US Market Wrap

11th April 2023: Stocks chop in cautious trade ahead of CPI and FOMC minutes

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude up, Dollar down
- **REAR VIEW**: Dovish Goolsbee, Hawkish Williams; Soft US NFIB; Soft China CPI; UBS cautious on cloud titans; Boeing orders exceed Airbus.
- **COMING UP**: **Data**: US CPI **Event**: BoC Policy Announcement & FOMC Minutes **Speakers**: Fed's Barkin, Kashkari; BoE's Bailey; ECB's de Guindos **Supply**: UK, Germany & US.

MARKET WRAP

Stocks were choppy and in tight ranges Tuesday with trepidation ahead of Wednesday's CPI and FOMC minutes. After an initial overnight rally for equity futures, aided by soft Chinese inflation data, Big Tech saw continued underperformance in US trade, with selling in cloud titans Microsoft (MSFT), Amazon (AMZN), and Google (GOOGL) accompanied by a UBS note saying street estimates for the sector are too high ahead of earnings. The SPX looked like it was going to close at highs before indices saw a pullback lower into the close on a sell-side market imbalance, seemingly positioning related ahead of CPI. The data highlight Tuesday was the US NFIB survey, which saw hiring plans down to a cycle low and one of the survey's largest M/M tightening of credit availability for small businesses on record due to bank failures. Fed's Goolsbee (voter) gave a dovish speech calling for "patience and prudence" in monetary policy, calling on the need to assess incoming data around credit conditions, although markets didn't budge much - May Fed hike is still 70%+ priced - particularly ahead of CPI and after Williams (voter) said earlier another hike is a "good place to start". The DXY pared from its post-NFP peak on Monday, with particular strength in the Euro after stronger data in the region and a larger move higher in EGB yields than USTs. Oil prices ripped higher amid the softer Dollar and despite the softer US data, closing towards the top-end of their post-OPEC production cut ranges.

US

FED'S WILLIAMS provided some forecasts late on Monday, saying he sees inflation in 2023 at around 3.75% before returning to 2% by 2025, he sees growth this year being under 1% (upgraded from his March forecast of a slight recession), unemployment rising gradually to 4-4.5% (prev. f/c of just 4.5%). On market pricing, he said he is happy to see it react to data but he does not worry if the market's view on rates differs from the Fed's views. He spoke on the strength of the banking system, saying stresses at troubled banks were unique to those institutions while he hasn't seen any clear signs of credit tightening. Williams spoke again on Tuesday morning, noting that some core services inflation ex-housing has not budged yet, so the Fed has its work cut out, while noting it is too soon to see changes in credit conditions and availability, saying one more hike is a reasonable starting place, but hikes will be data dependent. Williams noted the Fed is somewhat restrictive on policy right now and bank failures have added uncertainty to the outlook. If inflation ends up stickier, the Fed will have to adjust policy appropriately, but if it comes down the Fed will have to lower rates. He does not think the Fed has to adjust its balance sheet policy anytime soon.

FED'S GOOLSBEE sounded rather dovish/cautious in his latest remarks. He noted the right monetary policy approach calls for "prudence and patience" and the Fed needs to assess the potential impact of financial stress on the real economy. He added they also need to watch for tighter credit conditions and account for headwinds when setting monetary policy and due to financial headwinds, we need to be cautious. He also said the Fed needs to be careful about raising rates too aggressively. He noted that current monetary policy and tighter credit conditions can work in tandem on inflation, and that supervisory and regulatory tools, not rate cuts, are the principal defence against financial stress. Goolsbee also said the Fed should be careful with the argument that if there is a chance of significant financial stress, we should preemptively cut rates to reduce the odds of it.

