US Market Wrap

10th February 2023: S&P posts worst week since Dec as markets hedge for hawkish Fed shift

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Russia to cut March oil output; Strong Canadian jobs report; Hot UoM survey; Harker wants rates above 5% then pause; US set to sanction Chinese firms connected to spy balloon; Terrible NWL guidance; Woeful LYFT report; TSLA price hikes.
- **WEEK AHEAD**: Highlights include: New BoJ Governor; US CPI, Retail Sales; UK data dump; Aussie Jobs. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Reviewing Powell, BoC Minutes, RBA, Riksbank, Banxico. To download the report, please click here.
- **NEXT WEEK'S EARNINGS**:[MON] CDNS; [TUES] MAR, KO, ZTS, ABNB; [WED] ADI, SHOP, CSCO, EQIX, SNPS; [THURS] SO, AMAT; [FRI] DE. To download the report, please click here.

MARKET WRAP

Stocks were mixed Friday with SPX just above unchanged in choppy/tight trade while the NDX held losses as duration took a hit and Tesla (TSLA) price hikes in China weighed. The strong Uni of Michigan consumer sentiment survey was the only US data point of note on Friday, which also included a bounce in the short-term inflation expectations, albeit the more Fed-focal longer-term gauge remained unchanged. The strong consumer survey was enough to add to concerns of a potential bounce in next week's January CPI report, adding to the sell-off in bonds. The Dollar was firmer on the session, mainly benefiting from yield differentials, while the Yen closed little changed after reports suggested Ueda is set to replace departing Kuroda at the BoJ. USD/CAD tumbled after the January jobs report saw a 10x analyst estimate surge higher in employment. Oil prices saw a big bid in the European morning after Russia's Novak said the country would be making a 500k BPD output cut in March. PayPal (PYPL) had a good report, but Lyft (LYFT) was decimated after missing on all estimates with awful guidance. While on Fed speak, Harker (voter) was the latest official to remain unphased by last week's jobs report, albeit markets did not react to the dovish commentary

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HARKET (VOTER): Fed's Harker said that rates need to get above 5% and then "pause", a view he held back in January. Harker said the hot January jobs report hasn't changed his outlook for policy, with the Fed's recent downshift in the hiking pace justified despite the jobs market surprise; said Fed's main focus is on inflation data. He said how far the Fed will need to go above 5% will be determined by the data. The Philly Fed president was also averse to returning hike increments greater than 25bps, saying the smaller amount allows the Fed to manage risks. The official also went as far as discussing conditions for cuts, saying in prepared remarks that the Fed is unlikely to cut this year, but may be able to ease rates in 2024 if inflation starts ebbing. On which, he said it will take a couple of years for inflation to fall back to 2%, but did note he is seeing signs price pressures are starting to ease. Harker, despite the recent labour market tightening, said he still expects the US jobless rate to peak at 4.5% (vs 3.4% currently) before easing, saying that the expected rise in unemployment would not be recessionary; his modal forecast is for no recession.

UOM: University of Michigan prelim for February was a hot report and will be used to contextualise next week's retail sales report. The headline rose to 66.4, above the expected 65.0 and the prior 64.9, while the present-situation Conditions jumped to 72.6 (exp. 68.0, prev. 68.4), and forward-looking Expectations slightly fell to 62.3 (exp. 62.9, prev. 62.7). On inflation expectations, 1yr bounced to 4.2% from 3.9% and the longer-term 5-10yr remained unchanged at 2.9%, ahead of next Tuesday's CPI report which is forecast to accelerate M/M. Back to UoM, Pantheon Macroeconomics notes, "the key number is the 5-10yr inflation expectations, given the lingering anxiety among—some—FOMC members that a wage-price spiral is still a serious risk." As such, as it printed 2.9% for the third straight month, the bigger picture is that they have been stuck in a narrow range of 2.7-to-3.1% for over two years now. Looking ahead, Pantheon thinks "this downshift will continue in the months ahead, and if 5-to-10-year inflation expectations follow suit, they will be back at their pre-Covid trend, just under 2.5%, by the end of 2023."

