US Market Wrap

19th April 2023: Hot UK CPI ignites global hawkish repricing, equity vol still tumbles

- **SNAPSHOT**: Equities flat/down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Hot UK inflation; Mixed BoJ sources; Hawkish ECB speak; MS claw back post earning losses, WAL surge; Weak NFLX earnings; GOP Unveil Debit Ceiling plan; weak 20yr auction.
- **COMING UP**: **Data**: Japanese Trade Balance, German Producer Prices, US IJC, Existing Home Sales, EZ Consumer Confidence (Flash) **Events**: ECB Minutes, PBoC LPR **Speakers**: Fed's Williams, Waller, Mester, Bowman, Bostic; ECB's Lagarde, Schnabel **Supply**: Japan, Spain, France **Earnings**: Phillip Morris, AT&T, American Express; Publicis, EssilorLuxottica, Renault, Nokia.
- **WEEKLY US EARNINGS ESTIMATES**: [THURS] BX, TSM, T, PM, AXP, UNP; [FRI] PG. To download the report, please click here.

MARKET WRAP

It was another choppy session for stocks with initial losses pared gradually as the VIX hit lows not seen since 2021. FX was equally as choppy, with the DXY mustering modest gains, although govvies saw considerable front-end-led selling after stubbornly hot UK CPI data. No tier 1 US data of note with the Fed's Beige Book the "highlight", which noted flat growth across districts and some softening of price pressures. Energy stocks underperformed after oil prices dipped to multi-week lows as demand woes accompanied the hawkish central bank repricing post-UK CPI. Regional banks (KRE) outperformed after Western Alliance Bancorp (WAL), one of the banks seen most at risk in the recent crisis, reported it had regained more than 40% of the deposits it had lost, although it wasn't all optimism in the sector with Citizen Financial (CFG) reporting a larger fall in deposits than expected. Netflix (NFLX) held on to sizeable losses on underwhelming subscriber figures, although big tech was supported by gains in Amazon (AMZN) and Apple (AAPL) who seemingly benefited from the broader vol compression rather than any fresh news. However, on the cautious side there was the disappointing prelim update from CDW, who expects US IT market to decline at a high single digit rate in 2023. While on the debt limit, US House Speaker McCarthy confirmed the introduction of a House debt limit legislation bill that proposes debt ceiling lift of USD 1.5tln and cut to federal spending of USD 4.5tln; this is seen as an opening position for debate.

GLOBAL

UK INFLATION: UK CPI eased from 10.4% Y/Y in February to 10.1% Y/Y in March, still hotter than the expected 9.8% Y/Y. The UK stats office said that the largest upward contributions to the annual CPIH came from housing and household services (principally from electricity, gas and other fuels), and food and non-alcoholic beverages. It added that the easing in the annual inflation rate in March mainly reflected price changes in the transport division, particularly for motor fuels. There were also downward effects from housing and household services, furniture and household goods, clothing and footwear, and restaurants and hotels. These were partially offset by upward effects coming from food and non-alcoholic beverages, and recreation and culture. The data sparked a hawkish market reaction, with money markets pricing a +25bps rate hike at the BoE's May 11th meeting with 96% certainty. Capital Economics said that easing in inflation was happening much more slowly than the BoE had hoped, and accordingly, it has become even more likely that rates are raised in May to 4.50%, adding that the release makes it wonder that that might not even be the peak.

FED BEIGE BOOK: The Fed's beige book noted overall economic activity was little changed in recent weeks, nine Districts reported either no change or only a slight change in activity this period while three indicated modest growth. It also noted lending volumes and loan demand generally declined across consumer and business loan types while several Districts said banks tightened lending standards amid increased uncertainty and concerns about liquidity. It also showed employment growth had moderated, while overall price levels rose moderately, but the rate of price increases appeared to be slowing. It also said that selling price pressures eased broadly in manufacturing and services sectors. For a full summary, please click here.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 9+ TICKS LOWER AT 114-06

Treasuries bear-flattened Wednesday after hot UK CPI sends a warning to central bankers globally. 2s +6.2bps at 4.261%, 3s +5.9bps at 3.965%, 5s +4.2bps at 3.717%, 7s +3.8bps at 3.658%, 10s +2.8bps at 3.600%, 20s +0.9bps at 3.911%, 30s +0.3bps at 3.791%.

