



US Market Wrap

22nd February 2023: Stocks and bonds off highs after hawkish-leaning FOMC minutes

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude down, Dollar up.
- **REAR VIEW:** Hawkish FOMC minutes; Bullard reiterates recent rhetoric; Decent 5yr auction; Russia to cut crude exports; RBNZ hike 50bps; INTC cuts dividend to save costs; Strong PANW earnings.
- **COMING UP: Data:** EZ CPI (Final), US GDP/PCE Q4 (2nd Estimate), IJC Japanese CPI **Event:** CBRT Policy Announcement **Speakers:** Fed's Bostic, Daly; BoE's Cunliffe, Mann **Supply:** US **Earnings:** Saint Gobain, HeidelbergCement, Munich Re, Eni, Telefonica, Deutsche Telekom, EssilorLuxottica, AXA; WPP, Hikma, Rolls-Royce, BAE Systems; Moderna.

MARKET WRAP

The major US indices closed mixed after the hawkish tidbits from the stale FOMC minutes were seized upon by market participants, unwinding earlier strength. A lot of attention was brought on the comment that "a few participants" favoured a 50bps hike in February. Treasuries bull-flattened into the FOMC minutes, aided by a decent 5yr auction, but pared post-minutes, although the curve kept flattening in reaction to the hawkishly received minutes. The Dollar was firmer, particularly after the minutes. While oil prices tumbled through the session despite the earlier risk appetite in stocks, with technical bearish momentum and the stronger Dollar cited in lack of obvious energy catalysts ahead of the weekly US inventory data.

FED

MINUTES: The highlights of the minutes were hawkish on the margin, especially when considering the meeting came before the string of hot US data points including CPI, PPI, NFP, and Retail Sales, giving more weight to the hawkish elements. The main line in focus was the line that a "few" participants favoured raising rates by 50bps or that they could have supported raising the target by that amount, and all agreed more rate hikes are needed. The 50bps line is likely in reference to non-voters Bullard and Mester who recently expressed their support for such a move in the Feb meeting. It also noted that a number of participants observed that financial conditions had eased in recent months, which some noted could necessitate a tighter stance of monetary policy. Nonetheless, with fears of an economic slowdown participants did agree the risks to the outlook for economic activity were weighted to the downside, and some noted the probability of entering a recession in 2023 remain elevated, however the hot data seen so far in 2023 may offset some of these dovish pathways.

BULLARD (non-voter, hawk), speaking on CNBC, said the US economy is stronger than what we previously thought which adds up to markets needing to price in a tougher road for inflation and rates. After speaking just last Thursday, where he expressed his preference for 50bps in Feb. and his openness to 50bps in March, Bullard reiterated his call for a terminal rate of 5.25-5.50%, saying "we've got a little ways to go". He also reaffirmed his view for front-loaded policy, saying that the Fed should only slow down on hikes once it gets to terminal. In comparison to last Thursday, Bullard didn't tout 50bps as explicitly, which some viewed as slightly dovish on margin, with some marginal Dollar selling and dovish Fed repricing seen in wake of the remarks in otherwise quiet trade.

FIXED INCOME

T-NOTE (H3) FUTURES SETTLE 4+ TICKS HIGHER AT 111-06+

Treasuries bull-flattened into the FOMC minutes, aided by a decent 5yr auction, but pared post-minutes. At settlement, 2s -0.7bps at 4.697%, 3s -1.4bps at 4.430%, 5s -1.8bps at 4.155%, 7s -1.8bps at 4.074%, 10s -2.8bps at 3.925%, 20s -4.0bps at 4.092%, 30s -4.4bps at 3.932%.

Inflation breakevens: 5yr BEI -1.7bps at 2.522%, 10yr BEI -0.8bps at 2.437%, 30yr BEI -1.8bps at 2.362%.

ROLL: T-Note roll into June'23 (M3) contract from Mar'23 (H3) is 45% complete, according to Quantitative Brokers.



THE DAY: Treasuries had a choppy Wednesday APAC session and European morning, finding sympathy strength from the EGB complex on the back of some dovish Villeroy commentary and well-received EZ and UK supply. Bullish momentum extended in wake of Bullard's (non-voter, hawk) remarks on CNBC, with the official seemingly a bit less hawkish in tone than his comments from last Thursday, albeit he still endorsed front-loaded policy. New highs were made in Treasuries later in the NY morning with shorts covering ahead of the FOMC minutes. T-Notes ultimately peaked at 111-14+ after the 5yr auction came in on the strong side, despite the slight tail. However, the contracts pared into the settlement after the FOMC minutes, which while somewhat stale, gave a mention to some participants' preferences for a 50bps hike at the February meeting.

