newsquawk

US Market Wrap

30th January 2023: Hot Spanish inflation catalyses profit taking ahead of Chaos Week

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Hot Spanish HICP; Dovish Kuroda rhetoric; Federal court rejects JNJ's plan to push talc lawsuit into a bankruptcy court; Biden weighs cutting off Huawei from US suppliers; F cuts prices; Tuesday's German CPI delayed.
- **COMING UP**: **Data**: Australian Retail Sales, Chinese NBP PMIs, German Retail Sales, French CPI (Prelim.), EZ GDP Flash Prelim., US Consumer Confidence **Supply**: Italy & Germany **Earnings**: Vantage Towers, KPN; Exxon Mobil, Marathon Petroleum, General Motors, Phillips 66, UPS, Pfizer, SYSCO, Caterpillar, AMD, Electronic Arts, Snap.
- **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.
- **THIS 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 and broader risk appetite suffered on Monday where a hot Spanish inflation print was enough to catalyse profit-taking before the week's deluge of key events. The firmer-than-expected flash Spanish CPI saw a knee-jerk sell-off in bonds and stock futures in the European morning, and that weakness held for the remainder of the session. The risk aversion was evident in sector performance with Staples and Utilities outperforming whilst Energy and Tech led losses. There was no US data to dwell on, with participants instead positioning ahead of key risk events. Johnson & Johnson (JNJ) was in the spotlight as its shares tumbled on news of its talcum bankruptcy case being dismissed by the US Appeals Court. Cross-asset, oil prices descended through the session, finding additional pressure from the supply side as signals of strong Russian exports outweighed the Chinese recovery hopes and geopolitical tensions. Oil and commodities also saw headwinds via the FX channel too as the Dollar advanced, albeit the Euro was the least scathed amongst the majors.

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 10+ TICKS LOWER AT 114-09

Treasuries extended their rout with a bear-flattener to start the week with hot Spanish inflation setting the tone ahead of a very busy week. 2s +5.2bps at 4.259%, 3s +6.0bps at 3.968%, 5s +6.0bps at 3.681%, 7s +4.8bps at 3.627%, 10s +3.5bps at 3.553%, 20s +2.9bps at 3.794%, 30s +3.0bps at 3.664%.

Inflation breakevens: 5yr BEI -1.8bps at 2.285%, 10yr BEI -1.7bps at 2.302%, 30yr BEI -1.8bps at 2.292%.

THE DAY: Mild strength in govvies was seen through APAC trade on Monday with desks noting some real money buying amid the return from the Lunar New Year holiday, taking T-Notes to session highs of 114-25. That all reversed in wake of the hot Spanish inflation data ahead of the French metrics on Tuesday and Wednesday's EZ-wide figure pre-ECB. Although, do note, Germany's DeStatis has delayed the release of CPI data due to technical problems; data will be published next week, with the exact date to be announced on Friday. T-Notes knee-jerked lower by 10 ticks or so to the Spanish data before trundling further into the NY session. Session lows of 114-05+ were made amid the US corporate debt pipeline picking up, including a four-part USD 3bln+ IBM deal. Treasuries failed to recover more than a few ticks ahead of settlement.

FINANCING ESTIMATES: The Treasury released its financing estimates ahead of the refunding announcement on Wednesday where it expects to issue USD 932bln (analyst consensus targeted 860bln) in net marketable debt in Q1, assuming a March-end cash balance of USD 500bln; expects to issue USD 278bln (vs analyst consensus 210bln) in net marketable debt in Q2, assuming a June-end balance of USD 550bln. Treasury said the increase in the Q1 borrowing estimate from the USD 579bln it estimated back in October is due to the lower beginning-of-quarter cash balance and projections of lower receipts and higher outlay.

