US Market Wrap

8th February 2023: Stocks dip as traders cherry pick hawkish Fed Speak

- **SNAPSHOT**: Equities down, Treasuries up, Crude up, Dollar up
- **REAR VIEW**: Mixed Fed speak; Super strong 10yr auction; EIA build in crude, gasoline and distillate stocks; CMA concerned about MSFT/ATVI deal; Siemens raises guidance.
- **COMING UP**: **Event**: Riksbank Policy Announcement & Press Conference, EU Leaders Summit **Speakers**: BoE's Bailey, Pill, Tenreyro, Haskel; ECB's de Guindos **Supply**: US **Earnings**: Euronext, L'Oreal, Siemens, ArcelorMittal, AstraZeneca, BATS, Compass; PepsiCo, Phillip Morris, AbbVie, PayPal, Kellogg.

MARKET WRAP

Major stock indices were lower on Wednesday amid a slew of Fed Speak received hawkishly. Fed's Williams and Cook gave remarks as stocks and bonds pushed to lows in the NY morning. Neither of the two voters were outright hawkish, albeit markets were eager to cherry-pick the hawkish remarks, similar to Powell on Tuesday, with all three giving two-way commentary. Fed's Waller, also a voter, gave a hawkish-in-tone speech later in the afternoon, although the remarks were more in fitting with his prior commentary, albeit, the comments capped the afternoon bid in Treasuries after a record strength US 10yr auction, whilst also keeping stocks near lows into the close. In FX, the Dollar went into the close at highs, seeing the DXY eclipse the 103.50 figure, while the Yen underperformed with Aussie, Kiwi and Looney although Sterling outperformed ahead of BoE speak on Thursday and UK GDP on Friday. Oil prices rallied amid mixed inventory data, accentuated by and bullish OPEC commentary, with an Iranian official calling for USD 100+/bbl prices in the back half of the year.

FED

WILLIAMS (voter): The NY Fed President spoke little on the Jan jobs report other than noting the labour market is very strong. He said there is still more work to do on rates and he will be driven by the data, but as it stands 5.00-5.25% FFR is reasonable, a touch on the dovish side after in December suggesting rates between 5.00-5.50%. Willaims said maybe service prices stay elevated, which will require higher rates, but 25bp hikes seem the best option for now. Williams also noted that if financial conditions loosen too much, the Fed would have to go higher on rates. On rate cuts, he says they may be considered in 2024/25 to adjust to the inflation rate, but the Fed needs to maintain restrictive rates for a few years.

WALLER (voter): Governor Waller noted the job on inflation is not done and it might be a "long fight", where rates may stay higher for longer than some are currently expecting. He added the US economy is adjusting well to higher interest rates but inflation remains quite elevated, reiterating "more needs to be done". He called for a "tight stance" of policy for some time to slow activity further in 2023, noting excessive inflation is a larger challenge than higher interest rates. Waller said the surprisingly strong January jobs means labour income will also be robust and buoy spending, putting upward pressure on inflation in the months ahead. Said some moderation has been seen in compensation growth, but not enough. Waller believes the recent trend in inflation is "encouraging" but needs to be confident inflation is declining in a sustained manner before his outlook changes. He also pushed back on his colleagues' fixation on core services ex-housing inflation, saying he does not like to strip too many items from inflation measures, noting that food and energy prices have largely been moving in one direction and that the stripped items are a larger share for lower-income households.

COOK (voter): Governor Cook stated the data is showing a pretty clear story of a historically strong labour market, with still elevated inflation Inflation is still running too high even though it has moderated. Said the Fed will need restrictive monetary policy for some time. Without stable prices, it will be hard to maintain maximum employment. Said it is possible the path of unemployment rate will be lower than most recent Fed projections. In times of uncertainty, it is important not to take too much signal from two or three data points. It is now appropriate to move in smaller steps as the Fed assesses the cumulative impact of rate increases so far, and the Fed will still stay the course until inflation is contained.

