US Market Wrap

31st January 2023: Stocks and bonds rally into month-end amid falling wage pressures on the eve of FOMC

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Softening ECI; Soft French inflation; Woeful German retail sales; Surprisingly strong EZ Q4 GDP; Disappointing Chicago Fed and consumer confidence; Weak PFE guidance; Stellar GM report; IMF forecasts UK recession; PYPL laying off 7% of staff.
- **COMING UP**: **Data**: Chinese Caixin Manufacturing PMI, EZ, UK & US Final Manufacturing PMIs, EZ HICP Flash, US ADP, ISM Manufacturing, JOLTS, Construction Spending **Events**: FOMC Policy Announcement & Press Conference and OPEC+ JMMC **Supply**: UK, Germany & US (Quarterly Refunding Announcement) **Earnings**: Novo Nordisk, Entain, GSK, Vodafone, Novartis; McKesson, AmerisourceBergen, Meta, T-Mobile, Thermo Fisher, Altria.
- **THIS WEEK'S EARNINGS**: [TUES] 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 rallied into month-end with the softening Q4 Employment Cost Index (ECI) adding dovish fuel to the fire. Data out of Europe was two-way with soft French inflation and German retail sales juxtaposed against surprisingly strong Eurozone Q4 GDP, capping the bid on sovereign bonds. But Treasuries bull-steepened further as the US session got going, particularly after the Q4 ECI added further evidence to softening wage growth pressure on the eve of the FOMC. On the corporate front, Exxon (XOM) reported a solid quarter whilst also jawboning oil prices firmer on the earnings call, Pfizer (PFE) earnings were impacted by faltering COVID vaccine sales, while GM (GM) reported a solid quarter and painted a solid outlook. Cross-asset, the Dollar was ultimately lower, a result of risk appetite and falling yields, although note the Swiss Franc saw particularly strong gains, with speculation that the SNB could have stepped in; Sterling underperformed, with it being the sole G7 economy forecasted by the IMF to see a recession this year. Participants now look to FOMC, quarterly refunding, and ISM mfg. all on Wednesday, with ECB and BoE on Thursday, then payrolls and ISM Services on Friday.

US

FOMC PREVIEW: The analyst consensus sees the FOMC lifting its Federal Funds Rate target by 25bps to 4.50-4.75%, with a small minority noting the potential for a larger 50bps hike increment. Money markets are pricing the smaller move with almost certainty, but further through the year, are underpricing the December SEP-implied terminal rate of 5.1% and are even pricing risks of Fed easing at the back half of 2023. Chair Powell is likely to stay the course around the fight against inflation not being over and the "higher for longer" policy stance, guiding to more hikes in the future despite the latest encouraging disinflationary data, but it's seen as unlikely that any efforts to jawbone tighter financial conditions will be successful barring a change in the data, with markets themselves in data-dependency mode. Meanwhile, Powell may provide the Fed more optionality to cater for a 'soft landing' by leaning into recent Fed Speak regarding the potential for disinflation absent a meaningful rise in unemployment. For a full Newsquawk preview, please click here.

ECI: The Q4 Employment Costs Index fell to +1.0% from +1.2% in Q3, a deeper fall than the expected +1.1% and the smallest rise since Q4 2021. The fall was led by wages and salaries falling to +1.0% from +1.3%, while benefit costs fell to +0.8% from +1.0%. The report will be seen as a positive for policymakers in the inflation fight given it's the latest data point to showcase falling wage pressures, particularly after the wage data in the December jobs report; Brainard recently said she would be watching the ECI report for confirmation that wage growth is moderating. But similarly, it's likely to be framed as just progress at this stage, rather than victory, with the absolute level still above levels that are considered in line with price stability. Nonetheless, the direction is clear and will give fuel to a discussion of an end to the Fed's tightening cycle.

