US Market Wrap

8th March 2023: Markets chop on hawkish leaning ADP and JOLTS, dovish Powell tweak

- **SNAPSHOT**: Equities up, Treasuries mixed, Crude down, Dollar flat.
- **REAR VIEW**: Powell said the Fed remains data-dependent, no decisions made; BoC holds rates steady, as expected; Weak US 10yr auction; First EIA crude stocks draw in 11 weeks; Hot ADP; Smaller Jan. JOLTs decline than expected; BRK.B increases stake in OXY to 22.2%; CRWD earnings impress.
- **COMING UP**: **Data**: Chinese CPI, PPI, US IJC, Challenger Layoffs, New Zealand Manufacturing PMI **Speakers**: Fed's Barr **Supply**: US.

MARKET WRAP

Major stock indices were subdued on Wednesday with Powell reaffirming his hawkish view from Tuesday again in Congress, although stocks did see a bounce into the close to see SPX settle in the black. February ADP came in on the firmer side of expectations 242k (exp. 200k), but not enough to extend on recent hawkish fed pricing, instead, a wave of short-covering in stocks and Treasuries was seen after the data. However, the smaller decline than expected in January JOLTS job openings capped the upside later in the NY morning, marking further evidence of little progress in a loosening labour market. FX was largely contained in the session with the DXY flat, although the CAD weakened after the BoC kept rates on hold. Oil prices extended on their recent losses, albeit at a lesser rate than Tuesday, while US crude stocks saw their first draw in 11 weeks.

GLOBAL

BOC REVIEW: The Bank of Canada rate decision was very much as expected where it left rates unchanged at 4.50% and maintained its guidance that it expects to hold the policy rate at its current level, conditional on economic developments evolving in line with the MPR forecasts while repeating it is prepared to increase the policy rate further if it is needed to return inflation to the 2% target. The bank did drop its language about the economy remaining in excess demand while commentary on the labour market noted it remains very tight and employment growth has been surprisingly strong. However, weak economic growth over the next couple of quarters means pressures in product and labour markets are expected to ease, while restrictive policy will continue to weigh on household spending. The BoC also noted that price increases for food and shelter remain high. With guidance being maintained and leaving the option open for another hike if necessary, analysts at ING do not believe another hike will be necessary due to the high household debt levels and the sensitivity of higher rates in Canada. The desk believes the next move will likely be a cut. Which of course is very at odds to the Federal Reserve with Powell signalling a higher-for-longer message at the Congressional hearings and has had an impact on market pricing for the BoC too, although analysts at RBC highlight today's statement did nothing to endorse that view.

POWELL: Fed Chair Powell, speaking in the House Wednesday, largely reiterated his remarks from Tuesday in the Senate. However, one slight tweak he made caught attention, where he said (tweak in italics), "If — and I stress that no decision has been made on this — if the totality of the data were to indicate that faster tightening is warranted, we would be prepared to increase the pace of rate hikes", which was slightly more dovish on the margin. Powell flagged the JOLTS survey, the NFP report Friday, and next week's CPI/PPI as key data the Fed would be considering in its policy decision ahead of the March 22nd FOMC.

JOLTS: US January JOLTS job openings fell to 10.824mln from the upwardly revised 11.234mln (initially 11.012mln), not as far as the street expected 10.5mln, in what will mark another sign of a lack of meaningfully progress in loosening the labour market. The quits rate fell to 2.5% from 2.6%, marking the lowest level since January 2021, although that is still high compared to the series average 1.9%. The Fed-watched ratio of unemployed per job opening fell marginally to 1.9, but still well above levels associated with a balanced labour market. Oxford Economics caveats, "the low response rate to the survey, which has plunged below 32% since July 2022 versus a pre-pandemic average of 64.3%, offers a risk that the JOLTS survey overstates the true tightness of the labor market. However," it concludes, "with 10.8mn job openings (-3.6% m/m) estimated in January, well over double the historical average, there is still a long road ahead towards more normal levels."

