US Market Wrap

24th April 2023: Dollar and yields fall on growth concerns after soft US data

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Disappointing Dallas Fed; Hawkish ECB rhetoric; China urges banks to cut deposit rates; KO earnings beat; Trillium looking to acquire GETY; MSFT agreed to stop bundling Teams with Office.
- **COMING UP**: **Data**: US New Home Sales **Speakers**: BoE's Broadbent **Supply**: Germany & US **Earnings**: ASM, Santander, UBS, Novartis, Nestle; Alphabet, McDonald's, Microsoft, Verizon, Visa.
- **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**: [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 were mixed on Monday with Nasdaq underperforming with the tech sector among laggards ahead of key earnings this week, including MSFT, GOOG, META and AMZN. Stocks sold off from highs after a disappointing Dallas Fed Manufacturing survey which sparked fresh growth fears in the US, helping bonds catch a bid with the 10yr yield finding a low around 3.50% once again while fears of a short squeeze and debt limit angst also supported the bid. The move lower in US yields weighed on the Dollar, but supported the Euro back above 1.10, alongside hawkish ECB commentary. Oil prices grinded higher throughout the session reversing some of last week's losses on optimism on increased China fuel demand, while the weaker Dollar also helped. Aside from the aforementioned earnings this week, attention lies on US GDP on Thursday ahead of the US PCE report on Friday. The Richmond Fed survey on Wednesday will also be key given the market reaction seen in wake of regional surveys recently, including today's Dallas Fed, last week's NY Fed and Philly Fed.

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DALLAS FED: The headline Dallas Fed manufacturing index fell to -23.4 in April from -15.7 in March, while the outlook index moved further into negative at -15.6. Respondents noted factory activity in Texas flat on the month after a modest rise in March. New orders index rose slightly to -9.6 from -14.3, although that marks the 11th month in a row in negative territory. Employment nudged lower to 8 from 10.4, reflective of moderate employment growth but a decline in work hours. Prices paid continued to imply increases at a moderate rate, although wages and benefits remained stubbornly high. There were some punchy comments from respondents, where the majority of sectors noted slowing activity with fears over an impending recession. For instance, one customer said, "Business is slow as customers are waiting to see when recession starts. Most customers, when pressed, think the recession will start in summer." While another said, "Business has gotten stupid slow, and we estimate having many days of just a few hours' work due to low volume. This is crazy—as busy as we were last year, and now for this year to have it turn off so quickly, it is hard to understand why." There were also concerns raised on credit, specifically about the ability to renew credit lines, with some noting customer funding has dried up.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 13 TICKS HIGHER AT 114-28

Treasuries rallied across the curve amid fears of a short squeeze, debt limit angst, and a pessimistic Dallas Fed survey. At settlement, 2s -4.4bps at 4.146%, 3s -5.9bps at 3.837%, 5s -6.0bps at 3.605%, 7s -5.9bps at 3.561%, 10s -5.5bps at 3.517%, 20s -5.1bps at 3.857%, 30s -4.9bps at 3.730%.

Inflation breakevens: 5yr BEI +1.4bps at 2.332%, 10yr BEI -0.1bps at 2.296%, 30yr BEI +0.3bps at 2.258%.

THE DAY: Treasuries entered the NY session on the up in very light trade, paring the losses after Friday's Flash PMIs. In the absence of more meaningful catalysts, desks are focusing on CFTC data (released Friday) that shows increasingly large short positioning in Treasury futures, raising concerns about a large short-squeeze. There is also some growing X-data/debt ceiling angst as weekend reports indicated hurdles to Speaker McCarthy's latest proposal passing in the House. T-Notes made new highs in the NY morning, where an 8.9k block seller was offset after a 40k+ Friday expiry 114.25/113.25 put spread was covered in the underlying (futures bought alongside puts). Further bullish momentum was built after the Dallas Fed mfg. survey tumbled, with particularly gloomy commentary from participants on the outlook in Texas, seeing T-Notes print session highs of 114-31 not long after the report. The cash 10yr yield troughed at 3.505%; technicians flag cash 10yr resistance at 3.33% and support at 3.60%.

THIS 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.

This week in the US: (Tues) consumer confidence, new home sales, Richmond Fed mfg. survey, 2yr auction, GOOGL & MSFT; (Weds) durable goods orders, 2yr FRN & 5yr auction, META; (Thurs) GDP, pending home sales, KC Fed index, 7yr auction, AMZN; (Fri) ECI, PCE, Chicago PMI, UoM final.

This week globally: (Tues) Riksbank, NZ trade data; (Weds) AU CPI, BoC minutes; (Thurs) CBRT; (Fri) BoJ, Tokyo CPI.