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 11 TICKS LOWER AT 112-22

Treasuries saw sizeable bear-steepening as flatteners took profit on the strong Michigan survey and ahead of next Tuesday's CPI report. 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 were rangebound for the APAC Friday session after the acute sell-off in wake of the poor US 30yr auction on Thursday. Renewed selling picked up in global govvies again in the European morning from JGB-led pressure on the initial Ueda reports. T-Notes found interim support at 112-25, reclaiming back the 100dma at 112-27 in the NY morning, before losing momentum just above 113. The strong Uni of Michigan survey, accompanied by a bounce in the 1yr consumer inflation expectations, saw bids hit as the long-end of the curve led the sell-off. The selling lost some momentum just before midday after a massive 17.3k 5yr future block buy, although that was partly offset by an 8.2k 10y block seller not long after. T-Notes ultimately settled at lows, not far from their YTD lows of 112-12+ from January 3rd. Note that in options, there was sizeable activity in next Friday's expiring T-Note 111 puts, which targets a move to the 4% area in the 10yr yield, likely a play on next week's CPI, although we also get PPI, retail sales, industrial production and Fed Speak.

AHEAD: Traders are now positioning into next Tuesday's US January CPI report, while Dealers are in concession mode ahead of the USD 15bln 20yr bond auction on Wednesday and USD 9bln 30yr TIPS auction on Thursday.

STIRS:

- SR3H3 flat at 95.075, J3 +1.5bps at 94.975, M3 -1bps at 94.84, U3 -3.5bps at 94.905, Z3 -5bps at 95.195, H4 -7 bps at 95.655, H5 -9bps at 96.765, H6 -5.5bps at 96.95, H7 -3bps at 96.915.
- In options, SR3U3 94.00/93.75 put spreads were the latest put structure opened, and one of the most hawkish so far for the contract, targeting a Fed rate > 6% in Q4; most U3 put structures this week targeted strikes between 94 to 95.
- EFFR saw a surprise fall to 4.57% from 4.58% as of Feb. 9th, which saw a big surge in FFG3 futures buying at the time; will be eyed on Monday to see if the rate remains just 7bps above Fed's target range floor.
- NY Fed RRP op demand at USD 2.043tln (prev. 2.059tln) across 97 bidders (prev. 101).

CRUDE

WTI (H3) SETTLED USD 1.66 HIGHER 79.72/BBL; BRENT (J3) SETTLED USD 1.89 HIGHER AT 86.39/BBL

The crude complex ended the week on a firmer footing following reports that Russia is to cut production. WTI and Brent made highs in the European morning of USD 80.33/bbl and 86.90/bbl, respectively, after Russian Deputy PM Novak stated Russia is to voluntarily cut production by 500k BPD in March and it will take further actions depending on the market situation. Following this, Novak said Russia has not held any consultations on oil cuts with OPEC+, confirming earlier Reuters sources that it was an independent decision. Further Reuters sources added OPEC+ will not boost supply in reaction to the Russian cut. Overall, and as Energy Intel's Bakr suggested "voluntary cuts by OPEC states have been done in the past (Saudi/UAE/Kuwait in 2020). So, this does not mean that Russia wants to distance itself from OPEC+". In addition, Novak noted, the price cap on Russian oil and oil products interferes with market relations and reiterated Russia will not sell oil to those who adhere to the price cap.

EXPORTS: Oil exports from Russia's Black Sea Novorossiisk port and CPC terminal have resumed after the storm, according to Reuters sources. Note, Novorossiisk loadings had been suspended since February 5th and CPC exports have been halted since February 7th.

US RIG COUNT: The Baker Hughes rig count for the week ending Feb 9th saw Oil +10 at 609, Natgas -8 at 150, and Total +2 at 761.

