US Market Wrap

11th May 2023: Risk-sentiment sours on more bank woes but GOOGL offers respite for Nasdaq

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar up.
- **REAR VIEW**: PACW deposits decline in first week of May but WAL deposits rise; Cooler-than-expected Chinese inflation data; BoE hikes 25bps in a 7-2 vote, as expected; Initial jobless claims soars; Softer than forecast US PPI; Kashkari tows the hawkish line; Top Biden aide meets Chinese counterpart; FDIC proposes special fee on large banks; Solid 30yr auction; US plans to refill SPR from June; Disney loses Disney+ subscribers.
- **COMING UP**: **Data**: UK GDP Estimate, US Export/Import Prices, Uni. of Michigan (Prelim.) **Speakers**: Treasury Secretary Yellen, Fed's Bullard, Daly; BoE's Pill; ECB's de Guindos **Earnings**: Allianz, Societe General, Richemont.

MARKET WRAP

US indices closed the session mixed with outperformance in Nasdaq led by Communication names, with Google (GOOGL) continuing its keynote event rally following its AI updates. However, gains were not broad with the Russell, Dow, and S&P lower on the session. Sectors were also predominantly red with only upside in Communication, Consumer Discretionary, and Consumer Staples. The Regional banking ETF finished lower on fresh deposit concerns from PacWest (PACW), albeit some of those fears were calmed by an encouraging update from Western Alliance (WAL), although the FDIC announcing a special fee on big banks to help repay the insurance fund only led to further downside in banks. On the economy, US PPI data was cooler than expected while the weekly jobless claims saw a huge jump, bringing the 4kwk average to the highest since August 2022 and to levels seen consistent with a loosening labour market despite the strong April NFP. Elsewhere, the BoE rate decision was largely as expected, which hiked by 25bps in a 7-2 vote split whilst maintaining forward guidance and raising both CPI and GDP forecasts. Crude prices were lower as the Dollar advanced higher while cool Chinese CPI sparked further demand concern. On supply, Iraq sent a request for Turkey to restart the northern oil export pipeline and in post-settlement trade, crude bounced off lows after Energy Sec Granholm said the US will seek to purchase oil for the SPR in June. Treasuries saw continued strength on haven demand, soft PPI, a spike in initial jobless claims, as well as a solid 30yr auction.

GLOBAL

BOE REVIEW: As expected, the MPC delivered a 12th consecutive hike by raising the Bank rate by 25bps to 4.5% via a 7-2 vote split. Once again, Tenreyro and Dhingra voted for an unchanged rate on the basis that they judged prior tightening was yet to make its way into the economy. The MPC also opted to retain guidance that "if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required". As such, this disappointed some of those in the market with dovish expectations who had been hoping that the MPC would provide a signal that June would see a pause in interest rate hikes. The accompanying MPR projections showed upgrades to the inflation profile with the 2023 projection raised to 5.0% from 4.0%. Crucially, inflation in 2025 is seen materially below the MPC's 2% target at just 1% and therefore indicates that market pricing (upon which the forecasts are based) is too aggressive over the medium-term to be consistent with the BoE's goals. On the growth front, as was expected, 2023-2025 GDP projections were upgraded with the MPC no longer forecasting a UK recession. At the follow-up press conference, Governor Bailey avoided giving markets a "directional steer on rates", stating that policy will be guided by the evidence. Bailey did note however, that the Bank "must stay the course to ensure inflation returns to 2%". Overall, after getting burned by a hot CPI report last month, the MPC is non-committal on further action, however, markets hold a hawkish bias in pricing a June hike at around 60% with the terminal rate seen around 4.87% which suggests markets expect another 25bps and are split over another one thereafter.

