US Market Wrap

13th March 2023: Yields & Financials in free fall amid haven flows on bank failure fallout

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: US authorities act to raise confidence in banking system; ECB's hawkish plans to face bolder opposition amid SVB fallout; FINMA closely monitoring CS; GS and Barclays no longer expect Fed to hike next week; One-year ahead NY Fed Consumer Expectations survey notably falls; PFE to acquire SGEN; US 3 & 6-month bills see huge tails.
- **COMING UP**: **Data**: UK Unemployment/Average Earnings, US CPI **Speakers**: Fed's Bowman **Events**: BoJ Minutes (Jan), NBH Minutes (Feb), OPEC MOMR **Supply**: UK, Italy & Germany.
- **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

Stocks were mixed/choppy and in a state of inertia as jitters over the recent bank failures of SVB and Signature Bank have left many questions unanswered. Financials were slaughtered, while Tech and defensive sectors fared better. The Fed on Sunday announced the Bank Term Funding Program and the baking authorities together announced full protection to depositors at the failed banks, measures that have ramped speculation (and pricing) of easier Fed policy, seeing historic strength in Treasuries: 2s30s spiked over 50bps, marking largest one day steepening since 1987, with the curve at its least inverted since late December. The March FOMC has become a debate over whether the Fed hikes at all, rather than the 25bps vs 50bps discourse this time last week, while terminal rate pricing has collapsed to the 4.75-5.00% range come May from the post-NFP 5.25-5.50% come July. It's little surprise that tech stocks and crypto outperformed on the looser monetary policy outlook. Meanwhile, the Dollar was broadly sold, not just on rate differentials but also as participants sought to escape the epicentre of this banking crisis. But Bloomberg reports that the ECB is set to face pushback Thursday on its tightening plans as a result of the US bank failures serve as a reminder that the fallout could be far-reaching.

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BANKING SYSTEM: There was a plethora of pivotal updates over the weekend after the collapse of Silicon Valley Bank and Signature Bank which resulted in financial contagion fears spreading despite the FDIC and Fed announcing full support to help protect deposits at vulnerable banks. On this, the Fed announced that it is taking decisive actions to protect the US economy by strengthening public confidence in the bank system and approved actions enabling the FDIC to complete its resolution of Silicon Valley Bank (SIVB). (Full Newsquawk recap and analysis here). However, there were reports of consumers queuing up over the weekend to withdraw assets from commercial banks as the fear spreads resulting in deposit migration. The regional banking ETF (KRE) saw steep losses once again, particularly in First Republic (FRC), Western Alliance Bancorp (WAL), and PacWest Bancorp (PACW). Big banks such as JPMorgan (JPM), Bank of America (BAC), and Citi (C) closed lower but nowhere near the same degree. As expected, there was a range of updates from regional banks, but to cherry-pick, WAL announced it took further steps to strengthen its liquidity position to meet all client funding needs; as of March 13th, said its cash reserves exceed USD 25bln and are growing, while deposit outflows have been "moderate". FRC, according to CNBC, has been able to meet withdrawal demands on Monday with help of additional funding, saying it's not seeing massive outflows of deposits.

NY FED CONSUMER EXPECTATIONS SURVEY: In short, inflation expectations decreased notably at the short-term horizon, remained unchanged at the medium-term, and slightly increased at the long-term. In full, one-year ahead fell to 4.2% in February from 5% in January, the lowest since May 2021, while the three-year ahead remained stable at 2.7%. Meanwhile, the five-year ahead gauge marginally lifted to 2.6% from 2.5%. The survey noted expectations about year-ahead price increases for gas, food, cost of rent, college education, and medical care all declined. While on the labour market, expectations improved, with unemployment expectations and perceived job loss risk decreasing and job finding expectations increasing. Expectations for voluntary job quits reached the highest level since the start of the pandemic, while households' perceptions and expectations for current and future financial situations both improved. Note, this comes ahead of the complimentary UoM prelim survey for March on Friday, although the February CPI and PPI on Tuesday and Wednesday, respectively, will most likely hold greater input for policymakers ahead of the March FOMC.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 1 POINT & 16+ TICKS HIGHER AT 114-21

Treasuries saw historic bull-steepening Monday (2s30s +50bps) as the Fed stepped in to address the bank failure fallout and contagion. 2s -50.6bps at 4.082%, 3s -36.0bps at 3.945%, 5s -22.8bps at 3.725%, 7s -16.2bps at 3.689%, 10s -10.7bps at 3.588%, 20s -1.6bps at 3.884%, 30s +2.8bps at 3.728%.

Inflation breakevens: 5yr BEI -8.8bps at 2.251%, 10yr BEI -4.1bps at 2.258%, 30yr BEI -1.4bps at 2.252%.