Inflation breakevens: 5yr BEI flat at 2.329%, 10yr BEI -0.1bps at 2.300%, 30yr BEI flat at 2.269%.

THE DAY: Treasuries traded sideways through the APAC Wednesday session until the hot UK CPI data saw spillover bear-flattening from gilts. Not only has the data ramped UK hawkish pricing, but it has served as a warning to others that inflation remains a key issue. Exhibiting that, SNB's Maechler was out saying inflation is "back with a vengeance" and monetary policy is back to the traditional tools. T-Notes hit session lows of 113-30+ late in the European morning, with the 2yr fut troughing at 102-247, with two 6k and 5.9k block sellers capping a recovery attempt amid the cash 2yr yield breaking back above the 4.25% level for the first time since mid-March - 4.40% flagged as next support by technicians. However, the 2yr cash yield flirted back beneath the support level after a 16.8k block buy, only to climb back above it later on. While T-Notes failed to make new lows, nor break above 114-07 through the rest of the US session with no major catalyst or data in the US, aside from the underwhelming 20yr auction.

20YR AUCTION: A third consecutive tail (0.2bps) for the USD 12bln 20yr auction, something of a shift from the general strong demand receptions seen at primary offerings for the otherwise unloved sector. It could be that with the 20s trading well off its cheapest levels on the 10s20s30s fly, the auctions provide less value now for those with a duration bias who had previously stomached the liquidity risk associated with the 20yr. In the details, the 2.66x bid/cover ratio was better than the prior 2.53x and the six-auction avg. 2.62x. Dealers (forced surplus buyers) were left with 12.1%, just above the prior 11.9% and average 10.2%, with the rise in Indirects participation more than offset by the fall in Directs.

In the US later this week: (Thurs) Philly Fed, IJC, Waller, existing home sales, Mester, 5yr TIPS auction, Fed's 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 rest of the week globally, (Thus) PBoC LPR Announcement, Japanese Trade Balance. (Fri) Japanese CPI, UK Retail Sales, EZ and UK Flash PMIs.

STIRS:

- SOFR futures saw bull-flattening between whites and reds.
- SOFR flat at 4.80%, volumes USD 1.364tln (prev. 1.406tln).
- NY Fed RRP op demand at USD 2.295tln (prev. 2.239tln) across 110 counterparties (prev. 106).
- High RRP demand comes amid monthly GSE money inflows and with short bill yields trading substantially through GC amid debt limit woes.
- US sold USD 36bln of 17-week bills at 5.060% (record high), covered 2.91x.
- US EFFR flat at 4.83%, volumes at USD 112bln (prev. 106bln).

CRUDE

WTI (M3) SETTLES USD 1.66 LOWER AT 79.24/BBL; BRENT (M3) SETTLES USD 1.65 LOWER AT 83.12/BBL

Oil prices tumbled to pre-OPEC cut lows on Monday amid 4yr high Russian exports and hawkish central bank pricing. WTI and Brent front-month futures dipped beneath their post-OPEC gap open levels from Monday, April 3rd at USD 80.10/bbl and 86.00/bbl, respectively, with the prior Friday's settlements of USD 75.67/bbl and 79.89/bbl now seen as support. Prices were weighed on by the demand side after hot UK CPI saw hawkishly ramped central bank pricing. While on the supply side, Reuters reported that Russia's oil exports from its western ports hit a 4yr high in April (greater than 2.4mln BPD), despite the West's efforts to limit Moscow's trade, although questions remain on the sustainability of such export levels given the production cuts in the country. Meanwhile, the weekly US EIA inventory data was mixed: crude stocks drew 4.6mln bbls, distillates built 0.4mln, and gasoline built 1.3mln; refinery utilisation jumped 1.7%; crude production was flat at 12.3mln BPD. WTI and Brent futures troughed just before the inventory data at USD 78.46/bbl and 82.39/bbl, respectively.

