US Market Wrap

18th April 2023: Hawkish Fed speak and mixed data sees Treasuries flatten but stocks little changed

- **SNAPSHOT**: Equities flat, Treasuries flat, Crude flat, Dollar down.
- **REAR VIEW**: GS earnings disappoint; BAC post solid numbers; Hawkish RBA Minutes; Mixed Housing data; Canadian CPI cools, as expected; Bullard reiterated his hawkish tone; US cuts 4 and 8-week auction bill sizes; BA doesn't expect fuselage issue to change long term guidance for 2025 or 2026.
- **COMING UP**: **Data**: UK CPI, EZ HICP (Final), New Zealand CPI **Speakers**: ECB's Lane, Schnabel; Fed's Goolsbee; BoE's Mann **Supply**: Germany, UK & US **Earnings**: ASML, Heineken, Just Eat; American Airlines, IBM, Tesla, Morgan Stanley, Abbott.
- **WEEKLY US EARNINGS ESTIMATES**: [TUES] 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 ultimately closed little changed although the Russell 2k was the underperformer with all futures paring pre-market gains shortly after the equity open. Risk sentiment was buoyed overnight after stronger than expected China economic data although there was some concern after the weak JB Hunt (JBHT) earnings. Earnings this morning saw a disappointing Goldman Sachs (GS) report, with higher than expected expenses and weaker than expected revenue outweighing the profit beat. Bank of America (BAC) earnings were more encouraging, but it does expect lower NII in Q2. Meanwhile, the latest US housing starts and building permits were mixed. Fed speak was hawkish, Bullard maintained his terminal rate view of 5.5-5.75% and Bostic said he sees one more rate hike before being on hold throughout the rest of the year; Bullard also said his bias is to hold for longer until inflation is contained. The mixed data and hawkish Fed speak saw Treasuries flatten, but it failed to provide support for the dollar with GBP catching an early morning bid on hot jobs and wages numbers while AUD and NZD were supported by the China data. Crude prices settled flat despite the downbeat dollar and strong China activity data as Iraqi and Kurdish governments are making progress in talks which would support the resumption of oil flows through the Ceyhan export terminal.

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BULLARD (non-voter) stated US recession predictions ignore the strength of the labour market and pandemic savings still to be used. He added there is not much clear progress on inflation and that means rates need to continue to rise. Bullard still sees an adequately restrictive policy rate at 5.50-5.75% range, with a bias to hold for longer until inflation is contained. The risk of bank stress causing broad problems seems to have diminished, though policymakers are monitoring the situation closely. He also noted the Fed should avoid extensive forward guidance at the next meeting and keep options open. Bullard also noted the St Louis Fed Financial Stress index, stating a major financial crisis would be accompanied by the index rising to somewhere like four or five, well above the current zero level.

BOSTIC (non-voter) reiterated he expects one more rate hike, noting the economy still has lots of momentum and inflation is too high. He added there is still more work to be done on policy but his baseline case is to hold rates after the next hike and hold for "quite a while". Will take a while for inflation to move back to target and he does not have a recession as his baseline forecast. Bostic wants an orderly return to balance in the economy, saying they need a slowdown to help cool inflation. Acute tensions in the banking system are going down and the system seems to be stable and navigating trouble. He also said that more caution in bank lending will allow the Fed to hike rates less.

HOUSING STARTS/BUILDING PERMITS: Housing data was mixed. Building Permits for March fell 8.8% to 1.413mln (prev. 1.55mln) beneath the expected 1.45mln, while Housing Starts fell 0.8% to 1.420mln (prev. 1.432mln) but above the consensus of 1.4mln. Oxford Economics notes, “the modest decline in housing starts and building permits entirely reflected a drop in the volatile multi-family sector while single family starts and permits continued to push higher.” Highlighting this, for Starts there was a 6.7% decline in multi-family while single-family lifted 2.7%, and for Permits there was a 24.3% plunge in the multi-family sector, and Single-family jumped 4.1% to a five-month high. Moreover, OxEco adds, “starts have bounced off their lows at the year, but activity is likely to come under renewed pressure later this year as the economy enters a mild recession and lending standards tighten.”

GLOBAL

RBA MINUTES: Although the central bank left rates unchanged in April, minutes from that meeting suggest that it could still resume rate hikes at the May meeting, with policymakers discussing the case for a +25bps move in April as inflation remained too high and the labour market was very tight; but the RBA paused to assess the impact of its tightening efforts. "The case for an increase is much stronger than was the case for the April meeting," Westpac says, noting that unlike the minutes for the March meeting, the Board did not specifically commit to considering a pause at the next meeting. Additionally, the recent minutes state that while members also noted that the forecasts produced by the staff in February had inflation returning to target range only by mid-2025, and that it would be inconsistent with the Board's mandate for it to tolerate a slower return to target; Westpac says these forecasts were conditioned on monetary policy being tightened a little further.

