US Market Wrap

3rd May 2023: Post-Powell bank selling sees stocks close lower; Fed set for June pause

- **SNAPSHOT**: Equities lower, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Fed hike 25bps, as expected, accompanied by a dovish statement; Treasury announced the buyback programme is scheduled for 2024; Russia/Ukraine tensions; Hot ADP but with encouraging wage components; Mixed ISM Services but new orders impresses; Weak EL guidance; Strong AMD numbers but accompanied with disappointing outlook; META sees FTC proposes new sanctions against it.
- **COMING UP**: **Data**: Australian Trade Balance, German Trade Balance, EZ & UK Composite/Services PMI, US IJC **Event**: ECB & Norges Bank Policy Announcements & Press Conferences; BoE DMP **Supply**: Spain & France **Earnings**: Volkswagen, Infineon, Hugo Boss, BMW, AB InBev, Adecco, Shell; Apple, Kellogg, AEP, Moderna, Paramount, Conoco.
- **WEEKLY US EARNINGS ESTIMATES**: [WED] QCOM; [THURS] MRNA, REGN, COP, MNST, AAPL, BKNG; [FRI] CI. To download the report, please click here.

MARKET WRAP

Stocks ended the session in the red with the majority of losses occurring after Fed Chair Powell's press conference while the highs were seen right after the statement. The Fed hiked 25bps as expected and opened the door to a pause, but Powell was reluctant to officially call it one, and he pushed back on market pricing for rate cuts this year. Banks particularly took a beating post-Powell after he alluded that the SLOOS survey is consistent with banks tightening lending standards and the pace of lending is slowing. Treasuries were firmer across the curve once the dust settled with Powell noting they are much closer to the end than the beginning, while the expected tightening of credit conditions could help with the Fed's job. The Dollar finished lower on the session, with DXY testing 101 after the dovish Fed statement but pared off lows thereafter. Crude prices saw continued weakness on Wednesday but found a floor after Russia's Novak spoke of OPEC+ interference, and said the weaker prices may be short-lived. Pre-Fed, the ADP jobs report was hot on the headline, but cool on wages, while the Services ISM was broadly in line. There was renewed Russia/Ukraine angst too, after a Ukrainian drone attack on the Kremlin led to some punch rhetoric from Russia hawks, calling for Zelenskiy to be "eliminated".

CENTRAL BANKS

FED CHAIR POWELL PRESSER/Q&A: Powell began his presser by saying conditions in the banking sector have broadly improved and that focus remains on the dual mandate, with the Fed committed to bringing inflation back down to 2%. He leaned into the Fed being in a data-dependent approach to determine the extent of any further rate hikes, although he later said in the Q&A the Fed believes it is most likely at or near the end of the hiking cycle. He said there were a number of policymakers at today's meeting talking about pausing, but not so much for this meeting. Although the Fed Chair was eager to point out that the Committee believes inflation will not come down quickly, and as such, it would not be appropriate to cut rates anytime soon. Powell said the much-awaited Senior Loan Officer Survey (scheduled for public release on May 8th) was "broadly consistent" with how the Fed has been thinking about the situation, namely, that banks have been tightening lending standards and the pace of lending was slowing. When asked about what the Fed will be looking at between now and June, he said a particular focus going forward is what is happening with credit tightening, saying the Fed needs to factor tightening into whether its policy stance is sufficiently restrictive. On which, Powell said it would be an ongoing assessment of whether the Fed has reached 'sufficiently restrictive' and it's not possible to say with confidence if it has reached it already as more data is needed. On the economy, Powell highlighted that activity in the housing sector remains weak and the labour market remains very tight, but there are some signs that supply and demand in the labour market are coming back into better balance, with nominal wage growth showing some signs of easing. But, inflation is still well above its goal and there is a long way to go to bring it down, albeit it has moderated somewhat. Powell said in the Q&A that non-housing services inflation has not moved much, albeit he gave the gauge much less attention/mention than he has done in the past.