REGIONAL BANKS: Regional bank fears re-ignited on Thursday after **PacWest Bancorp (PACW)** announced it saw deposit losses in early May of roughly 9.5% after noting it is exploring all strategic options, with the bank adding it had access to USD 15bln of available if required. **Western Alliance (WAL)**, amongst others, saw pre-market weakness as a result but WAL pared all its pre-market weakness and ended the day well off lows after it announced total deposits are up USD 600mln since May 2nd to approx. USD 49.4bln as of Tuesday May 9th. Elsewhere, **FDIC** proposed a special fee on larger banks, which will be based on the amount of uninsured deposits at each bank, and would set an annual special assessment rate of 12.5bp on a bank's uninsured deposits as of December 2022. The fee is to recoup losses to the insurance fund incurred by recent bank failures, and as such the FDIC estimates that 113 banks would be subject to the special assessment. The first USD 5bln of uninsured deposits at each co. would be exempt, and it would collect a fee over eight quarters, commencing June 2024. Overall, it estimates that banks with over USD 50bln in assets would pay over 95% of the fees.

KASHKARI (voter), who acknowledged he is on the hawkish side of the Fed, said inflation has come down but it is still above target, adding wage growth has softened somewhat, but the deceleration is mixed depending on income. He noted the bank turmoil can be a source of slowing for the economy. Housing is a key issue for hiring new workers from other regions. When asked, he said the 2% inflation target is for the near future, but they could have a debate on an adjustment once we get back to 2%. Kashkari could imagine a higher wage growth equilibrium if productivity saw an upward shock, but he is not seeing evidence of that. By most measures, Kashkari said the labour market looks like it is at where it was pre-pandemic but he is not convinced we are at full employment. If markets are right that inflation will fall quickly, one would imagine rates could normalise. If high inflation is more embedded, rates will need to stay high for longer. He noted that, on average, US households are financially healthy, but lower incomes have deteriorated. While on the consumer, he is not seeing evidence of an immediate crash in consumption or services. Once inflation comes down, he expects a return to 2018 environment with similar neutral rates, low inflation and low rates. Kashkari added that inflation is coming down but "its been pretty darn persistent", means Fed has to "keep at it" for an extended period.

US/CHINA: US National Security Advisor Sullivan met with China's Top Diplomat Wang Yi in a bid to ease tensions in what could set the stage for a call between Biden and Xi. The statement noted Sullivan told Chinese top diplomat Wang Yi the US does not seek conflict with China and he reiterated the US commitment to one-China policy when it comes to Taiwan. The statement also noted both sides recognized the Chinese spy balloon incident led to pause in relations that both are trying to move past. Both sides recognized the importance of leader-level communications. The US expects more engagements with Chinese officials in coming months and hopes talks will be the first of additional conversations on a more regular basis.

DATA

JOBLESS CLAIMS: Initial jobless claims soared to 264k (exp. 245k, prev. 242k) above the upper end of the expected forecast range of 260k. Meanwhile, continued claims rose to 1.813mln (prev. 1.801mln), but short of the 1.82mln consensus. Although the April jobs data surprised to the upside, the latest jobless claims data are consistent with loosening labour market conditions. It is worth noting, with the rise higher in claims it pushed the four-week moving average to 245k, the highest since August 2022. As such, Oxford Economics, “evidence of cooling demand for labor will allow the FOMC to refrain from raising rates at the June meeting”.

US PPI: US producer prices in April rose 0.2% M/M, less than the expected 0.3% rise, while the prior month was revised to a 0.4% decline from an initial 0.5% decline. The Y/Y figure fell to 2.3% from 2.7%, a larger fall than the expected 2.4%, remaining at the lowest levels since January 2021. The headline figures were weighed on by deflation in final demand foods and transportation and warehousing, while inflation forces came from the rebound in energy prices. Meanwhile, Core PPI rose 0.2% M/M, as expected and unwinding last month's 0.1% decline, with core services component alarmingly rising to +0.4% from +0.2% while core goods were more contained at +0.2%. The Core Y/Y rose 3.2%, beneath the expected 3.3% rise and down from the prior 3.4%.