CONSUMER CONFIDENCE: Consumer confidence in January dipped to 107.1, short of the expected 109.0 and the prior, revised higher, 109.0, corroborating Oxford Economics' view that consumer spending, and the broader economy, are weakening. Although on an aside, real-time credit card data has picked up again into January, while card providers have been sanguine on the state of the consumer after Q4 reports. Looking further in The Conference Board report, the present situation index encouragingly rose to 150.9 (prev. 147.2), but the forward-looking expectations index declined to 77.8 (prev. 82.4). Note, the index fell sub-80, a level which has been historically associated with a recession. On the jobs front, jobs plentiful marginally lifted to 48.2% (prev. 47.8%), and as such jobs hard-to-get dipped to 11.3% (prev. 11.9%). However, despite lower gasoline prices, one-year ahead inflation expectations rose to 6.8% from 6.6%. Moreover, with the Fed set to raise interest rates by 25bps on Wednesday (Newsquawk preview here), it would flow into weaker-than-expected consumer spending, which could stall the economy.

CHICAGO PMI: Chicago PMI slightly declined in January to 44.3 from 45.1, beneath the expected 45.0. Pantheon Macroeconomics says the recent rise in civilian aircraft orders points to a rise in the Chicago PMI in the months ahead, but the very near-term outlook elsewhere is bleak. As a whole on an M/M basis manufacturing output is already falling, and the consultancy thinks this will continue through Q1, at least. However, one bit of optimism is the upturn in China's January manufacturing PMI, as the economy rebounds from the zero-COVID exit, but Pantheon adds it will take a few months before feeding through to an improvement in US manufacturing. Pantheon concludes, "the small decline in the Chicago PMI, meanwhile, means we are sticking to our view that the January national ISM index, due tomorrow, will fall for the fifth straight month."

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 7+ TICKS HIGHER AT 114-16+

Treasuries bull-steepened Tuesday after softening employment costs data added to the softer French inflation data. 2s -5.4bps at 4.207%, 3s -5.7bps at 3.911%, 5s -5.2bps at 3.631%, 7s -3.8bps at 3.589%, 10s -2.8bps at 3.524%, 20s -0.9bps at 3.782%, 30s -0.9bps at 3.651%.

Inflation breakevens: 5yr BEI -4.2bps at 2.235%, 10yr BEI -3.8bps at 2.250%, 30yr BEI -4.9bps at 2.231%.

THE DAY: Treasuries chopped through the APAC session before rallying on the in-line/slightly cooler than consensus French inflation metrics before slipping following unexpectedly positive EZ Q4 Q/Q GDP. T-Notes recovered into the NY handover, however, and rallied to session highs of 114-25+ in reaction to the deeper fall than expected in the critical Q4 Employment Costs Index. But the bid did not sustain, and a retest of lows was made all before midday in NY as participants dug into the January consumer confidence, where the headline was soft, but labour tightness signs worsened as the difference between jobs plentiful and jobs hard to get widened, while the present situation sub-index picked up.

AHEAD: Treasury participants now look to FOMC, quarterly refunding, and ISM mfg. all on Wednesday, then payrolls and ISM Services on Friday.

STIRS:

- SR3H3 +1bps at 95.16, M3 +1.5bps at 95.095, U3 +3bps at 95.255, Z3 +4.5bps at 95.58, H4 +6.5bps at 96.06, M4 +7.5bps at 96.50, U4 +8.5bps at 96.805, Z4 +9bps at 96.975, H5 +9bps at 97.075, H6 +6.5bps at 97.145, H7 +4.5bps at 97.055.
- NY Fed RRP op demand at USD 2.062tln (prev. 2.049tln) across 103 bidders (prev. 106).
- US to sell USD 75bln of 1-month bills and USD 60bln of 2-month bills on February 2nd, and USD 36bln of 17-week bills on February 1st; all to settle on February 7th and all sizes unchanged.

