US Market Wrap

30th March 2023: Stocks extend gains despite bank weakness and haven strength

- **SNAPSHOT**: Equities up, Treasuries mixed, Crude up, Dollar down.
- **REAR VIEW**: Jobless claims still too low; Q4 GDP revised lower, PCE revised up; Mixed commentary from Barkin, Kashkari and Collins; Soft Spanish inflation, hot German inflation; SARB hikes 50bps, above expected; Banxico hikes 25bps as expected.
- **COMING UP**: **Data**: Japanese Unemployment, Retail Sales, German Retail Sales, Import Prices, Unemployment, EZ CPI Flash, US PCE Price Index **Speakers**: Fed's Williams, Collins, Barkin, Waller, Cook; ECB's Lagarde.

MARKET WRAP

It was a tech-led rally for stocks on Thursday with the NDX extending on its charge to fresh MTD highs. Financials were the laggard. The Dollar was sold against most currencies. The risk bid comes as bond volatility eases from extremes, with Treasuries modestly firmer, exhibited in the T-Note posting a new smallest intra-day range since the banking crisis flared up on March 9th. Data held more weight on price action today, where the Euro benefitted from hawkish ECB repricing on the smaller fall than hoped in German harmonised CPI data. There was some UST selling after yet another stubbornly low US initial jobless claims print (198k), in addition to upward revision in the final Q4 PCE data, however that unwound through the session as traders look to month-end. Fed Speak saw Kashkari, Collins, and Barkin, who all gave two-way comments, largely reflecting the new party line: inflation backdrop in isolation supports more tightening but the recent banking crisis complicates that. In EM, note the Banxico hiked 25bps as expected, while SARB hiked 50bps, larger than the expected 25bps.

US DATA

JOBLESS CLAIMS: Weekly initial jobless claims rose to 198k in the week ending March 25th from the prior 191k and above expectations for 196k. The continued claims rose to 1.689mln for the week ending March 18th, the week that coincides with the NFP payroll survey week, from the prior 1.685mln but beneath expectations of a rise to 1.697mln. The 4wk moving average rose to 198,250 from 196,250 for initial claims, while the continued claims average rose to 1,692 mln from 1.682mln. Although initial claims rose, it still remains beneath 200k, a level considered to be consistent with a tight labour market. While the sustained tight labour market will support calls for further monetary tightening in isolation, the latest banking crisis and dimmed growth outlook will give some pause to policymakers.

GDP FINAL (Q4): The final Q4 GDP data was revised slightly lower to 2.6% from 2.7%, while the deflator was unrevised at 3.9%. Core PCE for Q4 saw a revision higher to 4.4% from 4.3% but headline PCE was maintained at 3.7%. Consumer Spending fell to 1.0% vs 1.4% in the 2nd estimate. The revision lower in GDP was primarily due to downward revisions to exports and consumer spending. The 2.6% growth shows a deceleration from Q3's 3.2%, which "primarily reflected a downturn in exports and decelerations in consumer spending, nonresidential fixed investment, and state and local government spending." However, this was partially offset by "an upturn in private inventory investment, a smaller decrease in residential fixed investment, and an acceleration in federal government spending". Imports, which are a subtraction in the calculation of GDP, decreased less in Q4 than Q3. Note, the Q4 data is deemed rather stale given we are now heading into Q2, while on prices, the more timely February PCE data will be released on Friday. It also does not incorporate the impacts of the recent banking crisis and is unlikely to alter Fed policy.

FED

Barkin (non-voter) repeated his language last week, noting he supported the 25bp rate hike given the substantial inflation pressure and banking resilience. He is also comfortable with a trajectory now of evaluating decisions on a meeting by meeting bases if a 25bp hike is needed or not, but he currently has no view on that as there is still a lot of data due before the next meeting and the Fed will have to stay nimble in weighing the fallout from bank stress against incoming data on inflation. He noted deposit flows are relatively stable and he is encouraged by the evidence of resilience. He did note it is still too soon to know the impact of bank stress on credit and inflation, with a pretty wide range of possible outcomes. He is paying attention to how much banks tighten credit, but it is hard to judge the impact of bank runs on the Fed's rate path. He is also tracking weekly credit card spending to see if demand is beginning to settle but said there is still a lot of money among households available to be spent. Barkin also stressed it is important to remember not every bank failure becomes Lehman brothers.

