US Market Wrap

29th March 2023: NDX enters technical bull market as bond-sell off loses momentum and Yen longs unwind

- **SNAPSHOT**: Equities up, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: US Rep. Hern said Powell noted there'd be just one more hike; UBS appoints former CEO Ermotti as new CEO; US SPR buybacks could start later this year; Soft Aussie CPI; Hawkish-sounding ECB Lane; Lacklustre 7yr auction; Better-than-expected US pending home sales; Stellar LULU report; MU profit miss but largely on inventory write-downs; Russian crude oil production down 300k BPD in first 3 weeks of March; Surprise EIA crude draw.
- **COMING UP**: **Data**: Swiss KOF Indicator, EZ Consumer Confidence, German CPI (Prelim.), US Q4 GDP & PCE Prices (Final) **Events**: Banxico & SARB Policy Announcement, CBRT Minutes **Speakers**: Fed's Barkin, SNB's Maechler & Moser **Supply**: Italy.

MARKET WRAP

Stocks were firmer on Wednesday, closing at highs, with a duration bias as the recent bond sell-off loses some momentum. For the technically-inclined, the Nasdaq 100 has now entered a technical bull market, rising 20% from its December low, while the SPX closed above its 50dma for the first time since March 6th. In sectors, Real Estate, Tech, and Discretionary outperformed, while Health, Staples, and Comms lagged. Banks saw some brief, late-session selling pressure on BBG reports the FDIC is looking to attain USD 23bln from banks to fill its funding hole. Whilst eyes were raised on comments from US Rep. Hern (R) who said Fed Chair Powell told a group of House Republicans that there would be just one more interest rate hike this year. Treasuries lost selling momentum today (10yr flat at 3.57%) despite more corporate debt supply, while the lacklustre 7yr auction didn't ignite further selling. The Dollar was slightly firmer on Wednesday, largely due to USD/JPY's surge amid widespread unwinding of long haven Yen trades as banking sector fears continue to cool, although month-end is entering the forefront where price action is likely to be characterised by related flows in the days ahead. Oil prices were slightly lower, although prices pared earlier strength through the US session, seemingly absent of a specific catalyst, with bullish inventory data failing to maintain earlier support.

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PENDING HOME SALES: Pending home sales surprisingly rose 0.8% (exp. -2.3%, prev. 8.1%) to 83.1 from 82.5 in February, marking the third consecutive month of growth, as it was largely driven by a 6.5% jump in the North East. On this, Oxford Economics states, "the usual spring pick-up in activity could have been brought forward, thanks to the continued unseasonably warm and mild weather in the region." Moreover, three US regions posted monthly gains, while the West declined, although all four regions saw Y/Y decreases in transactions. The report notes, "after nearly a year, the housing sector's contraction is coming to an end". Meanwhile, Oxford adds "the 0.8% rise leaves sales 11% above November lows, as lower mortgage rates tempt more buyers back into the market. However, the pending sales index is still consistent with existing home sales falling back from the 4.58mln pace recorded last month." Oxford notes, "even though mortgage rates could fall over the coming weeks, tighter credit conditions and an economic slowdown argue against a strong pick up in housing demand from here."

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 3+ TICKS LOWER AT 114-17

Treasuries lost selling momentum on Wednesday despite more IG supply and a weak 7yr auction. At settlement, 2s +2.3bps at 4.085%, 3s +1.4bps at 3.883%, 5s +1.9bps at 3.673%, 7s +1.8bps at 3.642%, 10s +0.2bps at 3.570%, 20s +0.0bps at 3.916%, 30s -0.6bps at 3.779%.

Inflation breakevens: 5yr BEI +5.0bps at 2.362%, 10yr BEI +3.2bps at 2.346%, 30yr BEI +2.2bps at 2.278%.

THE DAY: Treasuries saw choppy trade during APAC Wednesday, seeing T-Notes find support at 114-14+. There was little major newsflow in the region except the soft Australian CPI data, providing some support out of AGBs: 6.8% Y/Y in

February (exp. 7.1%, prev. 7.4%). Better bond buying developed as European trade got underway to see T-Notes go on to print session highs of 114-28 before paring into the NY handover. The selling became more acute as the US session got underway, sending contracts to session lows of 114-07 with desks citing supply factors with another healthy slate of IG issuers tapping the Dollar primary market ahead of the 7yr auction. However, contracts pared losses all before midday in NY. The subsequent lacklustre 7yr auction saw some mild selling, although nothing to test earlier lows, with contracts approaching the settlement little changed.

7YR AUCTION: The USD 35bln 7yr auction saw a lacklustre demand reception, taking the shine off the strong 5yr on Tuesday, but not as dismal as the 2yr on Monday. The offering stopped at 3.626%, a big fall from February's 4.062%, although still tailed 1.1bps, a tad better than the 1.5bps tail last month but worse than the 0.6bps six-auction average. The bid-to-cover ratio of 2.39x was worse than the previous auction's 2.49x and the average 2.49x. Dealers (forced surplus buyers) were left with 15.4%, more than February's 13.7% and above the average 14.4%. Directs saw an increase while Indirects saw a fall.

