newsquawk

US Market Wrap

11th January 2024: Stocks, Bonds & Dollar whipsaw to hot CPI while Middle East tensions rise

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude up, Dollar flat
- **REAR VIEW**: Hot CPI; Jobless claims hug 200k; Mester, Barkin & Goolsbee speak; UK to join US airstrikes on Houthi military positions; Iran seized a US oil tanker; Decent 30yr bond auction; DOCU receives takeover interest; NVS interest in CYTK cools.
- **COMING UP**: **Data**: Australian Owner Occupied Housing Final, Chinese CPI, PPI, Trade Balance, UK GDP Estimate, Services, Industrial Output, Services, Manufacturing Output, Trade Balance, French and Spanish CPI (Final), US PPI **Speakers**: ECB's Lane; Fed's Kashkari **Supply**: Japan **Earnings**: UnitedHealth, JP Morgan, BlackRock, Wells Fargo, Citi, Bank of America, Delta Airlines.
- **DAILY US EARNINGS ESTIMATES**: 12th January 2024: UNH, BLK, BAC, WFC, JPM, C. To download the full summary, please click here.

MARKET WRAP

The hot CPI data was the highlight on Thursday which initially sparked a typical hawkish reaction - Equity and T-note futures tumbled while the Dollar jumped. However, the moves gradually pared throughout the US session with both Goolsbee (nv) and Barkin (v) noting the data was in line with expected although Mester (v, retiring) stressed that it shows the Fed's job is not done yet, but progress on inflation is not stalling. Note, Fed pricing is now pricing in c.155bps of easing through year-end, more dovish than the 144bps being priced pre-data. Aside from CPI, the Jobless Claims data continued to show signs of a tight labour market with initial claims hugging the 200k handle. There was also plenty of attention on geopolitics after Iran seized a US oil tanker in the Gulf of Oman. Meanwhile, the UK is expected to join the US in carrying out airstrikes on the Houthi military positions in Yemen tonight. Crude prices settled firmer but off best levels with heightened Middle East tensions keeping oil bid. Stock highlights saw the WSJ report that Novartis' (NOVN SW) appetite for buying Cytokinetics (CYTK) is cooling, while Reuters reported that Bain Capital and Hellman and Freidman are competing to acquire DocuSign (DOCU). Attention now turns to the big bank earnings on Friday, signalling the start of earnings season, as well as US PPI for another read on inflationary pressures, and Chinese inflation metrics in the APAC session.

US DATA

CPI: Headline CPI rose 0.3% in December, above the 0.2% forecast and accelerating from the 0.1% in November while the annual rate rose 3.4% Y/Y, above the 3.2% forecast and accelerating from the prior 3.1%. The core metrics saw the monthly reading in line with the consensus view at 0.3% M/M, matching the prior pace, while the annual rate rose 3.9% Y/Y, easing from the prior 4.0%, but above the 3.8% consensus forecast. Meanwhile, Services prices less rent of shelter rose +0.6% M/M, maintaining the prior month pace. Overall, the data was judged on the hot side, and will likely see the Fed continue to push-back on market pricing for early rate cuts; money markets still price a 65% probability of a 25bps rate reduction in March, down from around 70% pre-release. The data also adds to the argument that returning inflation back to the Fed's 2% target is not going to be linear. It is worth looking at the annualised rates too: Fed's Bostic (voter) recently stated that at this point, shorter-term measures of inflation, such as over three and six-months, are more important, and they are pointing in a positive direction. The six month annualised rate for core inflation however rose to 3.2% Y/Y from 2.9%; WSJ's Nick Timiraos highlighted that this matches the second lowest level since March 2021. Looking into the report, the largest price increases in core inflation were led by a 0.7% gain in Medical Care Services (prev. 0.6% M/M), and a 0.5% rise in Used Cars and Trucks (prev. 1.6%) and Shelter (prev. 0.4%). Analysts at Pantheon Macroeconomics, on Shelter and Rents, highlight that the Zillow rent numbers point to a sustained slowing in the rate of increase of CPI rents this year. Meanwhile, for Used Vehicle prices, the consultancy highlights that the trend in auction numbers points clearly to further declines in the CPI measure over the next few months.

