US Market Wrap

3rd March 2023: Stocks and Bonds ramp into the weekend as shorts cover

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Hot ISM Services; Conflicting UAE OPEC leaving reports; AI report stellar earnings; AAPL supplier FXCOF planning Indian plant shift from China; Fed's semi-annual report offers little new.
- **COMING UP**: **Data**: Swiss CPI, EZ Sentix, Retail Sales, US Factor Orders **Speakers**: ECB's Lane.
- **CENTRAL BANK WEEKLY**: Previewing Fed's Powell, RBA, BoC, BoJ; reviewing ECB minutes. To download the report, please click here.
- **WEEK AHEAD**: Highlights include Fed's Powell, US NFP; China Two Sessions, CPI; RBA, BoC, BoJ. To download the report, please click here.

MARKET WRAP

Stocks and bonds crescendoed through the session on Friday in lack of an obvious catalyst, while the Dollar closed near lows. The duration appetite kicked off in the European morning, but also carried through the US session - note that big tech led the strength in US stocks. There was a brief pullback in bonds after the US ISM Services came in hotter-than-expected, but Treasuries ultimately went on to print new highs into the close, with the cash 10yr yield back beneath 4%. There was little notable Fed Speak with remarks from Bowman and Logan on non-policy topics, although we did get the Fed's semi-annual report ahead of Powell testifying in Congress next week, although that was in fitting with recent Fed comms and didn't cause any reactions. Oil prices went on a journey with initial knee jerk downside on WSJ reports that the UAE is mulling pulling out of OPEC amid a feud with Saudi, although prices reversed into the black after Reuters sources swiftly denied the reports. Elsewhere, ahead of official February consumer data, Visa (V) reported US payments volumes were up 11% Y/Y in Feb. While Apple (AAPL) was in focus amid reports it is building a new factory in India, whilst expanding iPhone production at an existing plant in the country.

US

ISM SERVICES: The headline ISM services cooled less than expected in February, falling to 55.1 from 55.2 in January, better than the expected 54.5. The components saw prices paid pace cool to 65.8 from 67.8, albeit it still remains elevated and shows that prices are still rising, just at a lower rate. Employment rose to 54 from 50.0, matching the highest since March 2022 and therefore showing more signs of a tight labour market. New orders accelerated to 62.6 from 60.4 but business activity slowed to 56.3 from 60.4. The report is a strong one and although the prices paid component decelerated in February, it still remains at elevated levels and given the stronger than expected headline, the strong services activity may lead to a slower decline in prices with demand for services still high. Note, price increases were widespread with sixteen services industries reporting an increase in prices paid during the month of February. Meanwhile, the employment index hit its highest level since March 2022. Analysts at Oxford Economics expect the economy to maintain the positive momentum in coming months before suffering a mild recession in the latter half of the year. The consultancy notes " Demand is holding up fairly well, and Fed rate hikes haven't significantly slowed growth, but we think these dynamics will change". OxEco adds its "recently launched Business Cycle Indicator shows the economy has already turned a corner".

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 19 TICKS HIGHER AT 111-03

Treasuries bull-flattened Friday with hot ISM Services brushed aside as curve retests its most inverted levels. 2s -4.3bps at 4.861%, 3s -4.5bps at 4.598%, 5s -6.9bps at 4.255%, 7s -9.0bps at 4.151%, 10s -10.6bps at 3.967%, 20s -11.9bps at 4.117%, 30s -13.2bps at 3.890%.

Inflation breakevens: 5yr BEI +6.3bps at 2.703%, 10yr BEI +3.2bps at 2.538%, 30yr BEI +0.3bps at 2.398%.

THE DAY: Treasuries were already bull-flattening entering the NY handover, with earlier upside kickstarting into the European session - in part aided by the 6k TY/1.8k UB block flattener - but also by the softer Jan. EZ PPI data, with short-covering also cited into the weekend. T-Notes hit resistance at 111-03 before dipping to 110-21 after the strong

ISM Services data, although the front-end led the pullback, only adding to the curve's inversion. As the dust settle from the hot data, bidders returned across the curve into the NY afternoon, ultimately seeing T-Notes stretch a fresh session high at 111-03+.

NEXT WEEK: Dealers will be setting up for the 3yr (Tues), 10yr (Weds), and 30yr (Thurs) auctions ahead of the February NFP report on Friday, with Fed's Powell testifying in Congress on Tues and Weds; ADP and JOLTS on Weds also of note. Ex-US, (Mon) EZ retail sales; (Tues) China trade, RBA; (Weds) BoC; (Thus) China inflation; (Fri) Canada jobs, BoJ.

STIRS:

- SR3H3 -0.3bps at 94.9875, M3 flat at 94.595, U3 +1.5bps at 94.565, Z3 +2.5bps at 94.715, H4 +4.5bps at 95.01, M4 +7bps at 95.40, U4 +9.5bps at 95.785, Z4 +11bps at 96.075, H5 +10bps at 96.25, H6 +8.5bps at 96.52, H7 +10bps at 96.615.
- In options, desks flagged a near 100k SR3U4 100.50/99.50/98.50 put fly trade for 0.5 - seemingly a ZIRP hedge.
- NY Fed RRP op demand at USD 2.186tln (prev. 2.192tln) across 103 bidders (prev. 99).

