



US Market Wrap

17th April 2023: Dollar bid and vol smashed on strong data and reduced banking fears

- **SNAPSHOT:** Equities up, Treasuries down, Crude down, Dollar up.
- **REAR VIEW:** Strong NY Fed Manufacturing survey; STT earnings disappoint; SCHW pauses share buyback programme; NAHB sees surprise rise; MTB numbers and guidance impress; DHR ending takeover of CTLT; Samsung considered replacing GOOG with MSFT's Bing.
- **COMING UP: Data:** Chinese GDP, UK Unemployment, German ZEW, US Housing Starts/Building Permits, Canadian CPI **Event:** RBA Minutes, Fed Discount Rate Minutes **Speakers:** Fed's Bowman **Supply:** Netherlands & UK **Earnings:** Ericsson; United Airlines, JNJ, Netflix, Goldman Sachs, Bank of America.
- **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 BANK WEEKLY:** Previewing RBA and ECB minutes, PBoC LPR; Reviewing FOMC minutes, BoC, BoK. To download the report, [please click here](#).
- **WEEKLY US EARNINGS ESTIMATES:** [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 were ultimately firmer Monday after paring losses into the close amid spot VIX printing 52wk lows beneath 17 while the VIX futures curve steepened further into contango, that's despite the Dollar bouncing higher. It was a quiet NY afternoon from a newsflow perspective, with equity vol compression the story instead whilst other assets were contained. There was a value/cyclical bias in stocks with the Russell 2k outperforming the Nasdaq with strong guidance from M&T (MTB) bank lifting the broader regional banking sector (KRE), although non-bank financials were mixed after a strong Charles Schwab (SCHW) report was offset by very disappointing State Street (STT). The 'real economy' levered stocks were also supported by the data, where the Empire State mfg. survey saw a massive jump in April, a reminder that any trickle effects to the economy from the banking crisis are likely to be lagged, if at all. Similarly, the NAHB homebuilder sentiment index rose, with the fall in mortgage rates accompanying a bounce in activity in the sector, supporting the real estate sector in stocks. Tech was mixed with Google (GOOGL) sold and Microsoft (MSFT) bought on NYT reports that Samsung (005930 KS) was mulling switching the former for the latter's Bing as the default search engine on its devices. Biotech (XBI) was a particular area of outperformance after Merck (MRK) agreed to acquire Prometheus (RDXD) for USD 10.8bln. Cross asset, the Dollar rip saw gold break beneath its 21d moving avg. (1988) for the first time since early March, while oil futures were also offered. Treasuries sold off with a flattening bias after hot US data and improved banking sector sentiment.

US

NY FED: The NY Fed's Empire State manufacturing April survey index jumped to +10.8 from -24.6 the prior month, well above the expected -18 and the highest since summer 2022. The 35.4 M/M increase marks the third largest increase in the survey's history (since 2001) behind April 2022 (which could point to some seasonal factors for the month of April) and June 2020. Note that this is the first survey period to include the fallout from the banking crisis, and so far, it appears not to be an issue in the region. However, desks warn about the survey's noisy history, which limits the signalling power somewhat from the bounce, although given the magnitude, it's hard to look past ahead of the other regional surveys and ISMs. Looking within, new orders surged to +25.1 from -21.7, and shipments surged to +23.9 from -13.4, both paring some of their recent declines. While activity may have perked up in April, the survey's labour market gauge remains pressured at -8.0 (prev. -10.1), marking the third consecutive negative reading. On inflation, prices paid encouragingly fell to +33 from +41.9, indicative of moderating input price inflation, although prices received were unchanged. On the outlook, the index for future business conditions edged up to 6.6, suggesting that firms do not expect activity to improve much over the next six months; capital spending plans improved slightly.

NAHB: NAHB housing market index for April rose to 45.0 against expectations for an unchanged reading at 44.0, driven by current sales conditions and expectations rising to 51 (prev. 49) and 50 (prev. 47), respectively, marking the first time these components both returned to the 50+ range since June 2022. Additionally, the gauge of measuring traffic of prospective buyers remained unchanged at 31, the first time it failed to improve in 2023. Overall, the survey said,



“builders remained cautiously optimistic in April as limited resale inventory helped to increase demand in the new home market even as the industry continues to grapple with building material issues.” Oxford Economics noted, “the rise in April - together with the rebound in mortgage applications in recent weeks - suggests that, on balance, the impact of lower mortgage rates is offsetting the impact from tighter lending standards post-SVB.” As such, the housing market activity has bounced off its lows, but OxEco expects any sustained recovery will be delayed until next year as the economy enters a mild recession in the H2 and sticky inflation prompts the Fed to hold off rate cuts until early 2024.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 16 TICKS LOWER 114-11+

Treasuries sold off further Monday with a flattening bias after hot US data and improved banking sector sentiment. 2s +8.5bps at 4.188%, 3s +7.6bps at 3.915%, 5s +8.5bps at 3.696%, 7s +8.0bps at 3.645%, 10s +7.6bps at 3.599%, 20s +7.3bps at 3.924%, 30s +7.3bps at 3.810%.