Kashkari (voter) said we have very high inflation and we must bring it down, but he said there has been some real progress on the Fed's rate hikes, noting housing has slowed, goods prices have fallen, and new leases are coming down but there is still more work to do in bringing services inflation down, with ex-housing core services inflation still elevated. On banking, he said it is unclear how much banking stresses in recent weeks is leading to a sustained credit crunch, but banking stresses tend to take longer than you think to get through, which he says he is prepared to be the case.

Collins (non-voter) said it is likely more rate hikes are needed to bring down inflation and the current SEPs from the Fed seem reasonable, noting she supported the latest 25bp rate hike and her economic views are close to FOMC forecasts. She also repeated Powell that tighter credit may offset the need for more rate hikes. She said the banking system is strong and resilient but it is likely to pull back on lending which will restrain the economy. Collins added the labour market is still seeing strength but is likely to abate; suggested the labour market may be a lagging indicator right now. She said inflation expectations data shows confidence the Fed will control inflation, noting wages are key for inflation. Before the banking stress, she said she had expected to hike rates more than the prior projection, noting more banking sector stress could affect the outlook for policy. On future meetings, she said it is premature to say what the Fed should do in May, but getting inflation down argues for no rate cuts this year.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 1+ TICKS HIGHER AT 114-18+

Treasuries saw modest strength Thursday, unwinding earlier data-led losses as the market pauses for thought. At settlement, 2s +1.9bps at 4.099%, 3s -0.1bps at 3.882%, 5s -1.2bps at 3.663%, 7s -1.2bps at 3.612%, 10s -1.9bps at 3.547%, 20s -3.4bps at 3.883%, 30s -3.6bps at 3.742%.

Inflation breakevens: 5yr BEI +1.1bps at 2.388%, 10yr BEI +0.1bps at 2.351%, 30yr BEI -1.4bps at 2.267%.

THE DAY: T-Notes saw marginal selling pressure through the APAC session Thursday before bouncing to session highs of 114-23+ in sympathy with EGBs after Germany's NRW CPI release. But, they pared back on the nationwide harmonised reading falling less than hoped. It was choppy trade for the contracts until the US data slate saw upward revisions to final Q4 PCE data, alongside yet another sub-200k initial jobless claims reading. T-Notes printed session lows of 114-07 in the wake of the data, but gradually pared back into the black through the rest of the session. Fed speak from Kashkari, Barkin and Collins saw two-way comments, failing to dent the recovery. More broadly, note that T-Notes marked their smallest intra-session range since the banking crisis flared up in early March, with the market pausing for some thought. Attention now turns to Friday's PCE and month/quarter-end flows.

STIRS:

- SR3H3 -1bps at 95.133, M3 -4bps at 95.14, U3 -4.5bps at 95.395, Z3 -4bps at 95.675, H4 -4bps at 96.04, M4 -4 bps at 96.37, U4 -3bps at 96.64, Z4 -1bps at 96.805, H5 +1bps at 96.895, H6 +4.5bps at 96.995.
- US SOFR at 4.83% as of March 29th (prev. 4.84%); volumes fall to USD 1.287tln from 1.345tln.
- NY Fed RRP op demand at USD 2.272tln (prev. 2.265tln) across 102 counterparties (prev. 104).
- US leaves 13-week and 26-week bill sizes unchanged at USD 57bln and 48bln for April 3rd; to settle on April 6th.
- US sold USD 61bln of 1-month bills at 4.600%, covered 2.63x; sold USD 51bln of 2-month bills at 4.600%, covered 2.47x - settling on April 4th.

