US Market Wrap

28th February 2023: Dollar and USTs gain as stocks dip into month-end and weak US data

- **SNAPSHOT**: Equities down, Treasuries flat/down, Crude up, Dollar up.
- **REAR VIEW**: Soft US data via Chicago/Richmond Fed & Consumer Confidence; Hot Spanish & France inflation prints; Dovish BoJ Deputy Governor remarks; Strong TGT numbers but weak guidance; Punchy Taiwan rhetoric from China's NPC Deputy ahead of Two Sessions; Disappointing Canadian GDP; GS puts Marcus on the chopping block.
- **COMING UP**: **Data**: Australian CPI, Chinese NBS/Composite PMIs, EZ/UK/US Final PMIs, German CPI (Prelim.), US ISM Manufacturing PMI, New Zealand Export/Import Prices **Speakers**: BoE's Bailey, Fed's Kashkari **Supply**: UK & Germany **Earnings**: Persimmon, Just Eat; Lowe's, Salesforce, Hilton.

MARKET WRAP

Stocks were choppy Tuesday, with soft US data, hot Spanish and French inflation data, and month-end flows all at play. A sizeable sell-side market imbalance into the close saw the major indices close in the red. There was notable downside in sovereign bonds led by EGBs earlier in the session on the back of above-forecast Spanish and French flash CPI readings (ahead of German/EZ-wide figures on Weds/Thurs). That initially gave support to the Euro, but broader Dollar strength built gradually into the US session taking the Euro weaker, seemingly a function of month-end with sell-side estimates forecasting mild Dollar strength. The fact that the Chicago and Richmond Fed PMI data, in addition to the consumer confidence report, all came in on the soft side, seeing USTs outperform, only gave weight to the Dollar bid being a month-end factor. As mentioned, the soft US data saw USTs unwind their earlier losses, aided by a sizeable expected month-end bid too with bond funds hovering up the slew of new issues on account of quarterly refunding. In stocks, Target (TGT) reported a strong quarter, having completed a large inventory reduction, although its guidance was on the light side of analyst expectations. While Goldman Sachs (GS) CEO announced strategic alternatives for its failed consumer unit, Marcus, while the Co. failed to woo the market at its investor day.

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CONSUMER CONFIDENCE: The Conference Board's US Consumer Confidence index in February saw a surprise fall to 102.9 from the downwardly revised 106 in January (initially 107.1) against the consensus estimate for a rise to 108.5. Looking within, the present situation index rose to 152.8 from 151.1, the highest since April 2022, with the bounce aided by favourable views on the labour market and business conditions. However, the ground looks shakey with the forward-looking expectations index dropping to 69.7 from 76.0 - the Conference Board has associated sub-80 levels in the expectations index with recessions. Consumers showed they are scaling back plans to buy autos, homes, and big appliances. Overall, the fall in the sentiment index goes against the run of hot US consumer data seen so far in 2023, marking an incremental sigh of relief for the Fed as the central bank looks to put the brakes on. However, the differential between the Conference Board's jobs "plentiful" and jobs "hard to get" rose to 41.5ppts, the highest since April 2022, which will be a concern for policymakers due to the lack of progress in easing labour market tightness. Meanwhile, the 1yr-ahead inflation expectation gauge fell to 6.3% after the jump to 6.8% in January, which will be a positive for the Fed, but still a ways from levels consistent with the 2% target.

RICHMOND FED: The Richmond Fed composite index fell even deeper into negative territory in February to -16 from -11. Looking into the sub-components, shipments and employment fell to -15 and -7, respectively, from -3 for both, while new orders remained at -24. Firms remained pessimistic about local business conditions, with the index unchanged at -13, however, the report notes “the expectations index for future local business conditions increased notably and returned to positive territory for the first time since March 2022.” Moreover, the report adds, “businesses continued to see declines in backlogs and lead times as both indexes remained negative.” However, the capacity utilization index fell notably to -17 (prev. -7). It concludes, “the average growth rate of prices paid remained nearly unchanged, while the average growth rate of prices received decreased in February. Firms expect both to moderate over the next 12 months.”

