US Market Wrap

20th April 2023: Sentiment wains with NDX weighed on by TSLA as claims ticks higher, Philly Fed falls

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Jobless claims ticks higher; Philly Fed index slump driven by falling price pressures; TSLA & T earnings particularly disappoint; Slew of Fed rhetoric; Hawkish ECB rhetoric; Soft German PPI data; Germany raises 2023 GDP forecast, but cuts 2024; BoJ reportedly open to tweaking YCC.
- **COMING UP**: **Data**: UK GfK, Retail Sales, EZ, UK & US Flash PMIs **Speakers**: Fed's Cook, Harker, ECB's Elderson, de Guindos **Supply**: Italy **Earnings**: Kering, SAP.

MARKET WRAP

Another low vol session for US stocks, which were lower, with the major indices chopping in ranges with traders mindful of option expiries on Friday. The S&P 500 has now gone 20 straight sessions without falling more than a percent. In sectors, Discretionary, Real Estate, and Energy saw the largest losses, while Staples, Utilities, and Materials were hit the least, with no clear sectorial/index bias of note. Tesla (TSLA) saw 10% losses as investors take concern with falling margins reported amid aggressive price cuts. IBM (IBM) saw a modest 1% gain after earnings while AT&T (T) tumbled 10% on a poor report. American Express (AXP) was hit on a weak EPS figures and rising credit provisions, it was a similar story at Discover Financial (DFS). Cross-asset, Treasuries saw some respite with shorts covering and the curve steepening in wake of the soft German PPI data, rising US initial jobless claims, and the disinflationary-led decline in the Philly Fed mfg. survey. The soft data, and a lack of fresh energy-specific newflow, saw oil futures continue to close the gap from the OPEC surprise production cut announced a few weeks back. The Dollar saw mild losses while the Yen and Franc outperformed, with Reuters source reports noting the BoJ is open to tweaking YCC this year if wage momentum holds; Kiwi was hit on soft inflation data.

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PHILLY FED: The Philly Fed mfg. index for April fell to -31.3 from -23.2, against the expected rise to -19.2, serving as an antidote to the ebullient Empire State survey earlier in the week. However, looking under the hood shows that a big headwind to the index came from the fall in the prices paid component (8.2 from 23.5), in addition to a fall in capex to -5.4 (lowest since 2009) from -3.8. Meanwhile, new orders rose to -22.7 from -28.2, employment rose to -0.2 from -10.3, and the 6-month ahead outlook index rose to -1.5 from -8.0. The improvement, or lack of determination, in the more activity/growth-focused components against the backdrop of cooling price pressures can lead one to say the index fell in April for 'the right reasons', more akin to the bounce in the Empire State index. The nationwide flash PMIs on Friday will be used for confirmation.

JOBLESS CLAIMS: US initial jobless claims rose to 245k from 240k in the latest week, above the expected 240k, which coincides with the BLS survey week. While continued claims rose to 1.865mln from 1.904mln, above the expected 1.82 mln. Both measures continue their upward trajectory, indicative of a loosening labour market which will please the Fed. Nonetheless, the absolute levels of claims are by no means in recession territory, remaining beneath pre-COVID levels, consistent with a still strong labour market, highlighting the work still to be done by policymakers.

FED

GOOLSBEE (voter) said he is still waiting to see if the fallout from recent bank failures could cause the economy to slow more than expected, while his message is be prudent and patient. Goolsbee still figuring out the credit impact of the recent bank strains.

WILLIAMS (voter) said US inflation is still too high and Fed will act to lower price pressures, adds tighter credit conditions will weigh on growth and it will take time to gauge the impact of tighter banking condition. On inflation, Williams said it is likely to take two years to get back to 2% inflation target and sees inflation to ease to 3.25% this year and noted inflation is moderating but demand still outstrips supply.

MESTER (non-voter) reiterated the Fed will need to hike policy rate to over 5% and hold there for a while; inflation still too high, Fed has more work to do. Mester added a new quippet that we are much closer to the end of the tightening journey than the beginning. Said stresses in the banking sector have eased, but Fed will act if needed.

LOGAN (voter) noted inflation has been much too high and to assess if we have made enough progress, watching for further, sustained improvement in inflation. Also watching if economy evolves as forecast, and for any clear change in underlying factors causing inflation.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 15 TICKS HIGHER AT 114-21

Treasuries bull-steepened as flatteners unwind on soft German PPI data, rising US jobless claims, and falling price pressures in Philly Fed survey. 2s -10.1bps at 4.164%, 3s -9.8bps at 3.873%, 5s -8.5bps at 3.637%, 7s -7.2bps at 3.589%, 10s -6.1bps at 3.541%, 20s -3.7bps at 3.875%, 30s -4.0bps at 3.749%.

Inflation breakevens: 5yr BEI -2.7bps at 2.302%, 10yr BEI -2bps at 2.282%, 30yr BEI -1.7bps at 2.252%.