STIRS:

- SR3H3 +0.5bps at 95.145, M3 -3.5bps at 95.175, U3 -5.5bps at 95.43, Z3 -5.5bps at 95.71, H4 -6bps at 96.075, M4 -5.5bps at 96.405, U4 -4bps at 96.67, Z4 -3bps at 96.815, H5 -2.5bps at 96.885, H6 +1bps at 96.95.
- NY Fed RRP op demand at 2.265tln (prev. 2.232tln) across 104 bidders (prev. 102).
- US SOFR rose to 4.84% as of March 28th from 4.81% the prior day.
- US sold USD 36bln of 17-week bills at 4.780%, covered 2.63x; sold USD 22bln of 2yr FRNs at a high discount margin of 0.190%, covered 3.51x.

CRUDE

WTI (K3) SETTLED USD 0.23 LOWER AT 72.97/BBL; BRENT (M3) SETTLED USD 0.55 LOWER AT 77.59/BBL

The crude complex was choppy on Wednesday, but ultimately relatively flat, seemingly trading on its own accord, not on general market sentiment or any particular energy newsflow. Nonetheless, note that Reuters sources said Russian crude oil production was down 300k BPD in the first three weeks of March to 9.78mln BPD, with Russia targeting production cuts of around 500k BPD on average through June. Separately, earlier on, US Energy Secretary Granholm said SPR buybacks could begin late this year, and that work on two of four oil reserve sites are to go 'into the fall' which has delayed buybacks.

FREEPORT: Reuters reported earlier that the Freeport LNG export plant is on track to see natgas flows into it hit 1.8 BCF/D on Wednesday. Note that before the explosion in June 2022, Freeport LNG produced about 2 BCF/D, accounting for about 15% of the US' exports. On March 8th, Freeport said a conservative ramp-up profile to establish full three-train production was expected to occur over the next "few weeks".

FRANCE: France released over 10mln bbls of oil stocks amid ongoing national strikes, according to Bloomberg. Later on, an industry body said the petrol supply situation is improving amid the strikes, where now 13% of stations are lacking at least one product (down from 15% on Tuesday). Note that 29% of operation staff at TotalEnergies (TTE FP) French refineries/depots were on strike on Wednesday. CGT trade union also said that strikes at Exxon's (XOM) Port Jerome Esso site have been extended to April 6th.

EIA DATA: Crude stocks posted a surprise draw, -7.5mln (exp. -1.5mln), while gasoline was a deeper draw than expected and distillates unexpectedly build, all which was in fitting with the private inventory data on Tuesday. Moreover, weekly crude production fell 100k to 12.2mln (prev. 12.3mln) and refining utilisation came in at 1.7%, above the prior and expected 0.4% and 0.6%, respectively. EIA noted refineries restarted operations after maintenance and imports fell to a two-year low.

EQUITIES

CLOSES: SPX +1.42% at 4,027, NDX +1.87% at 12,846, DJIA +1.00% at 32,717, RUT +1.08% at 1,771.

SECTORS: Real Estate +2.32%, Technology +2.1%, Consumer Discretionary +1.91%, Energy +1.92%, Financials +1.49%, Utilities +1.45%, Industrials +1.42%, Materials +1.39%, Communication Services +1.19%, Consumer Staples +0.54%, Health +0.24%.

EUROPEAN CLOSES: EURO STOXX 50 +1.51% at 4,231, FTSE 100 +1.07% at 7,564, DAX 40 +1.23% at 15,328, CAC 40 +1.39% at 7,186, FTSE MIB +1.56% at 26,739, IBEX 35 +1.41% at 9,070, SMI +1.19% at 10,967.

STOCK SPECIFICS: FDIC is considering squeezing the US' biggest banks via fees as it plugs a USD 23bln hole, according to Bloomberg. Politicians are pressing agency to spare small banks from the fees. **Nano Dimension (NNDM)** increased its offer for **Stratasys (SSYS)** to USD 19.55/shr. Note, SSYS closed Tuesday at USD 14.11/shr. FDIC has hired **Newmark (NMRK)** to sell about USD 60bln of Signature Bank loans, according to WSJ citing sources. **UBS (UBS SW)** named Sergio Ermotti as its new Group CEO, effective April 5th, following the acquisition of rival **Credit Suisse (CSGN SW)**; Ermotti was previously group CEO at UBS between Nov' 2011-Oct' 2020. **ICU Medical (ICUI)** to compete against **GE Healthcare (GEHC)** for two **Medtronic (MDT)** medical tech units which could fetch between USD 8-9bln, according to Reuters citing sources. **GEHC**/**Carlyle (CG)** are also to bid via newly-formed Atmas Health platform. **Warner Music (WMG)** to lay off 270 staffers, or 4% of staff, according to Variety. **Intel (INTC)** said the power-efficient Sierra Forest chip will be delivered in H1 '24; 5th-gen Xeon chip Emerald Rapids on schedule to deliver by 2023-end. **Microsoft (MSFT)** patched a dangerous security issue in Bing last month just days before it launched a new AI-powered version of the search engine, according to WSJ. A US official said battery guidance from the Treasury is to be released this week to result in fewer vehicles eligible for full or partial EV tax credits. **Apple (AAPL)** announced WWDC23 is scheduled for June 5-9th. **Ryanair (RYA ID)** CEO said it is looking at both the **Boeing (BA)** 737 MAX 8200 and 737 MAX 10 models and is back in talks with BA for 100 new aeroplanes, plus 100 option. Massachusetts securities regulators said they are investigating a unit of **Citizens Financial Group (CFG)** over its sales of a savings product offered by an insurer controlled by Greg Lindberg, according to WSJ.

