US Market Wrap

6th March 2023: Hawkish ECB and pre-Powell positioning sees stocks and bonds fade initial gains

- **SNAPSHOT**: Equities flat, Treasuries down, Crude up, Dollar down.
- **REAR VIEW**: ECB's Holzmann calls for four more 50bps hikes; Soft-leaning Chinese GDP targets; US factory orders slightly better than feared; JBLU/SAVE deal faces DoJ antitrust suit; TSLA cuts US Model X & S prices.
- **COMING UP**: **Data**: Australian Trade Balance, Chinese Trade Balance **Event**: RBA Policy Announcement **Speakers**: Fed's Powell, ECB's de Cos **Supply**: UK, Germany & US.
- **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

The major indices were subdued on Monday, unwinding earlier strength that was initially underpinned by Big Tech appetite, masking broader market weakness, particularly in small-cap/value. Real-economy-levered stocks, i.e. the Russell 2k, were pressured from the get-go after China set its 2023 GDP target at 5%, which was on the softer side of expectations, hurting global growth prospects. In FX, the GDP targets weighed on the Yuan and Antipodes, although the DXY was softer with the Euro surging on hawkish ECB speak, with Nomura out ramping its ECB terminal rate forecast to 4.25%, with most of the street having only just raised their forecasts to 4%. Treasuries were initially firmer, extending on their Friday bull-flattening before paring in sympathy with EGBs on hawkish ECB momentum and as a heavy slew of corporate debt supply added supply pressures ahead of this week's 3s, 10s, and 30s auctions, in addition to positioning for Fed Chair Powell's testimony in Congress on Tuesday and Wednesday. The move back higher in yields added to the pullback in stocks into the close too.

GLOBAL

CHINA NPC: China set a modest economic growth target of about 5% for 2023 (exp. 5.0-5.5%), the slowest growth target in over two decades, and CPI around 3% (target unchanged vs 2022). SocGen said while the growth view may seem underwhelming, it may be a strategy of ‘aim low and overachieve’ by the upcoming new government team, rather than lack of confidence among policymakers. “The Government Work Report does indeed set economic growth and job creation as the top priorities, but there is no visible step-up in either fiscal or monetary easing,” SocGen writes, “despite a smaller broad deficit ratio, we see two big positive developments on the fiscal front: 1) this year’s fiscal resources will be used to support the real economy, rather than zero-COVID measures; and 2) the central government is finally willing to borrow more.” The bank adds that “the biggest stimulus to the Chinese economy this year will be the end of zero-COVID and COVID, and the second biggest is a more pragmatic policy stance toward real estate and internet platforms, which is reconfirmed in the NPC reports.”

RBA PREVIEW: The RBA is expected to raise the Cash Rate Target by 25bps to 3.60%, as forecast by 27/28 economists surveyed by Reuters, while money markets price in a 74% probability for an increase. The central bank signalled further hikes at the last meeting which spurred an upward adjustment in estimates for the peak rate to 3.85%, while some are calling for rates to reach 4.10% Recent data has been soft, but unlikely to prompt the RBA to pause at this meeting. To download the full Newsquawk preview, please click here.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 3+ TICKS LOWER AT 110-31+

Treasuries were softer Monday after initial China-led bull-flattening unwound on hawkish ECB rhetoric and supply pressures ahead of Powell. 2s +3.3bps at 4.895%, 3s +2.4bps at 4.622%, 5s +1.9bps at 4.272%, 7s +1.7bps at 4.168%, 10s +2.4bps at 3.987%, 20s +3.1bps at 4.146%, 30s +3.1bps at 3.918%.

Inflation breakevens: 5yr BEI -2.2bps at 2.680%, 10yr BEI -1.8bps at 2.520%, 30yr BEI -1.9bps at 2.382%.

THE DAY: Treasuries entered the US Monday session on the up, extending on Friday's strength as the long-end led the curve to its most inverted levels of the cycle: 2s10s -94bps and 2s30s -101.5bps. The duration bid was being driven by dimmed global growth expectations after China set its GDP target (5%) at the lower end of expectations over the weekend. However, EGBs had started to pullback after ECB's Holzmann, via Handelsblatt, called for rates to be raised by 50bps at each of the next four meetings and suggested a restrictive policy rate would start at around 4% - Nomura since came out with a street-topping terminal rate forecast of 4.25%. In lack of major US data, T-Notes took their cues from EGBs and unwound all their strength through the NY morning. Aiding the move lower was the chunky slew of corporate issuers tapping the Dollar IG primary debt markets, adding to this week's Treasury auctions. Meanwhile, desks were also citing positioning ahead of Powell's testimony in Congress on Tuesday and Wednesday.

