US Market Wrap

7th March 2023: Dollar flies and stocks dive after Powell puts 50bps and higher terminal in play

- **SNAPSHOT**: Equities down, Treasuries flatten, Crude down, Dollar up.
- **REAR VIEW**: Powell touts potential 50bp and need for higher terminal rate; Dovish RBA; Decent 3yr auction; Russia plans to cut oil exports from Western ports; Manheim used car price index rises 4.3%; ECB Consumer Expectations fall; China trade surplus widens.
- **COMING UP**: **Data**: German Industrial Output, Retail Sales, US ADP, International Trade, JOLTS, Canadian Trade Balance **Event**: BoC Policy Announcement **Speakers**: Fed's Powell, Barkin; ECB's Lagarde, Wunsch, Panetta; BoE's Dhingra **Supply**: UK, Germany & US.

MARKET WRAP

Stocks tumbled and the Dollar surged on Tuesday after Fed Chair Powell put a 50bps March hike and higher terminal rate in play ahead of the March 22nd FOMC. Treasuries saw pronounced flattening as hawkish Fed pricing saw the curve hit its most-inverted levels in over 40 years, with both the 2s10s and 2s30s spreads falling beneath -100bps as the cash 2yr yield rose above 5% for the first time since 2007. The DXY closed at highs, stretching past its prior YTD high of 105.63 from the early days of January. Oil prices tumbled, closing at lows on both the stronger Dollar and soft China import data. Risk currencies were broadly sold, although the Aussie was a particular underperformer after the RBA statement hinted at a forthcoming rate pause.

FED

POWELL: Fed Chair Powell, in his prepared remarks to Congress, said if incoming data indicates faster tightening is required, the Fed is prepared to increase the pace of rate hikes, warning that the ultimate level of interest rates is likely to be higher than previously anticipated given the string of hot January data. That served as a marked, hawkish shift from Powell's presser at the February 2nd FOMC, where the FOMC minutes revealed, "[many] participants observed that a further slowing in the pace of rate increases would better allow them to assess the economy’s progress", sending yields and the Dollar higher and weighing on stocks given the Fed Chair leaned on the hawkish side of broader commentary from Fed officials in recent weeks. Powell reaffirmed concerns in his remarks that there is little sign of disinflation thus far in the category of core services excluding housing, noting price stability would require a fall in this sector as well as very likely requiring some softening in labour market conditions. Powell's subsequent Q&A, where he was more often than not the subject of a political grilling rather than an economic debate, didn't provide much incremental for market participants, with the Fed Chair sticking largely to status quo Fed commentary, stressing data dependence ahead of the March 22nd FOMC. The kicker from today is that Powell has put 50bps and a higher terminal rate dot meaningfully in play for March, depending on the February data, whereas before the debate was more tangential given Fed Speak on the matter was largely spewed by regional Fed presidents, rather than the more influential Board of Governors.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 1 TICK LOWER AT 110-30+

Treasuries saw pronounced flattening as Powell put a 50bps March hike and higher terminal rate in play. 2s +11.4bps at 5.008%, 3s +9.3bps at 4.715%, 5s +4.1bps at 4.310%, 7s +0.7bps at 4.172%, 10s -1.0bps at 3.974%, 20s -2.2bps at 4.119%, 30s -2.6bps at 3.886%.

Inflation breakevens: 5yr BEI -14.9bps at 2.515%, 10yr BEI -10.1bps at 2.404%, 30yr BEI -6.1bps at 2.304%.

THE DAY: Treasuries entered the Tuesday London/NY handover on the up, initially finding strength in APAC trade after the dovish RBA statement, then finding momentum with EGBs following the latest ECB Consumer survey. T-Notes peaked at 111-13, looking like they might have made a run on Monday's 111-17 high. However, that failed to materialise as rate-lock-related hedging flows weighed on Treasuries as the IG Dollar debt pipeline saw a large number of issuers announce deals. Bids then evaporated on the release of Powell's prepared remarks to Congress, which put a 50bps rate hike in play for March, data-willing, in addition to touting a higher terminal rate. The front-end led the dive lower, seeing T-Notes follow suit, initially dipping from 111-06 to session lows of 110-23+ - cash 10yr yield peaked at 4.01% - before more flattening flows saw duration pare losses into the NY afternoon. The curve reached fresh 40yr+ most-inverted levels later on, with both the 2s10s and 2s30s spreads falling beneath -100bps, accompanied by some block buys in T-Note futures. The solid 3yr auction failed to buck the trend for long either with front-end yield hitting fresh highs into the close.

3YR AUCTION: The USD 40bln 3yr auction saw strong demand despite coming just hours after Powell's hawkish Senate testimony. The 4.635% high rate marked more than a 55bps yield pick-up from February's auction, and that was enough to see a 0.6bp stop-through, as opposed to last month's record high 4bp tail. The underlying metrics were also solid, as seen in the 2.73x bid/cover ratio (vs six-auction avg. 2.56x) in addition to Dealers (forced surplus buyers) taking just 16.8% (vs avg. 21.1%), with both Directs and Indirects taking above average, indicative of strong end-user demand.

