US Market Wrap

21st March 2023: Stocks rally and havens tumble on bank optimism ahead of Fed

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar flat
- **REAR VIEW**: Yellen optimistic on financial; Strong US existing home sales; Cool Canada CPI; Russia to continue with 500k BPD cut; Xi and Putin meet
- **COMING UP**: **Data**: UK CPI **Events**: FOMC Policy Announcement & Press Conference, BoC Minutes **Speakers**: Fed's Powell; ECB's Lagarde, Lane, Panetta, Nagel & Rehn **Supply**: Germany & UK

MARKET WRAP

US equities rallied for a second day amid further stability in the banking names, and ahead of the FOMC's Wednesday meeting, where the consensus now expects the central banks to lift rates by 25bps (our preview can be accessed here). Some issues remain in the sector, however, with a deal to acquire First Republic (FRC) – or even parts of the regional bank – yet to be completed; large bank CEOs will reportedly meet over the next couple of days to find a solution. Meanwhile, reports continue to suggest that officials are looking for a solution to raising the FDIC's deposit insurance ceiling; some temporary measures would allow a bypass of a Congressional vote, particularly as some (like the Freedom Caucus) are cool on the plan. Elsewhere, Treasury Secretary Yellen reaffirmed faith in the US financial system, and said that outflows from regional banks had stabilised. Data released today showed Existing home sales rising for the first time, after 12 months of straight declines; Canada CPI was cooler than expected in February, vindicating the BoC's recent decision to pause on hikes. After hours, the API will release energy inventories for the week, which are expected to see draws for headline crude stocks and the products. Other than that, a feeling of calm is taking hold ahead of the Wednesday FOMC.

GLOBAL

FED PREVIEW: The recent financial stability concerns among some regional US banks have been largely driven by a rapid rise in interest rates as the Fed normalises monetary policy aggressively to bring down inflation. This has raised some concerns around the health of the banking sector, and the FOMC's March meeting will be used to gauge the extent to which officials see economic confidence being affected, as inflation continues to run hot despite some recent cooling. Accordingly, the debate around the March meeting is whether the Fed continues to lift rates to tackle above-target inflation, or whether it pauses to assess the financial market fallout. "The question for central banks who are desperate to rein in inflation is how much the crisis will affect economic confidence and if so, will it help in their quest to rein in inflation?" Analysts at Societe Generale write, adding that "markets responded with a resounding yes." To download the full report, please click here.

US EXISTING HOME SALES: US existing home sales rose 14.5% to 4.58mln units, above the expected 4.2mln, and snapping a twelve consecutive months run of lower prints; that said, Pantheon Macroeconomics says existing home sales remain around 28% below the peak in January 2022. "Home sales were crushed by last year's surge in mortgage rates, but are now being driven by more modest swings in rates at the margin," Pantheon says, noting that the rate on a new 30-year conventional mortgage was 6.18% at the start of February, nearly 100bp lower than the recent peak at end-October, but has since risen sharply to 6.71% last week. Ahead, the consultancy says that a drop in sales in March, perhaps to a new cycle low, is likely. The data showed that months' worth of supply of existing homes fell to 2.6 months worth. "The bigger picture is that prices have fallen by around 3% from their summer peak, and fell on Y/Y basis in February, the first drop in this cycle," adding that "the speed of decline in prices is being limited by the lack of existing homes coming to market—the seasonally-adjusted supply of existing homes was equal to 2.9 months of sales in February, down from 3.4 months in January—but even the relatively low number of homes listed are taking longer to sell." It says that this points to a further sharp fall in prices even if inventory remains low.

BANKING: The US is reportedly studying ways to guarantee all bank deposits and officials are studying ways to permit the FDIC to temporarily insure deposits beyond the current USD 250k cap on most accounts, without having to get approval from Congress, according to Bloomberg. Some sell-side banks noted within the report that one potential option would be to make use of the Exchange Stabilisation Fund; Rabobank observed that it is the only pot of money under the full authority of the Treasury Secretary. Meanwhile, Deputy US Treasury Secretary Adeyemo said the Treasury was mulling what steps could be taken to further strengthen US financial stability. On deposit outflows, Treasury Secretary Yellen said that US aggregate deposit outflows from regional banks had stabilised, while the Fed, FDIC, and Treasury actions have reduced the risk of further bank failures that would've imposed losses on despite insurance. Yellen added that similar actions to protect depositors could be warranted if smaller firms suffer deposit runs that pose risk of contagion, noting a dynamic and diverse banking system was critical to the US economy. Meanwhile, on First Republic (FRC), Bank CEOs are discussing the future outcome for First Republic (FRC), and are focused on a 1-4 month time frame if FRC sale fails, according to CNBC. Reuters reported that the bank is considering downsizing options if the capital raise fails. As we await some sort of deal, FBN's Gasparino reported bankers at JPMorgan (JPM) working on a First Republic (FRC) deal are facing difficulties finding a buyer without a significant government backstop, noting that one last-ditch solution that has been discussed includes selling warrants in the bank to the government in exchange for capital.

