US Market Wrap

6th April 2023: Traders take profit from 'recession trade' into NFP and Easter despite jobless claims spike

- **SNAPSHOT**: Equities up, Treasuries mixed, Crude flat, Dollar flat.
- **REAR VIEW**: Jobless claims sees major shift higher on seasonal adjustment; Fed's Bullard says rates entering 'sufficiently restrictive', confident on banking sector; JPM's Dimon says banking crisis raises odds of recession; China says US and NATO bear responsibility for continuation of Ukraine crisis; Hot Canada jobs; BA to hike 737 production.
- **SCHEDULE**: The desk will open on Friday, April 7th between 1300BST-1345BST to cover Nonfarm payrolls. Then, re-open Sunday, 9th at 22:00BST until 06:30BST Monday, 10th; desk will then close. Thereafter, service will resume at 13:00BST for the regular US session.
- **WEEK AHEAD PREVIEW**: Highlights include US CPI, Retail Sales, FOMC Minutes, BoC, Chinese Inflation. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing BoK, FOMC Minutes, BoC; Reviewing BoJ Tankan, BoC BOS, RBA, RBNZ, RBI. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: Earnings season begins: [MON] KMX; [THURS] DAL, FAST, PGR; [FRI] UNH, BLK, JPM, WFC, C. To download the report, please click here.

MARKET WRAP

Stocks managed to claw back earlier losses in a tech-led rally into the long weekend and NFP report on Friday (preview available below), paring some of the downside in equities seen earlier in the week after abysmal US data sparked fresh economic growth concerns. The jobless claims data revealed the labour market is not as tight as thought with large upward revisions to data over the past few months. Treasuries flattened with front-end yields climbing through the session, with Bullard optimistic on the banking crisis coinciding with longs taking profit. JPM's Dimon gave an interview on CNN, noting the banking crisis had increased the odds of a recession, with a noted pullback in activity seen, but he did say the banking system is strong and sound. Oil prices were flat but remained above their gap open levels from the start of the week after the surprise OPEC production cut. The Dollar was flat as eyes turn to the jobs data, but DXY remained lower on the week after the preceding weak labour market data and ISM surveys.

US

JOBLESS CLAIMS: In the week ending April 1st, initial claims printed 228k, well above the expected 200k, while the prior week saw a meaningful upward revision to 246k from 198k. The large upside in claims is a result of the annual revisions by the Department of Labor, which has revised data all the way back to 2018, showing that claims had been much higher (and rising) over the past few months than initially reported, indicative of a labour market not quite as tight as initially thought. On the margin, the revisions give the Fed more leeway to consider when it should be concluding its rate hiking cycle, with the dataset pointing to a loosening labour market, shifting lower wage growth and inflation expectations.

CHALLENGER LAYOFFS: March Challenger Layoffs rose by 89.7k, accelerating from February's pace of 77.8k, taking the overall Q1 job cuts to the highest level since 2020. Andrew Challenger noted "We know companies are approaching 2023 with caution, though the economy is still creating jobs. With rate hikes continuing and companies’ reigning in costs, the large-scale layoffs we are seeing will likely continue”. The job cuts are being led by tech, and are on pace to surpass the highest annual total for the sector announced in 2001. Financials announced the second-most job cuts, followed by Health Care/Products, while the report also notes that in a "possible sign of decreased expectations for consumer spending, Retail announced the fourth-most cuts in 2023". The main reason for job cuts has been due to the market /economic conditions, as well as cost cutting or closures. Hiring plans fell to the lowest for March since 2015 and so far this year "US-employers announced plans to hire 70,638, the lowest Q1 total since 2016".

NFP PREVIEW: 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.

FED: Fed's Bullard (non-voter, hawk) thinks inflation is going to be sticky going forward but said rates are now in the low end of a 'sufficiently restrictive' range. He added the Fed needs to stay at it to get inflation back down to 2%. He later added he is less enamoured with the argument that credit conditions will tighten appreciably to send the economy into a recession; adding it is not that clear to him that there will be much of a pullback in lending. On the revision-induced rise in jobless claims, he said he has not yet reviewed the data but the JOLTS data is still bouncing around at a very high level and he can't take much of a signal from the latest report. On the housing market, Bullard said it still seems tight due to inventory shortages. Meanwhile, he said inflation seems to be levelling off but really wants to see it on a clear downward trend, stressing that the Fed cannot declare victory too early. On the banking sector, he said financial stress appears to have abated for now and sees an 85% probability that financial stress will continue to abate (he put that at 80% in his Monday remarks), which if so, warned the Fed should stick to its interest rate path and get inflation down while the labour market is still strong.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 1 TICK LOWER AT 116-17+

Treasuries flattened despite material upward revisions to jobless claims data as bulls take profit into NFP. 2s +6.8bps at 3.831%, 3s +5.5bps at 3.601%, 5s +2.8bps at 3.372%, 7s +1.2bps at 3.336%, 10s +1.1bps at 3.298%, 20s -0.1bps at 3.661%, 30s -1.5bps at 3.542%.

