US Market Wrap

27th February 2023: Stocks and Bonds rise into month-end ahead of a plethora of Fed speak

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Soft Durable goods headline, but internals positive; Pending home sales rise for second consecutive month; UK/EU agree to a new Northern Ireland agreement; Jefferson rejects arguments for increasing inflation goal; UNP to name new CEO this year; PFE in early talks with SGEN; Freeport LNG submits full commercial operations request; Ueda repeats dovish remarks.
- **COMING UP**: **Data**: French & Spanish Prelim. CPI, Swiss KOF, Canadian GDP, US Chicago PMI, Consumer Confidence **Events**: Fed Discount Rate Minutes, International Energy Week (1/3) **Speakers**: BoE's Pill, Cunliffe; Fed's Goolsbee; BoJ nominee's Himino & Uchida **Supply**: Japan, Netherlands, Germany **Earnings**: Adecco, Bayer, ASM, abrdn, Ocado; Target, HP.
- **CENTRAL BANK WEEKLY**: Previewing BoJ Governor, ECB minutes; reviewing FOMC minutes, PBoC, RBA, RBNZ, Riksbank, BoK, CBRT. To download the report, please click here.
- **WEEK AHEAD**: Highlights include US ISM, BoJ Governor nominee, China PMI, EZ flash inflation, ECB minutes. To download the report, please click here.
- **THIS WEEK'S EARNINGS**: [TUES] TGT, MNST; [WED] LOW, CRM; [THURS] AVGO, COST. To download the report, please click here.

MARKET WRAP

Stocks were bid on Monday but closed off highs with outperformance seen in the Nasdaq as the tech-heavy index found support from the move lower in US rates, paring some of the post-PCE move on Friday. Additionally, Tesla (TSLA) closed with gains in excess of 5% amid its German plant hitting a production level of 4,000 per week, three weeks ahead of schedule, which also supported the NDX. Treasuries were ultimately firmer supported by month-end flows while the initial weakness overnight reversed on soft headline durable goods print despite stronger internals. Note, Pending home sales were stronger than expected. The Euro prospered and the dollar faltered as Bund-Treasury yield spreads narrowed while EZ inflation expectations remained at 9-month highs. GBP outperformed on Brexit optimism after the UK and EU agreed on a new Northern Ireland Protocol, although the DUP say there is still some work to do. Crude prices were lower but choppy while metal prices were generally bid although silver underperformed. Looking ahead, highlights include US ISM (Wed), China PMI (Wed), EZ flash inflation (Thurs), and ECB minutes (Thurs). With key data on the light side, Fed Speak will hold more weight on tape action, with the new Chicago appointee (and potentially Vice Chair) Goolsbee to speak on Tues, Kashkari on both Weds and Thurs, followed by Logan, Bostic, and Bowman all on Friday.

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FED: **Jefferson (voter)** noted it is possible for inflation to decline without an "unnecessary amount of disruption" in the labour market, but currently inflation may be more persistent than thought, although it cannot react to one data point. On data, Jefferson said the most recent inflation reading was "elevated" and it is hard to understand the dynamic processes generating inflation. However, he rejected the arguments for increasing the Fed's 2% inflation goal as he added raising the target risks undermining credibility. Moreover, he said core services ex-housing inflation outlook is uncertain but the Fed is committed to returning inflation to target.

DURABLE GOODS: The headline durable goods orders for January plunged 4.5%, which was deeper than the expected 4% decline, and compares to the 5.1% surge in December, which was downwardly revised from the initial +5.6%. However, the headline miss is highly distorted by the volatile aircraft orders sector (mainly Boeing orders) which saw a massive surge in December that was always expected to reverse. Under the hood, the ex-transport orders surged 0.7%, the joint-highest pace since March 2022, above the expected 0% pace, while the goods orders ex-aircraft and defense surged 0.8% (exp. +0.1%), although both those core measures saw their priors revised to larger declines, although the January jumps more than offset the December declines. Finally, core capital goods shipments jumped 1.1%, which is used to help calculate equipment investment in US GDP. Overall, the report shows a strong underlying orders trend despite the headline tumble, countering the dip shown in the ISM Mfg. data for January, keeping hawkish pressure on the Fed.

