US Market Wrap

24th March 2023: Strong PMI data and hawkish Fed speak knocks bonds off peaks

- **SNAPSHOT**: Equities up, Treasuries flat, Crude down, Dollar up
- **REAR VIEW**: Fed commentary prioritises inflation over financial stability; Yellen meets with FSOC; Strong PMI data; Weak durables; UK CMA narrows scope of MSFT/ATVI concerns
- **WEEK AHEAD PREVIEW**: Highlights include US PCE, China PMIs, EZ CPI, Aus CPI To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Reviewing FOMC, PBoC, SNB, BoE, Norges Bank, RBA mins, BoC mins, CBRT, BCB; Previewing Banxico, SARB. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: CCL, MU, WBA, LULU, To download the report, please click here.

MARKET WRAP

It was risk-off as US traders got to their desks on Friday morning, with markets in Europe fretting over the health of banks in the region, and CDS rising for banking names. However, the mood began to improve as European officials gave reassuring commentary that the sector was safe and banks were healthy. That helped risk conditions become more constructive, and the mood was lifted further on reports that Treasury Secretary Yellen was chairing a private FSOC meeting (traders are still looking for clarity regarding the rescues/sales of SIVB and FRC, while markets also want to see progress on deposit insurance); at pixel time, there has been no update, leaving the prospects of some headline risk over the weekend. Meanwhile, Fed officials on the wires today (Bullard, Bostic, Barkin) did not seem to think that the recent banking woes were a big enough deal to derail the hiking process in order to manage still-high inflation, which some have taken as a comforting sign that officials see the recent woes as contained (Fed balance sheet data released after hours on Thursday also provided some soothing impulses, with discount window use declining). Risk assets wobbled after an upside surprise in the US flash PMI data for March, but the downside was short-lived, and equities resumed the upside into the weekend.

FED

Bullard (non-voter, hawk) is sticking with the Fed's goal of bringing down inflation despite the recent financial stability concerns; he argued that inflation remained too high, and did not make any comments which endorsed the market's current pricing for the Fed rate trajectory (around 100bps of rate cuts are priced through the end of this year). Bullard acknowledged that the Committee can do more to contain financial distress, if needed, via macroprudential policy (likely through tools with the Treasury & FDIC), but it was appropriate that monetary policy continue to put downward pressure on inflation. In later remarks, Bullard revealed that he had raised his own view of where the terminal rate is, lifting his forecast by 25bps to 5.50-5.75%, which he explained was a reaction to the strong economy and elevated inflation. He believes the most likely scenario is financial stresses abate, and the Fed will need to ratchet-up its policy tightening. Bullard did caveat, however, that if the economy was weak, the Fed can react, and although he raised his dot plot, the Fed median sees just one more rate hike this year, and Bullard says it is up to Fed Chair Powell if that comes at the next meeting or soon after.

Barkin (non-voter, neutral) toed a similar line to Bullard, where he prioritised bringing inflation down over dealing with the financial stability issues. The Richmond Fed President said that labour markets were tight and that inflation is too high, adding that the case for rate hikes this week was pretty clear. Barkin felt very stable about the financial stability issues, noting the conditions were right to do monetary policy. He also stressed the public was "very upset" with inflation, "they hate inflation".

Bostic (non-voter, dovish) acknowledged that there was a lot of debate at the Fed's last meeting, and it was not a straightforward decision. However, when he was asked about the case for leaving rates unchanged, he noted "some were willing to say this uncertainty is really big and we should wait," but he himself was very comfortable that the Fed can get through this, as the situation had not gotten worse before the meeting.

DATA

DURABLES: Durable Goods fell by 1.0% in February vs an expected rise of 0.6%; the ex-defence measure fell 0.5% M/M, while the ex-transport reading was unchanged (beneath expectations), and the nondefense capital goods ex-aircraft component rose +0.2% M/M. Analysts at Pantheon Macroeconomics said that the decline largely reflected a 14% drop in civilian aircrafts orders, and added that "the surveys for March were also conducted largely before the recent wave of bank failures, which will deal a heavy blow to credit availability," and that it now "looks increasingly likely that real fixed investment will fall outright in the second quarter, greatly raising the chances that the economy slips into recession."

