US Market Wrap

21st April 2023: Stocks meander while Vix remains at YTD lows but hot data hits bonds

- **SNAPSHOT**: Equities flat, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW**: Very strong US Flash PMIs with hawkish price commentary; UK & EZ PMIs beat on comp & services but miss on manufacturing; SQM & ALB hit after Chile looks to nationalise its Lithium industry; Impressive PG earnings; TSLA hikes some US models.
- **WEEK AHEAD PREVIEW**: Highlights include US GDP, PCE, ECI; EZ GDP; Aus CPI; BoJ, BoC mins, CBRT. To download the report, please click here.
- **CENTRAL BANKS WEEKLY**: Previewing BoJ, BoC mins, CBRT; reviewing PBoC RBA mins, ECB mins. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [MON] FRC, KO; [TUES] DHR, PEP, UPS, GE, RTX, MCD, NEE, VZ, GOOGL, TXN, MSFT, V; [WED] TMO, BA, META; [THURS] AZN, LLY, CAT, MRK, BMY, CMCSA, SPGI, ABBV, MA, AMZN, AMGN, INTC, TMUS; [FRI] CVX, XOM. To download the report, please click here.

MARKET WRAP

Stocks traded sideways on Friday while the Vix remains at lows for the year despite a very strong US S&P Global PMI print with manufacturing activity returning to expansionary territory for the first time in six months, while both services and manufacturing rose above all analyst forecasts and was accompanied with hawkish pricing commentary. EU and UK commentary on pricing was also concerning, but the manufacturing sector disappointed. The US data saw a reversal in Treasuries with the curve bear flattening as growth concerns were unwound. The DXY initially jumped to hit a high of 102.12 but any gains were later reversed with DXY finishing Friday flat. On earnings, Procter & Gamble (PG) earnings were strong with top and bottom line beats, while raising its sales growth forecast. Meanwhile, mining names, particularly SQM (SQM) and Albemarle (ALB) were hit after Chile's President proposed to nationalise lithium production. Elsewhere, Amazon (AMZN) saw gains of 3% after some encouraging commentary from JPM but Apple (AAPL) saw losses of 1% on concerning sell side remarks, and Tesla (TSLA) saw gains of 1.5% after a price hike to some US vehicles. Attention after hours turns to Fed Governor Cook ahead of the FOMC blackout next week, while data next week sees US GDP and US PCE.

US

FLASH PMIs: The S&P Global Manufacturing Flash PMI data for April was strong across the board, both the services and manufacturing rose above the top end of analyst forecasts, despite a consensus for a slowdown from March. The Composite also saw a welcome jump while the manufacturing PMI returned to expansionary territory for the first time in six months. Within the report, commentary on pricing was quite hawkish. The rate of service inflation accelerated for the third consecutive month and at the quickest pace since last August., while average prices charged for goods and services rose in April at the sharpest rate since September. The report notes that this helps explain why core inflation has proven stubbornly elevated at 5.6% and points to a possible upturn, or at least some stickiness, in consumer price inflation. It also adds "Selling prices increased at a sharper pace, as firms responded to higher cost burdens by passing these through to customers where possible amid more accommodative demand conditions." On growth, the data is indicative of GDP growing at an annualized rate of just over 2%. Note, the latest Atlanta Fed GDPNow tracker has GDP at 2.5%, while Q1 US GDP is due next week. A week after that we see the ISM PMI surveys, as well as the Federal Reserve rate decision.

BOWMAN (voter): We clearly need to continue to work to bring inflation down, and bankers see economic slowdown as likely within the next year, so they see fewer opportunities to lend.

HARKER (voter): Some additional tightening is needed to deal with high inflation and once rate hikes end, the Fed will need to hold steady for a while. Harker expects to see tighter credit conditions on bank stress but notes US banks are strong and resilient. Inflation pressures are easing slowly and the economy has been strong in the face of Fed rate hikes. He expects GDP this year to be below 1% and inflation to fall to 3.0%-3.5% this year, and expects to reach the 2% inflation target in 2025. Household balance sheets are very strong. Sees current 3.5% unemployment rate to rise to 4.4% this year.

