US Market Wrap

20th March 2023: Stocks and yields rise on more distressed bank support

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar down.
- **REAR VIEW**: UBS buys Credit Suisse, AT1 holders wiped out; FDIC pushed to expand deposit guarantees; FRC still evaluating options, hires JPM; French government narrowly survives no-confidence motion
- **COMING UP**: **Data**: German ZEW, Canadian CPI, Retail Sales, US Existing Home Sales **Event**: Xi & Putin (2/3), RBA Minutes **Speakers**: ECB's Lagarde & Enria **Supply**: UK, Germany & US
- **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, SNB, Flash PMIs. To download the report, please click here.

MARKET WRAP

US equity futures rose amid a more constructive tone in the banking sector, although the Nasdaq-100 was relatively underperforming amid another day of losses along the Treasury curve, with yields higher amid outflows from the haven, while some also suggested that yields were also playing catch up to Fed pricing (2s yield around 4% vs expectations that rates could top out at 4.75-5.00%). Regional banks in the US saw some reprieve on hopes that the FDIC's deposit insurance amount could be lifted, or the ceiling abolished, though some sections of Congress are not warm on the idea. However, not all regional banks were gaining; First Republic Bank (FRC) was flogged after reports that it was seeking capital from private investors; there were also reports that suggested that it had instructed JPMorgan to help evaluate its strategic options; analysts said that it showed that there were still some pockets of angst within the sector, particularly at FRC. Meanwhile, the Financials sector as a whole rallied, as UBS (UBSG SW) took over Swiss rival Credit Suisse (CSGN SW) on the weekend, and although some investors were concerned that AT1 holders were wiped out before equity holders, UBS managed to finish higher in European trade. Elsewhere, traders continue to debate what sort of impact the recent financial crisis will have on the Fed's rate hike trajectory; there is no pricing for a 50bps move this week (something Powell and Co were guiding us towards at the beginning of the month), with markets split between a +25bps rate rise, and an unchanged outing. Markets are discounting a 25bps hike by May, after that point, markets are in fact pricing in rate cuts; Powell and the FOMC will have an opportunity to guide expectations on Wednesday, when they update their dot plot – Powell was previously guiding towards a higher terminal rate, although some suggest that may be difficult to signal in this sort of market. Note, in France the French government managed to narrowly survive a no-confidence vote in parliament by just 9 votes on its pension reform plans.

BANKING

US: Mid Sized US banks asked the FDIC to insure all deposits for two years and the Biden administration is under increasing pressure to expand the deposit guarantee to boost confidence in the financial system, according to the FT. FDIC is extending the bid for SVB Bridge Bank and says it has substantial interest from multiple parties. Separate reports suggest that New York Community Bank (NYCB) and First Citizens (FCNCA) are considering offers. Meanwhile, Warren Buffet held discussions with senior Biden administration officials regarding the banking crisis, while rumours suggest he may be meeting with mid-sized banks for a deal to quell the crisis; there was some. First Republic (FRC) tumbled on Monday on liquidity concerns following reports it is in talks for private equity sales, while WSJ reported JPMorgan CEO Dimon is leading banks in a fresh effort to shore up FRC. Options include an investment as well as converting some or all of the USD 30bln paced in deposits at the co. into a capital infusion. Meanwhile, the Fed, BoE, BoC, BoJ, ECB and SNB agreed on coordinated action to enhance the provision of liquidity via the standing US dollar liquidity swap lines with daily 7-day maturity operations, as opposed to weekly operations previously.

EUROPE: UBS (UBSG SW) is to acquire Credit Suisse (CSGN SW) for a total consideration of CHF 3bln (vs Credit Suisse's ~CHF 7bln market cap at Friday's close), with Swiss regulator FINMA also determining that Credit Suisse's Additional Tier 1 (AT1) capital in the aggregate nominal amount of around CHF 16bln will be written off so it would not create liabilities for UBS. Therefore, the AT1 bondholders will receive nothing, despite the bondholders typically being above shareholders in the seniority. The shareholders are to receive c. CHF 0.76/shr in the buyout. The SNB said it is providing substantial liquidity assistance to support the UBS takeover of Credit Suisse and the takeover was made possible with the support of the Swiss federal government, FINMA and SNB. Both banks also have unrestricted access to the SNB's existing facilities and they can obtain a liquidity assistance loan with privileged creditor status in bankruptcy for a total amount of up to CHF 100B. ECB said it welcomes the swift actions and decisions taken by Swiss authorities and noted that the Euro area banking sector is resilient with strong capital and liquidity positions. Two major banks in Europe are reportedly examining scenarios of contagion potentially spreading across Europe's banking sector and looking to Fed and ECB for stronger signals of support, according to Reuters. Blackrock (BLK) also were reportedly in talks to acquire Credit Suisse, but it denied the claims.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 23 TICKS LOWER AT 115-03

The Treasury curve bear flattened on Monday in risk on trade, as participants digested Credit Suisse lifelines and FDIC prompts ahead of the Fed. 2s +9.5bps at 3.941%, 3s +8.7bps at 3.789%, 5s +11.6bps at 3.582%, 7s +11.0bps at 3.570%, 10s +9.1bps at 3.488%, 20s +7.6bps at 3.839%, 30s +6.7bps at 3.668%.

