US Market Wrap

25th April 2023: Risk off as bank fears reignite in wake of FRC deposit exodus

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar up.
- **REAR VIEW**: Dire FRC earnings and updates; Weak US Consumer Confidence and Richmond Fed data, New Home sales beat; UPS, GM hit on earnings, but PEP, VZ supported.
- **COMING UP**: **Data**: Australian CPI, German GfK, US Durable Goods, Retail Inventories **Events**: Riksbank Policy Announcement, BoC Minutes **Speakers**: ECB's de Guindos **Supply**: Japan, Germany & US **Earnings**: Deutsche Boerse, UMG, Roche, Standard Chartered, Persimmon, GSK, Smith & Nephew; Meta, Boeing, Thermo Fisher, ADP, American Tower.
- **WEEKLY US EARNINGS ESTIMATES**: [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 sold on Tuesday with First Republic (FRC) on the cusp of failure reigniting risk aversion out of the banking sector. The regional bank reported a massive dip in deposits, while at the same time, was reported by Bloomberg to be offloading USD 100bln worth of assets as it lacks sustainable funding; FT reports that regulators/government are in active talks to find a solution. The Dollar saw strong advances amid haven flows, that's despite the downbeat data with the fall in consumer confidence and yet another regional Fed survey dipping lower in April (Richmond Fed), albeit new home sales bounced. Commodities were sold on the buck rally and weak data, with oil prices making new post-OPEC production cut lows ahead of US inventory data. Treasuries saw massive bull-steepening, with the cash 2yr yield down 20bps or so, marking its largest one day move lower since the onset of the latest banking crisis in mid-March.

US

FIRST REPUBLIC (FRC) hit record lows; earnings missed on revenue and deposits, with the latter plunging 40% Y/Y and 1.7% Q/Q. Moreover, it is cutting its workforce by 20-25% in Q2 and withdrew all previous financial guidance. Later in the session, Bloomberg reported the bank is mulling up to USD 100bln in asset sales, after noting in its earnings it is pursuing strategic options. However, FT later reported the bank is struggling to come up with a viable solution, such as a sale of all or part of the bank, after announcing it is pursuing strategic operations. The lender was reportedly in touch with the US government, while leading options are for some of the large US banks that recently deposited USD 30bln into it to rescue FRC. The White House, Fed, and US Treasury reportedly held talks with the bank in recent days but the Government is apparently not concerned about contagion beyond FRC. FT added that First Republic has been hunting for buyers for parts of its business for weeks but is struggling to garner attraction, with potential acquirers citing concerns on taking on too much risk, the sources added. PE firms reportedly expressed an interest in acquiring some assets, but the government is wary about the optics of buyout firms benefiting from recent banking turmoil. FBN's Gasparino later added that bankers working with FRC say they expect an eventual government receivership of the bank, as other solutions are appearing difficult. Officials at the banks also told him they believed regulators were poised to take over FRC last week ahead of earnings.

CONSUMER CONFIDENCE: Consumer Confidence fell to 101.3 in April, well beneath the prior, and expected, 104.0. Present Situation index rose to 151.1 (prev. 148.9), but Expectations dropped to 68.1 (prev. 74.0) and has now remained below 80 (the level associated with a recession within the next year) every month since February 2022, aside from a brief uptick in Dec. 2022. Consumer inflation expectations over the next 12 months moved slightly lower to 6.2% (prev. 6.3%), and while it remains well down from the 7.9% peak, it is still elevated. Overall, consumers became more pessimistic about the outlook for business conditions and labour markets, while fewer households expect business conditions to improve and more expect worsening of conditions in the next six months. The report adds, “While consumers’ relatively favorable assessment of the current business environment improved somewhat, their expectations fell and remain below the level which often signals a recession looming in the short-term”. The report concludes, “Overall purchasing plans for homes, autos, appliances, and vacations all pulled back in April, a signal that consumers may be economizing amid growing pessimism.”

RICHMOND FED: The Richmond Fed manufacturing index fell to -10 in April from -5.0 in March. Two of its three component indexes — shipments and new orders — declined. The shipments index dropped from 2 to #7, while the new orders index fell from #11 to #20. The employment index, however, rose slightly from #5 in March to 0 in April. Firms remained pessimistic about local business conditions, as the index fell to #19 in April. Furthermore, the expectations index for future local business conditions edged down slightly again. Many firms continued to report reductions in order backlogs and vendor lead time as these indexes remained negative. The average growth rate of prices paid increased somewhat, while the average growth rate of prices received was little changed. Firms expect both to moderate over the next year.

