US Market Wrap

13th April 2023: SPX highest close since Feb and Dollar just shy of YTD low ahead of earnings

- **SNAPSHOT**: Equities up, Treasuries steeper, Crude down, Dollar down.
- **REAR VIEW**: PPI cooler-than-expected; Jobless claims tick higher; BoE's Pill expects GDP to decline 0.1% in Q1; Strong Chinese export data; Stellar Aussie jobs; Dovish ECB sources; Average 30yr auction; Ongoing Japan /North Korea missile saga; DAL sees strong quarter ahead; AAPL in talks to make MacBooks in Thailand.
- **COMING UP**: **Data**: US Export/Import Prices, Retail Sales, Industrial Production, Uni. of Michigan (Prelim.) **Speakers**: Fed's Waller, BoE's Tenreyro **Earnings**: Blackrock, JPMorgan, UnitedHealth, Wells Fargo, PNF Financial, Citigroup.

MARKET WRAP

Stocks rallied through the session Thursday, while the Dollar dipped close to YTD lows, although Big Tech did a lot of the heavy lifting, again. The moves appeared more flow-driven than a specific catalyst, where a slight rise in jobless claims and a significant miss in PPI expectations failed to sustain a bid at the time. There were even some negative catalysts for tech with Amazon (AMZN) warning of headwinds to the cloud sector ahead of its earnings report, while Nikkei reported Taiwan's leading tech companies suffered the biggest drop in revenue in at least a decade in March. Nonetheless, once cash trade began in NY, it was one-way traffic higher for the indices. Treasuries were choppy, fading their PPI rally but remaining steeper throughout as flatteners unwound. There's growing chatter that the Fed is on the cusp of the terminal rate, although it still remains 70% priced for a May hike, with cuts starting being priced in from July. While CPI and PPI data has been encouraging in March, it's worth noting that the Atlanta Fed Wage Growth Tracker rose to 6.4% from 6.1% in February, the first rise since October in the headline tracker, and if sustained, could reignite inflation pressures down the line. Oil prices pared some of their recent strength despite the softer Dollar and strong China trade data, with desks pointing to growth concerns on the horizon.

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PPI: The March PPI data came in cooler than expected on the headline M/M and Y/Y, with M/M seeing a 0.5% decline. The Core M/M was also cooler than expected, falling 0.1%, softer than the expected rise of 0.3%. However, the Y/Y was in line with expectations at 3.4%. Although cooler than expected, the prior month saw revisions higher across the headline and core metrics. The super core readings also slowed in March, but saw a slight revision higher to the Y/Y print. The data will help with the cooling inflation narrative and the decline in producer prices could be supportive of company margins as we head into earnings season. Analysts do expect a further easing of producer price pressures in following months as the lagged effects of monetary policy kick in, although a lot of the Fed focus currently is on the core services ex housing prices and money markets still lean towards a 25bp hike in May and 50bps of cuts through year-end, as it was pre-data. Oxford Economics note the decline in prices benefitted from a drop in gasoline prices and the consultancy warns this wil be partly reversed in April due to the higher oil prices after the OPEC+ cut. OxEco also note that although Core prices remain stickier, the underlying trend is encouraging, noting the 0.1% rise in core services was the smallest in eight months, "potentially auguring underlying services inflation is beginning to ease as well."

JOBLESS CLAIMS: Initial jobless claims ticked higher to 239k (prev. 228k), above the expected 232k, while continued claims fell slightly more than forecasted to 1.810mln (prev. 1.823mln, exp. 1.814mln). On the data, Pantheon Macroeconomics notes, “the jump in SA weekly claims follows a sharp drop last week, largely reflecting the usual volatility caused by the timing of Easter. But this volatility does not change the strong upward trend emerging in the wake of the recent annual revisions to the seasonal adjustments.” As such, PM says it chimes with the surge in Challenger layoffs (Q1 layoffs highest since 2005, ex. initial COVID hit and the financial crisis). Looking ahead, PM adds, “jobless claims lag layoff announcements, so we expect a further rise in claims over the next few months, helping to drive payroll growth to zero by mid-year.”

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 8 TICKS LOWER AT 115-14+

Treasuries were choppy Thursday, fading their PPI rally but remaining steeper throughout as flatteners unwind. 2s +0.3bps at 3.975%, 3s +0.9bps at 3.717%, 5s +2.7bps at 3.505%, 7s +3.4bps at 3.478%, 10s +3.1bps at 3.452%, 20s +2.9bps at 3.796%, 30s +3.6bps at 3.691%.

Inflation breakevens: 5yr BEI +0.9bps at 2.280%, 10yr BEI +2.4bps at 2.313%, 30yr BEI +4bps at 2.305%.