ADP: US ADP National Employment for February rose to 242k from 119k, and above the expected 200k. The report noted it is “seeing robust hiring, which is good for the economy and workers, but pay growth is still quite elevated. The modest slowdown in pay increases, on its own, is unlikely to drive down inflation rapidly in the near-term." Meanwhile, job-stayers printed 7.2% (prev. 7.3% M/M), which was the slowest pace of gains in 12-months, and job-changers came in at 14.3% (prev. 15.4% M/M). The ADP print comes ahead of payrolls on Friday (Newsquawk preview available here), but in recent history it does not give a reliable insight into the payrolls number. On payrolls, Pantheon Macroeconomics notes, “our model is based on the hard employment data from Homebase, and ignores the ADP number; that model nailed January, and points to a 200K increase in February payrolls”.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 1 TICK LOWER AT 110-29+

Treasuries saw more flattening as Powell reaffirmed view, JOLTS remain stubbornly high, and ADP comes in on the hot side. 2s +5.3bps at 5.064%, 3s +3.8bps at 4.730%, 5s +1.8bps at 4.333%, 7s +0.4bps at 4.181%, 10s -0.1bps at 3.974%, 20s -1.9bps at 4.101%, 30s -1.4bps at 3.874%.

Inflation breakevens: 5yr BEI -7.9bps at 2.456%, 10yr BEI -5.9bps at 2.353%, 30yr BEI -4.4bps at 2.272%.

THE DAY: T-Notes were sold into the APAC Wednesday session, finding session lows of 110-20+ before recovering into London trade, with typically dovish BoE's Dhingra providing support out of the gilt complex. The slightly firmer-than-expected February ADP report saw Treasuries surge higher not long after as shorts covered - note there is a high bar now for data to surprise hawkishly given recent moves. T-Notes went on to print session highs of 111-14+ as NY cash equity trade got underway. The smaller fall than expected in January JOLTS job openings (with upward revisions) was enough to cap the bid. With an eye to the Treasury auctions, T-Notes pared their gains into the afternoon, where the weak 10yr auction kept the contracts around the little changed mark heading into the close.

10YR AUCTION: A weak USD 32bln 10yr auction from the Treasury, where the 35bps or so of cheapening since the February auction wasn't enough to bring in strong bidding. The 3.985% high yield marked a chunky 2.7bps tail vs the When Issued, larger than the six-auction average 1.3bps and opposed to February's 3bps stop-through. The 2.35x bid /cover ratio was beneath both the prior 2.66x and average 2.41x. Dealers (forced surplus buyers) were left with 17.7%, a big jump from the minuscule 5.4% in February, albeit more in line with the average 17.8%. That was composed of a 4.8 ppts increase in Directs and a massive 17.2ppts tumble in Indirects to 62.3% (vs avg. 63.9%).

AHEAD: Dealers are now setting up for Thursday's 30yr bond auction. Friday's February NFP remains the highlight of the remaining week, although ahead of then on Thursday we get Chinese inflation data, US jobless claims, and Fed's Barr (v) speaking on crypto.

STIRS:

- SR3H3 -3.5bps at 94.83, M3 -4.5bps at 94.355, U3 -5bps at 94.305, Z3 -4bps at 94.47, H4 -4.5bps at 94.805, M4 -1.5bps at 95.27, U4 flat at 95.695, Z4 +1.5bps at 96.015, H5 +1.5bps at 96.21, H6 -1bps at 96.54, H7 -0.5bps at 96.665.
- NY Fed RRP op demand at USD 2.193tln (prev. 2.170tln) across 102 bidders (prev. 101).
- US sold USD 36bln of 17-week bills at 5.045%, covered 2.62x.
- EFFR remained at 4.57% as of March 6th.

CRUDE

WTI (J3) SETTLED USD 0.92 LOWER AT 76.66/BBL; BRENT (K3) SETTLED USD 0.63 LOWER AT 82.66/BBL

Oil prices extended on recent losses on Wednesday, albeit at a lesser pace, with hawkish central bank pricing continuing to weigh on the demand outlook while inventory data was mixed. EIA reported US crude stocks drawing 1.7mln bbls in the latest week, marking the first draw in 11 weeks, with Cushing stocks drawing 0.9mln, the first draw in ten weeks - that comes amid the EIA's adjustment factor seeing a big swing into negative after the body announced it would be making changes to its surveys to account for light hydrocarbons. Crude production fell 100k BPD to 12.2mln BPD this week. The products saw gasoline draw 1.1mln, the third consecutive draw, while distillates built 0.1 mln bbls; refinery utilisation rose 0.2%.