NEW HOME SALES: New home sales rose 9.6% to a one-year high in March to 683k (prev. 623k) above the expected 630k, with the median home price also lifting M/M, although Oxford Economics note “the increase is probably seasonal in nature – though y/y price growth remained positive. The strong pace of sales in March reduced the supply of homes for sale.” OxEco adds, a tight supply of existing homes, builder incentives and resilient demand continue to support new home sales. Looking ahead, Oxford writes “The road ahead isn’t very bright as we think new home sales will weaken as the economy enters a recession and the labor market softens. Tighter credit conditions for builders may also weigh on new home sales and construction activity, although potential homebuyers or builders so far haven't seen a significant worsening of lending standards.”

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 29+ TICKS HIGHER AT 115-25+

Treasuries saw pronounced bull-steepening Tuesday as First Republic (FRC) enters the 11th hour while data disappoints. 2s -20.9bps at 3.935%, 3s -20.8bps at 3.627%, 5s -16.8bps at 3.437%, 7s -14.1bps at 3.417%, 10s -12.1 bps at 3.394%, 20s -8.5bps at 3.769%, 30s -7.6bps at 3.653%.

Inflation breakevens: 5yr BEI -6.2bps at 2.269%, 10yr BEI -3.5bps at 2.255%, 30yr BEI -3.5bps at 2.225%.

THE DAY: Treasuries bounced into the APAC Tuesday session with the First Republic (FRC) earnings report creating some jitters, seen via haven demand for govvies. T-Notes hit resistance at 115-07 during APAC trade, eventually breaking above as Europeans started to arrive for the day. A risk-off open in European stocks, alongside a tumble in Spanish PPI data, led to further strength stemming from EGBs. A 10k 5yr T-Note block buy kept Treasuries supported, with 10yr T-Notes making fresh highs. The dip in the US consumer confidence report and the Richmond Fed mfg. survey only added to the Treasury bid. T-Notes hit new resistance at 115-24 as Europe began departing, with some cautiousness ahead of the 2yr Treasury auction. But, the offering was solid, despite the lack of concession, and the curve pushed to new highs. The drive higher post-auction was also driven by renewed banking sector concerns with Bloomberg reporting First Republic was looking to offload USD 100bln of assets amid funding instability. T-Notes ultimately printed session highs of 115-30 in pre-settlement trade. Albeit the bid was much more acute at the front-end, steepening the curve, with the 2yr posting its largest move lower since mid-March when the banking crisis began.

2YR AUCTION: A decent USD 42bln 2yr auction when taking into context the big rally in Treasuries running into the offering. The 3.969% stop was just above March's 3.954%, but the fall in rates volatility since then amid increased confidence in a Fed terminal being near saw a much smaller 0.3bp tail this time around vs last month's 2.7bps (six-auction avg. being on the screws). The 2.68x bid/cover ratio exceeded the prior 2.44x and avg. 2.66x. Dealers (forced surplus buyers) were left with a small 18.9%, beneath the prior 23% and the avg. 19.7%, and that was a result of a large step-up in Indirects participation to 61.2% from 52.8%, indicative of strong end-user demand, while Directs participation saw a decline.

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.

Later this week in the US: (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.

Later this week globally: (Weds) Riksbank, AU CPI, BoC minutes; (Thurs) CBRT; (Fri) BoJ, Tokyo CPI, EZ GDP.

STIRS:

- SR3H3 +2.5bps at 95.0875, M3 +11bps at 95.015, U3 +18bps at 95.325, Z3 +22.5bps at 95.75, H4 +26bps at 96.26, M4 +27.5bps at 96.695, U4 +27bps at 97.00, Z4 +25bps at 97.155, H5 +23bps at 97.225, H6 +15bps at 97.225.
- US SOFR flat at 4.80%, volumes at USD 1.298tln (prev. 1.324tln).

- NY Fed RRP op demand at USD 2.275tln (prev. 2.309tln) across 100 counterparties (prev. 103).
- US EFFR flat at 4.83%, volumes at USD 110bln (prev. 114bln).
- US leaves its 4-week (April 27th), 8-week (April 27th), and 17-week bill (April 26th) auction sizes unchanged at USD 50bln, 45bln, and 45bln, respectively; all to settle on May 2nd.