EQUITIES

CLOSES: SPX +0.22% at 4,090, NDX -0.62% at 12,304, DJIA +0.50% at 33,869, RUT +0.18% at 1,918.

SECTORS: Energy +3.93%, Utilities +2.01%, Health +0.94%, Consumer Staples +0.93%, Industrials +0.74%, Financials +0.4%, Materials +0.35%, Real Estate +0.26%, Technology -0.55%, Communication Services -0.89%, Consumer Discretionary -1.22%.

EUROPEAN CLOSES: EURO STOXX 50 -1.23% at 4,197, FTSE 100 -0.36% at 7,882, DAX 40 -1.39% at 15,307, CAC 40 -0.82% at 7,129, FTSE MIB -0.86% at 27,268, IBEX 35 -1.36% at 9,117, SMI -0.86% at 11,121.

STOCK SPECIFICS: **PayPal (PYPL)** beat on EPS but revenue and total payments volume figures were slightly short; CEO announced he intends to retire by year-end. FY23 and Q1 guidance came in above expectations while it plans an additional USD 600mln in savings this year. **Expedia (EXPE)** notably missed expectations on EPS and revenue. **Newell Brands (NWL)** beat on EPS and revenue; guidance was woeful and downbeat on the consumer. **Lyft (LYFT)** slumped after it posted a deep, surprise loss per share while guidance was also weak. Bloomberg reported that LYFT was required to include insurance reserve costs in its earnings metric which resulted in the large negative EPS impact in Q4. **Micron Technology (MU)** is to cut executive salaries by up to 20%. **Tesla (TSLA)** raised the starting price of its Model Y crossovers in China. **Ford (F)** further reduced its stake in **Rivian (RIVN)**. **Intel (INTC)** is reportedly mulling a significant increase in its existing USD 1.5bln investment in Vietnam to expand its chip testing and packaging plant. **Amazon (AMZN)** is said to be in talks to purchase India's MX Player, one of the largest on-demand video streaming services in the country, according to TechCrunch sources. **Oshkosh (OSK)** lost out to AM General on a defence deal worth up to USD 8.7bln. ValueAct takes a stake in **Spotify (SPOT)** to support cost reductions. **Apple (AAPL)** will reportedly look to convince EU antitrust regulators that it does not block rivals' access to its technology used for mobile wallets at a closed hearing on Tuesday, according to Reuters. Biden admin to release final rule next week on EV charging standards as part of USD 7.5bln effort to electrify US roads, according to officials; new rule likely to force **Tesla (TSLA)** to unlock superchargers and adopt competitor standards or forgo federal funding.

