US Market Wrap

10th January 2024: Stocks advance while bonds and FX chop ahead of CPI

- **SNAPSHOT**: Equities up, Treasuries flat/down, Crude down, Dollar down.
- **REAR VIEW**: Fed's Williams expects restrictive policy "for some time"; SEC approves Spot BTC ETF; Surprise Crude build with large product builds; ECB Schnabel says it is too early to discuss rate cuts; Soft Japan wages; Decent US 10yr auction; META PT raised at Mizuho; HPE to buy JNPR.
- **COMING UP**: **Data**: UK RICS, Australian Trade Balance, Japanese Leading Indicator, Spanish & Italian Industrial Output, US CPI, IJC, Philly Fed Manufacturing Business Outlook Survey **Supply**: Italy, US **Earnings**: Marks & Spencer, Tesco.

MARKET WRAP

Stocks rose gradually through stateside trade on Wednesday with a lack of major news or data to go off ahead of Thursday's key CPI data. Tech was an outperforming sector with the NDX outperforming the SPX. Meanwhile, the small-cap Russell 2k index was a relative underperformer, and perhaps that was exhibitive of some hedging/caution ahead of the expected rise in US CPI on Thursday, with the index perceived most at risk to higher yields currently. Treasuries themselves were choppy on the day and ultimately slightly lower with an average 10yr auction and plenty of corporate and sovereign supply globally preventing any recovery attempts - Bloomberg reported Euro issuance has totalled a record EUR 108bln for the week so far. Fed's Williams (voter) spoke late in the day, saying the Fed "will need to maintain a restrictive stance of policy for some time"; Fed pricing is little changed, with 140bps of cuts priced for 2024 and a March implied cut still at 70%. The Dollar Index was little changed, although the Yen was a standout underperformer with USD/JPY back above 145 and closing in on 146 already, with aforementioned pre-CPI positioning and a notable decline in the Japanese wage data for November. Oil prices were lower after another massive build in US energy inventories were reported. Bitcoin was choppy after the SEC officially approved Spot BTC ETFs.

FED

WILLIAMS: Fed's Williams (voter), in a speech, stressed that the Fed's work to bring inflation back to 2% is not done. He said, "I expect that we will need to maintain a restrictive stance of policy for some time... and it will only be appropriate to dial back the degree of policy restraint when we are confident that inflation is moving toward 2% on a sustained basis." He noted the outlook is still uncertain and rate decisions will be made meeting-by-meeting and driven by the totality of data. He noted that risks to the economy are two sided, while he also provided us with his economic forecasts. The NY Fed President sees 2024 GDP at around 1.25% (beneath Fed median Dec SEP of 1.4%), 2024 unemployment at 4% (beneath Fed median of 4.1%), 2024 inflation at 2.25% (beneath Fed median of 2.4%) and 2% in 2025 (beneath Fed median of 2.1%). He noted things are looking very good on the jobs front and the inflation situation has improved quite a bit, adding the Fed forecasts meaningful progress in restoring economic balance. On the balance sheet, he said the wind down is working as planned, and noted the Fed will slow and then stop the balance sheet runoff when reserves are somewhat above the level consistent with ample reserves, although "we don't seem to be close to that point", he added. In the Q&A, Williams said the Fed must be ready to react to unexpected events, but fears of inflation getting stuck at a high level are not coming to fruition. On rate cuts, he said he cannot say when the Fed will lower rates but the timing depends on the economy. He said the Fed's forecasts for the rate cut outlook (three 25bp cuts in 2024 seen in the December SEPs) make sense.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLE 1 TICK LOWER AT 111-28

Treasuries chop amid more debt supply and lack of major data ahead of an expected rise in CPI. 2s +0.0bps at 4.373%, 3s +0.1bps at 4.117%, 5s +0.5bps at 3.982%, 7s +1.3bps at 4.014%, 10s +1.7bps at 4.034%, 20s +1.9bps at 4.345%, 30s +2.1bps at 4.205%.

INFLATION BREAKEVENS: 5yr BEI -0.3bps at 2.195%, 10yr BEI -0.3bps at 2.218%, 30yr BEI +0.2bps at 2.223%.

THE DAY: Treasuries were choppy and sideways during the APAC Wednesday session, with an expected decline in Australian CPI (with AGBs offered in wake of the release) and a weak JGB auction failing to ignite direction in USTs; November Japanese wage data saw a big decline too, weighing on Yen and BoJ hike expectations. T-Notes hit lows of 111-27+ at the Tokyo/London handover before finding a gradual bid to session peaks of 112-07 later in the European morning, aided by a 6.2k block buyer. The peak was seen on the heels of the decent German and UK 10yr auctions, which saw decent results, although that failed to lead to any sustained recovery in Gilts of EGBs.

