# US Market Wrap

## 9th February 2023: Stocks dive and yields rise as eyes turn to CPI next week

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar down.
- **REAR VIEW**: Awful 30yr US auction; Jobless claims tick higher; DIS beat, announced cost-cutting plans and Peltz backs off; Third Point takes stake in CRM; Dovish BoE Tenreyro; Hawkish Banxico hike; Barkin reiterates previous stance; Japanese government to present new BoJ governor nominees on Feb 14th
- **COMING UP**: **Data**: Chinese CPI, UK GDP, Canadian Jobs Report, US Uni. of Michigan Prelim. **Events**: RBA SOMP, ECB TLTRO.III publication, EU Leaders Summit (2/2) **Speakers**: Fed's Waller, Harker; ECB's Schnabel, BoE's Pill **Earnings**: Aker BP, Carl Zeiss.

## MARKET WRAP

Stocks completely pared, and more, from highs seen around the open in what turned out to be a rather grim session. Stocks trundled lower with SPX falling beneath 4100 although the Russell 2k was the underperformer closing lower by c. 1.5%. All sectors closed red although Communications was the particular underperformer as Google (GOOGL) continues to suffer from its AI ad mishap on Wednesday, while although Disney (DIS) earnings and cost-cutting plans were initially well received, the c. 6% gains were completely wiped out with risk-off trading and Nelson Peltz backing away from his proxy fight on its restructuring plans. The equity selling helped take the dollar off lows in the afternoon with DXY reclaiming 103.00 to the upside while fixed income was sold across the curve, particularly in wake of the dismal 30yr auction which took yields to highs. Crude prices were lower with risk while gold and silver prices took a hit as yields rose. The jobless claims data were higher than expected albeit it still sub 200k while the 4wk average also dropped. Traders now look to China inflation data overnight ahead of Friday's Uni of Michigan survey, with Fed's Waller and Harker also speaking, albeit on digital currency, alongside positioning into next Tuesday's US CPI report.

## US

**BARKIN (NON-VOTER)**: Fed's Barkin (non-voter) noted effects of Fed's tightening have been substantial and they must stay the course on reining in inflation. Further on inflation, he added it is likely past its peak but still elevated and it will take longer for a pullback in demand to further slow the pace of price increases. Moreover, while average inflation has peaked, the decline has been distorted by a few goods and the median has stayed high. Barkin reaffirmed the view that it makes sense for the Fed to steer "more deliberately" from here due to lagged effects of policy. Note, Barkin's stance seemingly hasn't changed much from his remarks in January, where he erred on the side of caution then, highlighting elevated median inflation and expressing a preference to not pull back from tightening too soon.

**JOBLESS CLAIMS**: Initial jobless claims rose to 196k from 183k, and above the expected 190k. Continued claims also surpassed expectations and printed 1.688mln (exp. 1.68mln), above the prior 1.650mln. Oxford Economics note, “though the latest data shows a modest pick-up in the level of jobless claims, the increase is from a subdued level and claims continue to signal a tight labor market despite any headline grabbing layoffs of recent weeks.” As such, looking ahead, Oxford adds “employment indicators, including claims, show there is plenty of momentum left in the labor market, leaving the Fed on track to raise rates again in March.”

## GLOBAL

**BANXICO REVIEW**: Overall, a very hawkish decision from Banxico. It opted to hike rates by 50bps once again and signalled another, smaller hike at the next meeting by stating "the upward adjustment to the reference rate could be of lower magnitude". Some had expected this to be the final hike from the Banxico, but it is clear their fears on inflation remain and more tightening is needed to return inflation to target. The inflation forecasts saw both headline and core figures revised up across the entire forecast horizon, but it is still expected to return to target in the latter half of 2024 as a result of the extra tightening. Nonetheless, Banxico hold the view that inflation risks remain biased to the upside. Note, although the decision was unanimous for a 50bps hike, the December meeting saw a dovish dissenter opt for a 25bp hike. The dovish dissenter was Esquivel, who has since retired from the board and Omar Mejía Castelazo has taken his place - showing he is more aligned with the rest of the board than his predecessor Esquivel.

