US Market Wrap

1st May 2023: Dollar and yields climb alongside ISM Prices Paid in liquidity-thinned trade

- **SNAPSHOT**: Equities flat, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: JPM to acquire FRC assets; Timiraos nods to June Fed pause; Manufacturing ISM beat but prices paid jumps; META USD 8.5bln debt deal adds to heavy supply; Strong ON Semi guidance.
- **COMING UP**: **Data**: German Retail Sales, EZ & UK Final Manufacturing PMI, EZ HICP (Flash), M3, US Factory Orders, JOLTS, New Zealand Unemployment **Event**: ECB Bank Lending Survey **Supply**: Germany **Earnings**: UniCredit, BP, HSBC; AMD, Pfizer.
- **WEEK AHEAD PREVIEW**: Highlights include FOMC, NFP, ISMs, ECB, RBA, EZ CPI, NZ jobs, Norges. To download the report, please click here.
- **CENTRAL BANKS WEEKL**Y: Previewing FOMC, ECB, RBA, Norges, BCB; reviewing Riksbank, CBRT, BoJ. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [MON] SYK; [TUES] MAR, PFE, SBUX, AMD; [WED] CVS, EL, QCOM; [THURS] MRNA, REGN, COP, MNST, AAPL, BKNG; [FRI] CI. To download the report, please click here.

MARKET WRAP

Stocks closed little changed although the SPX still managed to climb to a new multi-month high earlier in the session. Trading conditions were lighter than average with London and Europe absent and many looking to the week ahead. Nonetheless, the prices paid bounce in the US ISM mfg. survey for April saw a hawkish reaction, and Treasuries sold, with a hike on Wednesday now priced at above 90% implied probability although the guidance from Powell and Co. will be particularly interesting after WSJ's Timiraos wrote Monday that officials will consider pausing from June. Regional banks (KRE) were sold amid the fallout from the FRC receivership/JPM buyout, while despite the incident seemingly contained, investors remain skittish on the sector with regulatory action potentially to come. Semiconductor stocks, particularly those tied to autos, were buoyed on a strong guide from ON Semiconductors (ON). Treasuries bear-steepened with the long-end weighed on from heavy corporate issuance, including USD 8.5bln from Meta (META), and the bounce in ISM priced paid. The Dollar saw a bounce higher, with Yen suffering from rate differential after the dovish BoJ while the Aussie outperformed ahead of the RBA rate decision on Tuesday where rates are expected to be left unchanged 3.60%, with money markets pricing a 9% chance of a 25bp hike.

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ISM MANUFACTURING: ISM Manufacturing PMI rose to 47.1 in April, above the expected 46.8 and prior 46.3, but remained in contractionary territory, while concerningly the prices paid component jumped to 53.2 (exp. 49.0, prev. 49.2). New orders and employment lifted to 45.7 (prev. 44.3) and 50.2 (prev. 46.9), respectively. The headline figure is not encouraging given the fact it is remaining at levels that historically have coincided with recession. As such, Oxford Economics notes, “Factories will lose steam over the next few months as a tighter lending environment, elevated interest rates, and deteriorating goods demand bite down on production. Goods activity will be hit harder than services during the mild recession that we expect in H2 2023, as is typical during economic downturns.” Overall, on balance, the demand components of the report showed a continued weakening while the supply components pointed to an improvement relative to March.

FIRST REPUBLIC: FDIC and California regulators announced that they were to close First Republic Bank and sell-off its USD 93.5bln of deposits and most assets to JPMorgan. The move makes First Republic the second-largest bank failure in US history, after Washington Mutual in 2008. Under the deal, all depositors (including those with funds above the USD 250k insurance limit), will retain access to their cash. JPMorgan is acquiring USD 173bln in loans, and approximately USD 30bln of securities, but is not assuming First Republic’s corporate debt or preferred stock. JPMorgan will recognise a one time USD 2.6bln gain on the deal, but expects to spend USD 2bln on restructuring costs over the coming 18 months. Six banks bidding, including Citizens Financial Group (CFG), PNC Financial (PNC), and JPMorgan Chase (JPM) were said to be interested in the assets.

