US Market Wrap

8th January 2024: Stocks jump on tech gains and falling inflation expectations

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: NY Fed SCE posts declines across all forecast horizons; Saudi cuts OSPs; BA and SPR eyed amid 737 MAX9 groundings; Dovish BofA Fed call; Hot Swiss CPI report; Fed Speak from Bostic & Logan; Slew of Healthcare M&A.
- **COMING UP**: **Data**: UK BRC Retail Sales, Australian Building Approvals, Retail Sales, German Industrial Output, French Trade Balance, US International Trade, Canadian Building Permits, Trade Balance, US RCM/TIPP, Japanese Overtime Pay **Events**: Fed Discount Rate Minutes **Speakers**: ECB's Villeroy; Fed's Barr Supply: Japan, Netherlands, UK, US

MARKET WRAP

Stocks started the week on the front foot with notable gains across major indices, particularly the Nasdaq 100 with strong outperformance in the Tech sector led by gains in Semiconductors, namely Nvidia (NVDA) after a slew of updates from the CES conference. AMD (AMD) also saw notable gains. There were several healthcare updates too amid the JPM HealthCare conference, including in M&A. Notably, Novartis (NVS) is to buy Cytokinetics (CYTK), according to WSJ. Merck (MRK) is to buy Harpoon (HARP) and Johnson & Johnson (JNJ) is to buy Ambrx (AMAM). Boston Scientific (BSX) to buy Axonics (AXNX). Yields were lower across the curve, as was the Dollar in the wake of the NY Fed Survey of consumer inflation expectations posting declines across all forecast horizons. There was also a dovish call from BofA, who looked for a 25bp cut in March alongside announcing plans to begin tapering the runoff of UST holdings. Fed's Bostic, however, suggested the current pace of balance sheet normalization is appropriate, although Logan over the weekend said she thinks it is appropriate to consider the parameters that will guide a decision to slow the runoff of their assets, as was alluded to by "several" participants in the latest FOMC minutes. Oil prices sold off throughout the session after Saudi cut its OSPs in what desks are labelling as a sign of weak demand. Elsewhere in FX, the Yen was supported by lower US rates, as was the Swissy, but also alongside a hot Swiss CPI report.

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NY FED SCE: The NY Fed's December consumer survey saw inflation expectations dip across the forecast horizons. One-year inflation expectations fell to 3% from 3.4% in November, the lowest since January 2021 and nearing the series' pre-2020 average of 2.8% (inception in 2014); the gauge never rose above 3% between August 2014 and February 2021. Three-year inflation expectations fell to 2.6% from 3.0%, the lowest since June 2020 and comfortably beneath the pre-2020 series average of 2.9%. Five-year inflation expectations, which were introduced in January 2022, fell to 2.5% from the prior month's 2.7%, the lowest since March 2023 and in the middle of the series' range of 2.00-3.00%. For comparison, the Uni of Michigan's December consumer inflation expectations saw the 1yr-ahead gauge fall to 3.1% from 4.5% and the 5-10yr gauge fall to 2.9% from 3.2%. Other highlights in the NY Fed's survey include expected earnings and spending climbing at their lowest levels since 2021. Meanwhile, households were less pessimistic on their credit access and financial situation. Consumers' mean perceived probability that the average interest rate on saving accounts will be higher in 12 months decreased by 3.6 percentage points to 25.9%, its lowest level since November 2021.

FED'S LOGAN (non-voter, hawk) spoke at an American Economic Association event on Saturday, with the key focus being her comment that, "if we don't maintain sufficiently tight financial conditions, there is a risk that inflation will pick back up and reverse the progress we've made", adding, "In light of the easing in financial conditions in recent months, we shouldn't take the possibility of another rate increase off the table just yet." She also posited risks to the soft landing outlook, such as geopolitical threats to supply chains, fragilities in commercial real estate, and the Fed's forecasts being wrong, but put particular emphasis on the premature easing of financial conditions. The Dallas Fed President said, "long-term yields have given back most of the tightening that we saw over the summer." She said the magnitude of the reactions to the soft data since October was "much greater than normal." Noting that the perceived reduction of term premium from the market "leaves more work to be done with the fed funds target." On inflation, she highlighted that it is in a much better place, but said the "challenge now is to finish the work" of bringing it to the 2% target. On growth, she said she expects a much slower Q4 2023 reading (vs Q3) and her contacts "consistently report that growth is settling down—not collapsing, not heading toward recession, but settling down." On the labour market, she said it continues to rebalance despite being still tight. Said wage growth "appears to be somewhat more consistent" with the 2% target. Logan, who formerly headed the NY Fed's market desk, also gave some updated views on the balance sheet runoff. She said, "given the rapid decline of the ON RRP, I think it's appropriate to consider the parameters that will guide a decision to slow the runoff of our assets." Where in her view, "we should slow the pace of runoff as ON RRP balances approach a low level."