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**GERMAN INFLATION REVIEW**: Delayed German HICP inflation data for January came in beneath expectations at 0.5% M/M (exp. 1.2%), seeing the annual rate fall to 9.2% Y/Y (exp. 10.0%). Capital Economics said the main takeaway was that headline inflation in both Germany and the Eurozone fell further in January, but less than Eurostat had estimated in its flash release. However, while European fixed income rallied on the data, which supposedly puts less pressure on the ECB to act aggressively in the months ahead, there is a lack of detail around core inflation, which some argue is more important for the monetary policy reaction function rather than the headline level of inflation. "While the German flash inflation release is usually accompanied by a CPI breakdown by category and state, this was not available this time, as Destatis says is customary when there are base period changes," CapEco writes, "accordingly, we don't have any information on what happened to core inflation." The consultancy adds that we also do not know how Destatis accounted for the government gas and electricity price caps which officially come into force in March, but will then apply retroactively to January and February. "Our hunch is that the retroactive payments may have been accounted for January, and if not, we would have expected headline inflation to rebound, given January also saw the expiry of some temporary government gas and heating subsidies," it said. CapEco concludes that overall, "a quite disappointing lack of clarity at a time when inflation statistics are being watched so closely by policymakers and investors."

**RIKSBANK REVIEW**: As expected, the Riksbank hiked by 50bp to 3.00% and lifted the Repo Path to a new peak of 3.33% (prev. 2.85%, from November). A decision that implies another 25bp hike at the April meeting and thereafter the modest possibility for further tightening, if inflation remains persistently hot. The statement's commentary on the economy was fairly balanced, acknowledging the pressure Sweden is facing but taking the view that it is better to take action now to reduce the risk of inflation remaining entrenched. Additionally, the Riksbank provided us with more details then perhaps expected on their asset holding plans, after guiding us towards a decrease in-line with maturities this year at the November gathering. Notably, this is currently scheduled to begin in April and as such provides the Bank with the potential to adjust this as necessary; an adjustment which could, as has been flagged before, entail some tightening of policy and thus be used as a complementary tool to rates.

## FIXED INCOME

**T-NOTE (H3) FUTURES SETTLED 12 TICKS LOWER AT 113-01**

**Treasuries saw pronounced flattening until the ugly bond auction saw the long-end rally fade**. 2s +3.8bps at 4.493%, 3s +5.8bps at 4.159%, 5s +4.6bps at 3.866%, 7s +3.9bps at 3.788%, 10s +3.7bps at 3.673%, 20s +3.0bps at 3.896%, 30s +3.1bps at 3.743%

**Inflation breakevens**: 5yr BEI -0.7bps at 2.398%, 10yr BEI -0.6bps at 2.350%, 30yr BEI -0.7bps at 2.298%.

**THE DAY**: Treasuries entered the NY session in a bull-flattener in wake of the super strong 10yr auction on Wednesday and in spillover from Bunds post-German CPI. T-Notes printed session highs of 113-26 in wake of the rise in initial jobless claims after weeks of declines, providing some relief on tight labour market concerns, albeit contracts are still a long way from their 116-00 peaks last Thursday (post-FOMC/pre-NFP). The contracts then pared into the NY afternoon, led by the front-end as flatteners prevailed. The ugly 30yr bond saw duration leg lower, taking T-Notes to session lows at 113.00 into the settlement.

**30YR AUCTION**: An ugly USD 21bln new issue 30yr bond auction from the Treasury, marking a surprise against the stellar 10yr and more akin to the ugly 3yr. The 3.682% stop marked a chunky 3.2bps tail, a lot worse than January's 2.4 bps stop-through and the six-auction average 0.4bps stop-through. The 2.25x bid/cover ratio was well beneath the avg. 2.37x. Dealers (force surplus buyers) were left with 15.8%, the largest since April last year. Directs participation ticked up to 18.9% from 16.3% while Indirects tumbled to 65.2% from 74.6%. It appears the multi-decade inverted levels of the Treasury curve has dissuaded buyers, not to mention the duration rally coming into the offering. There's also likely some trepidation ahead of the CPI report next Tuesday, where duration buyers may be looking to the 20yr auction on Wednesday as an entry with the inflation report in the rear view.

**AHEAD**: Traders now look to China inflation data overnight ahead of Friday's Uni of Michigan survey, with Waller and Harker also speaking, alongside positioning into next Tuesday's US CPI report. While on supply, US is to sell USD 15bln 20yr bonds on Wednesday and USD 9bln 30yr TIPS on Thursday.

