newsquawk

US Market Wrap

17th March 2023: Stocks and yields hit on banking crisis woes ahead of Fed

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Fed's discount window spiked by a record amount; Timiraos says 25bps Fed hike or hold will likely be determined by market response in coming days; Prelim UoM soft with falling inflation expectations; Strong FDX guidance; SIVB commences Chapter 11 proceedings; ECB had a meeting due to banking sector turmoil; ECB insider wants another 50bp in May; SCHW saw strong inflows this week & WAL says its in a strong position; At least 4 global banks put restrictions on new dealings with CS.
- **COMING UP**: **Events**: BoJ SOO, PBoC LPR, Putin & Xi Meeting **Supply**: EZ.
- **CENTRAL BANK WEEKLY**: Reviewing ECB; Previewing FOMC, PBoC, BoE, SNB, CBRT, BCB, as well as RBA and BoC minutes. To download the report, please click here.
- **WEEK AHEAD**: Highlights include FOMC, PBoC, SNB, Flash PMIs. To download the report, please click here.

MARKET WRAP

It was risk-off trade on the quad-witching Friday with all major European and US indices closing in the red as banking fears mount. The latest Fed data revealed banks sought record amounts of liquidity from the Fed's discount window as a result of the banking crisis, which is often seen as the Fed's lender of last resort. Meanwhile, the ECB held a meeting to discuss the banking sector, although concluded there is no contagion to EZ banks from the turmoil, although the meeting itself was enough to cause panic. SIVB also filed for its Chapter 11, as expected. Financials were hit the hardest with steep outflows in the regional banking ETF (KRE) once again with the lifeline to First Republic (FRC) on Thursday not enough to help the stock through the end of the week. Credit Suisse (CSGN SW) also tumbled despite help from the SNB on Thursday. Meanwhile, it was reported that at least four global banks put restrictions on new dealings with Credit Suisse and two banks are taking measures that involve cutting unsecured exposure to CS in new dealings. The risk-off trade supported fixed income throughout the session while Treasuries also were supported by a soft UoM report which was accompanied by easing inflation expectations, which will help reduce the need for hawkish impetus from the Fed next week. The Dollar sold off as yields plummeted again with the 2yr back beneath 4% while the Yen prospered on yield dynamics and as participants piled into havens with gold hitting highs just shy of USD 1,990/oz. Elsewhere, FedEx (FDX) earnings were solid with even stronger guidance which helped the stock rally. Attention next week turns to key central bank rate decisions, including the FOMC, in which WSJ's Timiraos said today that the decision on 25bps or to hold will likely be determined by the market response in the coming days. Note, on the ECB, an insider via Econostream stated they would support another 50bps hike in May, unless the economy or core HICP softens, adding there is no doubt the central bank is still in a tightening mode and there is no hurry to decide on the next move and can wait until the time comes.

US

FED'S DISCOUNT WINDOW: Weekly Fed balance sheet data released Thursday revealed that lending at the Fed's discount window spiked by a record amount; the central bank's 'emergency loans' stood at USD 318bln (vs USD 15bln W/W). Its new BTFP programme total outstanding amount was USD 11.9bln as of March 15th; Fed said there was USD 15.9bln total collateral under new bank term funding programme; the Fed balance sheet size jumped to USD 8.69tln on March 15th, from USD 8.39tln on March 8th, the highest since November; other credit extensions rose to USD 142.8bln as of March 15th from zero on March 8th. Capital Economics said that it showed the scale of the stresses in the financial system, and was a far more severe liquidity crunch than at the start of the pandemic (emergency loans peaked at USD 130bln then), and not far off the financial crisis peak of USD 437.5bln in 2008. "The size of the spike in the Fed's emergency lending underlines that this is a very serious crisis in the banking system that will have significant knock-on effects on the real economy," CapEco wrote.

IP/CAPACITY UTIILISATION/MANUFACTURING OUTPUT: Industrial production was steady in February and as such unchanged, against the expected +0.2% and the prior +0.3%. Manufacturing output surprisingly rose 0.1% (exp. -0.2%, prev. +1.3%) and capacity utilization came in at 78.0%, the same as last month, but underneath the expected 78.4%. Looking under the bonnet, Oxford Economics note IP will lose momentum as the economy suffers a mild recession later this year, and as such the industrial sector will struggle amid the challenges of weakening domestic demand, frail overseas demand, rising interest rates, and a strong US dollar. Elsewhere, gains in manufacturing and utilities were offset by a drop in mining, as Oxford notes the “tepid 0.1% rise in manufacturing was driven by modest increases in durables and nondurables.” Moreover, the consultancy adds, “manufacturing output is tracking negative q/q growth in Q1. Meanwhile, a rise in electricity and heating demand drove utilities higher. Mining fell 0.6% on broad-based declines.”

