US Market Wrap

28th March 2023: Large cap weakness weighs on stocks as yields rise

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar down.
- **REAR VIEW**: Consumer Confidence beat on headline but 1yr inflation expectations also rose; Punchy McCarthy rhetoric on banks & debt ceiling; Mixed Richmond Fed; BABA to restructure into 6 business groups; AAPL introduces Pay Later service; Decent 5yr auction; Fed Barr largely repeated text release on Monday; IFX GY raises guidance.
- **COMING UP**: **Data**: Australian CPI, German GfK **Event**: US House Financial Services Committee re. SIVB **Speakers**: Fed's Barr, BoE's Mann, ECB's Schnabel **Supply**: US.

MARKET WRAP

Stocks were sold on Tuesday albeit most of the downside was led by large cap names with the Tech and Communication sector underperforming as yields rose. However, heading into the close stocks pared from lows and yields pared from highs in wake of a solid 5yr auction which stopped through by 1bp, at odds with the dismal 2yr auction on Monday. Treasuries saw the bear-flattening extend on Tuesday, capped by the strong 5yr auction and punchy McCarthy comments. On banking, Fed Barr's testimony to the Senate Banking Committee largely repeated the text release on Monday. Meanwhile, House Speaker McCarthy said there should not be blanket insurance for bank deposits, while he was also concerned about the lack of progress on the debt limit. Crude prices continued to bounce from lows in a continuation of price action seen this week on supply disruptions out of Iraq/Kurdistan. The Dollar was sold into the month end while Yen outperformed on the Japanese year-end. Meanwhile, HUF rallied in wake of the NBH which left rates at 13.75% as expected but ruled out rate cuts and said rates must remain at current levels for a prolonged period of time.

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CONSUMER CONFIDENCE: Consumer Confidence for March rose to 104.2 (prev. 103.4) above the expected 101, however the one-year ahead consumer inflation expectations ticked higher to 6.3% (prev. 6.2%). Elsewhere, the Present Situation index fell to 151.1 (prev. 153.0), while Expectations slightly lifted to 73.0 (prev. 70.4), but the report notes for 12 of the last 13 months it has been below 80, the level which often signals a recession within the next year. Moreover, six months consumer expectations became slightly less pessimistic about the short-term business conditions outlook, while the consumers' assessment about the short-term labour market outlook was slightly more positive. In addition, consumers' short-term income prospects were, on balance, less upbeat. Overall, the report notes, “driven by an uptick in expectations, consumer confidence improved somewhat, but remains below the average level seen in 2022 (104.5). The gain reflects an improved outlook for consumers under 55 years of age and for households earning $50,000 and over”. The report concludes, “while consumers feel a bit more confident about what’s ahead, they are slightly less optimistic about the current landscape. The share of consumers saying jobs are ‘plentiful’ fell, while the share of those saying jobs are ‘not so plentiful’ rose. The latest results also reveal that their expectations of inflation over the next 12 months remains elevated. Overall purchasing plans for appliances continued to soften while automobile purchases saw a slight increase.” Note, the cut-off date for the survey was March 20th, circa ten days after the bank failures in the US.

RICHMOND FED: The Richmond Fed survey saw the composite manufacturing index rise to -5 from -16, with a notable jump in shipments to +2 from -15. Both the employment and new orders indices improved from February but remained in negative territory. Firms remained pessimistic about local business conditions, where the index fell to -12, nearly unchanged from last month. However, the report notes firms continued to report easing of supply chain constraints as the indices for backlogs and lead times remained negative. Looking ahead, future local business conditions edged down. On prices, average prices paid growth decreased moderately, and prices received were little changed in March, but firms do expect both prices paid and prices received to moderate over the next 12 months. Meanwhile, in the services sector, the headline fell to -17 from -3 while demand fell to -1 from +6. However, future revenue and demand expectations were more positive. Current and expected business conditions remained negative. Firms mostly reported increased business spending, with both CapEx and Equipment and Software spending in positive territory. " All three of the spending expectations indices were positive, suggesting that firms expect spending to increase over the next six months." On prices, "average growth in prices paid and prices received remained relatively unchanged in March, and firms broadly expected both to moderate over the coming year".

