newsquawk

US Market Wrap

21st February 2023: Hot PMI data raises Fed terminal pricing, hitting stocks and bonds

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Strong PMI reports in UK, US and EU; Existing home sales post surprise decline; WMT and HD guidance disappoints; Putin suspends participation in nuclear arms New START treaty.
- **COMING UP**: **Data**: German Ifo Speakers: BoJ's Tamura, Fed's Williams **Events**: FOMC Minutes (Feb), RBNZ Policy Announcement **Supply**: Italy, UK, Germany & US **Earnings**: Danone, Stellantis, Telefonica Deutschland, Rio Tinto, Lloyds; NVIDIA.
- **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.
- **THIS WEEK'S EARNINGS**: [WED] TJX, NVDA, PXD; [THURS] BABA, MRNA, KDP, AMT, INTU, BKNG; [FRI] EOG. To download the report, please click here.

MARKET WRAP

Stocks were lower on Tuesday after the long weekend amid hot Flash PMIs on both sides of the pond spurring on fresh hawkish central bank repricing to start the week. The SPX flirted with 4000 to the downside before closing beneath the key level, with the VIX hitting near two-month highs at 23, although losses in the Nasdaq and Russell 2k were even more acute. There was consumer stock pessimism on the weak Walmart (WMT) guidance, while Home Depot's (HD) sales and guidance were also lacklustre, with both companies noting shifting consumer spending patterns to higher-priced groceries and travel. Cross-asset, Treasuries saw chunky selling amid the PMIs, with yield highs made in wake of the poor 2yr auction that failed to see strong demand despite the big sell-off into the offering - Fed terminal rate is now priced at 5.36% come July. Oil prices were choppy with strong data being offset by the firmer Dollar. On which, most activity currencies were sold against the buck, although the Pound was a standout outperformer after its particularly strong PMI readings.

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PMI: S&P Global Flash PMIs for February were hot, topping expectations across the board. Manufacturing rose to 47.8 (exp. 47.3, prev. 46.9), while Services and Composite both rose back into expansionary territory to 50.5 (exp. 47.2, prev. 46.8) and 50.2 (exp. 47.5, prev. 46.8), respectively. On inflation, the report notes, “cost pressures softened, following an acceleration in January. The rate of input price inflation was the second-slowest since October 2020 as manufacturers and service providers both registered softer upticks in cost burdens.” However, it also added the data signalled a sharper rise in output charges across the private sector; "The pace of increase in selling prices was the quickest since last October and steep overall". Additionally, S&P noted “the business mood has brightened amid signs that inflation has peaked and recession risks have faded. At the same time, supply constraints have alleviated to the extent that delivery times for inputs into factories are improving at a rate not seen since 2009." Overall, the report concludes, “the survey data underscores how the upward driving force on inflation has now shifted to wages amid the tight labor market. By potentially stoking concerns over a wage price spiral, accelerating service sector price growth will add to calls for higher interest rates, which could in turn subdue the nascent expansion.”

EXISTING HOME SALES: US existing home sales in January fell to 4mln from 4.03mln in December, which was upwardly revised from 4.02mln, surprising expectations for a rise to 4.1mln. The fall marks the 12th consecutive monthly decline for the data print. Pantheon Macroeconomics believes "sales are now at—or very close to—a floor. The published mortgage applications data point to a sharp fall in February demand, but this is due to long-standing problems with the MBA’s seasonal adjustment and should be ignored; the index almost always collapses in February, before rebounding in March and April." The consultancy says its own adjusted model points to a small rise in existing home sales in February but warns against any meaningful recovery in existing home sales beyond then, citing the still high absolute mortgage rate levels, despite the recent fall from highs. Concluding, "the big story for 2023 will be the speed and extent to which prices follow suit" to the fall in home sales seen over the past year.

FOMC MINUTES PREVIEW: The minutes of the February 1st meeting will be eyed to gauge clues for the March FOMC and SEPs. However, the discussions will not include the latest hot bout of January data given it occured after the last meeting. Nonetheless, the minutes may contain details about the conditions required to raise their planned terminal rate ahead of the March 21st/22nd FOMC and accompanying Dot Plot. For a full preview, please click here.