FRANCE: TotalEnergies (TTE FP) workers voted to halt production at the Feyzin refinery (120k BPD), as part of pension strike action, according to the CGT Union. Meanwhile, strikes are continuing at Exxon's (XOM) Port Jerome (270k BPD) and Fos Sur Mer (140k BPD) French refineries; action which is blocking fuel deliveries.

OPEC: Angola's oil minister said there is no need for OPEC to increase output to make up for the Russian production cut. Elsewhere, Politico reported US Senators Grassley and Durbin have reintroduced their 'NOPEC' bill, which the journalist adds, "Timing a bit odd for this push given anti-Saudi furor has seemed to fade after OPEC’s big oil output cut angered Biden and Democrats ahead of midterms last year".

RUSSIA: Reuters reported Indian refiners have purchased some low sulphur Russian oil above USD 60/bbl price cap, while the price cap has pushed a majority of Indian deals for Russian oil into RUB and AED. Meanwhile, neighbouring Kazakhstan is planning to increase its oil production to 2mln BPD by 2024-end, according to RIA (vs the 1.6mln BPD levels reported at 2022-end).

EQUITIES

CLOSES: SPX +0.14% at 3,992, NDX +0.52% at 12,215, DJIA -0.18% at 32,798, RUT +0.04% at 1,879

SECTORS: Real Estate +1.32%, Technology +0.84%, Utilities +0.78%, Materials +0.47%, Industrials +0.23%, Communication Services +0.19%, Consumer Staples +0.12%, Consumer Discretionary -0.25%, Financials -0.41%, Health -0.56%, Energy -1.02%.

EUROPEAN CLOSES: EURO STOXX 50 +0.22% at 4,288, FTSE 100 +0.13% at 7,929, DAX 40 +0.46% at 15,631, CAC 40 -0.20% at 7,324, FTSE MIB +0.54% at 27,911, IBEX 35 +0.58% at 9,466, SMI -0.41% at 11,018.

STOCK SPECIFICS: **Berkshire Hathaway (BRK.B)** purchased an additional 5.8mln shares in **Occidental Petroleum (OXY)**, increasing its stake to about 22.2%. **CrowdStrike (CRWD)** topped consensus on EPS and revenue; guidance for both the next quarter and FY strong. **Campbell Soup (CPB)** surpassed expectations on top and bottom line; FY EPS view was in line. **Brown-Forman (BF.B)** notably missed on profit, alongside gross and operating margins falling short - revenue was better than expected. **Diversey Holdings (DSEY)** is to be acquired by Solenis for USD 8.40/shr in cash, according to Bloomberg; closed Tuesday at USD 5.95/shr. **United Natural Foods (UNFI)** missed on profit and cut FY23 EPS view alongside withdrawing long-term FY24 financial targets, although it did beat on revenue and raised FY23 revenue outlook. **Stitch Fix (SFIX)** posted a deeper loss per share than expected and missed on revenue; next quarter revenue guide was short. **Nordstrom (JWN)** upgraded at Argus Research; said JWN has divested from the unprofitable parts of its business and now has healthy upside. **Qualcomm (QCOM)** raised quarterly dividend 7% to USD 0.80/shr (prev. USD 0.75/shr). **Paramount Global (PARA)** CEO Bakish said co. got an unsolicited offer for Showtime and did not make sense to divest for anywhere close to price offered; Q1 subscriber net adds will be lower than Q4. **Apple (AAPL)** is reportedly planning to "re-examine" its development of AI, according to DigiTimes. **General Motors (GM)** is dealing with the slower-than-expected rollout of two high-profile EVs, the GMC Hummer EV and the Cadillac Lyriq, according to WSJ citing sources; GM aims to raise EV output this year. GM aims to produce 36,000 Lyriqs in the US this year, 9% lower than its original target, partly because of a tighter-than-expected supply of battery cells.