FED'S BOSTIC (2024 voter, neutral) said the current pace of balance sheet normalization is appropriate and the Fed remains in a situation of ample reserves. He does plan to work with a team over the next six months to get a better view of how balance sheet policy should evolve, however. He repeated his view for two 25bp rate cuts this year, with the first occurring sometime in Q3. Labour market risks are much more balanced; many sectors are not showing growth. Labour markets remain strong in the aggregate and suggest continued momentum in the economy. Business contacts continue to note they are in hiring mode. Businesses note that hiring practices are normalizing, as is the ability to pass along price increases. Will be looking for early signs that changes in unemployment are starting to accelerate; not forecasting it yet. Bostic also added that the inflation and employment mandates are not yet in conflict. Inflation has come down more than he expected and the rise in unemployment has been 'far less' than what would typically be the case given the reduction in inflation. Goods inflation is back to pre-pandemic levels and services inflation is moving more slowly and not expecting 'big drops'. The Fed can let restrictive policy continue to work to slow inflation and expect the process will remain "orderly". Many economic measures are back at levels seen in the years immediately before the pandemic. At this moment he is not comfortable declaring victory; Fed needs to remain diligent and short run attentive. At this point, shorter-term measures of inflation, such as over three and six-months, are more important; they are pointing in a positive direction. Policy will still need to be restrictive at the end of the year, but progress on inflation will warrant lower rates. Outlook now is not for inflation to rebound, but the Fed still needs to pay attention.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 10+ TICKS HIGHER AT 112-01+

Treasuries bounce amid declines in both energy prices and consumer inflation expectations. At settlement, 2s -3.3bps at 4.358%, 3s -4.5bps at 4.123%, 5s -4.3bps at 3.965%, 7s -4.2bps at 3.993%, 10s -3.2bps at 4.010%, 20s -3.2 bps at 4.322%, 30s -2.2bps at 4.178%.

INFLATION BREAKEVENS: 5yr BEI -1.0bps at 2.204%, 10yr BEI -0.2bps at 2.229%, 30yr BEI +0.6bps at 2.225%.

THE DAY: Treasuries had been choppy during the APAC and European session on Monday after Friday's whipsaw. T-Notes hit a session low of 111-15+ at the globex reopen (well off Friday's 111-06+ post-NFP low) before hitting initial peaks of 111-28+ in the European morning (vs Friday's 112-10 post-ISM Services peak). Fed's Logan (non-voter, hawk) warned over the weekend of more hikes being on the table in response to the easing of financial conditions, although money markets were little altered from their pricing of deep cuts ahead. However, her comments about looking to taper the runoff of the balance sheet saw some flattening of SOFR/FF spreads, while Treasury swap spreads have seen notable widening. EGBs and Gilts underperformed Treasuries with heavy corporate issuance in the region, albeit there was another sizeable pipeline in the Dollar market on Monday ahead of this week's Treasury supply. Also, ECB's Vujcic was on wires, saying the ECB probably won't cut rates before summer.

As corporate issuance hedging entered the rear-view for the session, fixed income buying stepped up, where there was greater focus on the freefall in oil prices amid Saudi Aramco slashing its selling prices, not to mention reports of shipping companies entering agreements with Houthis to avoid being attacked in the Red Sea (albeit the companies denied the report). T-Notes broke through their earlier peaks and extended higher after further declines in the NY Fed's consumer inflation expectation gauges. Contracts hit session highs of 112-09 late in the NY morning, just shy of the post-ISM Services peak of 112-10 from Friday, with the long end lagging ahead of supply.