WEEKLY FX WRAP

hawkish vibes, geopolitical angst and another awesome jobs report

USD/EUR/JPY/CAD - It's somewhat fitting that the Euro and Yen found themselves at opposite ends of the spectrum given renewed risk aversion on Friday, while the Loonie's resurgence owed partly to a resumption of its correlation with crude and an all round forecast-topping Canadian LFS. In short, headline payrolls smashed consensus ten times over and was largely due to full time employment, while the jobless rate remained steady against expectations for an uptick and participation rose even after an upward revision to the prior month. Usd/Cad extended its reversal from just shy of a Fib retracement level (at 1.3474 vs 1.3472) to test bids/semi-psychological support around 1.3350 and contributed towards placing a cap on the DXY irrespective of broad strength in prelim UoM findings (beats in sentiment and conditions offset a modest miss in expectations, while 1 year inflation expectations rose and the 5 year outlook stayed the same). Prior to all that, the Buck was bouncing firmly on safe haven grounds amidst a more concerted Russian missile attack against Ukraine that reportedly crossed NATO airspace in Moldova and Romania according to initial headlines, but was later denied by the latter. Nevertheless, the index regained 103.000+ status from a 102.890 base within wider 102.630-103.960 w-t-d extremes having been derailed by the Yen in wake of a Nikkei article suggesting that current BoJ Deputy Governor Amamiya had rejected advances made by the Japanese Government to take over the reins from Kuroda and a new name, previously not included in the top three list of candidates, emerged as front-runner. To recap, Amamiya was seen as the continuity nominee against neutral Nakaso and Yamaguchi the hawk, but it looks like another ex-BoJ Board member, Ueda, will be the pick of the bunch come Valentine's Day and history reveals that he also has hawkish views. However, the report suggests that Ueda will be officially put forward on condition that he refrains from rushing towards the exit from ultra-accommodative policy and his first words were very Kuroda-esque as he said the current stance is appropriate and needs to continue. In response, Usd/Jpy snapped back through 131.00 from a sub-130.00 session and weekly low, but remained well beneath the peak not far below 133.00. Conversely, Eur/Usd is ending much closer to worst levels within a 1.0798-1.0669 range, regardless of the latest stream of mainly hawkish ECB rhetoric and only one real macro reason for Euro bears to pounce on in the guise of softer than forecast German inflation data. Instead, the fear of hostilities escalating between Russia and Ukraine has reared up again, especially with the aggressor warning about an 'event' to attract global attention one year on from when the conflict or special mission started. Note also, Eur/Usd retains a negative bias after last week's blowout NFP release that surprised Fed officials including Chair Powell and has aligned market pricing with December's SEP dot plots and could result in another upgrade at the March FOMC, if repeated and/or CPI on February 14 fails to follow the recent disinflationary trend.

AUD/SEK - The Aussie and Swedish Krona are both off best levels, but retain a firm underlying bid and/or bulk of their gains after the RBA retained guidance for further rate rises to go with a 25 bp hike in the Cash Rate and the Riksbank tightened 50 bp, lifted its repo path and accelerated the pace of balance sheet rundown. Specifically, the latter will actively sell assets accumulated by QE and start QT in April, while new Governor Thedeen clarified that a higher 3.33% peak projection means either a 25 bp or back-to-back half point increase in the repo at the next policy meeting (also in April).

NOK/NZD/CHF/GBP - Hot Norwegian inflation readings helped the Norwegian Crown build on momentum gleaned from Brent's marked revival (also Russia-related as the oil producer announced a voluntary 500k bpd cut from March in retaliation to sanctions such as the price cap) and the coattails of its Scandinavian peer, and it was a similar story for the Kiwi in context of tagging along with the Aussie, albeit clawing back some lost ground via the Aud/Nzd cross with the aid of some encouraging NZ fundamentals. Namely, a recovery in electronic card consumption and the manufacturing PMI to just over 50.0. Elsewhere, the Franc seemed to be under the influence of more reserve repositioning or recycling at times and at the whim of external factors otherwise, like Sterling until a deluge of UK data on the last day of the week that was very mixed, but at least showed that the nation narrowly avoided a second half 2022 recession. That aside, BoE speakers galore and mob-handed in testimony to the TSC on February's MPR, but the MPC members appearing in parliament gave little clear clues on the next policy move as they stuck to divergent views (ie hawk Haskel still concerned about upside inflation risk and ready to take forceful action, but dove Tenreyro may dissent for a cut when the time is right).

EM - The Mxn got an upside surprise from Banxico to compound the WTI rebound in the form of a 50 bp hike vs 25 bp widely expected and the Inr via the RBI retaining guidance for the ongoing withdrawal of monetary accommodation after the latest ¼ pt rate rise, but the Brl was disappointed by more accusations of incompetence thrown at BCB Chief Neto and speculation that Brazil may conduct an early review of the inflation mandate with an aim to raise the target. Meanwhile, the Cny and Cnh were undermined by China's spat with the US over a supposed spy balloon and deflated when CPI and PPI undershot consensus, and the Zar was left in limbo after no major positives from SA President Ramaphosa's State of the Nation address.