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

STIRS:

- SR3H3 -1bps at 95.15, J3 flat at 95.105, M3 -2.5bps at 95.085, U3 -4bps at 95.225, Z3 -5.5bps at 95.535, H4 -8 bps at 96.00, M4 -10bps at 96.425, U4 -10bps at 96.72, Z4 -9.5bps at 96.885, H5 -8.5bps at 96.985, H6 -6bps at 97.085, H7 -4.5bps at 97.015.
- Fed Funds February contracts saw 40k sold via blocks ahead of FOMC.
- NY Fed RRP op demand at USD 2.049tln (prev. 2.004tln) across 106 bidders (prev. 96)
- US sold USD 69bln of 3-month bills at 4.595%, covered 2.47x; sold USD 55bln of 6-month bills at 4.680%, covered 2.93x.

CRUDE

WTI (H3) SETTLED USD 1.78 LOWER AT 77.90/BBL; BRENT (H3) SETTLED USD 1.76 LOWER AT 84.90/BBL

The crude complex trundled lower Monday, settling at lows, amid the broader risk-off as impending rate hikes and signals of strong Russian exports outweighed the Chinese recovery hopes and geopolitical tensions. Highlighting the Russian exports, it reportedly intends to raise diesel exports in February despite the EU ban, with Feb. seaborne diesel exports planned at 2.74mln T. Additionally, Russian oil exports by sea rose to a two-month high of 3.2 mln BPD in the second week of Jan., after falling to an average of 2.6mln BPD in Dec. Bloomberg also report that Russia is to ban oil exports that adhere to the Western price caps. In the week ahead, the OPEC+ JMMC is the main oil-specific highlight, but Fed, ECB, and BoE rate decisions will all be imperative. On top of this, US earnings from the petrol-heads Marathon Petroleum (MPC), Phillips 66 (PSX), and Exxon (XOM) are all on Tuesday.

CARGOES: North Sea Ekofisk crude oil stream to load 13 cargoes in March (prev. 12 in Feb.). Troll crude oil stream to load 6 cargoes (prev. 7) and Brent oil stream to load 2 cargoes (unchanged).

OPEC: OPEC+ JMMC panel not likely to recommend changes to OPEC+ oil policy on Feb. 1st, according to Reuters. Russian President Putin and Saudi Crown Prince discussed OPEC+ by phone, and discussed maintaining price stability.

EQUITIES

CLOSES: SPX -1.30% at 4,017, NDX -2.09% at 11,912, DJIA -0.77% at 33,717, RUT -1.35% at 1,885.

SECTORS: Energy -2.29%, Technology -1.94%, Communication Services -1.8%, Consumer Discretionary -1.71%, Real Estate -1.24%, Industrials -0.97%, Health -0.93%, Materials -0.7%, Financials -0.52%, Utilities -0.45%, Consumer Staples +0.07%.

EUROPEAN CLOSES: EURO STOXX 50 -0.46% at 4,158, FTSE 100 +0.25% at 7,784, DAX 40 -0.16% at 15,126, CAC 40 -0.21% at 7,082, FTSE MIB -0.38% at 26,335, IBEX 35 -0.12% at 9,049, SMI +0.42% at 11,379.

STOCK SPECIFICS: **Johnson & Johnson (JNJ)** had a federal appeals court reject its plan to use a legal strategy to push approx. 38k talc lawsuits into a bankruptcy court, according to WSJ. JNJ said it will challenge the decision. **Ford (F)** is to cut the price of the Mustang Mach-E, in a response to **Tesla (TSLA)** recent cuts. F is to also significantly raise production at its Mach-E factory in Mexico. Tesla offers a new USD 3k discount or free Supercharging with trade-ins, slashing prices further, according to Teslarati blog. **Boeing (BA)** to expand 737 MAX production, adding a production line in Everett, Washington which is to start H2 '24, according to Reuters citing an email. **Apple (AAPL)** supplier **Jabil (JBL)** has begun making components for AirPods in India, a significant step in its push to expand production in the country to reduce its reliance on China. **Baidu (BIDU)** plans to roll out an AI chatbot service similar to OpenAI's ChatGPT in March. **Samsung (SSNLF)** is reportedly considering cutting chip production, according to CNBC citing Korea Economic Daily. **Alliance Resource Partners (ARLP)** reported a beat on profit and revenue; said it is well-positioned to achieve a record year in 2023. **SoFi Technologies (SOFI)** posted a shallower loss per share than expected and beat on revenue. **Bed Bath & Beyond (BBBY)** is expected to file for bankruptcy soon and faces limited options to reorganise as a going concern. **Colgate-Palmolive (CL)** upgraded at Morgan Stanley; said the recent dropdown in shares creates an attractive entry point for investors. **Boot Barn (BOOT)** downgraded at Baird; cited concerns over macroeconomic risks for the sector.