Inflation breakevens: 5yr BEI +4.1bps at 2.339%, 10yr BEI +1.6bps at 2.330%, 30yr BEI +1bps at 2.295%.

THE DAY: T-Notes were choppy during APAC trade on Monday, with Friday's losses being sustained in otherwise quiet trade. Better selling picked up as European trade got underway, with some supply-related pressure in EGBs spilling over; note an 8.8k 5yr block sale at the time. T-Notes found support at 114-20+ as US participants arrived, extending past the Friday low of 114-23. But, a super hot NY Fed mfg. survey reading saw fresh lows made, not to mention a bit of rate-lock-related hedging flows via Tsy selling/swap paying as the IG Dollar debt pipeline built up. T-Notes printed session lows of 114-09 later in the NY morning, in wake of the rise in the NAHB homebuilder sentiment index, hovering near lows through into the settlement.

In the US this week, (Tues) housing starts & building permits; (Weds) 20yr bond auction, Beige Book, Fed's Goolsbee and Williams; (Thurs) Philly Fed, IJC, Waller, existing home sales, 5yr TIPS auction, Mester, Bowman, Bostic, and Harker; (Fri) flash PMIs and Fed's Cook. Note the Fed goes on blackout post-Friday ahead of the May 2nd/3rd FOMC.

For the week globally, (Tue) RBA Minutes, Chinese GDP / Retail Sales / Industrial Production, UK Jobs Report, Canadian CPI; (Weds) UK Inflation, EZ Final CPI, New Zealand CPI; (Thurs) PBoC LPR Announcement, Japanese Trade Balance. (Fri) Japanese CPI, UK Retail Sales, EZ and UK Flash PMIs.

STIRS:

- SR3H3 -1.3bps at 95.065, M3 -4bps at 94.925, U3 -6bps at 95.165, Z3 -9.5bps at 95.245, H4 -7.5bps at 95.515, M4 -10bps at 95.945, U4 -12bps at 96.325, Z4 -12.5bps at 96.62, H5 -12bps at 96.79, H6 -9bps at 96.96.
- US SOFR flat at 4.80%, volumes at USD 1.312tln (prev. 1.378tln).
- NY Fed RRP op demand at USD 2.257tln (prev. 2.254tln) across 102 counterparties (prev. 104).
- US EFFR flat at 4.83%, volumes at USD 113bln (prev. 109bln).
- US sold USD 64bln of 3-month bills at 5.080% (a cycle peak amid debt limit aversion), covered 2.59x; sold USD 54bln of 6-month bills at 4.870%, covered 2.78x.

CRUDE

WTI (K3) SETTLED USD 1.69 LOWER AT 80.83/BBL; BRENT (M3) SETTLED USD 1.55 LOWER AT 84.76/bbl

The crude complex was lower to start the week on account of broad Dollar strength and risk-averse sentiment, as opposed to any energy-specific catalysts. Nonetheless, Reuters sources reported that the G7 believe the oil price cap is working to limit Russian revenues whilst maintaining market stability, and the coalition decided in the past few weeks to maintain the cap on the price of Russian seaborne oil at USD 60bbl. Elsewhere, Federal Iraq and KRG edge closer to a deal to restart northern oil exports, according to Reuters sources, where KRG oil will not be sold to Asia under emerging agreement between Baghdad and Erbil, which would resolve a technical issue that has arisen in negotiations. Looking ahead, there is a slew of large-cap earnings (GS, MS, TSLA etc), Flash PMIs, and Fed speak throughout the week, although China Q1 GDP data is first up on Tuesday. Note, May WTI options expire on Monday ahead of future expirations later in the week with open interest rolling into June contracts.

EQUITIES

CLOSES: SPX +0.33% at 4,151, NDX +0.06% at 13,087, DJIA +0.30% at 33,987, RUT +1.22% at 1,802.



SECTORS: Real Estate +2.23%, Financials +1.13%, Industrials +0.79%, Consumer Discretionary +0.68%, Consumer Staples +0.59%, Materials +0.58%, Utilities +0.57%, Technology +0.39%, Health -0.1%, Energy -1.27%, Communication Services -1.27%.

EUROPEAN CLOSSES: EURO STOXX 50 -0.53% at 4,367, FTSE 100 +0.10% at 7,879, DAX 40 -0.11% at 15,789, CAC 40 -0.28% at 7,498, FTSE MIB -0.62% at 27,700, IBEX 35 +0.17% at 9,378, SMI -0.28% at 11,311.

EARNINGS: **State Street (STT)** missed on EPS, revenue, NII, and NIM with the misses driven by a variety of factors, including weak fee revenue, the aforementioned modest NII miss, higher credit expenses, elevated expenses, and a tax rate which ran a bit ahead of plan. **Charles Schwab (SCHW)** beat on profit while revenue was in line; decided to pause active share buyback programme. Total new assets, client assets, and net interest revenue all beat. **M&T Bank (MTB)** posted a decent report; highlighted by profit, NII, and NIM all better-than-expected. Although, deposits fell slightly short of consensus. Co. guided NII to grow 20-23% Y/Y (exp. +22.4%).