PMI: The S&P Global Flash PMI data for March was strong for both the Manufacturing and Services gauge, both topping expectations; the pushed the Composite index up to 53.3 from 50.1. Manufacturing remains in contractionary territory, but services expanded further into expansionary territory. The report also noted that "the inflationary upturn is now being led by stronger service sector price increases, linked largely to faster wage growth." Output grew at the fastest pace since May 2022 as demand improved, and new order growth returned for the first time since September. "Manufacturers and service providers alike registered upturns in output, with service sector firms driving the increase," the report said. New export orders contracted for the tenth consecutive month, however, as input costs continued to rise at an historically elevated pace. The pace of selling prices accelerated to the fastest in five months. Stronger demand resulted in faster employment growth, and the rate of total job creation was the fastest in six months as firms add workers to meet increased new orders. "Inflationary pressures, financial market uncertainty and higher interest rates reportedly moderated expectations of potential growth in the year ahead, notably in the service sector." Note, the survey was conducted between 10-23rd March, therefore, it incorporates the latest banking crisis.

FIXED INCOME

T-NOTE FUTURES (M3) SETTLE 4 TICKS HIGHER AT 116-03+

Treasuries pared early gains after hawkish Fed commentary, strong PMI data and as the risk tome became more constructive into the weekend. 2s -3.3bps at 3.773%, 3s -2.2bps at 3.581%, 5s -1.1bps at 3.406%, 7s -2.3bps at 3.400%, 10s -2.6bps at 3.378%, 20s -4.0bps at 3.774%, 30s -3.6bps at 3.646%.

INFLATION BREAKEVENS: 5yr BEI -6.0bps at 2.192%, 10yr BEI -4.3bps at 2.230%, 30yr BEI -2.7bps at 2.201%.

THE DAY: Treasuries started the day grinding higher in wake of fresh European Banking woes, particularly concerns around Deutsche Bank with its Credit Default Swaps at four year-highs, while both Deutsche and Lloyd's issued a notice of redemption on fixed-fixed notes. Highs were seen in the European morning before paring throughout the session supported by hawkish Fed speak from non-voters Bullard and Barkin, who are prioritising inflation over financial stability, while strong Flash PMI data also weighed on the complex. The commentary and data would be at odds with current market pricing which already implies the Fed is at terminal rate, as well as implying around 90bps of cuts throughout year-end. Attention now turns to any potential update from Treasury Secretary Yellen and the FSOC, who convened a private meeting today to discuss financial stability. Meanwhile, next week treasury supply is due as well as month-end. Bloomberg Indices estimate US Treasury extensions of 0.07yr, beneath the 10year and 12mnth average, and down from the end-Feb 0.12yr extension.

SUPPLY: US Treasury to sell USD 42bln 2yr notes (exp. 42bln), USD 43bln 5yr notes (exp. 43bln), and USD 35bln 7yr notes (exp. 35bln); will also sell USD 25bln of 2yr FRNs next week, all to settle on March 31st.

STIRS

- NY Fed RRP op demand at 2.218tln (prev. 2234tln) across 100 bidders (prev. 99)
- US EFFR rises to 4.83% from 4.58% on 23rd March (post 25bp hike from Fed) on USD 92bln of volume.
- US SOFR rises to 4.80% from 4.55% on 23rd March (post 25bp hike from Fed) on USD 1.355bln of volume.

CRUDE

WTI (K3) SETTLED USD 0.70 LOWER AT 69.26/BBL; BRENT (K3) SETTLES 0.92 LOWER AT 74.99/BBL

Crude futures largely tracked risk sentiment, falling in early trade as traders continued to fret about the woes facing global banks. The Dollar Index rose amid risk-off trading conditions, and that provided a headwind for oil. The complex did pick up off lows as the session progressed, and US equities began to see some upside, though it was not enough for crude contracts to move into positive territory. Analysts were also continuing to note disappoint that the US had not moved quickly to replenish stocks within its SPR even though WTI prices have skidded below the USD 70/bbl region, which analysts at Citi say was a previously touted attractive level. Citi noted that the US Energy Secretary on Thursday said the 26mln bbls still slated to be released from the SPR in Q2, as well as maintenance work, makes it hard to refill the reserve in the near term, and refilling it could take years. “Our own base case assumption is that refilling the reserve, once it does begin, will likely occur at a gradual pace on the order of 200k BPD,” Citi said, adding that “the other aspect of this is that there’s really nothing to stop the DOE from booking purchases for future delivery now - but in the meantime, the lack of purchases leaves the market without this additional size on the bid.”

