US Market Wrap

9th March 2023: Stocks and yields slide on financial contagion fears & geopolitics ahead of NFP

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Initial jobless claims rise to YTD peak; SIVB issues stock offering to help cash burn issue; SI to wind down operations; Biden confirms tax hike proposals in budget; Russia planning large provocation on Belarus' border with Ukraine; Mixed US 30yr auction; Cooler than expected China CPI.
- **COMING UP**: **Data**: UK GDP, Norwegian CPI, US & Canadian Labor Market Reports **Event**: BoJ Policy Announcement **Speakers**: ECB's Lagarde & Panetta.

MARKET WRAP

Risk assets pared their initial post-jobless claims gains. The jobless claims data rose to 211k to post a fresh YTD peak in one of the first signs of a cooling labour market in the US, albeit attention now turns to NFP on Friday (preview below). Stocks tumbled throughout afternoon trade on a mixture of financial contagion fears, tax hike talk and geopolitics. Financials (XLF) were slammed, particularly commercial banks (KRE) after SVB Financial (SIVB) filed a USD 1.75bln stock offering to help with its cash burn, adding to fears after the Silvergate (SI) crypto woes in the sector recently. Biden's budget confirmed reports of more tax hikes, ie setting the corporate tax rate to 28% from 21%, a 25% minimum tax on the wealthiest 0.01%, and raising stock buyback tax to 4% from 1% (albeit all was flagged up ahead of the release). Meanwhile, on geopolitics there were reports via Ukrainian press that Russia is planning a "large-scale provocation" on Belarus' border with Ukraine "in the near future". The Dollar was sold in wake of the rising jobless claims while the banking concerns kept the pressure on the buck. The Yen held its bid from the morning throughout the session ahead of BoJ tonight (preview below). Crude prices were hit with risk sentiment. Treasuries saw chunky bull-steepening after jobless claims printed YTD highs and shorts-covered into NFP in addition to financial contagion fears. Note, the long end was supported in wake of the 30yr bond auction which was much better than Wednesday's 10yr supply. All eyes turn to NFP.

GLOBAL

JOBLESS CLAIMS: Jobless claims were dovish. Initial claims rose 211k in the w/e 4th March, above the 190k prior, the 195k expectation and towards the top end of analyst forecast ranges of 180-220k - the first time above 200k since January and a fresh YTD high. The continued claims also rose to 1.718mln from 1.649mln, above all analyst forecasts between 1.599-1.680mln. Pantheon Macroeconomics caveats that "some of the increase likely reflects the severe weather across the upper Midwest and California, which won’t persist", although the desk does expect a sustained increase "by the spring". While the data does not coincide with the usual NFP survey period, it is still a more timely picture of the labour market, and this week's data is the first sign of a cooling labour market in a while. Regardless, the February NFP report is due on Friday and will hold more weight among the Fed for the approaching March FOMC, after Powell earlier in the week said the Fed was willing to increase the pace of hikes if data is warranted, while he noted the data seen since the last FOMC supports the view for a higher terminal rate. With the market having positioned so hawkishly in such a small space of time (c. 70% implied prob. of a 50bp hike on March 22nd, and a terminal rate between 5.50-5.75%), near-term risks appear skewed to short-covering (in rates and stocks) in the face of any soft /dovish-leaning data.

NFP PREVIEW: Traders will frame the February jobs data in the context of the FOMC’s March 22nd meeting. Chair Powell this week has guided expectations towards a 50bps rate rise at that meeting, and suggested that the FOMC is likely to revise its view of the terminal rate higher. Accordingly, the bar for further hawkish repricing is higher than the bar for any dovish tweaking to that pricing (the former being likely in the event of an upside surprise, and the latter in the event of a downside surprise). The reaction will likely be largely premised on the headline and then the wage components. It is also worth noting that expectations for that March meeting will be refined by the CPI data for the month, which is due on March 14th. For a full Newsquawk preview, please click here.

