US Market Wrap

2nd February 2023: META-led stock surge with assistance from central banks

- **SNAPSHOT**: Equities up, Treasuries mixed, Crude down, Dollar up.
- **REAR VIEW**: ECB hikes 50bps, as expected, but sources see at least two more rate hikes; BoE hikes by 25bps and drops "forcefully"; Initial jobless claims fall again; Prelim Q4 productivity tops expected while unit labour costs short; Freeport LNG seeks further approval on Texas plant; SNB Chairman cannot rule out raising rates further & is ready to be active in currency markets; Russia exported a record ESPO blend crude oil from Kozmino port in Jan; META announces new buyback & cutting costs.
- **COMING UP**: **Data**: US Labour Market Report, ISM Services PMI **Event**: ECB SPF **Speakers**: Fed's Daly, BoE's Pill, ECB's Elderson **Earnings**: Caixabank, Intesa Sanpaolo, Sanofi; CIGNA, LyondellBasell, Regeneron.

MARKET WRAP

Tech stocks led the major US indices higher Thursday after META shares surged post-earnings. The tech giant added up to 30% of its market cap at its intraday peaks, no doubt aided by a USD 40bln share buyback announcement, but also reporting some more promising trends in the ad spending space. The elephant in the room for duration was of course the Fed, where Powell's dovish presser sustained the support for stocks. Meanwhile, traders were quick to look past the BoE and ECB's 50bps hikes and instead focus on the dovish tidbits, with German 10yr yields posting their largest one-day decline since 2011, while the eye-catching 30bp fall in the UK 10yr yield is something of an increasingly frequent sight in the Gilt complex. Across the pond, Treasuries gave up all their earlier gains, with hesitation into Friday's jobs report failing to extend the post-FOMC bid any further. There was little noticeable reaction at the time, but initial jobless claims saw another surprising fall, keeping labour market tightness concerns front of mind - a pick up in the average hourly earnings growth in the NFP report on Friday could bring those fears to the forefront again. Oil prices were slightly lower, but remarkably contained given the cross-asset moves and the surge in the Dollar, with Euro and Sterling sold.

CENTRAL BANKS

ECB REVIEW: As expected, the ECB delivered another 50bps hike to the deposit rate and reaffirmed its tightening intentions by stating that it intends to unveil another 50bps adjustment in March. Lagarde stated that another 50bps in March is warranted on account of underlying inflationary pressures, fiscal measures and wage growth. At the March meeting, the ECB stated it will evaluate the subsequent path of its monetary policy. On the balance sheet, the ECB announced that reinvestments will be allocated proportionally to the share of redemptions across each constituent programme of the APP. At the follow-up press conference, which at times offered more confusion than clarity, Lagarde stated that the Bank's economic assessment sees risks to the economic outlook and inflation as "more balanced". In terms of the decision itself, Lagarde says there was a "large consensus", adding there was a discussion on communication, but not full agreement. For the policy path going forward, Lagarde noted that the ECB will not be at peak rates in March and there will most likely be ground to cover; this suggests that hopes for a pause in May could be disappointed. Furthermore, Lagarde attempted to stress the longevity of reaching terminal by stating that when the level is reached, rates will need to stay there. Overall, and despite all this, there was a clear scaling back of hawkish market pricing for 2023 with around 25bps of tightening taken out, potentially as a by-product of market participants questioning the Bank's resolve to keep hiking rates alongside potential pauses from the Fed and ECB. Later, Reuters sources noted, ECB policymakers see at least two more rate hikes, see increase of 25bp or 50bp in May.

BOE REVIEW: As expected, the BoE opted to defy some outside bets for a 25bps hike and raised the Bank Rate by 50bps to 4.0%. The vote split was a replica of what we saw at the December meeting with dissent from Tenreyro and Dhingra, whilst the remainder of the MPC opted for a 50bps hike. The decision was based on the need to "address the risk that domestic wage and price pressures remained elevated even as external cost pressures waned". Elsewhere, focus for the release was on the MPC's adjustment to its guidance on rates which saw policymakers ditch the use of "forcefully" in its guidance and now state that "if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required". Some desks suggested that the conditionality on further rate hikes could be suggestive that a pause in hikes is forthcoming. Accordingly, market pricing moved in a more dovish manner with odds of a 25bps March falling to around 60% from 80% pre-announcement with the chance of a May 25bps move around 12% vs. around 50% pre-announcement. The accompanying MPR saw a downgrade to the 2023 inflation forecast to 4.0% from 5.25% with inflation of just 1.5% next year. Interestingly, the MPC's constant rate forecast (i.e. if rates are held at 4%), suggests that CPI would be projected in two years at 0.8% and 0.2% in three years, therefore suggesting that current policy would be far too tight over the medium-term for the MPC to reach its inflation mandate. On the growth front, the dire 2023 forecast made in the MPR was upgraded, but still seen at -0.5% with a further contraction of 0.25% expected next year. Overall, the terminal level of the Bank Rate is clearly on the horizon and market pricing has acted accordingly. Analysts at Pantheon Macro suggest that as "signs of slowing price rises and accumulating labour market slack continue to emerge", the MPC will look set to hold the Bank rate at 4% in March and for the remainder of the year.

