US Market Wrap

23rd March 2023: Markets chop as traders digest banking woes, Fed & Yellen

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar flat/up
- **REAR VIEW**: Yellen says US is prepared for additional deposit actions; Hot jobless claims; New home sales miss expectations; BoE, SNB, Norges hike as expected; CBRT and BCB leave rates unchanged.
- **COMING UP**: **Data**: UK Retail Sales, EZ, UK & US Flash PMIs, US Durable Goods. **Speakers**: Fed's Bullard, ECB's Nagel & BoE's Mann

MARKET WRAP

Equity futures barely clung on to gains in a very choppy session, which had taken the ES back towards 4,040, but slumped to lows around 3,950 towards the close, before staging a mini-recovery to go positive again. Note, all sectors closed in the red other than the heavyweight technology and communications sector, helping NDX outperform. Traders continued to digest the Fed’s rate decision, as well as remarks from Treasury Secretary Yellen; the net impact of the dovish Fed and the banking crisis is a significantly dovish repricing of the expected FOMC rate trajectory; there is now zero pricing for any rate hikes, with money markets suggesting that the base case is for the Fed to hold rates at its May 3rd meeting (the Fed itself on Wednesday reiterated that it expected the terminal rate between 5.00-5.25%); further ahead, markets are now pricing 100bps of rate cuts through the end of the year. Big banks also gave up their gains with particular weakness seen in BAC, MS and WFC, while JPM & C also closed red, alongside losses in the regional banks (KRE, FRC, PACW). Treasury Secretary Yellen’s remarks provided temporary relief for markets in later trade, helping drive a small rally; though the upside proved fleeting, despite Yellen pledging that officials were prepared to provide additional deposit actions if needed. After hours, there will be focus on the Fed’s weekly balance sheet update, which will show the extent to which emergency loans have continued to be sought by financial institutions this week (recall, last week, the weekly Fed balance sheet data revealed that lending at the Fed's discount window spiked by a record amount).

US DATA

JOBLESS CLAIMS: Initial jobless claims printed 191k in the week of March 18th, a window that coincides with the BLS establishment survey period; analysts were expecting 197k from 192k prior. Oxford Economics notes that initial claims have now been sub-200k for nine of the last 10 weeks, a level it says is consistent with an imbalance between the supply and demand for workers, and said that the low level of claims underscores the persistent tightness in the labour market; "announcements of layoffs continue, but they have been concentrated in just a few sectors, including technology," it writes, "so far, these layoffs haven't translated into notable a rise in claims, suggesting laid off workers are having a relatively easy time finding other jobs, which is not surprising in a labor market where the demand for workers continues to outstrip the supply." Continuing claims, meanwhile, rose to 1.694mln in the week of March 11th, above the expected 1.684mln, and rising from 1.68mln prior. OxEco notes that continuing claims, although more volatile, are continuing to average under 1.7mln, slightly below pre-pandemic levels. "A tight labour market will lead to further rate hikes from the Fed, although the FOMC will proceed more cautiously given the recent stress in the banking system and its uncertain impact on the economy," OxEco says.

NEW HOME SALES: The rate of new home sales in February pared to 640k, short of the 650k analysts were expecting; the prior was revised town to 633k from an initially stated 670k. Pantheon Macroeconomics said that new home sales continued to significantly outperform the level implied by aggregate mortgage demand, but this merely is a compositional shift in demand, and it does not change the outlook for total home sales. "The rise in total February home sales is more or less in line with the mortgage application data, which point to a sharp fall in March followed by broadly flat sales in April," adding that "in other words, a sustained recovery in overall home sales remains miles away." The supply of new homes fell to 8.2 months’ worth from 8.3 months’ worth in January; Pantheon notes that this is still an abundant level of supply, more than triple the 2.5 months’ worth in the existing home sales market, though still below the peak of 10.1 in September. "Homebuilders, facing an uncertain demand outlook and inventory overhang, appear to be slashing prices aggressively to shift this excess supply," the consultancy writes, "the monthly price data are extremely noisy, but the trend in new home prices is falling much faster than the trend in existing home prices."

