newsquawk

US Market Wrap

10th March 2023: Financial contagion fears and mixed NFP sees hawkish bets ease

- **SNAPSHOT**: Equities down, Treasuries up, Crude up, Dollar down
- **REAR VIEW**: FDIC close down SIVB; NFP jobs beat but unemployment rate rises and monthly wages cool; Iran and Saudi re-establish ties; BoJ leaves policy unchanged
- **CENTRAL BANK WEEKLY**: Previewing ECB; Reviewing Fed's Powell, RBA, BoC, BoJ. To download the report, please click here.
- **WEEK AHEAD**: Highlights include US inflation data; ECB; China activity data. To download the report, please click here.

MARKET WRAP

Equity futures attempted to pare back some of overnight losses on fears of contagion within the financial sector, but hit a stumbling block after regulators announced the collapse of SVB Financial (SVIB), and said they were yet to determine the extent of the bank's uninsured deposits; a February filing for year-ending December 2022 suggested that the amount of uninsured deposits was around USD 150bln, but the FDIC said it could only determine the precise level once it had obtained additional information from the bank and its customers. In later trade, Treasury officials attempted to calm fears, with officials expressing confidence in the resilience of the banking system and the tools available to regulators to address these types of events, which briefly helped stocks climb off lows, before closing around the trough. Treasuries rallied significantly, with some commentators noting that the two-day fall in yields, at around 50bps for 2yr notes at one point, has not been seen since 2008, and 2001 before that. Treasuries were also supported by the February jobs data: although the BLS data showed a consensus-beating 311k jobs were added in the month, the rate of monthly average hourly earnings cooled, while the unemployment rate ticked higher as participation rose, which analysts said supported the case for a 25bps rate hike from the Fed at its March 22nd meeting, rather than the upsized 50bps that Fed Chair Powell was understood to have guided markets towards earlier in the week. But, just as Powell said, there is more data due next week on the inflation front, and this will help shape expectations of what the Fed will do at that meeting.

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NFP: The nonfarm payrolls headline came in at 311k in March, cooling from February’s pace of 504k (revised down from an initially stated 517k); still, that was above consensus expectations for 205k, and was towards the top end of the analyst forecast range between 78-325k. That said, the other components within the release pointed to signs of a slowing labour market. US average hourly earnings rose +0.2% M/M in February, lower than the expected (and previous) +0.3% M/M; that saw the annual rate rising from +4.4% to +4.6% Y/Y, a touch short of the 4.7% that the market was expecting. The unemployment also picked-up by 0.2ppts to 3.6% (this was expected to be unchanged), likely as participation rose 0.1ppts to 62.5%. The chances of a +50bps rate hike at the FOMC’s March 22nd confab have now diminished (the probability of a smaller 25bps rate rise is now around 75% vs 50/50 before the data), while the market-implied expectations of the terminal rate pricing also eased (to around 5.29% from around 5.45% before the data). There are further data releases next week that will help refine market expectations – Monday will see the release of the NY Fed’s February consumer inflation expectations survey, the CPI report on Tuesday, PPI data on Wednesday, and then inflation expectations within the University of Michigan’s March sentiment report on Friday – all of these will be released in the Fed’s pre-meeting blackout window. Analysts at Pantheon Macroeconomics said it is far too soon to argue that the slowdown in payrolls growth has stalled; “The report will not stop the Fed hiking in March, though it does lower the odds of a 50bps increase, if we’re right about next week’s activity data and the CPI/PPI reports being better than in January,” the consultancy writes; it is sticking to its view that the Fed will lift rates by 25bps at the meeting, and adds that “a further hike in May still seems likely, but we think the Fed is about to add extra hikes to its forecasts just at the point when the data will clearly tell them that further increases are unnecessary.” Pantheon notes that the Fed’s first hike of the cycle was only a year ago, and “the idea that policymakers now can say definitively that that they have not done enough is very odd, given that wage growth – which is what really matters in the employment report – is headed to a sustainable pace, and might already be there.”