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NFP PREVIEW: The pace of payroll additions is expected to cool again in January, and while the unemployment rate is likely to have risen a little, it still points to a tight labour market. Recent data has alluded to an easing in wage pressures, and this is likely to continue again in January, which will be received well by Fed officials. A continued decline here may give traders further confidence to price a path for rates more dovishly than the Fed’s current projections, and conversely, any upside surprise in the wages metrics may lead to a hawkish repricing of forward rates. Meanwhile, annual payroll benchmark revisions are difficult to predict, but some think that it will result in downward revisions to many of the prints in the second part of 2022. To download the full Newsquawk preview, please click here.

PRODUCTIVITY/LABOUR COSTS: Prelim Q4 productivity was better-than-expected at 3.0% (exp. 2.4%) and above the prior, upwardly revised, 1.4%. Unit labour costs declined to 1.1% from the revised 2.0%, and beneath the consensus 1.5%. On the former, Oxford Economics note, “it reflects the combination of still-strong output growth and a slowdown in the labor market”, although, “that does little to change that productivity growth has been historically weak over the past few years.” As such, with wage gains still easily outpacing productivity growth, unit labour costs are rising much too fast to be consistent with inflation falling back to the Fed's 2% target. Oxford recently downgraded its longer-term forecast for productivity growth, to 1.4% Y/Y, and adds without a pick-up in productivity growth, the Fed needs to see wage growth slow to around 3.5% to be consistent with its 2% inflation target. However, Q4 unit labour costs were still growing at a pace consistent with inflation settling at 3.5-4.0%, and as such Oxford concludes it will keep Fed officials sounding hawkish over the coming months.

JOBLESS CLAIMS: Initial jobless claims nudged lower again to 183k from 186k in the week ending Jan 28th, a surprise against the expected rise to 200k. That brings the 4k average down to 191.75k from 197.5k. Continued claims fell to 1.655mln from 1.666mln in the week ending Jan. 21st, against expectations for a rise to 1.677mln. Seasonal factors or not, initial claims have made fresh 9-month lows and policymakers will be hoping for a rise sooner than later as they look for a de-tightening in the labour market. It's worth noting that this week's jobless claims figures do not coincide with the NFP report survey period.

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 2 TICKS HIGHER AT 115-17+

Treasuries closed in a mild-bull steepener after the BoE and ECB-induced gains were pared. 2s -1.8bps at 4.092%, 3s -1.4bps at 3.767%, 5s -1.1bps at 3.486%, 7s -0.5bps at 3.444%, 10s +0.0bps at 3.398%, 20s -0.3bps at 3.667%, 30s +0.4bps at 3.554%.

Inflation breakevens: 5yr BEI -5.1bps at 2.209%, 10yr BEI -3.7bps at 2.225%, 30yr BEI -4.7bps at 2.187%.

THE DAY: Treasuries were choppy through the APAC Thursday session, holding onto their post-FOMC gains in wake of the dovish received Powell presser. T-Notes (H3) bounced in the London morning, aided by a tumble in December German exports, just failing to breach above the Thursday high of 115-19. The BoE's 50bps hike and statement saw two-way flows out of the Gilt complex, but as Bailey began his presser, better strength developed and T-Notes breached to new highs. Further bullish momentum came after the ECB hiked 50bps whilst dialling down on its hawkish statement language from December. Lost amid the central bank noise was yet another fall in US initial jobless claims, keeping concerns over a tight labour market elevated. Regardless, the govvie bid sustained to see T-Notes hit resistance at 116-00 in the NY morning, failing to breach ahead of the Jan 19th high of 116-08, where the contracts haven't traded since September. The contracts ultimately pared all their strength by settlement, with chunky block sales in both the 2yr and 5yr futures weighing, not to mention a healthy slew of Dollar IG debt deals, including over USD 5bln from Oracle (ORCL). While USTs pared, EGBs held their bid with the German 10yr yield posting its biggest decline since 2011; the

German/US 10yr yield spread widened by c. 20bps, the largest one-day widening since the onset of COVID. Traders now look to Friday's US jobs report, with ISM Services also on the schedule, while we can expect Fed's Daly (non-voter) to break the FOMC blackout.