5YR AUCTION: The USD 43bln offering was strong overall, and it's important to remember the February auction was always likely to pale in comparison to the super-strong January auction. A bit more encouraging than the 2yr on Tuesday also, with front-end rates vol particularly pronounced. The 4.109% stop, nearly a 60bps jump from January's auction, marked a 0.3bps tail, not near last month's solid 2.4bps stop-through and slightly worse than the six-auction average 0bps. The 2.48x bid/cover ratio was better than the average 2.42x but down from the prior 2.64x. Dealers (forced surplus) were left with a historically low 11%, which is still very low but not quite the 8.8% low from January. And similar to other coupon auctions in February, Directs saw a step-up in participation while Indirects declined.

AHEAD: Thursday sees the 7yr auction, followed by PCE on Friday, with Fed speakers littering the calendar on both days.

STIRS:

- SR3H3 -1.3bps at 94.993, M3 -0.5bps at 94.65, U3 flat at 94.65, Z3 flat at 94.865, H4 -0.5bps at 95.275, M4 -0.5bps at 95.735, U4 +2.5bps at 96.105, Z4 +5.5bps at 96.34, H5 +4.5bps at 96.45, H6 +2bps at 96.63, H7 +2.5bps at 96.645.
- In wake of FOMC minutes, 30k SR3H3/M3 steepener blocked at 35.25bps.
- NY Fed RRP op demand at USD 2.114tln (prev. 2.046tln) across 100 bidders (prev. 100).
- FOMC minutes: the manager pro tem noted that in recent months, investors in RRP had responded to small increases in money market rates by shifting balances into private investments, and that reductions in RRP may help smooth adjustments in money markets.

CRUDE

WTI (J3) SETTLES USD 2.41 LOWER AT 73.95/BBL; BRENT (J3) SETTLED 2.45 LOWER AT 80.60/BBL

Oil prices tumbled lower on Wednesday with bearish momentum and a firmer Dollar cited in lack of an obvious catalyst, with risk appetite buoyed elsewhere. Many desks are pointing to technicals, with WTI and Brent benchmarks heading towards their multi-month support levels which stand at USD 72.25-72.45/bbl area for WTI and USD 79.10-79.30 area for Brent. Stories of note in the energy space Wednesday included Reuters reports that Russia intends to cut crude exports from its western ports by a quarter in March/February, coming after prior reports that the country is cutting production in March by 500k BPD. Meanwhile, RIA reported Kazakhstan may send the first batch of oil to Germany in the coming days, which could possibly occur as soon as Wednesday. Energy participants are now looking to the weekly US inventory data, with the day-delayed private release due later Wednesday ahead of the official EIA data on Thursday. Current expectations (bbls): Crude +2.1mln, Gasoline +0.1mln, Distillates -1.1mln.

EQUITIES

CLOSES: SPX -0.16% at 3,991, NDX +0.05% at 12,066, DJI -0.26% at 33,045, RUT +0.34% at 1,895.

SECTORS: Real Estate -1.02%, Energy -0.77%, Utilities -0.42%, Health Care -0.33%, Consumer Staples -0.27%, Industrials -0.26%, Financials -0.2%, Technology -0.14%, Communication Svs. -0.05%, Consumer Discretionary +0.52%, Materials +0.67%.

EUROPEAN CLOSES: EURO STOXX 50 -0.18% at 4,242, FTSE 100 -0.59% at 7,930, DAX 40 +0.01% at 15,399, CAC 40 -0.13% at 7,299, FTSE MIB -1.12% at 27,101, IBEX 35 -0.86% at 9,172, SMI +0.15% at 11,299.

STOCK SPECIFICS: Intel (INTC) reaffirmed Q1 '23 guidance while it cut quarterly dividend to USD 0.125/shr (prev. 0.365/shr, exp. 0.365/shr). It also announced it continues to take decisive actions to advance its strategy and optimise its cost structure and it is on the way to meet its target to reduce costs by USD 3bln this year and USD 8-10bln by end of 2025. Tesla (TSLA) has started assembling batteries in Germany but will focus cell production in the US in light of Inflation Reduction Act tax incentives, one of the first firms to declare a strategy shift prompted by the package. CEO



Musk later announced its engineering headquarters are to be situated in California and he expects the Fremont factory to produce over 600k vehicles this year. **Apple (AAPL)** reportedly had a breakthrough in secret bid to track glucose on Watch, according to Bloomberg, which weighed on **Dexcom (DXCM)**, and briefly hit **Abbott (ABT)**. **Deere (DE)** raised its quarterly dividend to USD 1.25/shr (prev. 1.20). **Dick's Sporting Goods (DKS)** is to acquire e-commerce outdoor retailer Moosejaw from **Walmart (WMT)**; terms not disclosed. FTC will not challenge **Amazon's (AMZN)** USD 3.5bln acquisition of One Medical parent **1Life Healthcare (ONEM)**. **Alcoa (AA)** was upgraded at Citi; said it should benefit from China's economic reopening. Netflix (NFLX) is to cut subscription costs across the Middle East, according to Times of India. FedEx (FDX) pilot leaders reportedly approved a strike authorisation vote. Dan Loeb's Third Point is to launch a proxy fight at Bath & Body Works (BBWI), according to WSJ.

