US Market Wrap

27th March 2023: Bonds tumble as banking prospects improve

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude up, Dollar flat/down
- **REAR VIEW**: US considers expanding bank lending facility; FCNCA to buy SVB; Cautious Kashkari; Barr testimony says banks are sound and resilient; Hawkish ECB's Schnabel; Dismal US 2yr auction.
- **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**: MU, WBA, LULU, To download the report, please click here.

MARKET WRAP

US stocks were mixed Monday with receding fears around the banking crisis and surging oil prices seeing value stocks /indices outperform. Meanwhile, the acute bear-flattening weighed heavily on rate-sensitive sectors such as Tech. As such, NDX closed in the red, with the SPX just in the black, while the real economy-levered Russell 2k saw solid gains. The front-end led the Treasury sell-off (2yr yield +23bps at 4.01%), with lows made in wake of the dismal 2yr auction. Oil prices crescendoed through the session with desks initially citing supply risk after Iraq/Kurdistan exports were halted and Russian nuclear threats, although the moves (to two-week highs) seemingly became technical/momentum-led as the day extended. The Dollar wasn't an obvious factor either for the oil bid with the DXY little changed. On which, the Euro advanced after a strong German Ifo business survey in addition to Bloomberg reports that ECB's Schnabel wanted to include rate guidance for further hikes at the latest meeting. The Pound was an outperformer on risk appetite, better than feared CBI distributive trades data, and inflation-focused Bailey comments. Lastly, the Israeli Shekel had a rollercoaster ride after the currency pared initial losses in wake of PM Netanyahu delaying the vote on the controversial judicial reform bill.

GLOBAL

BANKING: Bloomberg reported that US regulators are considering expanding an emergency lending facility for banks in ways that would give First Republic Bank (FRC) more time to shore up its balance sheet, Bloomberg reported. Officials have yet to decide on what support they could provide First Republic, if any, and an expansion of the Federal Reserve’s offering is one of several options being weighed, the report said. Regulators still see First Republic as stable enough to operate without any immediate intervention as the company and its advisers try to work out a deal to shore up its balance sheet. Meanwhile, there was a deal for SVB, and the FDIC confirmed that First Citizens (FCNCA) will assume all deposits and loans of Silicon Valley Bridge Bank from the FDIC. The Fed’s weekly data of assets and liabilities of commercial banks (week ending March 15th, which covers the week SVB collapsed) showed deposits at US small commercial banks declined by USD 120bln in the week, while borrowings rose USD 252.4bln, and cash assets rose USD 96.7bln. For large commercial banks, deposits rose USD 66bln, borrowings rose USD 251bln, and cash assets increased by 305.1bln. Total commercial bank deposits, therefore, declined USD 53.2bln in the week, while borrowings rose USD 503.4bln, and cash assets rose 401.7bln, see here for further analysis.

FED: Fed Speak saw Kashkari (voter) over the weekend, who spoke relatively dovishly, saying it is unclear how much the banking stresses are leading to a widespread credit crunch, which would slow down the economy, noting it is something the Fed is monitoring very, very closely. When asked about the banking crisis putting the US into a recession, he said "it definitely brings us closer". He did, however, note it is too soon to gauge how the crisis might influence the next rate decision from the Fed in May. Kashkari's tone was notably more dovish than some of his non-voting colleagues last week, where both Barkin and Bullard stressed they were prioritising their inflation fight over financial stability and uber-Hawk Bullard said he even raised his dot plot forecast to 5.5-5.75% from 5.25-5.50%. Meanwhile, Fed Vice-Chair of Supervision Barr's text for his testimony on Tuesday saw the official stress the banking system is sound and resilient, noting the recent Fed actions demonstrate its commitment to ensuring all deposits are safe. Barr added the Fed is prepared to use all tools for any size institution as needed to keep them safe. Barr also said regulators are planning a long-term debt requirement for large banks that are not G-SIBs, and said they will also need to enhance stress testing and explore liquidity rules and other reforms to improve the resiliency of the financial system