UOM: The Preliminary University of Michigan consumer survey was soft. Headline sentiment fell to 63.4 from 67, despite expectations for an unchanged print. The current conditions component fell to 66.4 from 70.7, deeper than the expected fall to 70. Forward looking expectations also declined, dipping to 61.4 from 64. The report notes that the decrease in March was "was already fully realized prior to the failure of Silicon Valley Bank, at which time about 85% of our interviews for this preliminary release had been completed". It also noted the downside was led primarily on the basis of persistently high prices. There will be particular attention on the final reading of the UoM survey which will incorporate the latest banking crisis in the US. Inflation expectations also edged down, the 1yr fell to the lowest since April 2021 at 3.8%, but still remains above the 2.3-3.0% range seen in the two years before COVID. The 5-10yr expectations also declined, falling to 2.8% from 2.9%. UoM noted that with "ongoing turbulence in the financial sector and uncertainty over the Fed’s possible policy response, inflation expectations are likely to be volatile in the months ahead." The soft report, particularly the inflation expectations, will be a welcome sign for the Fed and further reduces the need for more hawkish impetus next week with markets leaning towards a 25bp hike or potentially an unchanged print amid the ongoing banking woes while recent data will help the Fed take a more cautious approach with inflation more-or-less in line, a cooler unemployment rate, and a dip in inflation expectations.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 1 POINT 20 TICKS HIGHER AT 115-26

Treasuries bull steepened in risk off trade as banking crisis fears mount into the weekend. 2s -29.7bps at 3.833%, 3s -28.9bps at 3.699%, 5s -27.1bps at 3.466%, 7s -23.4bps at 3.459%, 10s -18.2bps at 3.401%, 20s -10.4bps at 3.767%, 30s -10.8bps at 3.606%.

INFLATION BREAKEVENS: 5yr BEI -13.4bps at 2.117%, 10yr BEI -11.4bps at 2.125%, 30yr BEI -9.8bps at 2.113%.

THE DAY: Treasuries saw mild gains overnight before catching a hefty bid as US players arrived and the risk appetite turned sour. After the close on Thursday, the Fed's weekly balance sheet data revealed a spike higher in the Fed Discount Rate window as banks seek liquidity amid the crisis which helped the underlying bid. Meanwhile, the ECB held a meeting to review developments in the banking sector although supervisors concluded there is no contagion to EZ banks from the recent turmoil, however, the meeting alone was enough to cause a panic. Heading into the weekend a lot of the optimism on Thursday was unwound despite lifelines handed out from central banks and larger banks for both Credit Suisse and First Republic, with both companies share prices tumbling on Friday. Although data has taken a back seat to the banking woes this week, Treasuries extended on their gains in wake of the UoM survey which disappointed across the board although inflation expectations saw a marked revision lower helping reduce the need for hawkish impetus from the Fed next week.

STIRS:

- SR3H3 +18.0bps at 95.303, Z3 +33.0bps at 95.945, H4 +31.0bps at 96.145, M4 +29.0bps at 96.420, U4 +31.5bps at 96.690, Z4 +33.5bps at 96.880, H5 +33.0bps at 96.955, H6 +24.5bps at 96.940, H7 +20.0bps at 96.985.
- US EFFR remained at 4.58% as of March 16th, volumes fell to USD 83bln from 89bln, all percentiles unchanged.
- US SOFR fell to 4.57% on March 16th from 4.58%, on USD 1.272tln volume.
- NY Fed RRP op demand at USD 2.106tln (prev. 2.066tln) across 97 bidders (prev. 103)

CRUDE

WTI (J3) SETTLED USD 1.61 LOWER AT 66.74/BBL; BRENT (K3) SETTLED USD 1.73 LOWER AT 72.97/BBL

The crude complex was lower to end the week with losses close to USD 10/bbl in both WTI and Brent. Once again, oil was a function of broader market sentiment as opposed to anything crude specific, as energy saw notable weakness when US players entered the fray which markedly weakened risk appetite on the final trading day of the week. As such, WTI and Brent hit lows of USD 65.17/bbl and 71.40/bbl, respectively. Elsewhere, according to Bloomberg, OPEC+ delegates are reportedly still encouraged by Asian demand and largely blame the recent sell-off on speculative money leaving the derivatives oil market rather than weakness in the physical market. Separately, Russian offline diesel oil refining capacity set to rise 77% in April from March with diesel exports poised to decline 0.5mln BPD in April from March, according to Reuters sources and calculations. Lastly, Baker Hughes saw total rig counts rise 8 to 754, broken down by oil rigs falling by 1 to 589, and gas rigs rising by 9 to 162. Looking ahead, the key risk event is the FOMC, as well as a slew of other Central Banks (BoE, SNB, Norges, and PBoC), on top of any headline newsflow regarding the banking crisis.