T-Notes hovered near highs as stateside trade got underway, but better selling kicked in later in the NY morning with eyes to the approaching Treasury supply and CPI, not to mention another healthy slate of IG issuance to digest, with no key US data due on Wednesday. But EGBs were again leading the downside, with Bloomberg highlighting issuance (across sovereign and IG) is already at a weekly record of EUR 108bln; note that next week's sovereign supply calendar is much less and IG issuance is also expected to decline. Back to the US, the 10yr auction was average and some more selling followed, seeing T-notes stretch out session lows of 111-26+ ahead of settlement. Taking a wider view, contracts remain capped in their last Friday (NFP and ISM Services) ranges of 111-06+/112-10 ahead of Thursday's CPI.

10YR AUCTION: A decent 10yr auction from the tenor's perspective, with the USD 37bln final reopening (before an expected size increase at Feb refunding) stopping at 4.024%, tailing the When Issued yield by 0.5bps, which is better than December's 1.4bp tail and the six-auction average tail of 0.8bps. The auction saw a bid/cover ratio of 2.56x, above December's 2.53x and average 2.51x. Dealers (forced surplus buyers) were left with 15.1%, beneath the prior 17.3% and closer to the avg. 14.5%, which was on account of a jump in Indirects participation to 66.1% from 63.8% (vs avg. 66.7%), with Directs little changed M/M at 18.7%. Participants now look to the 30yr auction on Thursday, which will have the benefit, or the disadvantage, of the CPI results known beforehand.

STIRS:

- SR3H4 +1bp at 94.925, M4 +1.5bps at 95.35, U4 +2bps at 95.745, Z4 +1bps at 96.08, H5 +0.5bps at 96.365, M5 +0.5bps at 96.565, U5 flat at 96.675, Z5 -0.5bps at 96.705, H6 -0.5bps at 96.70, H7 -1bp at 96.625, H8 -1bp at 96.51.
- SOFR flat at 5.31% as of Jan 10th, volumes rise to USD 1.693tln from 1.658tln.
- NY Fed RRP op demand at USD 0.680tln (prev. 0.676tln) across 79 counterparties (prev. 72).
- EFFR flat at 5.33% as of Jan 10th, volumes rise to USD 91bln from 86bln.
- US sold USD 56bln 17-week bills at 5.180%, covered 3.19x.

CRUDE

WTI (G4) SETTLES USD 0.87 LOWER AT 71.37/BBL; BRENT (H4) SETTLES USD 0.79 LOWER AT 76.80/BBL

Oil prices were ultimately lower on Wednesday after chunky builds were reported in the US energy inventory data, with ongoing Middle East tensions in the background. WTI and Brent contracts had been choppy during European trade, with a bout of weakness in the morning reversing in the afternoon to see contracts peak for the session at USD 73.59/bbl and 78.73/bbl, respectively, with desks pointing to the unrest in the Red Sea. That explanation was juxtaposed with fresh commentary from energy trader Vitol who said oil is not reacting to Middle East risk as there is no real disruption, saying that the oil market remains fundamentally balanced. The oil upside all unwound into the NY afternoon after the EIA reported crude stock building 1.3mln bbls in the latest week, but also another chunky build in the products with stocks across distillates and gasoline rising a net 14.5mln bbls, well above analyst estimates, and despite a decline in refinery utilisation.

EQUITIES

CLOSES: SPX +0.57% at 4,783, NDX +0.69% at 16,793, DJI +0.45% at 37,696, RUT +0.11% at 1,970.

SECTORS: Energy -1.01%, Materials -0.17%, Consumer Staples -0.13%, Utilities -0.06%, Real Estate +0.13%, Financials +0.2%, Health +0.42%, Industrials +0.48%, Consumer Discretionary +0.98%, Technology +1%, Communication Services +1.17%.

EUROPEAN CLOSES: DAX +0.01% at 16,689.81, FTSE 100 -0.42% at 7,651.76, CAC 40 -0.01% at 7,426.08, Euro Stoxx 50 +0.01% at 4,467.55, IBEX 35 +0.07% at 10,067.10, FTSE MIB +0.14% at 30,450.78, SMI +0.05% at 11,254.40.

STOCK SPECIFICS:

