US Market Wrap

17th February 2023: Stock and bond shorts covered into long weekend

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Barkin supports 25bps; Bowman says we're not there yet; Hawkish Schnabel; Dovish Villeroy; Russia to maintain crude exports despite lower output; 1.8tln of stock OpEx.
- **COMING UP**: **Data**: Swedish CPIF, EZ Consumer Confidence. **Events**: PBoC LPR, Riksbank Minutes.
- **CENTRAL BANK WEEKLY**: Previewing FOMC, RBA and Riksbank minutes; rate decisions from the PBoC, RBNZ, BoK, CBRT; BoJ nominee to speak To download the report, please click here.
- **WEEK AHEAD**: Previewing FOMC mins, US PCE; Flash PMIs; RBNZ; Japan CPI, BoJ nominee hearings. To download the report, please click here.
- **NEXT WEEK'S EARNINGS**: [TUES] HD, MDT, WMT, PSA, PANW; [WED] TJX, NVDA, PXD; [THURS] BABA, MRNA, KDP, AMT, INTU, BKNG; [FRI] EOG. To download the report, please click here.
- **PRESIDENT DAY SCHEDULE**: Open for Asia-Pac coverage as usual on Sunday 19th February at 22:00GMT/17:00EST with EU coverage to start at 06:30GMT/0130EST on Monday 20th February. The desk will shut at 18:00GMT/13:00EST and re-open the same day for the beginning of Asia-Pac coverage at 22:00GMT/17:00EST.

MARKET WRAP

Stocks and Treasuries entered the Friday Americas session in the red, with APAC adding to losses seen on Thursday in wake of hawkish Fed Speak from Bullard and Mester, in addition to more hot economic data in PPI and jobless claims. There was also some added chop on hawkish commentary from ECB's Schnabel; however, this was later offset by dovish remarks from ECB's Villeroy. The initial losses in both stocks and Treasuries gradually pared through the US session in a quiet session as far as data is concerned, with short covering touted into the long weekend with Presidents Day on Monday while Friday saw USD 1.8tln in option expiries with a chunky buyside imbalance seen into the close. While data was light, we did hear from Fed's Bowman and Harker, with the former noting recent data suggests the Fed is not slowing the economy while Barkin backed the case for 25bps, pushing back on 50bps chatter. The Dollar index also saw similar price action, paring from early highs of 104.67 to sub 104.00 once again. Crude prices remained lower with huge inventory builds earlier in the week continuing to weigh while Russia is reportedly maintaining current export levels despite plans to cut output added to the selling pressure, according to local press citing producers. Meanwhile, metal prices clawed back early losses and more as the Dollar lost its ground although crude prices failed to reap the same rewards from the bucks reversal, hovering near lows. Treasury yields unwound from their early-morning highs as shorts covered, although Fed Funds futures are still pricing in a terminal rate above 5.25%. But the curve still bear-flattened on the week on account of the hawkish Fed Speak and hot US data.

FED

BOWMAN (voter) said she wants to see a consistent decline in inflation and she thought the moderation of inflation before the prior meeting meant we could be seeing the beginning of disinflation, but notes the most recent data however has been surprising. On the January jobs data, she said it does not suggest the Fed is slowing the economy and notes the Fed is not there yet on interest rates, while the cost and risk of continuing to increase rates is necessary. Bowman also acknowledged that consumers are still spending at a high pace while her business contacts still suggest labour shortages.

BARKIN (non-voter) supports a 25bps hike path pace, citing the flexibility it offers to respond to data. He believes controlling inflation will require more rate hikes, but will have to see how many. Said the Fed is seeing some progress on inflation with demand normalising, noting the US labour market is still quite hot and continues to run ahead of labour supply and businesses are reluctant to shed employees - said it appears as if labour shortages will continue. Barkin is not taking many signals from the recent jobs growth and retail sales data due to seasonal adjustment issues, but he does feel the US is making slow progress on inflation.

FIXED INCOME

T-NOTE (H3) FUTURES SETTLE 3+ TICKS HIGHER AT 112-00

Treasuries were little changed after acute losses out of APAC unwound into the long weekend. 2s flat at 4.619%, 3s -2.2bps at 4.316%, 5s -1.9bps at 4.029%, 7s -2.4bps at 3.943%, 10s -2.2bps at 3.821%, 20s -2.3bps at 4.017%, 30s -2.6bps at 3.878%.

