US Market Wrap

10th April 2023: Dollar bid & stocks recover in holiday trade as CPI awaits

- **SNAPSHOT**: Equities flat, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: NFP adds to potential 'soft landing'; China carried out drills in Taiwan; Mixed NY Fed Consumer Survey expectations, 1yr & 3yr rise but 5yr cools; Samsung scaling back production; AAPL PC shipments tumble Y/Y; FHLB debt issuance falls, reducing banking fears.
- **COMING UP**: **Data**: EZ Sentix **Speakers**: Fed's Goolsbee & Harker **Supply**: Germany & US.
- **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: [TUES] KMX; [THURS] DAL, FAST, PGR; [FRI] UNH, BLK, JPM, WFC, C. To download the report, please click here.

MARKET WRAP

Stocks were ultimately flat on Easter Monday, unwinding earlier losses in the aftermath of Friday's NFP report. A Bloomberg report during NY lunchtime that FHLBs had drastically cut their total amount of borrowing in the latest week was a factor in the recovering risk appetite. The sensitivity of the broader risk tone to such headlines was exhibited in Bitcoin spiking USD 1k to USD 29.3k, the highest since mid-2022, in wake of the positive banking sector news. Tech had initially underperformed with a lot of media fanfare over IDC data that showed Apple (AAPL) leading a large decline in PC shipments in Q1, although there are likely some positioning factors at play given the big tech outperformance last week. Sentiment in the sector was also hit after TSMC (TSM) reported March revenue at a 17-month low, while Samsung (005930 KS) prelim report saw the chip maker announce production cuts amid steep declines in profitability, although that did aid the DRAM sector (MU, WDC). Geopolitics were also a factor, with China ramping up military presence/drills near Taiwan over the weekend after the visit to the US last week. In FICC, Treasuries were sold by a few bps in a hangover from the NFP, with money markets pricing a March 25bp Fed hike at 75% probability, not to mention surprisingly busy corporate supply for a quasi holiday. The Dollar saw a big bid, climbing on the hawkish Fed repricing, while the Yen saw particular weakness as new BoJ Governor Ueda committed to the status quo policy of the last ten years. Oil and metals prices were lower, a function of the Dollar strength.

US

NFP: The US economy added 236k Nonfarm Payrolls in March (exp. 239.0k, prev. revised up to 326k from 311k); the unemployment rate fell 0.1ppts to 3.5% (exp. 3.6%), while labour force participation rose to 62.6% from 62.5%. The rate of average earnings growth cooled to 4.2% Y/Y (exp. 4.3%) from 4.6% Y/Y. The release saw equity futures rising in thin trading conditions (little evidence of 'hard landing' in the data), while T-Note futures fell (recent downside data surprises in Tier 1 data had seen fixed income traders’ position for a dovish outcome in the days leading up to the release, and accordingly, this was unwound). The data seems consistent with a 'soft landing' theme, analysts said, where jobs continue to be added to the economy in line with analyst expectations, while inflation pressures (average hourly earnings is the proxy) are continuing to cool. In wake of the data, pricing for the Fed's rate hike trajectory moved hawkishly; money markets are currently pricing a 34% chance that the central bank holds rates between 4.75-5.00% at its May 3rd FOMC (vs around 45% before the data), while the market is now pricing around 50bps of rate cuts through the end of this year (vs about 60bps before the release).

EARNINGS SEASON: Q1 reporting season will get underway this week, and the consensus is for S&P 500 earnings growth to contract 5.2%, while revenues are seen rising 1.6%. Consumer Discretionary names are expected to outperform in Q1, with the street modelling a 37% rise in earnings growth; Industrials, Energy and Financials are also expected to post earnings growth in Q1. On the other side, Materials names are expected to be the worst performer, with the consensus anticipating earnings growth of -33%, while Health Care and Tech stocks are also expected to be among the worst performers. Of the handful of S&P 500 companies (around 20) that had reported Q1 figures by the end of last week, all posted earnings above estimates. Meanwhile, this week, there will be focus on the Big Banks reporting; in addition to the top- and bottom-line performance, loan provisions, economic projections, traders will be paying particular attention to any commentary on how the recent stresses in the banking system have impacted operations; Goldman Sachs said it expects investor focus to centre on deposit inflows and pricing dynamics, but also what will the offset be from tighter lending standards, a weaker economic backdrop and the impacts on provisions and charge-offs, as well as the longer-term ramifications from regulatory reform.

