US Market Wrap

14th April 2023: Stocks and bonds lower after retail sales, bank earnings & Waller

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Stellar big bank earnings led by JPM; Ugly Retail Sales but control offers some solace; Strong prelim UoM, but 1yr inflation expectations jumps higher, but 5yr steady; Decent IP but Manufacturing Output disappoints; Waller pushes back on market expectations; Bostic wants one more hike; Fed's Goolsbee leans dovish again; BA halts some deliveries of 737s
- **WEEK AHEAD PREVIEW**: Highlights include Flash PMIs; CPI data from Canada, Japan, NZ, UK; PBoC LPR, China activity data; Minutes from the ECB, RBA. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing RBA and ECB minutes, PBoC LPR; Reviewing FOMC minutes, BoC, BoK. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [MON] SCHW; [TUES] JNJ, BAC, GS, LMT, PLD, NFLX; [WED] ASML, ELV, ABT, MS, TSLA, IBM; [THURS] BX, TSM, T, PM, AXP, UNP; [FRI] PG. To download the report, please click here.

MARKET WRAP

Stocks and bonds finished lower on Friday after the weaker-than-expected retail sales, stronger-than-expected bank earnings and several Fed speakers. Overall, banking earnings were solid despite fears of a terrible quarter for banks amid the recent woes with JPM seeing its largest intraday gain since November 2020. The retail sales data was worse than expected on the headline and core, as was hinted by the poor Costco (COST) numbers, weak credit card data from BofA and Citi, as well as the Bank of America preview. Meanwhile, the control group was above the Bloomberg consensus, suggesting consumer spending and GDP may not be as bad as feared given the control group feeds directly into the GDP report. There were also several Fed speakers, which saw Bostic and Goolsbee lean dovish, while Waller was hawkish. The Treasury curve saw pronounced bear flattening, crude prices were choppy but ultimately settled firmer for the day and the week, while gold and silver prices tumbled. The dollar also rallied after its recent collapse with DXY rising to highs of 101.75 while money market pricing leant hawkish. Markets now price in over an 80% chance of a Fed hike in May, while there are just 34bp of rate cuts being priced in by year-end vs the 48bps pre-data and Waller.

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FED'S WALLER (voter) noted the recent data shows Fed has not made much progress on its inflation goal, and rates need to rise further. He also said that policy needs to remain tight for a substantial period and longer than what markets are expecting. Waller added that developments so far validate the Fed's decision to hike in March, but he will continue to watch the data, even closer than normal. He noted the extent of further tightening depends on incoming data and credit tightening, saying significant credit tightening could offset the need for rate hikes, but a real-time judgement is difficult. Waller added it is uncertain how the failure of SVB and bank stresses will impact broader credit conditions, but liquidity measures taken since have succeeded in stabilising the system.

FED'S GOOLSBEE (voter) largely repeated commentary from his speech earlier in the week, noting he does not want to comment on what he will be voting for in May as he still wants to see the data, but repeated we need to be mindful Fed has already hiked a lot and there is some lag possibly coming through and possibly evident in the weak March retail sales. He added that producer prices and retail sales data shows we are moving in the right direction, and inflation is coming down, but there is still clear stickiness on some inflation. On a recession, Goolsbee said he puts some stock in the Fed Staff estimate of a mild recession this year, saying it is definitely on the table as a possibility. He is watching credit conditions and toes the line that when you have financial tightening occurring, that does the work of monetary policy but he will be spending the next few weeks figuring out the amount of credit tightening going on, but we do not know how much the rate hike equivalent will be on the economy.

FED'S BOSTIC (non-voter) said that after one more interest rate hike, the Fed can pause to assess. The recent inflation data is encouraging, though prices are still rising too fast and the Fed needs to do more. The Fed should pause to assess the economy and inflation path to avoid unnecessary economic damage. Ongoing inflation is still a product of pandemic distortions which can ease without a recession or the unemployment rate rising above 4.0%. Rate hikes over the last year are only now starting to take effect, but the full impact will take time.