PENDING HOME SALES: Pending home sales increased for the second straight month surging 8.1% in January, much greater than the expected 1% and the prior 1.1%, which was revised lower. Regionally, contract signings rose in all four major US M/M, but dropped in all regions Y/Y. The release notes, “buyers responded to better affordability from falling mortgage rates in December and January”, but looking ahead added “home sales activity looks to be bottoming out in Q1 of this year, before incremental improvements will occur”. Moreover, NAR chief economist noted “an annual gain in home sales will not occur until 2024. Meanwhile, home prices will be steady in most parts of the country with a minor change in the national median home price.” Oxford Economics said the headline number was “flattered by the milder than usual weather, and it is now clear that the drop in mortgage rates at the end of last year fuelled a quick rebound in housing demand.” Meanwhile, OxEco notes “with mortgage rates rebounding in recent weeks and mortgage applications declining again, we doubt this is the beginning of a sustained turnaround. But the data reinforce the message that the Fed still has its work cut out to keep financial conditions tight enough to engineer a further slowdown.”

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 6+ TICKS HIGHER AT 111-19+

Treasuries were ultimately firmer after initial weakness reversed on soft headline durable orders and month-end flows. 2s -2.3bps at 4.782%, 3s -3.1bps at 4.500%, 5s -4.1bps at 4.170%, 7s -3.6bps at 4.075%, 10s -2.9bps at 3.920%, 20s -2.2bps at 4.103%, 30s -1.7bps at 3.921%

Inflation breakevens: 5yr BEI -0.5bps at 2.468%, 10yr BEI -0.8bps at 2.390%, 30yr BEI -0.4bps at 2.321%.

THE DAY: It was a very quiet Treasury trade in APAC and the European morning on Monday outside of futures roll activity. T-Notes hit resistance several times at 111-16, marking a tight range with session lows made at 111-06 ahead of the US' arrival. Buying strength developed for Treasuries right before the January durable goods orders data and accelerated further after the big fall in the headline figure, despite the firmer core metrics. The strength was also impressive given the heavy deluge of corporate supply (over 15 separate IG issuers) being announced at the time, with the tape absorbing the related rate-locking hedging (Treasury selling/swap paying) in its stride. Instead, desks pointed to month-end flows with Bloomberg estimating a sizeable +0.12yr duration extension on account of quarterly refunding. T-Notes hit session highs of 111-25+ right before the strong bounce in the January pending home sales index, paring some gains into the NY afternoon.

AHEAD: There is no coupon supply this week. Instead, highlights include US ISM (Wed), China PMI (Wed), EZ flash inflation (Thurs), and ECB minutes (Thurs). With key data on the light side, Fed Speak will hold more weight on tape action, with the new Chicago appointee (and potentially Vice Chair) Goolsbee to speak on Tues, Kashkari on both Weds and Thurs, followed by Logan, Bostic, and Bowman all on Friday.

STIRS:

- SR3H3 +0.0bps at 95.000, M3 +0.0bps at 94.630, U3 -0.5bps at 94.590, Z3 +0.0bps at 94.745, H4 -1.0bps at 95.070, M4 -1.0bps at 95.500, U4 +1.0bps at 95.910, Z4 +2.5bps at 96.195, H5 +4.0bps at 96.360, H6 +6.5bps at 96.630, H7 +6.0bps at 96.700.
- NY Fed RRP op demand at USD 2.162tln (prev. 2.142tln) across 110 bidders (prev. 104).
- US sold USD 66bln of 3-month bills at 4.750%, covered 2.59x; sold USD 53bln of 6-month bills at 4.940%, covered 2.80x.

CRUDE

WTI (J3) SETTLED 0.64 LOWER AT 75.68/BBL; BRENT (K3) SETTLED USD 0.78 LOWER AT 82.04/BBL

The crude complex was lower to start the week, albeit choppy, as further US data had investors bracing for further Fed hikes to fight inflation which could hinder demand, but losses were contained as Russia reportedly halted supplies of oil to Poland via the Druzhba pipeline. However, the Slovakian Economy Ministry said Russian oil flows to Slovakia via the pipeline were running normally. Nonetheless, there was no singular headline or kneejerk movement to signal the direction of trade in light newsflow on Monday. Separately, Freeport LNG submitted a request to US FERC for authorisation to progress to full commercial operations of train 1 and phase 1 of the Texas plant. Note, analysts do not expect full operations/export capacity until the second LNG berth and third LNG storage tank are back in service, which isn't expected until May. Elsewhere, the ever-present geopolitical tensions remain, whether it be Sino relations or the Ukrainian war, it continues to add to lingering global demand woes. Looking ahead, aside from the weekly events (private inventories, EIA etc) there is a lack of tier 1 data this week, apart from ISMs, so oil is likely to be driven by wider market sentiment or headline newsflow.

