newsquawk

US Market Wrap

May 4th 2023: Risk off sustains on more bank woes and mixed ECB ahead of NFP

- **SNAPSHOT**: Equities down, Treasuries up, Crude mixed, Dollar flat/up.
- **REAR VIEW**: ECB hikes 25bps; PACW explores options, WAL denies it is exploring options; Mixed jobless claims; Rising labour costs, falling productivity; MSFT to help finance AMD's AI chips; TD and FHN abandon merger.
- **COMING UP**: **Data**: Swiss CPI, EZ Retail Sales, US & Canadian Labour Market Reports **Events**: RBA SOMP, ECB SPF **Speakers**: Fed's Cook & Bullard; ECB's Elderson **Earnings**: Intesa Sanpaolo, Adidas, InterContinental Hotels; Cigna.

MARKET WRAP

Stocks were lower and choppy on Thursday with more regional bank selling, soaring US Labor Costs, and a mixed ECB meeting. The SPX has closed lower every day this week. PacWest (PACW) exploring strategic options and then conflicting reports later in the session on whether Western Alliance (WAL) was following suit sustained the downbeat sentiment that permeated out of the sector, not to mention the failure of the TD/First Horizon merger. The short-selling is increasingly bringing in regulator attention, with Reuters reporting officials are assessing possible market manipulation regarding banking shares, citing that the regional banks have sound fundamentals, stable deposits and remain well capitalised. In Europe, the Euro failed to shake off all its losses despite ECB's Lagarde saying that the bank is not pausing after the statement alluded to policy approaching "sufficiently restrictive" in the future after the ECB's 25bp hike and the discontinuation of APP reinvestments from July to appease hawks who wanted 50bps. US Treasuries saw big bull-steepening, shaking off the alarming 6.3% spike in Q1 Unit Labor Costs amid haven demand on bank woes and a rise in initial jobless claims - the long-end was little changed vs the 20bps dive in the 2yr, with legacy curve flatteners unwinding and new steepeners plied on. The Dollar was a touch firmer in the aggregate, with the Euro's underperformance offset by Yen strength on improving rate differentials; activity currencies were generally bid. Oil prices were little changed after acute selling earlier in the week amid Saudi cutting its OSPs for June, bullish Shell commentary, and more Novak jawboning.

US

REGIONAL BANKS: Regional banks took another beating on Thursday, led by **PacWest (PACW)** and also **Western Alliance (WAL).** PacWest Bancorp (PACW) slumped after reports it is considering strategic options, including a sale. Although, PACW said it had not seen any acceleration in deposit outflows since FRC was sold to JPM earlier this week. The news is of concern as it shows the bank is struggling amid the recent woes and is in need of a rescue. Meanwhile, Western Alliance (WAL) also saw notable downside, in excess of 60% at one stage, after FT sources noted it is reportedly exploring strategic options incl. a potential sale of all/part of its business and as such has hired advisors to explore options with deliberations at an early stage. However, not long later the bank came out with a statement vehemently denying these media reports noting it is not exploring a sale, nor has it hired an advisor to explore strategic options, and is considering all of its legal options in response to the article. Note, US Federal and State Officials are reportedly assessing possible market manipulation regarding banking shares, stating many US regional banks have sound fundamentals, stable deposits and remain well capitalized, according to Reuters citing sources. Bloomberg later reported the FDIC is poised to release plan next week to refill insurance fund; Big banks will reportedly pay more to refill insurance fund under and smaller banks with less than USD 10bln in will assets avoid a fee. On the FDIC, FBN's Gasparino reported overnight that banking sources believe "Yellen and the FDIC are moving toward either an explicit or de facto guarantee of deposits above the USD 250k limit to stem the regional banking crisis now threatening a new set of mid sized institutions". Note, **TD Bank (TD) and First Horizon (FHN)** also mutually agreed to terminate their merger pact, adding to the regional banking woes.