US FX WRAP

The Dollar was firmer to start the week to hit a session high of 102.310, surpassing Friday's high of 102.18, amid broad risk-off sentiment as market participants await the pivotal risk events later in the week, in the form of FOMC, NFP, ECI, and earnings season out of the US, on top of the BoE and ECB rate decisions. Fundamental newsflow was thin on Monday but the desk remains cognizant of month-end flows, where Morgan Stanley predicts USD sales versus all major crosses except the NOK.

Activity currencies were softer, with the Aussie the underperformer and the Kiwi the relative outperformer against the Greenback. The former lagged on a couple of factors, namely subdued commodity prices, the aforementioned risk aversion sentiment and AUD/NZD headwinds linked to month-end positioning plus encouraging NZ macro news in the form of a markedly smaller trade gap. As such, AUD/USD hit a low of 0.7052, just managing to defend the psychological 0.7050 to the downside. This comes ahead of final Aussie retail sales, housing and private sector credit on Tuesday. Kiwi saw impetus from its trade balance on Monday, where its net imports notably decreased M/M, resulting in a lessening trade deficit for December. Meanwhile, the Pound and Loonie remained hampered by global macro sentiment, as Cable awaits the BoE rate decision on Thursday, where the central bank is anticipated to raise rates a further 50bps, even if the MPC is not unanimous.

The Euro was lower, albeit the relative G10 outperformer, as EUR/USD hit a high and low of 1.0913 and 1.0840, respectively. On the data front, there was a surprise rise in Spanish HICP, against an expected further slowdown, which gave the single-currency an unexpected boost albeit which it later unwound. The respective data raised the prospects of policy convergence between the Fed and ECB, where the latter is widely expected to lift rates by 50bps on Thursday. Aside from Spanish inflation, newsflow was fairly sparse as traders await the rest of the week. Although, Germany's DeStatis delayed the release of CPI data that was due Tuesday due to technical problems with data processing; data will instead be published next week, with the exact date to be announced on Friday. But, Eurostat will publish January EZ CPI as scheduled on Wednesday, February 1st, and will use it as an estimate for the German data.

The Yen was weaker and as such approaches a raft of Japanese data on the back foot having reversed from APAC-session peaks of 129.21 to 130.40 amidst UST-JGB divergence following dovish commentary from BoJ Governor Kuroda to counter talk about changing the 2% inflation target to a long-term goal by think tank head Okina. Note, Kuroda said distortion in the yield curve remains but more time is needed to gauge the impact of the December move (YCC tweak) on market function.

The Swissy traded between narrow parameters of 0.9183-9256, and at pixel time resides towards the top end of the range.

EMFX was pretty flat against the Greenback, with the ZAR the outright laggard and the CNY the clear outperformer as corrective price action and further PBoC support for the Chinese economy gave it a boost upon returning from Lunar New Year. The Rand continues to be weighed on by power-related issues. Elsewhere, Mexican Deputy Finance Minister ruled out any fiscal adjustments for 2023. Looking ahead, the BCB rate decision (Wednesday) and Chinese PMIs (Tuesday) serve as highlights for EMFX this week.