EQUITIES

CLOSES: SPX -1.10% at 3,916, NDX -0.49% at 12,519, DJIA -1.19% at 31,861 RUT -2.56% at 1,725.

SECTORS: Financials -3.29%, Real Estate -2.27%, Industrials -1.63%, Materials -1.54%, Energy -1.53%, Health -1.26%, Consumer Discretionary -1.24%, Utilities -0.98%, Consumer Staples -0.6%, Communication Services -0.48%, Technology -0.11%.

EUROPEAN CLOSES: EURO STOXX 50 -1.26% at 4,064, FTSE 100 -1.01% at 7,335, DAX 40 -1.33% at 14,768, CAC 40 -1.43% at 6,925, FTSE MIB -1.64% at 25,494, IBEX 35 -1.92% at 8,719, SMI -0.98% at 10,613.

FINANCIALS: **First Republic Bank (FRC)** said as of March 15th, had a cash position of USD 34bln, not including USD 30bln of uninsured deposits. Said insured deposits from March 8th-15th have remained stable. Has suspended its common stock dividend. As a reminder, many large banks (**JPM, BAC, WFC, C, GS, MS, BK, PNC, STT, TFC, USB**) confirmed yesterday they are to make uninsured deposits totalling USD 30bln into First Republic Bank. **SVB Financial (SIVB)** commenced Chapter 11 proceeding to preserve value; believes it has USD 2.2bln of liquidity. Strategic alternatives process for SVB Capital and SVB Securities operations underway with significant interest. Separately, Bill Ackman noted he is hearing that **Bank of America (BAC)** is going to buy **Signature Bank (SBNY)** on Monday. **Charles Schwab (SCHW)** clients have reportedly withdrawn USD 8.8bln from its prime funds in 3 days. However, SCHW gave conflicting reports as it said it is seeing strong inflows from clients over the last week; in the last week seen about USD 16.5bln in core net new assets. SCHW is confident in its approach and in its ability to help clients through all kinds of economic environments. **Western Alliance Bank (WAL)** noted it remains in a strong position, with immediately available liquidity of over USD 20bln as of March 16th 2023. Experienced elevated net deposit outflows on Monday following the announcement of Signature Bank closure. Net outflows have fallen sharply since SBNY closure. Since SNBY closure, deposit balance fluctuations are returning to normalised levels in recent days. Meanwhile, on **Credit Suisse (CSGN SW)** , at least four global banks put restrictions on new dealings with the bank, according to Reuters sources, and at least two banks are taking measures that involve cutting unsecured exposure to CS in new dealings.

STOCK SPECIFICS: **FedEx (FDX)** beat on profit alongside raising FY guidance. Note, FDX missed on revenue and continued to move with urgency to improve efficiency, said cost actions were taking hold, and now expects to achieve more than USD 4bln in annualised structural cost reduction by end of FY25. **US Steel (X)** Q1 adj. EPS and EBITDA guidance surpassed expectations. Said Q1 flat-rolled segment adj. EBITDA is expected to be lower than Q4 levels. **Nvidia (NVDA)** was upgraded at Morgan Stanley; said continued tailwinds from the growing push toward artificial intelligence. **Sarepta Therapeutics (SRPT)** announced that the FDA determined that Sarepta should face the FDA's panel of outside experts on Duchenne gene therapy. **Sanofi (SNY)** will cut prices of insulin by 78% in the US, and cap out-of-pocket costs at USD 35 for all patients with commercial insurance from January 1st, 2024. SNY's move follows similar undertakings from **Eli Lilly (LLY)** and **Novo Nordisk (NVO)**, as well as pressure from some US lawmakers. **Baidu (BIDU)** has secured a permit to provide a fully driverless raid-hailing service within Beijing City. **Disney+ (DIS)** users have digested the streaming service's recent price increase, as shown by Antenna data. The data reveals that about 94% of Disney+ users stayed with the product at the higher price, according to WSJ sources.