newsquawk

CENTRAL BANKS

BOE:As expected, the BoE opted to pull the trigger on another 25bps hike, taking the Base Rate to 4.25%. The decision to move on rates was via a 7-2 vote split (vs. exp. 6-3) with Dhingra and Tenreyro the dissenters. Within the seven that opted for a hike, there was unanimity on the 25bps increment with arch-hawk Mann refraining from voting for 50bps. Heading into the release, there was some speculation over whether the BoE could signal that this would be the final hike of the cycle. However, the MPC opted to keep forward guidance on rates which notes that if there were evidence of more persistent pressures, further tightening would be required. The decision to keep this guidance may well have been as a result of the unexpectedly hot February CPI print, which was also a factor in swaying markets so firmly towards a 25bps hike ahead of the meeting vs. unchanged. On inflation, the statement noted that CPI is still expected to fall significantly in 2023 Q2, to a lower rate than anticipated in the February Report; citing news on the EPG and declines in wholesale energy prices. From a growth perspective, GDP is still likely to have been broadly flat around the turn of the year, but is now expected to increase slightly in the second quarter, compared with the 0.4% decline anticipated in the February Report. Overall, takeaways from the announcement have been mixed with some regarding Mann's decision to step down to a 25bps hike as "dovish", whilst others have been surprised by the BoE's decision to maintain existing guidance on rates. Nonetheless, market pricing for the rest of the year has picked up a touch with the terminal rate seen just above 4.5% in Q3 vs. around 4.45% pre-announcement.

SNB: In short, a hawkish-hike from the SNB in contrast to the statements from the ECB and Fed in recent sessions. The SNB hiked by 50bp, in-line with the majority of respondents to the Reuters survey heading into the decision and the skew of market pricing, which ascribed a ~70% probability to that magnitude. Despite the 50bp hike, the SNB has further increased its inflation forecasts, with CPI now not seen dropping back into the 0-2% target band until Q2-2024 (prev. Q4-2023); in addition, the statement reiterates that further tightening cannot be ruled out. Also, the 2023 GDP growth view was upgraded to 1.0% (prev. 0.5%) Overall, upward adjustments to the inflation and growth forecasts, despite the 50bp hike, serve as justification and provide cover respectively for the SNB to continue its tightening cycle to bring inflation sustainably back to target. Market pricing currently implies 30bp of tightening (i.e. a full 25bp, plus some probability of 50bp) in June and then a 50bp hike in September to a 2.25% terminal rate.

NORGES BANK: The decision was as-expected though disappoints some calls for 50bp while the repo path adjustment for 2023 was hawkish. A 25bp hike was in-fitting with the guidance provided at the last gathering and the majority of respondents surveyed by Reuters. However, it does disappoint a minority of calls for 50bp. Despite sticking to the smaller magnitude, the Norges Bank acknowledged the upward-pressure on inflation implied by the NOK being "significantly weaker" than in December's report and undertook a hawkish adjustment to the Repo Path. Specifically, the path now implies an end-2023 rate of 3.60% (prev. 3.08%), i.e. for 50bp of tightening to be delivered and the optionality for further upside, if needed. While the size of further hikes is currently unclear, the path's breakdown implies 25bp adjustments; awaiting guidance from Governor Bache at 09:30GMT. However, the policy rate is then seen falling slightly by end-2024 to 3.44%; relatively in-fitting with December's guidance in terms of a 2024 cut being implied.

BCB: The Brazilian Central Bank left rates unchanged at 13.75% as expected on Wednesday evening. The statement repeated it will remain vigilant and will assess if the strategy of maintaining rates at current levels for a sufficiently long period will be enough to ensure the convergence of inflation. It also noted that inflation expectations have shown additional deterioration, especially at longer horizons and that it will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected. The BCBC also lifted its inflation projections across its forecast horizon. Overall, the language in the statement was hawkish and shows the pushback the BCB are giving to the government on their call for lower rates. Analysts at Rabobank expect the Selic rate to be left unchanged through November before a cutting cycle starts, but they do have an upward bias to their Q4 24 rate forecast of 8.5%.

