US Market Wrap

27th April 2023: Bonds down, Stocks up after strong data and META earnings

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: META surges post earnings, CAT falls; GDP headline miss but internals very strong, jobless claims beneath expectations, weak pending home sales, Weak 7yr auction.
- **COMING UP**: **Data**: Japanese Tokyo CPI, Unemployment Rate, EZ GDP Flash, German HICP Prelim., US PCE Price Index, ECI **Event**: BoJ Policy Decision **Speakers**: ECB's Lagarde **Earnings**: Mercedes-Benz, NatWest; Colgate, Chevron.
- **WEEKLY US EARNINGS ESTIMATES**: [FRI] CVX, XOM. To download the report, please click here.

MARKET WRAP

Stocks rallied on Thursday with strong earnings reports supporting risk appetite as fears around regional banks take a step back. Double-digit gains for Meta (META) saw the NDX outperform amongst the major indices, while Caterpillar (CAT) weighed on industrials with concerns over the giant's order backlog. Macro data played its part, where a headline miss in Q1 GDP data obfuscated strong underlying demand as a result of a decline in business inventories. The GDP data, in addition to the surprise fall in jobless claims, put pressure back onto the Fed, with the Treasury curve seeing sustained bear-flattening. In FX, the DXY saw modest strength with high-beta currencies outperforming - the Yen sits marginally weaker ahead of the BoJ Friday, the consensus looks for no fireworks. In commodities, oil saw modest strength, paring some of Wednesday's heavy losses amid broader risk appetite, while strength was capped earlier on Russia's Novak saying OPEC won't be making anymore production cuts despite the softer than expected China demand.

US

GDP: Headline Advanced GDP missed expectations at 1.1% (exp. 2.0%, prev. 2.6%) but was in line with the Atlanta Fed GDP tracker downgrade on Thursday to 1.1% from 2.5%. The GDP also revealed that 2.6ppts were cut off the headline due to a reduction in business inventories. The sales metric was above expectations at 3.4% (exp. 2.3%), and the deflator also beat at 4.0% (exp. 3.7%, prev. 3.9%). There are some concerns being raised over fixed investment contracting for the fourth quarter in a row, although those bullish on the economy suggest this is unlikely to continue as a headwind amid the housing market seemingly hitting a trough. Economists also draw attention to the final sales to private domestic purchases metric as a cleaner signal, which rose at a strong 2.9% and includes a 3.7% rise in consumption led by a massive 16.9% increase in durable goods. While the growth signal may be strong, that also comes with the unwanted hot price data, where Q1 PCE came in above expectations, a continued concern for policymakers in their fight against inflation. Note, the March PCE report is due on Friday which will provide a more up to date assessment of prices ahead of the ISM surveys and FOMC next week.

JOBLESS CLAIMS: Initial jobless claims in the latest week rose 230k, not as much as the expected 248k and a move back lower from the prior week's 246k increase. Continued claims fell to 1.858mln from 1.861mln, a surprise fall against the consensus rise to 1.878mln. The pullback lower in claims shows that the job market is by no means on the cusp of collapse, despite the recent rises off unsustainably low levels. Many economists expect claims to continue to rise further from here through the year, but for now, we are still at historically low levels that are consistent with a tight labour market.

PENDING HOME SALES: Pending home sales surprisingly dropped 5.2%, way beneath the expected +0.5% and prior +0.8%, as limited housing demand seemingly weighed. The renewed decline in the headline is consistent with Oxford Economics' view that housing market activity will remain subdued this year. Additionally, while desks are not anticipating a major further tightening in mortgage conditions, they are expecting home sales to come under added pressure later in the year as the economy weakens and labour market conditions worsen. On the headline, Oxford notes, "Part of the weakness is probably payback following the unseasonably mild winter weather pulled forward some of the usual spring surge in activity we'd usually see in March, with sales falling the most in the Northeast and Midwest, which had seen the biggest gains in recent months."

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 26 TICKS LOWER AT 114-23+

Treasuries bear-flattened further after GDP data and the fall in jobless claims added to the risk appetite post-earnings. At settlement, 2s +17.1bps at 4.095%, 3s +15.8bps at 3.826%, 5s +13.8bps at 3.603%, 7s +11.9bps at 3.575%, 10s +9.8bps at 3.528%, 20s +7.9bps at 3.885%, 30s +6.8bps at 3.757%.

Inflation breakevens: 5yr BEI +0.6bps at 2.301%, 10yr BEI +0.9bps at 2.287%, 30yr BEI +1.2bps at 2.265%.