NFP PREVIEW: Headline NFP is expected to rise by 180k in April, cooling from the prior 236k while the unemployment rate is seen ticking up slightly to 3.6% from 3.5%. The wages will be eyed to gauge inflationary pressures, and M/M wages are expected to maintain a pace of 0.3% while the Y/Y is seen rising 4.2%, the same pace in March. Labour market proxies have been mixed: initial jobless claims rose in the week that coincides with the BLS survey period, while continued claims moved lower; the ADP added jobs well above expectations, but wages were cool; ISM Manufacturing employment gauge returned to expansionary territory, and the Services employment remained in expansionary territory, but it did slow from March. The jobs report will be used to gauge the Fed's next move, whether that be a pause, or lead to some "additional policy firming", but it is worth stressing there is plenty of data between now and the June 14th FOMC, while the expected and actual tightening of credit conditions will also be key, particularly after First Republic (FRC) saga and more recently, PacWest (PACW) exploring options. For a full Newsquawk preview, please click here.

JOBLESS CLAIMS: Initial claims rose to 242k, marginally above expectations of 240k, up from the prior 229k. Continued Claims however fell to 1.805mln from 1.843mln, beneath expectations for a rise to 1.865mln. With initial claims rising broadly in line, it reverses the c. 15k drop in the prior week. Although a move higher, it is not a sharp deterioration but it would be seen as consistent with a slight loosening of the labour market. Also, the trend in jobless claims is edging higher, particularly after the revision adjustments in early April. Despite the recent upside in jobless claims, Fed Chair Powell did not take a victory lap at the FOMC on Wednesday, noting the labour market is still very very strong, noting it is possible we can have a cooling labour market, without such a large increase in unemployment. Analysts generally agree that they expect claims to continue their upward drift through the year.

PRODUCTIVITY/LABOR COSTS: US Q1 productivity tumbled 2.7%, deeper than the expected 1.8% fall, while the prior growth was revised slightly lower to 1.6% from 1.7%. Productivity continues to run at levels far beneath pre-COVID trends, with the Q1 decline a function of a large increase in hours worked (+3%) with only a mild increase in output (+0.2%), desks point to the sectoral shift over the past year or so back to lower-productivity sectors such as leisure and hospitality as a key drag. The strong 3.4% bounce in wage pressures combined with the tumble in productivity saw Q1 Unit Labor Costs spike 6.3%, well above the expected 5.5% and the prior 3.3%. Oxford Economics warns, "On past form, that pace of unit labor cost growth is consistent with core inflation falling back to only 4%, well above the Fed's 2% target and underlining just how sticky domestically-generated inflation has become."

INTERNATIONAL TRADE: The nominal trade deficit narrowed to USD 64.2bln in March from USD 70.6bln (exp. 63.3bln), with the headline driven by weaker imports and stronger exports, highlighted by the former rising 1.3% and the latter by 2.9%. Although, the nominal increase in exports, which lifted USD 5.3bln, was almost entirely driven by the rise in petroleum products of USD 4.7bln. As such, Oxford Economics note, “Excluding these products, the trade deficit would have widened slightly in March. It’s unlikely the strength in petroleum products repeats next month.” OxEco concludes, “While the moderation in the US dollar in March likely may improve conditions for exporters modestly in future months, the level highly remains elevated, and we believe this in tandem with weakening demand will drive a difficult year ahead.”

CENTRAL BANKS

ECB: As expected, the ECB stepped down to a 25bps cadence of rate hikes from the 50bps unveiled in March. The decision to implement further tightening was based on the GC's judgement that the "inflation outlook continues to be too high for too long". The smaller increment of tightening was likely amid concerns that "past rate increases are being transmitted forcefully to euro area financing and monetary conditions, while the lags and strength of transmission to the real economy remain uncertain". Moving forward, future "decisions will ensure that the policy rates will be brought to levels sufficiently restrictive...". The main surprise from the announcement came via the balance sheet whereby the GC now expects to discontinue the reinvestments under the APP as of July 2023. ING notes that the balance sheet will likely shrink by EUR 27bln per month vs. the current pace of EUR 15bln. Some observed that the decision on the balance sheet could have been part of a compromise between the doves and the hawks on the GC with the latter favouring a 50bps hike today or a potentially more aggressive rate path going forward; something which Lagarde later denied. However, sources later suggested there was a deal involved, but the hawks apparently gave up on a 50bps hike without much of a fight, but Holzmann (non-voter), was the only objection. At the follow-up press conference, Lagarde stated that today's decision "was not a pause" and the ECB still has "more ground to cover"; a comment which gave today's announcement a more hawkish skew than the initial policy statement. In terms of the balance of views on the GC, Lagarde noted that the decision was not unanimous with some members preferring a 50bps adjustment, however, no members wished for an unchanged rate. Looking beyond today's meeting, Lagarde said she does not have an exact number for what "restrictive" will mean for the ECB with regards to the terminal rate, however, she judges the Bank will know when it gets there. The sources later revealed that some policymakers see two-to-three hikes ahead. Overall, despite the ambiguity of the initial statement, further tightening is expected from the ECB. However, the Bank is clearly heading towards the final stages of its tightening cycle with just one more 25bps hike fully priced by the market vs. expectations ahead of the meeting that we would get 25bps in June and a 60% chance we would get another 25bps move in July.