EQUITIES

CLOSES: SPX +0.56% at 3,970, NDX +0.30% at 12,767, DJIA +0.41% at 32,238, RUT +0.85% at 1,735

SECTORS: Utilities +3.12%, Real Estate +2.57%, Consumer Staples +1.63%, Health Care +1.31%, Materials +0.81%, Industrials +0.35%, Energy +0.29%, Communication +0.26%, Technology +0.25%, Financials -0.06%, Consumer Discretionary -0.35%.

EUROPEAN CLOSES: EURO STOXX 50 -1.82% at 4,131, FTSE 100 -1.26% at 7,405, DAX 40 -1.66% at 14,957, CAC 40 -1.74% at 7,015, FTSE MIB -2.23% at 25,892, IBEX 35 -1.98% at 8,793, SMI -0.75% at 10,638

STOCK SPECIFICS: **Disney (DIS)** reached a deal with Florida unions to increase Florida park workers wage to USD 18 /hr. **Citizens Financial Group (CFG)** is reportedly working on a bid to acquire the private banking business of **SVB (SIVB)**, according to Reuters citing sources. While Bloomberg reported **Customers Bancorp (CUBI)** is exploring a deal for part of SVB. **JPMorgan (JPM), Citigroup (C) and Bank of America (BAC)** have reportedly warned employees not to poach clients from stressed banks, saying they should never give the appearance of exploiting a situation of stress or uncertainty. Meanwhile, NY Post reported that JPM managed to gain the most customers following the collapse of SVB. UK CMA is narrowing the scope of concern in the **Microsoft (MSFT)-Activision (ATVI)** deal, with its final report due April 26th. Chinese market regulator is recalling 2,649 of **Tesla’s (TSLA)** imported Model S Vehicles. **Altria (MO)** affirmed its FY23 EPS guidance between USD 4.98-5.13 (exp. 5.06), and it unveiled a line-up of e-cigarettes, oral nicotine pouches and other smoke-free products. **General Dynamics (GD)** was awarded a USD 1.8bln Army contract. **Ford Motor (F)** said it is on track with the construction at the BlueOval City mega-campus, the EV and battery manufacturing campus that is due to start production in 2025 and will be capable of producing 500k EV trucks a year at full production. **Silvergate (SI)** was reportedly the subject of vague M&A talk (unconfirmed).

WEEKLY FX WRAP

USD: The Greenback got some upside impetus from Fed’s Bullard who said the US response to bank stress was ‘swift and appropriate’ and has allowed monetary policy to focus on inflation, which is still too high, in contrast to Bostic noting a lot of debate at the last FOMC meeting, as the decision to hike rates by 25 bp was not straightforward. However, there was surprisingly little reaction to stronger than forecast flash PMIs as the spotlight returned to renewed pressure on bank stocks that weighed heavily on broad risk sentiment and underpinned dovish market pricing for the Fed alongside other global Central Banks. In truth, perceptions for the Fed had already fallen dramatically in response to the FOMC changing guidance from further tightening will likely be appropriate to some additional policy firming may be required in order to attain a monetary stance sufficiently restrictive to return inflation to 2 percent over time. Moreover, Fed Chair Powell said in the press conference that most of the inter-meeting period pointed to higher rates, but the possibility of tighter credit conditions offset that, while disinflation is absolutely occurring in the US, and that process is intact. Powell also stated that the Fed sees likelihood of credit tightening impacting the macro economy via slower growth, hiring and inflation. Back to the Buck and using the DXY as a proxy, 103.960-101.910 marked out the w-t-d range and the index is hovering just above 103.000 at present.

JPY/XAU: A rebound in US Treasury and peer debt yields allied to a partial abatement of risk-off positioning sapped some of the Yen’s safe haven premium and Gold also lost a bit of shine having regained enough allure to probe Usd 2k per ounce again earlier in the session. Nevertheless, Usd/Jpy remained hemmed towards the bottom of its wide 133.00-129.66 weekly extremes and Xau/Usd much closer to the top of a Usd 2009.59-1934.19 band, awaiting further financial sector developments and perhaps some additional pro-stability measures emanating from a private meeting of the US Financial Stability Oversight Council convened by Treasury Secretary Yellen.

