US Market Wrap

31st March 2023: Stocks, Dollar and Bonds end the quarter on a high amid month-end flows

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar up.
- **REAR VIEW**: US core PCE falls more than expected; Softer EU flash inflation data; Final UoM metrics revised lower, with inflation gauges mixed; Russian March oil data shows little sign of output cut; ECB's Lagarde says bank still have ground to cover on rates; Fed's Williams prioritises the inflation fight; Fed's Collins says weaker NFP unlikely to change monpol outlook; Chicago PMI above expected, but still downbeat; Mixed Chinese PMIs; Chinese cybersecurity review on MU.
- **WEEK AHEAD PREVIEW**: Highlights include US NFP, ISM, RBA, RBNZ, BoJ Tankan, BoC BOS. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing BoJ Tankan, BoC BOS, RBA, RBNZ, RBI; Reviewing SARB, Banxico. To download the report, please click here.

MARKET WRAP

Stocks, bonds, and the Dollar crescendoed into the close Friday as month- and quarter-end flows made their mark. Fed pricing moved marginally more dovish after the February Core PCE data came in beneath street expectations, adding weight to the month-end duration bid. Meanwhile, the Chicago PMI data saw a surprise rise, while the Uni of Michigan consumer survey was revised lower, alongside the short-term inflation expectations (3.6% from 3.8%), although the longer-term measure saw a slight rise (2.9% from 2.8%). We had more Fed Speak, with Collins (non-voter) saying the PCE data came in about in line with where the Fed expected, while Fed's Williams (voter) put more weight on getting inflation back down than focusing on the recent banking turmoil. Overseas, the disinflation narrative was accentuated by the EU flash inflation data coming in soft, while the Chinese PMIs saw disappointing manufacturing figures, albeit solid services. In commodities, metals, both precious and industrials, were weaker amid the Dollar bid, although oil prices managed to see respectable gains ahead of OPEC next week, where np change is expected.

FED

Williams (voter) said in prepared remarks, in his first comments since mid-Feb, that financial conditions view will play a key part in monetary policy thinking, and whilst the economic outlook is uncertain, data will drive monetary policy outlook. On expectations, the NY Fed President remains confident the Fed will get inflation back to 2%, and expects inflation to cool to 3.25% this year. He sees the unemployment rate ticking up to around 4.5%. In subsequent Q&A, Williams said inflation is the Fed's main problem, and it must lower price pressures, whilst expressing his confidence in the resilience of the banking sector. Finally, the NY Fed President said Fed rate hikes have put monetary policy in a "slightly restrictive" stance.

Collins (non-voter) spoke further on Friday after extensive remarks on Thursday, and while she largely reiterated her stance, she said to Bloomberg TV that the February PCE data was about what the Fed expected and is not seeing overwhelming progress in the inflation fight, saying there is more work to be done. Finally, in separate remarks to Reuters, Collins said a weaker March jobs report is unlikely to change monetary policy outlook, and welcomes decline of stigma tied to drawing on US central bank's lending facilities.

DATA

PCE: US Core PCE rose 4.6% Y/Y in February, cooling from January and the expected +4.7%. M/M was also cool, rising 0.3% from the downwardly revised 0.5% and cooler than the expected +0.4%. Headline figures rose 5.0% Y/Y and 0.3% M/M, cooling from the priors. Meanwhile, consumption data rose 0.2% (exp. 0.3%, prev. 2.0%) while personal income was 0.1% (exp. 0.3%, prev. 0.6%). The Fed's preferred method of inflation is showing signs of slowing, a welcome sign. However, the above-expected rise in personal income was led by increased compensation, mainly from wages and salaries. The report noted that private wages and salaries for services-producing industries and government wages and salaries increased. Fed's Collins said on Bloomberg that the data came about where she expected, and it does not change her view, which is in line with the median of one more hike this year before holding through year-end. With signs of cooling inflation pressures, and tightening credit conditions, markets are at odds with Fed guidance and are pricing in c 40bps of cuts by year-end, despite the FOMC looking for one more hike this year before leaving rates at terminal through year-end.

