US Market Wrap

3rd February 2023: Stocks and bonds tumble after lava-hot jobs report

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Super-hot NFP; Strong ISM Services; Plethora of hawkish ECB speak; Dovishly-perceived Pill; AAPL, AMZN & GOOGL earnings all disappoint; US postpone China trip over spy balloon; Daly leans on data-dependence.
- **WEEK AHEAD**: Highlights include Prelim Uni. of Mich; RBA, BoC minutes. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing BoC minutes, Riksbank, Banxico, CBT; Reviewing FOMC, ECB, BoE, BCB. To download the report, please click here.
- **NEXT WEEK'S EARNINGS**: [MON] ATVI; [TUES] FISV, VRTX; [WED] CVS, ETN, EMR, CME, D, DIS, ORLY; [THURS] AZN, PEP, TRI, PM, DUK, SPGI, ABBV, PYPL. To download the report, please click here.

MARKET WRAP

Stocks were ultimately lower in a choppy session as investors balanced a steaming hot pile of jobs added in the backdrop of disappointing big tech reports from Alphabet (GOOGL), Amazon (AMZN), and Apple (AAPL). The 517k jobs added in January with unemployment hitting 3.4%, the lowest since 1969, saw the Treasury curve hammered lower with Fed pricing flirting back above 5% for the terminal rate with rate cut pricing receding, the silver lining being the wage growth metrics staying at +0.3% M/M. The hawkishness ramped up even further after the ISM Services for January saw a big rise above expectations, pushing back on recession fears. Regardless, stocks managed to make peaks in wake of the data, with the E-mini S&P (H3) futures just failing to breach 4200 before paring into the NY afternoon, closing just off session lows. Oil prices saw notable downside, ultimately succumbing to the Dollar's surge after a brief rally with risk assets in the NY morning. Note also that the EU came to an agreement on the next round of price caps for Russian oil products (diesel, oil fuel, etc..), adding to the existing caps on crude oil. While on geopolitics, US Secretary of State Blinken has cancelled his trip to China after a wayward Chinese spy balloon went for a trip across the USA - China suggests it was a tech malfunction.

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NFP: An uncomfortably strong report as far as policymakers are concerned with the 517k jobs added (exp. +185k; prev. revised up to 260k from 223k) the highest since August 2022, while the unemployment rate saw a surprise fall again to 3.4% from 3.5% (exp. 3.6%), the lowest since 1969. The silver lining will be the average hourly wage growth remaining at the 0.3% M/M pace, albeit the Y/Y fell to 4.4%, less than the expected 4.3%, while the prior was upwardly revised to 4.8% from 4.6%. Given the lack of progress, and arguably worsening in labour market tightness, there will be some fears that wage growth could begin to pick up again. However, for now, wage growth has been cooling, or at least not accelerating, while the labour market continues to run hot, something which Fed Chair Powell said on Wednesday, is encouraging to see, although he also said that in his view, the labour market would have to see some weakening in order to make further progress towards the Fed's 2% inflation target. Looking further into the report, manufacturing, retail, leisure, and professional & business services jobs led the gains. Average weekly hours jumped to 34.7 from 34.4, "another sign that labour demand is stronger than previously thought", Capital Economics says. Meanwhile, the annual benchmark revisions point to an even stronger labour market than previously thought, with overall payrolls last year being bumped up by 813k, albeit those revisions were concentrated around the middle of last year with the latter months seeing more modest revisions.

ISM SERVICES: ISM services for January rose to 55.2 from 49.2, well above the expected 50.4, in what was the biggest monthly gain since June 2020, while business activity also accelerated to 60.4 (prev. 53.5, exp. 54.5). Employment lifted back into expansionary territory at 50.0 (prev. 49.4), and new orders surged higher to 60.4 (prev. 45.2). Further on the encouraging report, the inflationary gauge of prices paid dipped to 67.8 from 68.1, albeit still elevated by historical standards. On the report, Oxford Economics notes, “despite the rebound, the longer-term slowing in the services sector remains intact, and a significant bounce is unlikely over the coming months as demand cools in the wake of Fed rate hikes and the past tightening in financial conditions.” As such, Oxford continues to “anticipate a mild recession later this year, and while today’s jobs report needs to be interpreted with caution it is a reminder the economy won't abruptly change course in the absence of an extreme shock.”

