US Market Wrap

1st February 2023: Stocks and bonds rip after Powell lays dovish escape route

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Mixed Powell presser, as markets choose the dovishness; Fed hikes rates by 25bps and repeats ongoing increases appropriate; Crude EIA build; ADP massive miss; JOLTS ramps up; ISM manufacturing declined, with mixed internals; Treasury Quarterly Refunding unchanged; Awful SNAP, EA & MTCH earnings; AMD impress.
- **COMING UP**: **Data**: US IJC, Factory Orders **Events**: BoE & ECB Policy Announcements and Press Conferences **Supply**: Japan, Spain & France **Earnings**: ING, Deutsche Bank, Infineon, Santander, BT, Shell; Amazon, Apple, Alphabet, Ford, Merck, Bristol-Myers, QUALCOMM.
- **THIS WEEK'S EARNINGS**: [WED] 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 bonds rallied as the Dollar tumbled in wake of Fed Chair Powell giving something for both doves and hawks to chew on. Fed hiked 25bps as expected, but also made some subtle language changes to reflect the debate shifting to when to stop hiking rather than how much it needs to hike by. Powell gave a slew of two-sided remarks in his presser too, a seeming shift from his usual strict hawkishness. It was a busy day for data too, with soft ADP employment and ISM mfg. coming in the backdrop of JOLTS job opening rising to above 11mln in December, the highest since last July, reflective of little progress in de-tightening the labour market. Elsewhere, oil prices tumbled earlier on, seemingly after yet another chunky build in US crude and Cushing stocks, although Russia's Novak also said he was happy with current oil prices, rather than attempting to jawbone prices higher. In earnings, SNAP, EA, and MTCH all tumbled post-earnings, but AMD fared better, calling for the trough in PC markets in Q1.

CENTRAL BANKS

FOMC STATEMENT: The Fed hiked its FFR by 25bps to 4.5-4.75%, as expected, with interest on excess reserves rising by the same magnitude to 4.65%. The statement continued to use "ongoing increases" in the Fed rate being appropriate, coming against some expectations that the line could be dropped in order to give optionality for a lower terminal rate than the 5-5.25% median dot in the December SEPs. While that didn't happen, we did see a switch in language on guidance from the "pace of future increases" to the "extent of future increases", suggestive of debate moving from the size of hike increments to how many hikes remain in the cycle, a dovish offset to the continued use of "ongoing increases". Elsewhere in the statement, the Fed acknowledged that inflation has eased somewhat, but remains elevated, while it also dropped the mentioning of public health as a factor in the bank's policy assessment.

POWELL PRESSER/Q&A: A mixed press conference from Powell, despite markets cherry-picking the dovishness, where he seemingly looked to sit on the fence on many topics rather than cut off his options. The Fed Chair appeased the market in his comment confirming that the disinflation process was underway, albeit he was eager to highlight several times that core services inflation ex-housing had not shown progress. Powell said the Fed's focus was not on short-term moves in financial conditions, but that it's important for them to continue to reflect the policy restraints put in place. Powell himself said he believes we are still not at a 'sufficiently restrictive' policy rate, but gave himself a lot of optionality by stressing data dependence, saying later that it's possible the Fed updates its policy path if the data comes in differently to what the Fed expects. He said the Fed has not yet made a decision on the terminal rate, and that it will look at the data between now and the March SEPs, where it's possible the terminal rate could be both lower or higher than the 5.1% seen in the December SEPs. His initial comment in the Q&A that it was gratifying to see the disinflationary process getting underway with the labour market still strong was later followed by his view that there won't be a sustainable return to 2% in core services inflation ex-housing without increased labour slack. He said there is a path to getting inflation to 2% without significant economic decline, whilst also saying it may well be that it will take more slowing in the economy than we expect. Overall, there was something for both hawks and doves across his comments, and at risk of fitting narrative to price action, perhaps that is the takeaway. Where Powell has previously tended to lean on the hawkish side, refuting the notion of any imminent Fed pivot, he now appears to be shifting to a more ambiguous stance, giving him the optionality to shift when needed.

ECB PREVIEW: Consensus and market pricing looks for a 50bps hike in the deposit rate to 2.5%; this would take the deposit rate into slightly restrictive territory. The December meeting saw President Lagarde state that "based on the information that we have available today, that predicates another 50-basis-point rate hike at our next meeting, and possibly at the one after that, and possibly thereafter". This statement saw consensus coalesce around the idea of a 50bps hike for the upcoming meeting and comms from ECB officials have done nothing to lead markets away from this view. That said, some confusion around the rate hiking cycle was observed after a Bloomberg report suggested that policymakers are reportedly beginning to consider just a 25bp hike in March. Nonetheless, commentary from policymakers has done little to suggest that the GC is considering such a step down at this stage and has leaned against such reporting. With regards to the balance sheet, the prior meeting saw the GC announce that from the beginning of March 2023 onwards, the APP portfolio will decline at an average pace of EUR 15bln per month until the end of Q2 with its subsequent pace to be determined over time. For the upcoming meeting, further technical details on the programme are set to be announced. To download the full Newsquawk preview, please click here.

