newsquawk

US Market Wrap

15th March 2023: Credit Suisse death knell unwinds Tuesday's recovery

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar up
- **REAR VIEW**: Saudi National Bank will not assist Credit Suisse; SNB may provide liquidity to CS; ECB sources say 50bp is still ago; Cool PPI, mixed Retail Sales, soft NY Fed Mfg survey; Mixed China activity data.
- **COMING UP**: **Data**: Australian Employment, US Building Permits/Housing Starts, Export/Import Prices, IJC **Event**: ECB Policy Announcement & Press Conference **Supply**: Japan, Spain & France.

MARKET WRAP

Stocks were mixed (SPX lower/NDX higher) on Wednesday with more stress in the banking sector as the outlook for Credit Suisse deteriorated. Global risk-off was kickstarted during European trade after its largest shareholder Saudi National Bank said it would not be providing any more assistance to the bank, slamming shares to record lows and weighing on the sector and risk appetite. Stocks recently came off their lows in late US trade after the SNB and FINMA announced they would provide liquidity to the bank if needed. Regardless, the fears saw another jaw-dropping rip higher in government bonds amid haven flows. Markets barely flinched to the US data slate today, which saw PPI come in soft, while the NY Fed mfg. survey tumbled, although retail sales were mixed. The soft data provides cover for the Fed to pull back on its tightening plans to focus on financial stability concerns, which is how Thursday's initial jobless claims data will be viewed with March pricing currently a coin toss between 25bps or no hike. The risk-off Wednesday saw the Dollar surge given the European focus of the stress, with the Euro and Swissy offered, while the Yen outperformed amid haven flows. The Dollar strength and risk aversion saw oil prices tumble to their lowest levels since the end of 2021, breaking out to the downside of multi-month ranges.

GLOBAL

CREDIT SUISSE: Credit Suisse (CSGN SW) woes continued to add to global financial contagion, exacerbated fears around banks, and broader deterioration in sentiment, as its Swiss listing saw record lows throughout the day and closed down 24%. The tumble was kickstarted after the Saudi National Bank (the largest shareholder at 9.9%) said in the European morning they will not provide more assistance to the bank, as it cannot go above the 10% stake hold amid regulatory issues. With Credit Suisse Credit Default Swaps at record highs, reports emerged that companies exposed to CS have been buying their CDS to help offset their risk. Meanwhile, BNP Paribas (BNP FP) have reportedly been reducing their exposure to the bank and stopped taking novations on swaps involving CS. The CS CEO has been out trying to offset the woes at the bank stating it is a strong bank and it overshoots all regulator requirements, while FT reported CS has been pushing for the SNB and FINMA to express its public support to the Co. Reuters also reported that the government is now facing pressure from at least one major government to intervene. While the latest Bloomberg reports suggest Swiss officials have caved into the calls and talks have been held on options to stabilize the bank and that options discussed range from a statement of support, a backstop, and even a separation of its Swiss unit and a tie-up with UBS (UBSG SW), according to the sources, who caveated it is unclear, if any, of these steps will be seen. FINMA later issued a statement on the bank, alongside the SNB, saying they would provide CS with liquidity if needed. It also said both FINMA and SNB assert the problems of certain banks in the US do not pose a direct risk of contagion for Swiss financial markets. Given the commercial banking woes in the US, the added uncertainty of Credit Suisse only exacerbated those issues, particularly with the CS being a GSIB. Regional banks resumed their downfall with KRE -1.8% on the close, and the larger investment banks (JPM, BAC, GS, C, MS, WFC) also took a hit. Nonetheless, several source reports suggested that CS exposure to large US banks is manageable, as they had been managing down their exposure to the Swiss bank in recent months.