THE DAY: T-Notes saw choppy trade before the PPI data, remaining well within Wednesday's (CPI) ranges (115-08/116-08). In APAC trade, there was modest spillover selling from AGBs on the back of the strong Australian labour market report, with the Japan/North Korea missile saga keeping the complex supported. And then there was a fleeting bid in the European morning from EGBs on dovish ECB sources article via Reuters, which echoed official commentary in that there is a growing debate between 25bps vs 50bps for May. But trade lacked real momentum in either direction until the soft US PPI data saw T-Notes surge higher, being led by the front-end as the curve steepened, ultimately peaking at 116-03. But the bid couldn't sustain with traders looking ahead to the 30yr auction, not to mention a solid open for US equities, capping haven demand. T-Notes had pared their whole post-PPI bid when the auction came around, although the curve had maintained its steeper bias as desks noted flatteners being unwound amid peak Fed rate chatter gaining traction. The mediocre demand reception for the long bond was followed by additional Treasury selling, with T-Notes dipping into settlement at levels just above where they stood pre-CPI on Wednesday (115-12).

30YR AUCTION: A mediocre 30yr bond auction from the Treasury, stopping on the screws at 3.661% vs last month's 3.877% stop, but still exhibiting stronger demand than last month's 0.6bp tail and the six-auction avg. 0.4bp tail. The 2.36 x bid/cover ratio was fractionally above the prior and avg. 2.35x. Dealers (forced surplus buyers) were left with 11.1%, beneath the avg. 11.9% but above the prior 9.4%, where Indirects saw a pullback from last month in participation.

NEXT UP: Traders now look to Friday's retail sales, prelim UoM, industrial production, and big bank earnings (JPM, WFC, C). Treasury traders are also starting to cast their attention to the set-up for next week's auctions with the Treasury announcing Thursday the USD 12bln in 20yr bonds reopening on April 19th, settling on May 1st, in addition to USD 21bln of new issue 5yr TIPS on April 20th, settling on April 28th.

STIRS:

- SR3H3 +0.5bps at 95.0925, M3 +1.5bps at 95.07, U3 +0.5bps at 95.38, Z3 +0.5bps at 95.745, H4 flat at 96.195, M4 -0.5bps at 96.590, U4 -1.5bps at 96.885, Z4 -2bps at 97.045, H5 -3bps at 97.105, H6 -4.5bps at 97.14.
- US SOFR flat at 4.80%, volumes at USD 1.358tln (prev. 1.365tln).
- NY Fed RRP op demand at USD 2.322tln (prev. 2.304tln) across 101 counterparties (prev. 106).
- Fed Funds pricing remains above 70% implied for a May 25bps hike despite the soft PPI data; year-end rate is priced at 4.33%.
- US EFFR flat at 4.83%, volumes at USD 114bln (prev. 108bln).
- US sold USD 61bln of 1-month bills at 4.030%, covered 3.08x; sold USD 51bln of 2-month bills at 4.790%, covered 2.52x.
- 13-week, 26-week (both April 17th), and 52-week (April 18th) bill sizes were left unchanged at USD 57bln, 48bln, and 34bln, respectively; all to settle on April 20th.

CRUDE

WTI (K3) SETTLED USD 1.10 LOWER AT 82.16/BBL; BRENT (M3) SETTLED USD 1.24 LOWER AT 86.09BBL

Oil prices pared some of their recent strength on Thursday despite the softer Dollar and strong China trade data, with desks pointing to growth concerns on the horizon. After WTI hit YTD peaks at USD 83.53/bbl on Wednesday, prices gradually pared through Thursday before ultimately breaching back beneath the prior YTD high of 82.64/bbl in the US session, which served as support earlier in the session. The latest OPEC monthly report saw the 2023 world oil demand growth forecast unchanged at 2.3mln BPD, in addition to flagging downside risks to summer oil demand as a result of the surprise production cuts announced earlier this month. Elsewhere, Azerbaijan reported March production at 515k BPD, down from 531k BPD in February. And Angola's Finance Minister told Reuters that he expects oil production to rise next year temporarily but will remain below 1.5mln BPD, adding that production would likely stabilise at around 1mln BPD beyond next year from 1.12mln BPD currently. The China March trade data saw the country's oil imports rally 22.5% Y/Y to the highest since June 2020, with the region playing catchup after its recent decision to reopen the economy from COVID lockdowns.

EQUITIES

CLOSES: SPX +1.33% at 4,146, NDX +2.03% at 13,109, DJIA +1.14% at 34,030, RUT +1.30% at 1,796.

SECTORS: Communication Services +2.33%, Consumer Discretionary +2.31%, Technology +1.95%, Health +1.23%, Materials +1.02%, Financials +0.86%, Energy +0.61%, Consumer Staples +0.55%, Industrials +0.38%, Utilities +0.03%, Real Estate -0.4%.

EUROPEAN CLOSES: EURO STOXX 50 +0.67% at 4,363, FTSE 100 +0.27% at 7,846, DAX 40 +0.16% at 15,729, CAC 40 +1.13% at 7,480, FTSE MIB -0.01% at 27,626, IBEX 35 +0.34% at 9,310, SMI +00.25% at 11,260.

