



US Market Wrap

6th February 2023: Dollar and yield surge continues post-NFP as hawkish Fed repricing hits stocks

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** Fed's Bostic notes NFP raises prospect of higher peak rate and potential for 50bps; BoE's Mann treads usual hawkish tone; Saudi hikes oil OSPs; Large Turkey earthquake; Conflicting rhetoric on potential new BoJ Governor; DELL to cut ~5% of global workforce; US plans 200% tariff on Russian aluminium.
- **COMING UP: Event:** RBA Policy Announcement **Speakers:** Fed's Powell, Barr; ECB's Schnabel, Kazimir, Knot; BoE's Cunliffe; BoC's Macklem **Supply:** Netherlands, UK, Germany & US **Earnings:** Evolution, asm-Osram, Carlsberg, Siemens Energy, BP; Centene, DuPont, Yum China, Spirit AeroSystem, Royal Caribbean.
- **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](#).
- **THIS WEEK'S EARNINGS:** [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 lower Monday with defensive sectors faring better, while the Nasdaq 100 and Russell 2k led losses, as markets ramped their hawkish Fed expectations further in wake of the super hot jobs report on Friday. Some desks are pinning the downside on the Chinese balloon incident, which was perhaps a catalyst, although given the rally YTD, many have been calling for a natural pullback. The hawkish Fed repricing also serves as a short catalyst: terminal rate is now priced just north of 5.1% come June this year vs sub 4.9% before the NFP report. Treasuries saw further bear-flattening (2s +15bps, 10s +10bps, 30s +5bps) ahead of a busy week of Fed Speak but little major data; Powell speaks Tuesday at 12:00ET. There were some unscheduled late remarks Monday from Fed's Bostic (non-voter) who said the jobs report has opened the possibility of a higher Fed terminal rate and FOMC could reconsider moving back to 50bp hikes, which will be interesting to see if his colleagues agree publicly after Powell declared the disinflation process was underway last Wednesday. Oil prices were firmer with the earthquake in Turkey and Syria creating some supply risk, while Saudi Arabia hiked the majority of its monthly official selling prices. And in FX, the Dollar caught a bid, with particular Yen weakness as the BoJ Governor successor looks increasingly likely to be the most dovish candidate, Deputy Governor Amamiya.

CENTRAL BANKS

FED: Bostic (non-voter), giving unscheduled remarks to Bloomberg, noted the jobs data from Friday raises the possibility of a higher peak rate, and his base case is still for two more hikes. Bostic also said the Fed could consider moving back to a 50bps hike if it needed to. On the jobs report, he added the Fed needs to study if the reading was anomalous. The Atlanta Fed noted there is a good chance of avoiding a recession and the Fed's main job is to control inflation. This comes ahead of Fed Chair Powell speaking on Tuesday at the Economic Club of Washington.

RBA PREVIEW: The RBA is to conduct its first policy meeting of the year on Tuesday where the central bank is likely to continue hiking rates with 30 out of 31 economists surveyed by Reuters expecting a 25bps rate increase to 3.35%, while money markets are pricing a 92% chance of such a move and just an 8% likelihood of a pause, although this was more balanced around two weeks ago when markets were pointed to near-even odds between a 25bps hike and keeping rates unchanged. For a full Newsquawk preview, please [click here](#).

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 29+ TICKS LOWER AT 113-16



Treasuries saw further bear-flattening as traders ramp up terminal rate pricing further after Friday's super-hot US jobs report. 2s +14.6bps at 4.447%, 3s +15.2bps at 4.117%, 5s +14.5bps at 3.811%, 7s +12.7bps at 3.732%, 10s +9.9bps at 3.631%, 20s +5.7bps at 3.822%, 30s +4.1bps at 3.668%.

Inflation breakevens: 5yr BEI +4.6bps at 2.279%, 10yr BEI +3bps at 2.261%, 30yr BEI +3.1bps at 2.218%.

THE DAY: There was a leg lower in USTs at the futures reopen, with APAC catching up to Friday's hot jobs report, before sideways trade for most of the APAC session, only to pick up selling again during the European morning to see T-Notes enter the NY session already down over half a point. The overnight futures volumes were particularly high, about double the average. There was some loose chatter that the latest Chinese balloon incident had led to some speculative front-running on fears that China could further reduce its UST reserve holdings, however unlikely that seems. Meanwhile, the latest reporting of the new BoJ Governor likely being the most dovish candidate saw the Yen hit, dampening the demand prospect of USTs from the key buyer. The Treasury selling in Europe was also accentuated by hawkish BoE's Mann and more hawkish ECB Speak that saw spillover out of the Gilt and Bund complex. The return of US participants saw fresh lows made in USTs, where a handful of corporate issuers tapping the Dollar market saw some supply indigestion ahead of this week's refunding. T-Notes ultimately made session lows of 113-14 as Europe closed up shop, hovering near lows into the settlement.