FOMC ANALYSIS: The Fed hiked the FFR by 25bps to 5.00-5.25% as expected, with the IOER raised by 25bps to 5.15%. Crucially, the statement saw the removal of the line that it "anticipates more policy firming may be appropriate" to attain a sufficiently restrictive stance, instead softening that to "in determining the extent to which additional policy firming may be appropriate", it will take into account tightening to date, policy lags and other developments. WSJ's Timiraos, to wit, "The FOMC statement used language broadly similar to how officials concluded their interest-rate increases in 2006, with no explicit promise of a pause by retaining a bias to tighten." Otherwise, there was little else new in the statement but it did maintain its language that banks are "sound and resilient" in the face of recent jitters. Traders now look to Powell's presser/Q&A at 19:30BST/14:30EDT for more colour around the guidance. Money markets are little changed in wake of the statement release, with no hikes priced for June and the year-end Fed rate still implied in the 4.25-4.50% range. Stocks and bonds have unwound an initial bounce higher, while Dollar selling has also started to unwind.

ECB PREVIEW: Consensus looks for a 25bps hike in the Deposit Rate to 3.25%, according to 57/69 analysts surveyed by Reuters, whilst the remaining 12 look for a 50bps increase. Market pricing concurs with the consensus as 25bps is priced at around 78% vs. 22% for 50bps. As it stands, messaging from policymakers has suggested that the policy options will be between a 25bps and 50bps hike, with the Bank required to deliver further tightening to bring inflation back to target. Given the political nature of the GC, it is expected that 25bps will be the compromise between the hawks and doves who will also be jostling over how high the terminal rate will reach in the coming months, with markets currently priced for the Deposit Rate to reach 3.65% in July, which would imply 25bps hikes in May and June with a 60% chance of a further 25bps increase in July. To download the full Newsquawk preview, please click here.

GLOBAL

GEOPOLITICS: Russia has accused Ukraine of attempting to assassinate Russian President Putin via a drone attack, although they were shot down by Russia. The drone attack has severely angered some of Putin's closest, the Deputy Chair of the Russian Security Council Medvedev has said the only response to such action is to eliminate Ukraine President Zelenskiy and his "clique". Ukraine denies they were behind the attack while the US says to take the report with a "shake of salt", and they cannot validate reports.

ISM SERVICES: ISM Services PMI rose to 51.9 from 51.2 in April, marginally above the expected 51.8, which was largely due to a large increase in new orders to 56.1 (prev. 52.2) and ongoing improvements in both capacity and supply logistics. Elsewhere, business activity dropped to 52.0 (prev. 55.4, exp. 54.5), employment remained in expansionary territory but fell to 50.8 (prev. 51.3), and prices paid ticked slightly higher to 59.6 (prev. 59.5). The report notes, “The majority of respondents are mostly positive about business conditions; however, some respondents are wary of potential headwinds associated with inflation and an economic slowdown.” Overall, Oxford Economics said “Services activity firmed, but not enough to suggest a cooldown isn't underway. Tighter lending standards and elevated interest rates will weigh on services activity and employment, with the greatest losses set to be experienced in H2 2023. Services subsectors that are sensitive to credit conditions and those reliant on consumer discretionary spending are most vulnerable to the mild recession that we expect will start in Q3.”

ADP: The ADP National Employment report in April was hot on the headline, adding 296k jobs in April, above the expected 148k and March's addition of 142k. It was also above all analyst forecasts which ranged from 100 to 220k. The wages components however were more encouraging for the Fed, with wages for job-stayers rising 6.7%, cooler than the prior 6.9%, while the wage growth for job changers cooled to 13.2% from 14.2%, showing the slowest pace of growth since November 2021. Although the ADP data does not directly compare with the NFP report, the strength of this headline has led some to revise their expectations for the NFP print on Friday, Goldman Sachs (GS) lifted their headline NFP forecast by 25k to 250k. However, others like Capital Economics, maintain their forecast of 180k based on the upward trend in initial jobless claims and downward trend in job openings.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 11 TICKS HIGHER AT 115-29

Treasuries were bid as the Fed laid the groundwork for a June pause and oil prices tumbled, while the Treasury announced the buyback programme is scheduled for 2024. 2s -8.1bps at 3.900%, 3s -9.3bps at 3.600%, 5s -8.8bps at 3.378%, 7s -7.2bps at 3.377%, 10s -4.9bps at 3.390%, 20s -3.1bps at 3.799%, 30s -1.9bps at 3.713%.