BOJ PREVIEW: The Bank of Japan is expected to keep policy settings unchanged when it concludes its 2-day policy meeting on Friday with the BoJ likely to leave rates at -0.10% and maintain its QQE with Yield Curve Control to flexibly target 10yr JGB yields at about 0%. The central bank is also likely to maintain the yield target band at the current +/-

50bps in what will be the last meeting with Governor Kuroda at the helm whose term ends in early April, while Deputy Governors Amamiya and Wakatabe will also be finishing their terms this month. For a full Newsquawk, please [click here](#).

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 18 TICKS HIGHER AT 111-15+

Treasuries saw chunky bull-steepening after jobless claims printed YTD highs and shorts-covered into NFP in addition to financial contagion fears. 2s -16.4bps at 4.902%, 3s -16.1bps at 4.574%, 5s -11.8bps at 4.218%, 7s -8.3 bps at 4.099%, 10s -4.4bps at 3.933%, 20s -0.6bps at 4.098%, 30s +1.1bps at 3.888%.

Inflation breakevens: 5yr BEI -3.2bps at 2.421%, 10yr BEI -2.2bps at 2.327%, 30yr BEI -1.8bps at 2.255%.

THE DAY: Treasuries saw tight ranges through the APAC session and European morning on Thursday with catalysts on the light side barring Chinese CPI and PPI, which came in on the soft side. The first 200k+ level in US weekly initial jobless claims since January, and a new YTD peak, was enough to set off a rally in govvies, with the front-end leading as the curve saw some retracement off its most inverted levels. A chunky 5s/30s block (22.3k FV/4.3k WN) in the futures, which was a touted steepener, added to the bull-steepening. T-Notes initially hit session peaks of 111-09+ later in the NY morning before paring slightly ahead of the 30yr auction which was received better than Wednesday's 10yr while the high yield tailed by 0.6bps, better than the prior auction while B/C was in line and the breakdown saw increased demand for both direct and indirect bidders, leaving dealers with a sub 10% take. The auction supported the rally even further in Treasuries, taking the T-Note to a peak 111-22+. Also supporting the bid was haven demand as risk assets tumbled on financial contagion fears throughout the afternoon - SVB Financial filed a USD 1.75bln stock offering to help its cash burn issue, adding to woes after what was seen with Silvergate. Attention now turns to NFP.

30YR AUCTION: Overall a decent auction, particularly when compared to Wednesday's 10yr auction. The 0.6bps tail was larger than the six auction average although a big improvement on the prior auction's 3.2bps tail, while the bid-to-cover was 2.35x, in line with the 6-auction average. The increased indirect participation is encouraging with indirect bidders taking 70.7% of the auction, better than the average and prior while directs also saw increased demand and slightly above averages, helping the dealers (forced surplus buyers) take just 9.5%, despite the richening seen ahead of the auction.

STIRS:

- SR3H3 +4.0bps at 94.873, M3 +9.0bps at 94.445, U3 +13.5bps at 94.440, Z3 +18.5bps at 94.650, H4 +22.0bps at 95.025, M4 +23.0bps at 95.495, U4 +23.0bps at 95.920, Z4 +21.0bps at 96.220, H5 +19.0bps at 96.400, H6 +9.0bps at 96.630, H7 +3.0bps at 96.695.
- NY Fed RRP op demand at USD 2.230tln (prev. 2.193tln) across 101 bidders (prev. 102).
- US sold USD 56bln 8-week bills at 4.820%, covered 2.30x; sold USD 66bln 4-week bills at 4.640%, covered 2.75x. 3- and 6-month bills left unchanged at USD 57bln and 48bln, respectively; both to be sold on March 13th and settle on March 16th.
- EFFR remained at 4.57% as of March 8th.