ADV GOODS TRADE BALANCE: The advance international trade deficit in goods increased to USD 91.6bln in February from USD 91.1bln, rising 0.6%, with the deficit larger than the expected 91.00bln. Exports fell in February by USD 6.7bln to USD 167.8bln, while imports fell by USD 6.2bln to USD 259.5bln. Wholesale advance inventories rose 0.2% (prev. -0.5%) to USD 920.3bln from USD 918.5bln, while retail inventories rose 0.8% to USD 747.3bln from USD 741.5bln. Meanwhile, the retail inventories ex-auto rose 0.4%, up from the prior 0.0%. Analysts at Pantheon Macroeconomics note the declines in both imports and exports do not fully reverse the January spike, but notes they will likely fall further in March, but the net impact will be small, and thus only having a modest impact on Q1 GDP.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 11 TICKS LOWER AT 114-20+

Treasuries saw the bear-flattening extend on Tuesday, capped by the strong 5yr auction and punchy McCarthy comments. At settlement, 2s +8.2bps at 4.047%, 3s +6.4bps at 3.856%, 5s +5.3bps at 3.648%, 7s +3.9bps at 3.611%, 10s +2.4bps at 3.553%, 20s +0.7bps at 3.904%, 30s +0.7bps at 3.767%.

Inflation breakevens: 5yr BEI +7.1bps at 2.328%, 10yr BEI +5.9bps at 2.328%, 30yr BEI +4.8bps at 2.268%.

THE DAY: T-Notes saw a mild bid in the APAC morning Tuesday to session highs of 115-07+ in some paring from Monday's sell-off. That didn't last long, however, and fresh selling developed as Europe arrived with the front-end leading again. T-Notes found support at 114-18, which held through into the NY afternoon. There was a spell of risk-off in the NY morning after US House Speaker McCarthy said there shouldn't be blanket insurance for bank deposits, as well as expressing pessimism on debt limit talks, seeing T-Notes pare some losses at the time. But ultimately, that failed to sustain, where a busy IG debt slate and the bounce in the US consumer confidence survey saw Treasuries sold back down to lows, with T-Notes stretching out fresh troughs of 114-17 ahead of the 5yr auction. The strong auction saw T-Notes pare from lows into settlement.

5YR AUCTION: The USD 43bln 5yr auction was decent, particularly vs Monday's record 2yr tail. The 3.665%, which was a near record intra-auction richening compared to February's 4.109% stop, still marked a 1bp stop-through the When Issued yield, better than February's 0.3bp tail and six-auction average 0.2bp stop-through. The 2.48x bid/cover ratio was in line with the prior and above the average 2.44x. Dealers (forced surplus buyers) were left with 13.3%, which was more than February's 11%, but still beneath the average 15%. That was accompanied by slight falls in both Directs and Indirects participation vs last month.

STIRS:

- SR3H3 +2.0bps at 94.820, M3 -7.5bps at 95.210, U3 -11.0bps at 95.500, Z3 -12.0bps at 95.875, H4 -12.0bps at 96.200, M4 -10.5bps at 96.455, U4 -9.0bps at 96.590, Z4 -7.0bps at 96.660, H5 -6.5bps at 96.680, H6 -3.5bps at 96.685.
- US SOFR rose to 4.81% as of March 27th from 4.80% the prior business day on rising volumes, while the General Collateral rate opened bid at 4.94% on March 28th, 14bps above the RRP rate.
- NY Fed RRP op demand at 2.232tln (prev. 2.220tln) across 102 bidders (prev. 98).
- US sold USD 45bln of 17-day CMBs at 4.700%, covered 2.04x; sold USD 30bln of 7-day CMBs at 4.050%, covered 2.39x.
- 4-, 8-, and 17wk bill auction sizes unchanged at USD 60bln, 50bln, and 36bln, respectively; 4- and 8-week to be sold on March 30th and 17-week bills on March 29th; all to settle on April 4th.