FOMC MINUTES PREVIEW: Since the March FOMC, fears around the banking crisis have cooled, with no additional failures reported, reducing chances of an imminent policy shift from the Fed with the labour market still tight and inflation still well above target. WSJ's Timiraos reported the March decision to hike was one of the closest calls at the FOMC in years, coming down to the wire as officials kept track of the fallout from SVB and questioned whether they should pause. Fed officials have since been cautious about getting ahead of, or forecasting, any sharp falls in credit availability, instead sticking to the status quo in terms of the need to bring down inflation whilst caveating that there is great uncertainty hanging over the banking sector. The minutes will provide us with more insight into how the recent banking failures played into the policy decision and the extent to which the overhang of the events may cap the degree that officials tighten further. Officials have been reticent to get into specifics about how much they see reduced bank lending as a substitute for Fed rate hikes, and it's unlikely the minutes will give us much either, although they should reveal a nod to the relationship as some officials have pondered in public comments lately. To download the full Newsquawk preview, please click here.

NFIB: The NFIB Business Optimism Index fell 0.8 points to 90.1 (prev. 90.9) in March, marking the 15th consecutive month below the 49-year average of 98. 24% of owners reported inflation as their single most important business problem, down from prev. 28% previously, while small business owners expecting better business conditions over the next six months remained at a net negative 47%. In addition, 43% (prev. 47%) of owners reported job openings that were hard to fill, staying historically very high. Moreover, indicating few signs of an immediate credit crunch impacting firms, only a net 9% of firms are expecting credit conditions to tighten and only 3% of firms are reporting that financing and interest rates were their biggest problem. On the report, NFIB Chief Economist noted “small business owners are cynical about future economic conditions” and “hiring plans fell to their lowest level since May 2020, but strong consumer spending has kept Main Street alive and supported strong labor demand.” Meanwhile Oxford Economics notes, “the survey suggests the fallout from regional bank failures has not yet led to a large tightening in financing conditions for small firms, but the continued easing in capex intentions and hiring plans is consistent with a continued slowdown in economic growth.” Lastly, OxEco adds, “the weakness that is already evident in the more interest-rate sensitive parts of activity may be spreading to the rest of the economy, with the share of firms raising employment falling to its lowest since May 2020. That in turn is helping ease labor shortages and lowering wage and price pressures, with the share of firms raising selling prices falling to a two-year low.”

GLOBAL

BOC PREVIEW: The BoC is expected to keep rates unchanged at the 'terminal' rate of 4.5% in fitting with the central bank's guidance. This meeting will be accompanied by the latest MPR and the following press conference where any commentary on rate guidance throughout the rest of the year will be eyed, but the BoC will likely reiterate its "conditional pause" language. Growth expectations will likely be revised higher for Q1 23 as the Canadian economy appears more robust than previously thought, while updated inflation expectations from the BoC will be eyed to help gauge the next steps for policy after the "conditional pause", although the bar for rate hikes or cuts is quite high. To download the full Newsquawk preview, please click here.

CHINA CPI REVIEW: Consumer prices fell by 0.3% M/M in March (exp. +0.2%), seeing the annual rate cool to 0.7% Y/Y (exp. 1.0%, previous 1.0%). Producer prices declined by 2.5% M/M, in line with the consensus. Within the CPI data, divergent price trends of core goods and services were the result of the multi-speed recovery, Pantheon Macroeconomics said, with consumer spending on services recovering more quickly than spending on goods, as has happened elsewhere. Ahead, Pantheon thinks the divergence will continue, noting that the PBoC's Q1 urban depositors survey showed households do not plan to increase spending on big ticket items in the next quarter, and will likely wait for sustained improvement in income and employment conditions, or new government incentives. "Policymakers probably will continue to monitor the uneven recovery, and revisit the stimulus question in H2 only if domestic demand flags," PM added.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 4+ TICKS LOWER AT 115-12

Treasuries extended their sell-off Tuesday in light, pre-CPI trade amid Fed's Williams calling for another rate hike. 2s +4bps at 4.048%, 3s +3.3bps at 3.804%, 5s +2.4bps at 3.544%, 7s +1.7bps at 3.487%, 10s +1.7bps at 3.432%, 20s +0.3bps at 3.747%, 30s -0.4bps at 3.623%.