Inflation breakevens: 5yr BEI -2bps at 2.455%, 10yr BEI -1.1bps at 2.381%, 30yr BEI -1.9bps at 2.335%.

THE DAY: APAC hit the bid from the get-go on Friday, taking stock of the 50bps chatter from Fed's Mester and Bullard on Thursday, with block sales seen at the NY/Tokyo handover. T-Notes made session lows of 111-08+ in wake of the hot German PPI and UK Retail Sales, with the cash 10yr peaking at 3.929%. Goldman Sachs' latest Fed call would only have aided the bear-flattening at the time - expects three more 25bp hikes from the Fed in March, May and June to a peak FFR of 5.25-5.50%. The rot was stopped in wake of a 14.8k T-Note block buyer in the London morning, with a 2.1k Ultra 10yr block buy right after also providing support. T-Notes pared losses into the NY handover with the broader risk-off/firmer Dollar providing some haven demand, whilst the pick-up in oil losses is also providing bond support on reduced commodity inflation outlook. Short-covering extended through the NY morning, with spillover from dovish ECB's Villeroy comments, accentuated by Fed's Barkin (nv) calling for a 25bps rate path after the recent 50bps chatter. T-Notes hit resistance at 112-00 at midday NY time, coming on the heels of a 6.6k block buy, just managing to stretch to a session high of 112-01+ minutes before settlement.

NEXT WEEK'S AUCTIONS: All sizes unchanged, as expected: US to sell USD 42bln of 2yr notes on Feb. 21st, USD 43bln of 5yr notes on Feb. 22nd, and USD 35bln of 7yr notes on Feb. 23rd; all to settle on Feb. 28th. To sell USD 22bln in 2yr FRN reopening on Feb. 22nd, to settle on Feb. 24th.

AHEAD: Next week's Flash PMIs, FOMC minutes, and PCE serve as the highlights stateside. Otherwise, dealers are in concession mode ahead of next week's Treasury supply with the holiday on Monday reducing the preparation window.

STIRS:

- SR3H3 -3bps at 95.03, M3 -6bps at 94.72, U3 -5.5bps at 94.745, Z3 -3bps at 94.99, H4 +1.5bps at 95.43, M4 +4.5bps at 95.895, U4 +6bps at 96.235, Z4 +5.5bps at 96.425, H5 +5bps at 96.545, H6 +3bps at 96.77, H7 +2bps at 96.775.
- SOFR option flow was dominated by a slew of put activity via blocks, mainly in white pack contracts but also a few mid-curve plays.
- NY Fed RRP op demand at USD 2.06tln (prev. 2.032tln) across 98 bidders (prev. 98).

CRUDE

WTI (H3) SETTLES USD 2.15 LOWER AT 76.34/BBL; BRENT (J3) SETTLES USD 2.14 LOWER AT 83.00/BBL

Oil prices tumbled on Friday in line with broader risk assets, extending losses over USD 4/bbl on the week. On a broader timeframe, the benchmarks are within their multi-month ranges after testing resistance recently. The losses on Friday accelerated into European session and lows in the front-month contracts were found at USD 75.06/bbl and 81.80/bbl in the NY morning, hovering near lows into settlement. There was no clear energy catalyst driving the losses, although Russian press reports that oil producers expect to maintain current export levels despite plans to cut output would only have added to the selling. Meanwhile, JPMorgan came out saying it no longer believes OPEC+ would defend the USD 80/bbl price floor, with the bank maintaining its 2023 avg. oil price forecast of USD 90/bbl, saying absent geopolitical events it would be difficult to test USD 100/bbl. Meanwhile, Goldman Sachs said it remains convinced that oil (and metal) fundamentals will rebound this spring, reaffirming its bullish outlook. Elsewhere, the latest Baker Hughes US rig count saw total rigs down 1 in the week with oil down 2 and nat gas up 1.

