US Market Wrap

26th April 2023: Stocks mixed as First Republic knocks on death's door but Microsoft keeps the bid in tech

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude down, Dollar down
- **REAR VIEW**: FRC woes deepen; Stellar MSFT report; Durable Goods headline beat, trade deficit narrows; McCarthy gets GOP behind debt ceiling bill; Decent 5yr auction; Amazon layoffs; UK CMA rejects MSFT acquisition of ATVI; Riksbank hikes 50bps.
- **COMING UP**: **Data**: Chinese Industrial Profit, US GDP & PCE Prices Advance **Event**: CBRT Policy Announcement **Speakers**: ECB's Panetta **Supply**: Italy, US Earnings: Delivery Hero, Hellofresh, STMicroelectronics, Deutsche Bank, TotalEnergies, Carlsberg, Sanofi, BASF, AstraZeneca, Unilever, LSE, Barclays; Amazon, AbbVie Exxon, Mastercard, Linde, Lilly, T-Mobile, Altria.
- **WEEKLY US EARNINGS ESTIMATES**: [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

The initial MSFT/GOOGL earnings-induced rally failed to hold, but Nasdaq did manage to hold onto gains as MSFT earnings supported the tech and cloud space but the initial Google (GOOGL) stock rally pared and attention switched to META earnings after-hours (which were very strong). Stocks moved from the highs on renewed FRC woes, which lost another 30% on Wednesday after the 50% slump on Tuesday, with the bank seemingly deemed too small to survive with regulators unlikely to intervene. The news initially saw equity & dollar selling and bond buying, but bonds later reversed to see yields at session highs, taking DXY off its lows. Although the FRC debacle is rife, earnings from PacWest (PACW) offered some relief with the bank posting strong earnings with healthy deposits. Data on Wednesday saw a strong headline durable goods print, albeit this was primarily driven by a leap in aircraft orders. International trade data showed a narrower deficit. Attention also turns to the debt ceiling vote tonight after McCarthy managed to garner enough GOP support for a vote on Wednesday, with Senior Republicans confident it will pass the house, however it will be dead on arrival in the Senate.

US

FIRST REPUBLIC: First Republic (FRC) shares plummeted a further 30% after the 50% fall on Tuesday on a slew of continued worrying reports. CNBC's Faber said sources continue to suggest White House and Treasury are unwilling to step up pressure on banks to purchase First Republic assets to repair the balance sheet. Meanwhile Bloomberg reported that FRC is to face a curb on Fed borrowings and the FDIC considers lowering Bank's ratings if a deal is not reached, thus such move would limit FRC's access to Fed facilities.

DURABLE GOODS: Durable goods jumped 3.2% in March, above the prior -1.2% and expected +0.7%, with a lift in aircraft orders helping to recoup declines in January and February. Ex-Defense lifted 3.5% (prev. -0.8%), while Ex-Transport surprisingly rose 0.3% (exp. -0.2%, prev. -0.3%). Shipments increased USD 2.9bln or 1.1% to USD 277bln in March, in wake of two consecutive monthly decreases. The headline and shipments were boosted by a jump in the volatile transportation category, and the rest of the details weren't impressive, highlighted by transport boosted by a 55.6% surge in aircraft orders, which can be erratic month to month. The nondefense ex air declined 0.4%, deeper than the -0.1% expected. Oxford Economics notes “Durable goods activity is especially sensitive to credit conditions, and we think that increasingly restrictive lending standards and relatively high interest rates will lead businesses and consumers to pull back on spending.” As such, Oxford notes “tighter credit conditions hit activity with a lag, so we expect the greatest damage in H2 2023 and early 2024.”

INTERNATIONAL TRADE: US International Trade deficit in March pared to USD 84.6bln from USD 91.99bln in February. Exports rose by USD 4.9bln to USD 127.7bln, while imports fell USD 2.5bln to USD 257.3bln. The Wholesale inventories were estimated at an end-of-month level of USD 919.9bln, +0.1% M/M and +9.3% Y/Y. Retail inventories estimated +0.7% M/M at USD 773.4bln, or +8.4% Y/Y. Analysts at Pantheon Macroeconomics note the declining deficit was due to a 2.3% increase in exports of industrial supplies, which includes oil. The desk adds that the spread between WTI and Brent points to a narrowing in the months ahead. PM also noted that net trade will be broadly neutral for GDP in Q1. GDP data is due on Thursday, and the Atlanta Fed GDP Now tracker has GDP growing at 1.1%, down from its prior 2.5% for Q1 and beneath the current GDP consensus of 2.0%. although analyst forecast ranges are quite wide, ranging from 0.3-3.3% growth.