CHINA CPI/PPI: Chinese CPI rose +0.1% Y/Y in April (exp. 0.4%, prev. 0.7%), the slowest rate of increase since February 2021; the monthly measure fell 0.1% (exp. unch). Producer prices declined -3.6% Y/Y in April (exp. -3.2%, prev. -2.5%). Pantheon Macroeconomics noted that inflation was weak as the country reopens, and the recovery is lopsided amid feeble global demand and increased output, where consumers were spending more on restaurants, leisure services and tourism, after the ending of zero-Covid policy, but less so on goods. "The divergence between services and goods inflation is likely to continue, as the services rebound outpaces domestic spending on goods," Pantheon says, "the government is likely to provide only targeted consumption measures in the next couple of months, but we see an increasing chance that slowing growth in Q2 will prompt a broader policy response in H2."

FIXED INCOME

T-NOTE (M3) FUTURES SETTLED 4+ TICKS HIGHER AT 116-01+

Treasuries saw continued strength on Thursday on haven demand, soft PPI, a spike in initial jobless claims, and a solid 30yr auction. 2s +0.9bps at 3.910%, 3s +0.9bps at 3.570%, 5s -1.1bps at 3.362%, 7s -2.7bps at 3.371%, 10s -4.2bps at 3.394%, 20s -5.8bps at 3.817%, 30s -5.7bps at 3.742%

Inflation breakevens: 5yr BEI -2.9bps at 2.125%, 10yr BEI -1.6bps at 2.174%, 30yr BEI -0.8bps at 2.210%.

APAC: T-Notes traded in a tight range during APAC trade on Thursday with the softer-than-expected Chinese CPI/PPI failing to drive much reaction in USTs. Contracts hit session lows of 115-24 later in the APAC session before hitting resistance at 115-31+ as European trade got underway.

LONDON/NY: Selling pressures out of gilts on the BoE hike and improved growth outlook were overshadowed by PacWest (PACW) reporting a large drop in deposits last week, weighing on banking shares and driving haven demand for govvies to see T-Notes run above 116. Comments from JPM CEO Dimon in favour of a ban on shorting bank shares saw a mild pullback, but better buying soon returned after initial jobless claims in the latest week spiked to 264k from 242k (exp. 245k), while PPI also came in beneath expectations (2.3% Y/Y vs exp. 2.4% and prior 2.7%). T-Notes peaked at 116-16 not long after, although contracts pared into the NY afternoon ahead of the 30yr auction, holding above 116 particularly after the auction saw solid demand. Resistance is seen at the May 4th high of 117, ahead of the 117-01+ peak at the onset of the banking episode on March 24th.

30YR AUCTION: A very strong 30yr refunding auction, with USD 21bln sold at 3.741%, with the near 40bp yield pick-up over 10s being seized upon. The auction stopped through the WI by 1.5bps, that's compared to a six-auction avg. 0.2 bps tail and April's on the screws. The bid/cover ratio was 2.43x, above the prior 2.36x and average 2.35x. Dealers were left with 10.2%, beneath the prior 11.1% and avg. 11.7%, where Indirects saw a notable step up in demand (similar to this week's 3yr and 10yr offerings) and Directs saw just 17.4% participation, the joint-lowest since January and perhaps a reflection of reduced pension demand amid funding status deteriorating.

FRIDAY: UK GDP (Mar/Q1), French CPI, US Import Prices, Uni of Michigan prelim., Fed's Daly, Bullard, and Jefferson.

SUPPLY: US to sell USD 15bln of 20yr bonds on May 17th, to settle on May 31st; to sell USD 15bln in 10yr TIPS reopening on May 18th, to settle on May 31st. In bills, US raises 26-week (May 15th) and 52-week (May 16th) auction sizes to USD 51bln and 36bln from 48bln and 34bln, respectively; leaves 13-week (May 15th) unchanged at USD 57bln; all to settle on May 18th.

NEXT WEEK: (Mon) **Empire State mfg. survey**, Fed's Bostic and Kashkari; (Tues) **retail sales**, IP, NAHB, Fed's Mester, Williams, Bostic, and Goolsbee; (Weds) housing starts, **20yr auction**; (Thurs) **Philly Fed mfg. survey**, IJC, existing home sales, 10yr TIPS auction; (Fri) Fed's Williams and **Powell** both at a Fed conference.