EQUITIES

CLOSES: SPX -0.28% at 4,079, NDX -0.68% at 12,358, DJI +0.39% at 33,827, RUT +0.21% at 1,946

SECTORS: Energy -3.65%, Technology -1.19%, Materials -0.96%, Communication -0.47%, Real Estate -0.45%, Consumer Discretionary +0.04%, Financials +0.05%, Industrials +0.63%, Health Care +0.89%, Utilities +1%, Consumer Staples +1.29%

EUROPEAN CLOSES: EURO STOXX 50 -0.52% at 4,274, FTSE 100 -0.10% at 8,004, DAX 40 -0.33% at 15,482, CAC 40 -0.25% at 7,347, FTSE MIB -0.37% at 27,751, IBEX 35 +0.06% at 9,333, SMI +0.56% at 11,257.

EARNINGS: **Applied Materials (AMAT)** beat on EPS and revenue against industry challenges in the latest quarter while guidance also came in above expectations. **Deere & Co. (DE)** earnings were strong with EPS and revenue above expectations while it also raised guidance. **DraftKings (DKNG)** Q4 EPS posted a narrower loss per share than expected and revenue beat expectations. **DoorDash (DASH)** posted a deeper loss per share than expected and beat on revenue. Orders and GMV also beat, alongside the board authorising a USD 750mln share buyback programme in addition to its prior USD 400mln authorisation (completed in Q3). Q1 GMV outlook was also strong. **Dropbox (DBX)** beat on EPS and revenue with guidance topping expected but sees further signs of macro-related weakness impacting business and guidance does not assume a turnaround in the economy. It also announced long-term targets of annual FCF of USD 1bln+, gross margins between 80-82%, and operating margins between 30-32%.

STOCK SPECIFICS: **Moderna (MRNA)** said its closely watched experimental messenger RNA-based influenza vaccine generated a strong immune response against A strains of the flu but failed to show it was at least as effective as an approved vaccine versus less prevalent influenza B. **Visa (V)** Vice Chair and CFO Vasant Prabhu will depart in September but will assist with the search for and onboarding of his replacement. **Tesla (TSLA)** announced it is raising the starting price of Model Y high-performance and long-range versions in China. **Meta (META)** reportedly gave thousands of employees subpar ratings in a recently concluded round of performance reviews, a signal that more job cuts may be on the way, according to WSJ citing sources. **Life Storage (LSI)** board rejected the unsolicited USD 11bln proposal from **Public Storage (PSA)**. **Salesforce (CRM)** touted to reach settlement next week with Elliot Management, according to CNBC's Faber. **Microsoft (MSFT)** reportedly making plans to allow paid ads within the Bing AI chatbot, according to Reuters sources. **Microchip (MCHP)** plans to invest USD 880mln to expand its silicon carbide and silicon capacity in Colorado. **WWE's (WWE)** Vince McMahon is asking for USD 9bln for the Co., according to Bloomberg. **Ford (F)** warned F-150 Lightning owners about separate EV battery issue before this month’s fire, according to CNBC. Meanwhile, **Ford's (F)** Louisville assembly plant will be down again next week as co. continues to deal with software issue on escape, according to Automotive News.

WEEKLY FX WRAP

Hawkish Fed repricing gives helping hand to USD bulls

USD - Deep fade after extending recovery gains from Friday, as DXY stalled at 103.840 and retreated towards 103.000 during a quiet first session of the week with only comments from Fed's Bowman and mixed NY Fed consumer inflation expectations to digest. The index then ducked under 103.000 into US CPI and endured extremely volatile trade thereafter between 102.500-103.520 extremes as headline and core inflation extended the run of softer prints to seven consecutive months, but not by as much as expected. A raft of Fed comments followed and mostly acknowledged the further slowdown in price pressure, but keen to stress there is still a long way to go and rates may have to go beyond the current terminal level and stay there for longer if inflation proves sticky and the labour market remains tight. Onto Wednesday, and a more immediate boost for the Greenback generally in the form of big beats in retail sales metrics and a strong NY Fed manufacturing survey, employment apart, that pushed the DXY to within a whisker of 104.000 before a minor/brief breach in wake of manufacturing output and NAHB beats that overshadowed flat industrial production. Almost deja vu on Thursday and another pop over the round number as PPI was hot, weekly claims stayed sub-200k to offset a downbeat Philly Fed survey and slender misses in housing starts and building permits. Hawkish remarks thereafter from Fed’s Bullard who refused to rule out anything for the upcoming meeting pushed the DXY further above the 104 mark, taking the index to a weekly high of 104.66 on Friday before paring from highs with DXY back beneath 104 to close the week.