STIRS:

- SR3H3 -0.3bps at 95.063, M3 -0.5bps at 94.900, U3 +2.0bps at 95.140, Z3 +4.0bps at 95.520, H4 +5.5bps at 96.000, M4 +6.0bps at 96.415, U4 +6.5bps at 96.730, Z4 +6.0bps at 96.905, H5 +6.0bps at 96.995, H6 +6.5bps at 97.075.
- US SOFR flat at 4.80%, volumes at USD 1.324tln (prev. 1.307tln).
- NY Fed RRP op demand at USD 2.309tln (prev. 2.290tln) across 103 counterparties (prev. 105).
- US EFFR flat at 4.83%, volumes at USD 114bln (prev. 115bln).
- US sold USD 63bln of 3-month bills at 5.065%, covered 2.74x; sold USD 53bln of 6-month bills at 4.840%, covered 2.77x.

CRUDE

WTI (M3) SETTLED USD 0.89 HIGHER AT 78.76/BBL; BRENT (M3) SETTLED USD 1.07 HIGHER AT 82.73/BBL

The crude complex was firmer to start the week, reversing some of last week's losses, amid quiet newsflow and traders awaiting upcoming risk events although some desks attributed oil optimism surrounding increased fuel demand in China and a weaker Dollar. On this, according to SCMP, China May Day holiday travel bookings surge past pre-COVID levels which has given investors' enthusiasm of boosted demand in the world's largest oil importer. Elsewhere, according to Refinitiv data and traders, China's increased purchases of the April-loading Urals oil and imports from Russia's Baltic and Black Sea ports has hit a an 11mth high of 265k BPD (vs. 195k BPD in March). Note, there were also reports in the European morning China is urging banks to cut deposit rates, which could help boost demand. Separately, Russia is on track to produce 480mln T (9.6mln BPD) of oil (ex-gas condensate) in 2023, according to Reuters sources, with output for 2023 seen in line with pledges to cut oil production by 500k BPD until year-end. Peak output in the year seen hitting 10.4mln BPD. Russia produced 10.7mln BPD in 2022, and in Dec '22 Deputy PM Novak said it will produce at least 490-500mln T of oil in 2023. Moreover, in March he added Russia would reduce March output by 500k BPD from Feb's production level of 10.2mln BPD.

GOLDMAN SACHS: Revisited its cyclical sector recommendations, telling clients to own Energy and Mining stocks and avoid Homebuilders. GS said mixed economic data and uncertainty around banking stress has seen equity markets price in a more downgraded profile for US economic growth, but notes that China's economic data has improved. As such, GS added, Energy remains the preferred sector and sees Brent and WTI prices rising by 23% over the next 12 months, which could bolster company profits.

WEEK AHEAD: Data wise, out of the US, market participants will be awaiting Richmond Fed (Wed), GDP (Thurs), and PCE/ECI (Fri) amongst others, as well as key earnings from the likes of Alphabet (GOOGL) and Microsoft (MSFT) on Tuesday, followed by AMZN, INTC, and META later in the week.

EQUITIES

CLOSES: SPX +0.09% at 4,137, NDX -0.24% at 12,969, DJIA +0.20% at 33,875, RUT -0.15% at 1,788.

SECTORS: Energy +1.54%, Materials +0.69%, Health +0.56%, Utilities +0.5%, Consumer Staples +0.4%, Industrials +0.23%, Communication Services -0.01%, Consumer Discretionary -0.07%, Financials -0.2%, Real Estate -0.31%, Technology -0.42%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.04% at 4,401, FTSE 100 -0.02% at 7,912, DAX 40 -0.11% at 15,863, CAC 40 -0.04% at 7,573, FTSE MIB -0.75% at 27,537, IBEX 35 -0.10% at 9,406, SMI +0.03% at 11,464.

STOCK SPECIFICS: **Coca-Cola (KO)** beat on top and bottom line but sees 2-3% currency headwind to Q2 adj. EPS growth and 3-4% to FY23 EPS view. Trillium Capital proposed to acquire **Getty Images (GETY)** for USD 10/shr. Note, GETY closed Friday at USD 5.06/shr. Although, do note, CNBC's Faber said the bid is highly questionable and be cautious on CNBC. **Tesla (TSLA)** is readying exports of Model Y from Shanghai to Canada and will be the first time it will ship China-made cars to North America; sees a target of producing 9k Model Y vehicles in Shanghai for export to NA in Q2. Musk also announced Tesla will be raising its 2023 spending forecast to USD 7-9bln from 6-8bln. **Bed Bath & Beyond (BBBY)** is mulling the sale of assets and IP as part of a potential bankruptcy filing; is looking to secure funding from Sixth Street Partners to support its operations through Chapter 11 proceedings, but plans could still change. **First Solar (FSLR)** was downgraded at Citi; said a challenging long-term outlook for the co., which is up about 45% YTD. **Credit Suisse (CS)** experienced net asset outflows of CHF 61.2bln during Q1, but reported 12.43bln profit thanks to the write-off of 15bln of AT1 bonds. UBS' acquisition of Credit Suisse is expected to be finalized by the end of the year. **Medtronic (MDT)** upgraded at Wells Fargo; said the co. is to benefit from a maturing product pipeline and improving medtech trends. **Super Micro Computer (SMCI)** prelim Q3 2023 results disappointed with revenue short of expectations due to key new component shortages for transition to new generation product lines which have mostly been resolved. **Disney's (DIS)** latest round of job cuts will bring its total reductions to 4k, according to Reuters citing Disney sources; will affect all parts of the co. **Intel (INTC)** is the main loser of Sapphire Rapids' lower-than-expected demand and Microsoft's significant reduction in Sapphire Rapids server orders due to weak server market demand, according to TF International Securities. **Fox (FOXA)** and Tucker Carlson have agreed to part ways. **Carrier (CARR)** is in advanced talks to acquire Germany's Viessmann for more than USD 10bln including debt in a cash and stock deal, according to WSJ sources; deal could be announced as soon as this week. **Microsoft (MSFT)** agreed to stop bundling Teams with Office, according to FT sources; move designed to prevent an official antitrust probe by EU regulations. **Zoom (ZM)** shares saw upside in response to the article. Of note for big tech names such as **AMZN, GOOGL, and MSFT**, EU Commission VP Vestager said the EU is looking to agree on blocwide labelling rules for generative AI like ChatGPT "as early as this year", according to a Nikkei interview. **Apple (AAPL)**-Epic lawsuit over app store leads to mixed appeal ruling; reverses ruling on attorneys' fees, according to Bloomberg.