THE DAY: T-Notes hit resistance of 114-00 at the futures reopen amid the Fed announcing its Bank Term Funding Program and after authorities announced full protection to depositors at Silicon Valley Bank Signature Bank. Contracts swiftly pared to session lows of 112-21 ahead of APAC trade getting underway before Tokyo came in and lifted the offer again. New highs were made as Europeans returned from the weekend, and then again as US trade got going. T-Notes ultimately printed session highs of 115-13 in the NY morning (10yr yield low of 3.418%) on the back of some heavy buying volume which included block buys of 44.5k 5yr futs and 19.5k 2yr futs. There were two notable block steepeners later in the morning: 7.6k 2yr vs 6.5k Ultra 10yr followed by 13.7k 5yr vs 2.6k Ultra Bonds. Treasuries then hovered beneath their peaks for the remainder of the session with catalysts on the light side. However, front-end yields made a test on their earlier lows into the close, while long-end yields failed to follow suit, seeing the curve hit its least inverted levels since late December with the 2s30s spread ramping over 50bps, the largest one-day steepening since the 84bps on the day after 'Black Monday' in 1987. CPI is next up on Tuesday, although it's likely to feel like second fiddle with the financial stability concerns overshadowing the market, with several sell-side analysts coming out on Monday and revising their March FOMC calls to no hikes, where Nomura even called for a 25bps cut and an end to QT.

STIRS:

- SR3H3 +30.8bps at 95.268, M3 +86.5bps at 95.58, U3 +99bps at 95.865, Z3 +87.5bps at 96.035, H4 +70.5bps at 96.255, M4 +48.5bps at 96.445, U4 +30bps at 96.585, Z4 +14.5bps at 96.64, H5 +4bps at 96.65, H6 -1.5bps at 96.805, H7 -2.5bps at 96.865.
- March FOMC implied hikes fall to just a 53% chance of a 25bps hike and 47% for no hike, as opposed to the 35% for 50bps/65% for 25bps seen last week post-NFP.
- The implied terminal rate has fallen to 4.76% in May from the 5.35% priced in July post-NFP.
- NY Fed RRP op demand fell to USD 2.127tln from 2.188tln, across 97 bidders, down from 100 on Friday.
- US sold USD 61bln of 3-month bills at 4.750%, covered 2.15x; sold USD 51bln of 6-month bills at 4.700%, covered 2.29x - both saw massive tails of 9.5bps and 4.5bps, respectively, raising liquidity concerns.
- US EFFR remained at 4.57% as of March 10th, but volume plunged to USD 81bln from 115bln the prior day, the lowest volume ex-year-end since mid-2022, indicative of a notable pullback in activity in the Fed's target rate market.
- Followed by FHLBs, a key Fed Funds participant, tapping the primary debt market Monday for USD 64bln in funding.

CRUDE

WTI (J3) SETTLED USD 1.88 LOWER AT 74.80/BBL; BRENT (K3) SETTLED USD 2.01 LOWER AT 80.77/BBL

Oil prices tested YTD lows on Monday with global risk appetite impaired after the string of US bank failures rather than anything energy-specific. WTI and Brent front-month contracts hit session lows of USD 72.30/bbl and 78.34/bbl, respectively, as US participants returned from the weekend. The selling saw YTD lows for front-month WTI (Feb 6th) and Brent (Jan 5th) neared at USD 72.25/bbl and 77.61/bbl, respectively. However, the futures pared some losses into the US session, with the softer Dollar capping losses. Meanwhile, in France, unions say the strikes impacting LNG terminals will extend past Tuesday. For Russia, Reuters reported seaborne oil product exports in February dipped 10% M/M. And in the US, EIA says US total shale regions oil production for April seen up about 69k BPD at 9.214mln BPD (prev. 86k BPD rise in March).

EQUITIES

CLOSES: SPX -0.15% at 3,855, NDX +0.79% at 11,923, DJIA -0.28% at 31,819, RUT -1.60% at 1,744.

SECTORS: Financials -3.78%, Energy -1.96%, Materials -1.09%, Industrials -0.61%, Consumer Discretionary +0.23%, Communication Services +0.24%, Consumer Staples +0.47%, Technology +0.55%, Health +0.92%, Utilities +1.54%, Real Estate +.61%.

EUROPEAN CLOSES: EURO STOXX 50 -3.14% at 4,096, FTSE 100 -2.58% at 7,548, DAX 40 -3.04% at 14,959, CAC 40 -2.90% at 7,011, FTSE MIB -4.03% at 26,183, IBEX 35 -3.51% at 8,958, SMI -1.47% at 10,606.

