US Market Wrap

2nd March 2023: Dovish Bostic reverses earlier stock losses but bonds unmoved

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Bostic talks of a pause; Waller touts higher terminal rate; Q4 labor costs revised higher, productivity falls; Jobless claims remain tight; Hot EZ inflation confirmed; Stellar CRM earnings; China to raise growth forecasts; ECB minutes reveal little new.
- **COMING UP**: **Data**: Chinese Caixin Services PMI, German Trade Balance, EZ/UK/US Composite & Services PMIs, US ISM Services **Speakers**: Fed's Logan, Bostic, Bowman, Barkin; ECB's de Guindos **Earnings**: Lufthansa, Pearson, Rightmove.

MARKET WRAP

Stocks were firmer on Thursday after "pause" chatter from Fed's Bostic unwound earlier losses, taking the SPX within spitting distance of the 4k level. The non-voter's remark about the Fed potentially being able to pause in mid-to-late summer, alongside some pushback on a 50bps hike, was enough to take the major indices into the black. Before then, risk assets were on the back foot out of Europe, and then accentuated by the seventh consecutive sub-200k print in weekly initial US jobless claims and the chunky upward revision in Q4 Labor Costs, keeping pressure on stocks and bonds (and the Fed). The Dollar was bid on the US data, taking the DXY to peaks of 105.18 before paring back beneath the round figure after dovish Bostic. The Treasury curve bear-steepened off its most-inverted levels, with the whole curve now trading above 4% - noteworthy that the Bostic comments didn't sustain much of a bid for USTs as they did for stocks. Oil prices were little changed with the hot China PMI data earlier in the week provided support in the face of the Dollar bid; energy newsflow was light.

FED

Bostic (non-voter) was dovish. He said he is firmly in favour of a 25bps hike path and even said we could be in a position to pause by mid-to-late summer, noting policy should begin to "bite" in the Spring. He also considers risks are now roughly balanced. He said it is appropriate to be cautious so the Fed does enough to control inflation but does not do more than we need to do. He noted we have seen some "attenuation" of inflation, and he did suggest the Fed may have to do more given high inflation and a strong jobs market but he will not decide on the proper policy path until the March meeting. Bostic's reasoning behind 25bp moves was that slow and steady changes should reduce the risk of a hard outcome, but noted we will need to have some kind of slowdown in the labour market, but not a catastrophic fall. Bostic said his business contacts noted demand is strong and concerns are more macro-related than specific to their firms. They also are expecting to ratchet down the pace of wage increases, but still plan to add workers.

Waller (voter) said the Fed may need to raise rates beyond December's central tendency view of 5.1-5.4% if the incoming job and inflation data does not pull back from strong readings for January. He stressed his view will depend on the data. Waller added that the data last month challenged his view in January that the FOMC was making significant progress in moderating activity and reducing inflation, while recent data has shown the labour market is tightening and progress on reducing demand may have stalled. He added recent data indicates we have not made as much progress on inflation as thought and underscores the view that the fight to bring inflation down to target will be slower than many expected just a month or two ago. However, he suggested there are some reasons for optimism, such as the sharp deceleration in rent increases, adding it may be that last month's data releases 'were a blip' and coming data will show activity and inflation resumed their decline.

Collins (non-voter) said how many more rate hikes depend on incoming data; need some additional hikes to curb inflation.

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JOBLESS CLAIMS: Jobless claims data continued to signal a tight labour market with the weekly claims at 190k, down from the prior 192k and beneath expectations of a rise to 195k. The continued claims, which coincides with the BLS survey period, were in line with expectations at 1.665mln, down from the prior 1.660mln. Looking ahead, analysts at

Oxford Economics expect claims to trend higher as the economy slows while the desk reiterates its call for a mild recession later in 2023. The consultancy writes "The jobless claims data continue to tell the same story: The labor market is too tight to help the Fed in its effort to lower inflation and the data leave the Fed on track to raise interest rates at the next three meetings".