THIS WEEK: The highlight this week will be the US CPI report on Thursday, wedged between the 10yr and 30yr auctions, with PPI due on Friday. Other data points of note include the NFIB and international trade due on Tuesday. Fed Speak picks up with scheduled appearances from Barr (v) on Tuesday, Williams (v) on Wednesday, and Kashkari (nv) on Friday. Bank earnings on Friday kick off the Q4 reports, whilst corporate issuance should recede from last week with many companies entering the earnings issuance blackout. Externally, highlights to watch include Swiss CPI and China trade data on Monday, Chinese inflation on Wednesday, BoJ's branch manager meeting and "Sakura report" on Thursday, and UK GDP on Friday.

THIS WEEK'S AUCTIONS: US to sell USD 52bln of 3yr notes on Jan 9th, USD 37bln of 10yr notes (reopening) on Jan 10th, and USD 21bln of 30yr bonds (reopening) on Jan 11th; all to settle on Jan 16th.

STIRS:

- SR3H4 -0.5bps at 94.925, M4 +1.5bps at 95.355, U4 +2.5bps at 95.750, Z4 +3.0bps at 96.095, H5 +3.5bps at 96.390, M5 +3.5bps at 96.590, U5 +4.0bps at 96.705, Z5 +3.5bps at 96.735, H6 +3.5bps at 96.730, H7 +2.0bps at 96.650, H8 +1.5bps at 96.530.
- SOFR falls to 5.31% as of Jan 5th from 5.32%, volumes fall to USD 1.674tln from 1.930tln.
- NY Fed RRP op demand at USD 0.691tln (prev. 0.694tln) across 78 counterparties (prev. 83)EFFR flat at 5.33% as of Jan 5th, volumes fall to USD 84bln from 86bln.
- US sold USD 79bln of 3-month bills at 5.235%, covered 2.95x; sold USD 72bln of 6-month bills at 5.030%, covered 3.06x.

CRUDE

WTI (G4) SETTLES USD 3.04 LOWER AT 70.77/BBL; BRENT (H4) SETTLES USD 2.64 LOWER AT 76.12/BBL

Oil saw notable losses on Monday in wake of Saudi cutting its OSPs. Desks attributed weakness to the Saudi Aramco OSP cuts as indicative of a "weak demand" narrative. As a reminder, Saudi cut its February light crude OSP to Asia by USD 2/bbl from January to a premium of USD 1.50/bbl over Oman/Dubai quotes which is a 27-month low, while it set light crude OSP to NW Europe at a premium of USD 0.90/bbl over ICE Brent settlement and light crude OSP to the US at a premium of USD 5.15/bbl over ASCI, according to Reuters. As such, WTI and Brent extended on initial losses seen in the European morning to hit troughs of USD 70.13/bbl and 75.26/bbl, respectively, as US players entered for the week. Nonetheless, throughout the US afternoon, the complex continued to hover just off lows with little headline newsflow despite risk-on flows highlighted by dollar weakness and stock strength for the duration of the US session. Looking ahead, focus continues to remain on the ever-present geopolitical risks, whereby Maersk and Hapag Lloyd had to deny reports that they have entered a deal with the Houthis on Red Sea package.

EQUITIES

CLOSES: SPX +1.41% at 4,764, NDX +2.11% at 16,650, DJIA +0.58% at 37,683, RUT +1.94% at 1,989.

SECTORS: Technology +2.75%, Consumer Discretionary +1.77%, Communication Services +1.74%, Real Estate +1.43%, Health +0.84%, Utilities +0.72%, Consumer Staples +0.71%, Financials +0.6%, Industrials +0.58%, Materials +0.41%, Energy -1.16%.

EUROPEAN CLOSES: DAX +0.74% at 16,716.47, FTSE 100 +0.06% at 7,694.19, CAC 40: +0.40% at 7,450.24, Euro Stoxx 50: +0.46% at 4,484.05, IBEX 35 +0.44% at 10,209.00, FTSE MIB +0.42% at 30,569.92, SMI +0.43% at 11,233.50

STOCK SPECIFICS:

