US Market Wrap

15th February 2023: Stocks claw back losses & more but bonds remain hit after hot data

- **SNAPSHOT**: Equities up, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Hot retail sales; Mixed NY Fed; Industrial production flat; Huge crude EIA build; Strong ABNB & ADI earnings; Berkshire cuts stake in TSM; Mixed 20yr auction; Heavy corporate debt supply; President Lagarde reiterates familiar tone.
- **COMING UP**: **Data**: Australian Employment, US Building Permits/Housing Starts, Philly Fed, PPI, IJC **Event**: ECJ Provisional Mortgage Opinion re. Poland **Speakers**: Fed's Bullard, Cook, Mester; ECB's Lane, Panetta, de Guindos, BoE's Pill **Supply**: Japan, Spain & France **Earnings**: Renault, Pernod Ricard, Commerzbank, Orange, Airbus, Standard Chartered, Nestle; Paramount, Dropbox.

MARKET WRAP

Stocks managed to claw back the initial weakness with lows seen just before Europe left for the day with early trade dictated by hot retail sales in the US which adds to the signs of a hot economy to start the year, following US NFP and CPI, while the latest NY Fed Mfg. survey was better than feared, although prices rose and employment fell. However, not all US data was "hot" with Industrial production coming in softer than expected. The Russell and the Nasdaq led the rebound with both outperforming while SPX and DJIA closed with slight gains although it is worth noting European indices were very strong and US was playing catch up throughout the afternoon. The rebound in stocks saw the dollar move off highs with DXY now back beneath 104.00 while it also took cyclical currencies off lows, but nonetheless, the activity currencies are still much lower on the session, particularly GBP following softer-than-expected inflation metrics this morning. Treasuries bear steepened in wake of the hot retail sales and heavy corporate debt supply and a tail in the 20yr auction and crude prices settled lower after ginormous inventory builds but were off lows as risk assets recovered.

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RETAIL SALES: Retail sales came in hot at 3.0%, up from the prior -1.1% and above the 1.8% expectations. Ex-autos were also hot, rising 2.3% above the 0.8% expected and paring the prior 1.1% fall. Meanwhile, ex-gas/autos rose 2.6% from the prior -0.7%. The control group, which is a useful gauge of consumer spending data (thus GDP), rose 1.7%, also hotter than the expected 0.8% and prior -0.7%. The data follows suit with other key metrics we've seen in January, including the hotter-than-expected jobs report and CPI report, and now the retail sales data which is the latest to fit in the hot economy narrative for the start of 2023. Meanwhile, January car and light truck sales of the month were above expectations while consumer card data had also been strong, both indicative of strong retail sales. There was little reaction to Fed market pricing with the terminal rate still being priced just above 5.25% following the inflation data on Tuesday while the odds of a 25bp hike for March sit at a 90% implied probability, with just a 10% probability of a 50bp hike. There is still plenty of data to digest between now and the March FOMC, where we will also receive an updated Summary of Economic Projections.

NY FED MANUFACTURING: The NY Fed manufacturing index was mixed in February. The headline business conditions fared better than hoped at -5.8, not as deep as the -18 forecast, or as steep as January's -32.9, though still in contractionary territory. New orders printed -7.8, an improvement from the prior month's -31.1. Prices paid however saw a notable increase, rising to 45.0 from 33.0, accelerating from the expansion in January, while employment entered contractionary territory at -6.6 from +2.8. Falling employment and rising inflation puts the Fed in a difficult position. Nonetheless, the outlook component was more optimistic rising to 14.7 from 8.0. Analysts at Pantheon Macroeconomics explain the surge in the headline due to the China manufacturing rebound and much less severe weather than usual. PM also notes it is reasonable to expect further gains over the next couple of months but the sector will face pressure from weakening US demand as the Fed continues its tightening process.