EARNINGS: **Micron (MU)** missed on both profit and revenue, but the miss was largely due inventory write-downs of USD 1.43bln, which had an impact of 1.34/shr. Execs painted a positive outlook for 2025 with AI boosting sales. **Lululemon (LULU)** posted a stellar report; top and bottom line beat as well as raising next quarter and FY guidance. **Cintas (CTAS)** beat on top and bottom line alongside; raised FY23 guidance. **Paychex (PAYX)** surpassed consensus on EPS and revenue; FY23 adj. EPS is expected to grow by 13-14%.

US FX WRAP

The Dollar was slightly firmer on Wednesday printing a high of 102.780, marginally topping Tuesday's high of 102.760, largely due to USD/JPY's surge amid widespread unwinding of long haven Yen trades as the banking sector fears continue to cool. Month- and quarter-end were also cited for the Dollar in managing to regain some of its poise against G10 peers, although Citi's month-end FX hedge rebalancing flows point to moderate USD selling against all major currencies except the Euro. Moreover, the Buck failed to react to the better-than-expected pending home sales data. Later in the session, albeit not garnering a market reaction, US Rep. Hern (R) said Fed Chair Powell, in a meeting, indicated one more interest rate hike this year, which is in fitting with market pricing and the Dot Plots. Looking ahead, there is US Q4 GDP & PCE prices as well as Fed's Barkin on Thursday.

The Yen was the clear G10 laggard with the cross hitting a peak of 132.85, with the March 22nd high of 133.00 the next pivotal resistance. After USD/JPY topped the 132.00-10 area it tripped stops and as such opened further scope for upside in the cross. Nonetheless, the push through 132.50 was more yield-related as USTs reversed sharply to leave JGBs waiting to catch up when Japanese markets reopen.

Antipodeans were the next worst performers after the Yen, with NZD/USD and AUD/USD trading between 0.6216-70 and 0.6662-6713, respectively. The Aussie saw some weakness during APAC trade after CPI was cooler-than-expected which spurred further market pricing for a pause at next week's RBA meeting, something the Bank had guided towards at the last meeting. Looking ahead Thursday, New Zealand Building Consents (Feb) and ANZ Business Outlook (Mar) data are the highlights.

The Loonie was the G10 outperformer and saw slight gains against the Greenback, with the cross hitting a low of 1.3560, as it waned off best levels as crude retraced its earlier firmness. BoC Deputy Governor Gravelle made a slew of comments, and most notably said the BoC is ready to act in the case of severe market-wide stress and provide liquidity support to the financial system. Added that the bank's QT programme will likely end sometime around the end of 2024 or H1 '25 (full remarks available here).

The Pound saw marginal losses, paring some of its recent strength, highlighted by Cable hitting an 8-week high earlier in the session of 1.2361. Note, BoE's Mann spoke late in the US session but added little new. Note that the FPC announced plans Wednesday to stress test UK pension fund LDI managers for larger moves in UK gilt yields.

The Euro and Franc were flat. For the single-currency, ECB Chief Economist Lane gave familiar rhetoric, saying the ECB is to ensure that inflation falls to 2% and further interest rate hikes are required under the scenario expected by the ECB. Meanwhile, the Swissy faded from initial highs after an upbeat response from former UBS CEO returning to the Co. following the merger with Credit Suisse (CSGN SW).

Scandis, NOK and SEK, were lower vs the Buck as both failed to derive much impetus from the ongoing improvement in risk sentiment due to no new instances of distress in bank stocks, and the former was not helped by a faster pace of decline in Swedish consumption or dividend payment outflows.

EMFX was mixed. BRL, MXN, and COP saw gains, while ZAR and TRY were flat, but CNH/CNY and RUB experienced weakness. The Yuan flagged against continued geopolitical woes, where Taiwan's President has made a visit to the US, which Chinese Charge d'Affaires Xu Xueyuan said the visit will have a severe impact on US-China ties. The Real was stronger, but saw a bout of weakness, albeit paring the move, after reports regarding the new fiscal framework suggested ramped fiscal spending ambitions as President Lula wants to remove the spending cap rule and add a floor; later reports in Globo that the fiscal framework proposes zero public deficit in 2024, with surplus in 2025 and 2026 tempered the market's angst. Lastly, CZK strengthened against the Euro after a hawkish CNB hold as one dissenter voted for a 25bps hike and Governor Michl said the market timing for a first rate reduction is premature, as rates may not have peaked yet, adding that a strong Koruna remains welcome and it could be even firmer than it is currently.