CRUDE

WTI (J3) SETTLED USD 1.52 HIGHER AT 79.68/BBL; BRENT (K3) SETTLED USD 1.08 HIGHER AT 85.83/BBL

Oil prices were ultimately firmer Friday after back-and-forth OPEC sources shenanigans accentuated by risk-on sentiment. WTI and Brent printed session lows of USD 75.83/bbl and 82.36/bbl, respectively, after WSJ sources noted that UAE is having an internal debate about leaving OPEC, as once close friends (Saudi & UAE) the two biggest Arab economies are increasingly competing for money and power. However, no less than an hour later, Reuters sources added that the report that UAE is considering leaving is "far from the truth", which saw oil pare the losses. In wake of this, and as risk sentiment improved, WTI and Brent rallied through the rest of the session, settling at highs and sitting firmer on the week. Elsewhere Friday, Reuters reported oil loadings from Russia's Novorossisk port set at 2.18mln T for March (prev. 2.38mln T in Feb.). Separately, Russia plans to mothball damaged Nord Stream gas pipelines amid little prospect of relations improving between itself and the West, according to Reuters sources. Lastly, the US Baker Hughes rig count for w/e March 3rd saw Oil -8 at 592, Nat Gas +3 at 154, and Total -4 at 749.

EQUITIES

CLOSES: SPX +1.61% at 4,045, NDX +2.04% at 12,290, DJIA +1.17% at 33,390, RUT +1.35% at 1,928.

SECTORS: Technology +2.14%, Consumer Discretionary +2.12%, Communication Services +2.09%, Utilities +1.75%, Real Estate +1.74%, Financials +1.59%, Materials +1.39%, Energy +1.28%, Health +1.16%, Industrials +1.06%, Consumer Staples +0.07%.

EUROPEAN CLOSES: EURO STOXX 50 +1.28% at 4,294, FTSE 100 +0.04% at 7,947, DAX 40 +1.64% at 15,578, CAC 40 +0.88% at 7,348, FTSE MIB +1.56% at 27,825, IBEX 35 +1.47% at 9,464, SMI +0.20% at 11,187.

EARNINGS: **C3.ai (AI)** posted a shallower loss per share than expected and beat on revenue; FY23 and next quarter revenue guide was solid. Exec said that as it enters the next quarter, it is seeing tailwinds from improved business optimism and increased interest in applying C3 AI solutions, adding that overall business sentiment appears to be improving. **Broadcom (AVGO)** posted a strong report; beat on EPS and revenue alongside solid top line guidance for the next quarter. Exec said that Q1 performance reflected continued strength in infrastructure demand across all our end markets. Expects AI-related tailwinds to drive networking revenue to grow another +20% Y/Y. **Marvell Technology (MRVL)** marginally missed on profit but slightly beat on revenue; but, next quarter guidance disappointed. **Zscaler (ZS)** posted a decent report; top and bottom line beats alongside raising FY23 EPS and billings outlook. However, several analysts pointed to billings guidance as a sign of weakness, with Stifel analyst saying that the guidance was "muted". **ChargePoint (CHPT)** reported a deeper loss per share than expected and missed on revenue alongside weak guidance. **Hewlett Packard Enterprise (HPE)** surpassed analyst expectations on profit and revenue; outlook for both the next quarter and FY was strong. **Dell Technologies (DELL)** surpassed St. expectations on the top and bottom line; raised annual cash dividend +12% to USD 1.48/shr. Q1 EPS view short.

STOCK SPECIFICS: China CPCA said **Tesla (TSLA)** sold 74,402 China-made vehicles in February (prev. 66.1k in Jan.), +32% Y/Y. **Apple (AAPL)** supplier **Foxconn (FXCOF)** is planning a USD 700mln Indian plant in a shift from China. Later, WSJ sources added, Foxconn is set to expand Apple iPhone production at an existing plant in Tamil Nadu, India. **Visa (V)** US payments volume +11% Y/Y in Feb.; Jan and Feb cross-border volume into and from our Asia-pacific region continued to improve relative to 2019 levels. **Amazon (AMZN)** pauses construction on second HQ in Virginia, according to Bloomberg; report notes the move coincides with biggest job cuts ever and remote work reality. **Meta (META)** CEO said lowering price of leading VR headsets: Quest Pro to around USD 999 and Quest 2 256GB to around USD 429. India's **Indigo (INGL IS)** is said to be in talks with **Boeing (BA)**, and existing supplier **Airbus (AIR FP/EADSY)** over major new aircraft order, according to Reuters sources; order could be for over 500 jets, setting a new industry record. **Apple (AAPL)** Cloud chief Michael Abbott to step down in April, according to Bloomberg.