LABOUR COSTS/PRODUCTIVITY: US Q4 labour costs were revised higher to 3.2% from the initial 1.1% read, well above expectations for a rise to 1.6%. The increased labour costs add to the inflationary concerns, keeping a wage/price spiral pathway in play, providing no reassurance to Fed officials in their disinflation quest and evidence of the much-touted "bumpy ride". The higher labour costs reflected a 4.9% increase in hourly compensation and a 1.7% increase in productivity. For 2022, unit labour costs rose 6.5%, the biggest increase since 1982, reflecting an increase of 4.7% in hourly compensation and a decrease of 1.7% in productivity, while real hourly compensation fell 2.8%, the largest annual decline since the series began in 1948. Note the 1.7% increase in Q4 productivity was revised lower from the initial 3.0%, lower than the expected 2.6%. Annual average productivity fell by 1.7% from 2021 to 2022, the largest annual decline in the measure since 1974, although that does follow a 4.5% surge in 2020 and 2.2% growth in 2021. The report chimes with the themes in the GDP revisions: softening activity and upward price pressures.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 16 TICKS LOWER AT 110-16

Treasuries bear-steepened off their most-inverted levels after low jobless claims and high labour cost data, capped by dovish Bostic. 2s +1.3bps at 4.902%, 3s +3.3bps at 4.643%, 5s +5.8bps at 4.323%, 7s +7.4bps at 4.242%, 10s +7.7bps at 4.073%, 20s +7.2bps at 4.237%, 30s +6.9bps at 4.022%.

Inflation breakevens: 5yr BEI +5.5bps at 2.632%, 10yr BEI +4.6bps at 2.503%, 30yr BEI +3.5bps at 2.399%.

THE DAY: Sovereign benchmarks were on the backfoot already ahead of the US' arrival on Thursday, with T-Notes selling through the APAC session, finding support at 110-20 at the Tokyo/London handover with the long-end leading; Reuters reports that China is looking to bump up its 2023 GDP target to 6% only supported the steepening. The contracts had been paring somewhat later in the European morning - the hot EZ-wide inflation figures were already priced in from earlier in the week - to hit resistance at 110-30+ before dipping back lower again as US trade got underway. T-Notes dived to fresh lows of 110-13 in wake of the stubbornly low weekly jobless claims data and the sizeable upward revisions to Q4 labor costs, with neither providing any respite for the Fed. T-Notes hovered near lows from there, just managing to stretch out a session low of 110-12+ (cash 10yr yield peaked at 4.091%) heading into the NY afternoon, with curve spreads steepening further as the front end pared some losses, aided by a few 2yr and 5yr block buys. The whole curve found a fleeting bounce in later trade on comments from Fed's Bostic (non-voter) saying the Fed could pause by late-to-mid summer, although the dovish comments failed to sustain much momentum (unlike in stocks, which saw a more sizeable bounce).

AHEAD: Looking to Friday and the week beyond, we get Fed's Logan, Bostic, and Bowman all on Friday, in addition to ISM Services. Otherwise, Dealers will be setting up for next week's 3yr, 10yr, and 30yr auctions ahead of the February NFP report next Friday.

STIRS:

- SR3H3 flat at 94.99, M3 +1bps at 94.595, U3 +2bps at 94.555, Z3 +2bps at 94.69, H4 -0.5bps at 94.96, M4 -4bps at 95.325, U4 -7bps at 95.69, Z4 -9bps at 95.965, H5 -9bps at 96.15, H6 -9bps at 96.44, H7 -10.5bps at 96.515.
- NY Fed RRP op demand at USD 2.192tln (prev. 2.134tln) across 99 bidders (prev. 100).
- US sold USD 76bln of 1-month bills at 4.590%, covered 2.53x; sold USD 61bln of 2-month bills at 4.655%, covered 2.79x.
- US announced a USD 3bln cut in its 3-month bill auction for next week to USD 57bln amid debt limit constraints, while the 6-month auction size was left unchanged at USD 48bln.