IP & MFG. OUTPUT: Industrial Production was flat in January, lower than the expected 0.5% rise, while the December reading was revised to a 1% decline from an initial 0.7% decline. Weighing on the headline was the massive 9.9% fall in utilities output as a swing from unseasonably cool weather in December to unseasonably warm weather in January depressed the demand for heating. Outside of the utilities-affected sectors, the output of most other market groups advanced, where consumer non-energy nondurables, business equipment, defence and space equipment, and nondurable materials all rose more than 1%. Manufacturing Output rose 1.0%, above the expected 0.8%, but the prior was downwardly revised to a 1.8% decline from the initial 1.3% decline. Declines in printing and support, in petroleum and coal products, and in plastics and rubber products were the headwinds for the manufacturing sector. Mining Output rose 2% in Jan, marking the first rise since Sept, with gains in most components apart from oil and gas well drilling. Capacity Utilisation stood at 78.3%, beneath the expected 79% and a rate that is 1.3% below its long-run (1972–2022) average, while the prior was downwardly revised to 78.4% from 78.8%.

BUSINESS INVENTORIES: Business inventories for December increased 0.3%, in line with the expected and the prior, which was revised lower from 0.4%, as the headline figure was supported by gains in retail and manufacturing, while wholesalers managed just a 0.1% increase. Oxford Economics notes, “while inventory growth continued at a moderate pace to close out 2022, a drawdown is likely as we head towards a potential mild recession.” As such, OxEco adds, “a mild downturn should lead to less pullback from businesses, while pandemic era lessons force firms to rethink their inventory management strategies, leaning less on just-in-time practices and building larger safety buffers, which should help limit downside risk.”

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 9 TICKS LOWER AT 112-01+

Treasuries bear-steepened on hot US data and heavy debt supply; 20yr auction tailed. 2s +0.2bps at 4.625%, 3s +3.1bps at 4.348%, 5s +3.7bps at 4.040%, 7s +4.2bps at 3.941%, 10s +4.6bps at 3.807%, 20s +5.3bps at 3.994%, 30s +4.5bps at 3.846%.

Inflation breakevens: 5yr BEI +4.9bps at 2.466%. 10yr BEI +3.9bps at 2.369%, 30yr BEI +3.5bps at 2.318%.

THE DAY: Small ranges in light trade through APAC and the European the morning for USTs, with T-Notes finding support at 112-10+ initially, after peaking at 112-18 amid spillover from UK Gilts in wake of softer than expected UK inflation data. New lows were made as the US session got going, with above forecast retail sales data and a bounce in the Empire Fed mfg. survey providing weight. Supply concerns also weighed with the jumbo Amgen (AMGN) eight-part M&A deal usurping some fixed income demand ahead of the 20yr auction. The curve steepened into the NY afternoon and T-Notes found lows of 111-31 ahead of the auction.

20YR AUCTION: The USD 15bln 20yr bond new issue saw a mixed demand reception. The 3.977% stop, despite the cheapening from last month's 3.678% stop and the 6bp sell-off already on Wednesday, marked a tail of 0.2bps vs the prior stop-through of 2.7bps and the six-auction average stop-through of 0.6bps. The bid/cover ratio at 2.54x was beneath the prior (2.83x) and average (2.60x). The takedown was more encouraging with Dealers (force surplus buyers) taking a very low 6.7%, down from the prior 8.1% and average 10.9%, with the slight decline in Indirects participation more than offset by a pick-up in Directs.

AHEAD: Thursday sees PPI, Housing Starts/Permits, Philly Fed, Jobless Claims, with Mester, Bullard, and Cook scheduled to speak. On supply, we get the USD 9bln 30yr TIPS auction on Thursday in addition to next week's 2s, 5s, and 7s announcement.

STIRS:

- SR3H3 +0.0bps at 94.910, M3 +3.5bps at 94.760, U3 +3.5bps at 94.775, Z3 +1.5bps at 94.980, H4 -3.0bps at 95.355, M4 -6.5bps at 95.780, U4 -7.5bps at 96.130, Z4 -7.5bps at 96.340, H5 -7.0bps at 96.480, H6 -6.0bps at 96.755, H7 -5.0bps at 96.780.
- NY Fed RRP op demand at USD 2.012tln (prev. 2.077tln) across 96 bidders (prev. 109).

