



US Market Wrap

13th February 2023: Stocks surge and bonds flatten ahead of CPI

- **SNAPSHOT:** Equities up, Treasuries flatten, Crude up, Dollar down.
- **REAR VIEW:** Mixed NY Fed inflation expectations; US to release more oil from SPR; Fed's Bowman says more hikes are needed; US and Chinese officials consider meeting; Freeport LNG requests full commercial operations of its Texas plant; heavy corporate debt supply.
- **COMING UP: Data:** UK Unemployment, US CPI **Events:** BoJ Governor Nominee announcement, OPEC MOMR **Speakers:** Fed's Williams, Barkin, Harker, Logan **Supply:** Italy, UK & US **Earnings:** Carrefour, Telecom Italia; Coca-Cola, GlobalFoundries.
- **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](#).
- **THIS WEEK'S EARNINGS:** [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

Stock rallied through the session on Monday with the Tech sector leading in anticipation of Tuesday's CPI report. JPM notes that positioning in the Tech/Consumer Discretionary space remains low, so if we get a dovish CPI print, these sectors stand to benefit from potential money inflows. Treasuries saw renewed flattening after the steepening seen on Friday, although desks flag the risk/reward profile favouring bulls in sovereigns after the pronounced sell-off post-NFP. The Dollar was softer on the whole, with high-beta currencies enjoying the stock rally, although the Yen fared worse, while Swissy strengthened after a hot inflation report. In commodities, precious metals were lower while oil prices settled in the black, taking cues from the broader risk appetite and softer buck. However, prices crossed back into the red post-settlement after reports the US is to release a further 26mln bbls from the SPR between April and June. There was no tier 1 US data of note on Monday, but the NY Fed consumer survey saw a slight pick-up in the longer-term inflation expectations, although household income growth expectations fell to 3.3% from 4.6%, the largest one-month drop in the survey's history (nearly ten years). Fed's Bowman (voter) was the only speaker, who called on the need for more tightening/hikes, without getting into specific guidance.

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NY FED SURVEY: The January NY Fed consumer survey inflation expectations for the year-ahead were flat at 5% compared to December's survey, while the 3yr-ahead gauge saw a fall to 2.7% from 3.0%, but a rise in the 5yr to 2.5% from 2.4%. The longer-term gauges are what the Fed pays the closest attention to, and the rise in the 5yr to 2.5%, the highest since June last year, will warrant some attention. However, the Uni of Michigan's 5-10yr gauge for January (reported last Friday) remained steady at 2.9%, offsetting the upward velocity of the NY Fed's reading. Elsewhere within the survey, consumers' expected home prices over the next year were seen rising 1.1%, down from 1.3% in December. Household incomes were seen rising 3.3%, down from 4.6%, which is the greatest drop in the survey's history and will be seen as a positive in the fight against inflation. While household spending is expected to decline to 5.7% from 5.9%, with higher food and gasoline costs.

FED: Bowman (Voter) said we are still far from achieving price stability and expects it will be necessary to further tighten monetary policy to bring down inflation towards its goal. Bowman added the concept of a soft landing is unusual to accomplish but it is possible the US will see a soft landing, she still sees a strong labour market and not as much moderation in inflation as the Fed would like. Bowman noted there is a lot of data between now and the next FOMC meeting but she expects the Fed to continue raising rates and for rates to be held there for some time to restore price stability.

FIXED INCOME

T-NOTE (H3) FUTURES SETTLE 3 TICKS HIGHER AT 112-25



Treasuries unwound Friday's steepener in light trade ahead of CPI. 2s +2.1bps at 4.534%, 3s +1.9bps at 4.218%, 5s -0.1bps at 3.923%, 7s -2.1bps at 3.835%, 10s -2.4bps at 3.719%, 20s -3.5bps at 3.923%, 30s -3.2bps at 3.794%..

Inflation breakevens: 5yr BEI -1.6bps at 2.398%, 10yr BEI -2bps at 2.332%, 30yr BEI -1.8bps at 2.286%.

THE DAY: T-Notes entered the Monday Americas session on the back foot in tight ranges with Friday's acute steepening unwinding in lack of major fresh catalysts so far. Session lows were made at 112-17 as the Dollar IG debt pipeline built up, including multi-tranche deals from heavyweights CVS, Phillip Morris (PM), Pepsi (PEP), and AmEx (AXP), amongst others. The rate-lock-related Treasury selling flows were accentuated by Fed Governor Bowman noting the need for more Fed tightening, although she didn't go into specifics. However, better buying for govies was seen into the NYSE cash open, coinciding with Tech stock momentum, with desks suggesting CPI positioning favouring bulls in USTs after the acute selling post-NFP. Two T-Note block buys in 8.4k and 8.5k within 20 minutes of each other drove the contracts to session highs of 112-28, before the rise in NY Fed consumer survey's 5yr inflation expectations kept Treasuries rangebound for the rest of the session.