KASHKARI (voter): Kashkari repeated that the services side of the economy is still hot on inflation, while noting there is not much evidence that rate hikes so far have had much effect on the labour market and they will need to do more, but how much more is not clear. He also noted that wage growth is too hot now to support 2% inflation, and needs to get wage growth to around 3%. He does not want to cause a recession, but the Fed knows they have a job to do on inflation. He added most of his colleagues expect rates to go above 5% and it is certainty possible it will go higher. Said Fed will then hold rates for a long time and decide if rates will go higher, or down.

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 5+ TICKS HIGHER AT 113-13

Treasuries closed with a mild bid led by the belly after a super strong 10yr auction and mixed Fed Speak. 2s -1.7 bps at 4.454%, 3s -1.9bps at 4.103%, 5s -2.4bps at 3.820%, 7s -2.6bps at 3.749%, 10s -2.5bps at 3.649%, 20s +0.0bps at 3.862%, 30s -0.2bps at 3.704%.

Inflation breakevens: 5yr BEI +5.2bps at 2.411%, 10yr BEI +4.3bps at 2.364%, 30yr BEI +4.2bps at 2.311%.

THE DAY: Treasury strength grew into the Tokyo Wednesday session, aided by TY and TU block buys. T-Notes found interim highs at 113-18+ at the London handover before paring into the NY morning ahead of supply and Fed Speak. T-Notes made session lows of 113-06 in wake of comments from Fed's Williams and Cook, albeit their remarks were far from being considered overtly hawkish, and were rather in line with the balanced commentary from Powell. Yields came off highs into the NY afternoon, before knee-jerking lower after a super strong 10yr auction, seeing T-Notes spike to session highs of 113-20 from 113-13, only to pare the move into the close, with a hawkish-in-tone Waller speech capping the bid.

10YR AUCTION: A super strong USD 35bln 10yr new issue from the Treasury, marking a big contrast to the record tail at the 3yr on Tuesday. The 3.613% high yield marked a 3bp stop through the WI, a recent record and vastly better than the six-auction average 1.6bps. The 2.66x bid/cover ratio was the largest in a year. The takedown saw stellar end-user demand with Dealers (forced surplus buyers) taking a record low 5.4%, with Indirects jumping to 79.5% from 62.9%. The auction appears to have benefitted in the context of the recent curve flattening post-NFP, with front-end vol more pronounced. Furthermore, the auction appeared less vulnerable to a pullback in foreign participation in wake of the recent Dollar strength given the strong offering last month saw below-average foreign demand, unlike the 3yr.

AHEAD: Traders now look to the 30yr new issues on Thursday, coming after the latest initial jobless claims print with policymakers hoping for a rise amid labour market tightness concerns. There are no scheduled Fed speakers on Thursday.

STIRS:

- SR3H3 flat at 95.08, M3 +1bps at 94.855, U3 +1bps at 94.945, Z3 +1bps at 95.25, H4 +1bps at 95.73, M4 +2bps at 96.21, U4 +3bps at 96.555, Z4 +3.5bps at 96.74, H5 +3.5bps at 96.86, H6 +3.5bps at 97.01, H7 +3bps at 96.945.
- NY Fed RRP op demand at USD 2.059tln (prev. 2.058tln) across 103 bidders (prev. 104).
- US sold USD 36bln of 17-week bills at 4.700%, covered 2.59x.

CRUDE

WTI (H3) SETTLED USD 1.33 HIGHER AT 78.47/BBL; BRENT (J3) SETTLED USD 1.40 HIGHER AT 85.09/BBL

Oil prices rallied on Wednesday amid mixed inventory data and bullish OPEC commentary. WTI and Brent futures saw rallies in the European morning and then again into the settlement, closing at highs. In newsflow, TotalEnergies (TTE FP) CEO said he would not be surprised to see USD 100/bbl coming back. Iran’s liaison to OPEC also said that oil prices may rise to USD 100/bbl in the back half of the year, citing China’s economy rebounding from lockdown, adding that OPEC+ is likely to continue its existing policy at the next gathering. Elsewhere, Russian Deputy PM Novak, via RIA, said that the Kremlin will decide on countermeasures to the EU's sanctions by March 1st, adding that Russian oil output in February has been in line with January's 9.8-9.9mln BPD levels. While in Norway, Equinor (EQNR NO) said its Sverdrup field is now producing at 720k BPD and is looking to boost output to 755k BPD. The oil major sees a tight and volatile market going forward, with little spare oil production capacity.