FIXED INCOME

T-NOTE (H3) FUTURES SETTLE 30 TICKS LOWER AT 111-02

Treasuries saw chunky selling to start the week as hot flash PMIs add to supply, with the 2yr auction receiving lacklustre demand. At settlement, 2s +10.6bps at 4.729%, 3s +12.0bps at 4.441%, 5s +13.5bps at 4.171%, 7s +14.0bps at 4.089%, 10s +12.5bps at 3.953%, 20s +10.5bps at 4.129%, 30s +8.8bps at 3.976%.

Inflation breakevens: 5yr BEI +8.6bps at 2.540%, 10yr BEI +6.3bps at 2.445%, 30yr BEI +4.3bps at 2.380%.

ROLL: T-Note roll into June'23 (M3) contract from Mar'23 (H3) is 15% complete, according to Quantitative Brokers.

THE DAY: Govvie benchmarks began selling in the European session in wake of some hot Flash PMI readings in the region, particularly the UK with Gilts leading losses, with March BoE hike pricing ramping up. T-Notes (H3) entered the US Tuesday session half-a-point lower from Friday's 112-00 settlement. But the selling extended as the morning went on, with a small slew of corporates in the primary IG market adding supply pressure ahead of the Treasury auctions, but particularly in wake of the US Flash PMIs from S&P coming in above expectations, with commentary noting the driving force in inflation has shifted to wage pressures with supply chain constraints alleviating. T-Notes pared a few ticks into the NY afternoon before going on to make session lows of 110-31+ after the poor 2yr note auction.

2YR AUCTION: A lacklustre USD 42bln offering from the Treasury that failed to spur strong demand despite the large run-up in yields both on the session and in the past few weeks. The 4.673% stop marked the highest at auction this cycle, 50bps above the January offering. Nonetheless, with the Fed rate path uncertain and Dollar funding conditions less favourable M/M, the auction marked a 0.3bps tail vs the when issued, worse than the six-auction average of on the screws and contrasting to January's solid 1.3bps stop-through. The 2.61x bid/cover ratio was beneath both the prior 2.94x and average 2.65x. The takedown was noteworthy with Dealers (forced surplus buyers) left with just 15% of the auction, well beneath the average 20.9% and even the prior 16.3%. Similar to some of the other February Treasury auctions, Directs saw a step-up in participation whilst Indirects pulled back.

AHEAD: Wednesday sees the 5yr auction, FOMC minutes, and Fed's Williams. Beyond that, eyes to Thursday's 7yr auction, followed by PCE on Friday, with Fed speakers littering the calendar for the rest of the week. Preview the week ahead here.

STIRS:

- SR3H3 -2.8bps at 95.003, M3 -6.5bps at 94.655, U3 -8.5bps at 94.655, Z3 -11bps at 94.87, H4 -13bps at 95.29, M4 -14.5bps at 95.745, U4 -14bps at 96.085, Z4 -13bps at 96.29, H5 -13bps at 96.41, H6 -15bps at 96.615, H7 -15bps at 96.625.
- NY Fed RRP op demand at USD 2.046tln (prev. 2.059tln) across 100 bidders (prev. 98).
- US sold USD 66bln of 3-month bills at 4.720%, covered 2.72x; sold USD 53bln of 6-month bills at 4.915%, covered 2.71x; sold USD 37bln of 1yr bills at 4.795%, covered 2.89x.
- Treasury announced a new USD 15bln 16-day CMB to be sold on Feb. 23rd.

CRUDE

WTI (J3) SETTLES USD 0.19 LOWER AT 76.36/BBL; BRENT (J3) SETTLES USD 1.02 LOWER AT 83.05/BBL

Oil prices were choppy on Tuesday with strong Flash PMIs in Europe and the US working against a firmer Dollar. It's worth noting that the futures haven't settled since last Friday on account of the Presidents Day holiday. Market-moving energy newsflow was on the lightside, despite all the media attention on respective Putin and Biden speeches. Although Russian Deputy PM Novak did hit the wires earlier on Tuesday, with Interfax citing him saying the 500k BPD oil output reductions in March will be from January levels, whilst the decision itself was only made for March. Novak later added that February oil output was the same level as in previous months, as well as floating a ban on fuel sales under the West's price cap. Meanwhile, the CPC terminal halted oil loadings on February 19th amid adverse weather conditions, with reports noting risks of halting onshore oil flows. Looking ahead, the weekly US energy inventory data will be delayed by a day due to the holiday on Monday, with the private release now due on Wednesday and the official EIA data on Thursday.

