US Market Wrap

23rd February 2023: Stocks firmer after hot labour market data and PCE revisions shrugged off

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar flat.
- **REAR VIEW**: Jobless claims ticks lower, again; Chunky upward revision to Q4 Core PCE inflation; Hawkish BoE Mann; Another huge crude EIA build; Stellar NVDA report with upbeat commentary on AI; Weak 7yr auction; BABA results boosted by easing China COVID curbs.
- **COMING UP**: **Data**: German GDP (Detailed), US PCE Price Index, New Home Sales **Events**: US' Biden visiting Europe, Japanese Lower House meeting re. BoJ Nominees **Speakers**: Fed's Collins, Mester, Waller; BoE's Tenreyro **Supply**: Italy **Earnings**: BASF, IAG.

MARKET WRAP

Major stock indices were ultimately firmer on Thursday after a sell-off in the NY morning pared through the afternoon, seeing the SPX hold above the 4k level. Highs were made for the indices at the cash open, with the pre-market, knee-jerk hawkish reaction to the fall in initial jobless claims and upward revisions to Q4 Core PCE swiftly unwinding, with the cash 10yr yield failing to clip the key 4% level. It was hard to pin the choppy price action on the data, with newsflow on the light side also, with desks instead pointing to positioning into Friday's PCE data and Fed Speak bonanza. While the indices were choppy, the tech sector consistently outperformed with Nvidia (NVDA) posting double-digit gains after its strong report and guidance. Treasuries ultimately bull-flattened, again, after reversing the initial selling on the hot US data. The DXY was little changed after a choppy session, with the Yen marginally stronger ahead of Ueda confirmation in the Lower House. Oil prices rallied over a buck-and-a-half despite yet another bearish US inventory print, with the benchmarks consolidating after heavy selling earlier this week.

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INITIAL JOBLESS CLAIMS: The Weekly Initial Claims data, which coincides with the survey window for the BLS jobs report, fell to 192k from the prior 195k, despite expectations for a return to 200k. Nonetheless, the 4-week average ticked up to 191.25k from 189.75k. The headline figure has remained beneath 200k since mid-January, continuing to highlight tight labour market conditions this year, despite all of the Fed’s monetary tightening. Continuing Claims data – which does not coincide with the aforementioned survey window for the BLS report – also added to evidence of a tight labour market, declining to 1.654mln from 1.691mln, beneath expectations of a rise to 1.7mln. Analysts at Oxford Economics said the layoffs in some sectors is yet to translate into a rise in jobless claims as they continue to be reemployed at high rates. The consultancy expects jobless claims “to trend higher as the economy slows in response and eventually enters a mild recession later this year,” but adds that “the rise may be muted compared to prior recessions, as employers will be reluctant to lay off workers that have been difficult to find in the first place.”

GDP: The second estimate of Q4 GDP was revised lower to 2.7% from the prelim 2.9%; the Deflator was revised up to 3.9% from the initially stated 3.5%; PCE Prices were upwardly revised to to 3.7% from 3.2%. The Core PCE measure, the Fed’s preferred measure of inflation, was revised to 4.3% from 3.9%. The downbeat tone in activity and upside in prices puts the Fed in a difficult position as it diminishes the prospects of a soft landing, with some suggesting that it feeds into the argument that the central bank will likely need to hike rates more aggressively than initially thought in order to bring inflation back to target. However, the jobs market has since Q4 remained very strong, and although this raises inflation concerns, it will help offset the downbeat activity. With the revision higher to Q4 prices, as well as the hot January CPI and PPI data, some are suggesting that it adds to evidence, and Chair Powell's warning, that the disinflationary process will be a bumpy one. On the consumer front, spending was revised lower showing more signs of a cautious consumer as prices continue to rise. The January PCE data is due on Friday and will give a more timely update to PCE and consumer spending than the Q4 GDP metrics.