CRUDE

WTI (K3) SETTLES USD 1.40 HIGHER AT 74.37/BBL; BRENT (M3) SETTLES USD 1.01 HIGHER AT 78.60/BBL

Oil prices were firmer on Thursday with desks citing ongoing Iraq/Kurdistan production woes in a lack of fresh catalysts. Futures saw two spurts higher: once in the European morning and another as Europe closed up shop. The upside brings the futures back to their WTD highs and their highest since early March. Those looking for a reason today are pinning Wednesday's bullish EIA inventory data, in addition to the production halts reported Wednesday in the Kurdistan region of northern Iraq as talks drag on between Turkey, Iraq, and Kurdistan to find an agreement, where 450k of exports being halted were reported earlier in the week. Elsewhere Thursday, France's strike action continues to bubble in the background, Reuters reported supply of the North Sea grades underpinning Brent is to avg. a larger 696k BPD in May vs 660k BPD in April, and the Freeport LNG export plant - which is responsible for 15% of US exports - was reported to hit full capacity (approx 2BCF/D) for the first time since the explosion last June.

EQUITIES

CLOSES: SPX +0.57% at 4,051, NDX +0.91% at 12,963, DJIA +0.43% at 32,859, RUT -0.18% at 1,768.

SECTORS: Real Estate +1.22%, Technology +1.14%, Consumer Discretionary +0.9%, Materials +0.64%, Health Care +0.55%, Utilities +0.4%, Energy +0.35%, Consumer Staples +0.34%, Communication +0.32%, Industrials +0.23%, Financials -0.29%.

EUROPEAN CLOSES: EURO STOXX 50 +1.28% at 4,285, FTSE 100 +0.74% at 7,620, DAX 40 +1.26% at 15,522, CAC 40 +1.06% at 7,263, FTSE MIB +1.05% at 27,021, IBEX 35 +1.50% at 9,207, SMI +0.63% at 11,032.

STOCK SPECIFICS: **Charles Schwab (SCHW)** was downgraded at Morgan Stanley; citing an extended earnings recovery timeline that makes the risk-reward balance for shares appear less compelling. **Google (GOOGL)** Cloud VP said **Microsoft (MSFT)** was selectively buying out complainants and definitely has an anti-competitive posture in the cloud sector; urges antitrust regulators to look at the issue holistically. **Meta (META)** execs are discussing a co.-wide ban on political advertising in Europe, following concerns that its social networking platforms (Instagram and FB etc) will be unable to comply with forthcoming EU regulations, according to FT. **Ford (F)** has joined PT Vale Indonesia and China's Zhejiang Huayou Cobalt to advance more sustainable nickel production in Indonesia and help make EV batteries more affordable. **RH (RH)** missed on the top and bottom line; Q1 and FY23 revenue guidance was also light. **Peabody (BTU)** confirmed a fire Wednesday at its Shoal Creek Mine, but it does not expect it to impact 2023 results. **Walmart (WMT)** was upgraded at Evercore; said in a note to clients that Walmart is poised to see traffic and margins improve over the next two years. **JD.com (JD)** proposed a spin-off and separate listing of JD Property and JD Industrial on the main board of the Hong Kong Stock Exchange and submitted a listing application. **Electronic Arts (EA)** is laying off around 6% of its workforce, and reducing its office-space footprint, WSJ reported. **Bed Bath & Beyond (BBBY)** filed to sell up to USD 300mln in stock; prelim Q4 sales at USD 1.2bln with SSS down 40 to 50%. **Spirit Airlines (SAVE)** plans to hire in excess of 4k new team members in 2023. **Ford (F)** raises F-150 lightning prices as plant resumes full production following battery fire, according to Automotive News. Note, Ford (F) also withdrew a US petition seeking approval to deploy self-driving vehicles. A **Boeing (BA)** executive, speaking at Wings Club, NY, said part supply stabilisation is to take another year but they are seeing improvement in supply-chain strains. Boeing stock caught a bid after they announced it will increase 737 MAX production rates above 31 per month "very soon", as did **Spirit Aerosystems (SPR)**. **Tesla (TSLA)** reportedly discussed factory plans with White House officials and is pursuing building an EV battery plant in Texas with China's CATL, according to Bloomberg.

