US Market Wrap

5th April 2023: Risk off after US data sparks growth concerns

- **SNAPSHOT**: Equities flat/down, Treasuries up, Crude flat, Dollar up.
- **REAR VIEW**: Woeful ISM Services; Cooler-than-expected ADP; RBNZ surprise 50bp hike; Larger EIA crude draw than expected; Saudi Arabia rises light oil price to Asia; WAL deposit outflows stabilise; FDX raises dividend and looks to cut costs.
- **COMING UP**: **Data**: Swiss Unemployment Rate, US IJC, Canadian Labour Market Report **Event**: RBI Policy Announcement **Speakers**: Fed's Bullard **Supply**: France **Note**: Desk will close at 21:30BST, given Friday's market holidays.

MARKET WRAP

It was a risk-off session with stocks predominantly lower and havens generally bid. The risk off-tone ensued post US data which saw a cooler than expected ADP jobs and more alarmingly, a woeful ISM services print, although the prices paid index did see a notable deceleration. Treasuries were firmer across the curve while gold reclaimed USD 2,000/oz to highs of 2,032. The Yen was also the FX outperformer, with both gold and Yen being supported by the move lower in US yields. Crude prices settled flat as the economic fears (after US data) outweighed the OPEC+ cuts seen earlier in the week and the deeper EIA crude draw than expected. Stocks were off lows in the latter part of the session after Western Alliance Bancorp (WAL) gave an encouraging update on its deposit outflows (see below). Attention turns to US jobless claims data and commentary from Fed's Bullard on Thursday ahead of the long weekend, where only some markets are open on Friday for the NFP. Note, the Newsquawk desk will be covering the data and a preview is available below.

US

FED: Mester (non-voter, hawk) said the Fed will need to raise rates above 5% and keep them there for a while, while also noting that inflation remains too high and the rate path depends on how much inflation expectations fall. Tightening policy is needed to cool the too-hot inflation but how much more the Fed hikes depend on the economy and how it reacts. Mester also acknowledged that tighter financial conditions should create restraint on the economy but the banking sector is resilient and stresses appear to have eased since last month. The Fed balance sheet cuts are aiding the rate hike cycle. Expects inflation to ease to 3.75% by year-end and to 2.0% by 2025. Expects growth to moderate this year and sees the jobless rate rising to between 4.50%-4.75% this year. Mester said she would prefer to use supervisory tools to deal with the issues in the financial sector, as the economy still has an issue with too high inflation. She noted she was very comfortable with the Fed's 25bp hike in March, while she does not share the market outlook for cutting rates. She later spoke noting it is too soon to say whether the Fed will raise rates in May and she is hoping the Fed does not tighten until something breaks.

NFP PREVIEW (FRI): The headline rate of payroll additions is expected to ease in March, providing further evidence that tightness in labour markets is alleviating, which will be welcomed at the Federal Reserve which wants to see a slower jobs market to help it with its efforts to bring down rampant inflation. Accordingly, traders will be focussed on the headline and wages metrics, which will give a handle on growth and inflation pressures respectively. Recently, data which has signalled a slowing growth impulse and lower inflation has been dovishly received by markets, which could support risk assets. It is, however, worth noting that given the jobs data will be released on a public holiday, only some markets are open, and accordingly, we may have to wait until markets have fully opened the following week to gauge the reaction. To download the full Newsquawk preview, please click here.

DATA

ISM SERVICES: The headline slowed to 51.2 from 55.1, deeper than analysts expectations of a fall to 54.5. The prices component eased to 59.5 from 65.6, the lowest since July 2020, new orders fell by a hefty amount, to 52.2 from 62.6, while the employment sub-index dropped to 51.3 from 54.0. ISM said that the pullback in the rate of growth within the services sector can be pinned to a cooling in the new orders growth rate, an employment environment that varies by industry, and continued improvements in capacity and logistics, which it said was a positive impact on supplier performance. And despite the chunky declines in some of the components, ISM said that the majority of respondents were still reporting a positive outlook on business conditions. Markets responded dovishly to the data, where an unchanged outing at the May 3rd FOMC is now the base case; additionally, traders added to pricing looking for rate cuts this year, with about 85bps of cuts now priced vs around 75bps before the release. Fed officials have strongly leaned against market pricing calling for rate cuts, and accordingly, official commentary will be looked to in the sessions ahead for any signs that their resolve may be easing in the face of slowing growth and inflation dynamics.

ADP: The ADP data, although not always a reliable indicator of NFP, was cooler than expected, rising just 145k beneath the 200k expectations and down from the prior 261k (revised up from 242k). Meanwhile, on wages, it noted the pay gains fell faster in March. Meanwhile, wages for job-stayers slowed to 6.9% from 7.2% in Feb, and job changers' wages slowed marginally to 14.2% from 14.3%. The cool data adds to the cool February JOLTS report on Tuesday ahead of NFP jobs and wages data on Friday.