XI-PUTIN MEET: Russia President Putin and China President Xi had a thorough exchange of discussions, where economic relations, energy cooperation, and Ukraine were discussed. A joint Russia-China Statement said that two sides relations reached the highest level in their history, China-Russia relations were not confrontational towards other countries; the two will conduct regular air and naval drills, and will deepen cooperation and trust between their armed forces, though they added that relations between the two sides did not constitute a military-political alliance. On the West, the the statement noted that both had serious concerns about the AUKUS Alliance to build nuclear submarines, and call on the US to stop trying to create a global missile defense system, and stop undermining global strategic stability, adding that they were concerned about US military biological activities carried out on their territory and abroad. On Ukraine, the statement said Russia positively assessed China's position on Ukraine, and called for a halt to any steps that could push the Ukraine crisis into an 'uncontrollable phase', adding that there could be no winners in nuclear war, and it should never be unleashed. A separate report said that Putin called China's peace plan a basis for settlement in Ukraine when West and Kiev are ready, while the Russian President stressed that talks were the solution to the Ukraine crisis. On other APAC issues, the statement said that the two agreed that the US should respond to North Korea's legitimate and rational concerns, and create conditions to resume dialogue, and that the two had great concern about NATO strengthening ties with APAC countries. On the Middle East, Russia welcomed the normalisation of relations between Saudi Arabia and Iran, and the two said that they would increase contacts on security issues in the Persian Gulf region. The meetings concluded with the two signing joint documents, one on economic cooperation, and one on efforts to deepen the Russia-China partnership; Putin said the agreements would form the basis for strengthening Russian and Chinese friendships.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 31 TICKS LOWER AT 114-04

Treasuries bear flattened as haven demand evaporates and eyes turn to the FOMC. 2s +25.1bps at 4.175%, 3s +19.6bps at 3.977%, 5s +16.4bps at 3.734%, 7s +13.0bps at 3.686%, 10s +11.7bps at 3.594%, 20s +7.1bps at 3.904%, 30s +6.7bps at 3.729%

INFLATION BREAKEVENS: 5yr BEI +7.8bps at 2.246%, 10yr BEI +8.3bps at 2.261%, 30yr BEI +6.3bps at 2.214%

THE DAY: Treasuries continued to sell off on Tuesday as shares of banking stocks were supported, while commentary from Treasury Secretary Yellen and Deputy Treasury Secretary Adeyemo spoke of further support, helping to reduce haven demand for Treasuries (gold and Yen also saw outflows). The curve saw pronounced flattening, with the move higher in short-end yields adjusting to the slight shift in market pricing, which now leans more firmly in favour of a +25bp FOMC rate hike tomorrow, vs 50/50 on Monday. The 20yr auction (more below) drew little market reaction, with the tail and B/C in line with the prior auction, although the takedown was soft. T-Note's hit lows of 114-02 as the risk tone continued to improve, with stocks at fresh highs around the Treasury settlement, seeing T-Notes settle around lows of the day.

20YR AUCTION: The 20yr bond auction was soft, the 0.3bp tail was in line with the prior auction but weaker than the average strop through of 0.9bps, while the B/C was also in line with the prior at 2.53x. There was increased demand from direct bidders, taking 21% of the auction, but it was not enough to offset the drop in indirect demand, which fell to 67% from 75%, leaving dealers with an above average 11.9%. The lack of indirect demand comes ahead of the Fed rate decision on Wednesday, where there is a great deal of uncertainty on the rate path going forward, given the ongoing financial stability concerns; analysts also said that the front-end of the curve continues to offer more yield, perhaps acting as a headwind. Nonetheless, with money markets pricing a more dovish Fed, the recent dip in Treasuries after the financial stability rally may have supported demand.