ECB PREVIEW: Given the comms at the February meeting and the subsequent lack of a walk-back from officials at the Bank, the ECB is unanimously expected to hike the deposit rate by 50bps to 3.0%. As such, greater focus will be on what lies beyond the March meeting for the ECB, with the Bank likely to stress its “meeting-by-meeting” and “data dependent” approach. Since the prior meeting, Eurozone inflation slowed to 8.5% in February from 8.6%, whilst the super-core metric rose to 5.6% from 5.3%; something which is of great concern to policymakers on the Governing Council. This, allied with increasingly hawkish bets surrounding the Fed, had prompted many desks to project the ECB’s terminal rate at 4% (would see 50bps March, 50bps May and then either another 50bps in June or 25bps in June and July). However, the fallout from the the collapse of Silicon Valley Bank, which has prompted a global repricing of monetary policy expectations and subsequently swept up ECB pricing in the process. As such, market pricing (at the time of writing and in relatively volatile trade) looks for a terminal rate of around 3.5% by December vs. a circa 4% rate in the summer previously. The statement is unlikely to be explicit in stating what markets should expect for the coming months, and as such the accompanying macro projections will be of greater interest to the market. On which, ING suggests that lower energy prices, higher 3M Euribor rates and a stronger EUR should lead to lower inflation projections for 2024 and 2025. ING cautions that if this does not materialise, it will underscore the level of concern over core inflation on the Governing Council. From a dovish perspective, a more subdued growth outlook within the projections, could see markets move closer to a lower terminal rate. On the balance sheet, no changes are expected with the current monthly decline of EUR 15bln/month in APP reinvestments set to run until June. To download the full report, please click here.

US

PPI: The dip in February PPI and downward revisions serve as a sigh of relief after the initial big jump in the January data. The headline figure fell 0.1% M/M against expectations for a 0.3% rise, while the January figure was revised lower from +0.7% to +0.3%, with the Y/Y falling to +4.6% from the downwardly revised +5.7% prior (initially +6.0%), well beneath the expected +5.4%. Under the hood, the core measure (ex-food and energy) printed 0.0% M/M (exp. +0.4%; prev. revised to +0.1% from +0.5%), with the Y/Y falling to 4.4% (exp. +5.2%; prev. revised to +5.0% from +5.4%). Over 80% of the decline in goods final demand, which fell 0.2% M/M, was attributed to a 36.1% drop in prices for chicken eggs. Meanwhile, commodities such as iron and steel, alongside indices for gasoline, sugar, and confectionery, saw increases. Services final demand saw a 0.1% decline in February, with trade services leading the fall (-0.8%), being driven by falling margins at wholesalers in machinery and vehicles, in addition to a 1.1% fall in transportation and warehousing services. Ex-trade and transportation & warehousing, services actually rose 0.3% M/M, with price increases seen in outpatient care (partial), food and alcohol retailing, and various financial services. Overall, the PPI data serves as a silver lining to the stubbornly high CPI reported on Tuesday, which will provide some downward pressure for the Fed's target PCE gauge. And crucially, will serve as cover for officials to slow down on their monetary tightening plans to focus on financial stability risks.

RETAIL SALES: The February US retail sales data was cooler than expected, declining 0.4%, deeper than the expected -0.3% after January's upwardly revised 3.2% bounce. The ex-autos sales were in line, falling 0.1%, while ex-gas and autos sales were unchanged. However, the prior metrics all saw upward revisions, offsetting some of the misses. The retail control group rose 0.5%, a big surprise against the -0.3% forecast, while the January reading was also revised up to 2.3% from 1.7%. The control group reading bodes well for Q1 GDP as it is a more precise gauge of consumer spending. Breaking down the numbers, the retail trade sales fell 0.1% M/M, although are still +4% Y/Y, while food services and drinking places surged 15.3% Y/Y and general merchandise stores up 10.5% Y/Y. The mixed report will not hold much weight for the Fed's thinking at the March FOMC with concerns about the US commercial banking system and the knock-on confidence fallout taking priority.

NY FED MANUFACTURING: The NY Fed Manufacturing survey for March saw a notable slowdown, printing at -24.6 from the prior -5.8 and deeper than the expected -8. On business activity, 20% of respondents said conditions had improved but 45% said they had worsened. New orders fell 14pts to -21.7, while the shipments index fell 14pts to -13.4. Delivery times continue to shorten as supply chains improve, falling to -7.6. Meanwhile, inventories also fell into negative territory at -1.9, indicating levels of inventory were steady. On the labour market, a second consecutive negative reading showcased more declines in employment while prices data saw input prices and selling prices increase at a somewhat slower pace than last month, with prices paid falling 3pts to 41.9 and prices received falling 6pts to 22.9. Looking ahead, the future business conditions index fell 12pts to 2.9, showing firms don't expect activity to improve much over the next six months. However, the outlook for new orders and shipments saw modest increases, while unemployment is seen as somewhat higher. On prices, firms are expecting slower input prices ahead than they did in January.