CRUDE

WTI (J3) SETTLES USD 0.47 HIGHER AT 78.16/BBL; BRENT (K3) SETTLES USD 0.44 HIGHER AT 84.75/BBL

Oil prices were slightly higher on Thursday, with energy catalysts on the light side as the stronger Dollar capped recent bullish momentum. The benchmark futures marked a tight range, where despite the rip higher in the Dollar on hawkish US data (low jobless claims and high Q4 labour costs), oil prices failed to pick up selling momentum. In the absence of fresh newsflow in the energy space, desks instead drew attention to the strong Chinese PMI data from earlier in the week as keeping the market buoyed. While not market-moving, note Reuters reports Thursday that Russian oil product exports from the Tuapse port tumbled 23% in February vs the initial plan amid stormy data. While for nat gas watchers, Refinitiv data noted Freeport LNG export plant had hit 1.2bcf of natural gas being pulled in; Freeport has recently said it plans to hit 2bcf in the "coming weeks".

EQUITIES

CLOSES: SPX +0.76% at 3,981, NDX +0.89% at 12,045, DJIA +1.05% at 33,003, RUT +0.22% at 1,903

SECTORS: Utilities +1.82%, Technology +1.26%, Real Estate +1.22%, Consumer Staples +1.21%, Materials +1.2%, Industrials +1.2%, Communication +1/1%, Energy +0.84%, Health Care +0.58%, Consumer Discretionary -0.32%, Financials -0.53%.

EUROPEAN CLOSES: EURO STOXX 50 +0.59% at 4,240, FTSE 100 +0.37% at 7,944, DAX 40 +0.15% at 15,327, CAC 40 +0.69% at 7,284, FTSE MIB +0.30% at 27,397, IBEX 35 +0.05% at 9,327, SMI +1.03% at 11,170.

EARNINGS: **Salesforce (CRM)** issued a stellar report; beat on the top and bottom line alongside boosting its share buyback programme to USD 20bln. Guidance for the next quarter and FY was better-than-expected. **Macy's (M)** posted a strong past quarter highlighted by a beat on SSS, EPS and revenue alongside a strong FY23 profit view. Although, FY23 revenue and Q1 EPS view were light. **Best Buy (BBY)** FY guidance for EPS and revenue was light and expects SSS to decline 3-6% for the year amid the macro environment. Do note, its quarterly earnings beat estimates. **Kroger (KR)** topped consensus on profit alongside a strong FY guide. Although, revenue missed and said it is pausing share buybacks programme to prioritise de-leveraging following the proposed merger with **Albertsons (ACI)**. **Hormel Foods (HRL)** earnings disappointed; missed on profit and revenue alongside weak FY EPS guide. **Okta (OKTA)** exceeded consensus on the top and bottom line, while the outlook for both next quarter and FY was strong.

STOCK SPECIFICS: **Silvergate Capital (SI)** said it was evaluating its ability to survive as a going concern; would not be able to file its annual report on time due to a further weakening in its capital position since last month when it reported Q4 earnings. **Tesla (TSLA)** plans to cut assembly costs by half in future generations of cars, but overall analysts noted that its investor day was light on details about both new car models and its outlook. Dan Loeb's Third Point took a passive stake in AMD (AMD), according to CNBC. Citi (C) is to cut hundreds of jobs within investment banking and mortgages, according to Bloomberg. **Blackstone (BX)** defaulted on EUR 531mln of CMBS after property sales were delayed, according to Bloomberg, although BX say it is just a small portion of the Sponda portfolio. EU antitrust regulators are not expected to demand **Microsoft (MSFT)** to sell assets in **Activision (ATVI)** deal; regulators' concerns likely to be addressed with MSFT licensing deals with rivals and other behavioural remedies, according to Reuters sources. **ON Semiconductor (ON)** was downgraded at Raymond James; said it sees near-term headwinds, while also noting the stock's valuation is currently above historical levels. **Radius Global Infrastructure (RADI)** is to be acquired by EQT's for USD 15.00/shr in cash. Note, RADI closed Wednesday at USD 13.90/shr. **Ford (F)** plans to restart production of the electric F-150 lightning on March 13th. Bearcave were negative on Symbotic (SYM), while Grizzly Research was negative on **ZTO Express (ZTO)**. **ESPN (DIS)** is looking at live sports streaming, according to CNBC.