DATA

RETAIL SALES: Headline retail sales fell 1.0% in February, deeper than the expected decline of 0.4% and the prior -0.2% (revised up from -0.4%). Core Retail sales were also weak, falling 0.8% vs the -0.3% consensus and against a prior -0.1%. Although a woeful report, a downside surprise was well-telegraphed ahead of the release. The weak Costco (COST) numbers in March and weak consumer credit card data from Citi and Bank of America helped support this, while the widely watched BofA retail sales preview also expected an abysmal read. However, the retail control group, an input into the consumer spending section of GDP, declined by 0.3%, in line with the Reuters consensus but better than the Bloomberg expectation of -0.5%. Nonetheless, it offers a glimpse of hope vs the wider report slowdown given it feeds directly into overall GDP. Note, after this week's CPI, PPI, Retail sales and Industrial Production data, the Atlanta Fed revised higher their GDPNow tracker for Q1 to 2.5% from 2.2%. Within the retail sales report, the steep headline decline was led by a steep 5.5% fall in gasoline station sales, primarily a function of declining gas prices, but there were plenty of other declines, including a 1.6% fall in motor vehicles and parts, 1.2% decline in furniture, 2.1% fall in electronics, 2.1% fall in building materials, a 1.7% fall in clothing and a 3% decline in general merchandise. Meanwhile, in food and drink, there was a 0.1% gain in food and drink services but a 0.1% decline in food and beverage stores.

UOM: Prelim UoM for April saw the headline rise to 63.5 (exp. 62.0, prev. 62.0) reflected by current conditions and forward-looking expectations both lifting more-than-anticipated to 68.6 (exp. 67.3, prev. 66.3) and 60.3 (exp. 60.0, prev. 59.2), respectively. However, inflation expectations were not as encouraging as the shorter-term 1yr jumped sharply to 4.6% from 3.6%, while the longer-term 5yr remained at 2.9%. On the headline, Oxford Economics notes “the small rise demonstrates that the continued strength of the labor market, rebound in stock prices and falling gasoline prices have more than outweighed any fears over the stress in the banking system.” OxfEco adds “the big picture remains that consumer sentiment is subdued and we still expect spending to weaken later this year as lending conditions are already tightening and labor market conditions are set to soften.” On inflation, the consultancy adds “with near-term expectations for inflation still elevated and volatile, that is an additional reason, at the margin, for the Fed to press ahead with additional rate hikes, though we put more stock in market-based measures of inflation expectations.”

IP/MANUFACTURING OUTPUT: Industrial production for March rose 0.4%, above the prior and expected 0.2%. Manufacturing output fell 0.5%, deeper than the expected 0.1% decline and the previous +0.6%. Meanwhile, capacity utilisation printed 79.8% (exp. 79.0%, prev. 79.6%). On the former, ING notes, while IP was firmer than expected in March, February's growth was revised up 0.2 percentage points to +0.2% M/M growth, so the details paint a weaker picture. Additionally, ING states "both manufacturing and mining output fell 0.5% MoM with all the strength in utilities, which jumped 8.4%". The desk notes it will inevitably correct lower over the next couple of months as weather patterns stabilise. Overall, ING writes "Manufacturing output is now 1.1% lower than in March 2022 and with the ISM remaining in contraction territory the outlook for the sector doesn't look good".

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 19 TICKS LOWER AT 114-27+

Treasuries saw big bear-flattening after longs took profit on soft retail sales and Fed's Waller sends a hawkish warning. 2s +12.2bps at 4.099%, 3s +11.4bps at 3.831%, 5s +9.7bps at 3.604%, 7s +7.8bps at 3.558%, 10s +6.8bps at 3.519%, 20s +5.4bps at 3.849%, 30s +5.1bps at 3.737%.

Inflation breakevens: 5yr BEI +3.6bps at 2.297%, 10yr BEI +1.9bps at 2.317%, 30yr BEI -0.5bps at 2.288%.