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 1 POINT 21 TICKS HIGHER AT 113-04+

The curve bull steepened supported by haven flows on financial contagion fears, a higher unemployment rate and easing wages. 2s -30.3bps at 4.597%, 3s -25.7bps at 4.314%, 5s -25.9bps at 3.961%, 7s -23.4bps at 3.862%, 10s -22.0bps at 3.703%, 20s -17.5bps at 3.906%, 30s -16.6bps at 3.704%

Inflation Breakevens: 5yr BEI -8.9bps at 2.315%, 10yr BEI -4.9bps at 2.272%, 30yr BEI -0.7bps at 2.244%.

THE DAY: The fixed income bid continued overnight and in European morning on the financial contagion fears spreading, as global banks took a hit on SVB Financial's woes, which saw regulators take over the bank today. Yields saw a pronounced bull steepening, with the short end rally seeing the 2yr yield over Thursday and Friday's sessions fall nearly 50bps at one point, something not seen since 2008 and 2001. Meanwhile, the US jobs report was perceived dovishly, although the headline rose by 311k, above expectations but beneath the prior revised 504k. The unemployment rate rose to 3.6% from 3.4% while the pace of monthly earnings growth cooled, which resulted in market pricing shifting to a c. 25% probability of a 50bps hike vs 50/50 pre the data release. The implied terminal rate has also slipped, falling to 5.28% from 5.45% pre NFP, and much lower than the 5.6% seen post-Powell earlier in the week. Nonetheless, there are still key data points due next week before the March 22nd FOMC and dot plots, including US CPI, PPI, as well as the NY Fed and UoM consumer inflation expectations. With the Treasury bid extending, analysts do warn of hedging/selling next week ahead of the February CPI report on Tuesday.

STIRS:

- SR3H3 +9.8bps at 94.958, M3 +27.5bps at 94.710, U3 +43.5bps at 94.865, Z3 +51.0bps at 95.145, H4 +53.0bps at 95.540, M4 +47.0bps at 95.955, U4 +36.5bps at 96.280, Z4 +27.0bps at 96.490, H5 +20.5bps at 96.600, H6 +19.0bps at 96.820, H7 +20.0bps at 96.885.
- NY Fed RRP op demand at USD 2.188tln (prev. 2.230tln) across 100 bidders (prev. 101)
- EFFR remained at 4.57% as of March 9th.

CRUDE

WTI (J23) SETTLES USD 0.96 HIGHER AT USD 76.68/BBL; BRENT (K23) SETTLES USD 1.19 HIGHER AT USD 82.78

Crude futures rallied on Friday, supported by a slide in the USD following a cooling in the pace of wage gains reported in the February jobs data, which analysts said somewhat detracts from the need for an upsized rate hike at the March 22nd FOMC meeting. Next week's inflation data may further refine expectations going into the confab. Some desks also noted technical factors could be in play after prices fell towards the bottom-half of recent trading ranges, while some book-squaring ahead of the weekend may also be in play. There are also a few crude-market specific events next week, by way of the OPEC MOMR and IEA's OMR, which will offer traders insight into demand and supply balances after the EIA raised 2023 world oil demand growth but left the 2024 forecast unchanged.

EQUITIES

CLOSES: SPX -1.45% at 3,861, NDX -1.38% at 11,830, DJIA -1.07% at 31,910, RUT -2.95% at 1,773.

SECTORS: Real Estate -3.25%, Materials -2.15%, Industrials -1.82%, Financials -1.76%, Technology -1.74%, Utilities -1.6%, Communication Services -1.43%, Energy -1.42%, Consumer Discretionary -0.98%, Health Care -0.74%, Consumer Staples -0.46%.