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BOSTIC (non-voter): Favours one more rate hike, then a pause, while he added that policy has moved into restrictive space and works with a lag. Tighter credit is beginning to do the Fed's work for it. Sees inflation cooling to mid-to-high 3% range by year-end. Inflation is too high and the Fed must reduce it to 2%, adding supply-demand mismatches are beginning to narrow.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 6 TICKS LOWER AT 114-15

Treasuries reversed earlier bull-steepening after big beats in the Flash PMIs saw growth concerns unwind. 2s +2.0bps at 4.190%, 3s +1.7bps at 3.893%, 5s +2.3bps at 3.663%, 7s +2.0bps at 3.614%, 10s +2.3bps at 3.568%, 20s +2.3bps at 3.902%, 30s +1.8bps at 3.771%

Inflation breakevens: 5yr BEI +1.0bps at 2.315%, 10yr BEI +1.1bps at 2.295%, 30yr BEI +0.4bps at 2.255%.

SO FAR: Treasuries entered the NY session extending their bull-steepening from Thursday amid choppy risk sentiment in APAC trade Friday with ramped US/China trade tensions. The APAC morning saw a 6k 2yr fut block buyer. Beats on European PMIs saw T-Notes fall to support at 114-18 before recovering into the NY morning. Another 5k 2yr block buyer was seen as US trade gets underway, not to mention 14k October Fed Funds block with eyes to the US PMIs and Fed's Cook ahead of the blackout. T-Notes hit key resistance of 115-00 right before the data, digesting a 8.5k 2yr/3.5k Ultra 10yr block steepener in its stride, although the curve did manage to flip steeper on the week momentarily. That was until the sizeable beats/jumps in the Flash PMIs caught the market offside, sending T-Notes through earlier lows as the front-end led the losses, with the contracts troughing at 114-13 later on as Europe began closing up shop for the week.

NEXT WEEK: (Mon) AU retail sales; (Tues) Riksbank, NZ trade data; (Weds) AU CPI, BoC minutes; (Thurs) US GDP, CBRT; (Fri) US PCE, BoJ, Tokyo CPI.

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:

- SR3H3+0.0bps at 95.068, M3 -0.5bps at 94.910, U3 -2.0bps at 95.125, Z3 -2.5bps at 95.480, H4 -1.5bps at 95.950, M4 -1.5bps at 96.355, U4 -0.5bps at 96.665, Z4 +0.0bps at 96.850, H5 -0.5bps at 96.940, H6 -3.0bps at 97.010.
- US SOFR flat at 4.80, volumes fall to USD 1.281tln from 1.307tln.
- NY Fed RRP op demand at USD 2.290tln (prev. 2.277tln) across 105 counterparties (prev. 103).
- US EFFR flat at 4.83%, volumes rise to USD 115bln from 109bln.

CRUDE

WTI (M3) SETTLED 0.50 HIGHER AT 77.87/BBL; BRENT (M3) SETTLED USD 0.56 HIGHER AT 81.66/BBL

Oil prices were marginally firmer to end the week, but could not stop the complex from posting weekly losses as interest rate uncertainty weighed. Back to Friday, which, once again, saw little energy-specific catalysts but WTI and Brent eked higher in wake of mixed economic data out of the EZ and UK. While the US saw Flash PMIs top expectations on manufacturing, services and the composite. The release was also accompanied with concerning inflationary commentary, but it failed to garner much reaction in oil. Meanwhile, Baker Hughes saw oil rigs +3 to 591, nat gas +2 to 159, resulting in the total lifting 5 to 753 with drillers adding oil and nat gas rigs for the first time in four weeks. Elsewhere, Kazakhstan has ramped up oil exports, bypassing Russia as it looks to reduce its dependency from Russia. Highlighting this, data showed oil supplies from the Caspian Sea port of Aktau to Azerbaijan's Baku, the main single route bypassing Russia, jumped to 163,436 tonnes in January-March from 28,875 tonnes Y/Y. Lastly, operations have resumed at the first refinery in Kuwait's Al-Zour oil complex following issues that led to its partial suspension, according to KIPIC.