TRADE: The February International trade data saw a deficit of 70.5bln, deeper than the expected deficit of 69bln and the prior 68.7bln deficit in January. Exports were USD 6.9bln less in Feb to USD 251.2bln. Imports fell by USD 5.0bln in Feb to USD 321.7bln. Analysts at Oxford Economics write "we expect net trade to pose a drag on GDP growth this year. Weak demand overseas and the strong dollar will drag on exports, while soft domestic demand will pull down imports".

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 10+ TICKS HIGHER AT 116-18+

Treasuries bull-steepened as soft ADP and ISM Services add to this week's growth fears. 2s -5.2bps at 3.782%, 3s -4.0bps at 3.560%, 5s -3.2bps at 3.356%, 7s -3.9bps at 3.333%, 10s -4.3bps at 3.294%, 20s -4.8bps at 3.667%, 30s -3.2bps at 3.563%.

Inflation breakevens: 5yr BEI -1.4bps at 2.295%, 10yr BEI -1.8bps at 2.252%, 30yr BEI -0.7bps at 2.183%.

THE DAY: Treasuries drifted slightly lower through the Wednesday morning session with the above-forecast RBNZ hike and inflation-focused Mester (nv) comments weighing. In data, strong services PMIs in Australia and Japan were offset by softer EU figures, although German factory orders were solid. T-Notes printed session lows of 115-29 in the London morning, still well above their pre-JOLTS 115-09 level from Tuesday. Better buying picked up as US trade got underway, and the contracts rallied to highs after the ADP report came in soft. Mester spoke again in a BBG TV interview at the time, where she gave relatively more dovish remarks than on Tuesday, aiding the Treasury bid. Session peaks were made at 116-30 later on in the aftermath of the soft ISM Services data - cash 10yr yield printed 3.266%, lowest since September 2022. Contracts pared slightly into the NY afternoon but still remained above pre-data levels. All eyes now move to Friday's NFP, albeit many will be absent given the Easter holiday trading conditions, with many markets shut - there will be CME futures trade, however. As such, Thursday's trade will be characterised by book squaring into the long weekend, although we get Fed's Bullard (nv, hawk) speaking and the latest initial jobless claims data.

STIRS:

- SR3H3 +2.0bps at 94.885, M3 +7.5bps at 95.365, U3 +9.5bps at 95.765, Z3 +7.5bps at 96.200, H4 +6.5bps at 96.575, M4 +7.5bps at 96.855, U4 +7.5bps at 96.995, Z4 +5.5bps at 97.040, H5 +4.0bps at 97.050, H6 -0.5bps at 96.990.
- US SOFR at 4.83% (prev. 4.84%), volumes at USD 1.427tln (prev. 1.477tln).
- NY Fed RRP op demand at USD 2.243tln (prev. 2.219tln) across 107 counterparties (prev. 103).
- US EFFR at 4.83% (prev. 4.83%), volumes at USD 103bln (prev. 105bln)
- US sold USD 36bln of 17-week bills at 4.75%, covered 2.81x.

CRUDE

WTI (K3) SETTLED USD 0.10 LOWER AT 80.61/BBL; BRENT (M3) SETTLED USD 0.05 HIGHER AT 84.99/BBL

The crude complex was choppy on Wednesday, albeit relatively flat at settlement, as economic fears (after US data) outweighed OPEC+ cuts and the deeper EIA crude draw than expected. On the latter, and in fitting with private inventories last night, crude drew 3.739mln deeper than the expected -2.329mln, as did distillates, 3.632mln (exp. -0.396mln) and gasoline -4.119mln (exp. 1.729mln). Additionally, crude production was unchanged at 12.2mln and refining utilisation was -0.700% (exp. 0.3%). Elsewhere, Saudi Aramco released its latest OSPs which hiked prices to Asia and the US but left prices to Europe unchanged. Meanwhile, according to Reuters sources, Russian Urals broke above the price cap level (USD 60/bbl) as buyers compete and Brent prices rise. Looking ahead, the calendar is quiet for Thursday ahead of NFP on Friday in the holiday-shortened week.

SAUDI: Saudi Arabia raised its light oil price to Asia by USD 0.30bbl from +USD 2.50bbl vs. Oman/Dubai average to +USD 2.80bbl, according to Bloomberg. Moreover, Saudi Aramco set its May Arab Light oil OSP to US at plus USD 6.65 /bbl vs ASCI (up 10c vs April); and set the May OSP to N.W. Europe at plus USD 1.00 vs ICE Brent (unchanged M/M).

EQUITIES

CLOSES: SPX -0.25% at 4,090, NDX -1.01% at 12,967, DJIA +0.24% at 33,482, RUT -0.99% at 1,752.

SECTORS: Consumer Discretionary -2.04%, Industrials -1.3%, Technology -1.19%, Real Estate -0.54%, Materials -0.22%, Communication Services -0.22%, Financials -0.15%, Consumer Staples +0.55%, Energy +1.42%, Health +1.72%, Utilities +2.57%.