AHEAD: Dealers are now setting up for Wednesday's 10yr and Thursday's 30yr auctions. The highlight this week will be the February NFP report on Friday, with Fed's Powell testifying in the House on Wednesday. Wednesday also sees the ADP and JOLTS reports. Ex-US, (Weds) BoC; (Thurs) China inflation; (Fri) Canada jobs, BoJ.

STIRS:

- SR3H3 -11bps at 94.865, M3 -17bps at 94.40, U3 -17.5bps at 94.36, Z3 -16.5bps at 94.515, H4 -13.5bps at 94.855, M4 -10bps at 95.29, U4 -8bps at 95.70, Z4 -6.5bps at 96.005, H5 -5.5bps at 96.195, H6 +2.5bps at 96.555, H7 +5.5bps at 96.67.
- NY Fed RRP op demand at USD 2.170tln (prev. 2.191tln) across 101 bidders (prev. 101).
- Treasury announced USD 10bln cut to its 1-month bills and a USD 5bln cut to its 2-month bills as it adjusts issuance under debt limit constraints.
- EFFR remained at 4.57% as of March 6th.

CRUDE

WTI (J3) SETTLES USD 2.88 LOWER AT 77.58/BBL; BRENT (K3) SETTLES USD 2.89 LOWER AT 83.29/BBL

The crude complex tumbled on Tuesday, closing at lows, on further demand woes after hawkish remarks from Chair Powell which supported the Dollar to the detriment of oil. Powell noted if incoming data indicates faster tightening is required, Fed is prepared to increase the pace of rate hikes and the ultimate level of interest rates is likely to be higher than previously anticipated, putting 50bps back on the table for March. Elsewhere, the Chinese trade data overnight hinted at softer domestic demand, which desks warn could pressure sentiment in the short-to-medium term if imports fail to recover. Meanwhile, EIA STEO raised its 2023 world oil demand growth forecast by 370k BPD to a 1.48 mln BPD Y/Y increase; and left the 2024 forecast unchanged at a 1.79mln BPD increase (full details here). Traders now look to the weekly US energy inventory data. Currently expectation (bbls): Crude (exp. +0.4mln), Gasoline (exp. -1.9 mln), Distillate (exp. -1mln).

OPEC: Saudi Foreign Minister said he is committed to a stable oil market and the Energy Minister views that it does not need production changes this year. On UAE/Saudi relations, he said reports of divergence are often overdramatised and every statement made is from all of the partners in OPEC+ reflecting a consensus approach.

RUSSIA: Russia plans to cut oil exports and transit from Western ports by 10% in March/February, according to Reuters sources. Meanwhile, Urals and Kebco oil loadings from Russia's Baltic ports in March is seen at 6.5mln T (prev. 6.3mln T in February).

PRODUCTION: Kazakhstan's Tengizchevroil (700k BPD capacity) cut daily output by 11% between March 1-6th due to unscheduled maintenance, according to Reuters sources. Separately, Occidental Petroleum (OXY) exec noted US oil production will grow by some 500k BPD in 2023 with 80% or 90% of that coming from the Permian.

EQUITIES

CLOSES: SPX -1.53% at 3,986, NDX -1.22% at 12,152, DJIA -1.72% at 32,856, RUT -1.11% at 1,879

SECTORS: Financials -2.54%, Real Estate -2.5%, Materials -1.99%, Energy -1.75%, Utilities -1.66%, Health Care -1.62%, Consumer Discretionary -1.37%, Industrials -1.27%, Technology -1.26%, Communication Services -1.14%, Consumer Staples -0.97%.

EUROPEAN CLOSES: EURO STOXX 50 -0.81% at 4,278, FTSE 100 -0.13% at 7,919, DAX 40 -0.60% at 15,559, CAC 40 -0.46% at 7,339, FTSE MIB -0.67% at 27,761, IBEX 35 -1.05% at 9,411, SMI -0.70% at 11,069