**STIRS**:

- SR3H3 +0.0bps at 95.075, M3 -1.0bps at 94.840, U3 -3.5bps at 94.905, Z3 -5.0bps at 95.195, H4 -7.0bps at 95.655, M4 -9.5bps at 96.115, U4 -10.0bps at 96.455, Z4 -9.5bps at 96.645, H5 -9.0bps at 96.765, M5 -8.0bps at 96.850, U5 -7.5bps at 96.905, Z5 -6.5bps at 96.940, H6 -5.5bps at 96.950, H7 -3.0bps at 96.915.
- US sold USD 76bln of 1-month bills at 4.520%, covered 2.63x; sold USD 61bln of 2-month bills at 4.600%, covered 2.32x.

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- Treasury announces it is to sell USD 60bln of 3-month bills and USD 48bln of 6-month bills on February 13th; settling on February 16th.
- Treasury announced it is to sell USD 25bln of new 12-day CMBs on February 14th, settling on February 16th.

## CRUDE

**WTI (H3) SETTLED USD 0.41 LOWER AT 78.06/BBL; BRENT (J3) SETTLED USD 0.59 LOWER AT 84.50/BBL**

**The crude complex was lower for the duration of the US session, most likely on the general risk-averse sentiment providing headwinds for the complex, as opposed to anything specific for the crude complex**. Although, the weakness seen in WTI and Brent began prior to the weakness seen in US equities and the Dollar paring losses, but just aided the decline. As mentioned, there was little new fundamental newsflow or headline-driven trade for oil on Thursday. On the Turkey quake, according to BP Azerbaijan, Azeri Crude Oil exports from Turkey's Ceyhan are still halted, although Azeri crude oil is still flowing to Ceyhan via the pipeline, which is seemingly a delay as on Monday it was reported to remain halted between February 6th-8th. Looking ahead, there is Baker Hughes rig count on Friday.

**RUSSIA**: Oil and oil product exports from Black Sea's Novorossiisk and Tuapse Ports, as well as the CPC Terminal have been suspended due to a storm, traders say.

**KAZAKHSTAN**: Kazakhstan crude output declines 10% due to unplanned Tengizchevoil (TCO) work, according to Bloomberg.

**GAS**: Germany is close to signing a long-term supply deal, of at least 10yrs, with Oman for natural gas. The deal would be between 0.5-1mln T per annum. For comparison, in November, QatarEnergy and ConocoPhillips (COP) signed two sales and purchase agreements to export 2mln T per annum to Germany for at least 15 years from 2026.

## EQUITIES

**CLOSES**: SPX -0.88% at 4,081, NDX -0.91% at 12,381, DJIA -0.73% at 33,699, RUT -1.40% at 1,915.

**SECTORS**: Communication Services -2.8%, Materials -1.41%, Utilities -1.41%, Financials -1.23%, Real Estate -1.01%, Industrials -0.88%, Health -0.86%, Energy -0.71%, Technology -0.5%, Consumer Staples -0.3%, Consumer Discretionary -0.21%.

**EUROPEAN CLOSES**: EURO STOXX 50 +0.97% at 4,250, FTSE 100 +0.33% at 7,91, DAX 40 +0.72% at 15,523, CAC 40 +0.96% at 7,188, FTSE MIB +1.26% at 27,503, IBEX 35 +0.18% at 9,243, SMI -0.47% at 11,223.

**STOCK SPECIFICS**: **Disney (DIS)** shares were taken on a wild ride with the stock initially soaring following earnings printing above expectations although Disney+ subscribers, ESPN+ and Hulu subscribers missed expectations. It also saw a real boost after it announced its USD 5.5bln cost-cutting plan. Nonetheless, the 6% gains were wiped out and more more were wiped out with equity indices tumbling throughout the afternoon. Meanwhile, Nelson Peltz said his Disney proxy fight is over after CEO Iger unveiled restructuring measures. **Salesforce (CRM)** firmed following reports in WSJ that Third Point has taken a stake in the co. **Abbott (ABT)** is to acquire **Cardiovascular Systems (CSII)** for USD 20/shr at a total expected equity value of approximately USD 890mln. **PepsiCo (PEP)** earnings beat consensus and announced a dividend increase; also said it is focussed on saving at least USD 1bln in productivity costs. **Duke Energy (DUK)** EPS beat while revenue smashed expectations. **Kellogg (K)** beat on EPS and revenue. **Ralph Lauren (RL)** EPS saw a strong beat while revenue was also above expectations. It also reaffirmed its revenue growth forecast, but did cut its operating margin view by 0.5%. **AbbVie (ABBV)** rose after a beat on EPS but revenue fell short although Humira revenue was in line with expectations but the next quarter and FY outlook was weaker than forecast. **Hilton (HLT)** saw a notable beat on EPS but Q1 guidance was weaker than expected. Revenue beat expectations. **MGM (MGM)** posted a narrower loss per share than expected while revenue beat expectations; announced a USD 2bln buyback programme. **Robinhood (HOOD)** saw a miss on EPS, revenue and MAUs; EBITDA topped consensus while it announced executives cancelled nearly USD 500mln of share based compensation. **Exxon (XOM)** is combining business units as part of a continuing corporate reorganisation that will cut costs and some jobs. **GlobalFoundries (GFS)** and **General Motors (GM)** announced a long-term direct supply agreement for US production of semiconductor chips. Japan Fair Trade Commission said **Apple (AAPL)** and **Google (GOOGL)** may be violating Japanese antitrust law with their handling of mobile apps, according to Nikkei.