BOE PREVIEW: Analysts surveyed by Reuters and market pricing look for a 50bps hike in the Bank Rate to 4%. The decision to hike rates is expected at 7-2 with Mann and Tenreyro set to remain in the unchanged camp. Within the remaining seven, there is likely to be a split of views, the extent to which is hard to judge given the lack of comms from the MPC since December. HSBC has attempted to form a base case scenario with an out-of-consensus call for a 25bps hike in which Bailey, Cunliffe, Broadbent and Pill go for 25bps, whilst Mann, Haskell and Ramsden back a 50bps move. However, such a step down in the cadence of rate hikes would likely need to be accompanied by guidance that rates will still have further to run given developments in the labour market. Looking beyond February, a 25bps hike in March is priced at around 80% with markets split on whether a further 25bps would follow in Q2 to take the terminal rate to 4.5%. In terms of the accompanying forecasts, HSBC expects that the impact of the stronger GBP and softer energy prices will likely outweigh the impact from stronger growth and lower rates, which should therefore lead to a downward revision to the MPC's Q4 2023 inflation forecast to 6.9% from 7.9%. To download the full Newsquawk preview, please click here.

US

ISM MANUFACTURING: ISM manufacturing declined for a fifth consecutive month to 47.7 from 48.4, short of the consensus of 48.0. Looking at the internals, production and new orders fell to 48.0 (prev. 48.6) and 42.5 (prev. 45.1), respectively, but employment encouragingly remained above 50 at 50.6 (prev. 50.8), against the expected decline to 49.0. The inflationary gauge of prices paid lifted to 44.5 (exp. 39.5, prev. 39.4). The survey's supply chain measures deteriorated at the margin, with supplier deliveries ticking higher to 45.6 (prev. 45.1) and backlog to 43.4 (prev. 41.4), but Pantheon Macroeconomics notes it is nothing to worry about given the immense improvement over the past year. Moreover, Pantheon says, "the average of these two components is still down by over 16 points Y/Y which points to significant further margin recompression in the months ahead, which will weigh significantly on core goods inflation." Overall, Pantheon concludes, "the rebound in China's manufacturing sector likely will stabilise US manufacturing activity in the months ahead. The abandonment of the zero-Covid policy initially roiled China's economy. As such, the upturn in China will take two-to-three months to feed through to an improvement in US manufacturing, based on the historical relationship, but we expect to see a clear rebound in the ISM index by the end Q1".

ADP: ADP in January massively missed expectations, and was outside the forecast range, as it dropped to 106k from 253k, well beneath the expected 178k. The headline was impacted by weather-related disruptions on employment during the reference week. Regarding the internals, job-stayers remained at 7.3% as most industries were little changed with one outlier being the information sector, where pay growth decelerated from 7% to 6.6%. Meanwhile, job-changers rose to 15.4% from 15.2% in December. Nonetheless, the report concludes, "hiring was stronger during other weeks of the month, in line with the strength we saw late last year."

JOLTS: US job openings in December ramped back up to 11.012mln from the prior 10.44mln, surprising expectations for a fall to 10.25mln and now at their highest level since July. In the report, the largest increases were in accommodation and food services, retail trade, and construction, while information saw the largest decrease. The ratio of job openings per unemployed, the Fed-followed gauge for labour market tightness, has now risen back up to 1.9 from 1.7, the highest since July and well north of the JOLTS data series average (since 2000) of 0.6. The report will serve as a caution to policymakers looking to call the end of the hiking cycle given the lack of progress in the normalisation of the labour market, with job openings not anywhere near the c. 7mln levels that were common pre-COVID. The continued tightness of the labour market naturally raises concerns over any re-emerging wage growth pressures, despite the latest fall in the employment costs index and fall in December average hourly earnings. As such, the January BLS labour report on Friday will see the average hourly earnings metrics followed closely in the context of the recent divergence in labour market tightness (9-month lows in initial claims and elevated job openings/unemployed ratio) and recent declines in wage growth pressure (falling ECI and average hourly earnings).

FIXED INCOME

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T-NOTE (H3) FUTURES SETTLED 31 TICKS HIGHER 115-15+

Treasuries rallied across the curve after J Powell opened up the dovish hatches in his presser. 2s -11.9bps at 4.088%, 3s -15.8bps at 3.756%, 5s -15.3bps at 3.483%, 7s -15.0bps at 3.442%, 10s -13.2bps at 3.397%, 20s -11.8bps at 3.669%, 30s -10.7bps at 3.554%.