CHICAGO PMI: Chicago PMI disappointed expectations after falling to 43.6 from 44.3, against the expected rise to 45.0. Overall, it adds to the mixed survey data and Pantheon Macroeconomics notes, “while Empire State and lagged effect of China’s manufacturing PMIs, point to an increase in the national ISM survey the Chicago PMI tends to lags changes in civilian aircraft orders which jumped towards the end of last year, but fell sharply in January." As such, on account of Chicago PMI and the decline in Richmond Fed manufacturing, Pantheon marked down its forecast for the ISM Manufacturing index, due Wednesday, to 48.0 from 48.5.

ADVANCED GOODS TRADE: The US Advance Goods trade balance deficit widened in January to 91.5bln from 89.67 bln up USD 1.8bln from USD 89.7bln in December. Goods exports rose USD 7.0bln to 173.8bln, while imports rose USD 8.8bln to USD 265.3bln. Within the report, the Advance wholesale inventories fell 0.4% to 929.7bln from 933.1bln, while the retail inventories rose 0.3% to 743.1bln from 741bln. On the trade data, analysts at Oxford Economics highlight it is the first time since March 2022 that both imports and exports rose on a monthly basis, and the rebound in trade activity suggests the economy is still carrying momentum at the start of the year. OxEco note the rise in exports likely is a function of the softening Dollar, but warns this trend is reversing amid more hawkish Fed expectations. On Imports, OxEco writes it was supported by stronger consumer spending and domestic business investment and is continuing to show resilience.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 1+ TICKS HIGHER AT 111-21

Treasuries were little changed after EGB-led selling on hot inflation data unwound into month-end and soft US data. At settlement, 2s +0.8bps at 4.801%, 3s -0.3bps at 4.509%, 5s -0.3bps at 4.170%, 7s -0.5bps at 4.073%, 10s -0.8 bps at 3.914%, 20s +0.1bps at 4.106%, 30s +0.5bps at 3.924%

Inflation breakevens: 5yr BEI +7.4bps at 2.546%, 10yr BEI +4.5bps at 2.437%, 30yr BEI +3.1bps at 2.353%.

THE DAY: Tight trade was seen in the APAC Tuesday session before hot French and Spanish February flash CPI saw govvies dip lower in the European morning, taking T-Notes to interim lows of 111-10. Treasuries pared back the move heading into the NY handover, but a fresh bout of selling occurred as US trade got underway, seemingly fresh follow-on selling from the hot European inflation data as Bunds led the losses at the time, taking T-Notes to session lows of 111-06+, respecting Monday's 111-06 low. A few corporate IG debt deals added to the pressure. But Treasury losses were pared in wake of the soft Chicago PMI and dip in Consumer Confidence, aided by 5k block buys in both the 10yr and 2yr futures at the time, with an eye on month-end flows also; Bloomberg estimates a +0.12yr duration index extension. However, the strength lost momentum into the NY afternoon as contracts approached the unchanged mark, although a late 5k T-Note block buy and a volume flurry into the month-end settlement saw T-Notes stretch to a peak of 111-23.

AHEAD: 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 Kashkari speaking on both Weds and Thurs, followed by Logan, Bostic, and Bowman all on Friday.

STIRS:

- SR3H3 flat at 95.0025, M3 -0.5bps at 94.625, U3 flat at 94.595, Z3 +0.5bps at 94.75, H4 -0.5bps at 95.07, M4 -1.5 bps at 95.49, U4 -2.5bps at 95.89, Z4 -2.5bps at 96.18, H5 -1bps at 96.36, H6 +1bps at 96.645, H7 +1bps at 96.715.
- NY Fed RRP op demand at USD 2.188tln (prev. 2.162tln) across 107 bidders (prev. 110).
- Note that the EFFR fell to 4.57% on February 27th from 4.58% on February 24th, marking the second fall (within the FFR target band) in recent weeks, although the initial time the EFFR rose back the following day.