Inflation breakevens: 5yr BEI -0.7bps at 2.202%, 10yr BEI +1bps at 2.213%, 30yr BEI +1.7bps at 2.208%.

PRE-FOMC: T-Notes chopped sideways in a tight 115-17+/115-20+ range during the Tokyo session with the region on holiday, holding onto the pronounced rally on Tuesday post-JOLTS job openings and banking sector woes. London came in and lifted the offer in lack of much anew aside from some continued angst around US regional banks (which had initially been sold further in pre-market trade). T-Notes hit interim highs of 115-30+ before paring a few ticks into the NY handover. The beat on ADP employment saw a kneejerk lower in contracts although better buying returned in wake of the quarterly refunding, where the Treasury said it expects the much-speculated buyback programme to begin in early 2024. The continued tumble in oil prices saw govvies supported further, holding onto strength into the FOMC despite the firming ISM Services survey. It's also worth considering an element of haven demand given the latest developments re-Ukraine/Russia.

FOMC: T-Notes spiked to session highs of 116-09+ after the Fed hiked 25bps as expected and saw the statement revised to include a pathway to a Fed pause at upcoming meetings, but contracts pared back before Powell began his presser. It was rangebound trade as the Fed Chair began speaking, giving two-way remarks that acknowledged a lack of significant progress on the data front but also that tighter lending standards are expected to feed through. Interim lows of 115-24+ were seen after Powell said that rate cuts would not be appropriate at this juncture if inflation evolves as it expects it to. Although fresh buying was seen not long after (post-settlement) as Powell concluded saying the Fed believes it is close, if not there, to being done with hikes.

QUARTERLY REFUNDING: The Treasury left all its coupon auction sizes unchanged, as expected: to sell USD 40bln of 3yr notes on May 9th, USD 35bln of 10yr notes on May 10th, and USD 21bln of 30yr bonds on May 11th. However, based on projected intermediate- to long-term borrowing needs, Treasury said it may need to modestly increase auction sizes later this year, potentially as soon as the August 2023 refunding announcement, assuming a debt limit resolution is found.

TREASURY BUYBACK FACILITY: Treasury announced that it expects to begin a regular buyback programme in CY2024 for cash management and liquidity support purposes, as some had speculated. Treasury anticipates designing a buyback program that will be conducted in a regular and predictable manner, initially sized conservatively, and not intended to meaningfully change the overall maturity profile of marketable debt outstanding.

THIS WEEK: (Thurs) productivity; (Fri) **April NFP**, Fed's Bullard. And globally, (Thurs) UK Services PMI, **ECB rate decision**; (Fri) CAD employment.

STIRS:

- SR3H3 -1.25bps at 95.06, M3 -4bps at 94.945, U3 +2bps at 95.275, Z3 +8bps at 95.73, H4 +12.5bps at 96.275, M4 +13bps at 96.73, U4 +12.5bps at 97.04, Z4 +11bps at 97.205, H5 +10bps at 97.28, H6 +6.5bps at 97.265.
- US SOFR flat at 4.81%, volumes fall to USD 1.537tln from 1.577tln.
- NY Fed RRP op demand at USD 2.258tln (prev. 2.267tln) across 102 counterparties (prev. 102).
- US sold USD 36bln of 17-week bills at 4.980%, covered 2.95x.
- US EFFR flat at 4.83%, volumes rise to USD 118bln from 117bln.