BANK COMMENTARY: BofA sees USD 88bbl for Brent this year and cites low shale growth, OPEC+ discipline and China's reopening counteracting resilient output from Russia. Meanwhile, Goldman Sachs forecast oil prices will gradually rise to USD 100/bbl by Dec, and expect it to stay in 2024, assuming OPEC increases output by 1mb/d in H2. However, if OPEC stays put, then Brent would likely reach USD 107/bbl in Dec. and keep grinding higher thereafter.

EQUITIES

CLOSES: SPX +0.31% at 3,982, NDX +0.74% at 12,057, DJI +0.22% at 32,889, RUT +0.31% at 1,896.

SECTORS: Consumer Discretionary +1.18%, Industrials +0.83%, Technology +0.52%, Communication Services +0.42%, Energy +0.31%, Materials +0.23%, Real Estate +0.15%, Financials -0.06%, Consumer Staples -0.18%, Health -0.31%, Utilities -0.77%.

EUROPEAN CLOSES: EURO STOXX 50 +1.66% at 4,248, FTSE 100 +0.72% at 7,935, DAX 40 +1.13% at 15,381, CAC 40 +1.51% at 7,295, FTSE MIB +1.70% at 27,444, IBEX 35 +1.23% at 9,314, SMI +0.30% at 11,215.

STOCK SPECIFICS: **Pfizer (PFE)** is in early talks to acquire **Seagen (SGEN)** in a deal likely to be valued at more than USD 30bln, according to WSJ. **Union Pacific (UNP)** will replace CEO Lance Fritz this year which led BofA to upgrade the stock. EU antitrust regulators are reportedly to warn **Broadcom (AVGO)** about the possible anti-competitive impact of the USD 61bln **VMware (VMW)** bid, according to Reuters citing sources. **Best Buy (BBY)** was downgraded at Telsey Advisory; said it expects high inflation and rising interest rates to weigh on BBY’s 2023 sales and profits. FTC said it would hold a hearing on hedge fund Standard General's bid for **Tegna (TGNA)**, a step that has historically led deals to collapse. **Focus Financial Partners (FOCS)** to be acquired by CD&R for USD 53/shr in cash, according to Bloomberg. **Fisker (FSR)** said demand for its Ocean SUVs has been increasing despite the higher competition and price cuts by rivals; some suppliers have difficulty ramping up. **McDonald's (MCD)** is to expand its **Krispy Kreme (DNUT)** test; MCD will sell doughnuts at 160 restaurants in Louisville and Lexington and surrounding areas starting March 21st. **Syneos Health (SYNH)** is reportedly working with Centerview Partners and Bank of America to explore a sale, according to Reuters sources, although a prospect of a deal remains uncertain. **Palantir (PLTR)** cut roughly 2% of jobs in an effort to reduce costs. **Altria (MO)** is reportedly in advanced talks to buy NJOY for at least USD 2.75bln, according to WSJ citing sources, who later added MO is also divesting its stake in Juul. **Tesla's (TSLA)** German plant hit a production level of 4,000 per week, three weeks ahead of schedule. FTC to challenge Intercontinental and **Black Knight (BKI)** deal, according to Politico. Meanwhile, EQT is reportedly near a deal to buy **Radius Global Infrastructure (RADI)**, according to Bloomberg.

EARNINGS: **Li Auto (LI)** beat on profit, vehicle sales and revenue. Next quarter guidance was strong, as revenue and vehicle delivery view topped expectations. **Viatris (VTRS)** missed on revenue but beat on profit. **FuboTV (FUBO)** in its earnings call, disclosed 68.1mln share sales in ATM programme at negotiated discounts. Moreover, LightShed analyst noted it expects FUBO to lose 20% of their subbase, nearly 300K subs in Q1 2023, alongside burning over USD 300mln of cash in the Q, with just over 300mln of cash left and that includes the 62mln they raised from selling stock in Q3. Although FUBO posted strong earnings for the quarter.