AI: **Apple (AAPL)** has reportedly delayed the approval of an email-app update with AI-powered language tools over concerns that it could generate inappropriate content for children, according to WSJ. Note, the article is seen as a negative for OpenAI's ChatGPT, therefore also of note for **Microsoft (MSFT)**, who invested USD 10bln into OpenAI, while **Nvidia (NVDA)** are also seen as a key beneficiary of Open AI. Meanwhile, **Google (GOOGL)** is working on its own AI software, Bard.

US FX WRAP

The Dollar was bid Thursday, taking the DXY briefly above 105 to top out at 105.18 ahead of resistance of c. 105.30. Data was hawkish with jobless claims remaining sub-200k again at 190k, edging lower from the prior weak while the labour cost data in Q4 was revised higher, with productivity revised lower, similar to what was seen in the Q4 GDP revisions. The buck came off its highs later on in wake of dovish commentary from Fed's Bostic (non-voter) who spoke of a potential pause from mid-late summer, but he did warn the Fed may have to do more on the peak rate, but he is firmly in the camp of 25bp hikes from hereon.

The Euro was weaker due to the rally in the Dollar with UST yields rebounding across the curve with all maturities now above 4%. The move comes despite the hotter-than-expected EZ inflation data in the morning, albeit confirming what was seen in the individual country inflation reports earlier in the week while Bund-UST spreads widened. The strength in the greenback saw EUR/USD lose hold of 1.06 from highs of 1.0672, albeit paring back towards the level in later trade. The inflation data led to several banks revising their ECB terminal rate calls higher, Barclays for example sees the terminal rate at 4.0% in July following a 50/50/25/25bps hike path. The latest ECB minutes saw little new information and was very in fitting with recent ECB official commentary.

The Yen saw weakness vs the Dollar with USD/JPY rising from lows of 136.03 to highs of 137.09 with earlier weakness seen on the back of source reports that the BoJ is said to prefer watching how the impact of earlier policy tweaks works out for now, while BoJ's Takata said he does not see a need now to take additional steps to improve market functionality and will need time to gauge the impact of the December measures. He did add that for now, the benefits of easy policy exceed the costs.

The Yuan gave up some of its post-PMI gains as the Dollar regained some ground, which in turn added extra pressure to the Euro. USD/CNH traded either side of the 200dma (6.9142), although the pair did find support around the 6.90 area several times during the session. Note, the strong China economic data the day Wednesday led to Reuters source reports that China could upgrade its growth forecasts this weekend at the National People's Congress annual meeting to as high as 6%.

Cyclicals were lower, with weakness predominantly seen in GBP and NZD with Cable losing 1.20 while NZD/USD tested 0.6200 but failed to fall beneath the round figure. AUD also saw weakness, but not to the same extent as the Aussie despite the tumbling building approvals data overnight for January while New Zelaand saw robust trade data. AUD/NZD traded between 1.0806 and 1.0833. CAD however was flat ahead of the BoC rate decision next week while oil prices were choppy, albeit settled in the black despite a choppy risk environment.

EMFX was generally weaker with MXN and BRL lower vs the buck, as was CLP although COP found gains. ZAR was also weaker, while TRY was flat. The moves were primarily a function of the Dollar strength while the Mexican President announced they will launch an anti-inflation plan with Latin American countries, noting he has spoken with Brazil, Columbia, Cuba and Argentina. The plan seeks to remove tariffs and barriers that prevent obtaining food at a good price for the domestic market. In Mexico specifically, the jobless rate in January rose to 3.0% from 2.8%, but it was not as high as the expected 3.1%, while in Brazil Q4 GDP fell short of expectations, seeing MXN outperform BRL. The Brazil IPC-Fipe Inflation index also cooled in February. Note Finance Minister Haddad spoke again, saying the ministry would finish working on a new fiscal framework this week and present it to President Lula. For the COP, Capital Economics wrote the currency is expected to outperform other major EM currencies over the next few years, stating high crude prices in 2024 will support its trade while policy in Columbia will likely remain restrictive for longer. CLP was marginally weaker on Thursday as copper prices gave back some recent gains.