CRUDE

WTI (M3) SETTLED USD 3.06 LOWER AT 68.60/BBL; BRENT (N3) SETTLED USD 2.99 LOWER AT 72.33/BBL

The crude complex sank lower, again, on Wednesday amid further risk-off trade and ongoing growth concerns all prior to the Fed hiking rates by 25bps, as expected. Additionally, with WTI and Brent front-month futures falling to lows of USD 67.95/bbl and 71.70/bbl, respectively, and technicians are eyeing the March lows of 64.12/bbl 70.12/bbl. On OPEC+, Russia Deputy PM Novak noted the fall in oil prices requires a detailed study for possible OPEC+ response and that the oil price fall maybe will be short-term which did help find the floor in crude prices today. Meanwhile, Reuters citing a delegate, said the group is to proceed with the plan for a June meeting. On the SPR, ING suggested "it is around these levels that we could possibly see the US administration starting to refill its strategic petroleum reserves. And finally, breaking below US$70/bbl would be a concern for OPEC+, and so talk of additional cuts would likely grow if we trade down towards this level." Looking ahead, there has been renewed strains in geopolitics today regarding Ukraine /Russia, while macro events look tothe ECB on Thursday, and NFP on Friday.

IRAQ: Iraq's Oil Minister expects to come to a final agreement with the KRG to recommence northern oil exports within two weeks, which followed reports the Iraq Oil Ministry said that Baghdad and the KRG have not reached an agreement needed to restart northern oil flows. Note, two weeks ago it was reported the Iraqi federal government and the KRG resolved crucial technical issues to recommence northern oil exports from Turkey's Ceyhan port to international markets, according to four sources cited by Reuters at the time.

EIA: Crude stocks drew more than expected, in line with but not as deep as the private inventory data on Tuesday night, although SPR drew by 2mln barrels to see it fall in the latest week to the lowest since October 1983. Gasoline saw a surprise build, in fitting with last night, while Distillates drew marginally more than forecasted. Crude production rose 100k to 12.3mln and refining utilisation fell 0.600% (exp. 0.3%).

EQUITIES

CLOSES: SPX -0.70% at 4,090, NDX -0.64% at 13,030, DJIA -0.80% at 33,414, RUT +0.41% at 1,739.

SECTORS: Energy -1.92%, Financials -1.19%, Materials -1.11%, Technology -0.83%, Consumer Staples -0.79%, Consumer Discretionary -0.71%, Real Estate -0.59%, Industrials -0.38%, Utilities -0.32%, Communication Services -0.17%, Health -0.11%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.36% at 4,310, FTSE 100 +0.20% at 7,788, DAX 40 +0.56% at 15,815, CAC 40 +0.28% at 7,403, FTSE MIB +0.77% at 26,835, IBEX 35 -0.06% at 9,076, SMI +0.74% at 11,508.

STOCK SPECIFICS: **Eli Lilly (LLY)** said it's Alzheimer's drug Donanemab slowed cognitive decline by 35% and met all primary and secondary goals with high statistical significance. **Spirit AeroSystems (SPR)** CEO said it has resumed 737 airframe shipments to **Boeing (BA)**. Now expects cash burn of USD 100-150mln in 2023. For the Airbus (AIR FP) A320, it now expects to deliver about 580 ship sets this year, about 85 fewer than we previously discussed last quarter. It also noted that close to 500 Boeing (BA) 737s in service need to be inspected. **ImmunoGen (IMGN)** announced the "practice-changing" results of its phase three trial for its experimental ovarian cancer drug. The trial showed the drug demonstrated a "statistically significant and clinically meaningful improvement" in prolonging the lives of patients. FTC proposes new sanctions against **Meta (META)**; proposes blanket prohibition preventing Facebook from monetising youth data. META said the FTC proposal on limiting use of youth data is a "political stunt".

EARNINGS: **Estee Lauder (EL)** missed on EPS and lowered its FY outlook to reflect a more gradual recovery in Asia travel retail. **Advanced Micro Devices (AMD)** beat on the top and bottom line, but next quarter revenue guide disappointed amid a weak PC market. **Starbucks (SBUX)** beat on EPS and revenue, but desks attributed to the fact it only re-affirmed FY guidance and strong results did not pass through to guidance. **CVS Health (CVS)** surpassed consensus on the top and bottom line, but FY23 EPS view was short of expected due to costs related to recent acquisitions of Signify Health and Oak Street Health. **Emerson Electric (EMR)** topped Wall St. consensus on EPS and revenue, alongside next quarter and FY outlook impressing. **Ford (F)** beat on EPS and revenue, but restated the forecast of a 5% decline in prices through the year and will make appropriate adjustments to production to control inventories. F recorded costs of USD 681mln in Q1 on employee separation actions and disposal activity; continues to reduce workforce, take restructuring actions; sees charges of USD 1.5-2.0bln attributable to employee separations and supplier settlements. **Match Group (MTCH)** marginally beat on profit and authorised a USD 1bln share buyback programme. Although, it missed on revenue with next quarter sales view light. **Generac Holdings (GNRC)** beat on the top and bottom line. **Kraft Heinz (KHC)** beat on top and bottom line and raised FY23 EPS view.