THE DAY: T-Notes saw very slow appreciation during the APAC Friday session and European morning. Session highs were made at 155-23 just ahead of the London/NY handover before gains were unwound heading into the US data, with risk sentiment buoyed on strong bank earnings/guidance. Retail sales came in largely on the downside, although the Control Group was above Bloomberg expectations, and given expectations were skewed lower heading into the report after the BofA report earlier in the week, govvie selling kicked in right after, led by the front-end, with longs closing positions. T-Notes hit session lows of 114-23 not long after the data, accompanied by Fed's Waller (voter, hawk) giving particularly hawkish remarks, calling for further hikes and the need to stay tighter for longer. There was some recovery later through the morning, although the front end led a knee-jerk lower on the big jump in Uni of Michigan 1yr-ahead inflation expectations. That coincided with the curve hitting its most inverted levels of the session, although the selling failed to extend, with traders clocking off for the week. It's worth noting a big options trade that went through not long after the Uni of Michigan data, where 50k+ of ZNM3 115/116 call spreads (hedges for a 3.35% 10yr yield) traded on exchange for '26, which Bloomberg reported as a buyer.

STIRS:

- SR3H3 -8.5bps at 94.650, M3 -14.5bps at 94.970, U3 -15.5bps at 95.325, Z3 -13.5bps at 95.795, H4 -14.5bps at 96.185, M4 -13.0bps at 96.495, U4 -11.5bps at 96.665, Z4 -11.5bps at 96.730, H5 -10.5bps at 96.760, H6 -10.5 bps at 96.765.
- NY Fed RRP op demand at USD 2.254tln (prev. 2.322tln) across 104 counterparties (prev. 101)
- US SOFR flat at 4.80%, volumes at USD 1.378tln (prev. 1.358tln).
- US EFFR at 4.83% (prev. 4.83%), volumes at USD 109bln (prev. 114bln).

CRUDE

WTI (K3) SETTLED USD 0.36 HIGHER AT 82.52/BBL; BRENT (M3) SETTLED USD 0.22 HIGHER AT 86.31/BBL

The crude complex ended the day, and the week in the black in what was a session light of energy-specific catalysts but full fundamental news, such as US Retail Sales, Big Bank earnings, Central Bank speak, and prelim UoM. Nonetheless, WTI hit a high of USD 83.12/bbl just after the equity cash open and re-testing its earlier low of USD 81.76/bbl not long after. Brent traded between USD 85.53/bbl and USD 86.87/bbl. Regarding oil newsflow, the latest IEA MOMR noted oil demand is set to increase by 2mln BPD in 2023 to a record of 101.9mln BPD (vs. March view of 101.9mln BPD). Note, Thursday's OPEC MOMR 2023 saw world oil demand growth outlook unchanged from the last month's assessment at 2.3mln BPD. Additionally, Russian Economy Ministry raised Brent oil price forecast for 2023 to USD 80.70/bbl, according to TASS.

BANK COMMENTARY: JPMorgan (JPM) maintained its long-standing price forecast, sees Brent oil prices averaging USD 89/bbl in Q2 and rising to 94/bbl in Q4.

BAKER HUGHES: Oil -2 at 588, Natgas -1 at 157, Total -3 at 748.

EQUITIES

CLOSES: SPX -0.21% at 4,137, NDX -0.23% at 13,079, DJIA -0.42% at 33,885, RUT -0.86% at 1,781.

SECTORS: Real Estate -1.68%, Utilities - 1.12%, Health -0.79%, Materials -0.68%, Consumer Staples -0.58%, Technology -0.51%, Industrials -0.12%, Consumer Discretionary +0.13%, Energy +0.19%, Communication Services +0. 31%, Financials +1.05%.

EUROPEAN CLOSES: EURO STOXX 50 +0..63% at 4,390, FTSE 100 +0.36% at 7,871, DAX 40 +0.50% at 15,807, CAC 40 +0.52% at 7,519, FTSE MIB +0.89% at 27,872, IBEX 35 +0.57% at 9,362, SMI +0.76% at 11,344.

