



US Market Wrap

9th January 2024: Markets chop with no key data due ahead of CPI

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** Solid US 3yr auction; Escalating Middle East tensions; Oil supply concerns; Atlanta Fed Q4 GDPNow tracker lowered; RCM/TIPP Economic Optimism lifts; US trade deficit narrowed; Samsung Electronics profits fall for sixth straight quarter; MCHP cuts guidance; HPE near USD 13bln deal for JNPR.
- **COMING UP: Data:** Australian CPI, Norwegian CPI, French & Italian Industrial Output, US MBA, Wholesale Sales, NZ Building Consents, Japanese Foreign Reserves, Chinese M2 Money Supply **Speakers:** ECB's de Guindos, Schnabel; Fed's Williams; BoE's Bailey & Breeden **Supply:** UK, Germany, US **Earnings:** Sainsbury's, Persimmon, Sika.

MARKET WRAP

The SPX and NDX closed little changed on Tuesday after losses out of Europe faded through the NY morning with risk assets in a holding pattern amid macro catalysts on the light side ahead of CPI on Thursday and bank earnings on Friday. The Russell 2k index closed firmly in the red, however, despite paring off lows, with the small-cap index suffering from the recent back up in yields. Treasuries were lower as rampant global supply kept the pressure on global govies; the US 3yr auction was well received ahead of the 10yr and 30yr offerings on Weds and Thurs, respectively. European debt issuance totalled a new daily record above EUR 43bln, according to Bloomberg, with EGBs underperforming USTs. The Dollar pared some of Monday's losses, with Swissy the G10 underperformer and cyclical currencies not far behind. Similarly, the crude complex pared some of Monday's extensive losses. Key US data was on the light side Tuesday (November trade deficit narrowed on softening consumer imports while the RCM/TIPP economic optimism index rose amid the rise in stock prices), with little out on Wednesday either ahead of CPI and PPI on Thurs and Fri, respectively. However, NY Fed's Williams (voter) is scheduled to speak on policy and outlook on Wednesday. In stocks, Microchip (MCHP) saw just mild losses despite a guidance cut amid a dimming macroeconomic environment. Samsung (005930) was another tech name under pressure out of APAC after a poor preliminary earnings report. Juniper (JNPR) surged on WSJ reports of Hewlett Packard Entertainment (HPE) nearing a deal to buy it for USD 13bln.

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TRADE: US International Trade in November posted a narrower deficit than expected at 63.2bln (exp. 65bln), narrowing from the prior 64.5bln deficit. The lower deficit was led by a larger decline in imports than exports; the goods deficit fell by 0.6bln to USD 89.4bln while the services surplus increased by USD 0.7bln to USD 26.2bln. Oxford Economics highlights that "The drop in imports was mostly driven by a drop in consumer goods and, should it be sustained, could mark a pullback in inventory levels by retailers." Note, the Atlanta Fed GDP tracker was lowered to 2.2% on Tuesday from 2.5% in wake of several data points. The employment situation, ISM services and auto sales saw the Atlanta Fed fall from 2.5% to 2.0%. However, after the trade data it was revised up to 2.2% at the time of publication.

RCM/TIPP: RCM/TIPP Economic Optimism for January rose to 44.7 from 40.0. All three main components improved in January - Six-Month Economic Outlook rose to 39.3 (prev. 34.3), with Personal Financial Outlook and Federal Economic Policies Confidence lifting to 55.0 (prev. 49.5) and 39.8 (prev. 36.1), respectively. Elsewhere within the release, it states "boosted by the stock market gains in December, optimism among investors gained 20% from 45.8 in December to 54.9 in January, while it rose by 5% among non-investors, from 37.5 to 39.3". In addition, Financial-Related Stress indices dipped to 64.7 from 69.0.