BCB: The Brazilian Central Bank maintained the Selic rate at 13.75%, as expected, for a sixth straight meeting in a unanimous decision with the BCB noting it will assess if the strategy of maintaining the Selic rate for a long period will be sufficient to ensure the convergence of inflation to the target. The statement maintained the current scenario demands patience and serenity, but in a dovish twist noted “although a less likely scenario, will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected", which Pantheon Macroeconomics alludes to the COPOM saying further hikes are not their base case. In addition, committee presented projections with constant interest rates showing inflation is at 2.9% (prev. 3.0%) at Q4 24, slightly below the target, but still 5.7% in Q4 23. Pantheon Macroeconomics sees the aforementioned tweaks as an early indication that interest rates will start to fall at some point in Q3, and expect the Board to signal action in its next quarterly inflation report (June 29th), and notes "if we are right, the Bank will start cutting interest rates in August or September."

NORGESBANK: Overall, the decision was in-fitting with expectations. As the Norges Bank hiked by 25bp, guided participants to another hike in June (as per the March repo path) and added some further emphasis on recent NOK depreciation. However, this latter point is likely the reason for the modest NOK pressure seen following the announcement. As while the commentary around the NOK implies a hawkish-skew to the repo path, the Norges Bank stopped short of announcing any immediate measures to address this. Next, we look to the press conference from Governor Bach at 09:30BST. Further out, we will be attentive to any adjustments to the NOK selling activity by the Bank as while this is not for monetary purposes, it is a headwind for the currency and desks expect it to be sharply curtailed and/or halted in the not too distant future.

FIXED INCOME

T-NOTE (M3) FUTURES SETTLE 21 TICKS HIGHER AT 116-18

Treasuries saw big bull-steepening, shaking off the Labor Costs spike amid haven demand on bank woes and a rise in initial jobless claims. 2s -17.8bps at 3.762%, 3s -14.9bps at 3.488%, 5s -11.0bps at 3.301%, 7s -7.6bps at 3.323%, 10s -3.8bps at 3.366%, 20s -0.1bps at 3.802%, 30s +1.5bps at 3.730%.

Inflation breakevens: 5yr BEI -1.5bps at 2.161%, 10yr BEI -0.3bps at 2.190%, 30yr BEI +1.5bps at 2.208%.

TOKYO/LONDON: Treasuries rallied into the Tokyo session on Thursday with PacWest (PACW) considering strategic options driving haven demand after Powell laid the groundwork for a June Fed pause. T-Notes gapped higher open on the futures reopen to 116-19+, going on to peak at 116-25+. Contracts then gradually pared into the European session, finding support at 116-05.

NEW YORK: More regional banking pressures as US traders began to arrive saw better govvie buying develop at the handover; the cancelling of the TD/First Horizon merger only added to the woes. The front end led a kneejerk bid higher after the ECB hiked 25bps but gave a nod to the nearing of "sufficiently restrictive". T-Notes hit interim resistance at 116-16+ but the bid couldn't sustain and curve steepening flows were plied on Treasuries, with Ultra Bond futures leading the dive - legacy flatteners being unwound in addition to traction around entering steepeners, which the Sell Side has been shilling lately. Catalysts complimented the initial selling in the NY morning with Q1 Labor Costs spiking (albeit jobless claims rose) and comments from Lagarde in her presser that "it's very clear that the ECB isn't pausing" added to the general bond bearishness. T-Notes hit session lows of 115-31 before haven demand took over as bank stocks tumbled in NY cash trade. Contracts sustained all the way through their APAC highs and went on to peak at 117-00 bang on at mid-day NY before paring somewhat as the stock selling lost momentum.