EQUITIES

CLOSES: SPX +0.09% at 4,133, NDX +0.11% at 13,000, DJIA +0.07% at 33,809, RUT +0.10% at 1,791.

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SECTORS: Consumer Discretionary +1.2%, Consumer Staples +0.75%, Health +0.68%, Communication Services +0.32%, Utilities +0.3%, Real Estate +0.17%, Industrials -0.24%,Technology -0.37%, Financials -0.39, Energy -0.59%, Materials -0.91%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.54% at 4,408, FTSE 100 +0.15% at 7,914, DAX 40 +0.54% at 15,881, CAC 40 +0.51% at 7,577, FTSE MIB +0.43% at 27,745, IBEX 35 -0.37% at 9,415, SMI +0.63% at 11,462.

STOCK SPECIFICS: Lithium names **SQM (SQM)** and **Albemarle (ALB)** were pressured after Chile's President said he planned to nationalise the country's lithium industry. Under the plan, which must be approved by lawmakers, will be tasked with negotiating a way forward with lithium industry giants SQM and Albemarle. **Procter & Gamble (PG)** beat on EPS and revenue; raised FY organic sales growth. Exec is not seeing Chinese shoppers return to travel retail but China is not going to be a vertical restart. Moreover, PG raised prices in the US and Europe in February and March. **CSX (CSX)** surpassed Wall St. expectations on the top and bottom line, while an exec said it had an encouraging start to the year. **HCA Healthcare (HCA)** profit was in line while revenue beat and it raised FY guidance. **PPG Industries (PPG)** beat on EPS with revenue in line; next quarter and FY EPS outlook was better-than-expected. **W R Berkley (WRB)** profit, net investment income, net premiums written and earned all missed consensus. **Meta Platforms (META)** CEO Zuckerberg told employees he has not ruled out further layoffs ahead and does not expect to hire as quickly as it did previously, according to WSJ. **Tesla (TSLA)** raised US prices for its Model S and X premium EVs. Although, do note, following a raft of price cuts this year the prices are still 20% lower than the beginning of the year. In other news, a US Jury found Tesla autopilot feature did not fail to perform safely in a LA civil car crash trial, according to Reuters citing a court hearing. **Evercommerce (EVCM)** is reportedly working with investment bank Centerview Partners to explore a sale, according to Reuters sources. **Rivian (RIVN)** is said to be developing an Apple Watch as a key feature and native Apple Music integration, according to 9to5Mac. **Shockwave Medical (SWAV)** is reportedly drawing interest from **Boston Scientific (BSX)**, according to Bloomberg. **Lyft (LYFT)** will cut at least 1,200 additional jobs, with total cuts impacting 30% or more of the total workforce. CEO added there have been no changes in the previously issued guidance regarding Q1 '23 revenues, contribution margin and adj. EBITDA. **Nvidia (NVDA)** might cut the supply of RTX 4070 GPUs in response to slow sales, according to Tech Spot. According to supply chain insiders, Nvidia recently informed AIB partners that it would pause production of RTX 4070 GPUs for at least one month to prevent an overstock issue and allow retailers more time to clear existing inventory. For PE names **(APO, CG, BX)**, FBN's Gasparino reported large investors see significant cracks in the Private Equity space, with Apollo, Blackstone and Carlyle viewed as possibly the latest systemic risk to the financial system. FDA approves **Medtronic's (MDT)** MiniMed 780G system.

WEEKLY FX WRAP

Mainly macro-driven moves as markets eye May policy meetings

USD - The Dollar and DXY were flagging amidst bull-steepening along the US Treasury curve before a decent rebound on flash PMIs that beat consensus on all counts and embellished by an unexpected recovery in manufacturing to 50.0+ terrain, albeit just. This came in stark contrast to the preliminary EU surveys showing deeper contractions in that sector and gave the Buck more fundamental reason to regain momentum following mostly disappointing data since Monday's better than forecast NY Fed manufacturing survey and NAHB housing market index, including a particularly downbeat Philly Fed headline print. However, the index fell a little shy of reaching its w-t-d peak and from a technical standpoint the descending 21 DMA remained pivotal on a closing basis between 102.120-101.640 parameters inside the wider 102.230-101.520 weekly range. Moreover, the probability of a 25 bp hike from the FOMC next month only ticked up incrementally, and with a pause widely anticipated thereafter, the prospect of other Central Banks tightening further left the Greenback prone to resuming its retreat from 2023 highs.