- **Boeing (BA)** +1%: In his first remarks since the ALK accident, CEO said it has to acknowledge its mistake, indicating a misstep by the aircraft maker played a role.
- **Juniper Networks (JNPR)** +2%: **Hewlett Packard Enterprise (HPE)** +1.8% confirmed it is to acquire JNPR for approx. USD 14bln or USD 40/shr in cash.
- **Intuitive Surgical (ISRG)** +10%: Prelim Q4 revenue topped expectations, with FY23 da Vinci procedures +22% Y/Y and expects worldwide da Vinci procedures to increase ~13-16% in 2024 vs. 2023.
- **WD-40 (WDFC)** +15%: Top and bottom-line beat Wall St. expectations.
- **Lennar (LEN)** +3.5%: Board authorised an additional USD 5bln to buyback programme and raised its annual dividend to USD 2/shr (prev. 1.50).
- **Sony (SONY)** +4%: Sony unit continues merger talks with India's Zee Entertainment.
- **Apple (AAPL)** +0.6%: Downgraded at Redburn Atlantic.
- **Meta (META)** +3.5%: Mizuho raised PT to USD 470/shr (prev. USD 400).
- **Home Depot (HD)** +3% **Virgin Galactic (SPCE)** +1%: Upgraded at Wedbush and Truist, respectively.
- A range of Financials (**SCHW, C, GS, COF, AXP, ALL**) were downgraded ahead of Big Bank earnings on Friday.
- **Etsy (ETSY)** -3%: Downgraded at Goldman; projects a weak backdrop as consumer discretionary spending tightens.
- **GoodRx Holdings (GDRX)** +13%: Q4 and FY revenue guidance surpassed consensus.
- **EchoStar (SATS)** +32%: Has engaged financial and legal advisors to assist the Co. in evaluating potential strategic alternatives after having completed its merger with DISH Network.
- **Amazon (AMZN)** +1.5%: Laying off several hundred employees in its Prime Video and Amazon MGM Studios, according to The Information. Earlier, AMZN's livestreaming platform Twitch is reportedly set to reduce its workforce by 35% (around 500 jobs).
- **Chewy (CHWY)** -6%: Announced a block sale of 12.3mln shares through MS; being resold at USD 20.45/shr.

US FX WRAP

The Dollar saw mild weakness on Wednesday alongside upside in stocks despite marginal upside in yields with participants awaiting the December CPI report due Thursday with little major US data released on Wednesday. The highlight was Fed's Williams in late trade who noted he expects the Fed to maintain a restrictive stance of policy for some time, helping the dollar marginally off lows.

The Euro firmed with EUR/USD heading into APAC trade at highs of around 1.0970 with EZ yields outperforming their US counterparts. On ECB speak, ECB's De Guindos stressed a state-dependent approach to future decisions, warning the rapid pace of disinflation seen in 2023 is likely to slow down in 2024, and to pause temporarily at the start of the year. Schnabel said financial conditions have loosened more than projected and it is too early to discuss rate cuts.

The Yen was the clear G10 laggard after Japanese wages for November were much softer than expected, rising just 0.2% (exp. 1.5%, prev. 1.5%), adding support for the BoJ to keep rates on hold despite building expectations of an exit of NIRP. Note there may be an element of hedging at play too ahead of an expected up tick in US CPI.

The Aussie saw gains and AUD/USD briefly rose above 0.6700 but sits just beneath the psychological level at time of writing. Note, the weighted CPI for November eased more than expected to 4.3% from 4.9% (exp. 4.4%).

The Pound also saw gains vs the weaker buck enjoying the upside in US equities. Elsewhere, at the UK Treasury Select Hearing, BoE Governor Bailey stressed the importance of returning inflation to target, adding the events in the Middle East have not yet had a large economic impact but they are watching closely. Meanwhile, Breeden said the risk environment feels particularly challenging at the moment.

NOK was flat vs the Dollar but softer vs the Euro with NOK weighed on by lower crude prices and soft-leaning CPI. Norwegian CPI was in line at 4.8%, matching the prior pace although the M/M print was a touch cooler than expected at 0.1%, easing from the prior 0.5%. Core Y/Y was slightly beneath forecast and eased from the prior, the M/M was in line with expectations, accelerating to 0.2% from -0.2%.

SEK saw gains vs the buck and only slight losses vs the Euro. In Sweden, Activity data was mixed. GDP rose 0.2% in November, slowing from the 1.00% growth in October. Retail Sales declined 1.7%, accelerating from the 1% fall in the prior month while New Manufacturing Orders beat expectations.

TRY saw mild losses with Industrial Production rising 0.2% in November, easing from the prior 1.1% gain while the Turkish Unemployment Rate rose to 9.0% from 8.6% (revised up from 8.5%).

HUF was firmer vs the Euro in wake of the NBH minutes. The minutes noted the decision to cut by 75bps was unanimous and that the NBH is constantly assessing incoming macroeconomic data and the outlook for inflation and developments in the risk environment. It also noted that council members agreed that in the rapidly changing environment, a cautious approach was still warranted.

PLN was relatively flat vs the Euro albeit with a slightly firmer bias. NBP's Glapinski said the Zloty exchange rate in the coming year or two should remain strong; in coming quarters CPI outlook is uncertain and expects rates to be on hold till March, doubt would raise rates as next move.

BRL saw marginal gains vs the Dollar while BCB Board Member Guillen spoke, suggesting Brazil is back to the pre-pandemic trend of domestic growth, noting they saw resilient consumption in Brazil and the BCB is trying to understand its causes. It is closely monitoring earnings, but they continue to think there are no significant wages. Elsewhere, Citi highlight a Globo report that President "Lula is getting pushback on the provisional measure to increase payroll taxes for some sectors - with Senate President Pacheco saying it may be difficult to approve".