ECB: Bloomberg reported that ECB's Schnabel (hawkish) pushed for the latest policy statement to include a line about the possibility of a further rate hike in the future instead of the lack of rate guidance in the actual announcement. Schnabel also said in public Monday that it is not easy to say how restrictive rates are, noting that there is no sign of weakening in the labour market, whilst also saying there are no real concerns about financial stability risks, caveating that the situation is still fragile. Meanwhile, ECB's Simkus said financial stability is an important factor, while de Cos said decisions must be prudent amid bank uncertainty. ECB's Nagel said QT should be accelerated from the summer and inflation is still too high, but financial developments make it even more important to take decisions on a meeting-by-meeting basis.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 1 POINT & 4 TICKS LOWER AT 114-31+

Treasuries bear-flattened on receding bank crisis fears and hawkish ECB reports. Cash yields: 2s +23.1bps at 4.008%, 3s +20.6bps at 3.792%, 5s +18.7bps at 3.595%, 7s +16.8bps at 3.571%, 10s +15.2bps at 3.530%, 20s +12.2bps at 3.898%, 30s +11.6bps at 3.760%.

Inflation breakevens: 5yr BEI +7.2bps at 2.261%, 10yr BEI +3.9bps at 2.262%, 30yr BEI +2.1bps at 2.215%.

THE DAY: Treasuries dipped into the new week with haven longs unwinding after the FDIC confirmed First Citizens Bank is to acquire all deposits and loans of Silicon Valley Bridge Bank, with additional govvie weight from reports suggesting that authorities may expand the emergency lending facility to give banks more time to shore up their balance sheets. Bloomberg reports at the London/NY handover that ECB's Schnabel pushed for the ECB statement to include a line that more hiking is possible saw EGBs lead an additional leg lower. T-Notes found support in the NY morning, only to extend to session lows of 114-28 in wake of the dismal 2yr auction, boding badly for Tuesday's 5yr and 7yr offerings. Otherwise, participants have eyes on Tuesday's consumer confidence data, with a litter of Fed Speak and second-tier data throughout the week.

2YR AUCTION: An awful 2yr demand reception at the Treasury's USD 42bln auction, with the massive fall in front-end yields since last month's offering seeing buyers pull back. The 3.954% high yield, outside of March 2020, marked a record intra-auction fall in yield from February's 4.673%. That richening in valuation was evident in the 2.7bps tail through the When Issued yield, where the last six auctions have averaged a 0.2bp stop-through, and a big underperformance to last month's 0.3bp tail. The 2.44x bid/cover ratio was well beneath the prior 2.61x and average 2.67x. The takedown saw Dealers (forced surplus buyers) left with a chunky 23% (prev. 15% and avg. 19.5%) which was driven by a big 9.2ppt fall in Indirects participation to 52.8%, with a mild 1.2ppt rise in Directs participation to 24.2%.

STIRS

- SR3H3 -5.8bps at 95.123, M3 -18.5bps at 95.205, U3 -24bps at 95.545, Z3 -27bps at 95.865, H4 -27.5bps at 96.25, M4 -26bps at 96.58, U4 -23bps at 96.825, Z4 -18.5bps at 96.95, H5 -15bps at 97.005, H6 -12bps at 96.995.
- US sold USD 63bln of 3-month bills at 4.675%, covered 2.51x; sold USD 53bln of 6-month bills at 4.650%, covered 2.85x.
- NY Fed RRP op demand at 2.220tln (prev. 2.218tln) across 98 bidders (prev. 100).
- EFFR and SOFR unchanged from prior at 4.83% and 4.80%.

CRUDE

WTI (K3) SETTLES USD 3.55 HIGHER AT 72.81/BBL; BRENT (K3) SETTLES USD 3.13 HIGHER AT 78.12/BBL

Oil prices saw a big bid through the session on Monday to near two-week highs amid banking fears cooling, supply risk out of Iraq/Kurdistan, and Russian nuclear threats. On Iraq/Kurdistan, 450k BPD of exports out of the semi-autonomous region in Kurdistan were put on halt by Turkey on Saturday after Iraq won an arbitration case that said Turkey violated a joint agreement by allowing Kurds to export without Turkish consent. Oil firms in the region are said to be in a state of limbo in anticipation of the outcome of talks between the governments. The longer talks go on, with exports halted, the more at risk becomes production which is currently being diverted to storage. Meanwhile, geopolitical risk has also elevated from Russia sanctioning the stationing of tactical nuclear weapons in Belarus as a warning to NATO in its increased military support for Ukraine. While in Europe, strike action across various French refineries continues to hold/recommence through the end of March, with several union announcements on Monday.