CRUDE

WTI (K3) SETTLED USD 0.39 HIGHER AT USD 73.20/BBL; BRENT (K3) SETTLED USD 0.53 HIGHER AT 78.65/BBL

The crude complex was choppy on Tuesday, but eventually extended on its recent gains with a lack of oil specific newsflow. Although, oil was supported amid prior session reports of supply disruption risks from Iraq's Kurdistan alongside further banking fears cooling. On the former, Barclays remains constructive on oil and notes potential upside risk from a protracted disruption in KRG exports, and as such a disruption through year end would imply a USD 3/bbl upside to the USD 92/bbl 2023 Brent forecast. Elsewhere, Russian Urals crude prices for April loading remain below USD 60/bbl price cap, but at a smaller discount to dated Brent vs March volumes (USD 14-17/bbl vs March's 18-20/bbl), according to trade sources and Reuters calculations. On this, sources note transport costs for Urals oil from Baltic ports to Indian ports is about USD 7.5-8.5mln per route and just over USD 10mln to China. On French strikes, 33% of staff at TotalEnergies (TTE FP) staff at refineries/depots were on strike within France on Tuesday. Lastly, according to Bloomberg sources, OPEC+ shows no sign of changing oil output at meeting next week (as expected).

EQUITIES

CLOSES: SPX -0.16% at 3,971, NDX -0.49% at 12,610, DJIA -0.12% at 32,394, RUT -0.06% at 1,752.

SECTORS: Communication Services -1.02%, Health -0.57%, Technology -0.46%, Real Estate -0.27%, Consumer Discretionary -0.11%, Financials -0.05%, Consumer Staples +0.22%, Utilities +0.29%, Materials +0.48%, Industrials +0.54%, Energy +1.46%.

EUROPEAN CLOSES: EURO STOXX 50 +0.09% at 4,168, FTSE 100 +0.17% at 7,484, DAX 40 +0.09% at 15,142, CAC 40 +0.14% at 7,088, FTSE MIB +0.47% at 26,329, IBEX 35 +0.43% at 8,944, SMI +0.45% at 10,835.

STOCK SPECIFICS: **Apple (AAPL)** announced the launch of 'Apple Pay Later' to allow consumers to pay for purchases over time; users can split purchases into four payments with zero interest and no fees. **Affirm (AFRM)** and **PayPal (PYPL)** shares saw downside in the wake of the announcement. **Alibaba (BABA)** rallied after it announced it is to restructure into six main business divisions; CEO said it is "a move designed to unlock shareholder value and put BABA's businesses in better positions to become more agile to better capture market opportunities and stimulate growth". **Lyft (LYFT)** tapped board member David Risher as new CEO, and its two co-founders Logan Green and John Zimmer will step back from managing LYFT. Incoming CEO said the co. is not for sale and its goal is to be price competitive; focus will remain on rideshare but is not ruling out expanding beyond its rideshare business. **Berkshire Hathaway (BRK.B)** purchased a further 3.7mln shares in **Occidental Petroleum (OXY)**, bringing its ownership to 211.7mln (or a 23.5% stake). **Paramount (PARA)** was upgraded at Bank of America; citing a strong line-up of assets that could help PARA value itself at a premium compared to the market if the business is ever put up for sale. **Ciena (CIEN)** was upgraded at Oppenheimer; said CIEN's entry in the edge router market as a catalyst. **WWE (WWE)** sales process is reportedly shaping up to be good, CNBC's Faber said, with multiple parties involved in the potential sale. **Microsoft (MSFT)** and OVH Cloud reportedly preparing to settle the EU antitrust complaint re. the cloud; additionally, MSFT is nearing a deal with Aruba. In other news, MSFT is bringing the next generation of AI to cybersecurity with the launch of Security Copilot. **Uber's (UBER)** Careem reportedly in advanced talks with UAE's E& for investment in super app expansion, according to Reuters sources. **Infineon Technologies (IFX GY)** raised Q2 revenue view with FY23 revenue now expected to be "meaningfully above" prior guide of EUR 15.5bln as it cited strong automotive and industrial segments. Note, competitors in the automotive chip space, such as **NXP Semiconductors (NXPI)** and **ON Semiconductors (ON)** saw upside in the wake of the update. **Lucid (LCID)** reportedly plans to lay off hundreds of workers, or 18% of the workforce, according to Business Insider citing sources. **First Republic (FRC)** is reportedly not for sale, according to FBN's Gasparino citing sources, notes just four of its 270 brokers have resigned; others are seeking employment but may stay as the situation sorts itself out. Initially, Intersect citing sources said, **Amazon (AMZN)** reportedly considers purchasing embattled theatre chain **AMC (AMC)**. Since then, FBN's Gasparino said "from what I know the sourcing is solid".. but Amazon appears to be interested in AMC as a distressed asset, not something to buy at a premium to share price, and he later added "he is told there is no deal on the table and there may never be".