EQUITIES

CLOSES: SPX -0.01% at 4,152, NDX -0.02% at 13,089, DJIA -0.23% at 33,897, RUT -0.23% at 33,897

SECTORS: Communication Services -0.72%, Materials -0.31%, Energy -0.25%, Technology -0.13%, Industrials -0.07%, Consumer Staples -0.05%, Consumer Discretionary +0.02%, Financials +0.26%, Health +0.28%, Real Estate +0.55%, Utilities +0.78%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.01% at 4,393, FTSE 100 -0.13% at 7,898, DAX 40 +0.08% at 15,895, CAC 40 +0.21% at 7,549, FTSE MIB +0.15% at 27,933, IBEX 35 +0.77% at 9,494, SMI +0.05% at 11,364.

EARNINGS: **Morgan Stanley (MS)** beat on EPS and revenue, but provision for credit losses were greater-than-expected primarily due to CRE exposure and deterioration in the macroeconomic outlook from a year ago. **Western Alliance (WAL)** deposits stabilised, profits, NIM and NII topped expectations while provisions for credit losses were less than expected. **Travellers (TRV)** surpassed St. consensus on top and bottom line, alongside raising dividend 8% and authorising a USD 5bln share buyback programme. **Intuitive Surgical (ISRG)** beat on profit and revenue as well as lifting FY23 procedure growth outlook. **Synchrony Financial (SYF)** missed on profit and NIM but deposits and NII topped. **Ally Financial (ALLY)** missed on profit and revenue, while consumer deposits and strong liquidity profile served as a source of strength during a period of market volatility. ALLY is mindful of the current environment and are making necessary adjustments to manage risks, which may lead to slightly lower origination levels as we look to tighten underwriting in certain segments. **Netflix (NFLX)** top and bottom-lines were broadly in line, although net subscriber additions were short and guidance for the next quarter was soft. **US Bancorp (USB)** beat on EPS, revenue, NII and NIM. **Citizens Financial (CFG)** missed on EPS, revenue, and deposits. Said Q1 brought unexpected challenges in environment and is hopeful that market turmoil continues to subside. **ASML (ASML)** sales and margins topped expectations, and said demand remained strong, though shares slipped with analysts citing Q1 order intake declining. **United Airlines (UAL)** posted a shallower loss per share than expected and beat on revenue. Exec said it was seeing strong international demand in Q2, with international expansion twice the rate of domestic.

STOCK SPECIFICS: **Tesla (TSLA)** cut prices for some of its Model Y and Model 3 EVs in the US, the sixth time this year, amid concerns about the effect on its profit margins. InsideEVs said Tesla estimated order backlog slightly decreased to 102k (down almost 4% M/M) on March 31st and would explain the recent price reductions in the US and Europe. CAR-T cancer therapy called Carvykti, made by **Johnson & Johnson (JNJ)** and **Legend Biotech's (LEGN)**, reduced the risk of relapse by 74% compared to standard treatment in patients with multiple myeloma, via STAT News citing leaked results from a Phase 3 study. **CDW (CDW)** sees prelim Q1 revenue short of expectations due to intensifying economic uncertainty that led customers to spend more cautiously and prioritise mission-critical initiatives. Sees 2023 adj. EPS modestly below FY22 levels. **Meta (META)** will conduct another mass round of layoffs on Wednesday, Vox reported; could be in the range of 4,000 jobs, one source said. **First Republic (FRC)** loses advisor team that managed USD 2.3bln to Rockefeller Capital Management, according to Barrons citing sources. **Google (GOOGL)** employees label AI chatbot Bard ‘worse than useless’ and ‘a pathological liar’, according to The Verge; new report shows employees begged the co. not to launch the product. **Snap (SNAP)** surpassed 3mln paying subscribers for its Snapchat+ service.

US FX WRAP

The Dollar saw gains on Wednesday but the DXY was off the 102.23 highs and fell back beneath 102 later in the session. The upside was supported by a flattening yield curve with rate cuts starting to be priced out of market expectations after hot UK CPI data, with just 18bps of rate cuts being priced in from the Fed by year-end now with the Fed rhetoric consensus showing they expect rates to be on hold throughout the year-end while bank earnings generally come in better than expected, even on the regionals despite all the worries heading into the Q1 earnings season. There was a lack of Fed speak and US data on Wednesday, but attention moves to Goolsbee and Williams after the close.