JPY – initially choppy between 132.91-131.79 pre-official BoJ Governor nomination and post, as Japanese GDP returned to growth in Q4, but much milder than expected. Yen then breached several supports on divergent BoJ/Fed policy dynamic to above the 134 mark and briefly breached 135 to the upside before retreating towards the close of play on Friday.

NZD - Kiwi undermined by slowdown in 2-year NZ inflation projections and state of emergency over Cyclone Gabrielle, with Kiwibank calling on the RBNZ to shelve hikes given the situation. Consensus remains for a 50bps hike next week but wasn’t enough to prevent the NZD from briefly trading on a 61 handle towards the end of the week.

AUD - Aussie caught between a fall in consumer sentiment vs more upbeat business confidence and conditions, with RBA Lowe in a parliamentary enquiry over rate hikes reiterating a need to increase rates further. Jobs data was weaker than expected, with a hefty decline in full time employment, but only impacted temporarily as overall risk sentiment improved and ANZ raised its peak RBA rate forecast to 4.1% from 3.85%, albeit ahead of the labour market report. Trade thereafter was one-way traffic for the AUD as selling pressure in commodities and general risk aversion saw the pair pull away from sub-70 levels to a weekly low of 0.6812.

CHF - Underpinned by stronger than consensus Swiss CPI feeding into SNB hike perceptions before falling victim to the stronger USD on Friday as comparatively lower-yielding nations FX succumbed to broader hawkish price action.

GBP - Pound boosted by broadly stronger-than-forecast UK labour market metrics and prospects of a new customs deal with the EU to resolve issues over the NI Protocol before headline and core CPI both missed consensus by quite some distance and scuppered Sterling amidst a dovish shift in BoE rate hike pricing (25 bp in March odds sub-70% vs 89% pre-data). Retail sales exceeded expectations on Friday but wasn't enough to save the GBP from reaching dipping to a low of 1.1916 vs. the USD or trimming much of the weekly losses vs. the EUR.

EUR - No major Eurozone data and very familiar ECB commentary in terms of tone, bar a hawkish Makhlouf (3.5% may not be the peak) and later Schnabel, left the Euro at the whim of external factors and technical levels as a Fib bang on 1.0800 vs the Buck was breached in the post-US CPI whiplash, but only briefly and EUR/USD tested 1.0700 several times subsequently. ECB President Lagarde reaffirmed guidance from the latest policy meeting and presser when presenting the 2022 Annual Report to EU Parliament on Wednesday, saying the GC is committed to bringing inflation back to the 2% medium-term target and will take the necessary measures to do so. Conversely, Panetta repeated that the ECB should not unconditionally pre-commit to future policy moves, adding that the extent and duration of monetary policy restriction matters now that rates are in restrictive territory and the cost of going too high with rates could be higher in the Eurozone than the US due to the former's economic structure. Friday morning comments from Germany's Schnabel struck a hawkish tone with the central banker stating that the broad disinflation process has not even started yet, whilst also highlighting that QT could be sped up after June and a weaker policy transmission could require more forceful action. These hawkish remarkets were not enough to stop the rot for the EUR with EUR/USD signing the week off just north of the 1.0613 low, with any potential read-across from Schnabel offset by pushback from Villeroy.

EM - PLN weaker after the ECJ said banks may not demand remuneration for use of capital in contracts rendered invalid, while the possibility of demanding remuneration from banks by consumers should be based on Polish law. ZAR was undermined by another ratings agency warning over the growth outlook due to infrastructure and power problems. HKD pegged by more HKMA intervention. Elsewhere, the BRL was dogged by more investor concerns about Government interference in BCB affairs amidst reports that the inflation target could be raised by 1% and unable to glean impetus from hawkish vibes like a rise in year-end Selic rate expectations. CNY/CNH weaker as China-US relations remain strained on several fronts. MXN tracking moves in WTI, but also aware of hawkish Banxico rhetoric from Deputy Governor Espinosa who said inflation is not showing signs of slowing, and the balance of risks is tilted to the upside. Finally, the TRY is still struggling from the Turkish quakes, with the CBRT and Wealth Fund taking steps to support markets on the stock reopen, with the former requesting banks widen the spread for gold and FX sale/purchase transactions, and increase the cost of derivative transactions to around 40%, with the aim of decreasing FX demand and diverting derivative transactions to Borsa Istanbul.