CHINA ACTIVITY DATA: Q1 GDP and March activity data were better than expected; annual GDP rose to 4.5% Y/Y (exp. 4.0%), albeit there was a favourable base effect given the virus disruptions seen in Q1 2022. Nevertheless, analysts note that output is now 6.8% higher than the recent trough in Q2 2022, and analysts seem optimistic about the rest of the year. Retail Sales data were also encouraging, printing 10.6% Y/Y (exp. 7.4%). Industrial Output rose to 3.9% Y/Y from 2.4% previously, but was a little short of the 4.0% consensus. Fixed asset investment was also a little short of expectations, rising 5.1% Y/Y (exp. 5.7%). But in aggregate, the data has been received positively. Capital Economics notes that the economy was still recovering rapidly at the end of Q1, and high frequency data suggest the rebound continued into April. "Admittedly, industry appears to have lost some momentum this month, but the signals on services remain positive," CapEco writes, adding that "the speed of the recovery has exceeded even our relatively upbeat expectations." It now thinks official GDP growth could hit 6.0% this year, and "in practice, growth is likely to be even higher given that the official GDP figures understated the extent of last year's downturn."

UK JOBS DATA: 31k payrolls were added in March, cooling from 98k prior, while the claimant count rose by 28.2k after a fall of 18.8k in February. The February data showed employment rising by 169k, topping expectations of 50k, though the ILO Unemployment Rate rose to 3.8% (exp. 3.7%, prev. 3.7%). On the wages front, average earnings (ex-bonus) were up 6.6% in February, unchanged after revisions, but still hotter than the 6.2% consensus, while the average weekly earnings measure for the 3-month Y/Y period was 5.9% in February, above the expected 5.1%, but unchanged from the prior 5.9%. Pantheon Macroeconomics said the data showed that the slowing trend in wage growth was still visible, despite revisions to previous data. "The labour market is not nearly as hot as the employment figures imply," PM writes, and "several timely indicators suggest that employment will merely hold steady in Q2 as businesses seek savings in the wake of the jump in borrowing costs." It argues that on the face of it, the labour market still looks very tight, but the proportion of inactive people that say they would like a job has increased to the highest since June 2021, and in addition, some of the people who recently have become self employed likely are working less than they would like and so represent hidden slack. "Accordingly, the MPC's forecast for Y/Y growth in whole-economy total pay to slow to 4.0% by the end of this year still looks credible," Pantheon says, "the upward revision to the wage data, however, have raised the chances of the MPC hiking Bank Rate again next month; a further 25bp now looks like a toss-up, with the odds likely to shift decisively tomorrow after the publication of March's consumer prices report."

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 4 TICKS HIGHER AT 114-15+

Treasuries flattened on Tuesday in choppy trade with hawkish Fed Speak and mixed data. At settlement, 2s +2.1bps at 4.209%, 3s +0.3bps at 3.918%, 5s -1.1bps at 3.682%, 7s -1.5bps at 3.625%, 10s -1.3bps at 3.578%, 20s -1.1bps at 3.907%, 30s -1.2bps at 3.792%.

Inflation breakevens: 5yr BEI -1.5bps at 2.314%, 10yr BEI -2.7bps at 2.295%, 30yr BEI -2.1bps at 2.269%.

TOKYO & LONDON: T-Notes printed session lows of 114-08 ahead of Tokyo's arrival on Tuesday, holding a very tight /choppy range for the APAC session with contracts failing to breach above 114-13. China's GDP data bounced above expectations, although that was led by consumer and travel factors with softer industrial production. T-Notes broke out to the upside only later in the European morning, aided by another 7.5k block buyer, similar to Monday's.

NEW YORK: 114-18+ served as resistance on the back of the disappointing Goldman Sachs (GS) report, although T-Notes saw a pullback lower after better-than-expected US housing starts data, although note the miss on building permits. Fed's Bullard (non-voter, hawk) gave a Reuters interview not long after, calling for more rate hikes, adding to the curve's bear flattening. But T-Notes caught a bid later in the NY morning on the back of reports China's PLA Navy was conducting more expansive drills near Guam, not to mention Bank of America (BAC) CEO saying everything is pointing to a mild recession and that inflation indicators are tipping down. Those headlines preceded session highs made at 114-21+. And characterising the choppiness of the session, the bid failed to hold as contracts pared into the afternoon, although the curve's flattening bias remained.

In the US this week, (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, (Weds) UK Inflation, EZ Final CPI, New Zealand CPI; (Thus) PBoC LPR Announcement, Japanese Trade Balance. (Fri) Japanese CPI, UK Retail Sales, EZ and UK Flash PMIs.