STIRS:

- NY Fed RRP op demand at USD 2.195tln (prev. 2.098tln) across 104 bidders (prev. 97)
- US EFFR remained at 4.58% on March 20th, volumes rose to USD 92bln from USD 85bln, with all percentiles unchanged.
- US SOFR remained at 4.55% on March 20th, on volumes of USD 1.288bln.
- US sold USD 35bln in 1yr bills; high rate 4.390%, B/C 2.85x.

CRUDE

WTI (K23) SETTLES 1.69 HIGHER AT 69.33/BBL; BRENT (K23) SETTLES USD 1.53 HIGHER AT USD 75.32/BBL

Crude futures rallied on Tuesday, underpinned by a constructive risk tone, as banking fears continue to ease for a second day, while the Dollar was lower for much of the session, helping oil contracts to rise. Citi said that the recovery is making a technical case that an interim trading bottom has been established, if not a lasting floor, and an upward correction, if only something of a relief rally, is now underway. Note, Russian Deputy PM Novak affirmed Russia will continue with the 500k BPD oil production cut until the end of June 2023, adding Russia is close to achieving its target level of cuts. Additionally, some noted that technical factors may be in play ahead of the Tuesday expiry of the WTI April contract, while analysts are expecting weekly crude stocks to show drawdowns in the week. After hours, the API will report its own gauge of inventories for the week; the Street expects headline crude stocks to draw by 1.6mln, while distillate and gasoline products are seen drawing by 1.5mln and 1.7mln bbls respectively.

EQUITIES

CLOSES: SPX +1.30% at 4,003, NDX +1.42% at 1,741, DJI +1.42% at 12,741, RUT +1.88% at 1,778.

SECTORS: Energy +3.45%, Consumer Discretionary +2.71%, Financials +2.54%, Communication +2.45%, Materials +1.23%, Industrials +1.13%, Technology +0.83%, Health Care +0.59%, Consumer Staples -0.12%, Real Estate -0.66%, Utilities -2.05%.

EUROPEAN CLOSES: EURO STOXX 50 +1.51% at 4,182, FTSE 100 +1.79% at 7,536, DAX 40 +1.75% at 15,195, CAC 40 +1.42% at 7,113, FTSE MIB +2.53% at 26,554, IBEX 35 +2.45% at 9,049, SMI +1.40% at 10,793.

STOCK SPECIFICS: **Apple Inc. (AAPL)** is reportedly seeking changes in India’s labour laws as part of its effort to expand local production, and regional governments are yielding to its request as they are eager to take iPhone assembly from China, according to Bloomberg. **Tesla (TSLA)** credit rating was upgraded to Investment Grade from Junk at Moody's, meanwhile, China Merchants Bank International, said TSLA's retail sales in China totalled 107k units from January 1st to March 19th, or 1,371 units per day. **TSMC (TSM)** has reportedly "seen a ramp-up in orders from **Nvidia** for the GPU vendor's A100 and H100 chips, as well as lower-spec A800 series explicitly designed for the Chinese market", according to DigiTimes citing industry sources. **Meta (META)** was upgraded to Overweight from Equal Weight at Morgan Stanley with a PT of USD 250 (prev. USD 190); MS cites Meta’s structural pivot to focusing on efficiency and return on invested capital, improving revenue and engagement trends, as well as surging monetization of Reels and further revenue call options in AI, and subscriptions. **Broadcom Inc. (AVGO)** CEO sold USD 18.8mln in common stock, or 30k shares. **Charles Schwab Corporation (SCHW)** director Gerri Martin-Flickinger purchased 3.7k shares of SCHW for USD 200.4k. **Snap (SNAP)** COO sold 69.8k shares for USD 763.9k while the CFO sod 49.2k shares for USD 539k. **Pinduoduo (PDD)** app has reportedly been suspended on Google's Play Store for security concerns, according to Tech Crunch. The **Nvidia (NVDA)** software developer conference saw the co. provide many updates for AI and Quantum computing, including working with **Amazon (AMZN), Microsoft (MSFT), Oracle (ORCL), Adobe (ADBE), Getty (GETY) and Shutterstock (SSTK)**, while NVDA, **ASML (ASML NA), TSMC (TSM) and Synopsys (SNPS)** are to set foundation for the next gen chip. **Microsoft (MSFT)** won dismissal of gamers' suit over USD 69bln Activision (ATVI) deal, but the plaintiffs were given 20 days to refine their legal challenge.