CRUDE

WTI (H3) SETTLED 0.47 LOWER AT 78.59/BBL; BRENT (J3) SETTLED USD 0.20 LOWER AT 85.38/BBL

The crude complex was lower for the majority of the session amid the Dollar strength, with lows seen in wake of the EIA data, which saw a much larger crude build than anticipated while Libya look to boost supply. However, the losses were pared in the aftermath as oil tracked the broader improving risk sentiment which saw US equities trundle into the green. Elsewhere, we got the IEA MOMR, which sees global oil demand rising by 2mln BPD in 2023 to 101.9mln BPD (prev. +200k BPD), with global oil output expected to increase 1.2mln BPD in 2023; driven by non-OPEC+

producers. In addition, it noted Russian oil exports to the EU fell by 450k BPD in January, but China is set to account for 900k BPD of 2023 oil demand growth following its reopening. Overall, it noted world oil supply looks set to exceed demand through H1 2023.

EIA: As mentioned, there was an unexpectedly large crude build of 16.283mln in the latest week, following on from similar seen in the private inventories on Tuesday night. The Cushing, Oklahoma, delivery hub built 0.659mln bbls. US production was unchanged at 12.3mln BPD. Meanwhile, distillates saw a surprise draw while gasoline also built more than expected. However, refinery utilisation fell 1.4% in the latest week.

LIBYA: NOC Chief stated the new strategic plan aims to increase oil production to 2mln BPD, via Reuters citing a statement. Note, On the 12th December production was reported at 1.2mln BPD.

EQUITIES

CLOSES: SPX +0.28% at 4,147, NDX +0.77% at 12,687, DJI +0.11% at 34,128, RUT +1.09% at 1,960.

SECTORS: Communication Services +1.17%, Consumer Discretionary +1.17%, Utilities +0.64%, Industrials +0.63%, Materials +0.45%, Technology +0.38%, Real Estate +0.26%, Consumer Staples +0.19%, Financials +0.16%, Health -0.51%, Energy -1.78%.

EUROPEAN CLOSES: EURO STOXX 50 +0.97% at 4,280, FTSE 100 +0.55% at 7,997, DAX 40 +0.82% at 15,506, CAC 40 +1.2% at 7,300, FTSE MIB +0.13% at 27,533, IBEX 35 +0.34% at 9,294, SMI +0.36% at 11,272.

STOCK SPECIFICS: The US DoJ has reportedly ramped up work in recent months on drafting a potential antitrust complaint against **Apple (AAPL)**, according to WSJ citing sources; DoJ is adding litigators, seeking more data and studying Kanter’s possible role in its investigation. **Airbnb (ABNB)** beat on profit and revenue with Q1 revenue view also topping expectations. Exec said guest demand remained strong throughout 2022, all regions saw significant growth, and supply growth was also strong. **Analog Devices (ADI)** posted top and bottom-line beats alongside raising its quarterly dividend 13% to 0.86/shr. In guidance, EPS and revenue surpassed the expected. **Biogen (BIIB)** beat on EPS and revenue. But, BIIB projected a fall in revenue for 2023, even if it gets a favourable ruling in a European Union case on its Alzheimer's treatment that is expected next month. **Kraft Heinz (KHC)** surpassed St. expectations on the top and bottom line, but the FY23 EPS guidance was slightly light. Has no plans to announce new price hikes in North America. **Akamai Technologies (AKAM)** topped expectations on EPS and revenue, while an exec noted the challenging macro environment, and said it was taking several actions to reduce costs and is re-tasking 10% of its workforce. **Roblox (RBLX)** notably missed on revenue but reported a shallower loss per share alongside net bookings topping expectations and rising 17% Y/Y. DAUs +19% Y/Y. **TripAdvisor (TRIP)** beat on the top and bottom line. Said its 2023 focus will be on growing its restaurant and diner base and will test different pricing options. **TSMC (TSM)** was hit after Berkshire cut its stake in the co. in its latest 13F filing. For full details of the latest 13Fs, please click here. **Ford (F)** CEO sees incentives increasing in H2 of the year; expects USD 7-8bln in excess costs vs rivals. **Amazon (AMZN)** CEO Andy Jassy tells employees rebound will take "many months", according to NY Post citing leaked audio. **Apple (AAPL)** reportedly postpones debut of new headset by two months until June, according to Bloomberg; delays headset after testing showed lingering issues.