AHEAD: Tuesday's January CPI report looms, followed by retail sales and IP on Wednesday, PPI on Thursday, with Fed Speak and regional Fed surveys peppered through the week. While on supply, 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 -1bps at 95.06, M3 flat at 94.83, U3 -3bps at 94.790, Z3 -2bps at 94.85, H4 -1.5bps at 95.125, M4 -2bps at 95.575, U4 -2.5bps at 96.045, Z4 -3.5bps at 96.39, H5 -4bps at 96.58, H6 -1bps at 96.875, H7 +1bps at 96.875.
- EFFR rose back to 4.58% as of Feb. 10th after falling within the Fed's target range for the first time since summer 2022 on Feb. 9th.
- NY Fed RRP op demand at USD 2.108tln (prev. 2.043tln) across 102 bidders (prev. 97).
- US sold USD 68bln of 3-month bills at 4.680%, covered 2.60x; sold USD 54bln of 6-month bills at 4.840%, covered 2.54x.

CRUDE

The crude complex was choppy, following last week's gains, but settled in the black as it broadly traded in line with the improving risk sentiment throughout the day to see oil settle at highs. WTI and Brent saw session lows in the European morning with the Dollar at highs and US equity futures at lows, but as the day progressed the crude complex managed to pare losses ahead to eke out gains ahead of the key risk-event of US CPI on Tuesday (preview here). In other news, Russian oil exports fell in February (more details below) and OPEC Sec Gen noted the oil market faces constraints on refining capacity, adding fuels and oil investment shortfalls may cause problems. Looking ahead, aside from the aforementioned US CPI, this week will see the releases of the OPEC and IEA monthly oil market reports on Tuesday and Wednesday, respectively.

RUSSIA: Russian Deputy PM Novak said Russia is looking to sell over 80% of its oil exports and 75% of its oil product exports to "friendly" nations in 2023. The Deputy PM added the global oil market still faces significant risks including the potential release of SPRs by OECD nations but he does see a potential for an increase in Russian natural gas exports to the APAC regions. Separately, Russian fuel exports declined around 10% February 1-12th M/M amid the embargo, tanker shortage and bad weather, according to Reuters sources.

FREEPORT: Freeport LNG submitted a request to FERC for authorization to progress to full, commercial operations of Phase 1 of the Texas plant. Note, earlier on Monday it was reported Freeport LNG export plant saw natural gas flows into it hit 0.5 BCF/D, the highest since the plant was shut down.

POST SETTLEMENT: After the futures settlement, oil prices moved markedly off highs on reports that the US is planning to sell 26mln more crude oil barrels from the Strategic Petroleum Reserve, with deliveries estimated to happen between April and June after Congress' approval. The report highlighted that this is part of the congressionally mandated sale lawmakers approved in 2015 for the current fiscal year. Meanwhile, the Energy Department has sought to stop some of the sales required by the 2015 legislation so it can refill the emergency reserve. Currently, the SPR is holding c. 371mln bbls and will dip to 345mln bbls following this sale.

EQUITIES

CLOSES: SPX +1.15% at 4,137, NDX +1.60% at 12,502, DJI +1.11% at 34,246, RUT +1.16% at 1,941.



SECTORS: Technology +1.77%, Consumer Discretionary +1.46%, Consumer Staples +1.17%, Communication Svcs +1.10%, Financials +1.10%, Industrials +0.88%, Health Care +0.83%, Real Estate +0.82%, Utilities +0.58%, Materials +0.51%, Energy -0.6%.

EUROPEAN CLOSSES: EURO STOXX 50 +1.03% at 4,241, FTSE 100 +0.83% at 7,947, DAX 40 +0.58% at 15,397, CAC 40 +1.11% at 7,208, FTSE MIB +0.63% at 27,438, IBEX 35 +1.02% at 9,210, SMI +0.72% at 11,211.