CRUDE

WTI (J3) SETTLED USD 1.37 HIGHER AT 77.05/BBL; BRENT (K3) SETTLED USD 1.41 HIGHER AT 83.45/BBL

Oil prices rallied on Thursday through the session without an obvious catalyst, with desks citing short-covering into month-end instead. The upside reversed Monday's losses and emerged out of the European morning on the heels of hot French and Spanish flash CPI data for February, with elevated core inflation diminishing expectations of any imminent downturn in the Eurozone. Oil prices rallied into the NY morning to see front-month WTI and Brent futures peak at USD 77.83/bbl and 84.15/bbl, respectively. The soft Chicago Fed survey and dip in consumer confidence capped strength for oil, as did an improved oil supply outlook on the release of the Reuters survey that saw OPEC February output rise by 150k BPD from January to 28.97mln BPD, led by Nigeria, lowering quota-bound members' over-compliance to 169% of cuts from 172% in January. Separately, Reuters reported that oil loadings from Russia's Black

Sea port of Novorossiisk resumed on February 28th following the storm, which added to earlier reports that Russia's seaborne Urals supply to China is set to jump in February. Traders now look to the weekly US energy inventory data. Currently expectation (bbls): Crude +0.5mln, Gasoline +0.5mln, and Distillates -0.5mln.

EQUITIES

CLOSES: SPX -0.30% at 3,970, NDX -0.13% at 12,042, DJI -0.71% at 32,656, RUT +0.04% at 1,896.

SECTORS: Utilities -1.72%, Energy -1.44%, Consumer Staples -0.75%, Health -0.73%, Industrials -0.25%, Technology -0.19%, Consumer Discretionary -0.05%, Real Estate -0.04%, Financials +0.17%, Communication Services +0.24%, Materials +0.45%.

EUROPEAN CLOSES: EURO STOXX 50 -0.23% at 4,238, FTSE 100 -0.74% at 7,876, DAX 40 -0.11% at 15,365, CAC 40 -0.38% at 7,267, FTSE MIB +0.12% at 27,478, IBEX 35 +0.86% at 9,394, SMI -1.10% at 11,096.

STOCK SPECIFICS: **Apple (AAPL)** supplier Foxlink will not be able to resume full operations at its India plant for two months following a fire; could potentially face disruptions in the supply chain for iPhones. Separately, the Apple probe by Brussels into the Co.'s restriction of certain apps has been narrowed, according to FT sources. **Tesla (TSLA)** EV sales in China rose last week but were still running short of the pace seen in Q4, indicating the bump from discounted prices in its biggest overseas market is waning. **Chevron (CVX)** investor day saw it reaffirm its long-term objective alongside lifting its share buyback guidance to USD 10-20bln/year. **Dish (DISH)** double-downgraded at Bank of America; said the Co.'s opportunities to leverage its 5G wireless network infrastructure "now feels further away", amongst other reasons. In other news, DISH has determined that its IT issue was due to a cyber security incident, some data was compromised. Biden admin is considering revoking export licenses issued to US suppliers for sales to Huawei Technologies, according to WSJ sources - of note for **Qualcomm (QCOM)** and **Intel (INTC)**. **T-Mobile (TMUS)** CFO said industry subscriber growth is slowing in 2023 (as analysts expect) but the Co. will take market share despite slowing sub gains. **Charter (CHTR)** saw a slight downtick in the rate of net additions in January vs. Q4. Apollo reportedly in talks to acquire Arconic **(ARNC)**, according to WSJ citing sources; Arconic's advisers have reached out to other potential acquirers with no guarantee of a deal. **Paramount (PARA)** reportedly turned down a USD 3bln+ offer for Showtime from a former executive, according to WSJ citing sources.

EARNINGS: **Target (TGT)** gave disappointing guidance for the next quarter and FY. Although, results for the quarter were strong; top and bottom line beat with comp. sales surprisingly rising. On inventories, at the end of Q it was 3% lower than a year ago, despite an increase in early receipts compared with last year. Exec said until cash generation increases, not planning to repurchase any shares, and re-affirmed cost savings goal of up to USD 3bln in coming years. **Zoom (ZM)** beat on top and bottom line alongside guidance for both the next quarter and FY surpassing expectations. **Norwegian Cruise Line (NCLH)** posted a deeper loss per share than expected with occupancy, passenger cruise days, and passengers carried all falling short. FY EPS view was also light. **Advance Auto Parts (AAP)** surpassed expectations on EPS and revenue. **Dentsply Sirona (XRAY)** beat Wall St. estimates on top and bottom lines alongside better-than-expected guidance.

GOLDMAN SACHS INVESTOR DAY: CEO Solomon said the bank tried to do too much too quickly on its consumer unit, Marcus, but is now considering strategic alternatives for the unit. Solomon said he sees the bank reducing the balance sheet to USD 35bln in the medium term. He also doesn't rule out wealth and asset management strategic opportunities but the focus is on execution. Sees capital-markets activity improvement in H2. Separately, GS co-head of global banking and markets added they are targeting mid-teen returns.