Fed Governor Bowman said after hours on Monday that her view has evolved to consider the possibility that the rate of inflation could decline further with the policy rate held at the current level for some time. Should inflation continue to fall closer to the Fed's 2% goal over time, it will eventually become appropriate to begin the process of lowering policy rate to prevent policy from becoming overly restrictive. In her view, the Fed is not yet at that point and important upside inflation risks remain. While the current stance appears sufficiently restrictive, she remains willing to raise rates further should data indicate progress on inflation has stalled or reversed. The Fed hawk also acknowledged that inflation data over the past six months are having the intended effect of bringing demand and supply into better balance, stating this reflects a restrictive policy stance. On risks to the outlook, Bowman warned that recent easing in financial conditions encourages a reacceleration of growth, stalling the progress in inflation or even causing it to reaccelerate. She also noted there is a risk that continued labour market tightness could lead to a persistently high core inflation. Bowman



added another upside risk to inflation is the extent that both food and energy markets remain exposed to geopolitical influences.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 4+ TICKS LOWER AT 111-29

Treasuries were lower as rampant global supply keeps the pressure on as Thursday's CPI looms; US 3yr auction was well received. 2s +2.3bps at 4.368%, 3s +2.0bps at 4.131%, 5s +1.6bps at 3.972%, 7s +1.3bps at 3.996%, 10s +0.9bps at 4.011%, 20s +0.3bps at 4.321%, 30s +0.6bps at 4.180%.

INFLATION BRAKEEVENS: 5yr BEI flat at 2.205%, 10yr BEI -0.4bps at 2.224%, 30yr BEI -0.3bps at 2.220%.

THE DAY: T-Notes initially tracked slightly firmer in APAC trade on Tuesday - after the sell off in the NY afternoon on Monday - to initial peaks of 111-31 with JGBs supported on Japan's return (note 10yr JGB auction due on Wednesday) and Tokyo CPI nudging lower in December as expected. Strong Australian retail sales (Nov) had little sway.

Better selling developed at the London handover ahead of the UK 20yr auction (which was strong) but also another heavy slate of Euro IG issuance with Bloomberg reporting that bond sales (across sovereigns and credit) topped EUR 43bn, a record day. Another tumble in German industrial output and ECB's Centeno in Econostream - saying the ECB will not have to wait until May to make policy decisions - couldn't sustain any recovery in govies.

T-Notes bottomed at 111-22 in the NY morning, holding above the globex/WTD low of 111-15+ and the post-NFP low of 111-06+. Buying picked up as oil prices pared from their peaks and corporate supply hedging entered the rear view, aided by a block 7.3k 5yr fut buyer. T-Notes marked a session peak of 112-02 later in the NY morning but failed to extend ahead of Treasury supply. The 3yr auction saw decent demand which led to a fleeting bid, and a failure to clip the earlier peaks, before paring back into the range ahead of settlement. Note the long end closed the session as the curve's relative outperformer despite the approaching supply.

3YR AUCTION: A decent 3yr auction from the Treasury with USD 52bn sold at 4.105%, which despite the c. 40bps of richening M/M, stopped through the When Issued yield by 1.1bps, much better than December's chunky 1.7bps tail and the six-auction avg. 0.4bp tail. The auction was covered 2.67x, close to the avg. 2.70x and better than the prior 2.42x. Dealers (forced surplus buyers) were left with 17.9%, close to the avg. 17.7% and much better than the prior 26.2%, with the fall in Directs participation to 16.8% from 21.7% more than offset by Indirects jumping to 65.3% from 52.1%, indicative of improving primary demand. Attention now on the USD 37bn 10yr and USD 21bn 30yr reopenings on Wednesday and Thursday, respectively.

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. Otherwise, there is little other major data for the US for the rest of the week. Note Wednesday sees supply from Japan, UK, Spain, and Germany all ahead of the US 10yr. Scheduled Fed Speak sees Williams (v) on Wednesday, Barkin (v) on Thursday, and Kashkari (nv) on Friday. Bank earnings on Friday kick off the Q4 reports, whilst corporate issuance is expected to recede with many companies entering the earnings issuance blackout. Elsewhere, Chinese inflation on Wednesday, BoJ's branch manager meeting and "Sakura report" on Thursday, and UK GDP on Friday.

