US Market Wrap

14th March 2023: Stocks and yields climb on in-line CPI and no more bank failures

- **SNAPSHOT**: Equities up, Treasuries down, Crude down, Dollar flat.
- **REAR VIEW**: CPI data broadly inline, with core M/M hotter and Y/Y cooler-than-expected; Slew of PE firms eye SVB loan book; Russian fighter jet struck propeller of a US military Reaper drone in Black Sea; Russian offline capacity revised higher; META to cut 10k employees & lowers FY23 expense view; AAPL to delay bonuses & expand hiring freeze; S&P said FRC's 'A-' rating placed on credit-watch negative.
- **COMING UP**: **Data**: Chinese Industrial Output/Retail Sales, Swedish CPIF, EZ Industrial Production, US NY Fed, PPI, Retail Sales **Events**: UK Spring Budget, IEA OMR **Supply**: Germany.

MARKET WRAP

Stocks were firmer on Tuesday with the NDX outperforming as the Tech sector prospered while Financials saw some notable loss paring from Monday's bloodbath. Tech was lifted heavily by the 7% jump in META shares after the tech giant announced a further 10k job cuts. While in the banking sector, the news is the lack of news, with more time passing without any bank failures reported, keeping risk sentiment supported and allowing some loss paring in the sector. February US CPI came in largely in line with expectations, which keeps the inflation-fighting pressure on the Fed with Core CPI edging lower to 5.5% Y/Y from 5.6%, still well north of the 2% target. Treasuries hit their lows in wake of the CPI data, although pared into the close; Fed pricing for March has ramped back to a 70% chance of a 25bps hike vs the 50% implied at this time on Monday. Note, some haven demand built later on after the US announced a drone had crashed in the Black Sea due to being struck by a Russian fighter jet, reports which Russia denied, saying the drone crashed on its own accord. Nonetheless, a large buyside imbalance into the close saw the SPX reclaim the 3900 level.

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CPI: The CPI data was overall in line with expectations, although the monthly core measure was a touch hotter than expected at 0.5%, up from the prior and expected 0.4%; the annual rate of core inflation, however, cooled to 5.5% from 5.6% in line with expectations. The headline rose 0.4% M/M in line with expectations, cooling from the prior pace of 0.5%; the annual rate of headline inflation cooled to 6.0% in February from the prior 6.4%, also in line with expectations. With financial stability fears becoming a market priority in recent days, the CPI report saw little market reaction, although money markets are now leaning towards a 25bp hike, rather than an unchanged decision, while pricing for a more aggressive 50bps move is once again negligible, given that the report gives little to add to the case for a more aggressive 50bps move. Under the bonnet of the report, the core services ex-housing ticked up in February, although headline services ex-housing slowed. Analysts at Pantheon Macroeconomics said that, assuming markets stay calm and no more banks fail, the Fed is likely to hike by 25bps next week, and will raise its view of the terminal view by 25-50bps. However, Pantheon believes "further hikes now are unnecessary; the lagged effect of the increases over the past year are enough to push inflation back to target, but Fed officials have been unwilling so far to accept this argument and until last week they appeared set on further hikes. Recent events make a strong case for a pause until May, but at this point that would be a pleasant surprise rather than our base case."

SVB: With the continued impact from the fallout of Silicon Valley Bank, several reports noted **Carlyle Group, Ares Management (ARES), Apollo Global (APO), KKR (KKR), and Blackstone (BX)** reportedly eye SVB assets as suitors look at the bank's loan book. Meanwhile, FT reported, that large banks are being inundated with new depositors, as smaller lenders face turmoil, and as such **JPMorgan (JPM), Citigroup (C)** and other large financial institutions are trying to accommodate customers wanting to move deposits quickly. Elsewhere, highlighting the sustained impact Moody's placed six US banks under review for downgrade, incl. **Zions (ZION), Comerica (CMA), UMB (UMBF), Western Alliance (WAL), First Republic (FRC), Signature Bank (SBNY) and Intrust**. Later in the session, which cooled risk appetite, S&P said **First Republic Bank's (FRC)** 'A-' rating has been placed on credit-watch Negative on funding profile risk; believe that its deposit flows have been volatile following the government's closures of two banks. Moreover, US regional banks attempted to recoup some of their extensive losses, with **Western Alliance Bancorporation (WAL)** closed with gains of 14%, but well off earlier peaks, while **First Republic (FRC)** surged, albeit much lower W/W. KRE, the US regional banking ETF, closed up circa 2% after being up over 10% earlier in the session.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 25+ TICKS LOWER AT 113-27+

Treasuries bear-flattened (2s30s -17bps) as markets pared some of their historic bull-flattening on Monday amid CPI data and no more bank failures reported. 2s +17.9bps at 4.209%, 3s +16.8bps at 4.058%, 5s +13.7bps at 3.803%, 7s +12.4bps at 3.750%, 10s +13.4bps at 3.649%, 20s +9.6bps at 3.923%, 30s +10.9bps at 3.776%.