DEBT CEILING: After garnering more support from House Republicans on the debt ceiling bill, the House will now vote on the bill tonight at 16:30-17:00 EDT (21:30-22:00 BST. Senior republicans feel good about the bill passing today, where if this is the case the bill would be sent to the Democratic controlled Senate, where it is seen as dead on arrival. However, with the GOP held house passing it, McCarthy hopes it will boost his negotiating stance with the Democrats in the next phase. Note, even if it did pass the Senate (unlikely), the White House has said the bill would be vetoed by US President Biden. On a potential US default, Pimco's CIO Ivascyn said it is highly unlikely, but a lot of back and forth negotiations are expected and if the US debt ceiling issue persists, it could be another source of credit tightening, increasing the risk of a harder landing.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 8 TICKS LOWER AT 115-17+

Treasuries bear-flattened Wednesday in choppy trade as sentiment gyrates around First Republic. At settlement, 2s +2.2bps at 3.918%, 3s +2.0bps at 3.660%, 5s +2.6bps at 3.470%, 7s +2.7bps at 3.448%, 10s +2.6bps at 3.424%, 20s +3.8bps at 3.806%, 30s +3.9bps at 3.691%.

Inflation breakevens: 5yr BEI -1.1bps at 2.275%, 10yr BEI +0.4bps at 2.266%, 30yr BEI +0.7bps at 2.240%.

TOKYO: After PacWest (PACW) reported good earnings Tuesday evening, some of the First Republic (FRC) sentiment angst unwound and T-Notes were sold from their Tuesday peaks (115-30) into the APAC Wednesday session. 115-19 served as support; the smaller fall than expected in Australian CPI was the highlight in the region, but that didn't turn the dial much in either direction.

LONDON/NEW YORK: There was some fleeting strength as London trade got underway and then again when NY arrived to take contracts to interim resistance at 115-27. That all unwound on CNBC reporting that FRC advisors have lined up potential purchasers of new stock, sending T-Notes down to 115-13+ led by the front-end. Although contracts soon pared back, and the strong durable goods orders data only saw fleeting weakness in govvies. T-Notes went on to print session highs at 115-30+ not long later in the NY morning on the back of CNBC's Faber reporting that the White House and Treasury are unwilling to step up pressure on banks to purchase First Republic assets. However, that proved a false breakout for govvies and better selling picked up into the NY afternoon amid bank shares stabilising and in preparation for the 5yr auction. T-Notes printed session lows at 115-10 before the decent auction capped the losses. Adding to this, Treasuries settled off lows in wake of the latest First Republic update, which noted it will reportedly face a curb on Fed borrowings and the FDIC considering lowering its rating if a deal is not reached.

5YR AUCTION: The USD 43bln 5yr auction was decent, although it's worth highlighting the health concession on the day going into it likely benefitted the offering. The auction stopped through the WI by 0.6bps, which is in line with the six-auction average, for a 3.500% auction stop, the lowest since August 2022. That compares to March's 1bp stop-through for a 3.665% stop. The 2.54x bid/cover ratio was better than the prior 2.48x and average 2.49x. Dealers (forced surplus buyers) were left with 13.6%, in line with the average and 0.3ppts higher than the prior. That came amid the M/M fall in Directs participation more than offsetting the M/M rise in Indirects.

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: (Thurs) GDP, pending home sales, KC Fed index, 7yr auction, AMZN; (Fri) ECI, PCE, Chicago PMI, UoM final.

Later this week globally: (Thurs) CBRT; (Fri) BoJ, Tokyo CPI, EZ GDP.

STIRS:

- SR3H3 +0.5bps at 95.090, M3 -1.5bps at 94.985, U3 -1.5bps at 95.300, Z3 -1.0bps at 95.735, H4 -2.0bps at 96.235, M4 -3.5bps at 96.660, U4 -5.5bps at 96.945, Z4 -6.5bps at 97.095, H5 -6.5bps at 97.165, H6 -3.5bps at 97.195.
- US SOFR flat at 4.80%, volumes at USD 1.329tln (prev. 1.298tln).
- NY Fed RRP op demand at USD 2.280tln (prev. 2.275tln) across 97 counterparties (prev. 100).
- US EFFR flat at 4.83%, volumes at USD 112bln (prev. 110bln).

- US sold USD 36bln in 17-week bills at 4.975%, covered 2.85x; sold USD 24bln of 2yr FRNs at a high discount margin of 0.169%, covered 3.04x.