BANKING: White House calls on US regulators to reverse Trump-era rule changes for large regional banks; urges regulators to accelerate work on expanding long-term debt requirements to broader set of banks. White House said costs of replenishing deposit insurance fund should not be borne by community banks and the proposed reforms can be accomplished under existing law. On **First Republic (FRC)**, FBN reported that despite heavy lobbying pressure, the wealth management team at FRC are not budging and it has only lost 4 out of 270 advisers to competitors. FBN added that the Wealth Management unit will be key to the bank's survival since clients often bolt with their deposits. Meanwhile, Reuters reported the Massachusetts securities regulator is probing First Republic Bank (FRC) over insider stock sales.

US FX WRAP

The Dollar was lower on Thursday with the risk environment still supported, albeit primarily due to large cap stock performance while the smaller cap Russell 2k took a hit as banking names sold off in the afternoon. A floor was seen on the data in the DXY, despite a revision lower in the final Q4 GDP, although PCE was revised higher and coincided with another sub-200k jobless claims print. Fed Speak saw Kashkari (voter) reiterate some caution but stress the Fed needs to bring inflation down to target. Collins (non-voter) towed a similar line to Fed Chair Powell, while Barkin (non-voter) repeated language last week. DXY fell from highs of 102.78 to lows of 102.06, failing to fall beneath the psychological 102.

The Euro was buoyed by the weaker Dollar while there was mixed EZ inflation data, German inflation was hotter than expected although Spanish CPI was cooler than forecast. The latest ECB bulletin echoed the March statement and press conference, noting rate decisions will be determined by the assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission. EUR/USD poked its head above 1.09, a level it sits just above at pixel time, from lows of 1.0824 and earlier highs of 1.0926.

The Yen gained vs the buck, supported by a reversal in UST yields although it failed to fall beneath 132.00 and hovered around 132.50 into the NY close.

The Franc saw decent gains vs the softer Dollar but failed to gain vs the Euro trading within a narrow range with the single currency. SNB's Maechler added little new, reiterating the central bank remains ready to be active in FX markets and foreign currency sales have been a mainstay of activity of the FX market.

Gold prices were buoyed, particularly in afternoon trade but it is still shy by USD 20/oz of the 2k mark. The upside in the yellow metal coincided with afternoon weakness in the banking sector.

Cyclical currencies were bid on account of the weaker Dollar and risk appetite. GBP/USD neared 1.2400 but peaked at 1.2393, while NZD/USD bounced from lows of 0.6204 to highs of 0.6265 at pixel time despite downbeat NZ building consents earlier and the ANZ business outlook remaining weak at -43.4%. AUD/USD traded either side of 0.67 and underperformed its Antipodean counterpart after another bank lowered its RBA terminal rate forecast: NAB now expects just one more 25bp hike. AUD/NZD was lower but it has found support just above 1.07. CAD saw mild gains vs the buck to sub 1.3550 as crude prices gave a helping hand into GDP and budget data on Friday.

EMFX was mixed. BRL saw gains on several factors. The BCB issued a hawkish quarterly inflation report, growth forecasts were raised while inflation projections also increased and long term inflation expectations also deteriorated. It also reinforced that "future monetary policy steps can be adjusted and will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected." Meanwhile, the economy ministry eased market fears after unveiling new fiscal rules which focus on balancing limits on spending growth and boosting social programmes and public investment. Haddad also announced they are not considering creating and/or raising taxes, while they do plan to send the fiscal framework to congress next week. Note, March IGP-M inflation came in softer than expected. ZAR saw strong gains following an above consensus 50bp hike from the SARB, while higher gold prices also buoyed the currency. MXN saw weakness in wake of the Banxico rate decision which hiked by 25bps as expected, while taking a wait and see approach to future policy decisions as opposed to the clear guidance we received in February. COP was also weaker, the Columbian Central banked also hiked by 25bps as expected, taking rates to 13%.