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 1 POINT & 4 TICK LOWER AT 114-13+

Treasuries saw pronounced bear-flattening on a head-spinning jobs report and strong ISM Services. At settlement, 2s +21.9bps at 4.309%, 3s +20.4bps at 3.968%, 5s +18.6bps at 3.669%, 7s +16.7bps at 3.607%, 10s +13.4bps at 3.532%, 20s +9.4bps at 3.763%, 30s +7.0bps at 3.626%.

Inflation breakevens: 5yr BEI -0.1bps at 2.231%, 10yr BEI -1.4bps at 2.228%, 30yr BEI -1.5bps at 2.189%.

THE DAY: It was choppy trade for USTs out of APAC and in the European morning with T-Notes entering NY little changed after marking a range of 115-13+/115-22+ with hesitation ahead of payrolls. There was an initial bid in the APAC morning that unwound into the European session, with a plethora of hawkish ECB speak weighing out of EGBs, while Gilts were cushioned by dovishly-received remarks from BoE's Pill. Treasuries fell through the floor on the release of the BLS report which saw a way-over consensus 517k jobs added in January, while the unemployment rate at 3.4% fell to the lowest level since 1969. In an immediate reaction, T-Notes tumbled from 115-19 to 114-24, with the curve flattening further as the dust settled. Session lows in T-Notes were made at 114-08 after the upside print in January ISM Services, further pushing back on any growth concerns. However, the front end kept leaking lower into the close, with STIRS flirting with a Fed terminal rate this year above 5%. Attention now moves to Next week sees the 3s, 10s, and 30s new issues, not too much major on the US data front, although we can expect a deluge of Fed Speak.

STIRS:

- SR3H3 -6bps at 95.12, M3 -15bps at 94.99, U3 -21.5bps at 95.115, Z3 -25.5bps at 95.445, H4 -27bps at 95.95, M4 -26bps at 96.43, U4 -24.5bps at 96.75, Z4 -23bps at 96.92, H5 -21bps at 97.025, H6 -17bps at 97.12, H7 -13.5 bps at 97.05.
- In options, a slew of block trades across SOFR white pack, mainly puts.
- NY Fed RRP op demand at USD 2.041tln (prev. 2.050tln) across 103 bidders (prev. 101).

CRUDE

WTI (H3) SETTLED USD 2.49 LOWER AT 73.39/BBL; BRENT (J3) SETTLED USD 2.23 LOWER AT 79.94/BBL

Oil prices were very choppy Friday, initially rallying with risk appetite before falling to lows amid the Dollar surge and book squaring into the weekend. WTI and Brent traded between USD 73.51-78/bbl and 79.86-84.20/bbl, respectively. US data was very strong, with the super-hot jobs report followed by a rebound in ISM Services for January. Nonetheless, despite the volatility, there was not much energy-specific newsflow, rather just broader sentiment and flow-driven trade. While not impacting prices, the energy highlight was EU members agreeing on a new Russian oil products price cap of USD 100/bbl for premium products, such as diesel, and USD 45/bbl for cheaper products, including fuel oil; the caps will come into place on Sunday. We also heard commentary from Trafigura's Luckock, via Bloomberg, who noted oil is likely to trade in USD 80-100/bbl range and that OPEC+ won't let oil drift into the USD 70s/bbl.

RUSSIA: Russian Energy Minister, via Interfax, stated there is no reason to sharply reduce output of Russian petroleum products because of the EU embargo; said Russia is not mulling rescheduling maintenance at refineries amid the embargo.

BAKER HUGHES (w/e Feb. 2nd): Oil -10 at 599, Natgas -2 to 158, Total -12 at 759. Total rigs down 12 is the biggest fall in a week since June 2020, with 759 the lowest level since September.

EQUITIES

CLOSES: SPX -1.04% at 4,136, NDX -1.79% at 12,573, DJIA -0.38% at 33,926, RUT -0.78% at 1,985.

SECTORS: Consumer Discretionary -3.11%, Communication Services -2.22%, Utilities -2.07%, Real Estate -2.03%, Materials -1.82%, Technology -0.8%, Industrials -0.52%, Consumer Staples -0.43%, Health -0.26%, Energy -0.23%, Financials -0.1%.