NAHB HOUSING MARKET INDEX: NAHB rose to 44 from 42 in March, above the expected 40, as current sales and buyer traffic indices recovered. Moreover, the continued recovery into March underlined the quick turnaround in housing market activity because of the previous fall in mortgage rates. Meanwhile, Oxford Economics note, “it is another sign that, while rising rates are causing stress in the banking sector, tighter policy from the Fed is still needed to help rein in demand.” Looking ahead, Oxford adds, “with mortgage rates higher on net over the past few weeks, and the shockwaves in the banking system from the collapse of SVB likely to have a chilling effect on mortgage lending, we doubt the rebound in housing market activity will be sustained over the coming months.” Concluding, Oxford thinks housing starts and sales are at least close to a bottom.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 1 POINT & 8+ TICKS HIGHER AT 115-04

Treasuries were back to bull-steepening after concerns over Credit Suisse's fate shook the global banking sector. 2s -30.0bps at 3.925%, 3s -22.6bps at 3.829%, 5s -20.4bps at 3.592%, 7s -16.7bps at 3.577%, 10s -13.1bps at 3.505%, 20s -9.3bps at 3.815%, 30s -7.1bps at 3.690%.

Inflation breakevens: 5yr BEI -3.3bps at 2.311%, 10yr BEI -1.5bps at 2.297%, 30yr BEI -1.1bps at 2.262%.

THE DAY: Treasuries had been (relatively) rangebound for Wednesday's APAC trade, with knock-on selling from Tuesday's US CPI report offset by soft Chinese IP data. T-Notes then started to dip into the European open on the back of Reuters reports that the ECB is still set to go ahead with 50bps on Thursday, sending contracts to troughs at 113-08+, just stretching past Tuesday's 113-09 low. However, after the Saudi National Bank said it would not be providing more assistance for Credit Suisse (CSGN SW), haven demand ramped up acutely for govvies. T-Notes saw sustained strength through the NY morning (as part of broader bull-steepening, where 2s30s rose from -62bps to -8bps at the spread's peak) to ultimately print session highs of 115-31, breaking past Monday's 115-13 peak; cash 10yr hit a low of 3.39%. The mixed retail sales, soft PPI, and tumble in the NY Fed mfg. survey only gave weight to the fixed income strength. There was some paring from highs into the settlement later on Bloomberg reports that the Swiss regulator is likely to make a statement on Credit Suisse, where the market took some solace from the perceived proactiveness of the authorities.

AHEAD: Traders now looks to Thursday's weekly jobless claims data will be critical given another rise could provide more dovish cover for the Fed, while the ECB confab will be front and centre.

LIQUIDITY: It's worth noting that liquidity conditions are deteriorating in government bonds amid the latest vol shock. Many desks across cash and derivative markets are noting widening bid/ask spreads on products, and in cash Treasuries specifically, bid/ask spreads in off-the-run securities have seen particular widening, indicative of growing liquidity strains in the market. While top-of-book depth in Treasury futures has dipped in wake of the banking crisis.

STIRS:

- SR3H3 +8bps at 95.24, M3 +29bps at 95.625, U3 +35bps at 95.985, Z3 +28.5bps at 96.12, H4 +22.5bps at 96.30, M4 +18.5bps at 96.45, U4 +15bps at 96.59, Z4 +13.5bps at 96.67, H5 +10.5bps at 96.68, H6 +3bps at 96.745, H7 +4.5bps at 96.875.
- Note there were reported 2-minute trading halts in SOFR futures Wednesday amid volatility.
- March FOMC implied hikes has fallen to a 55% chance of a 25bps hike (45% for unchanged) vs 70% this time on Tuesday.
- The implied terminal rate has edged lower to 4.85% in May vs 4.90% on Tuesday.
- Market is now pricing nearly 100bps of cuts by year-end from the peak rate in May.
- EFFR remained at 4.58% on March 14th, although volumes recovered to USD 79bln from USD 41bln.
- SOFR remained at 4.55% on March 14th, although volumes jump to USD 1.203tln from 1.148tln (highest ex-month-end since Feb. 17th) with 99th, 75th, and 25th percentile rates all increasing
- General Collateral (repo) rate Wednesday opened 7bps firmer at 4.68% bid amid large net cash withdrawal from Treasury settlement.
- NY Fed RRP op demand at USD 2.056tln (prev. 2.043tln) across 101 bidders (prev. 95).
- US sold USD 36bln of 17-week CMBs at 4.750%, covered 2.74x, tailed 5bps.