CRUDE

WTI (H3) SETTLED USD 0.97 HIGHER AT 78.87/BBL; BRENT (J3) SETTLED USD 0.96 HIGHER AT 85.46/BBL

The crude complex was firmer on Tuesday, recovering earlier losses on Dollar weakness and Exxon jawboning. Exxon (XOM) CEO post-earnings said he sees potential for continued tight global oil markets and tight supplies as some producers pull back. As such, Exxon said it is prepared for a potential commodity downturn. Co. also reported decent earnings as it beat on EPS and revenue, as did Marathon Petroleum (MPC). Looking ahead, OPEC JMMC is on Wednesday, but it is only to take stock of energy market fundamentals and will not be a decision-making meeting; the next OPEC+ Ministerial Meeting is currently slated for 4th June 2023. Elsewhere, the pivotal FOMC meeting is on Wednesday, as well as a slew of US data, which is bound to impact the Dollar and commodity demand outlook. Note that Brent crude March options have now expired, with interest moving to the April contract. Meanwhile, participants look to the weekly US energy inventory data with the private release due later Tuesday before the EIA figures on Wednesday. This week's analyst expectations (bbls): Crude +0.4mln, Distillates -1.3mln, Gasoline +1.4mln.

OPEC: OPEC Reuters Survey noted January oil output fell 50k BPD from December to 28.87mln BPD, as Iraqi exports declined and Nigerian output did not recover further. Gulf members maintained more than compliant with the OPEC+ deal on production cuts to support the market. Quota-bound members compliance stood at 172% of pledged cuts in January (up from 161% in December), undershooting the Jan. output target by 920k BPD (780k BPD shortfall in December).

FREEPORT: Freeport LNG is seeking regulator permission to begin introducing gas into the liquefaction train at its LNG plant in Texas, and it has asked to start compressors on one of its three liquefaction trains; seeks regulator approval by February 1st.

EQUITIES

CLOSES: SPX +1.46% at 4,076, NDX +1.59% at 12,101, DJIA +1.09% at 34,086, RUT +2.45% at 1,931.

SECTORS: Materials +2.22%, Consumer Discretionary +2.22%, Real Estate +1.88%, Industrials +1.71%, Technology +1.44%, Communication Services +1.35%, Financials +1.34%, Health +1.3%, Consumer Staples +1.08%, Energy +0.89%, Utilities +0.71%.

EUROPEAN CLOSES: EURO STOXX 50 +0.12% at 4,163, FTSE 100 -0.17% at 7,771, DAX 40 +0.01% at 15,128, CAC 40 +0.41% at 7,082, FTSE MIB +1.00% at 26,559, IBEX 35 -0.17% at 9,034, SMI -0.82% at 11,285.

EARNINGS: **General Motors (GM)** had a stellar report, beating on EPS and revenue alongside lifting its FY profit view. CFO said demand for EVs remains very strong in the face of price cuts by **Tesla (TSLA)** and **Ford (F)** and has no plans to cut prices. 2023 outlook includes USD 2bln in cost savings, but no layoffs are planned. **McDonald's (MCD)** topped consensus on profit, revenue, and SSS. However, MCD expect short-term inflationary pressures to continue in 2023 and operating margins will be hampered in the near term. **NXP Semiconductors (NXPI)** beat on EPS and revenue; approved 20% increase in the quarterly dividend to USD 1.01/shr. Q1 guidance light. **Marathon Petroleum (MPC)** surpassed consensus on top and bottom line; board approved incremental USD 5bln share buyback programme. **Pfizer (PFE)** beat on profit but missed on revenue. FY23 guidance light, as revenue, EPS and comirnary/paxlovid revenue all fell short of analyst expectations. **Caterpillar (CAT)** missed on the bottom line; said it was impacted USD 0.41/shr due to FX headwinds. **UPS (UPS)** topped Wall St. expectations on profit and boosted quarterly dividend 6.6%; authorised a new USD 5bln share buyback programme. Missed on revenue and FY23 guidance fell short.

STOCK SPECIFICS: **UPS (UPS)** base-case forecast calls for "mild" US recession in 2023; sees H1 recession in Europe; sees China recovery after Q1. Activist investor Ancora Holdings is urging **Green Plains (GPRE)** to put itself up for sale. **Victoria's Secret (VSCO)** raised Q4 EPS and revenue growth view; plans USD 125mln share buyback programme. **Upstart (UPST)** announced the start of a reorganisation plan to cut costs and return to profitability; to eliminate 20% of workforce. **NetApp (NTAP)** expects to cut its worldwide headcount by approximately 8% through its FY23 Q4. **Williams (WMB)** increased its quarterly cash dividend by 5.3% to USD 0.4475/shr. **PayPal (PYPL)** reportedly laying off 7%, approx. 2,000, of its employees, according to MarketWatch.