Inflation Breakevens: 5yr BEI +5.5bps at 2.145%, 10yr BEI +5.8bps at 2.172%, 30yr BEI +5.3bps at 2.149%.

THE DAY: The Treasury curve bear flattened on Monday in risk off trade as participants digested Credit Suisse lifelines and FDIC prompts ahead of the Fed. The flight to quality trade seen in Treasuries last week initially continued on weekend news that the SNB, FINMA and UBS agreed for UBS to acquire Credit Suisse, although with AT1 bondholders taking the hit before equity holders. As US participants arrived, though the risk sentiment improved, regional banks were predominantly performing well in the US on reports the FDIC is being pushed to expand deposit guarantees to help with financial stability at a time of bank stress. However, First Republic (FRC) tumbled following another rating downgrade and more capital raise plans despite the USD 30bln it received last week, showing it is strapped for cash. With the improved risk sentiment continuing through to settlement, Treasuries settled near lows with the 10yr yield seeing a high of 3.52% while the 2yr yield attempted to rise back above 4% but failed to hold above that level. Attention now turns to the FOMC on Wednesday with markets pricing in a roughly 50/50 probability of either an unchanged print or a 25bps hike as we look to see how the Fed deals with its challenge of financial stability woes and elevated inflation.

STIRS:

- NY Fed RRP op demand at USD 2.098tln (prev. 2.106tln) across 97 bidders (prev. 97).
- US EFFR remained at 4.58% on March 17th, volumes rose to USD 85bln from USD 83bln with all percentiles unchanged.
- US SOFR fell to 4.55% from 4.57% on March 17th, on volumes of USD 1.265bln.

CRUDE

WTI (J23) SETTLED USD 0.90 HIGHER AT USD 67.64/BBL; BRENT (K23) SETTLED USD 0.92 HIGHER AT 73.79/BBL

Crude oil futures sank to the lowest levels since December 2021 in early trade, with sentiment soured due to investors fretting over the details of the deal to rescue Swiss bank Credit Suisse. The mood improved over the course of the session, as US players arrived and US equities saw reprieve, with the key gauges on the US regional banks sector and the Financial sector more broadly seeing some upside; this helped crude benchmarks rise off lows, but then settled into a horizontal pattern through the start of the US day. Some desks said that the book squaring ahead of the April WTI futures contract expiry on Tuesday was also contributing. As settlement approached, however, crude futures pared losses to trade a little above flat and settled in the green. This week, headline crude stocks are expected to draw by 1.4 mln, gasoline is expected to draw down by the same amount, while distillate stocks are seen drawing by 1.5mln.

EQUITIES

CLOSES: SPX +0.89% at 3,952, NDX +0.34% at 12,563, DJIA +1.2% at 32,245, RUT +1.11% at 1,745

SECTORS: Energy +2.11%, Materials +2.01%, Industrials +1.36%, Consumer Staples +1.35%, Health Care +1.28%, Financials +1.20%, Real Estate +1.06%, Utilities +0.81%, Communication Services +0.48%, Consumer Discretionary +0.39%, Technology +0.23%.

EUROPEAN CLOSES: EURO STOXX 50 +1.34% at 4,119, FTSE 100 +0.93% at 7,404, DAX 40 +1.12% at 14,933, CAC 40 +1.27% at 7,013, FTSE MIB +1.59% at 25,900, IBEX 35 +1.31% at 8,833, SMI +0.28% at 10,644

STOCK SPECIFICS: **UBS (UBSG SW)** is to acquire **Credit Suisse (CSGN SW)** for a total consideration of CHF 3bln (vs Credit Suisse's ~CHF 7bln market cap at Friday's close), with Swiss regulator FINMA also determining that Credit