- **Boeing (BA)** -8% **Spirit AeroSystems Holdings (SPR)** -11%: FAA directed over 170 Boeing 737 MAX 9 planes to be grounded for inspections. US FAA added the 737 MAX 9 aircraft will remain grounded "until operators complete enhanced inspections which include both left and right cabin door exit plugs, door components, and fasteners". Later in the session, **United Airlines (UAL)** said it found loose bolts on plug doors during the 737 MAX 9 inspections.
- **Nvidia (NVDA)** +6.5%: China clients reluctant to buy downgraded chip. Elsewhere, Reuters reported that Nvidia plans to begin mass production in China-focussed AI chip in Q2. Lastly, announced new graphics chips for AI personal computer and a wave of EV makers choose Nvidia Drive for automated driving.
- **AMD (AMD)** +5.5%: Announced Ryzen 8000G series desktop processors and four new Ryzen 5000 series processors, Radeon RX 7600 XT.
- **Moderna (MRNA)** +4%: 2023 COVID-19 vaccine sales surpassed expectations. Reiterated 2024 expected product sales of about USD 4bln.
- **Regeneron Pharmaceuticals (REGN)** -1.2% Prelim Q4'23 US net product sales of Eylea injection were short of consensus.
- **American Eagle Outfitters (AEO)** +6%: Raised Q4 revenue and operating profit guidance reflecting record holiday sales.

M&A:

- **Axonics (AXNX)** +20.5%: **Boston Scientific (BSX)** agreed to acquire AXNX for USD 71/shr in cash. Note, AXNX closed Friday at 57.57.
- **Ambrx Biopharma (AMAM)** +101.5%: **Johnson & Johnson (JNJ)** to acquire AMAM for an equity value of USD 2bln.

- **Harpoon Therapeutics (HARP)** +112%: **- Merck (MRK)** confirmed it is to acquire HARP for USD 23/shr in cash for a total equity value of USD 680mln. Note, HARP closed Friday at 10.55.
- **Cytokinetics (CYTK)** +15.5%: **Novartis (NVS)** is reportedly in advanced talks to buy CYTK and deal could be announced as soon as this week, according to WSJ citing sources.

BROKER MOVES:

- **DoorDash (DASH)** +4%: Upgraded at Jefferies.
- **American Airlines (AAL)** +7%: Upgraded at Morgan Stanley; cited an improving balance sheet and strong post-pandemic execution as catalysts for the upgrade.
- **Dell (DELL)** +4.5%: Named a top pick among technology hardware names for 2024 at UBS, while JPMorgan upgraded shares to overweight from neutral.

US FX WRAP

The Dollar sold off on Monday with DXY testing 102 to the downside in risk on conditions amid dovish developments. The dollar selling had started as US players arrived but it extended after the NY Fed Survey of Consumer Expectations saw inflation expectations decline across the 1, 3 and 5-year horizons. There was also a dovish call from Bank of America who expects the Fed to announce plans to begin tapering the runoff of UST holdings in March, coinciding with the first 25bp cut. Fed speak over the weekend saw Logan (nv) warn of the potential need for additional rate hikes, but also noted that given the decline of the ON RRP, she thinks it is appropriate to consider the parameters that will guide a decision to slow the runoff of their balance sheet. Bostic repeated his call for two cuts this year, starting from some time in Q3. He also suggested the current pace of balance sheet normalization is appropriate.

The Euro saw mild gains trading either side of 1.0950 vs. the Dollar, primarily benefiting from the weaker Buck. Meanwhile, the EU Sentix Index improved in January albeit not as much as what was expected, however, the picture in Germany is not as optimistic. Elsewhere, EU retail sales were in line M/M for November and better than expected Y/Y, albeit still -1.1%. ECB's Vujcic noted the EZ will avoid a recession, adding the ECB is not discussing rate cuts and probably will not before summer.

The Yen saw gains vs the Buck after its poor start to the year with USD/JPY falling from highs of 144.92 to lows of 143.67, albeit currently back above 144. The strength in the Yen was buoyed by a move lower in US rates amid some dovish developments (inflation expectations, dovish BofA call).

CHF also saw gains vs. the Dollar (and the Euro) with the Swissy supported by lower US yields but also after Swiss CPI was hotter than expected in December with an unchanged print M/M (exp. -0.2%) while the Y/Y rose 1.7% (exp. 1.5%).

Cyclicals, AUD, NZD, CAD were flat vs. the Greenback but **GBP** saw decent gains. The Antipodeans were softer overnight with downside in Chinese stocks but the rebound in US stocks saw losses pared. CAD was flat as weak oil prices in wake off Saudi cutting OSPs offset any cyclical demand from the upside in stocks. GBP enjoyed the risk ride with Cable hovering around 1.2750 heading into APAC trade.

EMFX was mixed. **CLP** was the laggard after Chile inflation fell by more than expected on both M/M and Y/Y. **MXN** saw marginal gains while **BRL** was flat and **ZAR** saw gains despite weaker gold prices.