AUD/CAD/NZD - Tuesday's hawkish RBA minutes were long forgotten as the Aussie faded markedly from a circa 0.6771 peak to 0.6679 trough in tandem with iron ore getting crushed and the Yuan weakening towards w-t-d lows. Nevertheless, the accounts revealed that the Board considered another rate increase and will reassess when and how much more tightening is needed in May when it updates economic forecasts, while stressing the importance of being clear that policy may be tightened again to curb inflation in a timely manner. For the record, the RBA review was largely as anticipated, but may have repercussions down the road as the independent body recommended a dual price stability and full employment mandate, like the Fed, and the formation of an expert monetary policy panel to comprise the RBA Governor as Chair, the Deputy Governor and Australian Treasury Secretary. Elsewhere, BoC Governor Macklem reaffirmed conditional pause guidance in wake of and response to March CPI metrics, as he acknowledged the slowdown in headline inflation and the likelihood of further declines ahead, but expects that it will take until the end of 2024 to get inflation all the way back to the 2% target and cannot rule out more hikes to curb price pressures. Regardless, the Loonie was much more focused on the collapse in crude prices as WTI recoiled from Usd 82.62/brl at best to Usd 76.72 before paring some losses and Usd/Cad rallied to 1.3563 from 1.3343 as a consequence. Back down

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under, the Kiwi's feathers were ruffled by weaker than forecast NZ CPI given the resultant dovish RBNZ repricing, but also bouts of risk aversion, with Nzd/Usd waning from around 0.6225 to 0.6127.

GBP - Sterling suffered a steep fall from grace after peaking on Wednesday when hotter than expected UK inflation prints added to elevated average earnings the previous day and cemented the case for the BoE to tighten by ¼ point next month. Cable breached a Fib retracement level on the way to 1.2475 and Eur/Gbp probed 0.8800 through the 50 DMA, but the Pound was knocked back following weaker than feared retail sales and failed to recover even though preliminary PMIs echoed the EZ line of services strength outstripping manufacturing frailty to the extent that the composite exceeded consensus. Indeed, Cable struggled to keep in sight of 1.2400 and the 21 DMA bang on the round number, though held 'comfortably' above the 1.2354 weekly base and the cross topped 0.8860 at one point.

EUR/JPY/CHF - The Euro emerged as Friday's outperformer or most resilient major vs the Buck and broadly, as Eur /Usd got close to 1.1000 again compared to 1.0910 at the other weekly extreme, and hawkish ECB rhetoric remained a supportive factor, irrespective of sources and actual GC members, aside from the uber hawks, tilting towards a smaller 25 bp hike in May. The ECB is explicitly concerned about the fact that core and services inflation is decoupling from disinflation in headline terms and unless that dynamic changes then it looks set to continue tightening beyond next month through June and July. Conversely, the BoJ is seen sticking to the ultra-accommodative stance in April when new Governor Ueda and his Deputies preside over their first policy meeting, and may contemplate a change in H2 or later if CPI seems on track to hit target stably and sustainably. So, the correction in Usd/Jpy to 133.56 from apex almost 100 pips above, and 135.12 during the midweek session, was in part due to short-covering, long liquidation and position paring, and on the back of a surprise rise in Japanese ex-fresh food and energy CPI.

SCANDI/EM - Aside from Brent's demise from its post-OPEC+ cut pinnacle, the Nok was hit hard by increasingly bearish technical impulses, while the Cny and Cnh only received a fleeting fillip via Chinese y/y GDP surpassing consensus in Q1 as Taiwan and other geopolitical strains continued to take a toll. Meanwhile, the Zar tracked Gold's fortunes between Usd 2015-1969/oz bounds against the backdrop of ongoing Eskom load-shedding, the Brl was undermined by Brazilian fiscal factors and the Huf hit buffers after NBH Deputy Governor Viraj gave a strong hint that a narrower corridor between benchmark rates will be forthcoming.

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