FX WRAP

The Dollar was lower on Tuesday and hit a low of 102.00 as risk-on sentiment appeared through the session. Although, month-end flows and positioning were most likely key factors too ahead of the FOMC rate decision on Wednesday, where the bank is expected to raise rates by 25bps to 4.50-4.75%. In the European morning, the Dollar gained on plunging German retail sales, but in the wake of subdued US data, in the form of consumer confidence and Chicago PMI, and weakened Treasury yields the Dollar surrendered the earlier strength. ECI fell to +1.0% from +1.2% in Q3, a deeper fall than the expected +1.1% and the smallest rise since Q4 2021. The report will be seen as a positive for policymakers in the inflation fight given it's the latest data point to showcase falling wage pressures, particularly after the wage data in the December jobs report. For the remainder of the week there is a plethora of key events, with the highlight being the FOMC, but accompanied by large-cap earnings, ISM surveys, and NFP, while elsewhere the ECB and BoE rate decisions will be key on Thursday.

The Euro ended the day flat as the slightly soft US data helped the single-currency pare from its lows. German retail sales were abysmal, but Eurozone flash GDP prelim printed a surprise gain M/M. Attention turns to Eurozone inflation on Wednesday, which will be without the delayed German forecast data, ahead of the ECB on Thursday.

The Pound was an underperformer on Tuesday, despite the aforementioned broad Dollar pullback, with technicians flagging Cable's inability to maintain a firm grip on the 1.23 handle. But it's also noteworthy the latest IMF growth forecasts saw the UK as the lone recession bearer amongst the world's largest economies. Market participants await Thursday's BoE rate decision, where the central bank is expected to hike rates by 50bps, which will likely be subject to dissent, with focus on how committed the MPC is to further tightening.

Antipodeans were flat against the Buck, with the respective crosses trading in pretty tight parameters as AUD/USD hit a low and a high of 0.6985 and 0.7065, respectively, while NZD/USD chopped between 0.6414-6479. Currency-specific newsflow was fairly light, but macro fundamentals remain largely in play especially ahead of the upcoming risk events. Nonetheless, final Aussie retail sales for December were very disappointing as plunged to -3.9% from 1.4%, way beneath the expected -0.3%. Looking ahead, attention will shift to the Australian AIG manufacturing index and New Zealand labour cost index before jobs data on Wednesday.

The Loonie saw strength vs the Greenback, as USD/CAD hit a low of 1.3300, from a high of 1.3471, but the CAD ran out of momentum as it tried to pierce through the psychological level. The Loonie was supported by the Dollar demise and the recovery in risk sentiment, on top of a firm rebound in WTI prices. On the data docket, Canadian GDP printed in line with expectations at 0.1% ahead of manufacturing PMI on Wednesday.

The Franc was the clear G10 outperformer and noticed strong gains against the Dollar as the final EU trading session of the month drew to a close. The sharp, sudden moves raised suspicions of official order-driven price action akin to reserve reallocation. In terms of crosses, USD/CHF reversed from 0.9288 through to 0.9151, just short of the key 0.9150, while EUR/CHF went from 1.0052 to 0.9945.

The Yen was flat and traded between a low of 129.75 and a high of 130.53, as the cross consolidated on mixed US data ahead of Fed and further pivotal data. Data-wise, Japanese housing starts were uninspiring but consumer confidence beat, on top of decent retail sales and unemployment rate in line with consensus.

Scandis were lower with the SEK underperforming its counterpart, as it suffered amid deeper Swedish economic and financial stability concerns, while the NOK saw some respite from the revival in oil prices but it did see the Norges Bank upping its FX purchases for next month.

EMFX was predominantly lower, but BRL was the significant outperformer as it was boosted by Brazilian Finance Minister who noted that the tax reform proposal should include a cut to the tax burden for some sectors in the economy. TRY and ZAR were more-or-less flat, but RUB and MXN saw losses vs the Greenback.