STIRS:

- SR3H3 H3 +0.0bps at 95.060, M3 -2.0bps at 94.945, U3 -1.0bps at 95.310, Z3 -1.5bps at 95.780, H4 -1.5bps at 96.325, M4 -1.0bps at 96.780, U4 +0.0bps at 97.080, Z4 +1.0bps at 97.240, H5 +1.5bps at 97.310, H6 +3.5bps at 97.295.
- US SOFR flat at 5.06%, volumes fall to USD 1.410tln from 1.482tln.
- Note chunky May option expires in SOFR on Friday.
- NY Fed RRP op demand at USD 2.242tln (prev. 2.233tln) across 102 counterparties (prev. 104).
- US EFFR flat at 5.08%, volumes rise to USD 120bln from 112bln, the joint highest volume of the year.
- US sold USD 36bln of 4-week bills at 5.605%, covered 3.18x; sold USD 36bln of 8-week bills at 4.680%, covered 3.04x; sold USD 45bln of 149-day CMBs at 5.040%, covered 2.33x.

CRUDE

WTI (M3) SETTLED USD 1.69 LOWER AT 70.87/BBL; BRENT (N3) SETTLED 1.43 LOWER AT 74.98/BBL

The crude complex was lower on Thursday and was weighed on by lower-than-expected Chinese inflation data, a stronger Dollar, and risk-off sentiment after renewed regional bank woes following PacWest's update. On the former, the cooler-than-expected data continues to highlight Chinese demand concern and the weakness persisting in the Chinese economy with the post-COVID rebound not as strong as hoped, which has only heightened the concerns in wake of the Chinese export data earlier in the week. Elsewhere, while crude-specific catalysts were light in a busy day, oil saw gains the European morning but it was weighed on by overall sentiment after PacWest announced its deposits fell in the first week of May. The move lower in crude was further intensified after initial jobless claims soared to support the Buck which made WTI and Brent fall to lows of USD 70.63/bbl and 74.61/bbl, respectively. Nonetheless, on the supply front, Iraq sent official request for Turkey to restart the Northern Oil export pipeline, according to Reuters citing three sources.

OPEC MOMR: Saw 2023 world oil demand growth broadly unchanged from the last month's assessment at 2.3mln BPD with demand for OPEC crude unchanged. All-in-all, there isn't much in terms of context regarding the voluntary coordinated OPEC+ cuts announced in April. However, EIA's STEO earlier this week upgrade its 2023 world oil demand growth forecast by 120k BPD. As a reminder, the next JMMC/OPEC+ meeting will take place at the start of June.

EQUITIES

CLOSES: SPX -0.17% at 4,130, NDX +0.31% at 13,389, DJIA -0.66% at 33,309, RUT -0.84% at 1,744.

SECTORS: Energy -1.24%, Utilities -1.14%, Real Estate -1.02%, Materials -0.99%, Industrials -0.65%, Technology -0.45%, Health -0.34%, Financials -0.2%, Consumer Staples +0.31%, Consumer Discretionary +0.55%, Communication Services +1.65%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.07% at 4,309, FTSE 100 -0.14% at 7,730, DAX 40 -0.39% at 15,834, CAC 40 +0.28% at 7,381, FTSE MIB -0.61% at 27,098, IBEX 35 +0.16% at 9,182, SMI +0.58% at 11,513.

EARNINGS: **Disney (DIS)** announced total Disney+ paid subscribers fell 4mln in the quarter which was mainly in India after it lost streaming rights to the IPL. Looking ahead, it thinks continued softness in Disney+ subscribers could linger into Q3. Note, EPS printed in line while revenue beat. **Tapestry (TPR)** beat on profit and revenue alongside raising FY23 outlook. **PerkinElmer (PKI)** missed on top and bottom line with FY23 guidance also disappointing. Note, name PerkinElmer and ticker 'PKI' name will change to 'Revvity' and 'RVTY' on May 16th. **Unity (U)** posted a shallower loss per share than expected and beat on revenue. Q2 revenue guide was also strong. **JD.com (JD)** surpassed Wall St. expectations on top and bottom line. In the coming quarters ahead, will further enhance business structure in order to drive expansion of use base throughout China. **Nutrien (NTR)** missed on EPS and revenue with FY adj. EPS view falling way short of expected. **Sonos (SONO)** Q2 results were inline but it slashed guidance for H2 due to softening consumer demand, and channel partner inventory tightening.