Inflation breakevens: 5yr BEI +2.0bps at 2.337%, 10yr BEI +1.7bps at 2.303%, 30yr BEI +1.7bps at 2.245%.

THE DAY: T-Notes traded in a thin range through APAC and the European morning with interim lows of 115-14+ at the Tokyo/London handover and session highs of 115-25 later in the European morning with the region just returning from the Easter Holiday weekend. The modest bid during APAC hours was supported by the softer-than-expected Chinese inflation data and some dovish BoJ commentary. There was a fleeting Treasury bid in the NY handover after the US NFIB Index in March fell to 90.1 from 90.9, with hiring plans down to a cycle low and one of the survey's largest M/M tightening of credit availability for small businesses on record due to bank failures. But, better selling ensued as US trade got underway, aided by a 5k block sale in the T-Note. The selling kicked in more forcefully, led by the front-end, after Fed's Williams (v) said a 25bps hike was "a good place to start" looking to the May FOMC with more work to be done on inflation. T-Notes ultimately printed session lows of 115-06+ right after the 3yr auction.

3YR AUCTION: An average USD 40bln, 3yr auction from the Treasury when compared against recent results, stopping on the screws at 3.810%, not as good as the prior 0.6bps stop-through but a tad better than the six-auction avg. 0.1bp tail. The 2.59x bid/cover ratio was in line with the average and not as strong as last month's 2.73x. Dealers (forced surplus buyers) were left with 17.7%, up from March's 16.8% but still beneath avg. 19.9%, where Indirects saw a slight fall and Directs saw a slight rise in participation. In the context of the massive richening from March's 4.635% stop, the auction still saw respectable demand, especially when also considering the event risk of Wednesday's CPI and FOMC minutes. Mind you, given the greater than 5bp concession leading into the auction on the day, that likely saw some buyers step into the offering.

NEXT UP: Traders now look to Wednesday's CPI data, FOMC minutes, 10yr auction, and BoC, ahead of Thursday's PPI, jobless claims, and 30yr auction, and then Friday's retail sales, industrial production, 30yr auction, and big bank (JPM, WFC, C) earnings.

STIRS:

- SR3H3 -0.3bps at 95.0875, M3 +1bps at 95.03, U3 flat at 95.305, Z3 -1bps at 95.665, H4 -3bps at 96.11, M4 -6 bps at 96.485, U4 -6.5bps at 96.775, Z4 -7bps at 96.935, H5 -7bps at 97.01, H6 -3bps at 97.11.
- US SOFR at 4.81% (prev. 4.81%), volumes at USD 1.366tln (prev. 1.431tln).
- NY Fed RRP op demand at USD 2.297tln (prev. 2.240tln) across 109 counterparties (prev. 115).
- US EFFR at 4.83% (prev. 4.83%), volumes at USD 106bln (prev. 100bln).
- US leaves 4-, 8-, and 17wk bill auction sizes unchanged at USD 60bln, 50bln, and 36bln, respectively; 4- and 8-week bills to be sold on April 13th and 17-week bills on April 12th; all to settle on April 18th.

CRUDE

WTI (K3) SETTLED USD 1.79 HIGHER AT 81.53/BBL; BRENT (M3) SETTLED USD 1.43 HIGHER AT 85.61/BBL

Oil prices ripped higher Tuesday despite softer economic data, reversing losses from Monday as the Dollar pared its strength. There was no clear energy-specific catalyst driving price action, and the futures had seen a dip into the red at the London/NY handover before ripping higher through the rest of the session. WTI and Brent futures printed session lows of USD 79.37/bbl and 83.75/bbl, re-approaching the post-OPEC cut lows, only to close out the session near the post-OPEC cut highs of USD 81.81/bbl and 86.44/bbl, respectively. While not market-moving, we did get the latest EIA STEO report for April, which saw the 2023 world oil demand growth forecast cut by 40k BPD to a 1.44mln BPD Y/Y increase, and the 2024 forecast raised by 60k BPD to a 1.85mln BPD Y/Y increase. In Europe, Reuters reported that the Italian government is likely to give conditional approval to the Lukoil refinery sale, a key refinery for Italy. Traders now look to Wednesday's CPI primarily, although we are on the look out for the private US energy inventory data later on Tuesday ahead of the EIA figures on Wednesday. Current expectations (bbl): Crude -0.6mln, Gasoline -1.6mln, Distillates -0.8mln.