NY FED CONSUMER SURVEY: The monthly NY Fed consumer survey 1yr ahead inflation expectations rose to 4.7% from 4.2%, the 3yr ahead lifted to 2.8% from 2.7%, while the 5yr ahead dipped to 2.5% from 2.6%. Other findings from the report saw consumers become more pessimistic about future credit availability, with the share of Americans seeing harder credit access in March the highest since 2014. Qualitatively, inflation expectations increased at the short-term and medium-term horizons, but decreased slightly at the longer-term horizon, while the report adds "expectations about year-ahead price increases for gas, food, cost of rent, and medical care all continued to decline, while expectations for the cost of college education increased." Lastly, the survey concluded, "home price growth expectations rose but remain below pre-pandemic levels. Credit access perceptions and expectations deteriorated."

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 9 TICKS LOWER AT 115-16+

Treasuries were sold by a few bps in NFP hangover and busy supply calendar. 2s +3.6bps at 4.008%, 3s +3.6bps at 3.774%, 5s +3.4bps at 3.519%, 7s +3.7bps at 3.470%, 10s +3.2bps at 3.415%, 20s +2.2bps at 3.742%, 30s +2.2bps at 3.625%.

Inflation breakevens: 5yr BEI +0.6bps at 2.320%, 10yr BEI +1.8bps at 2.289%, 30yr BEI +0.2bps at 2.228%.

THE DAY: T-Notes were rangebound through the APAC session and the European morning on Monday with many away still for the Easter holiday. However, a surprisingly healthy pipeline of IG debt supply being announced as US trade got going weighed on Treasuries amid related rate-lock hedging flows (Tsy selling/swap paying), usurping demand ahead of the Treasury auctions this week (3yr Tues, 10yr Weds, 30yr Thurs). Fed pricing shifted hawkishly as the dust settled post payrolls on Good Friday, adding additional pressure via the Fed expectations channel. T-Notes troughed at 115-12 in the NY morning, before paring a few ticks into the afternoon and settlement. Looking ahead, Tuesday in the US sees the 3yr Treasury auction, alongside Fed's Goolsbee, Harker, and Kashkari, while in Europe we get the Sentix survey and German supply. Otherwise, a firm focus on Wednesday's CPI data and FOMC minutes, ahead of the beginning of big banks (JPM, WFC, C) reporting on Friday.

STIRS:

- SR3H3 -1bps at 95.09, M3 -2.5bps at 95.03, U3 -4bps at 95.31, Z3 -3bps at 95.68, H4 -3bps at 96.145, M4 -3bps at 96.55, U4 -3bps at 96.845, Z4 -3.5bps at 97.005, H5 -4bps at 97.08, H6 -4.5bps at 97.14.
- SOFR unchanged D/D at 4.81% as of April 6th, volumes at USD 1.431tln (prev. 1.427tln).
- NY Fed RRP op demand jumped to USD 2.240tln from 2.174tln, across 115 counterparties (prev. 105).
- EFFR at 4.83% as of April 7th (prev. 4.83%), volumes at USD 100bln (prev. 98bln).
- US sold USD 63bln of 3-month bills at 4.980%, covered 2.28x; sold USD 53bln of 6-month bills at 4.795%, covered 2.70x.