STIRS:

- SR3H3 +0.0bps at 95.068, M3 -0.5bps at 94.915, U3 -2.5bps at 95.135, Z3 +0.0bps at 95.275, H4 -3.0bps at 95.480, M4 -3.0bps at 95.915, U4 -1.5bps at 96.310, Z4 -1.0bps at 96.610, H5 +0.0bps at 96.795, H6 +2.0bps at 96.985.
- US SOFR flat at 4.80%, volumes at USD 1.406tln (prev. 1.312tln).
- NY Fed RRP op demand at USD 2.239tln (prev. 2.257tln) across 106 counterparties (prev. 102).
- US sold USD 38bln of 1yr bills at 4.530%, covered 2.97x.
- US cuts 4-week and 8-week bill auction sizes to USD 50bln (prev. 60bln) and 45bln (prev. 50bln), respectively; to be sold on April 20th and settle on April 25th.
- US EFFR flat at 4.83%, volumes at USD 106bln (prev. 113bln).

CRUDE

WTI (K3) SETTLED USD 0.03 HIGHER AT 80.86/BBL; BRENT (M3) SETTLED USD 0.01 HIGHER AT 84.77/BBL

The crude complex settled flat, albeit choppy within tight ranges, as there was little energy-specific catalysts but broader macro sentiment as the downbeat Dollar and the above-forecast Chinese GDP supported oil but supply headlines acted as a headwind. Chinese GDP rose to 4.5%, well above the expected 4% and the prior 2.9%, which helped ease some global demand fears as the economy looks to slow into the second half of the year. Elsewhere, desks noted crude upside was capped as further progress was made in negotiations between the Iraqi and Kurdish governments (reported overnight) which would see the resumption of oil flows via the Turkish Ceyhan export terminal. Lastly, BP (BP/ LN) Chief Economist expects oil market to tighten in H2 2023 after the OPEC+ cuts. Looking ahead, there is private inventory data after-hours (expectations below), ahead of weekly EIA data and Baker Hughes (BKR) earnings on Wednesday. While on the macro front, there is Philly Fed (Apr), Flash PMIs, and a slew of large-cap earnings. Current inventory expectations (bbl): Crude -1.1mln, Gasoline -1.3mln, Distillates -0.9mln.

EQUITIES

CLOSES: SPX +0.09% at 4,154, NDX +0.03% at 13,091, DJIA -0.03% at 33,987, RUT -0.40% at 1,795.

SECTORS: Industrials +0.46%, Energy +0.45%, Technology +0.41%, Materials +0.4%, Consumer Staples +0.33%, Financials +0.31%, Consumer Discretionary +0.12%, Real Estate -0.15%, Utilities -0.51%, Communication Services -0.65%, Health -0.66%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.60% at 4,394, FTSE 100 +0.38% at 7,909, DAX 40 +0.59% at 15,883, CAC 40 +0.47% at 7,534, FTSE MIB +0.69% at 27,891, IBEX 35 +0.46% at 9,422, SMI +0.40% at 11,357.

EARNINGS: **Goldman Sachs (GS)** missed on revenue with FICC revenues disappointing while it was weighed on by a loss of approx. USD 470mln related to a partial sale of the Marcus loans portfolio, but it did help with a net benefit on its provisions for credit losses. CFO said going ahead, will be looking at reducing the position of Marcus loan, adding the bank also expects to moderate stock buybacks in Q2. GS also saw operating expenses above expectations due to impairments related to consolidated real estate investments, inclusion of NNIP and higher tech and transaction based expenses. **Bank of America (BAC)** topped Wall St. consensus on EPS, revenue, deposits and NII. Execs gave encouraging commentary, illustrated by noting consumers are still spending, consumer credit quality is in great shape, and not seeing any cracks in the consumer credit portfolio. However, BAC expects NII to be 2% lower in Q2 ‘23 vs Q1 ‘23 but will be up significantly this year. **Johnson & Johnson (JNJ)** beat on top and bottom line, raised dividend by 5.3% and lifted FY23 guidance. However, exec said it is seeing greater-than-expected competition for cancer therapy drug Imbruvica. **Bank of New York Mellon (BK)** marginally topped on profit while revenue was in line. Total deposits beat expected, but AUM fell 16% Y/Y. **Lockheed Martin (LMT)** surpassed street consensus on EPS and revenue, while it reaffirmed FY23 profit guidance. **J Hunt Transport Services (JBHT)** missed on top and bottom line with analysts noting a falloff in container imports into the nation's West Coast along with weaker domestic trucking volumes pushed JBHT's Q1 results lower Y/Y.