CRUDE

WTI (M3) SETTLED USD 2.77 LOWER AT 74.30/BBL; BRENT (M3) SETTLED USD 3.08 LOWER AT 77.69/BBL

The crude complex was lower on Wednesday, and settled around lows on potential Iraq/Turkey supply progress, increased Russian refinery runs, FRC woes, while desks also cite possible recessionary fears outweighing the large US EIA inventory draw. Additionally, Brent crude erased all price gains since the surprise OPEC+ production cut, with the price levels just above the pre-OPEC cut offering support in recent sessions so a break of those those key tech levels may have exasperated the downside. Elsewhere, with earnings season underway, Enphase Energy (ENPH) nosedived after its missed on revenue with Q2 guidance short, while Hess (HES) earnings were solid and expects Q2 oil and gas output to average 355k BPD and 365k BPD due to planned maintenance at Liza Phase-2 and US Gulf of Mexico and Southeast Asia and it sees the Bakken output to peak at 200k BPD by 2025. Also on supply, an Iraq government spokesperson said Iraq is in talks with oil traders and Turkey to resume flows, but "technical" matters are holding back oil flows from Turkey. The macro tone was risk off on Wednesday (ex-tech), also weighing on crude, while tighter credit condition fears are also impacting the demand side of the equation as First Republic (FRC) knocks on deaths door.

EIA: In the weekly EIA data, and in-fitting with private inventory Tuesday night, Crude and Gasoline saw a larger draw than expected, but Distillates was slightly narrower. Crude production fell by 100k to 2.2mln, while refining utilisation was inline with the expected at 0.3%.

RUSSIA: Russian Deputy PM Novak said total balance of oil supply and demand has not changed added there are risks to energy security without OPEC+. Noted OPEC+ are not regulating prices and sometimes difficult to reach an agreement amongst all the countries. Separately, according to Reuters calculations and sources, Russian oil refineries increased runs more than 1% in January-March 2023 Y/Y. Oil refinery runs jumped 10% in March 2023 Y/Y and +17%, so far, in April Y/Y.

EQUITIES

CLOSES: SPX -0.38% at 4,056, NDX +0.64% at 12,806, DJIA -0.68% at 33,301, RUT -0.89% at 1,730.

SECTORS: Utilities -2.37%, Industrials -1.87%, Health -1.41%, Energy -1.28%, Materials -1.18%, Financials -0.96%, Real Estate -0.83%, Consumer Staples -0.74%, Communication Services -0.62%, Consumer Discretionary -0.38%, Technology +1.73%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.69% at 4,347, FTSE 100 -0.49% at 7,852, DAX 40 -0.48% at 15,795, CAC 40 -0.86% at 7,466, FTSE MIB -0.54% at 27,107, IBEX 35 +0.04% at 9,293, SMI -1.29% at 11,365.

EARNINGS: **Microsoft (MSFT)** beat on EPS, revenue, and cloud segments. Said cloud demand was fuelled by deal renewals and is seeing good signs of demand for AI products. Has over 2,500 Azure OpenAI service customers, and Teams usage was at an all-time high, surpassing 300mln MAUs in the Q. **Alphabet (GOOGL)** topped Wall. St consensus on EPS and revenue; authorised a repurchase up to an additional USD 70bln shares. Saw signs of stabilisation in YouTube ads but was an incremental pullback in advertiser spend. Exec said the outlook remains uncertain due to the challenging environment. **Boeing (BA)** posted a deeper loss per share but beat on revenue. Plans to raise 737 production rate from 31 to 38 "later this year" (prev. mid-year guide). On production hikes, said it will prioritize stability and not push the system too fast; certification timelines have not changed on 737-7, 737-10, or 777X. 737 deliveries will recover in H2 ’23 with an estimated 40 jets per month. **Enphase Energy (ENPH)** missed on revenue and Q2 guidance was short; US revenue decreased due to seasonality and macroeconomic conditions. **Chipotle Mexican Grill (CMG)** surpassed consensus on top and bottom line, with strong same-store sales growth despite a hike in menu prices. **Visa (V)** topped on EPS and revenue, with payment volumes also impressing. **PacWest Bancorp (PACW)** beat on profit and noted deposits stabilised in the latter part of March, and rebounded in April. Total deposits USD +1.1bln to 28.2bln.