FREEPORT: Freeport LNG's export terminal received regulatory approval for commercial operations of its liquefication facilities, saying it expects to ramp up production by about 2BCF per day over the next few weeks.

EQUITIES

CLOSES: SPX -2% at 3,997, NDX -2.41% at 12,060, DJI -2.06% at 33,130, RUT -2.99% at 1,888.

SECTORS: Consumer Discretionary -3.34%, Technology -2.4%, Industrials -2.29%, Communication Services -2.29%, Financials -2.01%, Real Estate -1.96%, Utilities -1.89%, Materials -1.63%, Health Care -1.36%, Consumer Staples -0.34%, Energy -0.31%.

EUROPEAN CLOSES: EURO STOXX 50 -0.49% at 4,250, FTSE 100 -0.46% at 7,977, DAX 40 -0.52% at 15,397, CAC 40 -0.37% at 7,308, FTSE MIB -0.68% at 27,409, IBEX 35 -0.31% at 9,252, SMI +0.07% at 11,274.

EARNINGS: **Walmart (WMT)** posted a strong quarter, beating on EPS and revenue. Although, Q1 23 and FY23 adj. EPS guidance disappointed. On margins, it noted gross margin levels are seen up in FY24, but not back to FY22 levels and sees sales growth strongest in H1 and moderating in H2. In FY24, forecasted SSS for Walmart US beneath expectations. **Home Depot (HD)** earnings fell short on revenue alongside SSS surprisingly declining. In commentary, it noted sales growth and comparable sales growth is to be approximately flat vs FY22. Although, in the latest quarter HD beat on profit and raised quarterly dividend 10%. **Medtronic (MDT)** beat on EPS and revenue but issued some cautious commentary as it expects earnings in FY24 to be hit by FX challenges and inflation. Molson Coors (TAP) earnings topped consensus on EPS and revenue.

STOCK SPECIFICS: **Meta (META)** is to launch a paid subscription service allowing users on Facebook and Instagram to verify accounts for USD 14.99/month on iOS/Android or USD 11.99/month on the web. Meta Verified will be available in Australia and New Zealand initially as early as this week. **Tesla (TSLA)** has reportedly been considering an acquisition of battery-metals miner **Sigma Lithium (SGML)**, according to Bloomberg. Separately, **Tesla (TSLA)** is poised to unveil a cheaper USD 25k priced ‘Model 2’, as other manufacturers struggle to turn a profit from the electric vehicle revolution, The Times reported. **General Mills (GIS)** raised FY23 adj. EPS view to +7-8% (prev. +4-6%) citing resilient consumer demand. **Vir Biotechnology (VIR)** was upgraded at Goldman Sachs as it said it believes the stock could double, citing Vir’s release of flu vaccine data in the year ahead. **Generac (GNRC)** was downgraded at several brokerages; namely, Truist cited high interest rates and higher product prices as a meaningful risk to Generac’s 2023 financials. EPA has ordered **Norfolk Southern (NSC)** to clean up Ohio train derailment site and pay all costs, according to CNBC. **Chesapeake Energy (CHK)** is expected to announce the sale of oil assets to UK chemical maker Ineos for USD 1.4bln, according to WSJ sources. **AT&T (T)** is reportedly seeking to divest its cyber security division and is working with Barclays to solicit potential bids for the business, which was acquired in 2018 for c. USD 600mln, according to sources cited by Reuters. **Microsoft's (MSFT)** Vice-Chair Smith announces a licensing deal with NVIDIA (NVDA); Co. will bring titles to GeForce NOW cloud gaming platform. Noted that if **Activision's (ATVI)** deal is approved by regulators, its Call of Duty will be available on NVDA's platform.