DEBT CEILING X-DATE: Tax payments last week have pushed the US debt ceiling's "X date" to at least the second half of July, according to CNN. However, substantive negotiations are yet to take place, Washington Post writes, and the situation is worse than many people realise. Bloomberg reports that Democrats are hoping that Senate minority leader McConnell will step in to avoid a debt ceiling crisis, seeing him as more pragmatic than some of his colleagues in the House. According to Goldman Sachs, despite a recent shift in tax collections, it is likely that the Treasury can pay all its bills until late July without an increase in the debt limit, but there is a chance that the Treasury's cash balance could dip as low as USD 25-30bln in June, which would tip the decision in favour of an early June deadline. GS notes that some financial markets have begun to reflect debt limit-related risks, but implied equity volatility shows little debt limit effect. GS expects that Congress will raise the debt limit on the day of the deadline, plus or minus one day. The bank thinks a deal will be made that pushes the next debt limit deadline into 2025 and caps discretionary spending, although the spending restraint from these caps would likely be more modest than the recent House-passed bill.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 22+ TICKS LOWER AT 114-16

Treasuries bear-steepened amid heavy corporate issuance and the bounce in ISM prices paid. 2s +7.5bps at 4.139%, 3s +8.4bps at 3.862%, 5s +10.2bps at 3.640%, 7s +11.2bps at 3.617%, 10s +13.3bps at 3.585%, 20s +13.9bps at 3.946%, 30s +15.8bps at 3.835%.

Inflation breakevens: 5yr BEI +1.6bps at 2.262%, 10yr BEI +2.5bps at 2.243%, 30yr BEI +4bps at 2.222%.

THE DAY: On the back of the JPM/FRC announcement, T-Notes drifted slightly lower through APAC trade on Monday to find interim support just above 115-00 as European trade got underway, although note the liquidity dearth with market holidays for some. Contracts failed to break back above 115-08 before better selling was renewed as US traders arrived. In addition to haven unwinds post-JPM/FRC tie-up, a heavy slew of Dollar corporate debt issuance being announced (including USD 8.5bln from META and USD 5bln from CMCSA) was accompanied by rate lock-related hedging flows (Tsy selling/swap paying), taking T-Notes to fresh lows beneath the 115 figure. But a more sustained move wasn't mustered until the release of the ISM mfg. survey, which saw a chunky bounce in the unwelcomed Prices Paid component. The T-Note losses were sustained into the NY afternoon and contracts ultimately settled at lows. However, the 2yr fut, after bottoming at 102-283 as the ISMs were released, pared back above 102-30 into the afternoon, perhaps supported by the WSJ Timiraos latest that Fed officials are set to consider a pause after hiking Wednesday. Furthermore, some recent curve steepener calls from Morgan Stanley and BMO could be whetting the appetite of some.

TREASURY FINANCING ESTIMATES: Treasury said it expects to borrow USD 726bln in net marketable debt for the April-June period, up USD 449bln from its earlier estimate, with the Q2-end TGA balance seen at USD 500bln. Expects to issue USD 773bln in net marketable debt in July to Sept 2023 period, assuming end-September cash balance of USD 600bln. However, a grain of salt is required when digesting those figures given the Treasury's footnote that the estimates assume "enactment of a debt limit suspension or increase." We should get some more colour on Wednesday when we get the official quarterly refunding announcement at 08:30ET.

This week in the US: (Tues) March JOLTS; (Weds) **FOMC**, ADP, **Tsy quarterly refunding announcement**, ISM Services; (Thurs) productivity; (Fri) **April NFP**, Fed's Bullard.

This week globally: (Tues) RBA, EZ CPI, German and UK mfg. PMI; (Thurs) UK Services PMI, ECB rate decision; (Fri) CAD employment.