Inflation breakevens: 5yr BEI +1.5bps at 2.254%, 10yr BEI +1.1bps at 2.257%, 30yr BEI +2.0bps at 2.235%.

THE DAY: Govvies entered the NY session on the front foot after a bid into the Tokyo/London handover, accentuated by the EZ Flash CPI where the headline cooled again, albeit the core was firmer. T-Notes found resistance at 114-30 before paring into the NY handover. New highs were made after the ADP employment data came yet again on the soft side, with the Treasury's confirmation of no coupon auction size increases also helping. But, renewed selling pressure kicked in after the bounce in ISM mfg. prices paid and particularly the jump in the JOLTS job openings to over 11mln, the highest since July, exhibiting the stubborn tightness in the labour market. That selling couldn't sustain for long, with hesitation and book squaring ahead of FOMC keeping T-Notes in ranges into the rate decision, not to mention the tumble in oil prices. There was an initial kneejerk lower to Treasuries after the statement maintained the "ongoing increases" for the policy rate language. However, that swiftly reversed and T-Notes ultimately printed session highs of 115-19 as markets took kindly to Powell's presser and Q&A.

QUARTERLY REFUNDING: As expected, the Treasury left all its coupon auction sizes unchanged whilst saying it would address its funding needs through the months ahead by tailoring its bill issuance. Regarding the debt limit, the Treasury said that while it is not currently able to provide an estimate of how long extraordinary measures (EMs) will enable it to continue to pay the government's obligations, it is unlikely that cash and EMs will be exhausted before early June. And on a Treasury buyback programme, said it has not made any decision on whether or how to implement such but it would provide ample notice to the public on any decisions - something to watch out for. For next week's new issue auctions, to sell USD 40bln of 3yr notes on Feb 7th, USD 35bln of 10yr notes on Feb 8th, and USD 21bln of 30yr bonds on Feb. 9th.

AHEAD: Thursday's highlights include BoE and ECB with the US data slate light barring jobless claims, otherwise attention on payrolls and ISM Services on Friday.

STIRS:

- SR3H3 +1bps at 95.175, M3 +3.5bps at 95.14, U3 +6.5bps at 95.325, Z3 +10.5bps at 95.69, H4 +15bps at 96.21, M4 +17.5bps at 96.68, U4 +17bps at 96.98, Z4 +16.5bps at 97.145, H5 +15.5bps at 97.23, H6 +14bps at 97.29, H7 +11.5bps at 97.175.
- NY Fed RRP op demand at USD 2.038tln (prev. 2.062tln) across 100 bidders (prev. 103).
- US sold USD 36bln of 17-week bills at 4.625%, covered 2.86x.

CRUDE

WTI (H3) SETTLED USD 2.46 LOWER AT 76.41/BBL; BRENT (J3) SETTLED USD 2.62 LOWER AT 82.84/BBL

The crude complex was lower on Wednesday, amid a series of potential triggers, including more bearish inventory data and possible FOMC position squaring. As such, WTI and Brent hit lows of USD 76.05/bbl and 82.37 /bbl, respectively, after earlier topping 79/bbl and 86/bbl. The oil weakness kicked in as Europe began closing shop for the day and selling gradually picked up as the FOMC approached, with squaring up likely. Meanwhile, US President Biden gave the go-ahead for ConocoPhillips' (COP) Alaska drilling activities. While earlier on, Russia Deputy PM Novak said oil prices are acceptable and everyone agrees that the oil market is stable, also saying the market is balanced. Novak added with the improving COVID situation in China he expects oil demand to rise. Note, no major oil reaction was seen in the wake of the FOMC rate decision, where the central bank hiked by 25bps, as expected.

US INVENTORIES: Following on from Tuesday's private inventory builds across the board, we saw further big builds in EIA Cushing (+2.3mln bbls) and Crude stocks (+4.1mln bbls) for the latest week. Products also saw builds, while refining utilisation unexpectedly fell and crude production was unchanged at cycle peaks of 12.2mln BPD.

EQUITIES

CLOSES: SPX +1.05% at 4,119, NDX +2.16% at 12,363, DJIA +0.02% at 34,092, RUT +1.49% at 1,960.

SECTORS: Technology +2.29%, Consumer Discretionary +1.9%, Communication Services +1.34%, Consumer Staples +0.76%, Real Estate +0.73%, Industrials +0.72%, Materials +0.66%, Health +0.48%, Utilities +0.18%, Financials +0.02%, Energy -1.89%.