STOCK SPECIFICS: **Boeing (BA)** and Saudi PIF close in on a USD 35bln commercial jet deal; BA is expected to sell about 80 Dreamliners in Saudi airline deal, according to WSJ. **Applied Materials (AMAT)** raised quarterly dividend 23.1% to USD 0.32/shr (prev. 0.26); announced a new USD 10bln share buyback programme. Carl Icahn is preparing a proxy fight at **Illumina (ILMN)**; argues co. cost shareholders USD 50bln by going ahead with a risky acquisition despite regulator opposition. In response, ILMN said it engaged in multiple conversations with Icahn and determined Icahn's nominees for the board lack relevant skills and experience, and that it is not in the best interests of shareholders. **Seagen (SGEN)** is to be acquired by **Pfizer (PFE)** for USD 229/shr in cash for USD 43bln. **Provention Bio (PRVB)** to be acquired by **Sanofi (SAN FP)** for USD 25/shr in cash or USD 2.9bln. **Qualtrics (XM)** is to be acquired by Silver Lake for USD 12.5bln. **Netflix (NFLX)** is reviewing its ad strategy, considering 'build or buy' pivots away from **Microsoft (MSFT)**, according to DigiDay. **VMWare (VMW)/Broadcom (AVGO)** merger review by the EU has been extended by ten working days to June 21st, according to Bloomberg. **Amazon (AMZN)** and **Rivian (RIVN)** are reportedly in talks to scrap the exclusivity part of their electric-van deal, according to WSJ citing sources.

US FX WRAP

The Dollar was lower to start the week amid continued global financial contagion fears after the collapse of SVB and Signature Bank, which resulted in US authorities, including the Fed, announcing actions to increase confidence in the banking system. As such, there was a strong risk-off sentiment, but the Buck failed to benefit and felt the pressure from rate differentials after Treasury yields fell sharply and dovish repricing of Fed money markets, which now sees a 52% chance of a 25bps hike next week and 48% likelihood of rates being left unchanged, a major shift from the 25bps vs 50bps hike debate last week. Adding to this, Goldman noted it no longer expects the Fed to hike rates in the March meeting in light of recent stress in the banking system, but still expects the Fed to hike 25bps in May, June and July, with its terminal rate view 5.25-5.50%, a view which Barclays later supported. Moreover, market participants sought refuge in other havens as concerns continue to linger given the steep losses seen in US bank stocks such as First Republic (FRC), but also Charles Schwab (SCHW). The Dollar saw a low of 103.470, a level not seen since mid-Feb, and a peak of 104.390. Elsewhere, NY Fed Consumer Expectations Survey saw one-year ahead fall to the lowest since May 2021, but failed to garner any reaction given the aforementioned turmoil, albeit coming ahead of UoM on Friday. Additionally, market participants will be aware of CPI and PPI on Tuesday and Wednesday, respectively, but "some analysts are arguing that the inflation data's importance to the Fed's Rate hike calculus may have diminished on account of some of the financial stability concerns in the banking sector."

Antipodeans saw strong gains against the Greenback, with the Kiwi the G10 outperformer and gaining in excess of 1.5%, highlighted by NZD/USD hitting a peak of 0.6264 against a low of 0.6136, as the Kiwi and Aussie unlikely profited off the souring risk sentiment amid the dovish Fed repricing. Meanwhile, AUD/USD traded between 0.6590-6716 ahead of Australian NAB Conditions and Confidence data on top of New Zealand migration data.

The Yen saw notable strength vs the Greenback on account of its safe-haven appeal and susceptibility to rate differentials, seeing USD/JPY hit a 4-week low of 132.29, reversing from an intraday high of 135.02.

The Franc also benefitted, just not to the extent of the Yen as USD/CHF met bids sub-0.9075 having been as high as 0.9203. Meanwhile, SNB's Maechler is to leave the central bank in mid-2023 and will become the next Deputy General Manager of the BIS.

CAD, GBP, and EUR all made gains at the Buck's expense, with the former the relative 'underperformer', but still distinctly firmer, as the aforementioned currencies profited off the flailing Buck as opposed to anything currency specific. Nonetheless, ahead of the ECB policy meeting on Thursday where the central bank is expected to hike by 50bps, Bloomberg sources did note its hawkish plans are set to face bolder opposition amid the SVB fallout but the Euro still saw strong gains and just ran out of momentum ahead of 1.0750 from lows at 1.0648. Cable fell marginally short of the psychological 1.22, topping out at 1.2199, while the Loonie breached beneath 1.3700 from highs above 1.3800. Looking ahead, aside from the continued SVB and Signature Bank fallout and US data, UK labour metrics and Canadian manufacturing sales are due on Tuesday.

Scandis saw some respite to start the week as the market mood improved in patches or specific areas and Brent pared heavy losses alongside WTI, while the Riksbank confirmed it would start selling Government bonds from April 4th and continue on a monthly basis aside from July and August.

EMFX was mixed. CNH, RUB, and ZAR all gained, TRY was flat, while BRL and MXN saw weakness with the latter the underperformer. The Rand profited off spot gold surging (over 2.3% at time of writing), alongside the Yuan taking advantage of the USD's ongoing depreciation, better-than-expected Chinese lending data. and the surprise decision to keep Yi Gang as the PBoC head. Conversely, the Lira failed to derive much from a slightly narrower than forecast Turkish current account deficit, the Peso largely ignored a modest Mexican IP beat and the Real was unimpressed by Brazilian Finance Minister Haddad's suggestion that there are prospects of voting on tax reform between June and July in the Lower House and September and October in the Senate.