STIRS:

- SR3H4 -1bps at 94.915, M4 -3bps at 95.325, U4 -3bps at 95.72, Z4 -3.5bps at 96.065, H5 -4bps at 96.35, M5 -3.5bps at 96.555, U5 -3bps at 96.67, Z5 -3bps at 96.705, H6 -2.5bps at 96.70, H7 -1.5bps at 96.635, H8 -1.5bps at 96.515.
- SOFR flat at 5.31% as of Jan 8th, volumes fall to USD 1.658tln from 1.674tln.
- NY Fed RRP op demand at USD 0.676tln (prev. 0.691tln) across 72 counterparties (prev. 78).
- EFR flat at 5.33% as of Jan 8th, volumes rise to USD 86bn from 84bn.
- US sold USD 70bn in 42-day CMBs at 5.280%, covered 2.93x.
- US leaves 4-, 8-, and 17-week bill auction sizes unchanged at USD 80bn, 80bn, and 56bn, respectively; 4- and 8-week to be sold on Jan 11th and 17-week bills on Jan 10th; all to settle on Jan 16th.

CRUDE

WTI (G4) SETTLED USD 1.47 HIGHER AT 72.24/BBL; BRENT (H4) SETTLED USD 1.47 HIGHER AT 77.59/BBL



The crude complex pared some of Monday's extensive losses amid the ever-growing Middle East tensions and supply concerns. On the latter, there is continued worry about the closure of Libya's 300k BPD Sharara oilfield in addition to the shutting of Motiva's Port Arthur, Texas refinery's (636k BPD) large crude unit and coker on Monday. WTI and Brent grinded higher throughout the European morning on Tuesday to hit peaks of USD 72.93/bbl and 78.19/bbl, respectively, as US participants entered for the session. Through the NY morning, oil pared some of the gains in choppy trade only to retest the highs ahead of settlement. In the Middle East, the Israeli military confirmed source reports that it killed a southern Lebanon commander of Hezbollah's aerial unit. Elsewhere, Saudi Arabia emphasized on supporting efforts to stabilise oil markets and praised OPEC and other countries' commitment to unity and market stability through declaration of cooperation. Lastly, Nigeria's NNPC allocated four crude cargoes from its February programme to the Dangote refinery (capacity 650k BPD), which is poised to begin operations after years of construction delays. The refinery added it is also looking for crude supplies from countries other than Nigeria. Looking ahead, attention resides on the weekly private inventory data after-hours ahead of EIA's (Wed). Current expectations (bbls): Crude -0.7mln, Distillate 2.4mln, Gasoline 2.5mln.

US EIA STEO: Raised forecast for 2024 world oil demand growth by 50k BPD, now sees 1.39mln BPD Y/Y increase; 2025 world oil demand to hit 103.67mln BPD, +1.21mln BPD from 2024 (initial forecast).

EQUITIES

CLOSES: SPX -0.15% at 4,756, NDX +0.17% at 16,678, DJI -0.42% at 37,525, RUT -1.05% at 1,968.

SECTORS: Energy -1.63%, Materials -1.1%, Utilities -0.76%, Real Estate -0.73%, Financials -0.69%, Industrials -0.24%, Consumer Discretionary -0.14%, Health +0.04%, Communication Services +0.13%, Consumer Staples +0.24%, Technology +0.25%.

EUROPEAN CLOSES: DAX -0.17% at 16,688.36, FTSE 100 -0.13% at 7,683.96, CAC 40 -0.32% at 7,426.62, Euro Stoxx 50 -0.39% at 4,467.95, IBEX 35 -1.46% at 10,060.30, FTSE MIB -0.53% at 30,408.78, SMI +0.18% at 11,250.80.

STOCK SPECIFICS:

- **Jefferies (JEF)** -2%: Missed on the top and bottom line.
- **Microchip (MCHP)** -0.5%: Lowered Q3 guidance; sees revenues falling 22% (prev. guided lower by 15-20%) amid downbeat macroeconomic commentary.
- **Juniper (JNPR)** +22%, **Hewlett Packard Enterprise (HPE)** -9%: HPE is nearing a USD 13bln deal to acquire JNPR, WSJ reports; announcement could come as soon as this week.
- **Urban Outfitters (URBN)** +7.5%: Reported solid holiday sales above St. expectations.
- **Samsung Electronics (005930 KS)** -2.4%: Shares fell in APAC trade after it announced Q4 prelim operating profit was likely to be around -35% Y/Y, with both profit and revenue and short of Wall St. consensus.
- **Match Group (MTCH)** +3%: Elliott Investment has amassed a USD 1bln stake in the Co., WSJ reports.
- **CrowdStrike (CRWD)** +4.5%: Upgraded at Morgan Stanley.
- **Netflix (NFLX)** -0.5%, **PayPal (PYPL)** -1%: Downgraded at Citi and Morgan Stanley, respectively.
- **MSC Industrial Direct (MSM)** -3%: EPS and revenue missed; said the environment was "challenging", with demand "softening" throughout the quarter.
- **Extreme Networks (EXTR)** -7.5%: Negative preannouncement for Q2.
- **Illumina (ILMN)** +4.5%: Prelim Q4 revenue topped expectations.
- **Unity Software (U)** -8%: Announced a 25% workforce reduction as it restructures to refocus on its core business.
- **JetBlue (JBLU)** -10%: Downgraded at BofA. Pointed towards a tough outlook for domestic airlines and also believes issues with its Geared TurboFan engines could compress growth in 2024. Prior to the open, CEO Robin Hayes announced he is stepping down.