EUROPEAN CLOSES: EUROPEAN CLOSES: EURO STOXX 50 -1.32 at 4,230, FTSE 100 -1.67% at 7,748, DAX 40 -1.31% at 15,428, CAC 40 -1.30% at 7,221, FTSE MIB -1.55% at 27,282, IBEX 35 -1.47% at 9,285, SMI -1.68% at 10,765

SVB FINANCIAL (SIVB): Continued its plummet on Friday before being halted pre-market, after falling in excess of 60% on Thursday. For the bank, several funds advised cos. to withdraw funds while CNBC’s Faber said the cos. capital raise was a fail and it has hired Goldman Sachs (GS) to seek a sale. Moreover, FBN’s Gasparino said the most likely buyers of a sale will be alternative asset managers, such as PE firms Apollo (APO) and Blackstone (BX). Elsewhere, US Treasury Secretary Yellen stated the Treasury is monitoring a "few" banks given the issues at SVB. For a detailed Newsquawk analytical piece on SVB, please click here.

STOCK SPECIFICS: **Oracle (ORCL)** posted a mixed report; missed on revenue but beat on profit and raised its quarterly dividend 25% to USD 0.40/shr. **Tesla (TSLA)** tapped China's Ningbo Ronbay New Energy and Suzhou Dongshan Precision Manufacturing to help reduce battery material costs, while Tesla considered 3 battery options for the Cybertruck but remains intent on using 4680. **Apple (AAPL)** CEO Cook tells shareholders the tech giant continues to plan for dividend increases; adds that it is being deliberate on hiring and spending. **DocuSign (DOCU)** beat on the top and bottom line, while next quarter and FY24 revenue guidance was more-or-less in line with the expected. However, Cynthia Gaylor announced she is to step down as CFO later this year. Following this, JPM downgraded the stock citing deteriorating demand trends, potential competition from Microsoft and Gaylor's departure. **Gap (GPS)** reported a deeper loss per share than expected and missed on net sales with total comp. sales also falling more than forecasted. Q1 net sales seen decreasing in the mid-single digit range. Announced further cost structure optimisation and efforts to simplify the operating model and announced executive changes to its leadership team. **Stratasys (SSYS)** received a formal offer from **Nano Dimension (NNDM)** to acquire the co. for USD 18/shr. Note, SSYS closed Thursday at USD 14.01/shr. **Allbirds (BIRD)** posted a deeper loss per share than expected and missed on revenue. Next quarter guidance was also soft. In addition, co. failed to post Y/Y quarterly sales growth for the first time in its history. Announced executive changes with Annie Mitchell named as new CFO, effective April 24th, 2023. **Roblox (RBLX)** was upgraded at Jefferies; said it's confident the online gaming platform will continue to show strong growth in spite of macro pressures. **Manchester United (MANU)** sale deadline has been pushed back to the Summer, according to The Telegraph.

WEEKLY FX WRAP

Buck undermined by bearish metrics beneath bullish NFP hood

USD: The bar was clearly set high for US payrolls, especially with Treasuries already carrying a strong safe haven premium amidst distress in the financial sector, as another decent beat prompted more downside in yields and a dovish shift in March FOMC rate expectations. Moreover, earnings were softer than forecast, albeit the y/y measure still up from the previous month, while the jobless rate surprised on the upside and this gave bond bulls further incentive to the detriment of the Greenback in fast market/flight-to-quality trading conditions given ongoing turmoil in bank stocks due to SVB Financial's increasingly stricken situation. The DXY tumbled from 105.360 at best, through the 21 DMA and all the way back down to probe the prior w-t-d low posted before Fed chair Powell delivered a hawkish text to the Senate Banking Committee in the first of his two semi-annual testimonies on Tuesday. To recap, he said the Fed is willing to up the pace of tightening if data remains hot and dot plots are likely to be raised to project a higher terminal rate than previously anticipated. This boosted the Dollar and index, with follow-on reaction resulting in the latter registering a fresh 2023 peak (105.880) in advance of his second Congressional speech, to the House Financial Services Committee, where he stressed that the Fed will be guided by unfolding data and stated that no decision has been made in terms of the next policy meeting. The Buck backed off in response and the odds of 25 bp or 50 bp hikes returned to roughly even alongside a lower peak rate in time for NFP, but tilted markedly in favour of the smaller increment thereafter. However, the upcoming CPI report, due on March 14, could alter perceptions all over again, with eyes also on inflation expectations via regional survey releases on Monday and Friday.