Inflation breakevens: 5yr BEI +9.1bps at 2.341%, 10yr BEI +6.4bps at 2.322%, 30yr BEI +2.9bps at 2.279%.

THE DAY: T-Notes began drifting lower through the APAC Tuesday session, finding support at 114-03 before bolting higher again to peaks of 115-07+ at the Tokyo/London handover, with the troublesome reporting from Credit Suisse seeing haven demand for govvies. However, contracts soon pared back lower, and went on to print fresh troughs ahead of the US' arrival. T-Notes ultimately printed session lows of 113-09 (respecting Monday's 112-21 low) in wake of the February US CPI report, coinciding with a 7.4k block seller, where even though there was largely a lack of reacceleration in the data, the numbers remain stubbornly high and at odds with the Fed's 2% target. Contracts pared from lows into the NY afternoon with catalysts on the light side. The front-end led the paring into the futures settlement.

STIRS:

- SR3H3 -12.8bps at 95.14, M3 -29.5bps at 95.285, U3 -30.5bps at 95.58, Z3 -28bps at 95.81, H4 -24bps at 96.085, M4 -23bps at 96.285, U4 -18.5bps at 96.465,Z4 -14bps at 96.555, H5 -11.5bps at 96.59, H6 -14bps at 96.705, H7 -8.5bps at 96.815.
- March FOMC implied hikes rises to a 70% chance of a 25bps hike vs 50% on Monday.
- The implied terminal rate has risen to 4.90% in May vs 4.76% on Monday, although still a ways from the 5.35% priced for July on Friday post-NFP.
- Market is pricing nearly 75bps of cuts by year-end from the peak rate.
- US Treasury announced cuts to its 1- and 2-month bill sizes by USD 5bln each for Thursday's auction.
- EFFR rose to 4.58% on March 13th from 4.57% on March 10th; volumes plunged again to USD 41bln from 81bln (115bln the day before that).
- NY Fed RRP op demand dipped to USD 2.043tln from 2.127tln, across 95 bidders (prev. 97).
- SOFR stable at 4.55% as of March 13th.

CRUDE

WTI (J3) SETTLED USD 3.47 LOWER AT 71.33/BBL; BRENT (K3) SETTLED USD 3.32 LOWER AT 77.45/BBL

Oil prices were lower in choppy trade on Tuesday, again taking cues from broader risk sentiment, with benchmarks closing at lows. There was little market-moving energy news, although traders are now positioning into this week's US inventory data. Meanwhile, following changes to Russian refinery maintenance schedules, the country's offline primary oil refining capacity has been revised up 78% to 1.684mln T in March, and then seen rising 86% in April M/M to 3.132mln T, Reuters reported. Separate Bloomberg reports noted that about 75% of Russian seaborne oil is being sold outside the Western price cap. We also saw the latest OPEC monthly report, which saw the 2023 world oil demand growth forecast unchanged M/M in February at 2.3mln BPD. Looking ahead, the private US energy inventory data is due later on Tuesday ahead of the official EIA data on Wednesday - current expectations (bbls): Crude +1.2mln, Gasoline -1.8mln, Distillates -1.2mln.

EQUITIES

CLOSES: SPX +1.67% at 3,920, NDX +2.32% at 12,199, DJIA +1.06% at 32,155, RUT +1.87% at 1,776.

SECTORS: Communication Services +2.75%, Technology +2.29%, Financials +2.2%, Consumer Discretionary +1.71%, Utilities +1.29%, Materials +1.24%, Industrials +1.05%, Health +0.88%, Energy +0.88%, Real Estate +0.84%, Consumer Staples +0.8%.

EUROPEAN CLOSES: EURO STOXX 50 +2.02% at 4,179, FTSE 100 +1.17% at 7,637, DAX 40 +1.83% at 15,232, CAC 40 +1.86% at 7,141, FTSE MIB +2.36% at 26,800, IBEX 35 +2.23% at 9,159, SMI +0.81% at 10,718.

STOCK SPECIFICS: **Meta (META)** expects to reduce team size by around 10k employees; cuts FY23 expenses view and now seen to be in range of USD 86-92bln (prev. USD 89-95bln). **Charles Schwab (SCHW)** CEO said 80% of its deposits are FDIC insured; seeing asset inflows in significant numbers; March to date inflows averaging USD 2bln a day, with USD 4bln on Friday alone. **Apple (AAPL)** to delay some bonuses and expand hiring freezes to further roles; monitoring more closely how often staff come to the office, according to Bloomberg. **Bunge (BG)** to replace Signature Bank in the S&P 500 prior to the open on March 15th. **Match (MTCH)** upgraded at Barclays; said it transitioned to a value stock from an Internet growth stock over the past few years. **Honeywell (HON)** announced Vimal Kapur is to succeed Darius Adamczyk as CEO on June 1st. **Credit Suisse (CS)** identified 'material weaknesses' in its reporting for FY21 and '22 and is adopting a remediation plan; Swiss regulators are closely monitoring the bank. CEO said the bank saw material good inflows on Monday; next update on outflows will be in Q1 results. Of note for ride-sharing companies, such as **Uber (UBER), Lyft (LYFT), and Dash (DASH)**, California appeals court said Co.s can continue to treat their drivers as independent contractors, rather than employees. **United Airlines (UAL)** lowered Q1 EPS outlook to a surprise loss per share, but raised revenue outlook and feels confident about Q2. **Gitlab (GTLB)** posted a shallower loss per share than expected and beat on revenue; next quarter and FY24 revenue guide light. **Tyson Foods (TSN)** plans to shut down two of its poultry plants and lay off nearly 1,700 workers, according to WSJ. **Infinera (INFN)** hires Centerview Partners to explore options that include a sale, according to Reuters sources. **General Motors (GM)** CEO said it is trying to boost production of Hammer EVs and will build 50k EVs in H1 '23.