INVENTORIES: The EIA reported US crude stocks building 2.4mln bbls in the latest week, contrasting the private data that indicated a draw of a similar magnitude. The Cushing, Oklahoma, delivery hub saw another sizeable build of 1mln bbls, taking total stocks to the highest since July 2021. US production rose 100k BPD to a new high of 12.3mln BPD. Meanwhile, the products saw a net build of 7.9mln bbls, led by gasoline, a bit more than the private data indicated, coming as we enter the refinery maintenance period. However, refinery utilisation rose 2.2% in the latest week.

EQUITIES

CLOSES: SPX -1.11% at 4,118, NDX -1.83% at 12,495, DJIA -0.61% at 33,949, RUT -1.52% at 1,943

SECTORS: Communication Services -4.13%, Utilities -1.7%, Technology -1.25%, Consumer Discretionary -0.89%, Energy -0.85%, Consumer Staples -0.83%, Materials -0.81%, Industrials -0.59%, Financials -0.56%, Health Care -0.31%, Real Estate -0.29%

EUROPEAN CLOSES: EURO STOXX 50 +0.00% at 4,209, FTSE 100 +0.26% at 7,885, DAX 40 +0.60% at 15,412, CAC 40 -0.18% at 7,119, FTSE MIB +0.15% at 27,160, IBEX 35 +0.60% at 9,227, SMI +0.34% at 11,271.

STOCK SPECIFICS: UK CMA opposes **Microsoft's (MSFT)** acquisition of **Activision (ATVI)**; said an in-depth independent investigation provisionally finds the deal raises concerns about cloud and console gaming. **Alibaba (BABA)** is developing the "Ali version" ChatGPT; currently in the internal testing stage. **Google's (GOOGL)** new AI search tool, Bard, provided an inaccurate answer in its first advertisement. **Manchester United (MANU)** could receive a takeover bid from a Qatari investment group within days, although it was later suggested it would only be a minority stake. **CVS Health (CVS)** confirmed it is to acquire **Oak Street Health (OSH)** for USD 39/shr in a proposed deal for USD 10.6bln (in line with sources). **Humana (HUM)** and ChenMed announced a five-year network agreement. **Willis Tower Watson (WTW)** raised quarterly dividend 2.4% to USD 0.84/shr (prev. 0.82). **Corning (GLW)** raised quarterly dividend 3.7% to USD 0.28 (prev. 0.27). There is speculation that Nelson Peltz will disclose his next steps in the battle with **Disney (DIS)** after earnings on Wednesday, according to FBN's Gasparino; although it is not confirmed.

EARNINGS: **Enphase Energy (ENPH)** beat on the top and bottom line; Q1 revenue view topped expected. **Fortinet (FTNT)** surpassed St. expectations on profit and slightly lifted guidance. **Chipotle Mexican Grill (CMG)** missed on EPS, revenue and comp. sales; adds USD 200mln to share buyback programme. CFO said it saw customers pull back on their restaurant spending during Q4. **CVS Health (CVS)** beat on profit and revenue; reaffirmed FY23 guidance. **Lumen Technologies (LUMN)** forecasted FY23 adj. EBITDA beneath st. expectations and analysts noted it's been a while since we've seen a miss of this magnitude. **Omnicom Group (OMC)** beat on EPS and revenue with organic revenue growth stronger than expected; enters 2023 in a very strong position, but says it is closely tracking the macroeconomic outlook and are fully prepared to respond appropriately. **Uber Technologies (UBER)** posted a surprise profit per share and beat on revenue. UBER set its sights on delivering profits in '23 after rounding off 2022 with strong earnings as a surge in demand for airport and office rides helped it rebound from pandemic lows. CFO sees headcount in 2023 as relatively flat. **Under Armour (UAA)** beat on EPS and revenue. Raises FY23 adj. EPS view and backs revenue outlook.

