US Market Wrap

4th April 2023: Tumble in US job openings hits cyclical assets

- **SNAPSHOT**: Equities down, Treasuries up, Crude flat, Dollar down.
- **REAR VIEW**: Lowest JOLTS print since May 2021; RBA ends hiking cycle, but leaves door open to more; NNDM raises SSYS acquisition offer; BoE's Pill notes work continues on inflation.
- **COMING UP**: **Data**: US ADP, International Trade, ISM Services PMI **Event**: RBNZ Policy Announcement **Speakers**: Fed's Mester, ECB's Lane, RBA's Lowe **Supply**: UK & Germany.

MARKET WRAP

Stocks were lower Tuesday with cyclical/value sectors leading the decline with the big dip in JOLTS job openings dimming labour market/growth expectations. That was reflected in both index and sector-level performance with the 'real economy'-levered Russell 2k far exceeding losses in the SPX and NDX, while Industrials, Energy, Materials, and Financials all underperformed the more defensive sectors such as Big Tech, Healthcare, and Staples. The tumble in February JOLTS comes ahead of the more timely March NFP report on Friday, nonetheless, it was enough of a warning to ignite a large Treasury bull-steepener ahead of the BLS report, especially given markets (ex-FX) will be closed on the day. Fed pricing is now a coinflip for whether the Fed hikes 25bps or stays on hold (as the RBA did Tuesday). The dovish Fed repricing and cooler growth outlook saw the Dollar sold, with other funders (CHF, JPY, EUR) outperforming while high-beta currencies suffered. Despite the weakness in the buck, oil prices faded some of their surge from Monday which was caused by the surprise OPEC supply cut decision - some have opined that supply-led measures to support prices are less effective than a demand push, raising second thoughts over Monday's breakout. Meanwhile, precious metals revelled in the growth fears and softer Dollar, while industrial metals suffered.

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JOLTS: The larger fall in the JOLTS will be welcomed by the Fed in signs of an easing labour market from very tight levels. Job Openings fell to 9.931mln from 10.563mln, more than the expected decline to 10.4mln and also outside of the range of analyst expectations (10-10.7mln). The 9.931mln print is the lowest since May of 2021, but still above pre-pandemic levels of c. 7mln, but it is a step in the right direction for the Fed. The ratio of unemployed per job opening fell to 1.7, the lowest since November 2021, while the Quits Rate rose to 2.6% from 2.5%. Attention now turns to the NFP on Friday to help shape expectations for the Fed's May 2nd meeting. Nonetheless, the March CPI is due April 12th, PPI on April 13th, and PCE on April 28th, therefore there is plenty of data to digest between now and the FOMC, including today's JOLTS and Friday's NFP. Alongside data, the actual and expected tightening of credit conditions will also be key. If credit conditions are to tighten drastically it will support the Fed's job in lowering demand and bringing down inflation, but with the forecasts implying a tightening of credit conditions, if they do not tighten as much as expected, the Fed may need to do more than what was guided in March.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 25+ TICKS HIGHER AT 116-08

Treasuries bull-steepened after the chunky fall in job openings saw Fed hike pricing recede. At settlement, 2s -14.4bps at 3.836%, 3s -13.7bps at 3.606%, 5s -13.6bps at 3.393%, 7s -11.1bps at 3.377%, 10s -9.0bps at 3.342%, 20s -6.7bps at 3.718%, 30s -5.0bps at 3.596%

Inflation breakevens: 5yr BEI -6.6bps at 2.312%, 10yr BEI -4.1bps at 2.274%, 30yr BEI -1.8bps at 2.194%.

THE DAY: T-Notes trundled lower at a gentle pace through the APAC Tuesday session, right into the RBA meeting where contracts saw a fleeting spike after the central bank ended its hiking cycle, although earlier ranges were respected. Better selling soon developed heading into the European open, with the hawkish line in RBA that they could hike further if required keeping bulls on the sidelines. The selling in govvies extended into the NY handover where session lows of 115-02+ printed, nearly paring to the pre-ISM 115-00 area, although the very low activity made it hard to take much signal from the move. The tape instead came to life after the big tumble in US JOLTS job openings in February to 9.931mln from 10.563mln, igniting a big bull-steepener in Treasuries as Fed pricing repriced dovishly and the inflation outlook skewed lower on signs of an easing labour market; Friday's March NFP report will give a more timely update. After the data T-Notes sustained a bid into the early NY afternoon where session highs of 116-08+ were printed, hovering just beneath into settlement in otherwise quiet trade.