CHF: The Franc derived momentum from Thursday’s hawkish half point SNB hike, as the Bank said it cannot rule out more increases given that inflation is still clearly above the range it equates with price stability, while stronger second-round effects and the fact that inflation pressure from abroad has increased again mean that, despite the raising of the policy rate, new CPI forecasts are higher through to mid-2025 than they were in December. However, its revival against the Dollar between 0.9316-0.9122 parameters and eventual outperformance vs the Euro from the verge of parity to 0.9850 was down to the eye of the banking storm shifting from Switzerland to the Eurozone and back to US regional entities, to a lesser extent.

CAD: Sub-consensus Canadian CPI metrics provided fundamental justification for the BoC's switch from hike mode to pause, but minutes to this month's meeting when that was confirmed stressed the conditions attached to the new policy stance. To recap, the Bank remained concerned that inflation could become stuck materially above target, so felt it was important to stress the conditionality of a rate hike pause and wanted to underline that it continues to assess whether monetary policy is restrictive enough. This largely left the Loonie looking elsewhere for direction, like its US counterpart, the general market mood and moves in underlying commodities, as Usd/Cad veered from 1.3631 and a brief probe of a Fib to 1.3804 at the opposite end of the spectrum.

GBP/AUD/EUR/NZD: Sterling peaked prior to the BoE delivering a 25 bp hike via a 7-2 split and the two dissenting votes coming from the resident MPC doves, as hot UK inflation data arrived the day before and effectively sealed the deal ahead of the rate announcement. Nonetheless, there were a couple of surprises, as hawk Mann refrained from calling for a 50 bp rate rise and guidance was maintained that if there were evidence of more persistent price pressures, further tightening would be required. However, Cable faded some way below 1.2343, albeit stayed well above Monday's 1.2168 trough with little reaction to PM Sunak getting a thumbs up on the Stormont Brake part of the Windsor Framework, irrespective of Tory rebellion, strong ONS retail sales or a set of flash PMI misses. Similar story for the Euro in context of Eurozone PMIs that were decidedly better in services and composite terms compared to bleak manufacturing readings, but barely impacted on Eur/Usd. Instead, the headline pair was more attuned to the aforementioned EU bank travails and correlated to EGBs on an outright basis and relative to USTs as it topped and tailed at 1.0929 and 1.0632. Elsewhere, the Aussie was hampered by RBA minutes flagging that a pause will be reconsidered at the April policy meeting, and the Kiwi by RBNZ Chief Economist Conway stating that monetary policy tightening is anticipated to cause the NZ economy to enter a mild recession later this year as demand slows, with the OCR now comfortably above neutral and having the desired contractionary effect. However, he also underlined that inflation is high and widespread because strong demand outstripped supply, and the Bank is incredibly determined to get inflation and inflation expectations back to target. Aud/Usd and Nzd/Usd are both nearer the base of 0.6626-0.6758 and 0.6168-0.6306 respective ranges.

SCANDI/EM: The Nok received protection from bouts of extreme risk aversion via a higher repo rate path that accompanied the well flagged 25 bp hike plus a corrective bounce in Brent crude, while the Sek lagged even though Riksbank members continued their hawkish message and expressions of concern about the lofty levels of headline and underlying Swedish inflation. Meanwhile, the Cny and Cnh largely tracked Usd direction after the PBoC left LPRs unchanged, the Try remained under pressure regardless of the CBRT holding rates and announcing a bigger capital injection for bank lending ahead of the Turkish elections, but the Twd got an unexpected boost via the Bank of Taiwan lifting rates by 12.5 bp. A hawkish BCB hold in defiance against ongoing pressure to ease from the Brazilian Government propped the Brl, Gold helped the Zar cope with ongoing Eskom load-shedding, the Hkd remained pegged after the HKMA matched the FOMC and the Huf outpaced CEE peers following the NBH announcing a waiver to daily reserve requirements for banks temporarily from April 1- 5 and the Hungarian Government putting a rate ceiling on large bank deposits.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com