newsquawk

US Market Wrap

2nd May 2023: Risk off as regional banks slide while JOLTS data falls ahead of Fed

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: JOLTS drop; Surprise 25bp RBA hike; KRE tumbles; ECB bank lending survey signals tightening credit conditions; Iran production breaches 3mln BPD; Lawmakers urge Powell to halt hikes; Strong NXPI numbers; CHGG cautious commentary on ChatGPT; IBM could cut up to 7.8k jobs due to AI.
- **COMING UP**: **Data**: EZ Unemployment, US ADP, ISM Services **Event**: FOMC Policy Announcement & Press Conference and US Quarterly Refunding & Press Conference **Supply**: UK & Germany **Earnings**: Airbus, BNP Paribas, Stellantis, Lufthansa, Deutsche Post, Haleon, Flutter; Qualcomm.
- **WEEKLY US EARNINGS ESTIMATES**: [TUES] SBUX, AMD; [WED] CVS, EL, QCOM; [THURS] MRNA, REGN, COP, MNST, AAPL, BKNG; [FRI] CI. To download the report, please click here.

MARKET WRAP

It was risk-off trade on Tuesday with a lot of focus on the regional banking sector posting vast losses, with the regional banking ETF closing down over 6% (see below). Meanwhile, the latest JOLTS was cooler than expected and towards the bottom end of analyst expectations which kicked off the Treasury bid before the weakness in regional bank stocks led to fresh buying on haven demand. Money market pricing also moved dovish on expected tighter credit conditions and cool jobs data, but the Fed still look set to hike by 25bps on Wednesday with markets pricing that in with 85% certainty, but 15% now looks for an unchanged print, for a full FOMC preview please see below. The Dollar was lower as a result while the risk-off trade supported the Yen and took the Aussie off its post-RBA surprise hike highs, but CAD was the G10 underperformer on weaker oil prices which were weighed on by demand concerns and increased supply out of Iran. In earnings, Pfizer (PFE) saw a strong quarter while NXP Semiconductors (NXPI) were very impressive, adding to the strong semi earnings this week after ON Semiconductor (ON) on Monday. Attention turns heavily to the Fed announcement on Wednesday, the ECB on Thursday as well as Apple (AAPL) earnings after hours on Thursday.

CENTRAL BANKS

FOMC PREVIEW: The Fed is all but set to hike the FFR by 25bps to 5.00-5.25%, with the consensus leaning towards a pause in June with priced risk of an additional hike (20% probability). What the statement will indicate and what Powell will guide towards will be reflective of great internal debate amongst the FOMC, albeit the Fed is likely to prioritise optionality above all. Pressure from doves to halt the tightening process amid uncertainty around the banking sector and nearing 'sufficiently restrictive' policy is likely to see adjustments to the statement to provide a pathway for a pause, but given nothing in the economic data since the March FOMC has justified a tightening slowdown, a halt at the May confab, and perhaps even June too, could come too soon, albeit a tail risk. For the full Newsquawk preview, please click here.

RBA REVIEW: The Reserve Bank of Australia unexpectedly increased its cash rate to 3.85% from 3.60%, stating that inflation remained "too high." The bank's forecast projects inflation at the upper end of its 2-3% target by mid-2023, and leaves the door open for further tightening in monetary policy, analysts said. The RBA's emphasis of returning inflation to target "within a reasonable timeframe" seems to be a direct consequence of the recent independent review of the Bank, Capital Economics says, which emphasised both the importance of returning inflation to the mid-point of the target rather than just into the target range, as well as recommending that the RBA better explain how long any over or under-shooting of its inflation target will last.

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REGIONAL BANKS: There was no particular catalyst for the tumble in the regional banks Tuesday (KRE ETF closed down 6.3%), with losses accumulating gradually from the open, but mainly after JOLTS job openings data entered the rear view. The sell-off Tuesday is permeating more broadly across regionals, rather than specific banks at risk as policymakers had initially hoped, although it's noteworthy that PacWest (PACW) and Western Alliance (WAL) led the losses, two banks that have recently been under scrutiny. Large cap banks are still being sold, although not as acutely, with JPMorgan (JPM), "the lender of second to last resort", the outperformer. The First Republic takeover was a story for

Monday, but the broader questions on the sector's future remain. Short sellers appear to be actively targeting the regional banks now with questions over increasing funding costs and the sector being on the precipice of a regulation overhaul. Some have also expressed concerns over the lack of guarantees for blanket deposit insurance. One potential weight is the growing traction around Charlie Munger's interview with the FT over the weekend, who warned that regional banks were "full of" bad commercial property loans. The concern now for policymakers is contagion, and it's worth highlighting that WSJ's Timiraos wrote on Monday that the Fed would be assessing the market's reaction to the FRC takeover ahead of its rate decision on Wednesday. Thus, it's of little surprise to see some of the hike pricing unwind in money markets, with a 25bps hike now priced at 80% probability vs 95% earlier today. Similarly, haven demand and lower Fed rate expectations are seeing Treasuries rip higher, being led by the front-end. Note, on Thursday, May 4th US Senate Banking Committee is to hold hearing on recent bank failures.