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 7+ TICKS HIGHER AT 111-14

Treasuries ultimately bull-flattened again on Thursday after reversing initial selling on hot US data. 2s -0.4bps at 4.695%, 3s -2.0bps at 4.410%, 5s -2.5bps at 4.108%, 7s -3.5bps at 4.037%, 10s -4.2bps at 3.881%, 20s -4.3bps at 4.045%, 30s -5.0bps at 3.878%.

Inflation breakevens: 5yr BEI -1.1bps at 2.501%, 10yr BEI -0.2bps at 2.425%, 30yr BEI -1.7bps at 2.334%.

ROLL: T-Note roll into June'23 (M3) contract from Mar'23 (H3) is over 80% complete, according to Quantitative Brokers.

THE DAY: Treasuries had a choppy/tight range through APAC and the European morning on Thursday, with T-Notes (H3) failing to break north of 111-08 initially and drifting a few ticks lower through European trade, with BoE's Mann applying some spillover selling out of the UK Gilt complex. T-Notes knee-jerked to session lows of 110-25+ after the fall in initial jobless claims and the revision higher to Q4 Core PCE, although the dip was bought with the cash 10yr failing to clip 4.00% and perhaps some growth concerns on the downward revisions in the Q4 GDP numbers. There was particular strength in Bunds at the time also, in absence of obvious catalysts with desks instead noting a "massive short squeeze". There was a chunky slew of corporate issuers announcing debt deals, although that failed to break the recovery in the NY morning, and adding to the T-Note rally was the behemoth 38.2k 2yr June'23 vs 20.2k 10yr June'23 curve flattener. Later in the NY afternoon, the weak 7yr auction hardly caused a dent, with T-Notes going on to print session highs of 111-17 into settlement, with short-covering into Friday's PCE and Fed Speak, and likely some rate-lock hedge unwinds amid the heavy slew of corporate debt deals pricing. Ahead of January PCE, Japanese CPI is due at 18:30ET Thursday.

7YR AUCTION: A weak 7yr auction that failed to bring in the same degree of demand that the 5yr did on Wednesday, proving more akin to the poor 2yr on Tuesday. The 4.062% stop was c. 55bps higher than January's auction, although that still marked a 1.5bps tail vs the WI, as opposed to Jan's 2.1bps stop-through, and worse than the six-auction average 0.2bps stop-through. The 2.49x bid/cover was lower than the prior 2.69x and average 2.52x. Dealers (forced surplus buyers) were left with 13.7%, up from January's record low 6.1% and a bit above average 13.1%, with Directs participation increasing and Indirects decreasing.

STIRS:

- SR3H3 +0.3bps at 94.99, M3 +3bps at 94.67, U3 +2bps at 94.665, Z3 +0.5bps at 94.865, H4 -2bps at 95.25, M4 -1.5bps at 95.715, U4 +1.5bps at 96.11, Z4 +5bps at 96.375, H5 +6bps at 96.505, H6 +4.5bps at 96.67, H7 +6bps at 96.70.
- NY Fed RRP op demand at USD 2.147tln (prev. 2.114tln) across 102 bidders (prev. 100).
- US sold USD 76bln of 1-month bills at 4.515%, covered 2.63x; sold USD 61bln of 2-month bills at 4.660%, covered 2.64x; sold USD 15bln of 16-day CMBs at 4.460%, covered 2.93x.

CRUDE

WTI (J3) SETTLED USD 1.44 HIGHER AT 75.39/BBL; BRENT (J3) SETTLED USD 1.61 LOWER AT 82.21/BBL

Oil prices rallied on Thursday despite bearish inventory data, with benchmarks consolidating after recent heavy selling. WTI and Brent front-month futures hit session highs of USD 75.99/bbl and 82.77/bbl at midday in NY, paring losses from the knee-jerk selling post-EIA inventory data, which saw yet another chunky crude stock build (more below). Some desks had also pinned the upside Thursday on spillover momentum from the reports on Wednesday that Russia is to cut oil exports in March, in addition to the production cuts. Otherwise, there was an absence of major energy newsflow. But we did get some corporate commentary, with Pioneer Natural Resources (PXD) saying it sees oil prices above USD 90/bbl by summer 2023, while Cheniere (LNG), on the gas market, said it expects price volatility to remain elevated as Europe sorts out its near- and long-term gas supply strategies.