STIRS:

- SR3H3 +1bps at 95.18, M3 +1bps at 95.135, U3 +1bps at 95.325, Z3 +2bps at 95.70, H4 +3bps at 96.22, M4 +3.5bps at 96.685, U4 +3bps at 96.99, Z4 +1bps at 97.145, H5 +0.5bps at 97.235, H6 -1bps at 97.29, H7 -1.5bps at 97.18.
- In options, a slew of SOFR put buying and vol selling seen via blocks.
- NY Fed RRP op demand at USD 2.050tln (prev. 2.038tln) across 101 bidders (prev. 100)
- US sold USD 76bln of 1-month bills at 4.490%, covered 2.47x; sold USD 61bln of 2-month bills at 4.505%, covered 2.56x.

CRUDE

WTI (H3) SETTLED USD 0.53 LOWER AT 75.88/BBL; BRENT (J3) SETTLED USD 0.67 LOWER AT 82.17/BBL

The crude complex was choppy on Thursday, but remarkably contained given the broader volatility on the continued plethora of central bank decisions. Highlighting this, WTI and Brent traded within a roughly USD 2.50 range, as WTI and Brent hit highs of 77.24/bbl and 8.61/bbl, respectively, followed by lows of 74.97/bbl and 81.25/bbl. Stories of note Thursday included reports Russia exported record ESPO blend crude oil from the Kozmino port in Jan. (further details below) alongside Freeport LNG seeking further approval. Looking ahead, NFP and ISM services on Friday serve as data risk followed by the weekly US Baker Hughes rig count.

RUSSIA: Russia exported a record 3.8mln T of ESPO blend crude oil from Kozmino port in January (prev. 3.2mln T in Dec.) above the USD 60/bbl price cap, according to Reuters sources. However, a source said some thought that ESPO shipments declined in Dec. due to sanctions but it was "all due" to weather-related delays and as such the record Jan. exports are reflective of delayed cargoes being brought forward. Note that ESPO is a popular blend for independent Chinese refiners.

FREEPORT: Freeport LNG is seeking federal approval to begin loading LNG on ships at its Texas export facility, according to FERC.

OPEC: Bloomberg's monthly OPEC survey saw January output fall 60k BPD to 29.1mln BPD.

EARNINGS: Shell (SHEL LN), unsurprisingly, continued the theme of strong oil earnings as it announced record annual profits in FY22, alongside a USD 4bln buyback programme. ConocoPhillips (COP) profit more than doubled in 2022 to USD 18.7bln, the highest it has been since COP spun-off its refining business in 2012, as it benefitted from the higher prices amid tight supplies and robust demand.

EQUITIES

CLOSES: SPX +1.47% at 4,179, NDX +3.56% at 12,803, DJIA -0.11% at 34,053, RUT +2.06% at 2,001.

SECTORS: Communication Services +6.74%, Consumer Discretionary +3.08%, Technology +2.78%, Real Estate +2.23%, Industrials +0.77%, Financials +0.18%, Utilities +0.15%, Materials -0.28%, Health -0.68%, Consumer Staples -0.86%, Energy -2.52%.

EUROPEAN CLOSES: EURO STOXX 50 +1.67% at 4,241, FTSE 100 +0.76% at 7,820, DAX 40 +2.16% at 15,509, CAC 40 +1.26% at 7,166, FTSE MIB +1.49% at 27,100, IBEX 35 +1.45% at 9,229, SMI -0.11% at 11,188.

EARNINGS: **Meta (META)** beat on revenue with DAUs reaching 2bln; announced USD 40bln share buyback programme and plans to cut costs; shares posted gains of over 25%. **Honeywell (HON)** fell short on revenue with guidance for the next quarter very light. **Align Technology (ALGN)** beat on top and bottom line; board authorised new USD 1bln share repurchase programme. **Merck & Co (MRK)** beat on profit, revenue, and molnupiravir sales; FY23 profit view light as it projected sales and adj. EPS to decline in 2023. **Estee Lauder (EL)** surpassed Wall St. expectations on top and bottom line; next quarter and FY guidance very weak. **e.l.f. Beauty (ELF)** surpassed St. expectations on top and bottom line; lifted FY23 guidance. **CH Robinson Worldwide (CHRW)** fell short on top and bottom line; cautious commentary as it said shippers are managing through elevated inventories amidst slowing economic growth, causing unseasonably soft demand for transportation services. **Sirius XM (SIRI)** missed on EPS revenue with FY revenue guidance light. **Bristol-Myers Squibb (BMY)** topped analyst expectations on EPS and revenue; strong FY EPS guide. **McKesson (MCK)** beat on profit alongside lifted FY outlook. **Qorvo (QRVO)** posted decent past quarter metrics, but next Q guidance was light. **Hanesbrands (HBI)** marginally missed on profit but slightly topped on revenue; FY23 revenue view was light as it suffers from customers working down existing inventory. **Harley-Davidson (HOG)** beat on EPS, revenue, and motorcycle shipments.