US FX WRAP

The Dollar saw downside in wake of the Fed rate decision, where the central bank hiked rates by 25bps to 5.00-5.25%, as expected, but issued a dovish tweak to the statement as it dropped the language that it anticipates more policy firming may be appropriate to attain sufficiently restrictive stance. As such, the Greenback fell to lows of 101.05 but pared some of the losses to be off the trough post statement. Through Chair Powell presser the Dollar was fairly unreactive, especially considering some of the moves we have seen through the Q&A in recent times, although the Buck did pare some of the move after he noted it would not be appropriate to cut rates if inflation unfolds as forecasted. Elsewhere and pre-Fed, the ISM Services was mixed on balance given broadly in line headline and prices paid readings, an encouraging pick-up in new orders, but slowdown in new business activity and downturn in employment. Elsewhere, ADP smashed through expectations ahead of the key NFP on Friday, although the link between the two is somewhat tenuous. Looking ahead, there is the ECB (preview here) and Apple earnings on Thursday, ahead of payrolls and Fed's Bullard on Friday.

The Yen outperformed in wake of the FOMC rate decision and press conference with USD/JPY hitting a low of 134.85 with the dovish twist to the Fed statement supporting the Yen, although Powell was reluctant to declare an official pause at this meeting, rather than to take it on a meeting by meeting basis. Gold prices saw highs after the Fed statement in a knee-jerk reaction with gold finishing the session at highs. The yellow metal managed to rise above USD 2,000/oz in after the Services ISM data, albeit broadly in line with expectations. Perhaps also supporting the yellow metal was the renewed geopolitical concerns out of Russia and Ukraine after Russia said they shot down Ukrainian drones aiming for the Kremlin, with Russian officials calling for an elimination of President Zelenskiy as the only response.

AUD and CAD were the laggards, albeit ending flat against the Buck, in wake of the aforementioned dollar sell-off. Nonetheless, the Loonie saw weakness throughout Wednesday up until the FOMC on account in the broad declines seen again in the crude complex ahead of BoC Governor Macklem on Thursday. The Aussie managed to reclaim its losses and even breached 0.6700, although it was brief after the Fed statement ahead of trade data.

GBP, EUR, and NZD all briefly firmed in wake of the dovish Fed hike, highlighted by Cable hitting a 2023 high of 1.2589 with technicians noting bulls are now eyeing the May 27th high of 1.2667. For the Euro, the single currency benefitted from the Fed rate decision but eyes not turn to the ECB meeting on Thursday where it is anticipated to hike by 25bps to 3.25%. Heading into the FOMC, the Kiwi remained underpinned within narrow parameters following a strong NZ HLFS overnight and RBNZ FSR noting that the domestic financial system is well placed to handle the higher interest rate environment and international financial disruptions.

EMFX was more-or-less firmer against the Dollar, with the TRY, flat, underperforming. EM currencies saw strength on account of the broad Dollar weakness with the ZAR supported by gold prices. Although, on the de-dollarization theme, according to Reuters citing both Governments, Argentina offered to fast track imports from Brazil if it adopts a new credit system that reduces its dependence in the Dollar, which it has in short supply. Separately for the Real, it is the BCB rate-decision after hours where the Selic rate is expected to remain unchanged at 13.75%. Lastly, in CEE, CZK firmed after the CNB vote to hold rates came with two dissents for a ¼ point rise and the post-meeting statements implied a greater chance of a tightening move next time or at least current levels for longer.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com