US INVENTORIES: US crude stocks built 7.6mln bbls in the latest week, well north of analyst expectations for +2mln, taking total crude stocks to their highest level since June 2021, but not as acute as the 9.9mln indicated build in the private data on Wednesday. Cushing, Oklahoma stocks built a more meagre 700k bbls. Nonetheless, that's the 8th consecutive W/W build for Cushing and the 9th consecutive for Crude stocks nationwide, with reported production at a peak of 12.3mln BPD. Desks also highlight the sizeable seasonal adjustment factors behind the continued massive crude builds. In the products, gasoline stocks drew 1.9mln bbls, the first draw in seven weeks, while distillates built 2.7 mln bbls.

EQUITIES

CLOSES: SPX +0.53% at 4,012, NDX +0.94% at 12,180, DJI +0.33% at 33,153, RUT +0.71% at 1,908.

SECTORS: Technology +1.63%, Energy +1.27%, Real Estate +0.98%, Industrials +0.4%, Health +0.27%, Materials +0.18%, Financials +0.14%, Consumer Discretionary -0.09%, Consumer Staples -0.22%, Utilities -0.48%, Communication Services -0.66%.

EUROPEAN CLOSES: EURO STOXX 50 +0.36% at 4,258, FTSE 100 -0.29% at 7,907, DAX 40 +0.49% at 15,475, CAC 40 +0.25% at 7,317, FTSE MIB +0.65% at 27,277, IBEX 35 +0.64% at 9,231, SMI -0.43% at 11,251.

STOCK SPECIFICS: **Lordstown Motors (RIDE)** announced production and delivery pause to address quality issues, voluntary recall, and the timing of FY22 results. Massachusetts approved nine sports-betting operators, including Fanduel, **DraftKings (DKNG), and BetMGM (MGM)**, amongst others. **Chubb (CB)** raised its quarterly dividend to USD 0.86/shr from 0.83/shr. **YouTube (GOOGL)** podcasting head said they will soon start to bring podcasts to YouTube Music for users in the US, according to TechCrunch.

EARNINGS: **Nvidia (NVDA)** topped expectations on top and bottom line with next quarter revenue guide also strong. CFO said Cloud and Hyperscale opportunity was significant, driving strong growth in the data centre, which will accelerate through the year. Exec said AI was at an inflection point, and it will offer AI-as-a-service. **Alibaba (BABA)** surpassed consensus on EPS and revenue as it benefited from China easing COVID curbs. **Moderna (MRNA)** missed on profits as costs rose from surplus production capacity and lower COVID shot demand. **Lucid Group (LCID)** missed on revenue with FY23 production view light. Built only 7k of its Air luxury sedans last year amid manufacturing challenges. Note, posted a shallower loss per share than expected. **Dollar General (DG)** prelim. Q4 results saw EPS and SSS both fall short amid lower-than-anticipated sales and higher-than-anticipated inventory damages. **NetApp (NTAP)** revenue missed alongside its next quarter profit view being light. Exec noted that Q3 saw a weakening IT spending environment, continued cloud cost optimisation, with customers taking increased budget scrutiny. **eBay (EBAY)** slightly beat on EPS and revenue alongside raising quarterly dividend by 14%. Although, does not provide FY23 outlook given the macro environment. **Bath & Body Works (BBWI)** beat on top and bottom line; guidance for both the next quarter and FY was short. **Bumble (BMBL)** reported stronger revenues than anticipated alongside Q4 total paying users rising to 3.4mln (vs. 3mln a year earlier).