THE DAY: Choppy/sideways trade for Treasuries during APAC on Thursday before finding upside with EGBs on the back of soft German PPI data. T-Notes hit resistance at 114-20+ later in the European morning. The Treasury strength is also being pinned on short-covering by desks with the 2yr cash yield failing to hold above 4.25% on Wednesday, while the 30yr failed to hold above 3.815%. T-Notes breached above earlier highs on the back of the fall in Philly Fed mfg. survey which saw the headline index decline (that was largely a factor of a fall in prices paid) and the above forecast initial and continued jobless claims figures; the curve bull-steepened in reaction. T-Notes eked out session highs of 114-26 in the wake of the soft existing home sales data later in the NY morning. Trundling a few ticks lower through the NY afternoon, with the 114-20 area seemingly a support zone ahead of resistance at the 115-00. Note the 1bp stop-through at the USD 21bln 5yr TIPS auction saw little follow through to the rest of the Treasury space.

Looking to Friday, In the US we get flash PMIs for April and Fed's Cook (voter) ahead of the May FOMC blackout period. Elsewhere, Japanese CPI, UK Retail Sales, EZ and UK Flash PMIs.

NEXT WEEK'S AUCTIONS: US to sell USD 42bln of 2yr notes on April 25th, USD 43bln of 5yr notes on April 26th, and USD 35bln of 7yr notes on April 27th; all to settle on May 1st.

STIRS:

- SOFR futures bull steepened between whites and reds: SR3H3 +0.5bps at 95.0675, M3 +3bps at 94.915, U3 +6.5bps at 95.15, Z3 +10.5bps at 95.515, H4 +14.5bps at 95.98, M4 +16.5bps at 96.385, U4 +16bps at 96.685, Z4 +14bps at 96.86, H5 +12.5bps at 96.95, H6 +8bps at 97.045.
- US SOFR flat at 4.80%, volumes fall to USD 1.307tln from 1.364tln
- NY Fed RRP op demand at USD 2.277tln (prev. 2.295tln) across 103 counterparties (prev. 110).
- US sold USD 51bln of 1-month bills at 3.190%, covered 3.01x (saw a massive 16bp stop-through); 1m bills see acute demand as participants avoid bills that could expire within a technical default.
- US sold USD 46bln of 2-month bills at 4.850%, covered 2.47x.
- Treasury left its 13-week and 26-week bill sizes unchanged at USD 57bln and 48bln, respectively; both to be sold on April 24th and settle on April 27th.

CRUDE

WTI (M3) SETTLED USD 1.87 LOWER AT 77.37/BBL; BRENT (M3) SETTLED USD 2.02 LOWER AT 81.10/BBL

Oil prices continued to tumble to post-OPEC cut lows on Thursday amid a lack of energy-specific catalyst but continuing recessionary fears. WTI and Brent hit lows of USD 76.97/bbl and 80.77/bbl, respectively, but remain above the pre-OPEC decision, March 31st settlements of USD 75.67/bbl and 79.89/bbl which are seen as key support. Moreover, oil was weighed on by global macro sentiment which saw losses in US equities following mixed earnings, but notably Tesla (TSLA) very much underwhelming. While not market moving, note reports that Pakistan has made its first order for Russian discount oil, where the country intends to import 100k BPD of Russian oil. Meanwhile, Reuters reported a malfunction has halted the small coker restart at Motiva's Port Arthur Texas refinery (636k BPD). Looking ahead, the key event for Friday is Flash PMIs as well as central bank speak ahead of the FOMC blackout and the continuation of earnings season.

EQUITIES

CLOSES: SPX -0.59% at 4,129, NDX -0.78% at 12,985, DJIA -0.33% at 33,786, RUT -0.54% at 1,789.

SECTORS: Consumer Discretionary -1.48%, Real Estate -1.19%, Energy -0.89%, Technology -0.76%, Communication Services -0.76%, Health -0.43%, Financials -0.32%, Industrials -0.18%, Materials -0.07%, Utilities -0.05%, Consumer Staples +0.06%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.20% at 4,384, FTSE 100 +0.05% at 7,902, DAX 40 -0.62% at 15,795, CAC 40 -0.14% at 7,538, FTSE MIB -1.10% at 27,627, IBEX 35 -0.46% at 9,450, SMI +0.29% at 11,399.

STOCK SPECIFICS: **Tesla (TSLA)** profit and revenue were broadly in-line with expectations but missed on gross margin and posting a 2yr low on the way with price cut weighing on the automaker. Net profit fell by nearly a quarter Y/Y, hurt by higher raw-materials, logistics and warranty costs. **AT&T (T)** fell short on revenue and wireless postpaid net additions, cashflow also missed expectations. **IBM (IBM)** beat on profit and signalled demand for IT services was better than feared; but, missed on revenue. **American Express (AXP)** missed on EPS, while revenue topped expectations, although it posted larger provisions than expected. Reaffirmed FY guidance. **Zions Bancorporation (ZION)** fell short on EPS, deposits, and NII with management noting EPS was impacted by 0.06 worth of headwinds. **Lam Research (LRCX)** surpassed Wall. St expectations on top and bottom line but guidance for the next quarter was light. **F5 (FFIV)** topped expected on profit and revenue, but next quarter and FY guidance was very disappointing with downbeat commentary. Lowering its workforce by around 9% (620 employees). **DR Horton (DHI)** posted strong earnings, highlighted by a beat on EPS and revenue while next quarter revenue guide was strong. **TSMC (TSM)** profit rose in Q1 by 2% but was the smallest quarterly profit growth in around four years as global economic conditions weighed on demand for chips. The next quarter revenue guide was light. **Phillip Morris (PM)** revenue disappointed, while FY and next quarter profit guide was also light. **KeyCorp (KEY)** missed on all major metrics with guidance for 2023 underwhelming. **MercadoLibre (MELI)** to add 13k jobs, bucking the trend of big tech layoffs, according to Bloomberg. **Meta (META)** plans to cut 10% of UK workforce in retreat from London, according to FT. **Alphabet's (GOOGL)** Google merges AI research units Brain and DeepMind to accelerate AI progress, according to WSJ. US bankruptcy judge halts most talc lawsuits against **Johnson & Johnson (JNJ)** and stops trials through mid-June.

