US Market Wrap

3rd April 2023: Crude climbs after OPEC cuts; yields and Dollar dip on month-end hangover

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: OPEC surprises with >1mln bbl output cut; Soft ISM Manufacturing; Bullard says market is under-pricing hikes; TECK rejects GLEN merger; EXR to acquire LSI.
- **COMING UP**: **Data**: US Factory Orders, JOLTS **Event**: RBA Policy Announcement **Speakers**: Fed's Cook, Mester; BoE's Pill **Supply**: Japan, Netherlands, UK.
- **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 were choppy Monday, with initial gains on the open in NY swiftly unwound, only to retest highs into the close. Note that tech/NDX was the relative underperformer, unwinding some of the outperformance seen into month-end, with the NDX weighed on by Tesla (TSLA) closing lower by 6% after quarterly deliveries missed (Refinitiv and FactSet) expectations. The session was heavily characterised by technical factors, specifically, the hangover from month- and quarter-end rebalancing, in addition to new money being put to work. Although that's not to say we were catalyst-less, where the surprise OPEC production cut saw oil futures gap higher and bonds gap lower on the open. While on data, the miss in US ISM mfg. saw bonds and stocks hit their peaks in the NY morning, with duration bulls encouraged by the softening inflation and employment metrics. Meanwhile, it was M&A Mania in the corporate sphere, with the WWE /Endeavour merger and various other deals, including Glencore having an initial merger offer for Teck resources rejected. Finally, Fed pricing saw some hawkish repricing in the immediacy, despite the strong bid further out the curve, after Bullard (non-voter, hawk) warned on Bloomberg TV the market is underpricing Fed hikes.

GLOBAL

ISM MANUFACTURING: Headline ISM Manufacturing fell short of expectations at 46.3 from 47.7 (exp. 47.5), showing more signs of contraction in the activity sector. However, ISM notes that 70% of manufacturing GDP is contracting (prev. 82% in February). However, more industries contracted strongly while only two industries, Petroleum & Coal products, and Machinery, saw growth in March. New Orders fell to 44.3 (prev. 47), as the survey highlights that New Orders remain sluggish as "panelists become more concerned about when manufacturing growth will resume". It also noted supply chains are now ready for growth as respondents commented on reduced lead times for their more important purchases. Prices Paid fell back to contractionary territory after the Jump in February to 49.2 from 51.3. ISM added that "price instability remains, but future demand is uncertain as companies continue to work down overdue deliveries and backlogs." The employment component also declined, falling to 46.9 from 49.1, slipping further into contractionary territory and continuing the weak trend since September 2022. The contractionary headline, employment and new orders metrics will only add to recessionary fears within the manufacturing sector, but the decline in prices will be a welcome sign to the Fed. However, the Fed's main concern is within the core services ex housing prices, with manufacturing prices falling over the last year.

RBA PREVIEW: Economists surveyed by Reuters are near-evenly split between a 25bps hike in the Cash Rate to 3.85% or a pause, while money markets are more decisive via an 85% pause probability. The central bank has kept its options open for April and suggested that its actions will be determined by the data, while releases have been mixed, including softer monthly CPI which supports the case for a pause. Attention will also be on clues regarding future policy as the current median view is for a pause after this meeting and keeping rates at 3.85% for the rest of the year. For the full Newsquawk preview, please click here.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 17 TICKS HIGHER AT 115-14+

Treasuries extend rally after soft ISM and month-end hangover, with OPEC shock shrugged off. At settlement, 2s -8.0bps at 3.982%, 3s -8.7bps at 3.743%, 5s -8.2bps at 3.529%, 7s -7.3bps at 3.488%, 10s -5.6bps at 3.434%, 20s -3.7 bps at 3.786%, 30s -4.1bps at 3.647%.

Inflation breakevens: 5yr BEI -2bps at 2.366%, 10yr BEI -3.3bps at 2.306%, 30yr BEI -2.4bps at 2.213%.

THE DAY: T-Notes gapped lower on the futures open in wake of the surprise OPEC production cuts and subsequent oil spike, printing session lows of 114-18. The APAC session saw lacklustre trade, although T-Notes retested their lows as Europe returned for the first session of the quarter, only to pare into the NY handover. Contracts gained upside momentum as US trade got underway, ahead of the data, in lack of an obvious catalyst (more month-end/new quarter related flows cited by traders). Bullard (non-voter) remarks on Bloomberg that the market was under-pricing hikes dented the bid. But not for long, where the ISM mfg. survey came in soft, with cooling inflation and employment metrics (ahead of NFP on Friday), taking T-Notes to session highs of 115-21+. An uneventful NY afternoon saw contracts hover near highs into settlement, although Fed's Cook (voter) is due to be speaking later on Monday.

AHEAD: Looking to the week ahead, NFP will be the highlight on Friday, although we get JOLTS on Tuesday and ISM Services Wednesday with Fed Speak littered through the week, whilst external pressures could arise from the RBA (Tues) and RBNZ (Weds) meetings.