STIRS:

- SR3H3 -1bps at 95.0625, M3 -4bps at 94.875, U3 -6bps at 95.095, Z3 -8bps at 95.47, H4 -9bps at 95.96, M4 -9.5 bps at 96.40, U4 -9bps at 96.72, Z4 -9bps at 96.90, H5 -8.5bps at 96.995, H6 -10bps at 97.035.
- Goldman Sachs reco, "Renewed fears over the banking system and concerns over the debt ceiling standoff have aided a decline in yields that we view as temporary; we re-initiate weighted SFRU3/U4 steepeners."
- US SOFR flat at 4.81%, volumes at USD 1.378tln (prev. 1.337tln).
- NY Fed RRP op demand at USD 2.240tln (prev. 2.325tln) across 103 counterparties (prev. 108).
- US sold USD 65bln of 3-month bills at 5.120%, covered 2.44x; sold USD 55bln of 6-month bills at 4.900%, covered 2.60x.
- US EFFR flat at 4.83%, volumes at USD 113bln (prev. 119bln).

CRUDE

WTI (M3) SETTLED USD 1.12 LOWER AT 75.66/BBL; BRENT (N3) SETTLED USD 1.02 LOWER AT 79.31/BBL

The crude complex was in the red on Monday as weak Chinese manufacturing PMI weighed alongside expectations for a Fed hike on Wednesday, offsetting the upcoming OPEC+ 1.16mln BPD output cut. On the China data, the headline unexpectedly fell back beneath 50 to heighten economic growth concerns. At the same time, it was a quiet day in terms of energy catalysts and liquidity given the market holidays in UK/Europe coupled with trepidation ahead of key macro risk events littered through the week, namely the FOMC, ECB, and NFP, amongst others. On refineries, Reuters reported that Valero's (VLO) Port Arthur, Texas, refinery (335k BPD) has restarted its units and normal production ahead of schedule after fire damage in mid-April. Meanwhile, Refintiv data saw US producers of LNG exporting at top capacity for the second consecutive month in April (107 cargoes carrying 7.78mln T) post-Freeport terminal restart, with over two-thirds bound for Europe and a rising share to LatAm.

EQUITIES

CLOSES: SPX -0.04% at 4,167, NDX -0.11% at 13,231, DJIA -0.14% at 34,051, RUT +0.01% at 1,769.

SECTORS: Energy -1.26%, Consumer Discretionary -1.06%, Real Estate -0.92%, Financials -0.27%, Communication Services -0.07%, Materials -0.04%, Consumer Staples +0.09%, Technology +0.18%, Utilities +0.21%, Industrials +0.55%, Health +0.59%.

STOCK SPECIFICS: Astellas will acquire **Iveric Bio (ISEE)** for USD 40/shr in cash (vs close of USD 33/shr on Friday), for a total equity value of approximately USD 5.9bln. **Norwegian Cruise Line (NCLH)** posted a shallower loss per share than expected and beat on revenue alongside boosting its FY profit view amid strong travel demand. **Global Payments (GPN)** beat on top and bottom line alongside lifting FY23 guidance. **ON Semiconductor (ON)** posted strong results; surpassed on top and bottom line alongside stellar Q2 outlook. **Alphabet (GOOGL), Meta (META) and Microsoft (MSFT)** are increasing spending on servers and other infrastructure to create and sell more AI tools, via The Information. **Disney (DIS)** to be countersued by the Florida Oversight Board in state court, according to prepared remarks from the Board. **American Airlines (AAL)** and pilots union are close to an agreement, according to Bloomberg. **General Motors (GM)** upgraded at Morgan Stanley and said the stock is 'oversold'. Separately, GM lays off hundreds from product development in its latest cost-cutting move. **Comcast (CMCSA)** upgraded at Bank of America as it said the co. is well positioned for a strong turnaround. **Exxon (XOM)** was downgraded at Goldman Sachs; said the co. was less attractive after its multiyear run. **Meta (META)** saw strength on Monday after its set its size for Dollar bond offering at USD 8.5bln. **Lordstown Motors (RIDE)** warns of bankruptcy after **Foxconn (FXCOF)** threatens to walk away from a crucial funding deal.