US FX WRAP

The Dollar was choppy but ultimately flat after hitting a peak of 104.780 and a trough of 104.300. The Buck got a boost in the wake of stronger-than-expected secondary US inflation metrics (Q4 PCE and GDP deflator) and yet another lower-than-expected weekly claimant count, at 192k (exp. 200k), and carrying more weight as it feeds into February's BLS report this time. As European participants left for the day the Buck bid abated, until later in the session where it printed its high, breaking through some key levels on the way in a lack of headline catalysts. Looking ahead, there is the Core PCE print for January on Friday with five scheduled Fed speakers afterwards, in addition to final February UoM survey, and New Home Sales.

The Euro was more-or-less flat against the Buck, with the cross trading between 1.0578-1.0627. The Final EU HICP data in January was in line at 8.6%, rising from the prior 8.5%. The majority of the HICP figures were in line but the super core Y/Y rose 5.3% from 5.2%. Given this was the final data, there was little market reaction, but after the slight revision lower in the Italian figures Wednesday traders were on their toes in the risk of a cooler print, but this ultimately did not come to fruition.

Swissy and Yen were divergent, as the former was the G10 underperformer while the latter outperformed. The Swissy was seemingly underpinned by technicals amid the lack of anything currency specific, as once USD/CHF retreated through 0.9300 it appeared to weigh on the Franc as it managed to defend 0.9350, just, as a high of 0.9349 was reached. The Yen saw slight gains, as USD/JPY was in a 134.49-135.36 range as market participants await the new BoJ Governor Ueda speech and January Japanese CPI on Friday.

Cyclicals were mixed: Antipodes saw slight gains, CAD was flat, and GBP saw losses. The Aussie was supported by Australian CapEx data hotter than expected, as it rose 2.2% in Q4 from a decline of 0.6% previously and above the 1.3% expectation. The Kiwi got more hawkish RBNZ vibes to lean on, as Governor Orr said Cyclone Gabrielle could fuel price pressures and result in rates remaining at peak for a more prolonged period. Meanwhile, the Loonie saw tailwinds from the rebound in the crude complex ahead of Canadian Budget on Friday. For the Sterling watchers, commentary from BoE's Mann continued to sound hawkish, noting failing to do enough now risks higher inflation and lower activity as monetary policy will have to stay tighter for longer. She added she believes more tightening is needed and cautioned a pivot is not imminent and said the BoE should weigh inflation more highly in its reaction function, noting she is worried about the persistence of inflation into this year and the next.

EMFX was mixed, as CNH & CNY, TRY, MXN, and RUB were all lower, while ZAR was flat, and KRW and BRL saw gains.

KRW: BoK maintained its base rate at 3.5% as expected, pausing its tightening cycle after 300bps of hikes since its tightening cycle began. However, later commentary pushed back on the pause argument, revealing five members of the MPC wanted to keep chances for the terminal rate to reach 3.75%, while Governor Rhee said this meeting should not be seen as the end of rate hikes.

TRY: CBRT cut its weekly repo rate by 50bps to 8.50%, as expected, while noting it assessed the current policy stance is adequate to support necessary recovery in the aftermath of the recent earthquakes. The committee also said they will continue to use all available instruments decisively until strong indicators point to a permanent fall in inflation and the medium-term 5% target is achieved in pursuit of the primary objective of price stability.

MXN: Inflation data was cooler than expected and the prior for the first half of Feb for both headline and core metrics, a welcome sign for the Banxico who recently surprised on the hawkish side and raised inflation forecasts throughout the horizon. Meanwhile, the latest minutes after it surprisingly hiked rates by 50bps, Espinosa issued a dissenting opinion. Board considers that, given the policy stance already attained and depending on incoming data for the next meeting, upward adj. to the reference rate could be of a lower magnitude.

ZAR: South African PPI data for January declined 0.6% M/M, accelerating from the prior 0.4% fall while Y/Y was also cooler than the expected 12.75% at 12.7%, and down from the 13.5% previously.