STOCK SPECIFICS: **Fidelity (FIS)** beat on EPS and revenue although Q1 and FY guidance missed expectations. **Microsoft (MSFT)** is preparing to demo how its new ChatGPT-like AI will transform its Office productivity apps in the coming weeks, according to The Verge. Separate reports in The Information noted MSFT is now laying off staff at LinkedIn. **Meta (META)** has delayed finalising multiple teams' budgets while it prepares a fresh round of job cuts, according to FT. Moreover, Meta's Chief Business Office, Marne Levine, is to leave the co. after 13 years. **Apple (AAPL)** supplier Salcomp India said it is looking to more than double the workforce in its India plant to almost 25k. **Disney's (DIS)** Chief Technology Officer of its streaming services, Jeremy Doig, has left the company. **Chevron (CVX)** is mulling extending CEO Mike Wirth past the mandatory retirement age; the board doesn't yet see an obvious internal replacement for the CEO, according to WSJ. **Walmart (WMT)** is warning major packaged goods makers that it can no longer stomach their price hikes. A **Baidu (BIDU)** insider said the official launch of Ernie Bot may not take place until April, although the co. publicly announced the completion of internal testing in March. **Ford (F)** announced plans to build a USD 3.5bn lithium iron phosphate battery plant in Michigan. **Oracle (ORCL)** and **Uber (UBER)** announced a seven-year strategic cloud partnership to help accelerate Uber's innovation. **Check Point (CHKP)** beat on profit and revenue and announced USD 2bn expansion of share repurchase programme with results boosted by growth in its consolidated cyber security platform that prevents attacks across networks, mobile and the cloud. However, CHKP guidance was weaker than expected. **Henry Schein (HSIC)** announced a USD 400mln share repurchase programme. **Jack Henry (JKHY)** raised its quarterly dividend by 7% to USD 0.52/shr. Elon Musk is believed to be interested in making a GBP 4.5 bn move to buy **Manchester United (MANU)**, according to Daily Mail citing sources. Meanwhile, Bloomberg reported that Qatar is said to be preparing an imminent bid for MANU. **Twilio (TWLO)** CEO announced 17% cut to its workforce; will be forming two units, data & apps and communications. **Context Logic (WISH)** surged after a positive mention from Citron Research. **Google (GOOG)** has reportedly reached a key milestone in designing server processors aimed at cutting the operating costs of its data centres, according to The Information, keeping up with cloud business rival **Amazon (AMZN)**.

US FX WRAP

The Dollar sold off on Monday as risk assets rallied after the weakness seen last week and ahead of US inflation data. Nonetheless, Treasuries were mixed and the curve saw pronounced flattening. Meanwhile, the latest NY Fed Consumer Inflation expectations were mixed with the 1yr unchanged at 5%, the 3yr declined to 2.7% from 3.0% and the long-term 5yr inflation expectations moved higher by 0.1% to 2.5%. However, household expectations of income growth saw a sizeable fall, a positive in the inflation fight.

The Euro benefitted from the weaker Dollar helping EUR/USD reclaim 1.07 to the upside although the risk rally led more favour to cyclical currencies, seeing EUR/GBP fall sub 0.8850. Growth optimism was lifted in the region after the EU Commission revised its forecasts higher to see the EZ avoid a technical recession. There was more ECB Speak with de Guindos saying that rate increases beyond March will be data-dependent and the ECB is now a bit more positive on the economic outlook. Centeno noted the ECB needs to be open-minded with the data while he acknowledged that inflation surprised the ECB to the downside. He also suggested the new forecasts in March will be very important in defining the terminal rate, noting smaller hikes would need mid-term (ie 2024/2025) inflation nearing 2%.

The Yen was notably weaker vs the Dollar with USD/JPY rising from lows of 131.32 to highs just shy of 133 at 132.91 with participants digesting the news on Friday that Ueda is likely to be named as the next BoJ Governor. Ueda last week expressed support for the current BoJ policy and previously warned against prematurely unwinding Japan's ultra-loose policy. Note, Ueda served on the BoJ board from 1998 to 2005 and is known for voting against lifting the zero-interest rate policy in 2000 while Nikkei reported his selection was likely based on his reassurance that the BoJ would not rush into a hasty exit. The nominee has resulted in an unwind of hawkish shift expectations from the BoJ as it was touted the new governor would help Japan with an exit of ultra-loose policy, but as it stands markets are seeing the pick as a dovish one given his recent commentary and history.

The Franc saw gains vs the Dollar with USD/CHF flirting beneath 0.9200 to the downside while EUR/CHF was flat. The January Swiss CPI report came in hotter than expected. Y/Y rose 3.3%, above the consensus of 2.9%, and even above the hottest expectations of 3.2% while accelerating from the prior 2.8%. The M/M was also hot, rising 0.6% above the 0.4% expectation.



Cyclical currencies performed well on Monday finding tailwinds from the upbeat risk environment while Antipodeans were the outperformers although NZD saw the most strength taking AUD/NZD back to the 1.0950 area. GBP saw notable gains with Cable testing 1.2150 to the upside after rising above the 10dma at 1.2142 although technicians highlight the 10dma has now fallen beneath the 30 and 55 DMA's, which is indicative of a move lower, potentially targeting the 200dma of 1.1945. Nonetheless, inflation data from both the UK (Weds) and US (Tues) will help determine the near-term direction of the Pound. CAD only saw marginal gains vs the downbeat Dollar on Tuesday, in part to the Looney's strong bid on Friday in wake of the very strong Canadian jobs report running out of steam.

EMFX was mixed. LatAm FX currencies (BRL, MXN, COP, CLP) appreciated vs the buck as did the ZAR with all benefiting from the weaker greenback and upbeat risk environment. In CEE, HUF outperformed on technicals as well as its yield premium while CZK was marginally weaker vs the Euro irrespective of commentary from CNB Governor who noted they can raise rates further if needed although CNB's Frait said if the economy develops in line with forecasts then it is possible to hold rates at current levels. PLN was the laggard, however.

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