STOCK SPECIFICS: **Meta (META)** is said to plan thousands more layoffs as soon as this week, according to Bloomberg. **KeyCorp (KEY)** cut its FY23 NII growth view to 1-4% (prev. 6-9%). **Atlassian Corporation (TEAM)** announced a 5% workforce reduction or roughly 500 full-time employees with actions part of its initiative to better position itself to execute against its largest growth opportunities. **Rivian Automotive (RIVN)** filed to sell USD 1.3bln of green convertible senior notes due 2029. Spokesperson told Reuters the capital will help facilitate the launch of Rivian's R2 vehicles. **Dick's Sporting Goods (DKS)** beat on the top and bottom line with FY23 EPS view better-than-expected. SSS also rose much more than expected. CEO said its inventory is in great shape as the co. starts 2023. **Trip.com (TCOM)** reported a surprise profit per share and surpassed on revenue. **Thor Industries (THO)** notably missed on the top and bottom line alongside cutting FY23 guidance. **Black Knight (BKI)** announced it is to divest Empower Los Business amid FTC scrutiny on the ICE deal. Under the amended transaction, **ICE (ICE)** is to acquire BKI for USD 75 /shr, an 11% reduction on initial terms. Of note for social media names, such as **Snap (SNAP) & Meta (META)**, a new US bipartisan Senate bill on TikTok will be unveiled on Tuesday which will give the Commerce Secretary new powers to ban TikTok. The US DoT gave support to the DoJ's lawsuit to block the **JetBlue (JBLU)/Spirit (SAVE)** merger; and the DoT is to deny the exemption application, according to Bloomberg. **Western Digital (WDC)** said its harddrive business will take a "couple quarters" to recover fully.

US FX WRAP

The Dollar rallied on Tuesday to a fresh YTD high (DXY at 105.65) after Fed Chair Powell signalled they are prepared to accelerate the pace of hikes if data continues to come in hot while also touting the potential for a higher terminal rate. The commentary saw money markets start to price in a 50bp hike in march with a c 50% probability, up from c 21% before the speech. The yield curve saw pronounced flattening on the remarks with the 2yr briefly touching 5%, the highest since 2007, while the 2s10s inversion rose to over 100bps. The bid sustained to see the Dollar close at highs.

The Euro saw notable weakness from the Dollar gains with EUR/USD falling from highs of 1.0694 to lows of 1.0547, paring some of the hawkish ECB Holzmann reaction on Monday. Also helping support the reverse was a move lower in the ECB Consumer Expectations survey before Powell accelerated the move. Elsewhere, ECB's Knot said (to deaf ears) the ECB can be expected to keep hiking rates for quite some time after March.

The Yen was weaker vs the Dollar on a widening of policy differentials between the BoJ and Fed post-Powell. Meanwhile, the Japanese government revealed inflation-adjusted real wages in January fell 4.1% Y/Y which was the largest decline in real wages since May 2014. USD/JPY rose to highs above 137.00 from lows of 135.56.

The Franc was weaker vs the Dollar and the Yen but appreciated vs the Euro with money markets now leaning towards a large 75bp hike on the March 23rd SNB, pricing it in with a 50% implied probability. Elsewhere, the latest Swiss unemployment rate in Feb was unchanged at 1.9%, in line with expectations while SNB's Jordan reiterated the SNB can use interest rates, but it is also ready to sell foreign currencies to help it achieve price stability with inflation still above target, albeit being low on an international comparison.

The Yuan was weaker vs the Dollar, but not to the same extent as other counterparts with a larger surplus in its February trade balance helping support the Yuan in APAC trade with a rise in exports, although note the reduction in imports raising some domestic demand concerns.

Cyclical currencies were broadly hit. The Aussie was the clear laggard falling from highs of 0.6747 pre-RBA to lows of 0.6582 post-Powell. The RBA decision was a dovish one, it hiked by 25bps as expected but it altered its guidance somewhat to expect further policy tightening will be needed from further rate hikes will be needed, signalling a slowdown in tightening and a lower peak rate. The decision weighed on the Aussie during APAC trade and into the NY session, before the hawkish Powell and following risk asset demise then saw the Aussie hit further lows. NZD was also notably lower vs the Dollar but it outperformed its Antipodean counterpart with AUDNZD falling from 1.0868 to lows of 1.0744. GBP was notably lower despite hawkish jawboning from BoE's Mann that a weak currency is significant for inflation and repeating her call for more work to be done with rate hikes. Cable hit lows of 1.1822 from highs of 1.2065 while the Pound was also weaker vs the Euro. EUR/GBP rose from 0.8858 to 0.8925. The CAD weakness vs the Dollar was a result of both the weaker oil prices and the widening policy differentials of the Fed and BoC with the BoC expected to stick with their pause on Wednesday while Powell is signalling more is to come. A full Newsquawk BoC preview can be found here.

EMFX was hit on Tuesday due to the Dollar's surge in wake of Powell. In Brazil, the February IGBP-DI inflation index rose 0.04% despite expectations for a 0.01% decline but the pace of inflation slowed from the prior 0.06%. Mexico inflation data is due on Thursday and the median forecast of 17 analysts surveyed by Reuters puts annual inflation at 7.69% in February, which is lower than January's 7.91% but still well above the 2-4% inflation target from the Banxico. CLP was notably weaker with copper prices taking a hit with lower China imports weighing on the metal while the supply aspect is starting to improve with Peru copper now flowing to ports with protests easing, however, the Las Bambas mine has been forced to slow down its operation rate due to a shortage of critical supplies. ZAR saw notable weakness while TRY was still softer vs the buck, but not to the same detriment as its EM peers.