UOM FINAL: Headline Uni of Michigan survey (final) for March was revised lower to 62.0 from 63.4 and beneath the consensus of 63.2, falling for the first time in four months. Forward-looking expectations and current conditions were revised lower to 59.2 (prev. 61.5) and 66.3 (prev. 66.4), respectively. 1yr inflation expectations encouragingly ticked down to 3.6% (prev. 3.8%), but the longer-term 5yr was lifted to 2.9% (prev. 2.8%). Oxford Economics states, “while the near-term correlation between consumer sentiment and consumer spending isn't particularly strong, a more pessimistic consumer is consistent with our view that consumer spending will lose momentum soon. Confidence is important when the economy is at an inflection point.”

CHICAGO PMI: Chicago PMI slightly rose to 43.8 from 43.6, and above the expected 43.4, but it tends to lag the trend in aircraft orders so the upturn in orders towards the end of last year likely explains the small rise in the March headline. Although, the headline print remains consistent with a recession in manufacturing, and Oxford Economics notes, “we see few signs of the rebound in China’s manufacturing PMIs in any of the regional Fed manufacturing surveys.” Adding, “it could just be a question of lags, but we’re increasingly worried that the hit to domestic capital spending from tighter credit conditions will offset any external boost from China’s reopening.” As such, the consultancy looks for a fall in the Manufacturing ISM and are bracing for some potentially grim months ahead.

CHINA PMI: The official NBS PMI data saw the non-manufacturing index rise to the highest since 2011 at 58.2 (from 56.3), above the expected 55.0; manufacturing index ease to 51.9 (from 52.6), a little above the expected 51.5; that helped the composite index to rise to 57.0 from 56.4 (also the highest since 2011). Analysts said the manufacturing gauge was weighed on by the weak global manufacturing landscape, while the services sector is being supported by a bounce-back in consumer spending, while construction was supported by fiscal policy. "This strength won’t be sustained indefinitely, however," Capital Economics said, "with much of the immediate boost from dismantling virus restrictions now already passed and policy set to turn less accommodative, the recovery is likely to moderate over the coming months."

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 11 TICKS HIGHER 114-29+

Treasuries rallied into month-end on book squaring that was accentuated by the softer Core PCE data. At settlement, 2s -4.7bps at 4.052%, 3s -6.6bps at 3.816%, 5s -6.9bps at 3.594%, 7s -6.6bps at 3.549%, 10s -7.4bps at 3.477%, 20s -8.5bps at 3.805%, 30s -7.9bps at 3.667%.

Inflation breakevens: 5yr BEI flat at 2.385%, 10yr BEI -1.0bps at 2.337%, 30yr BEI -3.4bps at 2.226%.

THE DAY: T-Notes drifted slightly lower through APAC trade and the European morning on Friday - mixed Chinese PMIs (strong services, weak manufacturing) and hot UK GDP data capped any early strength ahead of quarter-end. The contracts printed session lows of 114-09 before the softer EU flash inflation data (HICP at 6.9% vs exp. 7.1% and prior 8.5%) kicked of a buying spree for govvies. The moves were accentuated on the US Core PCE data seeing a surprise fall (Y/Y at 4.6% from +4.7%), although on an absolute basis, inflation remains uncomfortably high. The downward revision to the UoM survey final reading supported the duration bid too, while the fall in 1yr consumer inflation expectations were offset by a slight rise in the longer-term gauge. The Treasury bid extended as Europe closed up shop for the week, where month- and quarter-end flows took the limelight, with T-Notes grinding higher all the way into settlement.

STIRS:

- SR3H3 -1bps at 95.125, M3 -2.5bps at 95.12, U3 -0.5bps at 95.395, Z3 +2bps at 95.70, H4 +5.5bps at 96.10, M4 +7bps at 96.445, U4 +7.5bps at 96.72, Z4 +8bps at 96.885, H5 +8bps at 96.975, H6 +8bps at 97.08.
- SOFR at 4.82% as of March 30th (prev. 4.83%), volumes at USD 1.319tln (prev. 1.287tln).
- NY Fed RRP op demand at USD 2.375tln (prev. 2.272tln), a 2023 high amid month-end factors, across 108 counterparties (prev. 102).
- US EFFR at 4.83% (prev. 4.83%), volumes at USD 95bln (prev. 97bln).