US FX WRAP

The Dollar was choppy but ultimately firmer on Tuesday as US players returned from the long weekend with highs in the buck being seen in wake of the strong Flash PMI data, echoing what was seen in the EU and UK earlier on, although US manufacturing fared better than its global counterparts. The hot data was also accompanied by hawkish language on inflation within the S&P release, noting a "faster rise in output prices was seen at both manufacturing and service sector firms", whilst also noting that wage pressures were becoming a key inflation driver. Earlier on, the DXY had a choppy European morning with 104.26 highs being seen initially in wake of the EZ PMI data and just ahead of the UK PMI's before trundling to test the earlier lows of 103.76. Nonetheless, the buck gradually pared to reclaim 104.00 before testing the highs once again in wake of the US PMI prints which saw money market pricing for the Fed start to price in an even higher terminal rate while attention turns to the FOMC Minutes on Wednesday (preview here).

The Euro was lower at expense of the buck but in choppy trade with EUR/USD testing 1.07 at the highs before rejecting the level and heading lower throughout the rest of the session after the EZ PMI data, which was generally solid but manufacturing components disappointed. Meanwhile, ECB President Lagarde noted they are not seeing a wage-price spiral in the Eurozone and noted that quick nominal wage growth is part of catching up while action beyond March will be data dependent, saying she expects to hike 50bp in March. Note, on Monday Goldman Sachs lifted the forecast for the ECB's terminal deposit rate to 3.5%, seeing another 25bp hike in June after 50bps in March and 25bps in May. ECB's Rehn was also more hawkish on Monday, saying it is appropriate to hike beyond March and rates need to stay restrictive for some time, and they should not rush to discuss rate cuts.

The Yen weakened on Tuesday with the strength of the Dollar and rising UST yields taking USD/JPY above 135 at the highs ahead of BoJ governor nomination hearings this week. Since the nominations demand for JPY has tumbled as Ueda is seen as likely to continue on the path of monetary easing.

Cyclical currencies were mixed. GBP was the outperformer after very strong UK Flash PMIs, which noted near-term recession odds have fallen considerably and saw market pricing for a 25bp hike in March increase from 83% certainty to 94%. Cable hit a peak of 1.2147 from lows of 1.1987. AUD, NZD and CAD, however, were all notably weaker vs the Dollar with the fall in equities prices weighing on the cyclical currencies while lower crude prices also hit the Looney. In Canada, CPI data was on the cool side, with the Y/Y at 5.9% from 6.3% and beneath the expected 6.1%, while M/M rose 0.5%, cooler than the expected 0.7% but up from the prior month's 0.6% decline. The BoC's core measures also cooled, falling to 5.5% from the upwardly revised 5.70%. The Aussie found little support from the hawkish-leaning RBA minutes which said a pause was not an option and even considered a hike of 50bps but the case to hike by 25bps on February 7th was stronger. NZD weakness comes in the run up to the RBNZ rate decision Wednesday as well as NZ trade data.

Scandi's were mixed with SEK marginally firmer vs the Euro while NOK was weaker with NOK falling victim to the lower crude prices. EUR/SEK briefly dipped beneath 11.000 albeit it failed to hold beneath the psychological level while NOKSEK was ultimately flat despite hawkish commentary from Riksbank's Ohlsson and Floden, with the former noting if there had been a majority for a larger 75bps hike in February he would have considered it, noting inflation has not peaked yet in Sweden. Meanwhile, Floden said he cannot say that rates are currently high and the underlying inflation outcome in January was worrying and he still thinks the SEK is very weak.

EMFX was generally weaker with BRL, MXN, COP and CLP all sold vs the Dollar with the downbeat risk tone weighing on LatAm FX despite firmer base metal prices, particularly copper for CLP. Copper prices are one to keep an eye on this week in the EM space with First Quantum suspending copper ore processing at its Panama mine due to limited storage capacity while Panama has banned copper loading at the Cobre port over certification issues. In Mexico, Mexican retail sales were weaker than expected at 0.1% M/M and 2.5% Y/Y. The Peruvian Sol firmed however after the top prosecutor's office said it has formalized an investigation into former President Castillo. Elsewhere, ILS continued to slip despite the 50bp hike from the Israeli Central Bank on Monday with further weakness seen after it continued ahead with its judiciary overhaul plan; Citi was out with a fresh call targeting 3.95 in USD/ILS.