FRIDAY: April NFP (preview here), Fed's Bullard and Cook, while we also expected the CAD employment report.

STIRS:

- SR3H3 +0.8bps at 95.07, M3 +9bps at 95.025, U3 +20.5bps at 95.45, Z3 +25bps at 95.94, H4 +27bps at 96.495, M4 +25bps at 96.93, U4 +20bps at 97.19, Z4 +16bps at 97.32, H5 +13.5bps at 97.375, H6 +7.5bps at 97.315.
- US SOFR flat at 4.81%, volumes rise to USD 1.544tln from 1.537tln.
- Big whites/reds trade: 45k SR3U3 96.75/98.25 call spreads vs 22.5k S0U3 (1yr Sept mid-curves) 98 calls blocked for net 3 up to 4.
- NY Fed RRP op demand at USD 2.242tln (prev. 2.258tln) across 101 counterparties (prev. 102).
- US sold USD 51bln of 4-week bills at 5.840%, covered 2.51x; sold USD 46bln of 8-week bills at 5.400%, covered 2.93x.
- US leaves its 13-week and 26-week bill auction sizes unchanged at USD 57bln and 48bln, respectively; both sold on May 8th and settled on May 11th.

CRUDE

WTI (M3) SETTLES USD 0.04 LOWER AT 68.56/BBL; BRENT (N3) SETTLES USD 0.17 HIGHER AT 72.50/BBL

Oil prices were little changed on Thursday after acute selling earlier in the week amid Saudi cutting its OSPs for June, bullish Shell commentary, and more Novak comments. After hitting new lows of USD 63.64/bbl and 71.28/bbl for WTI and Brent front-month futures, respectively, in post-settlement trade Wednesday, contracts recovered into the APAC session. There was a bout of selling during the European session but those lows were never tested again, with contacts paring losses into the NY afternoon, loosely tracking stocks/risk. Note that Saudi Aramco cut its June OSPs for Asia today, marking the first cut in four months with a fall in refining margins leading the exporter to increase the allure of its crude; Saudi also cut its OSPs for US customers but raised them for N.W. Europe. Meanwhile, commentary from Shell (SHEL LN) CEO said they are getting close to levels of Chinese oil demand last seen in 2019, citing the strong rebound in gas demand in China's services sectors, but less in the industrial sectors. Russian Deputy PM Novak also spoke again, saying Russia "abides" by its oil output cuts. There were separate Reuters reports that Russian oil exports from Western ports are set to reach a four-year high of 2.42mln BPD in May, up from 2.38mln in April, amid high demand from Asia.

EQUITIES

CLOSES: SPX -0.72% at 4061, NDX -0.37% at 12,982, DJIA -0.86% at 33,128, RUT -1.18% at 1,719

SECTORS: Financials -1.29%, Communication -1.26%, Energy -1.11%, Industrials -1.09%, Health Care -0.81%, Consumer Discretionary -0.71%, Materials -0.64%, Technology -0.49%, Consuemr Staples -0.29%, Utilities +0.73%, Real Estate +0.92%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.54% at 4,287, FTSE 100 -1.10% at 7,702, DAX 40 -0.51% at 15,734, CAC 40 -0.85% at 7,340, FTSE MIB -0.61% at 26,670, IBEX 35 -0.36% at 9,043, SMI -0.48% at 11,451.