CRUDE

WTI (K3) SETTLED USD 0.96 LOWER AT 79.74/BBL; BRENT (M3) SETTLED USD 0.94 LOWER AT 84.18/BBL

The crude complex was ultimately lower in holiday trade amid thinner liquidity and quiet energy newsflow. Oil prices slipped amid increased concerns of future rate hikes after Friday's NFP report, which as most markets re-opened, saw the Dollar strengthen as the jobs report pointed towards a tight labour market. Elsewhere, the surprise OPEC+ supply cut continues to underpin markets with geopolitical concerns firmly on the radar after China simulated striking Taiwan in two days of drills over the weekend, carrying out drills for a third day on Monday. Looking ahead, the EIA STEO and US private inventory data on Tuesday, followed by US CPI on Wednesday, and the commencement of the Q1 US earnings season on Friday with financials kicking things off.

EQUITIES

CLOSES: SPX +0.10% at 4,109, NDX -0.09% at 13,051, DJIA +0.30% at 33,586, RUT +1.02% at 1,772.

SECTORS: Industrials +0.9%, Energy +0.65%, Materials +0.49%, Real Estate +0.48%, Consumer Discretionary +0.43%, Financials +0.27%, Consumer Staples -0.01%, Health -0.04%, Technology -0.15%, Utilities -0.2%, Communication Services -0.69%.

STOCK SPECIFICS: **Samsung Electronics (SSNLF)** announced a substantial scaling back of chip production in response to a global supply glut that has driven the price of semiconductors down by more than 70%. **Micron (MU)** and **Western Digital (WDC)** gained as a result. **TSMC (TSM)** revenue fell 15% Y/Y in March, the first fall in almost four years, and for the quarter, revenue fell 3.6% Y/Y. TSM said it was in communication with the US regarding "guidance" over the CHIPS Act that has triggered some concerns about subsidies. **Tesla (TSLA)** is opening a factory in Shanghai; will break ground in Q3 and start production in Q2 2024. Separately, TSLA reportedly implemented a new wave of price reductions across its entire lineup of EVs. FDA issued a notice classifying a recall of **Abbott (ABT)** FreeStyle Libre reader as Class I, the most serious kind. ABT said no readers are being physically recalled and customers can continue to safely use their readers with the Abbott-provided USB cable and power adapter. **Alibaba (BABA)** is inviting users to test the Co.'s in-house AI tool, according to Bloomberg. **Baidu (BIDU)** filed lawsuits against "relevant" app developers and **Apple (AAPL)** over fake copies of its Ernie bot app available on Apple's app store. **Walmart (WMT)** is suing **Capital One (COF)**, seeking to terminate the Co.'s credit-card partnership, as WMT alleges COF One did not meet certain terms of the card partnership contract. **Charles Schwab (SCHW)** execs said core net new client assets hit USD 53bln in March, the second-highest for March in the firm's history. Execs have been seeking to temper concerns about SCHW's outlook after investor attention turned to ballooning unrealised losses in its financial statements. **Comcast's (CMCSA)** "The Super Mario Bros. Movie" dominated the box office charts over the weekend, taking the title for the biggest worldwide debut of the year. **Exxon (XOM)** held prelim. talks with Pioneer (PXD) about a possible acquisition, according to WSJ; discussions were informal, and XOM execs have discussed a potential tie-up with at least one other Co. **First Republic (FRC)** will suspend payments of quarterly cash dividends on its preferred stock "as a measure of prudent oversight". **Paramount Global (PARA)** is reportedly exploring selling a majority stake in Noggin streaming service; would be part of its efforts to give priority to its Paramount+ and Pluto TV streaming services. **Syneos Health (SYNH)** is reportedly pursuing a sale, according to Dealreporter; said to have attracted interest of a handful of PE firms.

PC SHIPMENTS: IDC Worldwide Quarterly Personal Computing Device Tracker showed Q1 global shipments numbered 56.9mln, a contraction of 29.0% Y/Y. The report said weak demand, excess inventory, and a worsening macroeconomic climate were all contributing factors for the precipitous drop in shipments of traditional PCs. Apple (AAPL), which IDC says commands a 7.2% share of the global PC market, took the largest hit and saw shipments tumble by 40.5% Y/Y. Regarding the other cos. analysed in the IDC report: Lenovo Group shipments fell 30.3%, HP (HPQ) dropped by 24.2%, and Dell (DELL) by 31% Y/Y.