Inflation breakevens: 5yr BEI +0.6bps at 2.297%, 10yr BEI +0.9bps at 2.259%, 30yr BEI +1.3bps at 2.197%.

THE DAY: T-Notes rose gradually through the APAC Thursday session right into the NY handover. The bid was supported going into European trade after the surprise RBI rate pause, and further by the tumble in German Construction PMI data. A 2k+ block buy Ultra 10yr futures was seen as US traders began arriving. The jobless claims data saw erratic tape action, with T-Notes hitting highs of 116-30 in wake of the seasonal adjustment-led spike, before swiftly reversing lower, finding support of 116-13 after some block sales seen in 2yr and 5yr futures. Contracts chopped between a 116-13/116-23 range after the data and through into the settlement. Nonetheless, the front-end saw sustained selling pressure into the NY afternoon, with profit taking cited after the rally through the week ahead of NFP/Easter, flattening the curve. Fed's Bullard (nv, hawk) was on wires, but he didn't cause any notable reactions in Fed pricing/Treasury yields on his remarks, although he did say rates are now at the lower end of 'sufficiently restrictive', whilst also raising his confidence that banking crisis will fade away to 85% from the 80% figure given on Monday. Aside from NFP, traders also have an eye to next week's refunding with 3s, 10s, and 30s to be sold on Tues, Weds, and Thurs, with less time for concession given the holiday.

STIRS:

- SR3H3 -0.3bps at 95.128, M3 -5bps at 95.175, U3 -11bps at 95.525, Z3 -12.5bps at 95.895, H4 -12.5bps at 96.35, M4 -10bps at 96.75, U4 -8.5bps at 97.035, Z4 -6.5bps at 97.19, H5 -5bps at 97.26, H6 +0.5bps at 97.29.
- US SOFR at 4.81% (prev. 4.83%), volumes at USD 1.427tln (prev. 1.427tln).
- NY Fed RRP op demand at USD 2.174tln (prev. 2.243tln) across 105 counterparties (prev. 107).
- US EFFR at 4.83% (prev. 4.83%), volumes at USD 102bln (prev. 103bln).
- US sold USD 61bln of 1-month bills at 4.440%, covered 2.81x; sold USD 51bln of 2-month bills at 4.650%, covered 2.50x.
- US leaves 13-week and 26-week bills unchanged at USD 57bln and 48bln, respectively; both are to be sold on April 10th and settled on April 13th.

CRUDE

WTI (K3) SETTLED USD 0.09 HIGHER AT 80.70/BBL; BRENT (M3) SETTLE USD 0.13 HIGHER AT 85.12/BBL

Crude prices were choppy on Wednesday heading into the long weekend and NFP. Front-month WTI traded between 79.65 at the lows and 80.96 at the highs, while Brent traded between 84.05 and 85.45, settling little changed. On the week, oil has held onto its gains on the back of the surprise OPEC production cut last weekend, adding to supply woes after the issues out of Iraq and Kurdistan which cut global supply by 0.5% the prior week. Meanwhile, the weekly US inventory data showed larger draws than expected in crude stocks. Prices also held their gains despite a raft of disappointing US data leading to economic growth concerns, although attention now turns to the NFP data on Friday. Energy updates were sparse on Thursday, where the 'highlight' was Libya's NOC noting its oil production reached 1.223 mln BPD from 1.13mln BPD at the end of March. Meanwhile, Azeri BTC crude oil exports from the Ceyhan Port were set at 19.29mln bbls in May, up from the prior 18.43mln in April.

SELL SIDE: Analysts at Citigroup raised their oil price forecasts, seeing WTI average USD 79/bbl and Brent averaging USD 84/bbl in 2023, up USD 5/bbl from its prior forecast. The desk also noted that expectations of USD 100/bbl+ oil are exaggerated in the short term while risks of lower demand/higher supplies have risen, and with that, they see lower prices later in the year and into 2024.