CRUDE

WTI (J3) SETTLED USD 0.94 LOWER AT 75.72/BBL; BRENT (K3) SETTLED USD 1.07 LOWER AT 81.59/BBL

The crude complex pared its post jobless claims bid and more amid broader risk flows with sentiment weighed on by numerous factors. Sentiment was hit by geopolitical tensions surrounding Russia/Ukraine, while US financials were hit on contagion fears after SVB Financial (SIVB) announced it is selling stock to manage cash burn, and it comes ahead of the key NFP report on Friday. The downbeat sentiment saw crude wipe out its initial gains in wake of the US jobless claims data which gave the first sign of a cooling labour market in the US.

GEOPOLITICS: According to Kyiv Independent citing sources, Russia is reportedly planning a "large-scale provocation" on Belarus' border with Ukraine "in the near future," potentially involving destruction of infrastructure facilities and victims among civilians. Elsewhere, Saudi Foreign Minister stressed close coordination between themselves and Russia within the energy market and the commitment to OPEC+.

GAS: EU Energy Commissioner said they will propose to extend EU gas price cap to other gas hubs, and will propose EU extends the voluntary target to cut gas demand by 15%. Separately, Russian PM Mishustin stated Russia would be able to raise LNG production to 100mln T per year in the next seven years; Russia considers expanding gas fields meant for further LNG exports.

EQUITIES

CLOSES: SPX -1.84% at 3,918, NDX -1.80% at 11,995, DJIA -1.65% at 32,256, RUT -2.81% at 1,826.

SECTORS: Financials -4.1%, Materials -2.54%, Consumer Discretionary -2.36^%, Real Estate -2.3%, Communication Services -2.22%, Industrials -1.46%, Technology -1.44%, Energy -1.35%, Health -1.03%, Consumer Staples -0.94%, Utilities -0.84%.

EUROPEAN CLOSES: EURO STOXX 50 -0.05% at 4,286, FTSE 100 -0.63% at 7,879, DAX 40 +0.01% at 15,633, CAC 40 -0.12% at 7,315, FTSE MIB -0.72% at 27,710, IBEX 35 -0.45% at 9,423, SMI -0.78% at 10,939.

STOCK SPECIFICS: **SVB Financial (SIVB)** intends to offer USD 1.25bln of its common stock and USD 500mln of depositary shares in an USD 1.75bln share sale to shore up its balance sheet after cutting 2023 forecast as rising interest rates weighed on co. and its customers. CEO told top venture capitalists in Silicon Valley to “stay calm”, adding it has "ample liquidity" to support clients with one exception "If everyone is telling each other SVB is in trouble", according to The Information. The SIVB fears weighed on wider financials, seeing steep losses in **KRE** and **XLF**. **Silvergate Capital (SI)** announced intent to wind down operations and voluntarily liquidate the bank. **Asana (ASAN)** posted a shallower loss per share than expected alongside a beat on revenue; next quarter and FY23 guidance was strong. **Uber (UBER)** is reportedly considering spinning off its freight logistics unit, according to Bloomberg. **American Express (AXP)** approved the repurchase of up to 120mln common shares, and raised the quarterly dividend to USD 0.60/shr from 0.52 /shr. **General Electric (GE)** affirmed FY23 EPS of USD 1.60-2.00 (exp. 1.95) and sees revenue growth in the high single-digit range. Adds significant FCF growth has continued into 2023 and higher prices will exceed cost increases in 2023. **Etsy (ETSY)** was double downgraded at Jefferies as it said the co. needs to spend more on marketing as buyer churn increases. **MongoDB (MDB)** earnings beat on the top and bottom line with solid next quarter guidance. However, FY23 revenue outlook disappointed investors. **Paysafe (PSFE)** earnings surpassed consensus on the top and bottom line, while guidance was solid for both the next quarter and FY. **Baidu (BIDU)** employees said they are racing to meet the deadline with the chatbot ‘Ernie’ still struggling to perform some basic functions, according to WSJ. The article adds some of the employees said they have sold some company stock ahead of the launch because of those concerns. **Visa (V)** and **Mastercard (MA)** have paused work on code to track gun purchases, according to Bloomberg. **Salesforce (CRM)** reportedly cut hundreds of jobs, mainly in sales and marketing as part of a plan to cut 10% of its workforce, according to Business Insider. US ITC banned imports of video-streaming fitness devices made by **Peloton (PTON)** and iFit after a judge found they infringed **Dish Network (DISH)** patents. **General Motors (GM)** announced a voluntary separation programme in an effort to accelerate the normal attrition process and resulting cost savings, expecting to incur as much as USD 1.5bln in pre-tax charges. **Credit Suisse (CS)** announced a technical delay to the publication of its FY22 report following a late call on March 8th from the US SEC.

