US Market Wrap

16th March 2023: Stocks bought and bonds sold as distressed banks are offered a lifeline

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar down.
- **REAR VIEW**: SNB offers Credit Suisse liquidity support; 11 banks provide USD 30bln to help FRC; ECB hikes 50bp hike but abandons rate hike guidance; Mixed US data, as IJC & housing data was hot but Philly Fed was weak.
- **COMING UP**: **Data**: EZ HICP (Final), US Industrial Production, Leading Index Change, Uni. of Michigan (Prelim.). **Expiries**: Quad Witching.

MARKET WRAP

It was a risk on session led by global banking support after SNB gave a lifeline to Credit Suisse while 11 large US banks teamed up to help First Republic (FRC). The banking support saw equities and crude finish in the green, with gains led by the Nasdaq due to solid gains in Communication and Technology, while the haven sectors underperformed. Treasuries bear flattened, unwinding the "dovish" ECB rate hike. The ECB hiked by 50bps (despite market pricing leaning towards 25bps) but it abandoned clear forward guidance for more rate hikes, saying each meeting will be taken on a meeting by meeting basis depending on the data. US data was mixed, the jobless claims and housing data was hot, with the former falling back beneath 200k while the latter rose by more than expected, although the Philly Fed manufacturing survey was weak, in fitting with the NY survey on Wednesday.

GLOBAL

ECB REVIEW: Despite market pricing ahead of the meeting being around 65% in favour of a 25bps hike at today’s meeting, the ECB defied calls for such a move and stuck with its February guidance of a 50bps increase. The Governing Council justified such a move by noting that inflation is projected to remain too high for too long. The accompanying macro projections outlined this view point by showing that inflation is expected to average 5.3% in 2023, 2.9% in 2024 and 2.1% in 2025. That being said it must be noted that projections were finalised in early March, before the recent emergence of financial market tensions. With regards to financial stability, the statement noted that “the euro area banking sector is resilient, with strong capital and liquidity positions. In any case, the ECB’s policy toolkit is fully equipped to provide liquidity support to the euro area financial system if needed”. From a guidance perspective, the GC is no longer guiding towards rate hikes and merely refers to “rate decisions”, which will be data-dependent. At the follow-up press conference, Lagarde continued to stress that underlying inflation pressures remain strong and that under the ECB’s baseline, the economy will continue to recover over the coming quarters. Lagarde added that if this baseline were to persist and uncertainty reduces, the ECB will have more ground to cover. That said, the President stressed that it is not possible to determine at this time what the forward path will be. With regards to today’s policy decision, Lagarde noted the board proposed no other option compared to the one taken. This decision was adopted by a very large majority, though three or four did not support the decision and wished to wait for more time. The main takeaway was that Lagarde continued to stress that there is no trade-off between price stability and financial stability and as such, has left the door open to further rate hikes. On which, markets currently (expectations are fluctuating quite a bit at the time of publication) assign a circa 65% chance of a 25bps hike at the May meeting. In wake of the meeting and press conference, Reuters ECB sources noted the debate at the meeting was for either 50bps, or an unchanged decision, and that policymakers opted for the 50bp move after the SNB lifeline to Credit Suisse, while there was no discussion of a 25bp move. Bloomberg sources also noted that policymakers feared that ditching their 50bp hike guidance might panic investors, while on the terminal rate, hawkish officials still see rates well above the current 3% level, although the doves are questioning whether the peak may now be lower than initially thought.

FIRST REPUBLIC BANK (FRC): Is to receive USD 30bln in uninsured deposits from JPM, BAC, WFC, C, GS, MS, BK, PNC, STT, TFC & USB. BAC, C, JPM, WFC are each making USD 5bln deposits, GS and MS are each making a USD 2.5bln deposit, while BK, PNC, TFC and USB are each making a USD 1bln deposit. There had also been reports prior to this that FRC was exploring strategic options including a sale, while it has been weighing options for shoring up liquidity and is expected to draw interest from larger rivals. CNBC's Faber noted the co. has a a USD 25bln hole, although the

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update from larger banks appears to plug this. Faber was also stating how deposit outflows at the bank are continuing, but at a slower pace. Meanwhile, WSJ reported that First Republic Bank executives sold USD 12mln in stock in months before the crash, according to WSJ.