STOCK SPECIFICS: **Boeing (BA)** is still planning to boost 737 output despite recent glitch, and it does not see an issue on "long-term guidance" for 2025 or 2026. BA hasn't altered 737 supplier schedule on new issue, according to Bloomberg, and CEO said it is working constructively with the fuselage supplier to accelerate a recovery plan. **Nvidia (NVDA)** upgraded at HSBC; said NVDA is showing it has more power in pricing AI chips than previously thought. **GSK (GSK)** to acquire **Bellus Health (BLU)** for a total equity value of USD 2bln or USD 14.75/shr. Note, BLU closed Monday at USD 7.26/shr. **Microsoft (MSFT)** readies AI chips as machine learning costs surge, according to The Information. **US Silica's (SLCA)** Industrial and Specialty Products segment will raise prices by up to 20% for most of its non-contracted products; price hikes are necessary to help offset significant and continuing cost increases in labour, transportation, materials and manufacturing costs. **Sunrun (RUN)** was upgraded at KeyBanc. **Teladoc (TDOC)** started Teleheath Services for weight management and diabetes prevention. **Southwest Airlines (LUV)** requested the FAA to pause departures with LUV also grounding all flights due to a tech issue, although this issue was resolved soon after. **Apple (AAPL)** is reportedly developing sports, gaming, and wellness apps for a new headset, according to Bloomberg; Mixed-reality headset coming in June for around USD 3k.

US FX WRAP

The Dollar sold off on Tuesday with DXY losing hold of 102 paring some of the Monday gains. US housing data was mixed, while the Fed speaker slate saw Bullard reaffirm his hawkish position while Bostic repeated he still sees one more hike, but expects to hold throughout the end of the year.

The Euro was supported by the weaker greenback despite a weak German ZEW report in the morning. However, on the ECB, Goldman Sachs (GS) raised its terminal rate forecast to 3.75% from 3.5% due to receding banking tensions, strong indicators of underlying inflation, and hawkish ECB commentary in recent days. GS also noted it is a close call for either 25 or 50bps in May. ECB's Lane spoke where he reaffirmed his baseline case is that the ECB should hike in May, but he did not want to commit to the magnitude of such a move while stressing data dependence and the ECB will take a meeting by meeting approach.

The Yen saw gains vs the buck with longer ended yields in the US seeing some downside, albeit only marginal. Technicians are eyeing resistance at 134.75, a 61.8% fib level, ahead of 135.95. Overnight, BoJ Governor Ueda repeated there is no immediate need to review the 2013 joint statement with the government. While on the economy, noted the labour reform has helped to revive the economy and positive signs are emerging in prices and wage growth. He stressed the BoJ will achieve its inflation target, although it may take time, adding it is important for economic growth to result in higher wages for workers.

CNH and CNY were flat vs the Dollar despite stronger than expected China activity data. Annual GDP rose to 4.5% Y/Y (exp. 4.0%), albeit there was a favourable base effect given the virus disruptions seen in Q1 2022. Nevertheless, analysts note that output is now 6.8% higher than the recent trough in Q2 2022, and analysts seem optimistic about the rest of the year. Retail Sales data were also encouraging, printing 10.6% Y/Y (exp. 7.4%). Industrial Output rose to 3.9% Y/Y from 2.4% previously, but was a little short of the 4.0% consensus. Strong data led JPM to upgrade its FY23 China GDP forecast to 6.4% from 6.0%, Citigroup also raised estimates to 6.1% from 5.7%.

Cyclical currencies were generally supported, albeit CAD was flat after inflation data. AUD and NZD saw gains vs the Dollar, supported by the aforementioned China activity data, while GBP was also bid after a stronger than expected jobs report and hot wages that helped support hawkish market expectations ahead of UK CPI on Wednesday, which will be key in shaping BoE expectations. Elsewhere for the Aussie, the RBA minutes overnight noted the board considered a rate hike in April but ultimately opted to pause. Nonetheless, it did stress policy may be tightened again to curb inflation in a timely manner. In Canada, CPI saw a welcome cooling, albeit in line with analyst expectations while the BoC eyed average ticked down from 5.37% to 4.97%. The Core Y/Y was slightly cooler than expected, and overall it is a welcome sign for the BoC and reduces the need for another hike later down the line from the BoC with the bank currently at a "conditional pause" of monetary policy.

EMFX was mixed, the BRL saw weakness ahead of Lula's Fiscal bill, which was later released to show public spending growth will be limited to a 70% increase in recurring revenue while the primary surplus in excess of annual target can only boost public investment by up to BRL 25bln. MXN also saw weakness in LatAm but COP was the underperformer. Meanwhile, CLP and PEN saw gains due to gains in copper prices after the strong China economic data overnight. TRY was flat vs the Dollar while ZAR saw gains on the buoyed metal prices.

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