JOLTS: US Job Openings fell to 9.59mln from a revised up 9.974mln, beneath the consensus of 9.775mln and towards the bottom end forecast of 9.50mln. The slowing JOLTS shows an easing in the tight labour market although analysts point out it still remains well above pre-pandemic levels, but the decline is welcome in the fight against inflation. The Quits rate slowed to 2.5% from 2.6% in February, which Capital Economics says signals a slight decline in willingness from workers to test the labour market in search of new jobs. The report notes that job openings decreased in transportation, warehousing, and utilities (-144,000) but increased in educational services (+28,000). Meanwhile, the number of hires was little changed at 6.1mln with hires decreasing in real estate and rental and leasing (-29,000). Separations were little changed at 5.9mln, the number of total separations decreased in accommodation and food services (-107,000) but increased in construction (+104,000). Given the data was for March, it will not correlate with Friday's NFP report but the JOLTS data gives us a more accurate picture of how tight/loose the labour market is and it is a release the Fed watches closely, who are expected to hike by 25bps on Wednesday with attention on guidance.

DEBT CEILING: With the X Date now seen as early as June 1st, the White House is pushing Congress to come to an agreement. House Democrats have filed a “special rule” that could eventually be used to “allow Floor considerations of a bipartisan measure to avoid a dangerous default.”, according to Punchbowl, although added this "won’t be in play for several weeks but is a backup plan by Dems". Meanwhile, Senate Majority Leader Schumer has been stating the Democrats' position remains the same and that they need to pass a clean bipartisan increase in the government borrowing limit, saying this is the only option to avoid a default. Analysts at JPMorgan see a less than 10% chance of a default occurring, but they do see a credit downgrade as being likely. The desk adds that there is an 80% chance a deal gets done within two weeks of the drop-dead date, JPM sees this in mid-August, while a 10% chance a deal is done in the final days, and a 10% chance a technical default occurs, but just for 3/4 days before they come to an agreement.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 1 POINT & 2 TICKS HIGHER AT 115-18

Treasuries saw pronounced bull-steepening after softer JOLTS job openings and regional bank pressures cast doubts over Fed tightening. At settlement, 2s -16.3bps at 3.976%, 3s -16.7bps at 3.690%, 5s -17.3bps at 3.460%, 7s -16.4bps at 3.446%, 10s -14.1bps at 3.433%, 20s -10.7bps at 3.825%, 30s -9.0bps at 3.727%.

Inflation breakevens: 5yr BEI -6.5bps at 2.205%, 10yr BEI -5.0bps at 2.203%, 30yr BEI -3.8bps at 2.192%.

THE DAY: T-Notes recovered into the APAC session on Tuesday after the bear-steepening seen Monday after heavy corporate issuance and ISM prices paid jump. Contracts hit resistance at 114-21+ before the surprise RBA hike saw lows made at 114-15, only to recover again in the European morning, with the region back from the long weekend, to interim highs of 114-28+, losing momentum after EU mfg. PMI came in above expectations and the EU inflation data saw little reaction. A few Dollar corporate deals being announced saw T-Notes sold to support at 114-19 in the NY morning. However, better govvie buying picked up into the cash open for stocks, jumping on the fall in March JOLTS job opening data, but gaining particular momentum as regional bank shares started to tank. The combination of Fed hike price unwinding and haven demand saw T-Notes rally to session highs of 115-22.

THIS WEEK: (Weds) **FOMC**, ADP, **Tsy quarterly refunding announcement**, ISM Services; (Thurs) productivity; (Fri) **April NFP**, Fed's Bullard. Globally, (Thurs) UK Services PMI, **ECB rate decision**; (Fri) CAD employment.

STIRS:

- SR3H3 +1.0bps at 95.073, M3 +11.0bps at 94.985, U3 +16.0bps at 95.255, Z3 +18.5bps at 95.650, H4 +19.5bps at 96.150, M4 +20.0bps at 96.600, U4 +20.0bps at 96.920, Z4 +19.5bps at 97.095, H5 +18.5bps at 97.180, H6 +16.5bps at 97.200.
- US SOFR flat at 4.81% as of May 1st, volumes spike to USD 1.577tln from 1.378tln.
- NY Fed RRP op demand at USD 2.267tln (prev. 2.240tln) across 102 counterparties (prev. 103).