EUROPEAN CLOSES: EURO STOXX 50 +0.40% at 4,257, FTSE 100 +1.04% at 7,901, DAX 40 -0.21% at 15,476, CAC 40 +0.94% at 7,233, FTSE MIB -0.55% at 26,950, IBEX 35 -0.04% at 9,225, SMI +1.51% at 11,357.

EARNINGS: **Apple (AAPL)** posted a downbeat quarter; missed on EPS, revenue and most revenue segments, with the only bit of solace coming in Services. Execs noted a difficult macro environment and supply constraints, as production disruptions at Chinese manufacturing sites lasted through most of Dec. Note, the top line fell 5% Y/Y, marking AAPL's first top-line decline since 2019. **Amazon (AMZN)** topped on revenue but missed on profit, online stores, and AWS sales. CFO said it has seen continued slowness in Q1 for AWS and was seeing lower growth rates in UK and Europe due to inflation and Ukraine war. Next quarter net sales view light. **Alphabet (GOOGL)** fell short on top and bottom line with revenue breakdown disappointing. Noted significant work was underway to improve all aspects of its cost structure and is meaningfully slowing hiring in 2023; expects to incur charges of USD 1.9-2.3bln. **Qualcomm (QCOM)** beat on EPS but missed on revenue, with next quarter guidance light. Said a further deterioration of the macroeconomic environment, and sustained COVID restrictions in China, has led to broad-based demand weakening. **Ford (F)** missed on profit but surpassed on revenue. Plans significant cost cuts in 2023 beyond previous USD 3bln target. **Clorox (CLX)** topped St. consensus on EPS and revenue; lifted FY23 EPS and net sales outlook. **Starbucks (SBUX)** disappointed expectations on top and bottom line; keeps FY23 guidance unchanged. Weakened international demand, particularly in its second-largest market China, weighed on results. **Cigna (CI)** beat on top and bottom line; raised quarterly dividend to USD 1.23/shr (exp. 1.12).

STOCK SPECIFICS: Tesla (TSLA) prelim Jan deliveries reportedly rose to 66.1k from December's 55.8k. Activist investor Ryan Cohen is amassing a sizable stake in **Nordstrom (JWN)**; to reportedly urge the co. to make changes to its board following a steep share-price decline. US Treasury revises vehicle classification definitions for EV tax credit; is expected to lift the retail price cap to USD 80k for more EVs from **Tesla (TSLA), General Motors (GM), and Ford (F)**. US FTC reportedly preparing a possible antitrust suit against **Amazon (AMZN)**, according to WSJ sources. **Autodesk (ADSK)** has removed 250 positions globally, or less than 2% of its workforce. EU antitrust regulators pause probe into **Broadcom's (AVGO)** bid for **VMware (VMW)** as they await for requested data, according to Reuters citing EU Commission spokesperson. **Disney (DIS)** reportedly exploring the sale of more films and TV series to rivals, according to Bloomberg; Disney is seeking to earn more cash from its content library.

WEEKLY FX WRAP

Dollar boosted by blockbuster BLS report, and stellar services ISM

USD - What a difference a day makes, or on this occasion a data point as the Buck extended its already robust recovery from w-t-d lows to set new highs on the back of a bumper NFP release. To recap, headline payrolls smashed consensus and even the most bullish forecast within the range, while the jobless rate dipped against expectations for an uptick, the participation rate edged higher and y/y average earnings slowed less than anticipated from an upwardly revised level to raise more doubts over a loosening in labour market conditions after a surprise jump in JOLTS job openings, albeit for the month of December. In short, the numbers justify Fed guidance that it continues to view ongoing rate increases as appropriate rather than the market's insistence on reading between hawkish guidance lines to find dovish content. Moreover, Wednesday's FOMC statement underlined that rates are still not restrictive enough to ensure that inflation returns to target, though getting closer after the latest, smaller 25 bp hike, and while Chair Powell acknowledged that the disinflationary process has started, the Fed wants more substantial evidence. Returning to the Greenback, and its revival gathered even more pace and momentum when the US services ISM came in super strong almost across the board and the DXY rallied to 102.910 having been as low as 100.800 at one stage.