STOCK SPECIFICS: **Danaher (DHR)** reportedly shelving takeover pursuit of **Catalent (CTLT)**, according to Bloomberg; DHR had considered CTLT offer at significant premium. **Merck (MRK)** acquires **Prometheus Biosciences (RXDX)** for USD 200.00/shr for a total equity value of approximately USD 10.8bln. Note, RXDX closed Friday at USD 114.01. **Google's (GOOG)** employees learned in March that **Samsung (SSNLF)** was considering replacing Google with **Microsoft's (MSFT)** Bing as the default search engine on its devices, according to NYT. **Apple's (AAPL)** sales in India reportedly rose to almost USD 6bln (prev. USD 4.1bln) in the past year, according to Bloomberg sources. **XPeng (XPEV)** unveiled a new platform it developed in-house for making vehicles, which it says will reduce the development and manufacturing costs for its upcoming models. **Teck Resources (TECK)** board is under increasing pressure to open talks with **Glencore (GLEN LN)**; Glass Lewis joins ISS in calling for Teck's shareholders to reject its own split. Meanwhile, Greenlight Capital supports TECK's plan to split itself up over Glencore's proposed takeover. TECK has reportedly been approached by **Anglo American (NGLOY)**, **Vale (VALE)**, and **Freeport McMoRan (FCX)**, among others, to explore deals for its base metals business if Teck goes ahead with the split. **Lumentum (LITE)** upgraded at JPMorgan; said Lumentum's current valuation is pricing in "more headwinds than realistic." **Meta Platforms (META)** "has abandoned its once-brash tone with advertisers in favor of a more flexible approach to winning business", using Reels discounts and AI tools, according to The Information. Co. is not asking for spending increases unlike in past years.

US FX WRAP

The Dollar was firmer to start the week and hit a peak of 102.23 amid general risk-aversion and Dollar buying, as the Buck gleaned impetus, albeit delayed, from a much-better-than-expected NY Fed Manufacturing survey. In summary, the headline printed 10.8 (exp. -18.0, prev. -24.6) while current conditions, new orders, and six-month business conditions all rose, while prices paid encouragingly fell and employment remains in negative territory, albeit improved. Elsewhere, fundamental newsflow was fairly sparse on Monday with Barkin (non-voter) adding little new ahead of blackout at the end of the week. Moreover, market participants await further Fed speak, Philly Fed (Thurs), Flash PMIs (Fri), and a range of large-cap earnings (GS, TSLA, MS, BAC, amongst others).

Activity currencies, AUD, GBP, CAD, and NZD, were weaker on account of the aforementioned risk-off sentiment and Dollar bid as opposed to anything currency specific. Cable hit a low of 1.2354 with and fell beneath its 21DMA of 1.2372 ahead of UK jobs report on Tuesday, where technicians note if the data dims BoE hike pricing, key support at 1.2175 is within reach. For the antipodeans, AUD/USD and NZD/USD both traded within narrow parameters but lost ground on key round levels and hitting troughs of 0.6682 and 0.6162, respectively, as Aussie watchers await the RBA Minutes Tuesday. Meanwhile, the Loonie also saw headwinds from the pressured crude complex with USD/CAD hitting a low of 1.3343 ahead of Canadian CPI on Tuesday.

JPY, CHF, and EUR were also in the red with the Yen hit hardest as US Treasury yields jumped higher in the absence of JGBs, seeing USD/JPY peak at 134.57. For the Euro, ECB President Lagarde said, in absence of anything incremental for immediate policy/outlook, that once inflation objective is achieved, the central bank could discuss the 2% inflation goal. Governor Kazaks noted they have the option for a 25bp or 50bp move in May, and over the weekend Centeno said either zero or 25 "are the numbers that are feasible", and Nagel noted he does not think the ECB's job is already or even mostly done, while he added more rate hikes are needed with EZ inflation risks tilted to the upside. In terms of levels, EUR/USD traded between 1.0910-99, while the Swissy just about managed to defend 0.9000 to the upside.

Scandis saw weakness, with NOK faring much worse than its SEK counterpart as the Swedish Krona held up relatively well given a downgrade by the Swedish Finance Ministry to its forecast for GDP this year (1% contraction compared to -0.7% previously), but the NOK was rattled by Brent's recoil from just above USD 86.50/bbl.



EMFX was more-or-less exclusively weaker against the resurgent Greenback with the RUB and ZAR the main victims. The Rand was pressured amid spot gold giving up USD 2,000/oz and also flirting with its 21DMA for the first time since early March. The Peso fell in sympathy with WTI. The Real was weaker, but seemingly just Dollar action with the cross failing to glean impetus from a Brazilian Finance Ministry official saying that in addition to the revenue measures already announced, other measures will be unveiled at the right time in the future. The Shekel largely ignored the Bank of Israel minutes, and gained some ground against the buck. The Yuan traded cautiously ahead of a number of Chinese data releases, including GDP, Industrial Output, and Retail Sales. The Lira pared some of its initial losses thanks to cheaper oil. Lastly, the Zloty outperformed vs the Euro after NBP's Kochalski declared that there is no room for discussions on rate cuts.

Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited ("Newsquawk") on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.