# US Market Wrap

## 22nd March 2023: Stocks down in wake of Fed, banking crisis still in focus

- **SNAPSHOT**: Equities down, Treasuries up, Crude up, Dollar down
- **REAR VIEW**: Fed hikes 25bps, maintains view of terminal rate, alters guidance; Powell says tightening credit conditions will help with their fight against inflation, rate cuts this year not base case, ready to do more if needed; Yellen says Treasury is not considering insuring all uninsured bank deposits; Hawkish ECB sources; PACW struggles to raise capital.
- **COMING UP**: **Data**: US IJC, New Home Sales. **Event**: BoE, SNB, Norges Bank & CBRT Policy Announcements. **Speakers**: ECB's Lane, Knot; BoE's Mann.

## MARKET WRAP

Stocks extended losses in wake of Fed's rate decision and post-meeting press conference while the treasury curve bull steepened. The opposite of price action earlier in the week, which consisted of upside in stocks and the curve bear flattening. The main message from the Fed was that the situation was uncertain and that the bank stresses were causing a tightening in credit conditions. In terms of its guidance, the Fed no longer sees 'ongoing' rate hikes as appropriate, and has effectively moved into a data-dependent, meeting-by-meeting approach based on incoming data, and how expected and actual credit conditions evolve. Powell emphasised that further progress on inflation was still needed. The Chair also said the Committee was prepared to do more on rates if needed. The Fed Chair also noted that no participant had rate cuts in their baseline scenarios. (See below for full summary). During the Powell presser, Treasury Secretary Yellen was also testifying to lawmakers, and she said that the Treasury was not considering insuring all uninsured deposits at banks, which played a role in the downside in equities, accompanied by the remarks from Powell that they are prepared to do more on rates if needed and that rate cuts are not the base case this year. Yellen noted there is no change to deposit insurance but Powell did suggest that depositors should assume all their deposits are safe. Crude prices settled higher but took a knock post settlement as risk assets tumbled. The Dollar saw pronounced weakness in wake of the Fed.

## CENTRAL BANKS

**FED STATEMENT**: The FOMC lifted its Federal Funds Rate target by 25bps, in line with market expectations. It's updated economic projections left the terminal rate view unchanged at 5.1%, and its statement removed the reference to the Committee anticipating that 'ongoing increases in the target range will be appropriate', though added that 'some additional policy firming may be appropriate'. Its median view for where rates will be in 2024 was nudged up to 4.3% from 4.1%. The inflation profile was raised for this year, though was unchanged for 2024 and 2025, while the core inflation view was slightly nudged up for this year and next. The Fed expressed confidence in the banking system, stating that it was 'sound' and 'resilient', adding that the recent developments were likely to result in tighter credit conditions and will weigh on economic activity, hiring and inflation. Some had expected that the Fed might slow its pace of balance sheet reduction, though the statement said that it would continue to reduce Treasury and MBS holdings in line with its previous announcements.

**POWELL PRESSER**: The statement and updated dot plots drove a dovish market reaction, where stocks and Treasuries rallied. Market expectations of the Fed rate hike trajectory continued to run more dovishly than the dots, with money markets assuming that rates had now reached terminal, and were assigning a 50/50 chance of a +25bps rate hike at the May meeting. However, the gains in stocks and bonds were given up during Powell's Q&A. The Fed chair, asked about the updated SEPs, said that no participants had rate cuts in their base line scenario for this year. He also took care to emphasise the uncertainties presented by the current situation, and essentially made the case that the Fed would be deciding policy based on incoming data, meeting-by-meeting, and will be based on the actual and expected effects of the credit tightening. Powell said that if the Fed needed to raise rates higher, it would, but for now, officials see the likelihood of credit tightening, and the impact of this can be seen as another hike. Powell still sees a path to a soft landing, and the Fed is trying to find it.

**ECB SOURCES**: ECB officials reportedly claim vindication on their 50bp rate hike amid price risks, according to Bloomberg, which add that officials are increasingly confident the EZ banking system has withstood financial turmoil, allowing them to resume rate hikes in due course. The ECB hiked by 50bps at its recent policy meeting, but it abandoned concrete rate guidance saying each decision will be taken on a meeting by meeting basis. However, these sources imply more rate hikes are coming. Note, markets are currently pricing in a approximately 50bps of further tightening this year. Note, ECB's Nagel then spoke and repeated these views that further hikes are needed in coming meetings if inflation develops as projected, ECBs job is not done yet the bank must be bold and decisive.

**PREVIEWS**: For the BoE preview, please click here. For the SNB preview, please click here. For the Norges Bank preview, please click here.

## FIXED INCOME

### T-NOTE (M3) FUTURES SETTLE 31 TICKS HIGHER AT 115-03

**Treasuries bull steepened in wake of Fed Chair Powell after the bear flattening earlier in the week**. 2s -19.4bps at 3.983%, 3s -21.9bps at 3.766%, 5s -18.7bps at 3.560%, 7s -15.7bps at 3.539%, 10s -11.6bps at 3.490%, 20s -6.1bps at 3.850%, 30s -4.3bps at 3.693%.