- US EFFR flat at 4.83%, volumes rise to USD 117bln from 113bln.
- US sold USD 40bln of 21-day CMBs at 4.490%, covered 2.59x.
- US leaves 4-week (May 4th), 8-week (May 4th), and 17-week (May 3rd) bill sizes unchanged at USD 50bln, 45bln, and 36bln, respectively, all to settle on May 9th.

CRUDE

WTI (M3) SETTLED USD 4.00 LOWER AT 71.66/BBL; BRENT (N3) SETTLED USD 3.99 LOWER AT 75.32/BBL

The crude complex tumbled on Tuesday, and settled at lows, due to risk-off fears amid renewed regional bank woes, continued angst around Fed hikes weighing on demand, and rising Iranian oil production. On the latter, the Iranian oil minister noted oil production surpassed 3mln BPD, against 2.565mln BPD in Q1. Separately on production, Iraq produced 3.938mln BPD in April, -262k BPD from March, according to a SOMO source cited by Reuters. Meanwhile, the downside in WTI and Brent accentuated after the weak JOLTS report was out of the way as stocks tumbled on worries of a US debt default and potential fuel demand waning after major central banks likely hike again this week. Looking ahead, the week is packed with key macro risk events, such as the Fed, ECB, and NFP, but in the immediacy, there is the private inventory data after-hours (expectations below) ahead of EIA data on Wednesday. Current expectations: Current expectations (bbls): Crude -1.1mln, Gasoline -1.2mln, Distillates -1.1mln.

BP: BP (BP/ LN) offers WTI Midland crude, which is now included in Dated Brent benchmark, at Dated Brent plus USD 1.45 on CIF basis, according to a Reuters source. Note, this marks the first time US crude has been included in the Dated Brent index, and WTI Midland volumes are expected to add 1mln bbls in the underpinning of Dated, coming as existing grades (Brent, Forties, Oseberg, Ekofisk, and Troll) lose relevance as their volumes decline. Separately in earnings, BP profits rose in the quarter after it pared back its share buyback programme, while it sees Q2 oil prices remaining elevated; however, revenue missed expectations, and sees Q2 refining margins below Q1 levels amid weaker middle distillate margins.

EQUITIES

CLOSES: SPX -1.16% at 4,119, NDX -0.89% at 13,113, DJIA -1.08% at 33,684, RUT -2.10% at 1,732.

SECTORS: Energy -4.29%, Financials -2.3%, Communication Services -1.78%, Real Estate -1.74%, Utilities -1.22%, Industrials -1.05%, Materials -0.94%, Technology -0.93%, Health -0.49%, Consumer Staples -0.32%, Consumer Discretionary +0.16%.

EUROPEAN CLOSES: Euro Stoxx 50 -1.48% at 4,294, FTSE 100 -1.24% at 7,773, DAX 40 -1.23% at 15,726, CAC 40 -1.45% at 7,383, FTSE MIB -1.65% at 26,630, IBEX 35 -1.72% at 9,082, SMI -0.16% at 11,418.

EARNINGS: **Pfizer (PFE)** topped Wall St. consensus on top and bottom line; reaffirmed FY23 guidance despite experiencing a 75% decline in sales of COVID vaccines Y/Y. **Marriot (MAR)** beat on the top and bottom line and raised its FY23 guidance. **NXP Semiconductors (NXPI)** posted stellar results, topped consensus on EPS and revenue alongside lifting Q2 guidance. **Uber Technologies (UBER)** posted a marginal shallower loss per share than expected and beat on revenue with the CEO noting it is off to a strong start for the year. Sees headcount flat to down in upcoming quarters with driver supply strong. **Chegg (CHGG)** warned that ChatGPT is threatening growth of its homework-help services, one of the most notable market reactions yet to signs that generative AI is upending industries. As such, the next quarter revenue view was light of consensus. **Arista Networks (ANET)** reported strong numbers, although desks attributed its weakness to comments that it expects moderating spending and slowing growth from its “cloud titans.” **DuPont (DD)** beat on EPS and revenue, but FY23 guidance was short of expected citing a delay on the electronic market’s recovery. China sales were down nearly 20% driven principally by the electronics weakness. **AerCap (AER)** surpassed expectations on EPS and revenue alongside wholesale positive commentary on the airline space.