EUROPEAN CLOSES: EURO STOXX 50 +0.19% at 4,171, FTSE 100 -0.14% at 7,761, DAX 40 +0.35% at 15,180, CAC 40 -0.07% at 7,077, FTSE MIB +0.39% at 26,703, IBEX 35 +0.71% at 9,098, SMI -0.70% at 11,207.

EARNINGS: **Advanced Micro Devices (AMD)** beat on profit and revenue; CEO expects overall demand environment to remain mixed with H2 stronger than H1 and believes Q1 is the bottom for the PC market. **Snap (SNAP)** missed on revenue and DAUs alongside a weak DAUs guide; is not providing expectations for revenue or adj. EBITDA for Q1 '23 but SNAP's internal forecast assumes Q1 revenue to drop 2-10%. **Electronic Arts (EA)** missed on EPS and net bookings; Q4 and FY23 guidance light. Exec said the current macro environment impacted Q3 results. **T-Mobile US (TMUS)** fell short on revenue as did 2023 guidance of postpaid net additions; profit beat. **Match (MTCH)** disappointing report; missed on top and bottom line alongside Q1 revenue view short. Macroeconomic challenges and uncertainties are persisting and expects at least H1 '23 to remain challenging. **Stryker (SYK)** beat on EPS and revenue; FY23 guidance strong. **Thermo Fisher Scientific (TMO)** surpassed St. expectations on EPS and revenue; raised FY23 guidance. **Peloton (PTON)** posted a deeper loss per share than expected; subscription revenue and paid digital subscribers fell short and said near-term demand for connected fitness hardware is likely to remain challenged. Beat on revenue and slower cash burn after a host of cost-cutting measures, incl. layoffs and store shutdowns.

STOCK SPECIFICS: **Tesla (TSLA)** intends to increase the Shanghai plant's average weekly output for Feb and March; will be done to meet higher demand following price reductions. **BlackRock (BLK)** increased its stake in Baidu (BIDU) to 6.6%. **Netflix (NFLX)** ad tier sign-ups doubled in January, according to The Information. **Rapid7 (RPD)** reportedly working with Goldman Sachs to explore a potential sale, according to Reuters sources. **FedEx (FDX)** is in the process of reducing the size of its officer and director team by more than 10%; has cut its workforce by 12k since June. **Rivian (RIVN)** reportedly reducing its workforce by 6%; layoffs do not impact manufacturing jobs in normal Illinois factory, according to Reuters citing an internal email. **DraftKings (DKNG)** to cut 140 jobs as part of a reorganisation.

US FX WRAP

The Dollar was notably lower on Wednesday, which was seen during Fed Chair Powell's press conference after the FOMC rate decision, where the Buck was initially very choppy. On the rate decision, the Fed raised rates by 25bps to 4.50-4.75%, as expected, and reiterated ongoing rate hikes will be appropriate. The Buck saw downside as Powell started talking, but did not appear to be one specific comment, as it hit a low of 101.030. Within the presser, the Chair noted the Fed will continue to make decisions meeting-by-meeting, and the focus is not on short-term moves in financial conditions. Elsewhere on Wednesday, US ADP was well short of the expected, while JOLTS massively beat. US ISM manufacturing was mixed, as the headline fell, as did new orders, but employment unexpectedly remained above 50. Looking ahead, attention is on large-cap earnings, such as AAPL, AMZN, and GOOGL on Thursday, ahead of NFP and ISM Services on Friday.

G10 counterparts were firmer across the board as it profited off the floundering Buck and general market sentiment as opposed to anything currency specific. The Loonie was the G10 underperformer, albeit still slightly firmer, as it was weighed on by the weakness seen in the crude complex. EUR/USD topped out at bang on 1.1000, as the single-currency ran out of momentum as it tried to top the key level, while AUD/USD peaked at 0.7144, also falling short of the psychological 0.7150. Back to the single-currency, in the European morning Eurozone inflation was mixed, as the headline was cooler-than-expected but the core rose. This all comes ahead of the ECB meeting on Thursday. Cable hit a high of 1.2393, but was also a G10 'underperformer', as Sterling was weighed on amid recession risks, inflation at 40-year highs, and the worst industrial action in decades. Nonetheless, market participants await the BoE rate decision on Thursday.

EMFX saw gains against the Dollar, on account of the aforementioned weakness during Chair Powell's presser. Nonetheless, ZAR outperformed and was helped by a surge higher in gold, while CNY was bolstered by remarks from China's President Xi about supply-side reform and strategic plan to expand domestic demand. Lastly, CLP was supported after Chile's IMACEC activity index, a GDP gauge, fell 1% Y/Y in December, much better than the feared 2% decline.

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