US FX WRAP

The Dollar saw upside on Tuesday, paring some of the decline seen Monday with DXY holding above 102.00, at the lows, with support driven from the higher UST yields. There was commentary from Fed hawk Bowman (voter) after the close on Monday where she acknowledged her view has evolved to consider the possibility that the rate of inflation could decline further with the policy rate held at the current level for some time. Bowman had previously been calling for more hikes. She also acknowledged that should inflation continue to fall closer to target, it will eventually become appropriate to start the process of lowering their policy rate. However, she still remains willing to hike again if needed, even if it currently appears policy stance is sufficiently restrictive. For a full Bowman summary, please click here. Meanwhile, Fed's Barr (voter) stated the Fed is considering changes to the Basel endgame bank regulations. On the data footing, RCM/TIPP Economic Optimism index improved, as did all three of the sub-components, while the US trade deficit



narrowed in November as imports of consumer goods led a decline. Participants now await US CPI (Thurs) and with Fed's Williams on Wednesday.

Yen saw mild weakness with USD/JPY rising back above 144.00 as US yields rose across the curve. Note, Tokyo CPI was cooler than expected at 2.4% and eased from the upwardly revised 2.7% print in November. Core CPI was in line with expectations at 3.5%, however. There is a Japanese 10yr auction on Wednesday which could affect yield differentials ahead of the BoJ's branch manager meeting and "Sakura report" on Thursday.

The Euro was softer vs. the Buck but it held above 1.09 with a low in EUR/USD at 1.0911 against a high of 1.0966. There was little reaction to the dismal German Industrial output data for November, adding to the slew of soft German economic prints for Q4. Meanwhile, the EU unemployment rate eased to 6.4% in November from 6.5% in October. Elsewhere, ECB's Centeno said to Econostream that the ECB will not have to wait until May to make policy decisions, while Villeroy gave some evergreen comments saying the bank must remain vigilant on inflation data, saying that absent any surprises, 2024 will be the year of the ECB's first cuts, where the bank will cut when the "inflation outlook is solidly anchored at 2% (with) effective and durable data".

Cyclicals fell victim to the fall in risk assets with AUD lagging despite some marginal upside during APAC trade on a surprise gain in building approvals and above-forecast retail sales. **NZD**, **GBP** and **CAD** all saw similar softness with Cable dipping beneath 1.27 printing a low of 1.2690. AUD/USD fell sub 0.6700 while NZD/USD traded either side of 0.6250. USD/CAD rose above 1.34, as the Loonie could not benefit from the rising crude prices. Note, BMO CEO said Tuesday he expects the BoC to cut rates by 100bps by year-end with the first cut in June.

EMFX was almost exclusively weaker against the Greenback with only the **RUB** notching up gains. **PLN** was weaker vs. the Euro and Dollar after the NBP left rates unchanged as expected, while repeating it may intervene in the FX market if needed. It also suggested in the coming months inflation will probably fall significantly and the current level of rates will help it fall to target in the mid-term. **HUF** was weighed on by the large miss in IP data data (-5.6% vs exp. -2.9%). **CLP** and **TRY** were weighed on by lower copper prices and higher oil prices, respectively, with the former extending its Monday losses on the low inflation print. **COP** weaker ahead of inflation data. **MXN** was weaker amid softer-than-expected core inflation despite the upside on the headline data.

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