CREDIT SUISSE: Overnight, Credit Suisse announced action to strengthen liquidity which included a USD 2.5bln public tender offer for debt securities and that it intends to borrow up to CHF 50bln from the SNB under the covered loan facility and short-term liquidity facility. Meanwhile, FINMA and the SNB asserted that the problems of certain banks in the US do not pose a direct risk of contagion for Swiss financial markets, while they added that Credit Suisse meets the capital and liquidity requirements imposed on systemically important banks and if necessary, the SNB will provide Credit Suisse with liquidity against sufficient collateral. Credit Suisse noted the loan facility from SNB does not trigger a "viability event", and announced it is working hard to return cash to fund investors. Credit Suisse also noted its Liquidity Coverage Ratio of 150% was unchanged between March 8th and 14th, despite the banking crisis. Also, on a potential UBS (UBSG SW) and CS tie up, the two sides are reportedly against such a move, particularly UBS.

SVB: The US government is likely to only sell SVB to another bank, according to The Information, essentially ruling out PE firms and VCs that had been exploring making a bid. FBN reports that the chances are still low that JPMorgan (JPM), Citigroup (C), Bank of America (BAC) or Wells Fargo (WFC) will buy SVB. Reuters, citing sources, said regulators at US FDIC have asked banks interested in acquiring failed lenders SVB and Signature Bank to submit bids by March 17th.

US

JOBLESS CLAIMS: initial jobless claims fell to 192k from 212k in the latest week, a larger fall than the expected 205k and the largest dip since July; continued claims fell to 1.684mln from 1.713mln, against the expected little change. The decline will serve as a disappointment for the Fed in its attempts to untighten the labour market, especially after the prior week saw the largest jump in initial claims since October. Pantheon Macroeconomics says, "the drop in claims supports our view that last week's sudden increase was driven by severe weather in California and the Upper Midwest." However, the consultancy reaffirms its view that claims will pick up going into spring, "as the wave of layoff announcements translates into actual layoffs and claims for unemployment benefits."

HOUSING STARTS/BUILDING PERMITS: The Housing starts rose 9.8% February to 1.45mln, above expectations of 1.31mln and the prior revised 1.32mln. Single family starts rose 1.1% to 830k, while multi units rose 24% to 608k. Analysts at Oxford Economics note the strong beat was primarily due to the multi-sector gains, and notes the single family rise suggests the housing sector may have bottomed in January. Building permits rose 13.8% to 1.524mln, above the expected 1.34mln and prior 1.339mln. In permits, single family homes rose 7.6% to 770k, and multi units rose by 21.1% to 700k. Oxford Economics think " housing starts are finding a bottom, with the ongoing need for new supply in the single-family sector and fairly resilient homebuilder sentiment keeping a floor under new home construction". However, the desk added risks are still tilted to the downside and the recent financial stability concerns could lead to further tightening of lending standards for homebuilders, and perhaps home buyers.

PHILLY FED: Philly Fed printed its seventh consecutive negative print of -23.2 from -24.3, but well beneath the expected -15.6. Looking at the sub-components, employment plunged into negative territory to -10.3 (prev. 5.1) while new orders and shipments fell to their lowest readings since May 2020 of -28.2 (prev. -13.6) and -25.4 (prev. -16.7), respectively. The inflationary gauge of prices paid dropped to 23.5 (prev. 26.5), its lowest since August 2020, while prices received came in at 7.9 (prev. 14.9). Looking ahead, most future indicators weakened, highlighted by 6-month index slipping to -8 (prev. 1.7), suggesting that the firms continue to have tempered expectations for growth over the next six months. Overall, the release surmises, "responses to survey suggest continued declines for the region's manufacturing sector. The survey's indicators for general activity, new orders, and shipments were all negative, and the firms reported a decline in employment, on balance. The survey's broad indicators for future activity continued to suggest subdued expectations for growth over the next six months."

IMPORT/EXPORT PRICES: US import prices declined 0.1% (prev. -0.4%, exp. -0.2%) led by falling fuel prices and export prices surprisingly rose 0.2% (prev. +0.5%, exp. -0.1%) in February. Looking into the report, OxEco states "while sticky services inflation continues to push up consumer prices, lower import prices are still feeding through to weaker goods inflation, which will benefit downstream consumers and producers alike." Meanwhile, the consultancy adds "import prices have entered a disinflationary cycle, propelled by declining fuel prices which have more than reversed their spike at the onset of the war in Ukraine." Looking ahead, the consultancy notes as these base effects intensify, annual import price inflation will fall more deeply into negative territory.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 30 TICKS LOWER AT 114-06

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Treasuries bear-flattened after First Republic support optimism unwound dovish ECB hike. 2s +17.4bps at 4.149%, 3s +14.8bps at 3.994%, 5s +14.5bps at 3.728%, 7s +11.7bps at 3.681%, 10s +7.7bps at 3.571%, 20s +5.7bps at 3.864%, 30s +1.7bps at 3.705%

Inflation breakevens: 5yr BEI -5.1bps at 2.249%, 10yr BEI -4.0bps at 2.246%, 30yr BEI -2.9bps at 2.226%.