EARNINGS: **Walgreens Boots Alliance (WBA)** surpassed expectations on top and bottom line; reaffirmed FY guidance. **PVH (PVH)** beat on profit, revenue and revenue segments such as Tommy Hilfiger and Calvin Klein. Q1 and FY23 EPS view surpassed expectations. **Synnex (SNX)** earnings beat on profit but missed on revenue; Q2 guidance fell short of expectations. **McCormick (MKC)** topped Wall St. consensus on top and bottom line; reaffirmed FY23 outlook.

US FX WRAP

The Dollar was lower on Monday in quiet newsflow and limited banking updates other than Fed Barr's testimony, which largely was a repeat of the text release on Monday, as well as some punchy comments from McCarthy. Nonetheless, with month-end approaching it is worth noting that Citi's month-end FX hedge rebalancing flows point to moderate USD selling against all major currencies except Euro. Data on Tuesday saw a mixed Richmond Fed survey and Consumer Confidence, where the latter rose but 1yr ahead inflation expectations also lifted. There was a move higher in yields although this did little to benefit the dollar.

The Euro was firmer, keeping above 1.08 and testing 1.0850 at the highs, although it failed to breach the level. There were several ECB speakers once again on Tuesday, ECB Chair of the Supervisory Board Enria spoke early on, noting the current events confirm that strong, demanding supervision is needed more than ever. He also noted that direct exposure to Credit Suisse is relevant, but it is manageable, white also acknowledging there has been some fast outflows of bank deposits in some cases. Elsewhere, Muller said inflation is slowing but it is too early to declare victory, and there is probably room to hike rates, noting underlying inflation is an area of concern and they must still worry about upside inflation risks. De Cos noted the uncertain financial environment could generate persistent increase in banks funding costs, and said it could force Spanish banks to increase required loan loss provisions.

There were strong gains in the **Yen** despite the move higher in US yields with gains in the Yen, according to Scotiabank, seemingly reflecting corporate demand ahead of Japan's FY end. Meanwhile, as we approach month-end, Citi's FX rebalancing model points to buying JPY and selling USD, as Japan needs to increase hedges on well-performing foreign fixed income which strengthens the signal to buy JPY.

Cyclical currencies were bid.

AUD saw gains supported by gains in iron ore while retail sales data overnight came in a touch above expected, although the prior was revised down to 1.8% from 1.9%. Attention turns to CPI data overnight ahead of the RBA rate decision next week, where HSBC notes we are close to the peak in the interest rate cycle. The Aussie rose above the 10dma and 21dma at 0.6669 and 0.6670, respectively, as well as breaching the March 24th high of 0.6694 after testing it early in the session, before eventually breaching the level and rising above the psychological 0.6700.

NZD also saw gains thanks to the dollar weakness and saw similar gains to the Aussie despite stocks being lower in the session. AUD/NZD was relatively unchanged around 1.0725. On NZD/USD, analysts at ANZ highlight support at 0.5750, 0.5900 and 0.6090, with resistance at 0.6540 and 0.6675- note NZD/USD traded between 0.6196 and 0.6252 on Tuesday.

GBP was supported by the weaker buck taking Cable to highs of 1.2349, rising above the 1.2343 high post-BoE on March 23rd. There was more commentary from BoE officials, where Governor Bailey said he does not think any of the features of recent bank issues are causing stress in the UK, but the BoE is seeing some evidence of tightening credit conditions, but not critically. He also noted if they thought credit supply to the economy was threatened, it would lower the countercyclical buffer.

CAD saw gains with USD/CAD currently hovering 1.3600 from highs of 1.3695 as oil prices continue to pare recent lows seen last at the start of last week.

EMFX was also supported. With the banking situation seemingly approving, EMFX performed well. The BRL also saw minutes from the BCB meeting which repeated it is prepared to do more if needed while noting a deterioration of inflation expectations. CLP and PEN were buoyed by gains in copper prices. MXN was also buoyed by the broad EM inflows. Elsewhere, HUF was an outperformer in wake of the NBH rate decision which maintained rates at 13.75%, the highest in the EU, and said it will need to be kept there for a prolonged period while ruling out any rate cuts soon.