US FX WRAP

The Dollar continued its advance after Friday's jobs data which overall was seen as consistent with the definition of a soft landing while it also helped offset some of the recession fears seen throughout last week in other data points (ISMs, jobless claims, JOLTs). Market pricing has also leant hawkish with an 80% implied probability of a 25bp hike in May vs 55% pre NFP while just 40bps of rate cuts are being priced in by year-end, vs 60bps before Friday's data, also providing a helping hand to the buck. The latest on Monday saw the March NY Fed Consumer Inflation expectations edge lower in the 5yr ahead to 2.5% from 2.6%, although the 1yr ahead rose to 4.7% from 4.2% and the 3yr ahead rose to 2.8% from 2.7%, although longer term inflation expectations are what the Fed focuses on. DXY saw a high of 102.81 ahead of resistance at 103.00 and the 103.06 high seen on April 3rd.

The Euro fell victim to the stronger dollar in wake of Friday's NFP report and the move continued on to Monday although many European players are away given the Easter Monday bank holiday. There had been some ECB speak from de Cos, however, noting the banking sector is resilient and ECB is prepared to respond to ensure financial stability. Meanwhile, on policy/inflation, he stated core inflation is expected to remain elevated for the rest of the year and there is still ground to cover if the March baseline is confirmed. The inflation outlook risks are now more balanced, but some components of core inflation are stabilising.

The Yen saw notable weakness after the Friday jobs report as the better economic prospects in the US reduced the haven demand for the Yen while the hawkish reaction in yields and money markets led to further weakness in the Yen. USD/JPY saw a high of 133.87 on Monday from Friday lows of 131.50 with reaffirmation from the new BoJ Governor Ueda warning against a sudden normalisation of policy. Other officials also noted they are not expecting an abrupt shift in policy under the new governor. In Ueda's speech on Monday, he did note that positive signs are emerging in prices and it is very possible to reach a sustainable price target as wage growth strengthens. Aside from Ueda, it is also worth noting that the former BoJ Deputy Governor Nakaso spoke to Nikkei over the weekend, and expects the BoJ will likely modify or end its yield curve control policy

CNH and **CNY** saw weakness following fresh Chinese military drills around Taiwan in wake of the Taiwan President meeting with House Speaker McCarthy while reports also note that China is refusing to use the open channel of communication with the Pentagon over Taiwan. The US has said it is closely monitoring the situation and urges restraint from China and there was no reason for them to over react to the meeting. A full summary of the developments over the weekend on the matter can be found here.

Cyclical currencies were softer, particularly NZD and AUD on the aforementioned geopolitical risks while CAD was relatively flat and GBP downside was mild. Liquidity was thin with the UK, Europe, Canada, Australia and New Zealand away for the Easter Monday holiday. Nonetheless, the weakness was predominantly driven by the gains of the greenback and the tensions with China and Taiwan. On techs, technicians highlight the bearish signs in AUD/USD with the pair below the 10, 21 and 200dmas at 0.6701, 0.6684 and 0.6745, respectively. Note, the AUD/USD peak coincided with the 21dma on Monday.

EMFX was generally weaker in response to the Dollar strength, with particularly underperformance in ZAR as gold prices stumbled on hawkish money market pricing in wake of Friday's jobs report. RUB also saw notable weakness and the latest CBR FX report saw exporters' foreign currency sales fall in April, leading to the weakening Rouble, and Russians started selling foreign currency amid the recent Rouble weakness. In LatAm, weakness was seen in BRL and MXN but CLP was flat after the latest data from Chile saw an increase in copper exports and a wider trade surplus than the prior month, COP outperformed however and saw mild gains.