STOCK SPECIFICS: **Delta Air Lines (DAL)** beat on revenue but missed on profit. Commentary and next quarter guidance was stellar as both top and bottom line exceeded expectations. DAL expects a record June quarter for adj. revenue. **Apple (AAPL)** assembled more than USD 7bln of iPhones in India last FY, tripling production in the country as it moves beyond China. AAPL now makes around 7% of its iPhones in India, a jump from the estimated 1% in 2021. Separately, Apple is in talks with suppliers to make MacBooks in Thailand, according to Nikkei. **Amazon (AMZN)** is confident about its plans to reduce costs, lower delivery times and build "meaningfully larger" retail business with healthy operating margins; AWS faces short-term headwinds right now with cos. being more cautious in spending. **Google (GOOGL)** is expected to ask a Judge to end the antitrust case over its search engine dominance, according to WSJ. The EU data protection watchdog will reportedly back a preliminary decision to strip **Meta (META)** of its last legal route for shipping data across the Atlantic, according to Politico; co. says that may force it to stop offering Facebook and Instagram within the bloc. **Harley-Davidson (HOG)** CFO will step down at the end of April to accept a role as CFO of **Hasbro (HAS)**. FDA staff leaned towards rejecting **Sarepta Therapeutics (SRPT)** gene therapy before a top official intervened, according to STAT news citing sources. Also, of note for **Catalent (CTLT)**, who has a commercial supply agreement for the gene therapy candidate. **Teck Resources (TECK)** board unanimously rejected **Glencore's (GLEN LN)** revised unsolicited proposal; added Glencore's revised proposal is materially unchanged and still not in the best interest of Teck. **Novo Nordisk (NVO)** raised FY23 sales and operating profit outlook for 2023. Hackers claim vast access to **Western Digital (WDC)** systems, according to TechCrunch; hackers claimed to have stolen customer data and said they are asking for a "minimum 8 figures" as a ransom.

US FX WRAP

The Dollar was lower on Thursday and hit a trough of 100.840, falling just short of the YTD low of 100.80, after further pleasing US data for the Fed where PPI was much cooler than expected and jobless claims ticked higher. As such, it put more pressure on the Buck but Fed pricing for May remains more-or-less unchanged (70% implied for a 25bps hike). Looking across FX, all G10 peers profited off the weaker Buck, as did most EMFX aside from a few exceptions, such as the RUB, and BRL, TRY who were flat. Looking ahead, there is prelim UoM (April), Retail Sales (March), and Fed’s Waller (voter), and the beginning of earnings season (UNH, JPM, WFC, C) on Friday.

Antipodeans were the G10 outperformers seeing gains of circa 1.5% against the Greenback. NZD/USD and AUD/USD hit highs of 0.6315 and 0.6796, respectively, with the latter even surpassing the April 5th high of 0.6780. Aside from the lagging Buck, the Aussie saw tailwinds from its solid jobs report where headline payrolls came in notably stronger than anticipated. Participants will be awaiting New Zealand Manufacturing PMI on Friday.

CHF, CAD, EUR, and JPY all saw gains to varying degrees with the Swissy leading the charge as USD/CHF breached 0.8900 to the downside to print lowest since January 2021 of 0.8860. Meanwhile, EUR/USD printed a 1yr high of 1.1067 irrespective of ECB sources saying the central bank is leaning towards a 25bps rather than 50bps hike rise next month with more convergence in EGB/UST spreads propelling the headline pair. Moreover, ECB speak was plentiful with Nagel, Vasle, Wunsch, and Kazaks all speaking with the former noting the persistence of high core inflation showed the ECB has further to go in tightening monetary policy. The Loonie and Yen piggybacked off the broad Dollar weakness, as USD/CAD managed to pierce 1.3350 to lows of 1.3335, at pixel time, while the Yen ran out of momentum ahead of the key psychological 132.00. Onto Friday, key risk events for the aforementioned currencies are light but there are plenty of risk events out of the US.

GBP was a G10 underperformer, albeit still in the black vs the Buck. On the day, Cable rebounded from sub-1.2500 to 1.2537, but largely due to broad Buck weakness and a more accurate or overall gauge of the Pound’s performance probably came via the EUR/GBP cross that climbed from just under 0.8800 to 0.8838. In short, Sterling seemed to be hampered by comments from BoE’s Pill at the IMF as he noted high frequency indications of momentum in wage developments appear to be easing, the current level of rates is weighing against inflation, the MPC is vigilant to signs of tightening financial conditions and Bank staff continue to expect GDP to decline by 0.1% in 2023 Q1.

EMFX was predominantly in the black. ZAR surged on the back of Gold seeing strength and managed to shrug off any further Eskom worries, for now. The Yuan was underpinned by stellar Chinese exports, which surprisingly rose, as the economy continues to see a rebound from opening up post-COVID. On the data, while officials flagged rising demand for EVs analysts cautioned the improvement partly reflects suppliers catching up with unfilled orders after last year’s

COVID disruptions. The MXN strengthened, but Banxico Minutes were largely in-line as it noted for its upcoming decision, the Board will take into account the inflation outlook and consider the monpol stance already taken. BRL underperformed as Finance Minister Haddad said in his China trip that the BCB has a window of opportunity to lower rates. Lastly, the Peru Sol strengthened ahead of the central bank decision where it is expected to hold rates at 7.75%.