US FX WRAP

USD was lower on Thursday and hit a trough of 101.630 and a peak of 102.120, with the latter hit not long before the latest jobless claims (which coincides with the NFP survey week) and Philly Fed were released. However, the Buck printed session lows in wake of the data where the jobless claims were higher than expected for both initial and continued. Philly Fed was disappointing, as the headline fell to -31.3 from -23.2 (exp. -19.2), where employment declined, but not as much as the prior month, but encouragingly, the prices paid saw a big move lower. On Fed speak, Williams (voter) noted inflation is still too high and doesn't see inflation returning to target for two years. Meanwhile, Goolsbee (voter) continued to err on the side of caution noting we are still figuring out the credit impact of the recent bank strains. Additionally, Mester (non-voter) reiterated Fed will need to hike policy rate to over 5% and hold there for a while, and Bowman and Logan (voter) both echoed known themes that inflation is too high. Looking ahead, Bostic (non-voter) speaks after-hours ahead of Flash PMIs on Friday.

AUD benefitted of the floundering Buck as AUD/USD hit a high of 0.6771, comfortably clearing the round 0.6750, ahead of Australian Flash PMIs Friday. Meanwhile, NZD was the G10 laggard after inflation cooled by more than expected, highlighted by Q1 CPI printing 6.7% (prev. 7.2%, exp. 7.1%) which questioned further the RBNZ tightening.

CAD saw slight losses against the Buck as the continued fall in crude prices weighed, highlighted by oil falling further beneath levels seen prior to the OPEC cut.

GBP was flat vs the Greenback, as Cable was in tight parameters illustrated by a low of 1.2406 and a high of 1.2467. The slew of hot UK data seen this week concludes with Flash PMIs on Friday. Lastly, for Sterling, and broader market sentiment, there was a lot of fanfare among traders on an a Telegraph opinion piece by Isle of Wight MP Bob Seely noting "Putin is preparing to attack the UK... The deployment of his spy ships is chilling. Britain is far from ready to counter whatever he has planned" - something to keep an eye on.

EUR was flat on Thursday, largely underpinned by hawkish ECB rhetoric from the likes of Knot, President Lagarde, and Visco. On their remarks, Knot said the bank may need to hike again in June and July, on top of 25bps in May. We also got the latest ECB Minutes, which found a very large majority agreed with Lane's proposal to hike by 50bps, but some members would have preferred not to increase the key rates until financial market tensions had subsided. On data, German Producer Prices were much cooler than expected, declining 2.6% M/M and rising 7.5% Y/Y, cooler than the 9.8% consensus. Separately, according to Reuters sources, Germany slightly increased its 2023 GDP target to 0.4% but cut its 2024 forecast to 1.6% while both 2023 and 2024 inflation projections were lowered, to 5.9% (prev. 6.0%), and 2.7% (prev. 2.8%), respectively.

JPY and CHF both saw gains against the Greenback as they clearly favoured the lower US Treasury yields, especially at the front end of the curve given their funding or carry currency credentials. In terms of levels, USD/CHF traded between 0.8921-85 as the Swissy stoutly defended 0.9000, while USD/JPY printed a low of 134.02. For the Yen, the BoJ is reportedly open to tweaking YCC this year if wage momentum holds, according to Reuters sources. Moreover, it may engage in a more lively debate in June and July meeting and there is no current consensus on how soon to phase YCC out and July wage tally key.

EMFX was predominantly in the black, with outperformance in the ZAR as it was aided by the strength in spot gold. MXN was flat after worse-than-expected retail sales, falling 0.3% in Feb. (exp. +0.2%, prev. +1.6%), with analysts at Pantheon Macroeconomics expecting more weakness ahead. For the Yuan, the PBoC left both the 1yr and 5yr LPR unchanged at 3.65% and 4.30%, respectively. Meanwhile, a PBoC official said the impact on the Yuan from volatility in major currencies is limited, expects it to be basically stable with two-way swings. The addition of "two-way" is a new addition to their usual language of expecting the exchange rate to be "basically stable". Elsewhere, the INR drew some support from hawkish RBI minutes, but the HUF was hit by dovish NBH inferences regarding narrowing the gap between benchmark rates.