**INFLATION BREAKEVENS**: 5yr BEI +5.6bps at 2.301%, 10yr BEI +3.7bps at 2.300%, 30yr BEI +3.5bps at 2.249%.

**THE DAY**: The Fed hiked rates by 25bps, as expected, but removed guidance relating to ‘ongoing' rate increases, and swapped it with "some additional policy firming may be appropriate" in a dovish shift while the dot plot terminal view was left unchanged. Fed Chair Powell later elaborated that the tightening in credit conditions was essentially going to do some of the job for them, but the true extent of the impact of tighter credit conditions was unknown. He also noted that inter-meeting data was stronger than expected, but the disinflation story was still intact. The bond market responded dovishly with the 2yr yield falling sub 4% at 3.95% while the 2s10s curve narrowed to c. -50bps. Money markets are implying we are at the peak rate now, although Fed funds are implying a 50/50 chance of 25bps/unchanged at the May meeting, and then price around 60bps of rate cuts throughout year-end, at odds with Powell's view that rate cuts are not their base case in 2023.

### STIRS

- NY Fed RRP op demand at USD 2.28tln (prev. 2.195tln) to a YTD high across 104 bidders (prev. 104).
- US EFFR remained at 4.58% on USD 92bln of volume, all percentiles left unchanged.
- US SOFR remained at 4.55% on 21st March, on volumes of USD 1.247bln.

## CRUDE

### WTI (K23) SETTLES USD 1.23 HIGHER AT USD 70.90/BBL; BRENT (K23) SETTLES USD 1.37 HIGHER AT USD 76.69/BBL

**Crude futures rose ahead of the FOMC rate decision, despite weekly crude inventory data posting a surprise build**. On the OPEC front, Reuters carried a report which said OPEC+ was likely to stay the course on 2mln BPD production cuts until the end of 2023, despite the recent price drop, and seemingly ruling out the chances of any near-term hikes to production levels. Some analysts also said that the defensive USD ahead of the Fed was helping to support crude; for crude traders, the passing of the Fed's gathering could free up trade flows, according to Citi, as the decision will remove the announcement risk; "given the cycle of risk-off trade over the past week, we see some potential for risk-on flows," Citi said. Elsewhere, weekly energy inventory data showed crude stocks building 1.117mln bbls (exp. -1.6mln), distillates drew down by 3.313mln (exp. -2.54mln), while gasoline drew down by 6.4mln (exp. -1.7mln); "that build is enough to get is to the 22-month high in crude oil storage," Mizuho said, "we just have a lot of crude oil in storage and it's not going to go away anytime soon. Note, crude was off highs post settlement as risk assets fell.

## EQUITIES

**CLOSES**: SPX -1.65% at 3,936, NDX -1.37% at 12,567, DJIA -1.63% at 32,030, RYT -2.83% at 1,727.

**SECTORS**: Real Estate -3.64%, Financials -2.37%, Consumer Discretionary -2.2%, Energy -2.11%, Utilities -1.98%, Industrials -1.91%, Materials -1.76%, Communication Svs -1.62%, Health care -1.5%, Consumer Staples -0.98%, Technology -0.92%.

**EUROPEAN CLOSES**: EURO STOXX 50 +0.31% at 4,195, FTSE 100 +0.42% at 7,568, DAX 40 +0.15% at 15,218, CAC 40 +0.26% at 7,131, FTSE MIB -0.11% at 26,524, IBEX 35 -0.43% at 9,011, SMI -0.12% at 10,779.

**BANKING**: Wall Street leaders and US officials discussing an intervention at **First Republic Bank (FRC)** are reportedly exploring the possibility of government backing to encourage a deal that would shore up the lender, according to Bloomberg citing sources. Meanwhile, WSJ reports FRC has tapped Lazard for help with a review of its strategic options and also picks McKinsey for its post-crisis planning. Elsewhere, **PacWest Bancorp (PACW)** announced it explored a capital raise with potential investors, but the Company determined it would not be prudent to move forward with a transaction at this time. However, it has secured USD 1.4bln in fully funded cash proceeds from ATLAS SP Partners through a new senior asset-backed financing facility, which "unlocked liquidity from unencumbered, high-quality assets in an expeditious manner". Note, US Treasury Secretary Yellen, testifying to lawmakers, said the Treasury is not considering insuring all uninsured bank deposits. She later added it is worthwhile for Congress to discuss changes to FDIC deposit insurance, and the Treasury is ready to work with lawmakers.

**STOCKS**: **Nike (NKE)** earnings were solid for the quarter but guidance disappointed with next quarter guidance seen flat to up small. **Boeing (BA)** CFO was cautious on margins, and expects the 2023 gross margin to decline about 250bps and at the low end of the previous guidance range. **GameStop (GME)** rallied after posting a surprise profit. UK CMA has decided that **Broadcom (AVGO)/VMWare (VMW)** deal could result in a substantial lessening of competition; has until 29th March to offer undertakings to CMA. **Marvell (MRVL)** will cut 4% of staff, or 320 jobs, according to Bloomberg. **Virgin Orbit Holdings Inc (VORB)** is near a deal for a USD 200mln investment from Texas-based venture capital investor Matthew Brown via a private share placement, according to a term sheet seen by Reuters. **Extra Space Storage (EXR)** is reportedly considering an offer for **Life Storages (LSI)**.

## FX WRAP

The Dollar Index slumped in wake of a dovish Fed statement accompanied by a dovish set of forecasts, where the Fed's expectation of where rates will peak was left unchanged. While Powell and Co are still battling inflation, they are now in a meeting-by-meeting, and data-dependent policy mode. Money markets are of the view that we are now at the terminal, pricing only a 50/50 chance of a +25bps hike in May. Accordingly, the buck was sold, with the Dollar Index printing lows just above 102.00. The downside in US rates supported the Yen while Euro briefly reclaimed 1.09. Cyclical currencies were supported by the Dollar, but gains were limited on the post Powell stock rout. EMFX was supported by the weaker buck.

For pre-Fed price action, please click here for the European FX Wrap.