Suisse's Additional Tier 1 (AT1) capital in the aggregate nominal amount of around CHF 16bln will be written off. **First Republic (FRC)** is reportedly in talks to raise funds from other lenders or PE firms by issuing new shares to bolster its finances, according to NYT. WSJ also reported that FRC is the main concern of US officials before later reporting JPMorgan (JPM) CEO Dimon is leading banks in a fresh effort to shore up FRC but talks are at an early stage. Meanwhile, S&P cut FRC's credit rating again to B+ from BB+ on Sunday and remains on Credit Watch negative. **PacWestBancorp (PACW)** said it continues to have solid liquidity with over USD 10.8bln in available cash from March 17th but it has seen elevated withdrawals following the collapse of SVB. **Netflix Inc. (NFLX)** ad-supported tier reportedly reached 1mln Monthly Active Users in the US after its second month, according to Bloomberg citing internal data. **Keurig Dr Pepper (KDP)** affirms FY23 guidance; still sees constant currency net sales growth of 5% and adj. EPS growth of 6-7%. **Foot Locker (FL)** Q4 2022 (USD): Adj. EPS 0.97 (exp. 0.51), Revenue USD 2.33bln (exp. 2.16bln); SSS +4.2% (exp. -5.9%) Sees FY 2023 adj. EPS between USD 3.35-3.65 (exp. 4.21), FY revenue view down 3.5-5.5%, comp sales down 3.5-5.5%. **Amazon (AMZN)** is reportedly laying off an additional 9k employees, according to Bloomberg. Trian's Peltz said they are not out of **Disney (DIS)**, though not in as much as previously but they are watching closely, according to CNBC. US Air Force is reportedly seeking USD 73bln for Northrop Grumman (NOC); a 5-year USD 35bln plan for the B-21 raider bombers (NOC) and USD 38.5bln for the new sentinel ICBM missiles (NOC). **Microsoft's (MSFT)** remedies to address European Union antitrust concerns over its acquisition of **Activision (ATVI)** reportedly focus only on cloud gaming services, with no mention of rival **Sony (SONY)**, according to Reuters citing sources.

FX WRAP

The Dollar was lower on Monday as the Euro advanced on the Swiss government, SNB's and UBS' safety net to Credit Suisse, helping limit any contagion fears to Europe and supporting risk appetite. Meanwhile, the US banking crisis saw First Republic (FRC) continue to stumble following another downgrade at S&P and reports it is looking to raise capital through private equity sales. WSJ also noted that JPMorgan CEO Dimon was leading banks in a fresh effort to shore up FRC, a sign of continued stress in the bank, some said. Nonetheless, other regional banks surged on Monday on hopes that the US regulators would expand deposit guarantees. The downside in the buck came despite the move higher in yields although the upside in stocks supported the move lower in the greenback. Attention turns to Wednesday's FOMC with the debate focusing on financial stability and the Fed's fight against inflation, with markets torn between rates being left unchanged or being hiked by 25bps. Aside from support in Switzerland, the Fed, BoE, BoC, BoJ, ECB and SNB agreed on coordinated action to enhance the provision of liquidity via the standing US dollar liquidity swap lines with daily 7-day maturity operations. Analysts at SocGen remind us the swap line facility "was a common tool in 2007 and in 2010 but has no FX impact. It involves two transactions at the same exchange rate", while analysts at Rabobank noted that if markets are in risk-off mode, the USD is unlikely to fall back too far, but if risk appetite settles, the Dollar could edge lower but the tone at the March FOMC meeting will be key for the direction of the buck.

The Euro was supported by efforts to limit the contagion of Credit Suisse, while ECB President Lagarde noted the exposure to EZ banks is in the millions, not billions, as well as the easier access to swap lines to tap if needed, helping reduce fear of banking stress in the EZ. EUR/USD rose above 1.07 hitting a 3-session high but a hawkish Fed on Wednesday would be a risk.

The Yen saw minor gains against the Dollar despite the move higher in US yields with the weaker dollar and overnight risk off supporting the Japanese currency. USD/JPY was off lows of 130.55 seen in the European morning, where the risk tone was more sour with the pair now trading north of 131.50 as risk appetite improves.

The **CHF** was weaker vs both the Euro and the Dollar on Swiss bank uncertainty, with some domestic caution on the UBS/CS tie-up. A senior Swiss lawmaker contended that the merger poses huge risk and the new entity would be too large, while bondholders of CS' AT1 debt are left with nothing following the debt write off by FINMA.

Gold prices briefly rose above USD 2,000/oz early morning before paring back beneath the figure as risk sentiment improved throughout the US session.

The Yuan firmed both onshore and offshore vs the buck. Overnight, the PBoC left its 1yr LPR and 5yr LPR unchanged at 3.65% and 4.30%, respectively, as expected. The Yuan gains were also supported by the weaker greenback and reversed some of the action on Friday following the PBoC's 25bp RRR cut.

Cyclical currencies found tailwinds from the weaker buck and upside in US equities aside from NZD. The kiwi seemingly was hit by AUD/NZD flows with the Aussie greatly outperforming its Antipodean counterpart on the improved risk sentiment with AUD/USD at a 9-session high however technicians are leaning bearish with the pair beneath the 200dma at 0.6772. GBP was a clear outperformer, with Cable hitting highs of 1.2279 from lows of 1.2168 ahead of the BoE on Thursday, while CAD also saw gains on the risk environment.

EMFX was mixed; LatAm FX was bid against the weaker dollar on dovish Fed expectations with higher copper prices supporting CLP and PEN, despite soft growth data in Chile. ZAR was weaker however as gold prices pared from recent highs. TRY was flat vs the Dollar; note Reuters reported the CBRT is to require an FX position report for corporates who have a credit balance of more than TRY 5mln. Elsewhere, the HUF outperformed in CEE after the NBH announced it will waive the daily reserve requirement for banks from April 1st to 5th.

In **Scandis**, SEK was buoyed by risk but NOK fell victim to lower crude prices.