FX WRAP

The Dollar was lower for the early part of the session as the risk tone continued to improve both overnight and into the morning before peaking in the afternoon. The greenback managed to reclaim its losses, perhaps aided somewhat by a slight shift in money market pricing for the Fed on Wednesday, with markets now assigning a 80% probability of a 25bp hike, and just a 20% probability of an unchanged announcement. The data docket was light, but existing home sales came in above expectations, similar to what was seen in the housing starts and building permits data. DXY hovered around 103.00 on Tuesday within 102.99 to 103.51 parameters.

The Euro firmed and maintained recent gains above 1.07, advancing above 1.0750 to find a high of 1.0788. On the data front, the German ZEW economic sentiment missed expectations, seeing declines in both current conditions and and expectations. Meanwhile, ECB's Kazaks said it is not possible to say the central bank has stopped hiking, noting that European banks were well capitalised, and that Europe has financial resources available, but uncertainty in financial markets is high. ECB's SSM Chief Enria noted there is no direct read-across from US events to the EZ significant banks.

The Yen was weaker as US yields continued to rise ahead of the Fed and as market pricing leans more in favour of a 25bp hike tomorrow while the haven demand for the Yen in wake of the banking crisis has pared somewhat with support from government authorities to those in distress, while regional banks have been moving off their crisis lows this week although the future of First Republic (FRC) is a risk.

CHF saw gains vs both the Euro and the Dollar paring some of its post Credit Suisse losses while the latest inflation forecasts from the Swiss KOF were raised to 2.6% and 1.5% in 2023 and 2024, respectively ahead of the SNB on Thursday.

Gold fell off as yields rose, with the yellow metal falling to USD 1,936 vs highs of USD 1,985 on Tuesday, declining further away from the psychological 2,000 mark.

Cyclical currencies were the laggards, despite the continued optimism in risk assets.

The **NZD** saw particular underperformance again on Tuesday despite encouraging trade balance data, with downside perhaps led by recession fears amid the recent banking crisis, although this week the support announced by governments has helped reduce those fears. **The Aussie** would also be particularly vulnerable to a recession, and although weaker today, the AUD saw gains on Monday. Overnight, the RBA Minutes led to muted reaction in the Aussie, but nonetheless it revealed the board agreed to reconsider the case for pausing at the April meeting and a pause would allow time to reassess the outlook for the economy, but repeated that further tightening of policy was likely required to lower inflation.

CAD weakness was seen in wake of the CPI data which was cooler than expected on the headline, at 5.2% Y/Y (exp. 5.4%, prev. 5.9%), while M/M rose 0.4% (exp. 0.5%, prev. 0.5%). The core M/M however accelerated to 0.5% (prev. 0.3%), but the Y/Y cooled to 4.7% from 5.0% (exp. 4.8%). Meanwhile, an average of the three BoC core inflation measures also cooled to 5.36% from 5.57%. The data only adds to the case for the BoC to maintain its pause with the case for more rate hikes throughout the year-end in Canada diminishing, particularly in wake of financial stress in the US and EU. Analysts at RBC "continue to expect that slowing consumer spending will further ease price pressures ahead, weakening the economic backdrop while keeping the BoC on the side lines until the end of 2023."

GBP was also weaker despite risk assets rising ahead of key risk events, including UK CPI, Fed and BoE. Meanwhile, on Brexit, the ERG said that the Stormont Brake in the Windsor Framework was "practically useless" and the group will meet tomorrow to decide on how to vote on this part of the deal. Note, the DUP has already said they will vote against it, and it is seen as likely to pass, but it will require some support from the Labour Party.

SEK was weaker vs the EUR and unwound gains relative to the **NOK** ahead of the Norges Bank on Thursday despite Riksbank's Bremen repeated concerns about Sweden's problematic inflation levels, adding that underlying measures continue to rise and indicate the need for policy to stay restrictive.

EMFX was mixed, ZAR was rattled by more Eskom load-shedding and Gold's ongoing retracement. The TRY derived little comfort from reports that Turkey is planning a larger than previously envisaged 74% capital boost for state banks to speed up lending before the elections. The BRL was flat ahead of the BCB on Wednesday amid more commentary from Brazilian President Lula suggesting that the BCB President has no commitment to Central Bank autonomy. Conversely, the MXN took further advantage of its bullish chart break to test the water near 18.6500 and through the 55 DMA at 18.6584.

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