STIRS:

- SR3H3 -4.5bps at 94.735, M3 -2.5bps at 95.11, U3 +2bps at 95.46, Z3 +7.5bps at 95.91, H4 +11.5bps at 96.29, M4 +13.5bps at 96.585, U4 +14bps at 96.755, Z4 +12.5bps at 96.83, H5 +11bps at 96.86, H6 +8.5bps at 96.89, H7 +6bps at 96.805.
- SOFR rose to 4.87% as of month-end (Friday) from 4.82% the day prior.
- NY Fed RRP op demand at USD 2.221tln (prev. 2.375tln) across 101 counterparties (prev. 108).
- EFFR unchanged at 4.83%.
- US sold USD 64bln in 3-month bills at 4.780%, covered 2.49x; sold USD 54bln in 6-month bills at 4.705%, covered 2.79x.

CRUDE

WTI (K3) SETTLED USD 4.75 HIGHER AT 80.42/BBL; BRENT (M3) SETTLED USD 5.04 HIGHER AT 84.93/BBL

The crude complex surged on Monday following the surprise weekend announcement of voluntary output cuts by OPEC+ members totalling over 1mln BPD to year-end, with WTI and Brent hitting highs of USD 81.69/bbl and 86.44/bbl, respectively. Saudi Arabia is set to reduce production by 500k BPD, while Russia will also cut by 500k bpd until year-end as a precautionary measure against further market volatility. Furthermore, Iraq is to lower output by 211k BPD, UAE by 144k BPD, Kuwait 128k BPD and Oman by 40k BPD, amongst others. Following the announcement, the Kremlin highlighted the need to support world prices for oil and oil products. On the flip side, the White House said they do not think OPEC production cuts are advisable given market uncertainty and said that it made that clear to OPEC, but simultaneously stressed relations were in tact with Saudi, saying the US got a heads up on the OPEC+ production cut plan.

RUSSIA: Russia has reportedly moved to the Dubai pricing benchmark in recent deals for Urals with Indian buyers, according to Reuters sources; Rosneft is to sell oil to India at a discount of USD 8-10/bbl to Dubai quotes on a delivered basis.

BANK COMMENTARY: JPMorgan said the OPEC cut was already reflected in its price view and still sees Brent prices averaging USD 89/bbl in Q2, rising to USD 94/bbl in Q4 and exiting the year at USD 96/bbl. Meanwhile, Barclays noted the cuts imply a USD 5/bbl upside to their USD 92/bbl price forecast for Brent this year all else equal. Finally, Goldman Sachs lifted its Brent price forecast for 2023 and 2024 to USD 95/bbl and USD 100/bbl, respectively.

EQUITIES

CLOSES: SPX +0.37% at 4,124, NDX -0.25% at 13,148, DJIA +0.98% at 33,600, RUT -0.01% at 1,802.

SECTORS: Energy +4.91%, Health +1.08%, Materials +0.65%, Communication Services +0.53%, Consumer Staples +0.51%, Financials +0.2%, Industrials +0.19%, Technology -0.05%, Utilities -0.72%, Consumer Discretionary -0.91%, Real Estate -0.95%.

EUROPEAN CLOSES: EURO STOXX 50 -0.09% at 4,311, FTSE 100 +0.54% at 7,673, DAX 40 -0.31% at 15,580, CAC 40 +0.32% at 7,345, FTSE MIB +0.24% at 27,179, IBEX 35 -0.81% at 9,157, SMI -0.12% at 11,093.

STOCK SPECIFICS: **McDonald's (MCD)** is temporarily closing its US offices this week as it prepares to inform corporate employees about layoffs undertaken as part of a broader company restructuring, WSJ reported. **Extra Space Storage (EXR)** confirmed it is to merge with **Life Storage (LSI)** in a deal valuing the latter at USD 145.82/shr with the transaction expected to close H2 '23. Note, LSI closed Friday at USD 131.09/shr. **Tesla (TSLA)** posted record quarterly vehicle deliveries, albeit missing Refinitiv and FactSet expectations, as Q/Q sales growth was modest despite price cuts as rising competition and a bleak economic outlook weighed. **PPG (PPG)** lifted its Q1 '23 EPS view; CEO noted the pace of its operating margin recovery accelerated during the quarter, driven by higher sales volumes and additional selling price capture. **Teck Resources (TECK)** rejected an unsolicited acquisition proposal for a value 20% above Friday's close from **Glencore (GLEN LN)** as it is not contemplating a sale at this stage and is opposed to ESG implications of a merger. **WWE (WWE)** confirmed it will be acquired by **Endeavor (EDR)** for USD 106/shr. Note, WWE closed Friday at USD 91.26/shr. Under the agreement, EDR shareholders will own 51% of the combined company, while WWE shareholders would get 49%. **Macy's (M)** upgraded at JPMorgan; said it has confidence in Macy's bottom-line plan and expects to see multiyear EBITDA margins in the low double digits. **Ford (F)** announced it is on track to reach its annual production run rate of 600k EVs by 2023-end and in excess of 2mln by 2026-end. **Google (GOOGL)** is to cut down on employee laptops, services, and staples for 'multi-year' savings, according to CNBC. **Disney (DIS)** plans to invest USD 17bln in Walt Disney World over the next 10 years. Separately, NYT reported that Florida Governor DeSantis has asked authorities to investigate the Disney World board into an effort by the Co. to limit state oversight of development at the parks. US DoJ filed an antitrust lawsuit against **Activision Blizzard (ATVI)**, suing the Co. over salary limits in professional esports leagues. **First Solar (FSLR)** was downgraded at Morgan Stanley; said FSLR is one of the biggest direct beneficiaries of the Inflation Reduction Act, but said the stock has appreciated 196% since the legislation was announced. **Apellis (APLS)** is reportedly drawing takeover interest from larger drugmakers, according to Bloomberg sources; speaking to advisors to consider its options.