JPY/AUD/NZD - It's tough to look backwards given the scale of Friday's moves and sea change, but the Yen's big reversal vs its US peer was presaged by several reminders from BoJ Governor Kuroda (and others) that ultra-accommodation remains necessary to support the Japanese economy. However, the spike above 131.00 in Usd/Jpy from a trough sub-128.50 and not far from the circa 128.02 weekly low was exacerbated by a blow-out in UST/JGB yield differentials as the 10 year Treasury yield rebounded through 3.50% compared to around 3.33% only yesterday. Elsewhere, the Aussie and Kiwi also caved in and slumped to fresh w-t-d bases against their US rival at 0.6931 vs 0.7157 apex and 0.6350 vs 0.6538 at best, with the former wary ahead of the RBA next Tuesday (25 bp hike seen in response to hot Q4 CPI, but pause possible after that), and the latter taking heed of less aggressive RBNZ calls following misses in NZ's Q4 HLFS, not to mention inflation falling short of the Bank's own estimate in Q4.

CHF/GBP/EUR - The Franc also fell foul of the widening yield spread dynamic, as Usd/Chf soared towards the week's 0.9288 pinnacle from 0.9061 at the other extreme and the Eur/Chf cross over parity between 1.0061-0.9935 parameters, but this fails to tell the full story as it squeezed sharply higher into month end in flow/order-driven fast market conditions that roused speculation about official action (ie reserve relocation for the January/February turn). Meanwhile, the Pound received upgrades to final UK PMIs as a buffer against EU denials over compromises to the NI Protocol in advance of super BoE Thursday that was anything but after a knee-jerk rise on confirmation of another 50 bp hike and only two MPC dissensions from the December doves. On that note, several banks and pundits were looking for a wider vote split and at least one for a 25 bp tightening move to appease the hawks and those arguing for no further tightening at all, but the damage for Sterling was done by changes in the language of the accompanying statement, namely the removal of the line - the Committee continues to judge that, if the outlook suggests more persistent inflationary pressures, it will respond forcefully, as necessary - and replacement of a majority of the Committee judges that further increases in Bank Rate may be required for a sustainable return of inflation to target, with if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required. Subsequently, chief economist Pill said there is still a lot of policy in the pipeline, and it is important to guard against the possibility of doing too much, adding to the notion that the end of the hiking cycle is nigh. Hence, Cable is hovering around 1.2100 within a 1.2417-1.2063 band and Eur/Gbp nearer 0.8975 than 0.8763 even though the Euro has unwound more upside vs counterpart. Indeed, Eur/Usd is hugging the base of a 1.0803-1.1033 range regardless of a string of GC members (and a source piece for that matter) at pains to manage dovish expectations emanating from Thursday's ECB policy meeting and press conference. As a reminder, all benchmark rates were lifted by another half point, as expected, and a third in a row was 'pre-announced' for March, or a clear intent to raise by the same increment. Nevertheless, the Euro recoiled and EGBs ramped up as the official statement indicated a period of evaluation after next month, while President Lagarde delivered a more balanced assessment of the outlook for inflation and growth compared to upside risks for the former and vice versa for the latter last time.

CAD/NOK/SEK - All on a weaker footing, but the Loonie holding up much better as broad risk appetite improves to compensate for extreme volatility in crude. Usd/Cad pared back from 1.3425 having already digested last week's time out by the BoC, while Eur/Nok and Eur/Sek remained in the ascendancy to breach 11.0000 and approach 11.4000 on bearish independent factors. For Norway, the Norges Bank has upped its daily purchases of foreign currency to balance oil-related cash flows, while Sweden's economic and financial stability situation worsened in the face of the Riksbank's battle to tame inflation.

EM - Very contrasting fortunes for the Cnh and Cny returned from China's LNY holiday's in staggered fashion with a swagger on waves of Covid reopening euphoria before stalling close to 6.7000 vs the Usd and testing support near 6.8000, irrespective of encouraging PMIs and perhaps on renewed/heightened Chinese-US tensions. In similar vein, the Brl took positives from several places, including a hawkish message from the BCB after another unchanged SELIC verdict, and briefly climbed over 5.0000 against the Usd, but lost momentum amidst more COPOM critique by Brazilian President Lula. In SA, the Zar was plagued by ongoing power supply shutdowns and blackouts, with a transport strike adding to the strife, while the Huf was hit by another negative ratings review, as S&P cut Hungary's standing to go a stop further than Fitch.

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