STOCK SPECIFICS: **FedEx (FDX)** upgraded at BofA and Citi; Citi said it sees increasing signs of cost control following its missteps in 2022, after announcing it will layoff 10% of its officers. **Okta (OKTA)** to cut global workforce by 5% (around 300 employees). **Apple (AAPL)** to eliminate role of industrial design chief in corporate shake-up, opting not to replace Evans Hankey when she leaves. **Disney (DIS)** sends letter to shareholders saying it does not endorse activist investor Nelson Peltz or his son for a board seat. One of **3M's (MMM)** largest investors has raised concerns about CEO Mike Roman's leadership and questioned whether a change may be needed, according to WSJ.

US FX WRAP

The Dollar was notably firmer on Thursday, retracing some of its post-FOMC losses in wake of the BoE and ECB rate decisions and the respective press conferences. The Buck saw a high a 101.910 which was largely on account of rate differentials, as the aforementioned BoE and ECB meetings sent gilts and bund yields sharply lower, while upbeat US data also provided a lift. On the data front, initial jobless claims fell again, while prelim Q4 productivity topped consensus and unit labour costs were short. This all comes ahead of the pivotal payrolls report on Friday, followed by ISM services and Fed's Daly (non-voter) breaking the blackout silence.

Sterling was the G10 underperformer after the BoE rate decision and following presser, as Cable printed a low of 1.2230 in contrast to an earlier high of 1.2400. On the rate decision, BoE hiked rates by 50bps to 4.0%, as expected, via a 7-2 vote with the accompanying guidance dropping the world "forcefully". In the presser, Governor Bailey, when asked if rates might have peaked, noted we have changed the language we have used, and that change reflects a turning in the corner by very early days. As such, the Pound continued to see weakness as Bailey continued throughout the presser. Looking to Friday, BoE chief economist Pill is speaking on the BoE's new forecasts and latest announcement, where the central bank projections conditioned on the alternative assumption of constant interest rates at 4%, CPI inflation is projected to be 0.8% and 0.2% in two years' and three years' time respectively, slightly lower than the Committee's forecasts at the same horizons conditioned on market rates.

Euro saw weakness but that only tells half the story, as the single-currency took a dive in wake of, and during, the ECB rate decision and following presser. ECB decided to lift rates 50bps, as expected, and reaffirmed its tightening intentions by stating that it intends to unveil another 50bps adjustment in March, but Lagarde contended in her that the peak will not be in place come the end of Q1. In wake of the this, Reuters sources noted ECB policymakers see at least two more rate hikes, and see an increase of 25bp or 50bp in May. While Lagarde at times offered more confusion than clarity, EUR /USD tumbled lower in wake of the official evaluation after March reference that came with the rate announcement, and Lagarde's more balanced outlook for inflation and growth compared to respective upside and downside risks noted previously

Antipodeans were lower, with the AUD underperforming its NZD counterpart against the Dollar, on account of the broad risk sentiment, Dollar strength, and external factors, as opposed to anything currency specific. Nonetheless, New Zealand building permits data was poor, and posted a decline, but Australian building approvals for December were surprisingly strong. As such, AUD/USD hit a low of 0.7071 while NZD/USD troughed at 0.6464, ahead of Australian AIG construction index data.

The Loonie was also softer, but fared slightly better than the aforementioned currencies, and as well as the above reasons, the dip in the crude complex and weaker-than-expected Canadian building permits data also weighed. Hence, USD/CAD hit a high of 1.3347, as the Loonie managed to stoutly defend 1.3350 to the upside.

Yen was the G10 outperformer, and actually saw gains against the Buck, largely thanks to the favourable yield environment, as once US Treasuries rebounded strongly on the coattails of their EU peers. That came after front-running the latest bond revival in wake of the aforementioned Fed event that was deemed to be dovish on balance. USD/JPY managed to print a low of 128.09, but the Yen ran out of momentum as it attempted to pierce 128.00. It's worth noting as well that the Japanese 10yr yield is testing the ceiling of its band at 0.50%.

Swissy was weaker and driven by broader external factors, but SNB Chairman Jordan was on the wires and noted he cannot rule out that the SNB will have to raise rates further. Additionally, Jordan reiterated the SNB is ready to be active in currency markets, when necessary. In terms of the day, USD/CHF traded between 0.9061-0.9139.

EMFX was mixed, with MXN and ZAR the underperformers, as the latter was hindered by weakness in spot gold and further Eskom loadshedding to take place over the weekend. BRL saw strength in wake of the BCB rate decision, as it stood pat on rates at 13.75% but was accompanied by hawkish commentary. BCB board said that ongoing fiscal uncertainty, coupled with the deterioration of inflation expectations on longer horizons requires more attentive monetary policy. As such, policymakers hinted that monetary policy would remain tight for longer than initially expected. Lastly, the CNB held rates at 7.00%, as expected.