Note that Brent May options expire on Tuesday ahead of May futures expiry on Friday, with open interest rolling now into the June contract, which may be affecting price action via book squaring.

EQUITIES

CLOSES: SPX +0.17% at 3,978, NDX -0.74% at 12,673, DJIA +0.60% at 32,432, RUT +1.08% at 1,754.

SECTORS: Energy +2.1%, Financials +1.4%, Industrials +0.82%, Materials +0.74%, Consumer Staples +0.54%, Health Care +0.41%, Consumer Discretionary +0.18%, Utilities +0.13%, Real Estate -0.36%, Technology -0.85%, Communication -1.08%.

EUROPEAN CLOSES: EURO STOXX 50 +0.82% at 4,165, FTSE 100 +0.90% at 7,472, DAX 40 +1.14% at 15,128, CAC 40 +0.9% at 7,078, FTSE MIB +1.21% at 26,207, IBEX 35 +1.29% at 8,906, SMI +1.43% at 10,786

STOCK SPECIFICS: Elliott Investment Management will not proceed with director nominations at **Salesforce (CRM)**; the decision was in light of CRM's previously announced 'New Day' multi-year profitable growth framework, strong fiscal year 2023 results, fiscal year 2024 transformation initiatives. **Apple (AAPL)** CEO cook met with Chinese Commerce Minister Wang Wentao and both exchanged views about its development in China. Wang told Cook China is willing to provide a good environment and services for foreign companies including AAPL. Barclays expects **Tesla's (TSLA)** Q1 deliveries to beat estimates. **Microsoft Corp. (MSFT)** threatened to cut off access to its internet-search data, which it licenses to rivals, if they do not stop using it as the basis for their own AI chat products, Bloomberg reported. **Baidu (BIDU)** cancelled plans for a public launch of its ChatGPT competitor Ernie. **Dish Network (DISH)** is facing a class action lawsuit from investors who purchased the stock between February 22nd - 27th 2023. **Carnival (CCL)** earnings were better than expected and commentary was optimistic, initially supporting the stock and its peers before reversing heavily to close in the red on weak profit guidance. **Charles Schwab Corporation (SCHW)** received a cautious mention in Barron's; while Wall Street analysts suggest that investors spooked by liquidity concerns everywhere have overreacted in selling SCHW, Barron's says there are clear reasons to be cautious toward the stock, where rising interest rates and outflows of clients' cash could take a sizable bite out of its earnings. **Energy Transfer (ET)** is to acquire Lotus Midstream for USD 1.45bln and ET sees the deal immediately accretive to its FCF. **BridgeBio Pharma, Inc. (BBIO)** is reportedly attracting takeover interest from bigger drug companies.

FX WRAP

The Dollar was relatively unchanged throughout the session on Monday with DXY hovering either side of 103. Market pricing for the Fed in May hovered around 50/50, with fears of the banking crisis easing following a deal for SVB and reports US officials are considering expanding emergency bank lending facilities to give banks more time to shore up their balance sheets. Meanwhile, there was no other bank failure over the weekend. Fed Speak saw Kashkari (voter) take a more dovish tone over the weekend, noting the increased probability of a recession in wake of the banking crisis, whereas Barkin and Bullard last week were prioritising their inflation fight over financial stability. Fed Barr's testimony echoed the FSOC and Treasury noting the banking system is sound and resilient, and that recent actions demonstrate the Fed is committed to ensuring all deposits are safe.