CRUDE

WTI (M3) SETTLES USD 1.69 LOWER AT 77.07/BBL; BRENT (M3) SETTLES LOWER BY USD 1.96 AT 80.77/BBL

Oil prices tumbled lower with risk assets and the firmer Dollar on Tuesday. Oil prices had made modest gains out of the APAC session and early European trade, with desks citing positive China travel expectations as support, in addition to reports Monday of little progress of Iraq's northern oil exports being on the cusp of a restart. However, US traders hit the bid on arrival for oil, with the Dollar gaining ground and stocks in defensive mode as US regional banking fears weighed on sentiment, particularly the deposit exodus at First Republic (FRC). The drop in consumer confidence and fall in the Richmond Fed regional surveys added to the demand woes. WTI and Brent front-month futures hit session lows of USD 76.50/bbl and 80.35/bbl, respectively, as Europe began departing for the day. Traders now look to the weekly US energy inventory data, with the private release due later Tuesday ahead of the official EIA figures on Wednesday. Current expectations (bbls): Crude -1.5mln, Gasoline -0.9mln, Distillates -0.8mln.

EQUITIES

CLOSES: SPX -1.58% at 4,072, NDX -1.89% at 12,725, DJIA -1.02% at 33,531, RUT -2.4% at 1,746.

SECTORS: Materials -2.15%, Technology -2.09%, Cons Disc -2.05%, Energy -1.84%, Industrials -1.83%, Financials -1.76%, Communication -1.58%, Health Care -1.05%, Real Estate -0.92%, Consumer Staples -0.12%, Utilities -0.09%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.54% at 4,377, FTSE 100 -0.27% at 7,891, DAX 40 +0.05% at 15,872, CAC 40 -0.56% at 7,531, FTSE MIB -1.03% at 27,253, IBEX 35 -1.23% at 9,290, SMI +0.38% at 11,511.

STOCK SPECIFICS: **3M (MMM)** surpassed St. expectations on EPS and revenue, but it is to lower its headcount by 6k. Looking ahead, it affirmed FY guidance but next quarter outlook was light. **Dow (DOW)** closed in the red amid a weak Q2 revenue guide; although, it beat on the top and bottom line. **McDonald's (MCD)** topped expectations on profit, revenue, and global SSS as it benefitted on higher menu prices and more customer visits. **PepsiCo (PEP)** closed in the black in wake of strong earnings; it beat on profit and revenue as well as raising FY23 guidance on buoyant demand and price hikes. **Verizon (VZ)** missed on revenue while EPS was more-or-less inline, but wireless postpaid net adds soared. Exec noted it expects the pressure on prepaid net additions to increase in Q2 and ease later in the year. **Packaging Corp of America (PKG)** closed lower; missed on top and bottom line, while next quarter profit view was way short of expected which was accompanied by downbeat commentary from executives. **UPS (UPS)** was lower; missed on both profit and revenue. **General Motors (GM)** topped expected on EPS and revenue, alongside lifting FY23 EPS and FCF outlook. In other news, GM and Samsung SDI (006400 KS) are expected to announce plans to build a new JV battery plant in the US. Additionally, Chevrolet Bolt production will stop at the end of this year. **General Electric (GE)** earnings were strong, while FY EPS guidance was reaffirmed. **Raytheon (RTX)** profit and revenue was above Wall St. expectations and it raised its quarterly dividend +7.3% to 0.59/shr while FY guidance was inline. **Gap (GPS)** will reportedly cut hundreds of corporate workers in a new round of layoffs, larger than the round of cuts done in September, according to WSJ sources. **Cadence Design System (CDNS)** was in the red; Q2 EPS and revenue guide was short of consensus, but ever-so-slightly beat on top and bottom line. **Centene (CNC)** firmed; beat on EPS and revenue alongside raising FY23 guidance. **Wells Fargo (WFC)** CFO said deposit inflows have abated. **Meta (META)** will bring in a **Microsoft (MSFT)** chip executive to oversee its work developing custom chips for hardware devices, according to The Information citing sources. Meanwhile, NY Post reported Microsoft (MSFT) is preparing to close the **Activision (ATVI)** deal despite FTC move to block the deal on antitrust concerns, adding MSFT is optimistic about securing UK CMA approval this week.