THIS WEEK: On supply, dealers will be setting up for the 3yr (Tues), 10yr (Weds), and 30yr (Thurs) auctions. The highlight this week will be 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, (Tues) China trade, RBA; (Weds) BoC; (Thurs) China inflation; (Fri) Canada jobs, BoJ.

STIRS:

- SR3H3 -1.5bps at 94.973, M3 -3bps at 94.565, U3 -3.5bps at 94.53, Z3 -4bps at 94.675, H4 -2bps at 94.99, M4 -1.5bps at 95.39, U4 -0.5bps at 95.785, Z4 flat at 96.075, H5 +0.5bps at 96.255, H6 +2bps at 96.54, H7 +1bps at 96.62.
- US EFFR remained at the lower 4.57% rate on March 3rd (has typically been 8bps above FFR floor for months, now just 7bps).
- NY Fed RRP op demand at USD 2.191tln (prev. 2.186tln) across 101 bidders (prev. 103).
- US sold USD 61bln of 3-month bills at 4.765%, covered 2.93x; sold USD 51bln of 6-month bills at 4.970%, covered 2.80x.

CRUDE

WTI (J3) SETTLED USD 0.78 HIGHER AT 80.46/BBL; BRENT (K3) SETTLED USD 0.35 HIGHER AT 86.18/BBL

Oil prices settled modestly firmer on Monday after initial downside on soft-leaning Chinese GDP targets unwound with risk appetite and the softer Dollar. Global growth expectations were dimmed after the weekend saw China set its 2023 GDP target at 5%, which was on the weak side of expectations. Saudi Arabia raising most of its official selling prices for April likely capped some potential downside. Oil prices found session lows ahead of the US' arrival at USD 78.32/bbl and 84.34/bbl for WTI and Brent front-month futures, respectively. The uptick in risk sentiment in the NY morning, and the softer Dollar, saw WTI and Brent unwind losses to go on to settle at highs, and now the highest since mid-February. Perhaps also a factor in the recovery was the latest Goldman Sachs note calling for Brent to grind higher this month and reach USD 100/bbl in December.

CERAweek: We can expect a slew of commentary from the energy sector this week, both governments and corporates - Click here for the schedule. Monday saw the Gunvor CEO speaking, noting that oil market fundamentals are not tight any more but sees potential for higher oil prices in the second half of the year on rising Chinese demand. The energy trader said Russian oil cuts had not been seen in the market, saying price caps and export bans have not disrupted Russian flows, with products seeming to find their way onto the market.

EQUITIES

CLOSES: SPX +0.07% at 4,048, NDX +0.10% at 12,302, DJIA +0.12% at 33,431, RUT -1.48% at 1,899.

SECTORS: Technology +0.53%, Communication Services +0.45%, Utilities +0.43%, Consumer Staples +0.33%, Energy +0.1%, Financials +0.05%, Health -0.06%, Industrials -0.2%, Real Estate -0.4%, Consumer Discretionary -0.71%, Materials -1.65%.

EUROPEAN CLOSES: EURO STOXX 50 +0.44% at 4,313, FTSE 100 -0.22% at 7,929, DAX 40 +0.48% at 15,653, CAC 40 +0.34% at 7,373, FTSE MIB +0.45% at 27,949, IBEX 35 +0.49% at 9,511, SMI -0.37% at 11,149.

STOCK SPECIFICS: A new issue with a software programme is delaying deliveries of some **Boeing (BA)** 737 MAX by up to a year, joint reporting by Leeham News and Airfinance Journal says. **Tesla (TSLA)** cut prices of Model X AWD and Model X Plaid by USD 10,000, and Model S AWD and Model S Plaid by USD 5,000. Separately, Tesla's new factory in