US FX WRAP

The Dollar was lower on Monday with DXY predominantly trading between 102 and 103 while UST yields fell alongside dovish data releases. The ISM manufacturing saw further signs of contraction in March, as well as cooler prices. Elsewhere, Fed speak saw hawk-Bullard (non-voter) pushback on market pricing for rate cuts and repeated his prioritisation for fighting inflation while macroprudential tools can deal with financial stability. In the holiday-shortened week the key events are NFP on Friday (everything but FX closed), ISM services on Wednesday and any Fed speak.

The Euro was bid and briefly rose above 1.09, albeit it failed to sustain the round level. PMI data saw the EU metric better than expected but still in contractionary territory.

The Yen found solace in the move lower in UST yields. The latest Tankan data missed expectations on Manufacturing while Services was in line with consensus, but the outlook for both metrics fell short of the consensus, as did CapEx. Meanwhile, Japanese firms expect consumer prices to increase 2.8% a year from now (prev. 2.7% view), while firms expect consumer prices to rise at an annual 2.3% three years from now (prev. 2.2%) and to rise 2.1% five years from now (prev. 2.0%).

The Franc saw mild gains vs the Dollar but failed to appreciate vs the Euro in wake of cooler-than-expected CPI in March, falling 2.9% from 3.4%, lower than the expected 3.2%. A reminder that at the latest SNB meeting the central bank raised its Q1 inflation forecast to 3.2% from 3.0% and raised its Q2 forecast to 2.7% from 2.5%.

Cyclical currencies were firmer, with particular outperformance in the Aussie ahead of the RBA rate decision Tuesday with split expectations for rates to be left unchanged at 3.6%, or to hike by 25bps. The Kiwi saw gains vs the Dollar albeit it failed to break above 0.6300. While AUD/NZD saw pronounced upside to test 1.08 from lows of 1.0679.

The Loonie gains were primarily driven by the upside in crude prices after OPEC+ surprise production cut over the weekend. BoC released its Business Outlook Survey, and it found that half of the firms surveyed expect Canada to be in a mild recession over the next year, more than the prior survey where two-thirds thought this to be the case. However, firms expect sales to grow, but at a slower pace, and it follows a period of exceptional strength over the last year. Inflation expectations have moderated, but most businesses still think inflation will stay well above 2% until at least 2025. However, CAD saw little response to the survey with the BoC on pause, although if the BoC were to enter a recession it may encourage the BoC to pull back from its terminal rate. But, their main focus still lies on bringing inflation back down.

The Pound saw gains but Cable failed to hold above 1.24 while the latest manufacturing PMI data missed expectations. Meanwhile, the Citi/YouGov 12-month UK inflation expectations in February fell to 5.4% from 5.6%, while the long-term fell to 3.7% from 3.8%. Separately, BoE's Pill stated inflation is still too high while reassuring us that the UK banking system is strong.

Scandis were mixed. The Norwegian Krone surged against the Buck, supported by Brent crude, while the SEK was undermined by a disappointing Swedish manufacturing PMI.

EMFX was mixed. The Yuan was more-or-less flat against the Buck, despite Caixin PMI falling short of expectations in March, as in printed 50.0 (prev. 51.6, exp. 51.7). CLP tumbled in wake of disappointing growth data, where the Imacec Economic Activity index fell 0.5%, despite expectations for a 0.1% gain, ahead of the central bank decision later in the week where it is expected to leave rates unchanged at 11.25%. TRY was slightly weaker vs the Greenback given its properties as an oil importer, although Turkish inflation data came in cooler than expected as did PPI from the prior month. ILS was flat on the day, with the Shekel largely unmoved after the Central Bank hiked rates by 25bps as expected to 7.5%. ZAR was weaker despite upside in gold prices, while the South African Finance Minister exempted Eskom from disclosing irregular spending in its financial statement at risk of a downgrade to South Africa's credit rating. Lastly, the Real was lower but was unreactive to Finance Minister Haddad’s remarks after the fiscal framework reveal last week, who said Monday that tax reform is expected to be voted in lower house by July and in the Senate by October, and the first set of measures will have expected revenue between BRL 100-110bln.