US FX WRAP

USD was choppy on Wednesday but ultimately flat in wake of Tuesday’s hawkish Senate testimony from Fed Chair Powell. On the second day in the House, Powell said little new aside from clarifying some of Tuesday’s comments where he said the Fed has not made any decision yet about the March meeting, and the Fed is data dependent. Ahead of the March FOMC, there is CPI next week (mid-blackout) and NFP this Friday. On that note, February ADP came in above the consensus estimate, in addition to upward revisions to the prior, while January JOLTS job openings did not fall as much as expected.

CAD was the G10 underperformer, highlighted by USD/CAD hitting its highest since late October of 1.3815. The Loonie was undermined by the BoC rate decision, where it was largely as expected, as it left rates unchanged at 4.50% and maintained its guidance that it expects to hold the policy rate at its current level, conditional on economic developments evolving in line with the MPR forecasts. Although, it did drop its language about the economy remaining in excess demand while commentary on the labour market noted it remains very tight and employment growth has been surprisingly strong.

In cyclicals, GBP was marginally firmer, while Antipodeans were flat against the Buck, albeit in contained ranges on a lack of currency specific newsflow. Highlighting this, Cable traded between 1.1805-59, while AUD/USD and NZD/USD was between 0.6569-6628 and 0.6085-6137, respectively. Although, RBA's Lowe, in wake of the dovish RBA on Tuesday, said there will be several data releases before the next board meeting and if the data suggests a pause, they will do that, but if they need to keep going, they will - taking a similar line to the BoC with their conditional pause. He did note they are closer to the point where it will be appropriate to pause, and the timing of the pause will be determined by the data, but repeated the statement that further tightening is likely required to return inflation to target.

For the Pound, BoE's dove Dhingra noted that overtightening poses a more material risk at this point with the potential negative impacts from increased borrowing costs and reduced supply capacity going forwards. She also added a prudent strategy would be to hold policy steady amidst growing signs external price pressures are easing but be prepared to respond to developments in price evolution. Note, Dhingra also noted that the exchange rate is less of a concern for her than other economic factors. Meanwhile, reports noted that the UK is considering giving corporates tax relief on capital investment ahead of the budget on March 15th.

EUR was flat, and in tight ranges, as EUR/USD traded in a 50 pip range on Wednesday. Nonetheless, data saw German Retail Sales in January fall more than expected although industrial output was better than expected. Meanwhile, EU GDP for Q4 was revised marginally lower to 1.8% from 1.9%. Separately, an unnamed ECB insider stated slowing hikes to 25bps but hiking for longer could be a compromise, according to Econostream. Meanwhile, Visco stated policy needs to remain prudent and should be guided by data as it comes available.

JPY was choppy, as USD/JPY hit a peak of 137.91 in contrast to a low of 136.49 ahead of Japanese GDP data before the BoJ on Friday. On BoJ policy, the latest Reuters survey showed analyst views are quite varied with 14 out of 26 economists expect the BoJ to end YCC in 2023, while four are forecasting 2024, and eight see it ending in 2025 or later. 14 out of 23 economists expect an additional tweak to YCC to widen the 0.5% range, while nine expect the central bank to shorten the target from the 10yr yield. On an unwind of policy, 7/28 expect it to occur in April, while seven see it happening in June and six expect it to begin unwinding in July.

EMFX was mixed. TRY, RUB, ZAR saw losses while BRL, MXN, CNH and CNY all firmed against the Greenback. CLP, PLN, and HUF were flat, with Chile’s February Inflation data declining 0.1%, despite expectations for a rise of 0.25%, and cooler than the prior 0.8% gain. PLN was little changed after NBP held rates at 6.75%, as expected. For the latter, Hungary CPI was in line with expectations in February at 25.4% Y/Y, slightly cooler than the prior month's 25.7%. while the Core CPI rose 25.2%, in line with expectations, cooler than the prior 25.4%. Note, the CNY and CNH both regained poise after keeping heads afloat of 7.0000 pre-Chinese CPI and PPI metrics on Thursday.