Nuevo Leon, Mexico could start producing cars as early as next year, according to NY Times. **Apple (AAPL)** initiated with a Buy rating at Goldman Sachs; price target USD 199; said Apple could get a big boost from its services business. **NVIDIA (NVDA)** plans to sell technology to China's Huawei would be thwarted if the US government proceeds with a proposal to further restrict shipments to the blacklisted company. **Norfolk Southern Corporation (NSC)** had a second NSC train derail in Ohio, NYT reports; although no hazardous materials were leaked and no injuries reported, the crash on Saturday renewed questions about rail safety, just over a month after the East Palestine derailment. **BridgeBio Pharma (BBIO)** announced positive results from PROPEL2, a Phase 2 trial of the investigational therapy infigratinib. **Ciena (CIEN)** posted a strong report; highlighted by a beat on the top and bottom line alongside raising FY revenue view. **Qualtrics (XM)** received an acquisition proposal from Silver Lake Management of USD 18.15/shr in cash; closed Friday at USD 17.13/shr. **KB Home (KBH)** double downgraded at JPMorgan; cited the stock's expensive valuation. **Vir Biotechnology (VIR)** upgraded at JPMorgan; said Vir has long-term pipeline opportunities across numerous disease indications. **Merck (MRK)** said experimental therapy, sotatercept, helped increase exercise capacity in patients with a deadly disease that causes high pressure in blood vessels of the heart and lungs in a late-stage study. **JetBlue (JBLU)** and **Spirit (SAVE)** deal faces DoJ antitrust suit as soon as Tuesday, according to Bloomberg; sources note DoJ sees the deal as uncompetitive. California Governor Newsom said the state will not be doing business with **Walgreens (WBA)**. FTC to challenge **ICE (ICE)** and **Black Knight (BKI)** deal as soon as Thursday this week, according to Bloomberg

US FX WRAP

The Dollar was lower to start the week, albeit in very contained ranges, amid light newsflow as market participants await Fed Chair Powell's testimony to Congress on Tuesday and Wednesday. Aside from this, traders also await US JOLTs on Wednesday and NFP on Friday. As far as Monday was concerned, there was little headline-driven trade out of the US and the Buck derived little traction from factory orders falling a little less than feared in January.

Antipodeans were the G10 underperformers, feeling pressure from the latest soft Chinese GDP target, as the Aussie appeared undermined on the eve of the RBA rate decision (Newsquawk preview available here), highlighted by AUD/USD hitting a low of 0.6717. Regarding the rate decision, RBA is expected to hike rates by 25bps to 3.60% and while recent data has been soft, it is unlikely to prompt the RBA to pause at this meeting. Although, the cross was also down in sympathy with the Yuan as the Kiwi was caught in the cross-fire as AUD/NZD held mostly above 1.0850 with eyes on the round number above.

Loonie and Sterling both saw losses, but not to the extremes of the aforementioned Antipodes, as USD/CAD saw a peak of 1.3628 vs a low of 1.3583, while Cable was in tight parameters of 1.1994-1.2048. The Loonie appeared to be treading water ahead of the BoC rate decision on Wednesday (Newsquawk preview available here), after Canadian Ivey PMIs for February disappointed. Meanwhile, the Pound was uninspired in light of any new fundamental catalyst or anything Sterling specific.

Euro and Swissy were the only G10 currencies to profit off the floundering Buck, as USD/CHF hit a low of 0.9306, but the Swissy could not quite breach 0.9300 to the downside, while printed a session high of 1.0694, but again fell short of the round 1.07. Nonetheless, the single-currency was boosted by hawkish remarks from ECB's Holzmann who called for interest rates to be raised by 50bp at each of the next four meetings, and suggested a restrictive policy rate would start from circa. 4%. In wake of the comments, EGBs unwound all and more of their extended recovery gains. Nomura also came out with a terminal rate forecast of 4.25% in wake of Holzmann's remarks, adding weight to the moves. Meanwhile, Euro crosses also rallied or rebounded firmly in the case of EUR/CHF that was sold in early EU trade when Swiss inflation data came in hotter than expected. However, the Franc remained bid vs its US peer even though EUR/CHF bounced towards 0.9966 from a 0.9924 low. Note, Chief Economist Lane spoke, but he was largely in-fitting with recent communication. ECB's de Cos is due to speak on Tuesday.

Scandis saw weakness against the Greenback, with the NOK underperforming its SEK peer, as the Norwegian Crown appeared rattled by downward revisions to GDP forecasts from the Government. Meanwhile, the Swedish Krona did not get time to appreciate a record Q4 current account surplus given surprisingly dovish views aired by Riksbank Governor Theden in the media on Saturday. Although, the Scandis are off worst levels as the crude complex pared losses to settle in the black.

EMFX was predominantly weaker against the Dollar, with the BRL the clear outperformer seemingly taking advantage of the lower Buck. Finance Minister Haddad was on the wires Monday and said the Treasury is to guarantee debt for lower earners and the Desenrola programme to involve BRL 10bln. In addition, he said President Lula will decide on new central bank directors this month, where the existing chief Neto is taking part in the process - potentially a good sign amid fears of dissolving monetary independence. CNY and CNH weakened in wake of China setting an official growth target for the year at the low end of expectations spanning 5-5%, but stretching to 6% at the lofty end of the range. Lastly, the ZAR was impacted by further Eskom updates, while President Ramaphosa named some of his latest cabinet additions, including the new electricity minister, Ramokgopa, who has been the infrastructure tsar since 2019.

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