FINANCIALS: **JPMorgan (JPM)** beat on profit and revenue alongside raising its FY23 NII view. CFO said it saw significant new account openings and inflows in Q1, but new deposits may not stay parked in the bank long term. Moreover, JPM said the SVB collapse does not have to result in a revamp of regulatory requirements. The bank will wait on buybacks and said it does not mind keeping buybacks dry. **Citigroup (C)** beat on the NIM, NII, top and bottom line while affirming its FY23 revenue view. Execs said it had deposit inflows in March and April from institutional and wealth clients and they are happy with its diverse deposit base. CFO added the recovery in IB is not swift as it would like. **Wells Fargo (WFC)** surpassed street expectations on EPS and revenue, but avg. deposits fell just short of expectations. The CFO is hopeful that there is a potential upside to NII in H2, but WFC expects a step down on NII from Q1 into Q2. **BlackRock (BLK)** revenue was in-line while profit and net inflows beat. Co. has confidence that the regional banking sector will further accelerate capital markets growth. **PNC (PNC)** topped expectations on profit but missed on revenue. Reported a slight increase in deposits, while noting its provision for credit losses was down from the previous quarter. Additionally, due to recent market volatility and increased economic uncertainty, share repurchase activity is expected to be reduced in Q2 '23 compared to recent quarters.

STOCK SPECIFICS: Elon Musk is planning an AI start-up to rival Open AI, according to FT, who add Musk has obtained **Nvidia (NVDA)** processors for the start-up. **Boeing (BA)** halted deliveries of some 737 MAXs as it grapples with a new supplier quality problem by **Spirit AeroSystems (SPR)** that could stretch back to 2019. Aero analysis later stated BA delivered four 737s on Thursday amid new parts issue and hadn't delivered any 737s since April 7th. **Tesla (TSLA)** expanded its global discounts, as it cut prices for EVs in Europe, Singapore, Israel. **UnitedHealth (UNH)** surpassed Wall

St. consensus on profit and revenue as well as raising FY EPS outlook. **Apple (AAPL)** is reportedly making headway on new Macs following a sale slump, it is testing new Macs with processors that are on par with M2 chips, according to Bloomberg. **Catalent (CTLT)** expects productivity issues and higher-than-expected costs at three of its facilities, incl. two of its largest, during the quarter which will materially and adversely affect its next quarter results and outlook for the rest of FY23. **Lucid (LCID)** prelim data showed it produced 2,314 vehicles in Q1 and made 1,406 vehicle deliveries (exp. 1,835). **Manchester United (MANU)** owners the Glazer family are reportedly 'leaning towards' staying with a minority investment rather than an overall takeover, according to The Express citing sources. **Nvidia's (NVDA)** most-advanced graphics cards are selling for more than USD 40k on eBay, as demand soars for chips needed to train and deploy AI software, according to CNBC. **Express (EXPR)** and brand management firm WHP Global will acquire menswear brand Bonobos from **Walmart (WMT)** for USD 75mln. The transaction is expected to close in EXPR's Q2 2023, subject to customary closing conditions.

WEEKLY FX WRAP

another good (or not so bad as could have been) Friday for the Buck

USD - US retail sales were weaker than expected in headline and ex-auto terms, while import and export prices fell more than forecast to provide further evidence of disinflation following soft PPI and non-core CPI readings earlier in the week. However, the Dollar rebounded broadly and the DXY notched a new high for the day, as the key control group 'only' fell in line with consensus on Reuters and held up better than anticipated via Bloomberg's median estimate. Moreover, markets took note of the negative impact lower prices had on gasoline station consumption and the fact that this may well reverse given the rebound in crude since OPEC+ announced its voluntary production cuts. Typically hawkish comments from Fed's Waller also gave the Greenback some traction as he argued that recent data shows the Fed hasn't made much progress on its inflation goal, adding that rates need to increase further, policy needs to remain tight for a substantial period, and longer than markets anticipate. Right on cue, one year UoM inflation expectations jumped to 4.6% from 3.6% and echoed a rise in NY Fed consumer projections for 12 months ahead to lift the index to 101.700 from a 100.780 w-t-d and marginal new y-t-d low. Note also, preliminary Michigan sentiment, conditions and expectations all exceeded forecasts and overshadowed mixed ip and manufacturing output. Nevertheless, the Buck remained on track to extend its losing streak, as markets look for one more 25 bp hike at May's FOMC before a pause, and the DXY trailed some distance from Good Friday's post-NFP peak (102.810) set at the very start of the week (for those centres still not closed for Easter).