THE DAY: T-Notes saw modest strength to session highs of 115-17+ in the Tokyo morning before better selling developed to take contracts to interim support at 115-06+ in the European morning. There were little major catalysts in APAC trade, although note the latest Japanese MoF data saw Japanese investors sold JPY 1.1tln/USD 7.9bln in overseas bonds, the most since late October. Treasuries came marginally off lows in wake of the fall in EU consumer inflation expectations and Belgium CPI. T-Notes dipped lower on release of the surprise fall in jobless claims and as it became clearer the headline miss in GDP was a result of volatile factors with core consumption holding firm. A 7k 2yt fut block seller coincided with the cash 2yr yield reclaiming 4% in wake of the data. The selling sustained into the NY afternoon, with T-Notes losing the 115 handle. The weak 7yr auction dented any attempt of a recovery for govvies, and T-Notes went on to print session lows of 114-24 in pre-settlement trade.

7YR AUCTION: A poor USD 35bln 7yr auction from the Treasury, particularly given the healthy concession into the offering. The 3.563% stop was 5bps richer than March's offering but was accompanied with a larger 1.3bp tail (prev. 1.1 bp), worse than the six-auction avg. 0.9bps. The internals were slightly better, with the 2.41x bid/cover ratio between the prior (2.39x) and average (2.46x), while Dealers (forced surplus buyers) saw a M/M fall in participation. It's likely that with the 7yr trading at its near richest levels on the curve since 2013, buyers stepped back - 2s saw a solid auction on Tuesday, albeit they offer significantly more yield than all other tenors. At the same time, coming on the back of the strong Q1 GDP report and fall in jobless claims, rates vol has come off recent lows, which, combined with the impending ECI and PCE data on Friday, not to mention FOMC next week, likely dissuaded demand.

Friday and beyond in the US: ECI, PCE, Chicago PMI, and UoM final are all on Friday. Otherwise, attention to next week where aside from the FOMC on Wednesday, we get: (Mon) ISM mfg., Tsy financing estimates; (Tues) March JOLTS; (Weds) ADP, Tsy quarterly refunding announcement, ISM Services; (Thurs) productivity; (Fri) April NFP, Fed's Bullard.

Friday globally: BoJ, Tokyo CPI, and EZ GDP. And the highlights for next week: (Tues) China Caixian mfg. PMI, RBA, EZ CPI, German and UK mfg. PMI; (Thurs) UK Services PMI, ECB rate decision; (Fri) CAD employment.

STIRS:

- SR3H3 -1.8bps at 95.07, M3 -8bps at 94.905, U3 -15.5bps at 95.145, Z3 -19bps at 95.545, H4 -20bps at 96.035, M4 -19.5bps at 96.465, U4 -17.5bps at 96.77, Z4 -16bps at 96.935, H5 -14.5bps at 97.02, H6 -12bps at 97.07.
- US SOFR flat at 4.80%, volumes at USD 1.345tln (prev. 1.329tln).
- NY Fed RRP op demand at USD 2.274tln (prev. 2.280tln) across 101 counterparties (prev. 97).
- US EFFR flat at 4.83%, volumes at USD 115bln (prev. 112bln).
- US sold USD 51bln of 4-week bills at 3.830%, covered 2.50x; sold USD 46bln of 8-week bills at 4.940%, covered 2.70x.
- US announced new USD 40bln 21-day CMBs (May 2nd); 3-month and 6-month bills (May 1st) left unchanged at USD 57bln and 48bln, respectively; all to settle on May 4th.

CRUDE

WTI (M3) SETTLES USD 0.46 HIGHER AT 74.76/BBL; BRENT (M3) SETTLES USD 0.68 HIGHER AT 78.37/BBL

Oil prices saw modest strength in choppy trade Thursday, paring some of Wednesday's heavy losses amid broader risk appetite. Oil prices went into settlement near highs, coinciding with the sustained rally in stocks through the session as traders took to the stronger underlying GDP data (despite the headline miss). However, prices had been choppy earlier on, with the firmer Dollar capping advances. The recovery was likely thwarted also by Russian Deputy PM Novak earlier saying OPEC+ sees no need for further output reductions despite lower than expected Chinese demand. And on price action itself, after WTI and Brent saw their largest decline in more than a month on Wednesday after closing the OPEC surprise production cut gap, a more rangebound session appears natural. For now, key resistance is seen at the pre-OPEC decision close for front-month WTI and Brent contracts at USD 75.67/bbl and 79.77/bbl, respectively.

EQUITIES

CLOSES: SPX +1.96% at 4,135, NDX +2.76% at 13,160, DJIA +1.58% at 33,827, RUT +1.2% at 1,751.

SECTORS: Communication +5.55%, Consumer Discretionary +2.76%, Real Estate +2.44%, Technology +2.16%, Industrials +1.99%, Financials +1.62%, Materials +1.35%, Utilities +1.2%, Consumer Staples +1.03%, Health Care +0.53%, Energy +0.49%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.24% at 4,358, FTSE 100 -0.27% at 7,831, DAX 40 +0.03% at 15,800, CAC 40 +0.23% at 7,483, FTSE MIB +0.19% at 27,158, IBEX 35 +0.22% at 9,314, SMI +0.83% at 11,366.