AHEAD: Traders now look to the 3s, 10s, and 30s new issues on Tues, Weds, and Thurs, with little major on the US data front. However, we will get a deluge of Fed Speak, with Powell speaking at the Economic Club of Washington on Tuesday, where participants will be keeping a particular eye out for any view updates in light of the January NFP report.

STIRS:

- SR3H3 -2.5bps at 95.095, M3 -10.5bps at 94.885, U3 -15bps at 94.965, Z3 -17bps at 95.275, H4 -19.5bps at 95.76, M4 -20bps at 96.23, U4 -20.5bps at 96.55, Z4 -19.5bps at 96.73, H5 -17.5bps at 96.85, H6 -11.5bps at 96.995, H7 -9.5bps at 96.945.
- In options, a slew of profit-taking on SOFR calls while put buying accelerated as terminal rate pricing rose further.
- NY Fed RRP op demand at USD 2.072tln (prev. 2.041tln) across 103 bidders (prev. 103).
- US sold USD 67bln of 3-month bills at 4.590%, covered 2.69x; sold USD 53bln of 6-month bills at 4.755%, covered 2.63x.

CRUDE

WTI (H3) SETTLED USD 0.72 HIGHER AT 74.11/BBL; BRENT (J3) SETTLED USD 1.05 HIGHER AT 80.99/BBL

The crude complex was firmer to start the week in choppy trade conditions amid the earthquake in Turkey and Saudi hiking its OSPs fighting against a firmer Dollar. WTI and Brent sold off in the European afternoon, hitting lows of USD 72.25/bbl and 79.10/bbl, respectively, into the European close before recovering to just shy of earlier session highs of 74.41/bbl and 81.25/bbl. The focus earlier on came from the massive earthquake that struck Turkey and Syria on Monday, which halted operations at Turkey's major oil export hub in Ceyhan, as well as preventing critical oil flows from Iraq and Azerbaijan. Highlighting this, Azeri crude oil exports from Turkey's Ceyhan port are to remain halted on February 6th-8th. Elsewhere, Saudi Arabia raised OSPs (details below) while Iraq crude production fell by 100k BPD to 4.33mln BPD in Jan.; 100k BPD beneath OPEC+ quota.

SAUDI ARABIA: Saudi Arabia raises all oil March OSPs for Europe and most oil prices for the US, as it set Arab Light to NW Europe at +0.50/bbl to ICE Brent and Arab Light to US at +6.65/bbl vs ASCI. Additionally, Saudi set its March Arab Light Crude OSP to Asia at +2.00/bbl (+0.20/bbl vs exp. USD -0.30/bbl) vs Oman/Dubai averages, according to Reuters sources; the first increase in six months.

KAZAKHSTAN: Kazakhstan's KMG will begin oil shipments via BTC pipeline in February, supplying up to 120k T from Tengizchevroil (TCO), according to Reuters sources. KMG plans to load one cargo of Azeri BTC oil via the pipeline per month, with later plans to increase loadings to two cargoes. Note, on Jan 23rd, Kazakhstan's TCO planned to raise oil exports via Georgia's port of Batumi to 150k T in Jan.-Feb. in efforts to diversify export channels away from CPC pipeline through Russia.

EQUITIES

CLOSES: SPX -0.62% at 4,110, NDX -0.87% at 12,464, DJIA -0.11% at 33,889, RUT -1.40% at 1,957.



SECTORS: Communication Services -1.31%, Technology -1.22%, Materials -1.08%, Real Estate -0.68%, Health -0.6%, Energy -0.41%, Industrials -0.21%, Consumer Discretionary -0.14%, Financials -0.14%, Consumer Staples +0.02%, Utilities +0.86%.

EUROPEAN CLOSES: EURO STOXX 50 -1.23% at 4,205, FTSE 100 -0.82% at 7,836, DAX 40 -0.84% at 15,345, CAC 40 -1.34% at 7,137, FTSE MIB +0.27% at 27,022, IBEX 35 -0.72% at 9,159, SMI -0.58% at 11,283.