STOCK SPECIFICS: **Tesla (TSLA)** caught a late trade bid after Musk announced he was transitioning to CTO of Twitter from CEO. Activist Elliott sent a letter and presentation to the **Goodyear Tire & Rubber (GT)** board; noting they see a USD 21/shr value-creation opportunity with 179% upside to current share price. Elliott holds a 10% stake in the co. GT responded saying it is reviewing Elliott's recommendation and intends to meet with them to discuss their views in more detail. **Peloton (PTON)** recalled two million exercise bikes due to fall and injury hazards. **Alphabet (GOOGL)** shares soared a day after Google unveiled new software and gadgets at its developer conference. GOOGL also said it is eliminating the waitlist for its chatbot Bard. **Beyond Meat (BYND)** plans to sell up to USD 200mln of its common stock and intends to use the proceeds for general corporate and working capital purposes. **AppLovin (APP)** beat on revenue with Q2 revenue guide surpassing expectations. Note, it reported a surprising loss per share. **Elon Musk (TSLA)** said he is excited to announce he has a new CEO for Twitter, he will transition to exec chair and CTO.

US FX WRAP

The Dollar surged on Tuesday despite cool economic data, including a large rise in jobless claims and a cooler-than-expected PPI report. Nonetheless, with soured risk sentiment around banking fears after PacWest (PACW) noted deposits had fallen this week, although Western Alliance (WAL) alleviated some of the fears following a strong inflow of deposits recently. Nonetheless, an announcement from the FDIC to propose a special assessment fee on larger banks to recoup losses to the FDIC saw further downside in banks. DXY reclaimed 102 to a high of 102.15. Some of the action was also likely driven by EUR/USD option expiries.

The Euro was weaker as the dollar advanced with EUR/USD testing 1.09 at the lows seen around the NY cut with some hefty option expiries around the level at the time perhaps driving the pair to lows. Meanwhile, the Chinese Yuan was softer after cooler-than-expected Chinese inflation data which could have been adding pressure to the Euro. In Europe, there were several ECB speakers, again, where many repeated the familiar messaging that hikes are not over but they are getting close and future decisions will be data dependent.

The Yen was a relative outperformer but not as strong as the buck. Nonetheless, USD/JPY hit lows of 133.75 pre-US data before paring back above 134 to c. 134.50 as the Dollar advanced on the session. The strength of the Dollar also weighed on other havens, particularly gold while CHF was also weaker vs the buck but marginally firmer vs the Euro.

Cyclical currencies were weak amid the Dollar's strength and risk off trade. AUD fell sub 0.67 to lows of 0.6690 before paring to the round level while NZD/USD hit a low of 0.6290 before paring marginally to 0.6300. Antipodeans were particularly weaker after the softer-than-expected Chinese CPI and PPI and its relation to demand concerns while commodity downside was also playing its part. USD/CAD tested 1.3500 to the upside but failed to rise above the level with weak oil prices weighing on the Loonie. GBP saw initial upside in wake of the BoE rate decision which hiked by 25bps in a 7-2 vote split while maintaining forward guidance as expected while lifting both GDP and CPI forecasts which initially saw an unwind of dovish bets. However, the move was short-lived as the risk tone deteriorated and the dollar advanced.

EMs were mixed, as noted above, the CNY and CNH were deflated on the back of soft Chinese inflation data and both lost tech props in the form of the 200 DMAs. The ZAR was hit a lot harder as SA President Ramaphosa faced a grilling over the country's power crisis and reports that it supplied weapons to Russia. The MXN was hampered by the decline in WTI and the BRL was flat. In CEE, PLN, HUF and CZK were weaker despite hawkish-leaning comments from the NBP Governor for PLN. Meanwhile, TRY was flat vs the Dollar, perhaps with some assistance from sources suggesting that Turkish commercial lenders had raised the cost of interbank purchases of the USD to keep the Lira under 'control' ahead of the May 14 elections.