CRUDE

WTI (J3) SETTLES USD 3.72 LOWER AT 67.61/BBL; BRENT (K3) SETTLES 3.76 LOWER AT 73.69/BBL

Oil prices tumbled with risk assets through the session on Wednesday after breaking out of the multi-month ranges to levels not seen since late 2021. The downside got going in the European morning as the Credit Suisse (CSGN SW) saga began to flare up, and extended from there as stocks dipped and the Dollar roared. WTI and Brent front-month futures troughed in the NY afternoon at USD 65.65/bbl and 71.67/bbl, respectively, before paring somewhat into the settlement. Weekly US energy inventory data was an afterthought, nonetheless, there was a 1.6mln bbl build in crude stocks, although Cushing stocks drew a massive 1.9mln bbls, the largest draw since May 2021, while gasoline and distillate stocks both saw draws of more than 2mln bbls each. Elsewhere, the latest IEA monthly report saw its 2023 world oil demand forecast hiked by 200k BPD to 101.9mln BPD.

EQUITIES

CLOSES: SPX -0.7% at 3,892, NDX +0.42% at 12,251, DJIA -0.87% at 31,875, RUT -1.74% at 1,746.

SECTORS: Energy -5.42%, Materials -3.28%, Financials -2.84%, Industrials -2.84%, Industrials -2.51%, Consumer Discretionary -0.21%, Health Care -0.17%, Real Estate flat, Technology +0.03%, Consumer Staples +0.68%, Utilities +1.34%, Communication Services +1.5%.

EUROPEAN CLOSES: EURO STOXX 50 -3.41% at 4,036, FTSE 100 -3.81% at 7,345, DAX 40 -3.27% at 14,735, CAC 40 -3.58% at 6,885, FTSE MIB -4.61% at 25,565, IBEX 35 -4.37% at 8,759, SMI -1.86% at 10,517.

FINANCIALS: S&P cut **First Republic (FRC)** to junk and downgraded it to 'BB+' from 'A-' on funding profile risk; ratings on CreditWatch negative. Fitch also downgraded FRC to junk and placed ratings on negative watch. Meanwhile, FBN reported FRC is not a sale to any of hte big banks, but the game plan is for it to get through the liquidity crisis. **Bank of America (BAC)** received over USD 15bln in deposits in a matter of days, emerging as one of the big winners after the collapse of three smaller banks dented confidence in the safety of regional lenders. **Charles Schwab (SCHW)** CEO said the bank has liquidity and is nowhere near any forced selling situation; said it had not raised capital, and was not in the market for an M&A transaction at this point. Added the bank is adding market share and seeing clients move from other firms. **Goldman Sachs (GS)** is likely to make in excess of USD 100mln SVB debt deal last week, according to CNBC citing NYT. FDIC tapped **Piper Sandler (PIPR)** to relaunch sale of **Silicon Valley Bank (SIVB)**, according to Reuters sources. Meanwhile, separate sources suggested SIVB is exploring a bankruptcy filing as one option for asset sales. Meanwhile, The Information reported the US government will likely only sell SVB to another bank, according to sources, ruling out PE and VC firms that had been looking at a potential bid.