US FX WRAP

The Dollar was firmer, within a narrow range, on a day of thin newsflow and liquidity amid holidays across UK and Europe. The Buck saw tailwinds from the US Manufacturing ISMs where the headline rose more than expected, but the prices paid component was behind the jump, rising to 53.2 from 49.2, well above the expected 49.0, which saw a marginal hawkish tilt to Fed pricing ahead of the FOMC on Wednesday whilst weighing on Treasuries. Separately, although the banking fears had somewhat cooled there were further extinguished on Monday after JPMorgan purchased First Republic (FRC) from the FDIC. Participants await key macro risk events such as ISM Services (Wed), ECB (Thurs), and NFP (Fri).

The Yen was the G10 underperformer with USD/JPY stretching out a high of 137.53 in late NY trade, with technicians flagging 137.91 (March high) as the next level to watch to the upside as the upside in the cross continues following on from Friday's dovish BoJ and Monday's rise in US yields.

The Loonie, which was flat vs the Buck, stood out as a relative outperformer, particularly with oil prices offered. Two factors to consider, with the first being the rise in Canadian mfg. PMI data. But perhaps more noteworthy for the outlook is the latest 12% wage hike attained by 120k public workers, which analysts flag as a particular thorn in the BoC's side, which could lead to renewed price pressures just as the Bank has declared a pause. USD/CAD hit lows of 1.3531 after earlier highs of 1.3583, with the 100DMA at 1.3526 holding as support.

The Aussie was the G10 outperformer to start the week, on what appeared to be positioning ahead of the RBA meeting Tuesday as opposed to anything fundamental. On the RBA rate decision, the central bank is expected to keep the Cash Rate Target unchanged at 3.60% as forecast by 26/34 economists surveyed by Reuters, while money markets price in a 91% probability of a pause and a 9% chance for a 25bps hike (Full Newsquawk preview here).

NZD, CHF, EUR, and GBP all fell victim to the stronger Greenback, albeit to varying degrees, highlighted by the latter two seeing greater weakness amid light holiday liquidity on a lack of anything currency specific. For the Euro, EUR/USD hit a low of 1.0965, also the 21DMA, with the next levels to the downside being Friday's and last week's troughs of

1.0962 and 1.0960, respectively. Looking ahead, aside from the key aforementioned risk events there is EU Bank Lending Survey, EZ Flash CPI and New Zealand jobs all on Tuesday.

Scandis saw pronounced weakness largely due to the losses in the crude complex as weak Chinese manufacturing PMI weighed on the complex ahead of the Norges Bank later in the week.

EMFX was mixed, as the MXN and RUB saw gains, CLP, BRL, and TRY were flat, while ZAR saw losses on account of little new and the Dollar advancing. Although, and seemingly a daily update at the moment, Eskom noted a loadshedding schedule that climaxes in Stage 6 mid-week. Elsewhere, the Chilean Peso was supported by firmer copper prices and the Real saw the Brazilian government say it is to tax income from financial investments obtained abroad. Lastly, the off-shore Yuan saw weakness on Monday in wake of weak Chinese PMI data, which showed the country's factory activity unexpectedly contracted last month with USD/CNH hitting a high of 6.9630, just shy of the psychological 7.0000. NBS said the Manufacturing PMI fell to 49.2 (exp. 51.4, prev. 51.9), below the 50-mark for the first time since December. NBS said that a lack of market demand and the high-base effect from the quick manufacturing recovery in Q1 drove the contraction, and new export orders fell to 47.6 from 50.4 in March. The non-manufacturing PMI slipped to 56.4 (prev. 58.2).