US FX WRAP

The Dollar sold off on Monday coinciding with a move lower in yields. The data highlight on Monday was the latest Dallas Fed Manufacturing business index which disappointed, declining to -23.4 from -15.7 in March, triggering selling of equities, buying of bonds and selling of the buck on fears of a US economic slowdown. However, revisions were released for the March retail sales data, which saw it move higher to -0.6% from -1.0%, while ex-auto retail sales was also revised higher to -0.4 from -0.8%. There will be no Fed speakers this week as the Fed are now in blackout ahead of the May 3rd FOMC next week. Ahead of the blackout on Friday night, Governor Cook said banking sector headwinds could weigh on the rate hike outlook but continued strength and slower disinflation could push the Fed to do more. The DXY fell from highs of 101.91 to lows of 101.33 in the US afternoon, with the highs being seen in the European morning.

The Euro saw gains with EUR/USD rising above 1.10 to test 1.1050 at the highs buoyed by US/EU yield diversions with hawkish ECB commentary supporting German yields, while weak data in the US weighed on US yields. ECB speak saw Makhlouf note it is far too early to start planning for a policy cause, while Schnabel noted 50bps next week is not off the table, and it is clear further hikes are required. She also does not see a recession in the EZ. Villeroy was more dovish however, saying most of the rate hike journey is over, but there may be a need for some additional rates although they must be limited in number and size. Note, the EU morning saw a mixed German IFO Business Climate survey with a miss in current conditions offsetting the beat in expectations.

The Yen was marginally weaker on Monday but only marginally softer vs the Dollar with USD/JPY trading between 133.90 and 134.74, with the pair coming off highs in wake of the aforementioned Dallas Fed survey which saw a move lower in US yields, thus supporting the Yen to lows. There was also commentary overnight from BoJ Governor Ueda who said the central bank must maintain monetary easing as trend inflation is still below 2% but says if it is foreseen that it will reach 2%, the BoJ must head towards policy normalisation. On YCC, how to revise the tool will depend on various factors such as economic conditions and pace of inflation at the time. Ueda stated the BoJ's inflation forecast for half-year, 1-year and 1.5yrs ahead must be quite strong and close to 2% for the bank to consider tweaking YCC.

The Franc saw decent gains vs the Dollar but was flat against the Euro. USD/CHF fell sub 0.89 while EUR/CHF traded either side of 0.98 in a narrow 30 pip range. Gold prices were also buoyed, with the FX havens finding support as US yields declined.

The Yuan was flat vs the Dollar despite reports China is urging banks to cut deposit rates, adding one of China's "big four" banks is planning to cut some personal and corporate rates next week, according to Reuters citing sources. The sources add they asked for a roughly 10bps cut to weighted average term deposit rates in the quarter from a year earlier.

Cyclical currencies were relatively mixed, GBP and NZD saw notable gains vs the softer dollar but AUD and CAD were flat. The Aussie found headwinds from lower iron ore prices taking AUD/USD from 0.67000 at the FX reopen on Sunday to a low of 0.6663 in the European morning. Although, it managed to reclaim the losses to see the Aussie flat vs the buck heading into the US equity close. NZD/USD however, rose above 0.6150 from lows of 0.6126, and AUD/NZD fell from highs of 1.0907 to 1.0857 at the lows. CAD was flat vs the buck despite upside in oil prices.

EMFX was mixed, BRL saw marginal gains, but the COP outperformed heavily while CLP was an underperformer, and MXN was flat. CLP was the laggard after the Chile Central Bank announced plans to reduce its FX forward sales while the nationalisation concerns over Lithium have also been weighing on the CLP. COP saw gains ahead of the Columbian Central bank rate decision on Friday. MXN was flat after slightly cooler than expected half month inflation figures for April. Marginal BRL gains came despite a consistent push from President Lula for lower rates. In South Africa, the ZAR was slightly weaker vs the buck after more Eskom woes where "the failure of seven generation units in the last 24 hours, higher stages of load shedding will be required over the next few days".