US FX WRAP

USD: The Dollar was hit on Thursday after the jobless claims data as well as yields moving lower across the curve, particularly the front end after strong moves seen post-Powell. The jobless claims data on Thursday saw a surprise cooling in the labour market rising to 211k, a fresh YTD high. However, attention turns to NFP on Friday for a clearer print of the labour market which will help when gauging Fed expectations. There is also a lot of attention on financials being hit in the US after SVB Financial (SIVB) issued a huge stock offering to help its cash position, which hit commercial banks hard with fears of financial contagion in the space after Silvergate's (SI) decision to wind down operations earlier in the week.

The Euro found support from the weaker US Dollar albeit EUR/USD failed to rise above 1.06 on Thursday and was unreactive to commentary from ECB's Villeroy who said inflation is still too high in Europe and France, noting inflation should peak during the H1, adding inflation will be back to 2% by end-2024 or end-2025.

The Yen reversed a lot of its weakness ahead of the BoJ rate decision overnight where the BoJ is expected to keep policy unchanged in Governor Kuroda's final meeting before Ueda takes the helm. The aforementioned US jobless claims helped the Yen stay supported with the first signs of a cooling labour market in the US, albeit the NFP on Friday could either flip or cement that view. Havens were also bid in general with Gold performing very well as it benefitted from the lower yields and the hit on the financial sector in the US.

The Yuan was weaker vs the lower Dollar after China CPI was cooler than expected in February, with the headline rising 1.0% Y/Y, cooling from the prior rate of 2.1%, and was below the 1.9% expectation. The M/M print declined 0.5% despite expectations of a 0.2% rise, easing in pace from the prior 0.8% rise. Although the cooler inflation is a welcome sign in the global inflation fight, it comes despite the ongoing China reopening efforts, with some analysts suggesting that domestic demand is not as high as would be expected. Analysts at Pantheon Macroeconomics note that the easing prices can be attributed to falling demand after the Lunar New Year holiday, as well as ample food supply conditions as a result of warm weather.

Cyclical currencies were mixed. Antipodes were flat, but CAD saw losses against the dollar, while GBP saw gains vs the buck and the Euro despite the downbeat risk tone ahead of key UK data on Friday, including GDP, IP and Trade. Meanwhile, a move in Cable above the 200dma of 1.1904 has kept the Pound afloat in the afternoon. NZD traders attention turns to manufacturing PMI data tonight. CAD firmed against the Greenback, but saw little reaction to the economic progress report which largely repeated the BoC statement but Senior Deputy Governor Rogers did note the bank will need to see more evidence to fully assess whether policy is restrictive enough, and she is still more worried about upside risks to inflation as it is still well above target. However, she did note the data so far indicates things are unfolding broadly in line with their outlook.

EMFX was mixed with MXN seeing pronounced weakness after Mexican inflation came in cooler than expected across the board which will help the case for Banxico to slow their pace of rate hikes at the next meeting. BRL saw marginal gains vs the Dollar although CLP was the LatAm outperformer and COP also found support on the falling Buck. ZAR also saw a decent bid although TRY was weaker. In CEE, the PLN was little phased by commentary from NBP Governor Glapinski, who expects CPI to fall to single digits in 2023 before very quickly returning to target, noting that Poland will not endure a recession. On CPI he added inflation will have risen in Feb, but that represents the peak and the Zloty is doing well.