THE DAY: It was a calmer start for Treasuries on Thursday, at least relative to the rest of this week, with initial mild bull-flattening seen ahead of the US session. T-Notes tumbled lower in the APAC morning after CS secured a CHF 50bln loan facility from the SNB, with the hot Aussie jobs report an afterthought. Contracts stretched out to a low of 114-26 as Europe arrived before better buying developed as US players returned ahead of the ECB, with US bank stocks pressured in the pre-market again. The dovish 50bp rate hike at the ECB saw T-Notes go on to print session (and WTD) highs of 116-01, where the cash 10yr yield troughed at 3.37%. The mixed US data - soft Philly Fed vs fall in jobless claims and hot housing starts - was looked over. However, reports that large US banks were pulling together financial support for First Republic (FRC) saw heavy selling in govvies, seeing T-Notes unwind strength and go on to print session lows of 114-05 in the NY afternoon, with weakness being led by the front-end.

STIRS:

- SR3H3 -13.0bps at 95.100, M3 -38.0bps at 95.605, U3 -30.0bps at 95.830, Z3 -18.5bps at 96.125, H4 -9.5bps at 96.365, M4 -6.5bps at 96.540, U4 -7.0bps at 96.620, Z4 -6.5bps at 96.645, H5 -6.0bps at 96.645, H6 -9.5bps at 96.730, H7 -9.5bps at 96.830.
- US EFFR remained at 4.58% as of March 15th, volumes rise to USD 89bln from 79bln, all percentiles unchanged.
- US SOFR rose to 4.58% on March 15th from 4.55%, on USD 1.252tln volume, the highest since early February.
- NY Fed RRP op demand at USD 2.066tln (prev. 2.056tln) across 103 bidders (prev. 101).

CRUDE

WTI (J3) SETTLED USD 0.74 HIGHER AT 68.35/BBL; BRENT (K3) SETTLED USD 1.01 HIGHER AT 74.70/BBL

Oil prices were choppy on Thursday, but throughout the US session pared losses and extended to gains in line with risk assets. As has been the theme throughout the week, the crude complex was trading of wider sentiment and ongoing banking updates. Highlighting this, the crude complex began paring losses around the cash open but garnered further momentum in wake of WSJ noting JPM, MS and other large banks are reportedly in talks regarding a capital infusion into First Republic (FRC). WTI and Brent hit highs of USD 69.38/bbl and 75.54/bbl, respectively. Elsewhere, Saudi Energy Minister and Russian Deputy PM discussed global oil market and OPEC+ efforts to enhance market stability and balance, according to Saudi media. The two sides affirmed their commitment to the OPEC+ production cut decision and energy watchers note to not expect any changes in OPEC+ oil production policy.

EQUITIES

CLOSES: SPX +1.76% at 3,960, NDX +2.69% at 12,581, DJIA +1.17% at 32,246, RUT +1.45% at 1,771.

SECTORS: Technology +2.82%, Communication Services +2.77%, Financials +1.95%, Consumer Discretionary +1.88%, Industrials +1.27%, Materials +1.17%, Health +0.96%, Energy +0.94%, Utilities +0.67%, Real Estate -0.06%, Consumer Staples -0.07%.

EUROPEAN CLOSES: EURO STOXX 50 +2.03% at 4,116, FTSE 100 +0.89% at 7,410, DAX 40 +1.57% at 14,967, CAC 40 +2.03% at 7,025, FTSE MIB +1.38% at 25,918, IBEX 35 +1.50% at 8,890, SMI +1.93% at 10,719.