EQUITIES

CLOSES: SPX +0.36% at 4,105, NDX +0.74% at 13,062, DJIA +0.01% at 33,485, RUT +0.13% at 1,754

SECTORS: Communication +1.71%, Utilities +0.74%, Technology +0.68%, Real Estate +0.68%, Financials +0.31%, Health Care +0.22%, Consumer Staples +0.08%, Consumer Discretionary +0.05%, Industrials -0.03%, Materials -0.21%, Energy -1.47%.

EUROPEAN CLOSES: EURO STOXX 50 +0.26% at 4,309, FTSE 100 +1.03% at 7,741, DAX 40 +0.50% at 15,597, CAC 40 +0.12% at 7,324, FTSE MIB +1.29% at 27,213, IBEX 35 +0.62% at 9,312, SMI +1.09% at 11,236.

STOCK SPECIFICS: **Boeing (BA)** is reportedly poised for a 23% hike (to 38 per month from 31) in 737 jet production by mid-year, months ahead of analyst expectations, according to Bloomberg sources. **Dominion Energy (D)** is reportedly considering selling its gas-distribution companies serving North Carolina, Ohio and parts of the Western US, according to WSJ citing sources, which could be worth as much as USD 13bln but are unlikely to be sold all together. **Constellation Brands (STZ)** beat on profit, raised its quarterly dividend 11% and lifted FY24 EPS view. STZ did miss on revenue however. **AbbVie (ABBV)** lowered its Q1 and FY23 EPS outlook; said Q1 results were expected to include acquired IPR&D and milestones expense of USD 150mln, which will have an unfavourable impact of USD 0.08 on EPS. **Lamb Weston (LW)** topped consensus on EPS and revenue alongside raising FY23 guidance. **Levi's (LEVI)** beat on the top and bottom line while reaffirming FY23 guidance; said if inflationary pressures continue, revenue, gross and operating margins and net income may be impacted for the rest of 2023. **Lumentum (LITE)** cut Q3 outlook as it said in late Q3, a network equipment manufacturer who represented more than 10% of its Q2 revenue said due to its inventory management, it would not take the shipments it had originally projected for the quarter. **Costco (COST)** March total comp sales declined 1.1% Y/Y, e-commerce comp sales were -12.7%, although revenues were up 0.5% to 21.7bln. Bear Cave were negative on **Airbnb (ABNB)**; said it has uncovered that amid numerous scandals and horror stories the platform has shifted towards professionally managed properties. ABNB's top professional hosts are building out their own booking platforms and offering cheaper deals to cut it out. **Microsoft (MSFT)** reached settlement with US Treasury Department over apparent sanctions violations. Meanwhile, the UK CMA updated its views on the **Activision (ATVI)** / **Microsoft (MSFT)** deal, and found that MSFT's purchase of ATVI will not harm competition. Microsoft welcomed the decision but **Sony (SONY)** called it irrational.

WEEKLY FX WRAP

DXY posts another weekly decline as data fuels growth concerns, APAC focuses on central bank divergence

DXY - Overall, a week of losses for the broader Dollar and index in what has been a data-heavy pre-Easter period, with Monday's DXY weakness emanating from the fall in yields alongside the ISM manufacturing PMI telegraphing further signs of contraction in March, as well as cooler prices, although Fed hawk (and non-voter) Bullard pushed back against current market expectations for rate cuts. On Tuesday, it was the turn of a below-forecast JOLTS report to drag the index lower – with the metrics falling to the lowest since May 2021, in turn heightening expectations for tighter credit and potential rate cuts later in the year. In contrast, the Dollar appreciated on Wednesday in what was seemingly a haven-driven move and came despite additional dovish US data, including a weak Services ISM report and a notable decline in the price component. Thursday's jobless claims and continued claims both topped forecasts, although ahead of the release, Goldman Sachs warned that the annual update to jobless claims seasonal factors may correct issues introduced in the previous update, and thus create distorting effects. Nonetheless, the release gave DXY some impetus to retest 102.00 to the upside in the immediacy from a 101.81 pre-release, whilst market pricing for the Fed was unchanged. All-in-all, the index is poised to close the holiday-shortened European week around the 102.00 mark having notched a weekly range of 101.41-103.05, with participants eyeing tomorrow's US labour market report – whereby the headline rate of payroll additions is expected to ease in March, providing further evidence that tightness in labour markets is alleviating, although it is worth noting that given the jobs data will be released on a public holiday, and accordingly, we may have to wait until markets have fully opened the following week to gauge the reaction (full preview available in the Newsquawk Research Suite). Ahead, next week sees the release of the US CPI, PPI, Retail Sales, and the University of Michigan prelim Survey.