M&A: **Momentive Global (MNTV)** will be acquired by a consortium led by Symphony Technology Group in an all-cash transaction for approx. USD 1.5bln where shareholders will receive USD 9.46/shr. Note, MNTV closed Monday at USD 7.72/shr. **Univar (UNVR)** to be acquired by **Apollo Global (APO)** for USD 36.15/shr in an 8.1bln deal, including debt, according to WSJ citing sources. Note, UNVR closed Monday at USD 31.17/shr. **Cvent (CVT)** to be acquired by **Blackstone (BX)** for USD 8.50/shr in cash, or 4.6bln. Note, CVT closed Monday at USD 7.40/shr.

US FX WRAP

The Dollar was choppy on Tuesday, but more-or-less flat at the time of writing, as the DXY hit a trough and peak of 103.490 and 104.050, respectively, with the former in wake of US inflation data, although given the recent SVB and Signature Bank newsflow it has played second fiddle, a stark contrast to recent history given the Fed's posturing. On CPI, core M/M was marginally hotter-than-expected, but Y/Y slightly cooled while headline was in line for both M/M and Y/Y, which resulted in the Dollar seeing two-way action before another rebound higher amid higher Treasury yields. Although, despite the soaring yields the Dollar's gains may have been tempered by less-hawkish Fed rate expectations as fed fund futures are pricing in around 70bps of rate cuts by December 2023 from the peak rate, on top of a renewal in risk sentiment. Looking ahead, we get PPI and UoM March prelim on Wednesday and Friday, respectively, prior to Bowman (voter) later on Tuesday. Note, although the Fed is in the blackout period, she is speaking at a banking event so commentary on financial stability will be key.

Safe-havens, CHF and JPY, were the only G10 currencies to see weakness against the Buck, but given the Yen's strength on Monday it was not a surprise to see it pare some of its gains as Treasury yields saw notable gains. On top of this, the improved risk-sentiment weighed on the havens as USD/JPY and USD/CHF traded between 133.04-134.89 and 0.9097-0.9165, respectively.

CAD, NZD, and AUD saw gains to varying degrees against the Buck on the more supportive risk environment, with the former two outperforming the Aussie. Nonetheless, the Loonie ran out of momentum as USD/CAD approached 1.3650, while NZD/USD traded within tight parameters of 0.6201-47 and AUD/USD between 0.6633-96.

GBP was flat with Cable hitting a high of 1.2203 and a low of 1.2136, as the cross saw pressure in wake of US CPI. Moreover, Sterling laboured in the European morning after contrasting UK jobs and earnings metrics on the eve of the Spring Budget. Note also, the Pound could not connivingly clear a Fib at 1.2202 and EUR/GBP bounced from 0.8779 to 0.8821 with traction via an interim update from DUP leader Donaldson on the Windsor Framework assessment. In short, he noted key areas of concern that still need to be clarified, reworked or adjusted, while the drafts of other elements that require UK Government domestic legislature have yet to be published and require looking at.

EUR was flat, where the Dollar cross faded after failing to breach 1.0750 to the upside ahead of the pivotal ECB meeting on Thursday, where the Central Bank is still expected to hike by 50bps despite the SVB chaos.

SEK clawed back further losses against the Buck, and outperformed in Scandi counterpart (NOK) due to the help of hawkish Riksbank rhetoric before Swedish CPI, CPIF and CPIF ex-energy readings on Wednesday, as Governor Thedeen reiterated that inflation is still far too high and monetary policy needs to act to bring it back to 2% within a reasonable timeframe, adding that guidance for a 25bps or 50bps hike in April remains valid and data dependent. Meanwhile, Bunge repeated that it is essential to bring down high inflation, though also important to acquire a broad picture based on incoming data along with forecasts for the economy and employment.

EMFX was mixed. MXN saw extensive gains, paring some of Monday's losses, while ZAR saw strength from an unexpected acceleration in M/M manufacturing production to counter the retracement in Gold. Meanwhile, CNH retreated from recent highs as market participants await Chinese industrial output and retail sales data.