EQUITIES

CLOSES: SPX flat at 4,109, NDX -0.67% at 12,964, DJIA +0.29% at 33,685, RUT +0.80% at 1,786.

SECTORS: Energy +0.89%, Financials +0.85%, Materials +0.73%, Industrials +0.59%, Real Estate +0.46%, Health Care +0.3%, Consumer Staples +0.24%, Utilities +0.07%, Consumer Discretionary +0.02%, Communication -0.42%, Technology -1.03%.

EUROPEAN CLOSES: EURO STOXX 50 +0.55% at 4,333, FTSE 100 +0.57% at 7,785, DAX 40 +0.37% at 15,655, CAC 40 +0.89% at 7,390, FTSE MIB +1.15% at 27,525, IBEX 35 -0.80% at 9,237, SMI +0.27% at 11,259.

STOCK SPECIFICS: **Boeing (BA)** intends to restore the production of its 737 MAX jet to its 2019 rate of 52 a month by January 2025; comes after increasing monthly production rates to 38 in June. Separately, Boeing booked 60 gross orders in March, with 22 cancellations for 38 net orders; delivered 64 airplanes in March, including 53 737's; exceeded **Airbus (AIR FP)** deliveries for first time since Q2 '18. **Newmont (NEM)** raised its offer for **Newcrest (NCMGY)** to around USD 19.5bln as it works to seal the largest-ever M&A deal in the gold-mining industry, according to WSJ; new offer represents a 16% increase to NEM's initial bid. **Moderna (MRNA)** is delaying its flu vaccine due to a lack of enrolled cases in a late-stage trial. **CarMax (KMX)** posted a mixed report; profit beat but revenue missed and reaffirmed long-term targets. Used vehicle sales fell 21% Y/Y, driven by the decrease in retail used units sold as well as the decrease in average retail selling price, and wholesale vehicle sales dropped 42% Y/Y. US House Select Committee Chair Gallagher said the deal was "very concerning" after **Tesla (TSLA)** announced it will open a new Megafactory in Shanghai that is capable of producing 10,000 Megapacks a year. **Adtran Holdings (ADTN)** announced a downside preannouncement for Q1; revenue and operating margins missed consensus. Trillium Capital urged the **Getty Images (GETY)** board to act to enhance shareholder value. **Whirlpool (WHR)** was upgraded at Goldman; said the appliance stock is cheap and can rally more than 20%. Unconfirmed reports via traders citing Insightia suggested **Micron (MU)** may be seeing large activists building a "serious stake" in the co.; Starboard and Elliott mentioned. French Competition Authority is reportedly likely to move forward "soon" with an antitrust investigation into **Apple (AAPL)**, according to Axios citing sources; re. complaints over a 2021 change to app tracking policies. **Carrier Global (CARR)** reportedly looking to sell or spin off Fire & Security business with the process in the early stage, according to WSJ citing sources; Fire & Security Business accounted for 17% of sales. **Berkshire Hathaway (BRK.B)** CEO Warren Buffett intends to add to his investments in Japanese stocks and is proud of his stakes in Japan's top five trading companies, Itochu, Mitsubishi, Mitsui & Co., Sumitomo and Marubeni, according to Nikkei. Goldman Sachs upgraded **WW International (WW)**; said shares could more than triple as WW International pushes into the obesity medication market.