AHEAD: Looking ahead, NFP will be the highlight on Friday, although ISM Services first up on Wednesday. Whilst external pressures could arise from the RBNZ on Wednesday.

STIRS:

- SR3H3 +1.5bps at 95.125, M3 +12bps at 95.19, U3 +16.5bps at 95.545, Z3 +18.5bps at 95.925, H4 +19.5bps at 96.375, M4 +19bps at 96.755, U4 +16.5bps at 97.025, Z4 +14.5bps at 97.165, H5 +13bps at 97.23, H6 +11bps at 97.255.
- US SOFR at 4.84% as of April 3rd (prev. 4.87% on March 31st), but volume rise further to USD 1.477tln from 1.408tln.
- NY Fed RRP op demand at USD 2.219tln (prev. 2.221tln) across 103 counterparties (prev. 101).
- US EFFR at 4.83% as of April 3rd (prev. 4.83% on March 31st), volumes at USD 105bln (prev. 86bln).
- US leaves 4-, 8-, and 17wk bill auction sizes unchanged at USD 60bln, 50bln, and 36bln, respectively; 4- and 8-week to be sold on April 6th and 17-week bills on April 5th; all to settle on April 11th.

CRUDE

WTI (K3) SETTLED USD 0.29 HIGHER AT 80.71/BBL; BRENT (M3) SETTLED USD 0.01 HIGHER AT 84.94/BBL

The crude complex was choppy Tuesday but ultimately firmer as whilst the Dollar move (in wake of US JOLTs) supported prices, the growth fears weighed. Meanwhile, the surprise voluntary cut by OPEC over the weekend continues to underpin the complex. Further on OPEC, Bloomberg echoed Reuters reports last week that crude output fell in March as Angola production fell to a 20yr low. The White House said today that the US will continue to work with producers, and others, to ensure energy markets and lower prices for the American consumer. Elsewhere, Reuters reported Indian state lender Bank of Baroda has stopped clearing payment for Russian oil priced above USD 60/bbl cap, potentially expediting the transition to a Rupee trade mechanism. Looking ahead, private US energy inventory data is due after-hours ahead of the official EIA data on Wednesday - current expectations (bbls): Crude -2.3mln, Gasoline -1.7 mln, Distillates -0.4mln.

IRAQ/KURDISTAN: Iraq and Kurdistan governments are set to announce a final deal to resume oil exports, Reuters reported; Iraq's northern oil exports expected to recommence on Tuesday. That follows the two sides coming to an initial agreement to restart northern oil exports this week. Prior to this, Turkey stopped pumping around 450k BPD of Iraqi crude via a pipeline from the Fish-Khabur border area to its Ceyhan port on March 25th, after Baghdad won an arbitration case arguing that Turkey had violated an agreement by allowing KRG exports without the federal government's consent.

EQUITIES

CLOSES: SPX -0.58% at 4,100, NDX -0.37% at 13,100, DJIA -0.59% at 33,402, RUT -1.81% at 1,769.

SECTORS: Industrials -2.25%, Energy -1.72%, Materials -1.45%, Financials -1.01%, Technology -0.58%, Consumer Staples -0.24%, Consumer Discretionary -0.07%, Real Estate +0.01%, Health +0.02%, Communication Services +0.31%, Utilities +0.53%.

EUROPEAN CLOSES: EURO STOXX 50 +0.10% at 4,315, FTSE 100 -0.50% at 7,634, DAX 40 +0.14% at 15,603, CAC 40 -0.01% at 7,344, FTSE MIB -0.56% at 27,026, IBEX 35 +0.28% at 9,183, SMI -0.18% at 11,073.