FIXED INCOME

T-NOTE FUTURES (M3) SETTLE 28+ TICKS HIGHER AT 115-31+

Treasuries bull steepen as risk assets reverse from highs with banking names weighing. 2s -19.4bps at 3.787%, 3s -19.1bps at 3.586%, 5s -18.0bps at 3.395%, 7s -15.3bps at 3.401%, 10s -11.4bps at 3.386%, 20s -6.0bps at 3.797%, 30s -3.1bps at 3.666%.

INFLATION BREAKEVENS: 5yr BEI -0.7bps at 2.255% 10yr BEI -0.3bps at 2.268% 30yr BEI +0.5bps at 2.230%.

THE DAY: Treasuries jumped on Thursday with the front end leading the gains with the 2yr yield now sub 3.8% in another day of the flight to quality amid a significant repricing of Fed rate hike expectations (also seen in Yen and Gold) with banking crisis fears still in the limelight. Risk appetite soured throughout the US afternoon as bank shares tumbled, showing signs of stress in the banking sector and thus tightening credit conditions. The tightening of credit conditions has seen a dovish repricing of money markets on the Fed as it takes away some of the onus on the central bank to tighten through monetary policy; note, the Fed Chair alluded to tightening credit conditions doing some of the work for the Fed's mandate therefore the Fed does not need to tighten policy as much as previously thought, hence the guidance change and unchanged terminal dot on Wednesday. There will be particular attention on tonight's weekly balance sheet update from the Fed, particularly around its new funding programme and credit loans to garner how much usage these facilities have seen over the last week for an indication of the problems going on in the banking world.

STIRS

- NY Fed RRP op demand at USD 2.234tln (prev. 2.280tln) across 99 counterparties (prev. 104).
- US SOFR remained at 4.55% on March 22nd on USD 1.203bln volume
- US EFFR remained at 4.58% on March 22nd, all percentiles unchanged on USD 100bln volume.
- US sold USD 61bln in 4wk bills at 4.15%; B/C 2.54x
- US sold USD 51bln in 8wk bills at 4.4%; B/C 2.97x

CRUDE

WTI (K3) SETTLED USD 0.94 LOWER AT 69.96/BBL; BRENT (K3) SETTLED 0.78 LOWER AT 75.91/BBL

Crude futures meandered between gains and losses, largely tracking risk sentiment as traders continued to work through the choppy trading conditions in wake of the FOMC decision to lift rates 25bps on Wednesday. Driving the upside, Deputy PM Novak said Russia intends to reduce the discount is offers on its oil exports, while there were further reports today that OPEC+ wasn't leaning towards loosening supply constraints. Novak said Russia had not received proposals to adjust the OPEC+ deal, and will reduce March output by 500k BPD from February's level of 10.2mln BPD. Elsewhere, traders were citing research from Goldman Sachs which said that Chinese commodity demand has continued to surge, with oil demand now rising above 16mln BPD. On the other side, US Energy Secretary Granholm said it was difficult to refill oil reserves in the USD 70/bbl range this year, adding that it will likely take a few years. As risk sentiment soured throughout the afternoon, crude prices also pared their gains to settle lower.

EQUITIES

CLOSES: SPX +0.3% at 3,948, NDX +1.29% at 12,729, DJIA +0.23% at 32,105, RUT -0.41% at 1,720

SECTORS: Energy -1.36%, Utilities -1.01%, Financials -0.66%, Real Estate -0.62%, Consumer Staples -0.43%, Industrials -0.23%, Health Care -0.18%, Materials -0.14%, Consumer Discretionary -0.05%, Technology +1.65%, Communication Services +1.83%.

EUROPEAN CLOSES: EUROPEAN CLOSES: EURO STOXX 50 +0.27% at 4,207, FTSE 100 -0.89% at 7,500, DAX 40 -0.04% at 15,210, CAC 40 +0.11% at 7,139, FTSE MIB -0.16% at 26,482, IBEX 35 -0.44% at 8,970, SMI -0.59% at 10,719.

