on Thursday, including advance Q4 GDP, durable goods orders and jobless claims. The former came in stronger than forecast, durables even more so and weekly claims fell further below 200k to confound consensus for a rebound to 205k. This gave the Buck another boost, but the DXY never really got close to best levels again as core PCE metrics were bang in line with expectations (y/y measure cooling to 4.4% from 4.7% previously) to underscore pricing for another scale down in the pace of Fed tightening next week. Moreover, the Greenback was capped by month end rebalancing factors given sell signals against most G10 rivals, and some lingering premonition that the BoC may have set the tone for others to follow by delivering a smaller 25 bp hike before pausing its cycle. However, most officials backed a 5%+ terminal rate ahead of the FOMC blackout and that implies at least one more ¼ point increase after February.

JPY/NZD/AUD - All off peaks vs their US peer, but on course to net weekly gains between 131.11-129.03, 0.6525-0.6438 and 0.7142-0.6959 parameters, largely on the back of latest inflation reports. In short, Tokyo CPI was considerably hotter than anticipated, the headline y/y rate in Australia accelerated to a three decade-plus high and NZ readings were firmer than forecast, albeit under the RBNZ's own estimate for Q4. Hence, the Aud/Nzd cross rallied from circa 1.0760 to 1.0984 on hawkish RBA rate recalibrations in contrast to markets remaining content with another 50 bp from the RBNZ. Back to Japan, and minutes of the BoJ's December policy meeting revealed jitters about the YCT tweak, but this month's SOO showed divisions over the outlook for wages and inflation, which suggests that Governor Kuroda may face opposition in terms of his pledge to maintain accommodation until he departs in April.

CAD - The Loonie staged an impressive recovery from midweek low (1.3428) against its US counterpart to high since the middle of November 2022 (1.3302 or thereabouts), irrespective of the fact that the BoC called time on its series of rate hikes to assess the situation having reached a peak of 4.5%, and the comeback appeared to be mainly technical and risk-driven. Note also, BoC Governor Macklem stressed the conditionality of the pause and a resumption of the tightening cycle if the economy and inflation does not progress in line with the Bank's projections.

CHF/GBP/EUR - CS raised its call for the SNB to hike by 50 bp in March from 25 bp previously, but Schlegel was more reticent in stating that further interest rate rises cannot be ruled out at present, as its too early to sound the all clear for Swiss inflation even though a weak growth dynamic is anticipated in the coming quarters. Thus, the Franc was more in sync with external factors as it topped and bottomed at 0.9159 and 0.9279 vs the Dollar, while clawing back to parity against the Euro from 1.0069 at one stage, while the Pound did well to stay within sight of 1.2400 and contain losses around 0.8850 respectively (latter being the equivalent of 1.1300 in Gbp/Eur) given a bleak set of UK data and surveys (record ex-banks PSNB, far from flash services and composite PMIs, CBI trends and trades plus sub-forecast/prior PPI prints). Indeed, Sterling also had to contend with a dovish HSBC take on next week's BoE rate verdict as the Bank predicted more MPC votes for a 25 bp hike than the half point factored in. Last, but far from least in context of importance, the Euro got mostly encouraging EZ PMIs and upbeat Ifo expectations to feed off, but it encountered stiff resistance on the 1.0900 handle and fell prey to LHS flows/orders for the 4 pm London close that saw Eur/Usd trip stops on a break of 1.0850 and a retest of lows between 1.0929-1.0836 bounds awaiting the ECB hot on the heels of the Fed (and BoE) next week.

SCANDI/EM - The Nok gleaned traction from solid/stable Brent on balance, and perhaps DNB's upward revision to its Norges Bank rate outlook (25 bp hikes in both March and June now envisaged), but bleak Swedish data weighed on the Sek regardless of Nordea pencilling an extra 25 bp hike from the Riksbank in April. Elsewhere, the Cnh got a lift when HK returned from New Year festivities on the reopening from Covid vibe, but the Try derived little from various fresh CBRT measures aimed at supporting the Lira and enhancing Liraization and the Zar was rattled by the SARB confounding consensus for a 50 bp hike and opting for 25 bp instead rather than Gold retreating from just shy of Usd 1950/oz. Conversely, the Huf rallied after the NBH reaffirmed its guidance to retain restrictive policy for a long time and use all measures to ensure liquidity, not to mention a welcome decline in natural gas prices, the Mxn strengthened in tandem with Mexican equites and WTI, and the Brl was boosted by strength in underlying commodities.