The Euro saw gains with the single currency testing 1.08 to the upside from lows of 1.0746 on Monday. Out of Europe, there were several ECB speakers. Simkus said financial stability is an important factor, while de Cos said decisions must be prudent amid bank uncertainty. Nagel said QT should be accelerated from the summer and inflation is still too high, but financial developments make it even more important to take decisions on a meeting-by-meeting basis. Bloomberg sources suggested that ECB's Schnabel pushed for the ECB statement to say that more hiking is possible, with desks rationalising that there is likely greater hawkish discontent amongst the hawks given Schnabel sits more centrally vs. her 'northern member' colleagues. She also said in a speech Monday that the balance sheet is expected to decline meaningfully over the coming years. Schnabel also added that it is not easy to say how restrictive rates are. Meanwhile, Centeno said he has not seen a de-anchoring of inflation expectations but banking problems to have an impact on their decisions. While in data, the latest German Ifo business climate survey rose above expectations with a notable uptick in expectations while current conditions also rose.

The Yen weakened on Monday as UST yields rose with the 2yr clawing back above 4% after the weak 2yr auction, although yields were already higher on the improved risk tone on the session. With improved confidence in the banking system, some of the haven beneficiaries (Yen, Gold, Treasuries) pared some of their gains seen in recent weeks. Meanwhile, the improved banking conditions signal a sign of easing credit conditions, which in turn means the Fed may have to do more on the monetary side in their fight against inflation - widening the BoJ/Fed policy differentials again.

The Franc saw gains however on optimistic commentary from officials on the CS/UBS tie-up. Meanwhile, Swiss sight deposits saw a massive jump, indicative of liquidity being used by the domestic banking sector.

Cyclical currencies were mixed vs the Dollar. AUD was flat, NZD was lower while GBP and CAD saw gains.

The **Pound** had been appreciating throughout the session to see Cable hit a high of 1.2293, failing to clip above 1.23. The risk tone was encouraging, helping Sterling, while UK data saw the CBI distributive trades fall much less than expected and remain in positive territory while the CBI Retail Sales Expectations Balance for April rose to +9 (after -18 for March), the first positive reading since September. BoE Governor Bailey gave a speech later on, where he repeated guidance that if signs of persistent inflationary pressures become evident, further monetary tightening would be required. Bailey added that with the FPC focussing on the financial system, the MPC can focus on returning inflation to target. He was also optimistic on growth, noting evidence has pointed to a more resilient activity in the economy. He said it was too soon to tell if UK credit conditions have tightened in recent weeks in wake of the banking crisis.

The **Looney** gains were predominantly supported by the strong move higher in crude prices helping USD/CAD fall from highs of 1.3745 to lows of 1.3651, a level it resides around heading into the end of the session.

For **antipodes**, the Aussie outpaced the Kiwi down under as the AUD/NZD cross held fairly comfortably above 1.0700 while AUD/USD traded either side of 0.6650 but hovered around the level in latter trade ahead of final Aussie retail sales and a speech by RBA’s Connelly at the AFR. NZD/USD traded either side of 0.6200 but at pixel time remains beneath the round level.

Scandis were mixed. The SEK saw mild gains vs the Euro while the NOK saw weakness despite upside in crude prices. SEK gains were supported by hawkish commentary from Riksbank Governor Theeden over the weekend which raises the prospects of another 50bp move from the Riksbank, while the Norges bank opted for a 25bp hike on Friday.

EMFX was mixed. **TRY** was weaker on pre-election jitters with reports via Reuters that the largest banks are conducting stress tests for vote-related FX, rate and credit market shocks following new regulations that are expected to hit income in H2 23. **ZAR** was weaker, in fitting with weaker gold prices. **ILS** was unchanged, but volatile, with weakness seen on riots throughout Israel regarding the judicial change, although weakness pared when Netanyahu announced a delay to the vote. **LatAm**, FX was generally supported on the improved banking confidence theme on Monday. **COP** outperformed on rising crude prices ahead of the Columbian central bank decision later this week where it is expected to hike by 25bps. **BRL** was also supported on improved consumer confidence data, as well as a narrowing in the current account deficit. Mexico's trade data, however, saw a surprise deficit, albeit a narrower magnitude than the prior.