STOCK SPECIFICS: **Microsoft (MSFT)** is helping finance **AMD's (AMD)** expansion into AI processors; Microsoft working with AMD on bolstering options for AI chips, according to Bloomberg**Qualcomm (QCOM)** EPS was in line while revenue beat. Q3 guidance was poor and said the evolving macroeconomic backdrop has resulted in further demand deterioration, particularly in handsets, at a magnitude greater than previously forecasted as well as not seeing evidence of a meaningful recovery in China (which weighed on AAPL). **Moderna (MRNA)** posted a surprise profit per share and beat on revenue and said it is prepping for six major vaccine launches from its respiratory franchise with expected annual sales of USD 8-15bln by 2027. **First Horizon (FHN) and TD Bank (TD)** mutually agreed to terminate their merger pact. **Shopify (SHOP)** beat on revenue, and it is to reportedly cut jobs and is to sell the majority of its logistics business. **DataDog (DDOG)** beat on EPS and revenue; next quarter and FY23 guidance surpassed expectations. **Royal Caribbean Cruises (RCL)** posted a shallower loss per share than expected and revenue beat; raised FY guidance on strong revenue outlook. **Apollo (APO)** is to acquire **Arconic (ARNC)** for USD 30/shr in cash. Note, ARNC closed Wednesday at USD 22.55/shr. **Paramount (PARA)** missed on EPS and revenue as well as cutting quarterly dividend accompanied by downbeat commentary. **SolarEdge (SEDG)** surpassed Wall St. expectations on top and bottom line noting supply chain issues have gradually improved. **Microsoft (MSFT)** has offered to set price differentials between office product with Teams and Office without teams to address EU antitrust concerns according to Reuters sources; EU antitrust regulators seeking feedback from rival.

FX WRAP

The DXY saw mild gains on Thursday primarily driven by weakness in the Euro post ECB. Nonetheless in the US, regional banking concerns remain rife after it was revealed that PacWest Bancorp (PACW) is exploring strategic options while FT reported Western Alliance was also considering a sale, although WAL denied the rumour. Data was mixed, initial jobless claims pared the prior week's decline in line with expectations and continued claims were short of expectations. The Q1 labour costs however saw a notable acceleration while productivity saw a notable decline. Meanwhile, the trade deficit narrowed in March.

The Euro was weaker after the ECB rate decision which opted for a 25bp hike, noted future decisions will bring rates to 'sufficiently restrictive', but how much more restrictive depends on the data, it also announced it is to end APP reinvestments from July, in what was later revealed as a deal between the hawks and doves to go ahead with the 25bp hike instead of 50bps. The addition of approaching a sufficiently restrictive level was taken as dovish, as it signals they are edging closer to the terminal rate, albeit Lagarde stressed they weren't near a pause in her presser, while ultimately a 50bp hike did not come to fruition so overall the meeting was seen as a dovish one. In wake of the decision and press conference, EUR/USD dipped beneath 1.10 to lows of 1.0987 before paring somewhat throughout the afternoon, holding north of 1.10.

The Yen was stronger on the session on haven flows and downside in global yields post ECB. The haven flows were supported by the downbeat risk sentiment on the regional bank woes which helped USD/JPY fall sub 134.00 to lows of

133.51, where the cross then reversed course back above the round level. Gold prices were also buoyed, seeing a high of USD 2,072/oz. CHF was weaker vs the buck but saw gains vs the Euro.

Cyclical currencies were generally supported although GBP only saw mild gains while NZD outperformed with AUD/NZD falling sub 1.07. CAD saw one of its best days in the last three weeks vs the Dollar with oil prices somewhat recovering from the recent slump while BoC Governor Macklem reaffirmed his argument that he does not see rate cuts this year. Macklem was also asked about the latest Fed move, saying he is not terribly worried about the pressure on CAD, and that the just over 50bp rate gap with the Fed is not much by historical standards. The CAD also saw a wider-than-expected trade surplus in March, but the Ivey PMI data slowed from the prior, all eyes on the CAD employment report on Friday. AUD saw gains despite weakness in stocks and a miss in the China Caixin manufacturing PMI, but the wider-than-expected Aussie trade balance was supportive.

Scandis saw gains vs the buck, particularly the NOK which rose against the Euro, Dollar and SEK. In Norway, the Norges bank hiked 25bps as expected and noted the policy rate will most likely be raised again in June, although around the decision NOK saw some weakness as it disappointed those who were looking for more timely action to address recent NOK pressure, so perhaps the outperformance was helped by the rebound in Brent prices, or at least a lack of further selling with oil still around recent lows.

EMFX was mixed. In LatAm, BRL and MXN were flat. In Brazil, the BCB left rates unchanged as expected but much to the government's disgust given their call for rate cuts recently, but the BCB did note it is a less likely scenario that the tightening cycle resumes, essentially cementing their peak in rates for now. In Mexico, the jobless rate fell to 2.4% from 2.7%, despite expectations for a rise to 2.8%. CLP saw gains on gains in copper. ZAR was only marginally supported by gold. TRY was slightly weaker vs the buck with eyes on the Turkish election on May 14th.