STOCK SPECIFICS: **Dell Technologies (DELL)** will cut about 6,650 jobs, or approx. 5% of its global workforce, as it faces plummeting demand for PCs. DELL is experiencing market conditions that “continue to erode with an uncertain future.” **Danaher (DHR)** in recent months has expressed takeover interest in **Catalent (CTLT)**; unclear how CTLT will proceed, or whether it’s receptive to a takeover offer, but any deal is not imminent. **Newmont (NEM)** made a USD 16.9 bln offer for Australian peer **Newcrest (NCM AT/NCMGY)**; investors and analysts said it undervalued the target amid a leadership change. **Public Storage (PSA)** proposes to acquire **Life Storage (LSI)** in an all-stock transaction for USD 11bln; LSI board will review the unsolicited PSA proposal. Separately, Public Storage increased its quarterly common dividend by 50%. **Lyft (LYFT)** downgraded at Gordon Haskett; said its active rider metric for Q4 could fall short of expectations. LYFT report earnings on Thursday. **Children’s Place (PLCE)** lowered Q4 EPS and revenue outlook amid a difficult macro environment; CEO expects to report a net loss in the range of USD 52-57mln for Q4; net loss was primarily due to a deterioration in gross margin for reasons not expected when providing prior guidance. **Tesla (TSLA)** raised prices of its Model Y SUV in the US after the Biden admin introduced measures to make more crossover SUVs qualify for the newly revamped EV tax credit. **PayPal (PYPL)** downgraded at Raymond James.

EARNINGS: **IDEXX Laboratories (IDXX)** topped on EPS and revenue; FY23 revenue outlook surpassed expectations. **ON Semiconductor (ON)** beat on EPS and revenue alongside a USD 3bln share buyback programme; Q1 guidance light. **Tyson Foods (TSN)** fell short on top and bottom line; reaffirmed FY sales view. **Energizer (ENR)** missed on top and bottom line; backs FY23 adj. EPS view.

US FX WRAP

The Dollar was firmer to start the week and hit a high 103.760 as it continued where it left off on Friday after the super hot jobs report. On Monday it was a pretty thin day of newsflow ahead of Fed Chair Powell speaking on Tuesday, as the Buck was supported by higher UST Treasury yields that continued their post-NFP surge higher. Traders are now pricing the Fed terminal rate in line with the December SEP’s 5-5.25%. In terms of the week, after a plethora of risk events last week, this week is much more sparse with market participants focusing mainly on Fed speak after the rate decision, with initial jobless claims Thursday and prelim UoM on Friday the data highlights.

The Yen was the clear G10 underperformer with the weakness coming from reports that Japan’s government has sounded out BoJ Deputy Governor Amamiya about becoming the next BoJ Governor. Amamiya is seen as more dovish than the other potential candidates and will face the task of normalising the BoJ’s ultra-loose policy. However, Finance Minister Suzuki said he hasn’t heard anything on BoJ Governor nominations yet and Deputy Chief Cabinet Secretary Isozaki later said there was no truth to the reports. In addition, according to Kyodo, the Japanese government is likely to present nominees for the new BoJ governor next week. On top of this the Yen also likely saw weakness as a function of yield differentials. USD/JPY saw a high and low of 132.90 and 131.52, respectively.

Activity currencies were lower, with GBP the ‘relative’ outperformer against the Greenback, albeit still softer, while the Aussie underperformed. While the general risk sentiment was unfavourable on Monday, the former saw some support from hawkish BoE’s Mann who is looking for a significant and sustained deceleration in higher frequency price increases, as well as noting the next step in the Bank Rate is still more likely to be another hike than a cut or hold. Cable traded in a tight range highlighted by a high of 1.2077 and a low of 1.2006. The Aussie, Kiwi and Loonie also fell foul to the general risk-averse sentiment, although the Loonie managed to pare some of its losses as oil reversed from its lows. As such, USD/CAD hit a high of 1.3475, in-fitting with Brent at lows, before paring. AUD/USD and NZD/USD traded between 0.6857-0.6948 and 0.6271-0.6334, respectively, on a lack of headline catalysts. Looking ahead, the RBA rate decision is due next up on Tuesday where the central bank is widely expected to hike rates 25bps to 3.35% ([Newsquawk preview here](#)) ahead of BoC’s Macklem on Tuesday and BoC Minutes on Wednesday.

Euro and Franc saw weakness against the Buck with the Swissy outperforming the single-currency. As mentioned, newsflow was sparse to start the week and there was little by way of market-moving headlines. The Euro was little phased by renewed hawkish ECB speak from the likes of Holzmann, Kazaks, Visco, and Vassle. On the data docket, the Eurozone Sentix index was not as bad as feared, but retail sales for December slightly disappointed. EUR/USD tested the round 1.08 and 1.07, but both key levels remained intact and were not breached. Meanwhile, USD/CHF traded in a 70pip range highlighting the quiet day.



EMFX was mainly in the red, although the TRY flat amid the natural disaster, whilst the RUB, ZAR, and MXN all saw notable losses against the surging Buck. For the Brazilian Real watchers, private economists cited by Reuters now expect the BCB to begin cutting rates in November rather than September, in wake of policymakers last week noting that they were looking at holding rates longer than the market expected. The Yuan was choppy, as hopes of US-China tensions easing have been put on hold in wake of US Secretary of State Blinken pausing his trip to the country after the Chinese spy balloon.

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