STOCKS: **Apple Inc. (AAPL)** is to spend roughly USD 1bln per annum on films to hitthe cinemas, according to Bloomberg. Meanwhile, AAPL is also considering bidding for English football streaming rights. **Ford Motor (F)** reaffirmed FY23 adj. EBIT guidance, adj. FCF Guidance, while it reconfirms its late-2026 margin targets; sees a USD 3bln pre-tax loss in its EV unit this year. **Biogen (BIIB** US FDA advisers said there was not enough convincing evidence to show the effectiveness of BIIB's experimental treatment for an inherited form of ALS in a 5-3 vote. **Tesla (TSLA)** expects to lose the full USD 7.5k tax credit on its cheapest EV as the batteries are sourced from China, via Electrek. The Chinese video game regulator announced domestic online game approvals for March, including **NetEase (NTES) and Tencent (TCEHY)**. **Block (SQ)** has been named a new short at Hindenburg Research. **General Mills (GIS)** beat on EPS and revenue and raised its FY23 outlook. **Accenture plc (ACN)** beat on EPS, and revenue although guidance was mixed. **Darden Restaurants (DRI)** revised its FY23 EPS view to 7.85-8.00 (exp. 7.85), and raised its FY23 revenue view to USD 10.45-10.5bln (exp. 10.31). **Walmart (WMT)** is to lay off hundreds of US workers at five e-commerce fulfilment facilities as part of operational restructuring, according to a spokesperson cited by Reuters. Pentagon officials are scrutinizing why **Boeing (BA)** employees worked on current and future Air Force One planes without security credentials required for the highly classified jets, WSJ reported. **Microsoft (MSFT)** needs to do more to address EU antitrust complains as regulators consider a probe, according to rivals cited by Reuters.

FX WRAP

The **Dollar** weakness initially continued in wake of the Fed while the hot jobless claims data took the buck to highs of 102.45, it failed to maintain its upside with a decent rally in short-end yields and the belly in wake of the Fed on Wednesday. Meanwhile, housing data was weaker than expected with downward revisions, which only acted as another headwind for the Buck. However, as regional banking stocks took a dive, risk assets moved from highs and helped support the greenback to relatively unchanged levels.

The **Euro** saw mild gains briefly rising above 109.00 at the highs, but it failed to hold onto that level. There were several ECB speakers: Muller said inflation is a larger problem than the increase in borrowing costs, but rates are likely going to increase a little further; Holzmann said we will probably have to do more in May; Stournaras, however, said the ECB should not commit to any rate moves in advance; Knot stated the ECB is unlikely to be done with rate hikes, but repeated the size of a hike in May was uncertain.

The **Yen** continues to find support from yield differentials with markets now looking for a more dovish Fed, reducing the policy differentials with the BoJ, something that has driven a large portion of the Yen weakness vs the Buck since the Fed began its aggressive tightening while the BoJ still maintains its ultra-easy monetary policy.

The **Swissy** gained vs the Dollar and the Euro in wake of the SNB rate decision to hike by 50bps (as expected), while guidance noted it does not rule out further hikes, reiterating language around price stability and FX intervention.

The **GBP** was supported, albeit choppy around the BOE rate decision which saw the bank hike by25bps, and maintain its ongoing rate hike guidance, although none of the hawks opted for a 50bps move, even after the hot CPI data earlier in the week, while two on the MPC – the usual dovish dissenters Dhingra and Tenreyro – opted for an unchanged print. Nonetheless, the negative risk bias in the US afternoon took GBP off best levels.

Aussie was flat on the day as risk assets fell from highs throughout the afternoon despite upside in metal prices. **NZD** however managed to hold its ground and was an outperformer. **CAD** was relatively flat with a slightly firmer bias, also trading off the broader risk tone and lower oil prices.

Scandi's saw the **NOK** outperform after the Norges Bank rate decision, which hiked by 25bps as expected and noted the policy rate will be raised further in May.

EMFX was mixed, the **TRY** largely shrugged off a steady hand from the CBRT even though some were leaning towards another 50bps ease ahead of the upcoming Turkish elections. **BRL** saw notable weakness following an unchanged rate decision from the BCB, while also raising inflation forecasts and repeating it will remain vigilant and will assess if the strategy of maintaining rates at current levels for a sufficiently long period will be enough to ensure the convergence of inflation. Conversely, the **ZAR** was boosted by a strong rebound in **XAU**, the while the **MXN** was underpinned by stronger-than-expected Mexican retail sales data rather than mixed half-month inflation metrics.