CAD - The Loonie defied disappointing macro news as well, albeit rather stale in the form of Canadian manufacturing sales for February, though there was an upward revision to the prior month in mitigation. Indeed, Usd/Cad was rooted much nearer the base of a 1.3303-1.3553 range, with fuel from net gains in WTI and no major impediment from the BoC maintaining its conditional pause on Wednesday. In fact, the latest accompanying statement and post-policy meeting press conference was arguably more hawkish, as the GC continues to assess whether monetary policy is sufficiently restrictive to relieve price pressures, it discussed whether it had raised rates enough and considered the likelihood that rates may need to remain restrictive for longer to return inflation to the 2% target.

EUR - Aside from sources suggesting that the ECB is veering towards a 25 bp hike in May rather than another half point and latest remarks from President Lagarde (expects Eurozone inflation to continue to fall, as lagged price pressures fade out, outlook remains surrounded by considerable uncertainty and growth risks are tilted to the downside), the tone from policymakers remained decidedly hawkish. Thus, the Euro fed off Dollar weakness and mostly narrower UST/EGB yield differentials as Eur/Usd rallied from 1.0832 to set a fresh 2023 pinnacle at 1.1075 before waning, but retained the bulk of its advance amidst another source report inferring that GC members calling for a full halt to APP reinvestments in H2 to help reduce the balance sheet as part of inflation controlling measures.

CHF/GBP/JPY - The Franc, Pound and Yen all made way for their US rival's mini revival, with Usd/Chf rebounding relatively firmly through 0.8900, Cable losing 1.2500+ status and Usd/Jpy back up around 133.50 compared to 0.8867, 1.2546 and 132.18 at the other extremes on Friday. However, the Franc stayed well above worst levels (0.9120) and on the recovery road from Swiss banking woes, Sterling held close to a pivotal technical zone and 'comfortably' off its low and the Yen kept afloat of a Fib retracement not far from 134.00 and the w-t-d trough just beyond the round number. Regardless, Cable was capped by dovish-leaning BoE rhetoric from Chief Economist Pill rather than mixed UK data on Thursday, and this was more evident via the Eur/Gbp cross that topped 0.8850 compared to 0.8764 at one stage, and the Pound still had a speech from renowned MPC dove Tenreyro to digest.

AUD/NZD - More dove-tailing down under, but the Aussie outperformed as highlighted by the ascent of Aud/Nzd to 1.0810 from 1.0662 or so, and there was fundamental reason given a stellar jobs report that prompted some speculation about the RBA resuming its tightening cycle with a ¼ point rate rise after just one pause in the path and 10 consecutive hikes prior to that. Nevertheless, the Aussie ran into psychological and 100 DMA resistance vs its US peer bang on

0.6800 and reversed to 0.6700 from 0.6620 at worst and the Kiwi failed to sustain momentum over 0.6300 and its 100 DMA even with supportive comments from NZ's Finance Minister before recoiling all the way back towards 0.6200 and its base just beneath.

SCANDI/EM - Better fortunes for the Sek and Nok this week, but the former had to rely on stickier core than headline Swedish inflation and the former needed impetus from Brent given a surprise contraction in Norwegian mainland GDP. Elsewhere, the Cnh and Cny took advantage of Usd weakness for the most part as the PBoC gradually adjusted midpoint fixings, but also got a boost from an unexpected spike in Chinese exports to counter heighted China-Taiwan tensions. The Krw and Hkd needed official intervention from the BoK and HKMA, the Zar tagged along with Gold when the going was good and Treasury yields appreciably lower (10 year cash 3.34% vs 3.50%+ at writing) in the face of Eskom power and generation problems, the Mxn gleaned traction from oil and the Brl via its favourable/attractive carry premium. Conversely, no amount of CBRT measures could save the stricken Try from plumbing record lows and Turkey's election is still looming large. In CEE, hot inflation helped the Huf, hawkish-leaning CNB minutes underpinned the Czk and NBP's Kotecki made a case for another hike to the benefit of the Pln.