US FX WRAP

The Dollar was sold Tuesday, paring some of the post-NFP gains but the DXY managed to find support directly on the 102 handle, with highs seen earlier on at 102.51. The buck pared further from its Monday peak of 102.81 through Tuesday. Data saw a fall in the NFIB index, with small firms noting a fall in credit availability post-banking crisis. But the main focus is on CPI on Wednesday, alongside the FOMC minutes, with eyes also to PPI Thursday, retail sales Friday, as well as continued Fed Speak. Fed's Williams spoke late on Monday, upgrading his growth view from the end of March, where he no longer sees a recession this year. He spoke again Tuesday morning, saying another rate hike is "a good place to start", seeing Treasury selling pick-up at the time. Goolsbee (v) spoke later on, sounding more dovish, in fitting with his predecessor Evans, noting the right policy approach calls for "prudence and patience" and called on the Fed to be cautious given the uncertainty, and to be careful about raising rates too aggressively. He did talk down the prospects of rate cuts, however.

The Euro saw gains on Tuesday with EUR/USD rising back above 1.09 as EZ yields rose greater than their US counterparts. In terms of EZ specifics, EU retail sales for February fell 0.8% M/M in line with expectations, while the prior was revised higher to 0.8% from 0.3%. The Y/Y fell 3.0%, less than expected, while the prior was revised higher to -1.8% from -2.3%. The Sentix Index for April was better than expected and noted "The Eurozone economy continues to recover at the beginning of April. The major upheavals feared as a result of the gas and electricity price crisis in Europe have failed to materialise this winter."

The Yen failed to hold initial strength despite weakness in the buck, and USD/JPY continued to advance on the moves seen in recent days, but at a smaller magnitude. The reversal in the pair came as fixed income sold off throughout the afternoon, with yields advancing on the session widening the yield differentials between Japan and US. The US CPI report will be key for the pair on Wednesday, as well as FOMC minutes. Technicians highlight a fibo level at 134.75 should be hit if the CPI data comes in hotter than expected while a cooler print could test the 55 dma at 132.98; currently trading around 133.75 at pixel time.

Gold prices managed to hold onto their gains despite the yield advances, while the **Franc** also saw gains vs the buck and the Euro while Switzerland rubber-stamped the CHF 109bln of financial guarantees as part of the Credit Suisse rescue plan.

Cyclical currencies were mixed, AUD saw gains vs the buck and reclaimed 0.6650 while NZD saw losses, losing hold of 0.6200. AUD/NZD saw notable gains rising above 1.07 and testing 1.0750. The gains in the Aussie weighed on the Kiwi and were supported after a strong beat in Australian consumer sentiment and rises in the NAB business confidence data, although business conditions saw a slight move lower. Meanwhile, Australia also resolved WTO differences with China and the general upside in stocks (ex-tech) helped the Aussie (albeit that faded late session), as did gains in iron ore but the rise in US yields limited gains. **CAD** saw gains vs the buck as oil advanced ahead of the BoC rate decision on Wednesday, preview available here.

Scandis were mixed. NOK was notably weaker despite the upside in Brent crude prices and hotter than expected CPI, but PPI saw a significant drop. SEK saw marginal gains vs the Euro in a 11.3920-11.4412 range.

EMs were mixed. **CNH** was flat against the Dollar after cooler than expected China CPI data offset broader Dollar weakness. **ZAR** saw gains thanks to the gold bid but also after some commentary from the South African Electricity Minister saying it will lay out proposals to the Cabinet later in April to end the rolling power blackouts. These updates helped offset the downbeat manufacturing production report. **TRY** was flat vs the buck despite disappointing industrial production data. **BRL** saw notable gains as Brazilian equities rallied after President Lula invited China President Xi to Brazil to speak of projects that have interest for Chinese investment. Elsewhere, Brazil IPCA inflation was cooler than expected. **MXN** was flat vs the buck while the latest industrial production data came in better than expected. **CZK** saw weakness vs the Euro after the latest CNB minutes. **KRW** was flat vs the Dollar despite BoK Governor Rhee noting five board members wanted to keep the door open for one more possible rate hike. In Hong Kong, the HKMA intervened again to preserve the **HKD** peg.