GBP/CHF/JPY: Somewhat perversely given the scale of overriding risk aversion, Sterling managed to top 1.2100 vs the Buck compared to a deep 1.1805 weekly trough, with only some independent impetus or encouragement via UK GDP coming in firmer than forecast on a m/m basis at the start of the year and holding up better than feared y/y. Although the Pound benefited from a sharp technical correction in the Eur/Gbp cross as well, irrespective of dovish comments from BoE's Dhingra, and this boosted Cable indirectly. Conversely, Franc gains to new multi-week pinnacles were forged in traditional fashion as it regained its status as a refuge in risk-off waters, and the Yen also benefited from its intrinsic safety credentials to the extent that bearish impulses via the BoJ-Fed policy divide were set aside. In fact, Usd/Jpy recoiled from just a pip shy of 137.00 to the verge of 134.00 having got to within single digits of 138.00 earlier in the week even though BoJ Governor Kuroda maintained ultra low rates, current YCC settings and dovish guidance including the option to ease further at his last meeting in charge.

NZD/EUR/AUD/CAD: It may be somewhat dismissive and misleading, but the magnitude of price movement seen on Friday, mainly on fears of contagion and financial instability, almost rendered the rest of the week irrelevant. That statement is probably true for the Kiwi more than others, as NZ specifics have been few and far between, if not non-existent, with Nzd/Usd largely tracking moves in the Greenback and Aussie via Aud/Nzd. Nevertheless, the headline pair is on course for a firmer finish within a 0.6225-0.6085 range in line with Eur/Usd that left it late to finally touch 1.0700 after defending 1.0500 several times, regardless of a particularly hawkish blast from ECB's Holzmann at the start of the week. In short, he called for half point hikes at the next four meetings, adding that restrictive policy would only start from around the 4% mark and the balance sheet run down needs to be a bit more aggressive to get to a more reasonable level given its very large size. On the flip-side, the latest consumer expectations poll showed a slowdown in 12 month ahead CPI estimates and more pronounced cooling on the three year horizon. Elsewhere, the Aussie and Loonie also jumped on their US rival’s demise, but both lagged on wider benchmark rate differentials, or rather the prospect of, as the RBA signalled that the end of the cycle could be nigh following its 10th consecutive hike and back-to-back 25 bp increase, while the BoC paused in line with guidance imparted last time. Aud/Usd is back on the 0.6600 handle between 0.6769-0.6565 parameters and Usd/Cad has retreated from circa 1.3861 to sub-1.3800 having been as low as 1.3583 on Monday. Note also, the Loonie derived some traction from an all round upbeat Canadian LFS and comments from BoC’s Rogers highlighting that the Bank still needs to see more evidence to fully assess whether monetary policy is restrictive enough to return inflation to 2% given that it remains well above target and the BoC is still more worried about upside risks.

SCANDI/EM: A torrid week for the Sek and Nok, with the former unable to draw positives via a trio of Riksbank speakers reiterating that Swedish inflation is too high and must come back down to target rapidly, and the latter deflated by Norwegian headline and core inflation missing consensus by some distance plus the Government downgrading its official forecasts for 2023 and 2024 mainland GDP. Meanwhile, the CBRT was reportedly forced to intervene after the Try lurched to new record lows and Turkish President Erdogan confirmed that elections will be held on May 14, earlier than previously touted. Conversely, the Cnh and Cny gleaned protection from technical support vs the Usd in the face of potentially negative Chinese and external factors, like significantly cooler than anticipated CPI readings and China setting a relatively low growth target for this year at the Two Sessions event, at roughly 5% vs a 5-5.5% range of expectations and as lofty as 6% according to the more optimistic estimation. In SA, some respite for the Zar as Eskom announced a reduced level of load-shedding for the weekend and Gold got the safe haven bug, but in Latam no such luck for the Brl or Mxn that suffered from the souring in sentiment.