CRUDE

WTI (K3) SETTLED USD 1.30 HIGHER AT 75.67/BBL; BRENT (M3) SETTLED USD 1.29 HIGHER AT 79.89/BBL

Oil prices ticked higher on Friday in a catalyst-light session, ending the week in the black, but not enough to prevent the 5th consecutive month of losses. The Core PCE data was the highlight in the macro-sphere, ticking lower for both M/M and Y/Y, although oil was little reactive. The crude complex did see a (brief) bout of weakness after Bloomberg reported Russia March oil data showed little sign of pledged output cut. Note that on Wednesday, Reuters reported Russian crude oil production was down 300k BPD in the first three week of March to 9.78mln BPD, as part of Russia's targeted production cuts of around 500k BPD on average through June. Looking ahead, there is OPEC JMMC on Monday (with no changes expected), as well Manufacturing ISM, followed by Services later in the week.

UKRAINE: Hungary's MOL is to pay Ukrtransnafta for Russian oil transit via Ukraine section of Druzhba pipeline from May, according to Reuters sources. Ukrtransnaft to raise Druzhba oil transit fee via Ukraine from May.

OPEC: Reuters OPEC Survey sees March oil output fall 70k BPD from February to 28.90mln BPD led by Angola and Iraq. Quota-bound members comply with 173% of pledged cuts in March (vs 169% in February). Undershoot output target by 930k BPD in March (vs 990k BPD undershoot in February).

BAKER HUGHES: In the week ending 31st March, total rigs fell 3 to 755, which was compiled by oil rigs falling 1 to 592 and natgas declining 2 to 160.

EQUITIES

CLOSES: SPX +1.44% at 4,109, NDX +1.68% at 13,181, DJIA +1.26% at 33,274, RUT +1.93% at 1,802.

SECTORS: Consumer Discretionary +2.62%, Real Estate +2.18%, Communication Services +2.08%, Materials +1.57%, Technology +1.47%, Industrials +1.31%, Financials +1.15%, Health +1.12%, Consumer Staples +0.83%, Utilities +0.76%, Energy +0.63%.

EUROPEAN CLOSES: EURO STOXX 50 +0.69% at 4,315, FTSE 100 +0.15% at 7,631, DAX 40 +0.69% at 15,628, CAC 40 +0.81% at 7,322, FTSE MIB +0.34% at 27,113, IBEX 35 +0.28% at 9,232, SMI +0.58% at 11,095.

STOCK SPECIFICS: China cyberspace regulator implements a cybersecurity review on **Micron's (MU)** products in China. In response, MU said it stands by security of its products and is aware of China review and is cooperating fully. **Virgin Orbit (VORB)** is ceasing operations for the foreseeable future after failing to secure a funding lifeline, CNBC reported; will lay off 85% of employees. **Tesla (TSLA)** CEO Musk plans to visit China as early as April, and his team are said to be making efforts to meet Chinese Premier Li. **Nikola (NKLA)** announced a USD 100mln common stock offering; intends to use the net proceeds for working capital and other general corporate purposes. **Generac Holdings (GNRC)** was downgraded at Bank of America; said guidance for FY23 seems out of reach with its residential segment pressured. **Apple (AAPL)** won its appeal against Britain's antitrust regulator's decision to launch an investigation into its mobile browser. **Warner Bros. Discovery (WBD)** scales back on its music sale as bids fall short (had hoped for as much as USD 2bln), according to FT. California, Maryland and two other states join US DoJ legal fight to stop **JetBlue (JBLU)** from acquiring **Spirit (SAVE)**.

WEEKLY FX WRAP

Yen throws ailing Dollar a lifeline and SARB saves the Rand

USD/JPY - It may be somewhat simplistic or binary to say that the Buck only managed to stem the increasingly bearish tide thanks to the Yen, but in DXY terms at least that is a pretty accurate assessment of the situation. Indeed, the index looked almost destined to descend further from its early March and y-t-d summit (105.880 set on March 8) through 102.000 to test last week's m-t-d low just under the round number, but was propped up between 102.040-103.230 parameters as Usd/Jpy rebounded from around 129.65 (on March 24 and a circa 130.40 base this week) to 133.59 at one point on Friday. This marked a significant change of fortunes and behaviour for the Yen that normally flourishes into the end of Q1 as repatriation demand intensifies due to Japan's fiscal year end. However, Japanese importers were arguably more active this time round, and especially over Tokyo fixes, while other buy orders in the headline pair were described as 'special' and attributed to M&A flows or funding for investment in US assets to be used from early April. In truth, Jpy crosses also shot up and perhaps on perceptions that the BoJ will likely remain one of the only major global Central Banks pursuing ultra-easy policy, even as its peers pause and/or approach terminal rates. On that note, Fed Chair Powell referenced the latest dot plots indicating a final 25 bp hike before peaking at a private meeting, and the now even more data dependent FOMC may be persuaded to stop tightening sooner rather than later given softer than forecast core PCE prices for February and a downward revision to final UoM inflation expectations over the one year horizon. Looking at current pricing for May, markets are inclined towards another ¼ point rate increase, though there are plenty more macro releases to go, including the ISMs and NFP during the coming week.