The Euro was marginally lower Wednesday with EUR/USD trading either side of 1.0950. Nonetheless, the final March HICP data was in line with the expectation and prior 6.9%, meanwhile there were several ECB speakers once again. ECB's Lane repeated the ECB's data dependent stance and said if the baseline scenario persists it will be appropriate to raise rates further. Wunsch, in an interview with Econostream, said if QT is enacted too fast, it could be faced by some technical constraints that could impact spreads, while on rates said the next meeting will be a debate of either 25 or 50bp. Wunsch also suggested the data does not show the ECB is close to its terminal rate, adding the banking sector turmoil could have limited or no monetary policy impact. De Cos said there is still ground to cover on rates if the March baseline holds, while Schnabel said while headline inflation has started to decline, underlying inflation proves sticky. Schnabel added markets expect inflation to ease rapidly, but long term inflation compensation remains elevated.

The Yen was an underperforming currency due to the move higher in US yields, but there was plenty of attention on Bloomberg sources which revealed the BoJ is wary of tweaking Yield Curve Control in April, however it is reportedly likely to consider if a guidance change can wait or not, but a smoother yield curve is said to suggest no need for a move now. USDJPY saw two way price action, initially moving higher on the YCC update before quickly parting and moving lower, likely on the fact it is considering changing guidance, although it does caveat it does not see a need for that at this time. USD/JPY hovered beneath the key 135.00 level throughout the rest of the session.

The Franc was marginally weaker vs the Dollar and flat against the Euro. We saw commentary from both SNB's Maechler, who was hawkish, noting inflation is back with a vengeance and monetary policy is back to the traditional tools; noting he is ready to sell foreign currencies. Meanwhile, Vice Chair Schlegel said inflation is still too high and that they cannot rule out further rate hikes to bring inflation under control, despite markets expecting that tightening is not over. He did add that although the SNB expects inflation to decline this year, it is too soon to sound the all clear.

Gold prices fell from highs of USD 2,008 earlier on to lows of USD 1,960/oz, before paring the majority of the move despite the move higher in yields and the buck, albeit it failed to reclaim the 2k handle.

Cyclical currencies were mixed, Aussie and Kiwi saw marginal weakness, while GBP saw marginal strength. In the UK, inflation data was hotter than expected which saw a jump higher in short-dated UK gilts and a brief jump in cable, although the cross was off highs (1.2474) heading into the end of the US session, but still above 1.2400. Market pricing for May prices in a 99% probability for a 25bp hike to 4.5%, but markets look for rates to continue rising throughout the year-end to a peak just shy of 5.00%. Note, Bank of America looks for a 25bp hike in May vs their prior call of no change, and look for a terminal rate of 4.5% but they still forecast two 25bp rate cuts in 2024. The Loonie was among the Yen with underperforming currencies as oil prices tumbled. Meanwhile, Canadian Producer and Raw Material Prices were cooler than expected, following the in line/cool inflation CPI report on Tuesday in another welcome sign for the BoC who have already reached their terminal rate, on a conditional basis at least. The BoC has argued they are prepared to lift rates again if needed, but the recent downtrend in inflation is reducing the need to do so.

The Yuan was weaker vs the Dollar ahead of the LPR decision Thursday. Analysts note China may hold its benchmark 1 and 5yr rates steady as the recovery remains on track, as evident in the activity data earlier in the week. 27/30 analysts surveyed by Reuters expect no change to either rates, but three expect a 5bp reduction to either the 1yr LPR or 5yr LPR. Analysts point out that with the Fed expected to hike once more this year, monetary easing in China could weigh on the Yen due to the rate differentials.

EMFX was mixed. The Real saw notable weakness and continues to weaken after Lula's fiscal package while disappointing industrial output today only added to the BRL woes this week. The Rand was marginally weaker vs the Dollar as weak gold prices and soft retail sales data offset hotter than expected headline and core inflation. The Lira was flat despite the weaker oil prices and jump in consumer confidence data for April. In **CEE**, EUR/HUF surged after NBH Deputy Governor Virag said that the top end of the interest rate corridor (currently 18-25%) could be lowered "significantly" as soon as next week, with desks positing this is a likely attempt to slow the pace of foreign capital inflows amid the Forint's growing strength. Czech PPI tumbled to 10.2% Y/Y in March from 16% in February, with M/M falling 1%, marking progress on the CNB's target but far from levels consistent with the 1-3% corridor.