EUROPEAN CLOSES: EURO STOXX 50 -0.39% at 4,298, FTSE 100 +0.37% at 7,662, DAX 40 -0.53% at 15,520, CAC 40 -0.39% at 7,316, FTSE MIB -0.59% at 26,867, IBEX 35 +0.78% at 9,254, SMI +0.38% at 11,115.

STOCK SPECIFICS: **FedEx (FDX)** announced a 10% dividend increase and is consolidating operating companies in a restructuring. FDX is targeting USD 4bln in permanent cost reductions for FY25 and it said it will continue responsible headcount management but it is not giving details on potential job cuts at this time. **Johnson & Johnson (JNJ)** will pay USD 8.9bln to resolve current and future talc claims. JNJ subsidiary re-filed for voluntary Chapter 11 bankruptcy protection to obtain approval of a reorganisation plan that will resolve all claims arising from cosmetic talc litigation against the co. and its affiliates in North America. **Walmart (WMT)** reiterated FY24 and Q1 adj. EPS view. Sees FY24 US comp sales rising between 2.0-2.5% (exp. +2.8%), ex. fuel. Elsewhere, by FY26, roughly 65% of its stores will be serviced by automation. German Competition Authority said **Apple (AAPL)** is a co. of paramount significance for competition across the market; together with its subsidiaries are subject to extended abuse controls. **Exxon Mobil (XOM)** said changes in liquid prices will negatively impact Q1 upstream earnings by between USD 0.6bln-1.0bln vs Q4 levels and sees the change in gas prices negatively impacting Q1 upstream earnings by USD 0.4bln-0.8bln. In other news, XOM ended drilling in Brazil after failing to find oil but hasn't ruled out other projects in the country. **Zions (ZION)** was upgraded at Baird; said shares are trading at attractive levels not seen since the global financial crisis. **Ford (F)** said new rules will cut EV tax credit in half for most models. **Palantir (PLTR)** and **Microsoft (MSFT)** expanded their cloud partnership. **Boeing (BA)** confirmed it has restarted the 767 deliveries following a pause due to a supplier quality defect.

KRE: **Western Alliance (WAL)** quarter-end total deposits were at USD 47.6bln (vs 53.6bln at 2022-end) but it noted it experienced elevated net deposit outflows surrounding the announcements of the SVB and Signature Bank closures in mid-March... with net outflows falling sharply before returning to normalized levels by March 17th. It also noted that since March 20th, deposit balances stabilized and grew approximately USD 900mln to quarter-end. Since March 31st, QTD deposit growth has continued this trajectory and increased an additional USD 1.2bln as of April 4th.

US FX WRAP

The Dollar was bid on Wednesday, benefitting from the downside in stocks. The weakness in the buck came despite more dovish data in the US with a woeful Services ISM report which also saw the prices component post a notable decline. The data led to the DXY hitting session lows of 101.40, before gradually paring to highs throughout the rest of the session on growth concerns post ISM services and ADP, which slowed by more than expected.

The Euro was weaker and lost hold of 1.09 vs the Dollar despite the Final PMI's underscoring a recession will likely be avoided. The weakness in Euro tracked sentiment on slowing growth fears in the US. In EUR/GBP, the rate fell under the 100dma at 0.8780.

The Yen was bid on the aforementioned growth concerns with havens generally supported on Wednesday, with similar price action seen in gold and CHF. Spot Gold hit highs of USD 2,032 but still a ways off the March 2022 high of USD 2,069/oz. Both Gold and Yen were beneficiaries of the move lower in UST yields on the aforementioned US data. CHF was flat vs the Dollar but saw notable gains vs the Euro with the Credit Suisse woes largely behind us for now, the haven prospects of the currency is encouraging buyers at a time of growth concerns.

Cyclical currencies were mixed, GBP and AUD saw weakness, while CAD was only marginally weaker and the NZD was flat. NZD managed to outperform its cyclical peers after the RBNZ overnight decided to hike rates by 50bps, above expectations for a 25bp move. The move hit the Aussie to following the RBA pause earlier in the week, emphasizing the policy differentials between the two. AUD/NZD fell to lows of 1.0590 from highs of 1.0714. CAD meandered throughout the session as it digested choppy crude price action after a bullish inventory report but growth concerns acted as a headwind in the crude space. GBP lost hold of 1.25 vs the Dollar.

EMFX was mixed. MXN saw notable weakness in wake of the soft US data given Mexico's exposure to the US economy, while Mexico also saw softer-than-expected headline inflation data, although core inflation was above expectations. BRL saw mild gains vs the Dollar following a better-than-prior S&P Global Composite and Services print. Note, Brazil's Treasury issued a new 10-year sovereign bond in US Dollars, returning to the foreign market after over a year and a half. ZAR saw weakness on more load-shedding out of Eskom despite the gains in gold prices. Meanwhile, Eskom woes are high after the government ended the state of disaster over its blackouts. Meanwhile, the finance minister withdrew its deal for the state utility company not to disclose its irregular spending in financial statements. in CEE, PLN weakened after the NBP kept rates unchanged at 6.75%.