STOCK SPECIFICS: CMA prevented **Microsoft's (MSFT)** proposed acquisition of **Activision (ATVI)** over concerns the deal would alter the future of fast-growing cloud gaming. ATVI then published earnings, initially due Thursday, where it beat on top and bottom line and added the CMA’s report does not reflect these realities, and we will work aggressively with Microsoft to reverse it on appeal. **Alibaba (BABA)** cuts prices for core and storage products by up to 50% with the cuts aimed at expanding user base and market penetration, according to China's Securities Times. **Teck Resources**

(TECK) reportedly withdrew the separation proposal and said **Glencore's (GLEN LN)** rejected proposals remain a non-starter. TECK plans to pursue 'a simpler and more direct separation and is ramping up flagship QB2 copper project to full production. **Amazon Web Services (AMZN)** CEO announced job cuts and it is starting lay-offs in its cloud division on Wednesday. **Disney (DIS)** filed a lawsuit in Florida against Ron DeSantis and oversight board; noted it was "forced to defend itself against a state weaponizing its power to inflict political punishment". Separately, Disney Streaming's Chief Product Officer and one of the architects of Disney+, has been let go as part of the media conglomerate's latest round of layoffs, according to Variety. Prosecutors in Brazil's Minas Gerais state sue **AngloGold Ashanti (AU)** over tailings dam safety. **Netflix (NFLX)** reportedly lost 1mln users since its crackdown in Spain during the first three months on 2023, according to NY Post citing Kantar data.

US FX WRAP

The Dollar was weaker on Wednesday with DXY finding support at 101, seemingly led by First Republic (FRC) concerns as it apparently is deemed too small to survive. The failure of FRC would likely tighten credit conditions somewhat, and may take away some of the onus on the Fed's battle against inflation and markets are back to pricing in c. 40bps of rate cuts this year vs 20bps earlier in the week. DXY hit lows of 101.00 in wake of reports FRC is unlikely to receive help from regulatory officials, but bounced from the level thereafter to c. 101.50 as yields reversed from lows. Data saw a strong headline durable goods, well above analyst expectations although the ex-air version fell more than expected, showing Aircraft did a lot of the heavy lifting in March. Meanwhile, International Trade data saw a narrower deficit. The March data comes ahead of GDP released Thursday, where the street looks for a 2.0% gain in Q1, but the Atlanta Fed GDP tracker downgraded their view to 1.1% from 2.5% today.

The Euro was firmer thanks to the weaker Dollar with EUR/USD attempting to rise above 1.11 but hit a high of 1.1095. Ahead of the ECB next week, ECB's de Guindos noted the labour market is quite impressive, and noted the ECB will have to take the tightening of financial conditions in the Bank Lending Survey into consideration while noting that wages are going to accelerate. ECB's Heredotou said wage growth is a challenge that must be watched, and they are starting to see the first signs of impact of rate hikes on the economy.

The Yen was very choppy. USD/JPY started the day firmer but after the First Republic (FRC) debacle, the dollar sold and Yen was bid, taking the pair to lows of 133.02 before paring the majority of the move as US yields move higher in the afternoon. Gold prices failed to hold onto their initial haven gains too as yields reversed higher.

Cyclical currencies were mixed heading into the end of the US session with GBP outperforming while both Aussie and NZD sold off, but NZD outperformed the Aussie, once again, despite the Antipodean economic data. Australian CPI data was hotter than expected; Q1 CPI at 1.4% Q/Q (exp. 1.3%) but it did cool from the prior 1.9%, while the Y/Y rose 7.0% (exp. 6.9%), cooling from 7.8% previously. The NZD trade data saw its deficit widen. CAD was only marginally weaker despite oil prices returning to pre OPEC production cut levels while the BoC minutes largely repeated the statement, MPR and press conference.

Scandi's were weaker vs the Euro with NOK taking its cues from weaker Brent prices, but SEK underperformed following the dovish hike from the Riksbank. The Central Bank opted to hike by 50bps as expected but the guidance was more dovish, suggesting another hike could come in June or September vs the consensus for another hike in June. There were also two dovish dissenters, Floden and Bremen who opted for a 25bp hike.

EMFX was generally weaker with the risk off trade despite the weaker dollar, BRL was relatively flat, however, after inflation data falling in line with expectations at 0.6% M/M and the Y/Y rate declined to 4.2% from 5.4% in March, also in line with expectations. Analysts at Pantheon Macroeconomics note the inflation picture continues to improve thanks to favourable base effects, lagged effect of interest rates, and softening demand. MXN was weaker on lower oil prices and more Banxico commentary about a pause. COP was hit on a cabinet reshuffle, while CLP was an outperformer despite copper prices being flat with the Chilean Peso benefitting from the weaker Dollar. ZAR was marginally weaker as gold gave up its gains and on cooler than expected South African PPI data.

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