STOCK SPECIFICS: For social media names, such as **Meta (META) and Snap (SNAP)**, the US has threatened to ban TikTok if its Chinese founder doesn't sell its ownership stake, while TikTok stated a forced sale won't resolve national security issues, according to WSJ. **Apple (AAPL)** supplier **Foxconn (FXCOF)** unit has won an order to assemble AirPods and plans to invest over USD 200mln to produce AirPods in India. **Adobe (ADBE)** beat on top and bottom line while raising its FY profit forecast. **Dollar General (DG)** marginally missed on top and bottom line, while SSS also fell short; raised quarterly dividend 7.3%. **Nucor (NUE)** Q1 EPS view was short of expected, but profitability of steel mills segment expected to increase in Q1 '23 vs. Q4 '22. **Berkshire Hathaway (BRK.B)** raised its stake in **Occidental Petroleum (OXY)**, again, with the size of its stake now 23.1%. **Baidu (BIDU)** unveiled its highly-anticipated AI-powered 'Ernie Bot' chatbot. Ernie Bot reportedly disappointed investors with its use of pre-recorded videos and the lack of a public launch. **LivePerson (LPSN)** posted a deeper loss per share than expected and missed on revenue; next quarter and FY revenue guide was also weak. **UiPath (PATH)** surpassed St. expectations on EPS and revenue; Q1 and FY

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revenue forecasts also beat consensus. **Virgin Orbit (VORB)** is furloughing nearly all its employees and pausing operations for a week as it looks for a funding lifeline, CNBC reports. FT later reported VORB is reportedly in talks about a potential buyout. **Mattel (MAT)** announced it sees Q1 '23 sales down -25% to -30%, excluding FX and negative adj. EBITDA of USD 30-60mln. **Boeing (BA)** resumed deliveries of the 787 Dreamliner as order books swell, according to CNBC. **Tesla (TSLA)** applied to increase Giga Berlin production to 1mln cars per year from the current 500k, according to Drive Tesla Canada blog. **Meta (META)** CEO Zuckerberg said he expects the current climate of layoffs and restructuring to last years. **Google (GOOGL)** raised the monthly subscription fee of YouTube TV (GOOGL) by 12.3% to USD 72.99/mth (prev. USD 64.99/mth), according to Variety. For banking updates, please see Global section above.

US FX WRAP

The Dollar was choppy on Thursday but was ultimately lower on the day with DXY trading between 104.20 and 104.75. UST Yields rose across the curve in a flatter manner after the SNB announced support for Credit Suisse overnight, as well as support for First Republic (FRC) in the US while overall sentiment was positive. US data was on the hot side, with jobless claims dipping back beneath 200k after the surprise jump last week while housing starts and building permits were also above expectations. However, the Philly Fed survey was downbeat, adding to the mfg. slowdown seen in the NY Fed survey.

The Euro was ultimately higher vs the Dollar and saw two-way price action in wake of the ECB rate decision which hiked by 50bps, against market pricing that leant towards a 25bp move, while the Credit Suisse support also acted as support after the Euro's demise on Wednesday. The ECB expanded their optionality, it removed any commitment to further rate hikes and stressed any future meetings will be taken on a meeting-by-meeting basis, which helped keep a cap on the Euro. Lagarde noted there was no discussion of a 25bp hike but around four members wanted to leave rates unchanged to allow more time. Sources later confirmed this although hawkish officials still see the peak rate well above current levels, while others are questioning whether the peak may be lower than previously thought.

The Yen was flat vs the Dollar with USD/JPY paring from lows of 131.73 to highs of 133.82, before paring slightly to 133.50 at pixel time. Any initial Yen gains were wiped out as UST yields jumped higher, particularly in the front-end while the risk on sentiment saw haven outflows. Meanwhile, Swissy pared some of the Wednesday losses on the SNB support of Credit Suisse.

Cyclical currencies were mixed, Aussie, Sterling and the Loonie saw gains thanks to the buoyant risk appetite however the Aussie failed to benefit from the broader market gains after disappointing GDP data overnight. The Aussie meanwhile was supported by a strong jobs report, adding 64k jobs in February while the unemployment rate dipped to 3.5% from 3.7%. Cable saw a decent rebound from 1.2028 to highs of 1.212 while the Loonie fell sub 1.3750 from highs of 1.3787, which was also supported by a rebound in crude prices.

EMFX was mixed. In LatAm FX, the BRL, MXN and COP saw notable gains while CLP and ARS saw weakness despite gains in copper and a 300bp hike from the Argentine Central Bank. The risk on trade helped support BRL, MXN and COP. Meanwhile, in Mexico Banxico's Borja said the bank's main focus is still tackling inflation, but they do take everything into account when asked about the ongoing banking woes. And in Columbia, the Finance Minister said he is optimistic on growth due to easing inflation and better agricultural performance. The TRY saw mild weakness as floods hit Turkey following the recent earthquakes, while a draft election manifesto from President Erdogan's AK Party is prioritising free market principles and a return to more orthodox economic policies, according to Reuters sources.

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