STOCK SPECIFICS: **Meta (META)** beat on EPS and revenue, while key metrics such as Facebook DAUs also topped. META noted AI recommendations have increased time spent on Instagram by 24%, and as such helping boost traffic to Facebook and Instagram and earn more in ad sales, as it forecast next quarterly revenue well above consensus. **Merck (MRK)** topped Wall St. consensus on the top and bottom line, with Keytruda sales rising 20% Y/Y; raised FY guidance. **Southwest Airlines (LUV)** posted a deeper loss per share than expected and missed on revenue; planning on flight reductions in H2 '23, most notably in Q4. CEO noted due to recent delivery delays at Boeing, it is further reducing planned 2023 aircraft deliveries. **Honeywell International (HON)** surpassed St. expected on top and bottom line; raised FY guidance. **Eli Lilly (LLY)** missed on profit but beat on revenue as well as lifting FY top and bottom-line guide. **Caterpillar (CAT)** topped on EPS and revenue with profit rising on resilient demand and a boost in US infrastructure spending kept its order books full and softened the hit from higher manufacturing costs. **eBay (EBAY)** EPS and GMV beat, while Q2 revenue view also came in above the expected. Note, revenue did miss. **Hasbro (HAS)** topped Wall St. expectations for revenue, boosted by strong growth in the digital gaming segment at a time when demand for its toys has taken a hit from a drop in consumer discretionary spending. **Mastercard (MA)** beat on EPS, revenue, and purchase volumes but cut FY revenue growth view. In other news, MA said DoJ is probing debt practices, according to Bloomberg. **AbbVie (ABBV)** beat on the top and bottom line alongside raising guidance, although analysts citing disappointing key pharma sales for cos. weakness. **Tesla (TSLA)** inventory reaches new high, pointing to price cuts not working, according to Electrek. **Lyft (LYFT)** confirmed it is to cut 26% of employees and estimates it will incur a cost of roughly USD 41-47mln in Q2 2023.

US FX WRAP

The Dollar saw mild gains on Thursday supported by the latest GDP data, which although missed on the headline, the internals of the report were strong and the headline supressed by a 2.2% reduction due to lower business inventories. The Q1 PCE prices were hot, but attention now looks towards Friday's March PCE report, in addition to the Employment Cost Index. DXY hit a high of 101.80 in the aftermath of the GDP data but pared to c. 101.50 in the NY afternoon where it hovered around into the close.

The Euro saw mild weakness with EUR/USD briefly dipping beneath 1.10 before returning back above the level. The fall in EU consumer inflation expectations was the only data point of note today. The ECB is now in blackout period ahead of the meeting next Thursday, and while the Eurozone CPI data for April isn't until next Tuesday, we get the French, Spanish, and German figures this Friday which will set the tone.

The Yen was modestly weaker vs the buck with USDJPY rising above 134 to highs of 134.19, before paring to the round level with weakness stemming from wider yield differentials after the net strength seen via the US economic data. Citi's FX desk notes that the majority of their clients don't think the BoJ (preview here) will do anything on Friday, although insurance is in demand, "We've seen a lot of demand for 1w-2w downside in USDJPY - that also includes several USD events notably FOMC."

Cyclical currencies firmed thanks to the risk on tone in stocks, with performance led by the communication sector after a very strong Meta (META) earnings report Wednesday night. GBP was also supported by the weaker EUR through EURGBP, while it may have also found some support via hawkish sells side calls with Goldman Sachs raising its BoE terminal rate forecast to 5%. Aussie was relatively flat vs the Kiwi with AUDNZD unchanged on the session. Aussie watchers eye PPI data Friday. For the Kiwi, the ANZ activity index on Thursday offset a fractionally more negative business outlook. CAD also saw gains and USD/CAD is hovering around 1.36, primarily trading off the broader risk on theme while although crude prices were firmer, they are still well off the high seen on Wednesday before the steep sell off. CAD watchers look to Canadian GDP and budget data on Friday.

EMFX was mixed. In LatAm, COP underperformed on rising political risks following the announcement of a cabinet reshuffle earlier in the week. Meanwhile in Argentina, the central bank hiked rates by 1000bps to 91%, seeing the black market ARS surge. In Brazil, data was very strong with services activity topping analyst expectations, seeing the Real surge, while CLP saw gains following the rise in copper prices. MXN also saw notable gains, paring some of the weakness seen in wake of dovish Banxico commentary earlier in the week. TRY saw mild weakness vs the Dollar while the CBRT left rates unchanged at 8.5% as expected with risks looking towards the May 14th elections.