WEEKLY FX WRAP

Buck bolstered by broadly upbeat US services ISM

USD - A hectic run-in to month end and first few sessions of March, dominated by the ongoing rout in debt markets that propelled yields even higher and the entire US Treasury curve beyond 4% at one stage. However, the 10 year benchmark lost a bit of upside momentum after peaking or peeking just over 4.09% and the long bond never really gleaned any traction above the psychological level to the detriment of the Dollar and benefit of risk sentiment in general. In fact, the DXY reached its pinnacle on Monday within a 105.359-104.094 range amidst mild-to-moderate buy signals from a couple of bank rebalancing models and was flagging on the last trading day of February until a late bounce from the aforementioned low that was attributed to residual end of month demand. The Greenback was undermined by a weaker than forecast Chicago PMI and surprise deterioration in consumer confidence, but regrouped over the next two sessions with assistance from hawkish comments made by Fed's Kashkari and Waller, plus much hotter than expected prices paid in the manufacturing ISM, a sharp upward revision to Q4 unit labour costs (double consensus and almost three times above the preliminary estimate) and another dip in weekly jobless claims. Nevertheless, the index never managed to maintain recovery momentum or sustain rebounds through 105.000 and was waning again before the services ISM topped consensus in headline terms and came with rises in new orders and employment to counter slowdowns in business activity and prices paid, albeit latter still lofty at 65.6 from 67.8 previously.

JPY/CHF/GBP/AUD - Some respite for the funding currencies after paying a hefty premium when rates were racing and JGB-Conf/UST spreads were diverging alongside BoJ-SNB/Fed policy perceptions. However, the Yen and Franc are still softer vs the Buck between 137.09-135.27 and 0.9440-0.9342 respective parameters as guidance from present and incoming BoJ Board members signals no intent to shift out of ultra-easy mode and expectations for the forthcoming SNB Quarterly Review centre around a 25 bp hike. Elsewhere, Sterling has been on a roller-coaster ride via the early euphoria emanating from a new NI Protocol deal, doubts raised about the Windsor Framework by the DUP in context of meeting its seven tests, and then remarks from BoE Governor Bailey that seeming leaves the door ajar for the MPC to pause or continue tightening later this month. On top of all that, final UK PMIs were tweaked up from already better than anticipated, if not quite flash levels, while inflation expectations were downgraded in February's monthly BoE Decision Maker Panel survey findings. Cable peaked circa 1.2143 and troughed around 1.1923 where the 200 DMA propped the Pound from a technical perspective and the Eur/Gbp cross topped and tailed either side of 0.8896-0.8756 extremes. Similarly, the Aussie saw volatility within a wide 0.6783-0.6696 band against its US peer and was faced with mixed data in advance of the upcoming RBA policy meeting that most see culminating in another ¼ point hike, but prospects of a pause were perhaps heightened by a more pronounced than expected slowdown in January CPI, weaker than forecast real Q4 GDP (q/q basis) and a collapse building approvals for January.

EUR - The Euro has been pegged near 1.0600 vs the Dollar for large parts of the week after fading just ahead of 1.0700 and bouncing firmly from a sub-1.0500 base, with the help of strong Eurozone inflation metrics to overshadow very contrasting PMIs and data, such as an export-swelled German trade surplus and big French industrial output miss, but also mainly hawkish ECB rhetoric from various GC members, including President Lagarde and minutes from last month's meeting. However, Friday's significantly cooler EZ PPI readings put a lid on Eur/Usd.

CAD/NZD/SEK/NOK - Disappointing Canadian macro releases, bar a more buoyant manufacturing PMI, weighed on the Loonie to the extent that resurgence in WTI hardly hampered Usd/Cad's climb or rebound towards 1.3659 from 1.3535 low on the premise that stagnation in Q4 GDP (q/q annualised terms) compared to 1.5% growth anticipated will provide further justification for the BoC hold rates next Wednesday. Conversely, or perversely the Kiwi failed to derive enough thrust from a few upbeat NZ data points and surveys, like improvements in ANZ business outlook and own activity indices and healthy Q4 terms of trade, to maintain elevation vs the Aussie or Greenback when the going was good between 0.6275-0.6132 and 1.0797-1.0946 bands. However, its ultimate lag on the Aud/Nzd cross might have been down to its neighbour extracting more positives from the Yuan's revival post-robust Chinese PMIs and pre-China's Two Sessions event that is widely tipped to feature a much stronger 2023 growth target than the one set last November. Turning to the Scandi Kronas, and a bleak week was crowned by some bad data on top of contractionary Swedish and Norwegian PMIs.

EM - The Cny and Cnh staged strong comebacks against the Usd after keeping afloat of 7.0000 with the prop of DMAs, punchy Chinese PMIs and the prospect of a supportive Two Sessions outcome, while the Mxn put in a strong performance, also on bullish chart impulses, the Huf outflanked its CEE rivals after the NBH reiterated its keeping rates high for longer message, but the Brl was embroiled in more Brazilian Government meddling with BCB autonomy and the Try was jittery about forthcoming Turkish elections and earthquake issues, with weaker than forecast CPI effectively passing without notice.