US FX WRAP

The **Dollar** caught a bid on Tuesday on haven demand following the risk off trade in wake of First Republic (FRC) earnings revealing an exodus of deposits in Q1, while it is also looking at a USD 100bln asset sale. The news ignited fresh banking concerns after several weeks of calmness, although the government is reportedly not worried about FRC woes spreading to other banks, according to the FT. DXY attempted to reclaim 102 but it found resistance just beneath at 101.95, with the haven bid in bonds (weighing on yields) likely keeping the Dollar capped, not to mention net poor domestic data. On which, the consumer confidence disappointed due to poor consumer expectations while the

Richmond Fed survey saw a downgrade in manufacturing, services, and composite, although US new home sales were better than expected.

The **Euro** fell victim to the stronger greenback with EUR/USD losing hold of 1.10 handle primarily trading of the risk tone. On ECB speak, Chief Economist Lane said the current data suggests ECB has to hike rates again at the upcoming meeting and beyond the May 4th meeting, but further hikes will depend on data. Villeroy said food price inflation will start to ease in H2, heading towards 2% by the end of 2024. Meanwhile, on data, Spanish Industrial prices in March fell 1.0% Y/Y, paring from the prior 8.0% gain. Econostream reports suggested the ECB seems more likely to hike by 25bps next week rather than 50bps, citing sources.

The **Yen** saw decent gains vs the rising Dollar due to haven flows and the falling US yields, and despite dovish commentary from BoJ Governor Ueda during APAC trade - perhaps there is a bit of faith lost from some participants in the BoJ's word after the surprised yield target widening. Nonetheless, Ueda said the BoJ sees it appropriate to maintain YCC and easy monetary policy given the current economic, price and financial developments and added that Japan's whole yield curve is currently "smooth". It is extremely important for FX rates to move stably, reflecting fundamentals and said the BoJ must focus on achieving its price stability when he was asked about the impact of ultra-low rates on JPY moves. Ueda said tightening policy now could push down inflation win the future, which is already likely to slow in dissipating the effect of import costs, noting the BoJ sees a risk of inflation undershooting its forecast as a bigger risk than overshooting, which is why they must maintain easy policy for now.

Cyclical currencies were weaker with **AUD** underperforming on continued pressure in iron ore prices ahead of Q1 CPI data. NZD was also lower ahead of trade data, but not to the same extent as the Aussie with AUD/NZD falling from highs of 1.0856 to lows of 1.0782, a level it resides around heading into the end of the US session.

GBP fell from highs of 1.2507 to lows of 1.2388, before reclaiming 1.24 later on. The downbeat risk tone was likely the primary driver for weaker cyclical currencies with markets in defensive mode. Nonetheless, there were speeches from BoE's Pill and Broadbent, where Pill suggested some elements of UK inflation are transitory, but also that UK citizens "need to accept they're poorer" and inflation is making the UK as a whole, worse off. Broadbent however noted UK is facing second round inflation effects, but we are not in a wage spiral.

CAD saw weakness vs the rising Dollar with USD/CAD rising back above 1.36 as the dollar suged and stocks and oil slumped.

Scandis were mixed with SEK flat vs the Euro but NOK was much weaker due to the collapse in oil prices. SEK managed to withstand a cooling of Swedish PPI in March to 3.5% Y/Y from 9.3%, while the M/M declined 0.1% from the prior 1.0% fall.

EMFX was generally weaker due to risk off conditions and the rising buck:

BRL was weaker while BCB Chief Neto pushed back once again on calls for rate cuts from the government, although Finance Minister Haddad noted new directors will be appointed to the BCB once he is back from his travels. Meanwhile, Brazil Feb retail sales fell by 0.1%, less than the -0.2% forecast, while Y/Y it rose 1.0%, above the 0.9% consensus.

MXN was also weaker. Banxico Governor Rodriguez said a pause will be discussed at the next policy meeting, while the IGAE economic activity was softer than expected, rising just 0.1% M/M (exp. 0.4%), and 3.8% Y/Y (exp. 3.9%).

In **CEE**, the **HUF** was weaker vs the Euro after Hungarian Central Bank (NBH) left rates unchanged at 13% as expected but it also cut its overnight collateralized loan rate by 450bps to 20.5%. Deputy Governor Virag later noted disinflation is to decelerate in Q2, but noted the base rate can remain at current levels for longer than expected, adding any rate change will be gradual.

PLN was flat vs the Euro and NBP's Kotecki said the current level of interest rates does not guarantee that inflation will return to the target, adding there is no room for interest rate cuts this year.