EUR - The Euro was underpinned by hawkish ECB noises, via GC members in person and source reports, but also a deeper retracement in EGBs that saw the 10 year German Bund yield top 2.40% compared to just shy of 2.13% at the other end of the scale as conditions in the banking and financial sector continued to stabilise. On the flip-side, no less than five banks located in Paris or near the French capital were searched by prosecutors as part of a tax fraud probe, while from a technical perspective Eur/Jpy gains were capped or countered by Eur/Usd forming a double top a few pips under the apex from March 23 (1.0930). Meanwhile, Eurozone data was a mixed bag as Ifo's German survey metrics were upbeat, prelim y/y headline inflation prints were largely soft, but mainly on favourable base effects and core measures still sticky or ticking up from prior levels at worst. Nevertheless, Eur/Usd is holding towards the top of its 1.0926-107.46 range.

AUD/NZD - Lots of volatility down under, albeit within relatively narrow confines for the Aussie and Kiwi against the Greenback, and each other. Aud/Usd whipsawed from 0.6635 to 0.6737, but mostly either side of 0.6700 in a tighter band, in keeping with Aud/Nzd around a 1.0700 axis inside 1.0762-1.0674, while Nzd/Usd hovered between 0.6200-50 for the bulk of the week having marked out 0.6297-0.6182 boundaries. However, RBA and RBNZ policy meetings loom and should provide independent/clearer direction as the former may opt to pause its tightening cycle in consideration of considerably softer than expected February CPI and the latter is seen scaling down the pace of tightening to 25 bp from 50 bp, but could yet surprise on the hawkish side having debated half point or 75 bp last time.

CHF/CAD/GBP - The Franc also witnessed whippy price action and divergence in direction vs its US and EZ counterparts as the heat dissipated somewhat from the CS collapse and focus shifted to how UBS will cope with the takeover. There was relief on the news that an ex-CEO at UBS will return to oversee the merger as he has experience in that role, but only fairly briefly as Usd/Chf and Eur/Usd reverted to tracking bonds on an outright basis and spread terms rather than overall risk sentiment. Moreover, reserve reallocation and book-balancing for month and quarter end featured as the Franc flitted from 0.9223 to 0.9116 and 0.9860 to 0.9990 respectively. Elsewhere, the Loonie outpaced its US rival in the aftermath of the BoC's pause with fuel provided by firmer revival in crude alongside other commodities and an upside beat in Canadian monthly GDP. Usd/Cad got to within single digits of 1.3500 from 1.3745 at the high on Monday and the Pound received a GDP boost as well on the final session of the week, March and Q1 via upgrades to Q4 data to keep Cable elevated between 1.2423-1.2219 extremes, though hawkish guidance from BoE Governor Bailey at the very start of the week might have been more pertinent. To recap, he repeated that if signs of persistent inflationary pressures become evident, further monetary tightening would be required, adding that with the FPC focusing on the financial system, the MPC can concentrate on returning inflation to target. Conversely, Eur/Gbp was more pivotal and contained around 0.8800 with key tech support below underpinning the cross (100 DMA).

SCANDI/EM - More pain than gain for the Sek and Nok on balance, regardless of Riksbank officials maintaining a hawkish line on Swedish inflation and the Norges Bank setting a lower daily foreign currency purchase schedule for April vs this month, but several EM and CEE currencies were cushioned or boosted by rate hikes, hawkish Central Bank minutes and/or rhetoric, and none more so than the Zar on the back of the SARB exceeding consensus with a 50 bp rise against the widely anticipated 25 bp. In fact, the Rand probed a significant chart hurdle in the form of a 50% Fib retracement of its decline vs the Usd so far in 2023. Meanwhile, the Cny and Cnh endured another ramp up in Chinese-US tensions, but drew some comfort from forecast-beating Chinese PMIs and a hefty cumulative PBoC liquidity injection, in stark contrast to the Try that suffered even more pre-Turkish election angst and uncertainty, irrespective of the CBRT resisting pressure to ease again.