US FX WRAP

The DXY hovered around 103.00 for the majority of Wednesday before ending making highs into the close just north of 103.50. Absent major data, attention fixated on the slew of Fed speakers after the hot jobs report last week and Powell on Tuesday. To summarise, Williams generally towed a neutral line, where he barely spoke on Friday's jobs report and didn't give a nod to the disinflationary process, but he did state he sees rates between 5.00-5.25% vs his comment in December he sees rates at 5.00-5.50%. Waller was generally more hawkish, noting the job on inflation is not done and it may be a long fight while rates may stay higher for longer than some are currently expecting. He also warned the strong jobs report means labour income will also be robust thus buoying spending and putting upward pressure on inflation in the months ahead. Kashkari echoed that the services side of the economy is still hot and wage growth is too hot currently to support 2% inflation, and they need to get wage growth to around 3%.

The Euro was also flat and held above 1.07 within a 50 pip trading range. There were several ECB speakers, Knot noted headline inflation appears to have peaked but keeping the current pace of hikes into May will be needed if underlying inflation does not materially abate. De Guindos said inflation remains a cause for concern, while Kazaks said there is no reason to pause or stop hikes after March, calling for rates to hit significantly restrictive levels. Attention now turns to the delayed German CPI report due on Thursday after technical problems last week.

The Yen was weaker after its solid outperformance on Tuesday and USD/JPY has now returned above 131.00 after printing a low of 130.60 earlier in the session before UST yields started to rise supported by Fed commentary throughout the session, albeit yields reversed in wake of a strong 10yr auction in the afternoon. Technicians highlight heavy resistance at/around 133.00, albeit a bit away from current levels, it is a level to keep an eye out for in the week ahead with US CPI due next Tuesday.

Cyclical currencies were generally weaker with the downbeat risk environment and Fed rhetoric. AUD was the cyclical underperformer after its rally post-RBA on Tuesday while CAD weakened throughout the afternoon to see a high of 1.3445 vs the Dollar after the first BoC minutes which revealed the council debated whether to leave the policy rate unchanged, but on the flip side it also debated whether to maintain forward guidance from the prior statement or signal the pause. It also felt it was important to be clear on the conditionality of the pause due to inflation being well above target. NZD also saw weakness but not as much as the Aussie helping AUD/NZD fall sub 1.10. GBP however saw gains vs the Dollar with Cable briefly rising above 1.21 albeit failing to hold onto the level, GBP also saw gains vs the Euro ahead of UK GDP data on Friday. If Cable were to fall sub 1.20 technicians are eyeing a test of the 200dma at 1.1949.

EMFX was mixed. BRL saw gains with USD/BRL hovering around 5.2000 at pixel time with technicians eyeing the 200dma at 5.1919 as support on a clear break of 5.2000. There was some relief after a senator noted the government is not planning to push for a BCB Chief swap following reports the government is looking to oust Neto from the BCB top job. TRY was unchanged but the Turkish bourse is to shut for five days and cancel trades due to the earthquake. MXN saw weakness while RUB and ZAR underperformed while the INR was volatile around the latest RBI rate decision which hiked as expected by 25bps to 6.50% but in a 4-2 vote (prev. 5-1). For the THB, the Thailand minutes noted hikes should be gradual and measured and Thai financial conditions were less accommodative and the economy will continue to recover. PLN firmed vs the Euro after the NBP left rates unchanged at 6.75% as expected while repeating it may intervene in the FX market if needed and the return to CPI to target will be gradual. HUF saw notable gains vs the Euro where the latest minutes saw the unchanged rate decision as unanimous and said it would be necessary to maintain tight monetary conditions over a prolonged period of time. HUF also benefited from the drop in nat gas prices plus its high yield among Europe.