## US FX WRAP

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**The Dollar** sold off on Thursday in a choppy risk environment but the buck looks to end the session off its lows with DXY reclaiming 103.00 as Treasury yields picked up in wake of a dismal 30yr auction. DXY saw lows of 102.63 around the cash open with stocks at highs before the dollar was supported by the souring risk tone throughout the afternoon. US data saw jobless claims rise more than expected but still remain sub 200k while the 4wk average saw a revision lower.

**The Euro** was supported vs the buck seeing EUR/USD rise above 1.0750 to highs of 1.0792 before paring back beneath 1.0750. The focus in the morning was on German inflation data which was cooler than expected Y/Y at 8.7% but the M/M was hotter rising 1%. On technicals, EUR/USD currently is sitting beneath both the 10 and 21dma's at 1.0817 and 1.0832, respectively which may limit the upside of the cross as well as the psychological 1.1800 which it failed to breach on Thursday.

**The Yen** was marginally weaker vs the Dollar with all eyes over to next week with US CPI and BoJ nominees in focus. It was confirmed on Thursday that the Japanese government plans to present nominees for the new BoJ governor with Parliament on Feb 14. Meanwhile, reports noted that Japan's ruling LDP is said to be divided if PM Kishida seeks a BoJ pivot. Report notes that people say Yamaguchi as BoJ head choice would be controversial.

**Gold prices** tumbled in the afternoon printing a fresh low for the month in what has been more or less a month of nonstop losses in the precious metal so far.

**Cyclical currencies** were supported by the Dollar weakness despite the downbeat risk environment with GBP the cyclical outperformer and Cable reclaiming 1.2100. There were several BoE speakers on Thursday, Tenreyro was very dovish, noting rates currently are too high and she would consider a rate cut. Meanwhile, Governor Bailey expects inflation to come down rapidly this year and Chief Economist Pill anticipates an extended period of weakness in the UK economy and expects some margin of slack to emerge. The Aussie was off highs after rising above 0.7000 at the time when the DXY hit its lows but the soured risk sentiment in the afternoon and uptick in UST yields saw the Aussie pare most of its gains ahead of the RBA SOMP. On that, it could add more clarity on guidance to the official statement from February 7 when the Board retained its intention to deliver further rate increases. Similar price action was seen in NZD and the CAD, although NZD held more of its gains vs the Dollar ahead of PMI data while Looney gave up all its earlier gains as the decline in crude prices weighed, as well as the equity sell off.

**Scandi's** firmed and the SEK was on fire as a clear outperformer after the Riksbank hiked rates by 50bps as expected to 3%, but raised the repo path to a new peak of 4.44% from 2.85% in November. The NOK also saw notable gains but primarily in the slipstream of the SEK as crude prices sold off.

**EMFX** was mixed. MXN rallied on a hawkish rate decision while BRL tumbled on reports Brazil is considering an early review of inflation goals to boost them, according to Bloomberg, which saw a local risk off event with bonds, the Real and stocks all sold. The report puts credibility further at stake and sparks fears of potentially higher, stickier inflation while the BCB would not have to do as much to meet the goal. CNH was flat ahead of China inflation data tonight. ZAR saw little reaction to Ramaphosa's SOTU address which noted the most immediate task is to reduce power cuts and they will support Eskom to secure additional funding. PLN failed to take positives from hawkish-leaning and supportive NBP commentary via Governor Glapinski who said he is not worried about the Zloty rate, and the Bank has not officially ended its hike cycle and is leaving the door open.


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