EARNINGS: Palo Alto Networks (PANW) posted a stellar report; beat on EPS and revenue, while guidance for the next quarter and FY was very strong. **CoStar Group (CSGP)** missed on profit and revenue, alongside weak guidance for both Q1 and FY23. Separately, **News Corp (NWSA)** confirmed that it is no longer engaged in discussions with CoStar on a potential sale of Move, Inc, operator of Realtor.com. **Coinbase (COIN)** posted a shallower loss per share than expected, beat on revenue and verified users. Exec said its aim was now to improve adj. EBITDA in FY23. Meanwhile, subscription and services revenue helped offset Q/Q fall in trading volumes. **TJX Companies (TJX)** EPS was in line while revenue and SSS beat forecasts. It also raised dividend and announced a new USD 2.5bln share buyback programme. EPS outlook for FY24 and Q1 '24 was light, but the sales view was solid. **Charles River Laboratories (CRL)** surpassed Wall St. expectations on top and bottom line, but FY23 guidance was short and announced it received a US DoJ subpoena for NHP supply chain. **Keysight Technologies (KEYS)** beat on top and bottom line, but next quarter guidance was slightly light. **Baidu (BIDU)** beat on profit and revenue alongside announcing a USD 5bln share repurchase programme. Executive expects recovery trend to continue and boost online marketing revenue on pent-up consumption in China. Bolstered by strength in its advertising, cloud and AI businesses. **La-Z-Boy (LZB)** beat on profit and revenue; Exec said it worked down the majority of excess backlog in the quarter, getting close to normal lead times.

US FX WRAP

The Dollar was bid with DXY rising from lows of 104.00 to highs of 104.54 after the latest hawkish leaning FOMC minutes, noting a "few" participants favoured hiking by 50bps, while all participants agreed that more rate hikes are needed. It also noted that a number of participants observed that financial conditions had eased in recent months, which could necessitate a tighter stance of policy. However, on the flipside commentary on growth was cautious with risks to activity being weighted to the downside, while some noted the probability of entering a recession remained elevated. But that was before the hot January economic data was available. Money markets saw little reaction with a 50bp hike in February being priced at 18% while the terminal rate view is still seen at 5.375%. Although Treasuries pared from highs.

The Euro was weaker and hit lows post-FOMC minutes but found support at 1.06. There was plenty of EZ data to digest with the final German CPI data printing in line with expectations in January while the Italian final CPI was revised marginally lower. The German IFO Business climate improved, but not as much as improved via the IFO, while current conditions declined but expectations rose. On the ECB, Deutsche Bank also lifted its terminal rate forecast to 3.75% from 3.25%, while ECB's Villeroy reiterated a recent speech, noting there is excessive volatility of the market view on the terminal rate and that the central bank is not obliged to hike at every meeting until September.

The Yen saw marginal strength vs the Dollar but was off highs in wake of the FOMC minutes. The Yen largely was influenced by UST yield movements with yields finishing lower on the session across the curve but off lows in wake of the FOMC minutes while attention turns to Japanese CPI and the hearings from the new BoJ hierarchy both on Friday.

Cyclical currencies were mixed. NZD saw marginal gains but was well off the highs. Initially, the Kiwi outperformed in wake of the RBNZ rate decision which hiked by 50bps as expected to 4.75% and maintained its view for rates to peak at 5.50%, while adding it even considered a hike of 75bps while Orr noted there was very little discussion regarding a 25bp hike but all options remain on the table. The RBNZ also raised its CPI forecast for March 2024 to 4.2% from 3.8%. However, it gradually pared strength approached lows in wake of the FOMC minutes as the Dollar caught a bid. AUD was weighed on by softer-than-expected wages data for Q4 which only emphasised the difference between the Antipodeans following a hawkish RBNZ seeing AUD/NZD notably lower, falling sub 1.10 and 1.0950. AUD/NZD pushed onto lows testing 0.6800 in wake of the FOMC minutes. GBP was weaker and lost a lot of its post-PMI gains from Tuesday with Cable seeing lows beneath 1.2040 after the minutes. The CAD was only slightly weaker despite the crumbling crude prices on Wednesday and the Dollar strength.

EMFX was mixed. BRL was flat vs the buck. ZAR saw marginal weakness with the Dollar strength offsetting the ZAR strength seen in wake of the South African budget which saw the government announce funding for Eskom at the top end of expectations as well as provide favourable growth forecasts vs the SARB, who cut growth to 0.3% on the scale of load shedding. While the Treasury forecast growth of 0.9% in 2023, suggesting the government is confident its support



will help offset some of the energy woes. MXN saw strength vs the buck ahead of Mexican inflation and Banxico's meeting minutes on Thursday. CNH and CNY slipped further with China and Russia supporting each other while KRW weakened further ahead of the BoK meeting Thursday, which is unanimously expected to pause. Meanwhile, a South Korean Finance Ministry Official plans to meet FX dealers and listen to their opinion on the current market situation, highlighting the Won's pace of weakening vs other currencies.

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