US FX WRAP

The Dollar caught a strong bid on Wednesday rising from 103.15 to above 104.00 to levels not seen since 6th Jan. The bucks gain started overnight with Asia reacting to the hot CPI prints which continued throughout the European morning before being boosted by the hot retail sales data adding to the slew of hot economic data points seen in January. Elsewhere, Industrial production was unchanged in January despite expectations for a 0.5% rise while manufacturing output beat at 1.0% while capacity utilization was short of expectations. Meanwhile, Business inventory data was in line at 0.4% and the NAHB Housing Market index picked up to 42 from 35, above expectations of 37. Nonetheless, money market pricing for the Fed is little changed, and still pricing in a terminal rate just above 5.25% after the inflation data on Tuesday.

The Euro was weaker due to the Dollar's advance seeing EUR/USD fall sub 1.07 despite Final CPI data in Spain being revised marginally higher. EU Industrial production was worse than feared, however. ECB speak saw President Lagarde largely repeat what she said in the February ECB press conference, noting the ECB is committed to bringing inflation back to the 2% medium-term target and will take the necessary measures to do so, price pressures remain strong and underlying inflation is still high. She also repeated that risks to the growth and inflation outlook are now more balanced. De Cos stated recent EZ inflation data and some key determinants are somewhat encouraging. He added that the upward effects of energy and food commodity prices could still be significant in 2023.

The Yen continued its depreciation this week with USD/JPY rising from lows of 132.55 today to highs of 134.35 with higher US rates weighing on the Yen as well as the BoJ governor nominee announcement earlier in the week. There was commentary from PM Kishida overnight saying he hopes new BoJ leadership works closely with the government in guiding policy and hopes decisions take into account government policy of seeking wage gains and sustainable economic growth. Kishida also hopes BoJ carefully watches markets, continues dialogue and decides on appropriate means in guiding policy. Kishida added it is premature to say whether the government and BoJ joint statement could be revised as parliament has yet to approve the nominations.

Cyclical currencies fell victim to the stronger dollar and found little support from the afternoon risk rally, although it did help take the currencies off lows. GBP and AUD were particularly hit with GBP lower on the cooler-than-expected inflation data in the morning while the Aussie was hit on tumbling metal prices ahead of Aussie jobs data. NZD was also notably lower but not to the same extent as its antipodean counterpart with AUD/NZD falling from highs of 1.1031 to 1.0971 at the lows. CAD was also weaker amid the dollar strength but was off worst levels as crude prices benefitted from the improved risk environment, albeit still heavily lower on the session after chunky crude builds.

Scandi's were weaker vs the Euro and the Dollar and to a similar magnitude with NOK weighed on by lower crude prices while the January Norwegian trade balance showed a narrower surplus than before, and Q4 GDP was in line at 0.8%.

EMFX was generally weaker thanks to the roaring Dollar. MXN found little support from commentary from Banxico's Espinosa who repeated last week's Banxico statement where the balance of risks to inflation is tilted to the upside, noting inflation is not showing signs of slowing. BRL was also weaker despite the Lower House Speaker claiming there is no sign of a retreat in regards to Central Bank autonomy within Congress. ZAR was hit by falling gold prices as well as commentary from Fitch that warned more infrastructure issues that adversely impact SA growth may also put its rating at risk. Note, the TRY was flat on Wednesday but there were reports that Turkey is to suspend some gold imports to help ease the economic impact of the recent earthquakes. PLN and CZK firmed while the HUF weakened, while PLN traders will be eyeing the ECJ mortgage decision due Thursday, full Newsquawk preview here. ILS was also weaker given the dollar's advance despite hotter-than-expected inflation metrics in Israel.