EUR, GBP - A positive week for both the Single Currency and Sterling at the expense of the Dollar. In Europe, data centred around the Final PMIs, which largely underscored that a recession will likely be avoided, although the EZ release suggested “The case for further [ECB] interest rate increases also remains strong based off the survey’s price gauges. Although inflation rates have cooled from their peaks, they continue to run in hot territory, particularly across the service sector.” The UK release meanwhile suggested “the inflationary effects of higher input costs and price changes remained significant. Salary rises were still one of the biggest costs to business.” Sticking with the UK, BoE Chief Economist Pill’s speech failed to impact the Pound, but he noted that “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”, while he refrained from giving his outlook for the Bank Rate. Dove Tenreyro said she thinks a looser stance is needed to meet the inflation target as the Bank Rate. GBP looks to end the week towards the top of a 1.2274-2525 weekly parameter after touted stops were tripped earlier in the week upon a breach of the January high (1.2447). Back to the Single Currency, European Commission President von der Leyen and French President Macron are currently in China conducting trilateral and bilateral meetings with Chinese officials in an attempt to thaw souring relations. The EU’s trip to China is set to continue until Friday.

AUD, NZD, CAD - The central bank spotlights this week have been on the policy divergence between the RBA and RBNZ. The RBA maintained the Cash Rate Target at 3.60%, as anticipated, while the Board indicated further tightening of monetary policy might be necessary. The decision was made to allow additional time to assess the impact of previous policy measures. The RBA remains committed to returning inflation to target and will take the necessary actions to achieve that, Governor Lowe said. In contrast, the RBNZ surprised the market with a 50bps hike (vs expected 25bps hike) to 5.25%, causing NZD/USD to jump some 70 pips at the time before fading the move and more. Although the RBNZ release didn't include forecasts or a press conference by Governor Orr, the minutes revealed expectations of slowing demand and moderating core inflation. Some analysts suggest that NZD/USD is capped by the RBNZ's previously disclosed terminal target at 5.50%, leading to the conclusion that the central bank may be nearing the end of its tightening cycle. Finally, the Loonie gapped higher on Monday, driven by the gains in the crude complex following OPEC’s surprise coordinated, and voluntary, cut to output announced over the weekend. USD/CAD saw fleeting downside as the Canadian jobs report topped forecasts on employment change, whilst the unemployment rate was unchanged vs expectations for a tick higher. That being said, the participation rate dipped alongside full-time employment. Next week, analysts expect the BoC will hold rates at 4.50% after signalling a conditional pause at the March meeting. Recent inflation data saw headline CPI falling by more than the consensus was expecting, owing to lower energy inflation, while the BoC core measures also showed improvement. USD/CAD looks to end the week towards the middle of a 1.3405-3536 weekly range.

JPY - JPY is set for a week of gains, driven by a combination of a pullback in US yields, geopolitical jitters (Russia /Ukraine, South Korea/North Korea, China/Taiwan, and Israel/Lebanon) and broader growth concerns. On a more domestic note, BoJ Governor Kuroda’s term is officially set to end this weekend, whilst Japanese PM Kishida is to meet with new BoJ Governor Ueda on April 10th, with local press Kyodo suggesting the incoming Governor likely to confirm the intention to maintain current monetary easing for a while. USD/JPY is poised to end the European week closer to the bottom of a 130.63-133.75 weekly range.

EMs - USD/INR briefly spiked after the RBI held the Repurchase Rate steady at 6.50% (expected 25bps hike) by unanimous decision. However, the pair retreated as Governor Das indicated the pause was only for this meeting and future action would be considered, if necessary, with the MPC prepared to act when needed. In the meantime, the CNH has remained strong against the Dollar following an upbeat Caixin Services PMI ahead of Chinese inflation and trade data next week. MXN was softer on the week after US data showed signs of a slowing economy, weighing on the Peso given Mexico's high exposure to the US economy. CLP was weaker this week, the Chilean Central Bank left its key rate unchanged at 11.25% as expected, although it later raised its 2023 inflation forecasts with CLP tracking losses in copper this week, albeit copper is off the weekly lows.