WEEKLY FX WRAP

Banks the be all and end all for currency and financial markets

USD/CHF - A real roller-coaster ride for the Buck and DXY within 105.100-103.440 extremes, as the collapse of SVB and Signature Bank prompted a safe haven scramble on Monday that resembled a fully fledged flight to quality at times. However, the Greenback underperformed on the grounds that the failed institutions were US entities and the fallout might be contained, not to mention the fact that markets scaled down Fed hike expectations significantly in response to financial sector turmoil and threat of instability or systemic risk. Indeed, GS made an early call for no tightening at the March FOMC meeting and others followed suit before an even more dovish shout from Nomura touting a 25 bp ease and halt to QT. All this, irrespective of the Fed and FDIC pulling out several liquidity stops to stem the tide and outflow of deposits, including a new 'Bank Term Funding Program'. The Dollar index remained depressed and only got a fleeting fillip when core CPI eclipsed consensus on a m/m basis the following day, but rebounded firmly during Wednesday's session as contagion spread to Europe and claimed an already vulnerable casualty in Switzerland by the end of a calamitous day for Credit Suisse. In truth, the Bank was part of its own undoing as it admitted to irregularities and material weaknesses in financial reporting controls, though stakeholder Saudi National Bank hardly helped matters by stating that it cannot give more money to CS due to the 10% limit amid regulatory issues. Hence, it was left to the Swiss Central Bank, aka the SNB, to step in alongside FINMA with a Chf 50 bn credit line, but the relief was relatively short-lived as the bank's shares succumbed to renewed selling pressure and the weakness spilled over to EU peers. Back to the US, and it was a similar story for First Republic Bank that received Usd 30 bn cash from a consortium of bigger lenders and only saw its stock recover briefly to keep fears of another GFC. Moreover, event risk looms large in the form of multiple Central Bank policy meetings next week as the FOMC is closely followed by the SNB and BoE to name just three, and the ECB may have set a precedent by sticking to guidance script with a 50 bp hike yesterday. Looking at Usd /Chf, 0.9343-0.9072 marks the wide weekly boundaries and the Franc is hovering below 0.9300 currently amidst risk-off conditions given a loss of safety premium in the same vein as the Buck due to investors flocking to the Yen and Gold instead.

JPY/XAU - As alluded to above, the Yen and Gold have been the primary beneficiaries during bouts of aversion, with added impetus from compression in global bond yields via periods of bull-flattening and steepening. Thus, Usd/Jpy is much nearer 131.73 trough than 135.11 peak, while Xau/Usd is extending gains from a Usd 1867.51/oz base through Usd 1964 and beyond February's apex.

EUR - The Euro carved out a 1.0517-1.0759 range vs its US counterpart in the face of potential collateral damage to Eurozone banks from exposure to Credit Suisse and the aforementioned troubled US regional banks, or simply by association. Nevertheless, Eur/Usd was underpinned on the 1.0600 handle after the ECB decided that there is no trade-off between price and financial stability when it comes to tackling inflation, albeit with a few GC reservations and the withdrawal of formal notification of future rate hikes. This adjustment to the accompanying statement could have been made for the doves that wanted more time to see whether the financial sector stress abates, but also to avoid being boxed in after sending such a clear message of intention. Whatever the reason, latest Staff forecasts for inflation show no material slowdown towards target until 2025 and therefore indicate that there is more work to be done as noted by President Lagarde in the post-meeting press conference and other Board members thereafter.

NZD/AUD/GBP - Somewhat perversely perhaps, the high betas and cyclicals held mostly firm on Friday regardless of the sour market mood that would normally adversely impact, and their US rival's generally soft/offered tone seemed to be the overriding factor. In fact, the Kiwi almost matched its w-t-d best after a much deeper contraction in NZ Q4 GDP resulted in lower RBNZ rate calls and the Aussie probed the 21 DMA at 0.6720 even though Westpac revised its April forecast for the RBA to no change (or a pause) from 25 bp increase and trimmed its terminal view by ¼ point to 3.85% (compared to the 3.6% Cash Rate Target at present) as a consequence. On the flip-side, the latest jobs report propped Aud/Usd as payrolls were better than anticipated and the unemployment rate retreated to multi-year lows. Elsewhere, Sterling derived little or no independent direction from the UK's Spring Budget as Chancellor Hunt pulled few surprises out of the hat (or red case to be precise), while the labour report was rather mixed to provide any clear momentum and the Pound awaits the BoE with uncertainty. Nonetheless, Cable is comfortably above worst levels and nearer the top of a 1.2203-1.2011 band where a Fib sits and the Eur/Gbp cross is sub-0.8800 within 0.8863-0.8719 confines.

CAD - The major laggard and hampered by hefty declines in crude rather than Canadian fundamentals as Usd/Cad hovers above 1.3700 between 1.3825-1.3652 extremes in advance of BoC minutes that should underline the rationale for switching from a tightening cycle to conditional pause.

SCANDI/EM - Hawkish Riksbank rhetoric either side of another hot Swedish inflation update helped the Sek outpace the Eur, but the Nok had to cope with Brent oil's slide and a negative monthly mainland Norwegian GDP print and caution ahead of the Norges Bank rate verdict. Meanwhile, the Cnh and Cny were undermined by ongoing China-US tensions, but took a 25 bp RRR cut by the PBoC in stride (pre-announced to take effect from March 27), while the Zar was cushioned by Gold's rush and the Mxn managed to evade the worst of the WTI meltdown on bullish tech dynamics. Conversely, floods added to the Try's woes on top of pre-Turkish election jitters and a rise in the CBRT's survey-based end of year CPI estimate.