STOCK SPECIFICS: **Lennar (LEN)** beat on top and bottom line, while net new orders and gross margin on home sales also surpassed expectations. Q2 and FY deliveries guidance was better-than-expected. **Samsung Electronics (SSNLF)** will build five new domestic semiconductor plants in a USD 230bln investment over the next 20 years, according to Nikkei. **Coty (COTY)** raised FY23 revenue outlook and said Q3 core LFL sales growth is tracking +10%; expects FY23 core LFL sales growth to be at the upper end of its prior guidance of 6-8%. Will reiterate FY23 outlook, including adj. gross margin, adj. EBITDA and adj. EPS. **SentinelOne (S)** posted a shallower loss per share and beat on revenue. Q1 revenue view topped expected, but FY24 guidance was light. **Steel Dynamics (STLD)** raised Q1 adj. EPS view and expects profitability from steel operations to be meaningfully stronger than Q4 22 results. Raised quarterly cash dividend by 25%. US regulator approved **Canadian Pacific (CP)** USD 31bln deal to acquire **Kansas City Southern (KSU)** with conditions. Eight groups in talks with **Manchester United (MANU)** as ownership battle hots up, according to The Telegraph. **Smartsheet (SMAR)** reported a surprise profit per share and beat on revenue; profit guide was stellar but revenue outlook disappointed. **Energy stocks (HAL, MRO, APA, DVN, FANG)** saw significant weakness as on account of the crude complex firmly in the red. **Parsons Corp (PSN)** reaffirmed its FY23 forecasts.

US FX WRAP

The Dollar surged on Wednesday from lows of 103.44 to highs of 105.10 as the Euro tumbled on banking fears within the Eurozone with particular focus on the woes at Credit Suisse after its largest shareholder, Saudi Arabia National Bank, said it will not provide any more assistance to the Swiss bank. US data played second fiddle amid the ongoing banking concerns but a noticeable slowdown in February PPI will be a welcome sign for the Fed, while Retail Sales (Feb) slowed by more than expected and the NY Fed Manufacturing survey contraction accelerated in March. Money markets have been quite volatile in pricing for the Fed next week with markets torn between either an unchanged print or a 25bp hike, with the data having little impact with all focus on financial stability risks.

The Euro took a beating. EUR/USD fell from highs of 1.0759 to lows of 1.0517 on fears of the demise of Credit Suisse. Nonetheless, with the ECB on Thursday, ECB sources have been rife. Reuters sources suggest the central bank is still leaning towards a 50bp hike given "calming markets, stubborn inflation and credibility concerns". However, this was reported just before Saudi National Bank said it will not assist Credit Suisse, sparking the risk-off trade throughout Europe with global yields & stocks plummeting. There is now particular attention on Swiss officials regarding Credit Suisse support, with FINMA and SNB saying the problems of certain banks in the USA do not pose a direct risk of contagion for Swiss financial markets. But crucially, FINMA and SNB announced they would provide Credit Suisse with liquidity if needed.

The CHF saw notable weakness vs the Dollar and was marginally weaker vs the Euro given the latter's larger exposure to any potential fallout from Credit Suisse.

The Yen's haven status saw USD/JPY fall to lows of 132.22 at one point before paring back to north of 133, but still holding an intraday gain vs the buck as the Yen benefits from falling global yields and financial stability fears stemming in the West. Note, BoJ Governor Kuroda repeated the BoJ must maintain current monetary easing, but there will also likely be scope to consider steps to address the side-effects of easy policy.

Cyclical currencies were lower vs the buck as stocks predominantly sold off, particularly throughout Europe but the cyclical currencies were off their lows later in the US afternoon as risk appetite improved from worst levels. GBP saw little reaction from the latest budget given it was all as anticipated, where Chancellor Hunt said the OBR no longer forecasts a recession this year, but they must remain vigilant and will not hesitate to take necessary steps for stability. The forecasts saw GDP expectations lifted through 2025 where it sees growth at 2.5% (prev. 2.6%). The CAD was also hampered by the tumbling crude prices, while NZD traders' attention now turns to GDP data after hours and AUD traders look to jobs data.

The Yuan was weaker as the Dollar rallied, also note earlier China activity data was mixed, where Retail Sales were in line with expectations at 3.5% while Urban investment saw a surprise acceleration but industrial output missed expectations. The unemployment rate also ticked up to 5.6% from 5.5%.

Scandi's were mixed, and the SEK initially saw gains after hotter than expected Swedish CPI data, which saw Danske Bank revise its rate hike call, where it now sees a 75bp hike in April up from its initial view of 50bp, while for June it sees a 50bp hike instead of a 25bp move. Nonetheless, the post-CPI gains were quickly wiped out amidst all the risk-off positioning, and the NOK saw even more weakness due to the slump in Brent crude prices.

EMFX was broadly hit by the midweek financial stability fears as investors take a flight to quality approach. ZAR saw weakness despite upside in gold prices and better than anticipated SA retail sales data.