STOCK SPECIFICS: **Amazon (AMZN)** reportedly planning an Alexa revamp with its own ChatGPT technology, according to Business Insider. **IBM (IBM)** CEO said it is to pause hiring for jobs AI could do and roughly 7,800 IBM jobs could be replaced by AI in the coming years. **Tesla (TSLA)** slightly raised the prices of its Model 3 sedan and Model Y SUV in the US and China. **Morgan Stanley (MS)** is said to be planning a further 3,000 jobs (around 5% of its workforce), amid the continued slump in dealmaking activity; cuts will reportedly be carried out by the end of June. A mistrial was declared in the **Masimo (MASI)** smartwatch trade secret lawsuit against **Apple (AAPL)**. The suit claimed that Apple misused confidential information related to the use of light to measure biomarkers in its smartwatches. Masimo plans to retry the case. **Microsoft (MSFT)** said later this quarter, the co.'s Azure Cloud Server unit plans to sell a version of ChatGPT that runs on dedicated cloud servers, according to The Information; could cost as much as 10 times what customers pay to use the regular version. **Ford (F)** cut its prices of the Mustang Mach-E EVs and announced it is reopening orders. Hindenburg Research cautious on **Icahn Enterprises (IEP)** and takes a short in the co. **Dell Technologies (DELL)** upgraded at Morgan Stanley; believes the stock can rally 25.5% from Monday's close as the personal computer market forms a bottom. **PNC Financial (PNC)** said PNC Bank has ability to offer up to USD 10bln of its commercial paper to provide additional liquidity; says as of March 31st, there were no issuances outstanding under this commercial paper programme

US FX WRAP

The Dollar sold off on Tuesday in wake of the cooler-than-expected JOLTS data while US regional bank stocks tumbled, sparking fresh financial contagion fears as the regional banking ETF was down over 8% at one point. The DXY fell from pre-data peaks of 102.40 to lows of 101.89 in the afternoon. Attention now turns heavily to the FOMC on Wednesday, where analysts look for a 25bp hike but there will be a lot of focus on the guidance the Fed has to offer, while the renewed selling pressure of regional banks could complicate their job with WSJ's Timiraos noting officials are likely monitoring the reaction to the FRC/JPM deal.

The Euro attempted to reclaim 1.10 vs the Dollar in wake of the data but it failed to hold onto the level with much confidence with direction likely to be driven from the Fed and ECB this week. Ahead of the ECB, the latest bank lending survey noted 27% of EZ banks reported tightening of lending standards for companies and 38% reported a fall in demand for credit from companies. Meanwhile, the Eurozone HICP flash reading for April was in line with expectations at 7.0%, rising from the prior 6.9% while German retail sales were weak.

The Yen benefitted from the risk-off tone in wake of banking weakness with USD/JPY falling from highs of 137.77 to lows of 136.32 with the Yen also benefitting from the lower US yields.

CHF was flat vs the Euro and firmed vs the Dollar with the Dollar being sold for currencies less exposed to the regional US banks. Attention in Switzerland (aside from global central bank rate decisions), turns to Swiss CPI data on Friday, where a hotter-than-expected print would help the hawks looking for a hike in June at the SNB. Gold prices surged on its haven demand, with banking woes and debt ceiling issues supporting the yellow metal, as did the fall in UST yields.

Antipodeans were strong, the AUD was initially the outperformer on Tuesday after the surprise RBA hike overnight to 3.85% from 3.60%, while also noting inflation remained too high while it left the door open for further tightening of policy. This was something which RBA Governor Lowe repeated later in his speech, adding there was a strong consensus on the board to hike rates. The Aussie failed to hold onto its highs north of 0.6700, however, as it fell victim to the soured risk tone in the US post-RBA. However, after the NZD found tailwinds from the gains in the Aussie, it managed to hold onto the majority of its gains to see the Kiwi outperform in FX, along with the JPY. Attention in New Zealand turns to tonight's HLFS report and labour cost index that could have implications for RBNZ near-term policy.

GBP and CAD saw weakness however, predominantly in fitting with the equity selling pressure with the latest final UK S&P Global mfg PMI data failing to support the Pound despite the revision higher above expectations. CAD was the G10 FX underperformer on the sharp selling pressure in crude prices which saw WTI and Brent USD 4.00/bbl lower on the session on increased supply out of Iran, risk-off trade, and demand concerns on a loosening job market and expected Fed hike on Wednesday.

In EM, LatAm FX saw the BRL underperform after a weak S&P Global manufacturing PMI, while CLP saw weakness on weak growth data. The Chile Activity index fell 2.1% Y/Y, deeper than the expected decline of 1.7% and down from the -0.5% in Feb, the downturn in March was primarily due to a fall in mining output as well as commerce. MXN also saw weakness as oil prices tumbled while a poll saw analysts expect Banxico to end the year with rates at 11.25%, down from 11.5% in the prior poll. COP managed to outperform. ZAR was weaker despite gains in gold prices, while South Africa also announced the petrol pump price is to rise by 37 cents per litre and wholesale diesel price to fall by up to 74c a litre from 3rd May. In CEE, HUF was weaker vs the Euro after PPI cooled from the prior but the February trade balance saw a wider surplus than the prior.