US FX WRAP

The Dollar was choppy on Tuesday but closed firmer and at session highs of 104.98 amid month-end Dollar buying and risk-off sentiment materialising into the close, albeit on a lack of a headline catalyst. On the day, the Greenback was initially flagging with the DXY unwinding more of its post-US PCE upside when the Chicago PMI missed consensus and came in just below its previous level and Consumer Confidence deteriorated unexpectedly and markedly. The index hit a fresh session low at 104.400 and just under the base from last Friday prior to the rebound. Elsewhere, Fed's Goolsbee (voter) spoke, but did not say much material on the economy and monetary policy. Looking ahead, US ISMs on Wednesday along with Fed's Kashkari (voter).

The Euro was eventually weaker on Tuesday, as EUR/USD saw a low of 1.0576 as the mild risk aversion eroded the cross' early gains from above-forecast French and Spanish inflation, which had lifted Bund-UST yields spreads. As mentioned, the Euro managed to regain hold of the key 1.0600 level in wake of hotter-than-forecast Eurozone inflation reports. On Wednesday, we get German state inflation ahead of the EZ-wide figures on Thursday.

Activity currencies were mixed, as NZD was the clear outperformer, while AUD and GBP were flat, and CAD saw losses. The former saw notable gains against the Buck, highlighted by NZD/USD hitting a high of 0.6207, although there appeared no fundamental driver behind the Kiwi's strength. Meanwhile, AUD/NZD hit lows of 1.0880 from highs of 1.0946 ahead of NZ building consent data. Although, its gains in AUD/NZD terms may have been down to AUD/USD caution on approach to 0.6750 awaiting Aussie CPI, GDP and Chinese PMIs. AUD/USD briefly topped 0.6750, but as the Dollar saw gains in the latter end of the session the Aussie gave up the strength.

The Pound ended flat after initially seeing strong gains, highlighted by Cable hitting an early high of 1.2143 as it continued to be boosted by optimism surrounding the Brexit deal. However, as the session drew to a close Sterling pared its gains amid the Dollar strength and month-end selling. Note, BoE's Mann spoke but said nothing of importance. Note late reports in the FT that the Treasury is looking at a U-turn on planned cut to UK energy subsidies which will likely garner attention on Europe's return on Wednesday.

The Loonie, albeit belatedly, was clearly weighed on by weak Canadian data as annualised Q4 GDP came in unchanged, against an expected rise of 1.5%, while M/M GDP unexpectedly fell. Since the data USD/CAD has been grinding out fresh session highs with the current peak at 1.3632 ahead of February Canadian S&P Global Manufacturing PMI. The Loonie weakness comes in spite of the strength in oil prices.

Safe Havens were mixed, as CHF was the G10 underperformer while the Yen was flat. The Franc fell foul to the resurgent Buck later in the session, which pushed USD/CHF to above the key 0.9400 to highs of 0.9423 ahead of Swiss retail sales, but post-mixed GDP and KOF surveys. Meanwhile, USD/JPY traded between 135.75-136.93, and technicians noted the trend high was reversed by key resistance, rates and risk flows, with the 100 and 200 DMA within close proximity at 136.98 and 13719, respectively. There were further dovish remarks from the BoJ deputy nominees on Tuesday.

EMFX: CZK extended gains against the EUR and its CEE with fuel from stronger than expected Czech PPI and the HUF lost momentum following another on-hold rate verdict by the NBH and unchanged guidance. Elsewhere, the ILS was choppy either side of a significant tech pivot and wary of comments from Israel's Finance Minister on the budget and judicial reform (0.9% deficit of GDP set for 2023, 0.8% in 2024, with the Budget director adding that Israel needs responsible fiscal policy that is not contrary to monetary policy that aims to rein in inflation), and the CNH was topped and tailed by DMAs ahead of China's official NBS and Caixin manufacturing PMI. ZAR saw slight gains against the Greenback in spite of further Eskom load shedding. Lastly, BRL was the EM underperformer against the Buck, as Brazil's Finance Minister Haddad announced oil export taxes in efforts to strengthen the budget.