STOCK SPECIFICS: **Apple (AAPL)** is cutting a small number of roles within its corporate retail teams, according to Bloomberg; first known internal job cuts since it embarked on a belt-tightening effort last year. **Stratasys (SSYS)** received a new revised acquisition proposal from **Nano Dimension (NNMD)** of USD 20.05/shr; Board of Directors will carefully review and evaluate the proposal. SSYS previously rejected offers of USD 18/shr and USD 19.55/shr. Note, SSYS closed Monday at USD 16.38/shr. **Tesla (TSLA)** is reportedly preparing for a cheaper model and devising a 4mln units per year plan, according to Chinese tech media citing an insider. Separately, China March deliveries 88,869 units (prev. 74.4k in Feb.), according to PCA prelim data. **Virgin Orbit (VORB)** filed for Chapter 11 bankruptcy after it failed to secure the long-term funding needed to help it recover from a January rocket failure. **Etsy (ETSY)** upgraded at Piper Sandler; thinks Etsy's marketplace strengths will "help reaccelerate active buyer growth." **Boeing (BA)** downgraded at Northcoast; cited expected changes to commercial aircraft production, resetting of consensus forecasts and volume headwinds ahead. **General Motors (GM)** CFO said cost-cutting will come in at the higher end of its 2023 target and there will be around a USD 1bln restructuring charge in 2023, while the fourth N. American battery plant will be announced soon. Moreover, CFO added GM is in a good position to get compliant with the Inflation Reduction Act on materials for batteries. GM expects 50k electric vehicles sold in Q2 and also said it believes it's taking market share from Tesla. **Amazon (AMZN)** laid off about 100 employees in its gaming divisions, according to Bloomberg. **Johnson & Johnson (JNJ)** considers refiling talc-liability bankruptcy after appeals-court defeat-court filing, according to Reuters sources.

US FX WRAP

The Dollar was lower on Tuesday after the US JOLTS report, which fell well beneath expectations, falling to 9.931mln (exp. 10.400mln) and was the lowest print since May 2021. As such, the Dollar reached a trough of 101.45 with the YTD low of 100.80 as the next key level to the downside, which desks note could be in reach unless Wednesday's ISM Services and Friday's employment report are surprisingly supportive, which are the key risk events for the rest of the week, albeit everything (aside from FX) is closed on Friday due to the holidays. Although, this week's data have increased expectations that tighter credit from the banking troubles will force the Fed toward rate cuts and the economy closer to recession later this year.

The Aussie was the clear laggard in wake of the RBA rate decision, where for the first time in 11 meetings it kept rates unchanged at 3.60%, as expected, but the downside stemmed as the RBA reiterated expectations that some further policy tightening may well be needed. Moreover, the Board added it remains resolute in its determination to return inflation to target and will do what is necessary to achieve that.

The Kiwi was flat with NZD/USD in a very narrow 0.6275-6315 range, ahead of the RBNZ rate decision Wednesday where the central bank is expected to hike the OCR by 25bps to 5.00% as forecast by 22 out of 24 economists surveyed by Bloomberg, while money markets are pricing an 87% likelihood of a 25bps hike and a 13% chance of a 50bps move (Full Newsquawk preview available here).

The Loonie was marginally weaker against the Buck, and whilst it saw a bout of strength in wake of the aforementioned JOLTS miss, the CAD could not sustain the move. As such, USD/CAD printed a low of 1.3407 in the immediacy, but later pared to around the 1.3450 mark, at the time of writing. On the data front, Canada watchers will be casting their attention to the jobs report and Ivey PMI both on Thursday.

Safe havens, CHF and JPY, both saw gains vs the Greenback as risk-off conditions rose as the session continued. Highlighting this, USD/CHF currently hovers around 0.9050, the bottom of the day’s range, while USD/JPY hit a low of 131.53 as the Yen ran out of momentum just above the psychological 131.50.

The Pound firmed, with Cable hitting a peak of 1.2525 (vs a 1.2396 low) as participants noted stops tripped near the January high of 1.2447. The Pound also saw tailwinds after the data-led Dollar dive. BoE’s Chief Economist Pill was on the wires later and said the available empirical work continues to suggest that the peak effect on inflation of a change in Bank Rate today occurs at a horizon of somewhere between 12 and 24 months. Pill added he will not be giving outlook for Bank Rate decisions. His remarks didn't lead to any noticeable reaction in markets.

The Euro caught an early European bid alongside the Pound despite a lack of news flow at the time, whilst ECB’s Maklouf provided little in the way of fresh commentary. From a technical perspective, EUR/USD briefly topped a touted double top around 1.0926 as the pair looks to end the day around the top of a 1.0884-0973 intraday band.

EMFX was mixed. COP, CLP, and the HUF gained against the Greenback, while CNH was flat, and TRY, ZAR, BRL, and MXN all saw losses. The Chilean Peso saw mild gains ahead of the central bank decision later where it is expected to leave rates unchanged at 11.25%. TRY was slightly weaker given its properties as an oil importer, while the Real was unreactive to Brazil's Mello noting tax reform is set to exempt exports and investments from taxes; have macroeconomic conditions in place for interest rate cuts.