US FX WRAP

The Dollar was lower on Monday and almost completely pared the Friday rally as yields fell and stocks jumped in a risk-on environment. The moves started in the European morning while it was further hit in wake of the US Durable Goods data. The headline missed expectations dipping 4.5%, more than expected, although it was largely weighed on by a reversal in aircraft orders after the strong jump in December and weak January figures. When stripping that out, the report was quite strong showing a broader pick-up in the manufacturing sector ex-aircraft. Note, the Atlanta Fed GDPNow Model also updated their tracking estimate to 2.8% from 2.7% following the data. Aside from data, Fed speak saw Jefferson note the core services ex housing inflation outlooks is uncertain but the Fed is committed to returning inflation to its 2% goal. He also noted it is possible for inflation to decline without an unnecessary amount of disruption in the labour market, although current inflation may be more persistent than thought, but they cannot react to just one data point. Elsewhere, Morgan Stanley pushed back their first rate cut call to March 2024 from December 2023.

The Euro found support from the weaker Dollar and risk environment, taking EUR/USD back above 1.06 to highs of 1.0619 before paring to the round level. US yields also fell off more than the EZ counterparts giving a helping hand to the single currency and with the 5y/5y inflation linked swaps at 10 month highs it keeps pressure on the ECB to maintain their hawkish stance. Commentary from ECB saw remarks from Croatia's Vujcic, stating markets are right to price in 50bps for the March meeting but decisions will be made on a meeting-by-meeting basis. He noted they are about to get too restrictive territory on rates, but as long as core inflation persists, the ECB must persevere. On data, the EZ Final

Consumer Confidence read held at -19, in line with expectations although the industrial sentiment pared to 0.5 from 1.2, despite expectations of a rise to 2.0. The consumer inflation expectations printed 17.7, while the prior was revised up by 0.1 to 17.8. Economic Sentiment disappointed, cooling to 99.7 from 99.8, despite expectations for a rise to 101. Services sentiment declined despite the consensus looking for a rise while the business climate moved higher in February. Note, Italian manufacturing business confidence stood at 102.8 while consumer confidence picked up in February.

The Yen saw some strength vs the weakening Dollar but failed to convincingly hold sub 136.00. There was more commentary from BoJ Governor Nominee Ueda who repeated familiar dovish language noting CPI growth will slow to below 2% in FY23 but it takes time for inflation to meet the target sustainably and stably. He also repeated that the current monetary easing is appropriate while saying the merit of the current easing outweighs the demerit and that there is no need to immediately change the 2013 government-BoJ statement. On a potential change in policy, Ueda stated the trend in inflation must heighten sharply for the BoJ to shift to monetary tightening, he also does not think Japan has reached the reversal rate, in which financial transmission channels are hurt so much that the demerits of easing exceed the benefits.

The Yuan saw strength both onshore and offshore albeit primarily as the dollar weakened. Nonetheless, there were more positive reopening updates with Macau & Hong Kong dropping their COVID-19 mask mandates for most locations. Elsewhere, China drafted guidelines to regulate financial support in the housing rental market and began to solicit public opinion, according to China.org.cn. Nonetheless, building geopolitical/relationship woes with US-Sino relations linger.

Cyclical currencies were bid amid the risk environment although GBP outperformed on Brexit optimism with the UK and EU agreeing to a new Northern Ireland agreement albeit the DUP note there is still some work to do. Antipodeans only saw marginal gains with losses overnight gradually paring from the session. NZD saw weakness overnight following a decline in Q4 retail sales data while the Aussie rebound was supported by the upside in copper prices. The CAD also saw marginal gains with the weaker dollar and upside in stocks supporting the currency, but the sell-off in crude prices limited the gains.

Scandi's were mixed with SEK seeing gains vs the Euro albeit NOK was weaker amid the decline in oil prices while NOK /SEK tested parity finding a low of 1.004.

EMFX was also mixed with ZAR and TRY just marginally weaker vs the Dollar, while LatAm FX was bid thanks to the risk environment while ZAR found little support in gains in gold prices with domestic concerns on the country's finances and economy weighing while Turkey woes remain from the recent earthquakes. In Mexico, Banxico's Deputy Governor Heath spoke and said that based on recent data, his view of the terminal rate is between 11.25% and 11.75% while he also does not expect it to be below 10% by year-end. He did stress this is his personal opinion and is based on the current data and his opinion could change. On data, the January trade balance posted a narrower deficit than expected. Data in Brazil saw the February IGP-M inflation index post a surprise decline, falling 0.06% M/M cooling from the prior +0.21% in January and cooler than the expected 0.05% rise. In Chile, the jobless rate ticked up as expected to 8.0% from 7.9% while the currency saw notable gains thanks to the rise in copper prices.