JOBLESS CLAIMS: Initial jobless claims (w/e 6th Jan) ticked trivially lower to 202k from, the revised up, 203k and beneath the expected 210k, leaving the 4-wk average essentially unchanged at 27.75k (prev. 208K). Continued claims (w/e 30th Dec) declined to 1.834mln from 1.868mln and shy of the consensus 1.871mln. As is the usual caveat at this time of the year, the claims data does tend to be volatile. Overall, as Pantheon Macroeconomics quips, "Challenger layoff data and WARN notices tentatively point to higher claims over the next few months, but we'll believe that when we see it.” Nonetheless, Pantheon writes that in the meantime stable claims and, mostly, stable hiring indicators point to little change in the pace of payroll growth.

FED

MESTER (2024 voter, retiring in June) gave an interview with Bloomberg where she said the December CPI data doesn't suggest the inflation progress has stalled out, but shows there is more work to be done. She said a March rate cut is too early for her, saying she wants to see further evidence in the data, but said as continuing disinflation is seen, the Fed will have that conversation. From those officials who have recently spoken on rate cut timing, that pushback was more explicit than other officials such as Williams and Barkin, who have said recently it is too early to say on a March rate cut; Bostic is on the other end of the spectrum, having pencilled in Q3 for the first rate cut. Mester repeated her view from a Dec 18th FT interview that right now, the evaluation is how long does the Fed need to keep rates and policy restrictive. She said the Dec CPI data does not change her view of where the Fed is (in December she said that she sees three 25bp rate cuts in 2024, the same as the Fed Dec SEP median). On inflation, she said there needs to be more progress in housing and goods prices. The Cleveland Fed President also said her contacts tell her input costs have eased, and that so has the ability to pass on price increases to customers. Finally, Mester said this is the year the Fed will start to have the conversation on the balance sheet, but said there is still a lot of reserves in the system, echoing remarks from her colleagues.

BARKIN (2024 voter) said Thursday’s CPI was about as expected and is still forecasting moderation in the overall level of inflation but there is still a "disconnect" with services and shelter. Further on the inflation footing, he would have more confidence if improvement was broader and progress on goods has been encouraging and could make the case that it could continue. Richmond Fed President would not be surprised if it takes some time for expectations to converge back to the Fed's 2% target, and would not be surprised if core PCE remains in a range consistent with target, as it has over the last six months. Lastly, Barkin noted he would not prejudge outcome of March or other meetings.

GOOLSBEE (2025 voter), in an exclusive interview with Reuters, noted that CPI in December was pretty close to what was expected, and that services inflation was a little more favourable than expected but housing inflation was a little less favourable. He noted that persistently high shelter inflation in CPI may have less implication for the Fed's PCE inflation target, however. Goolsbee said that he is still definitely on a comfortable path and making progress on inflation. On policy, he said the Fed will need to evaluate policy restrictiveness as inflation comes down, noting inflation will be the primary determinant of when and how much interest rates should be cut. Goolsbee did not want to commit to policy decisions when the Fed still has weeks and months of data to come and the Fed cannot answer the question of what it is going to do at the March meeting without seeing the data. Goolsbee also stated that unlike a year ago, the risks to the golden path are more symmetric and not all about dangers of overheating. He is also concerned about potential over-tightening and a rapid labour market deterioration, adding risks include persistent housing inflation and potential supply shocks. On the balance sheet, Goolsbee said he has a relatively high bar to changing the Fed's formula and that the autopilot approach has been very helpful. He said he defers to Fed Chair Powell on when to start the conversation about QT adjustments.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLE 15 TICKS HIGHER AT 112-11

Treasuries steepened Thursday as the front end recovered post-CPI while duration lagged ahead of the US 30yr auction. At settlement, 2s -9.7bps at 4.274%, 3s -8.4bps at 4.031%, 5s -7.4bps at 3.907%, 7s -5.8bps at 3.952%, 10s -4.3bps at 3.987%, 20s -2.2bps at 4.321%, 30s -0.9bps at 4.191%.

INFLATION BREAKEVENS: 5yr BEI +1.2bps at 2.211%, 10yr BEI +1.4bps at 2.234%, 30yr BEI +1.2bps at 2.238%.

THE DAY: After bottoming at 111-25 in late Wednesday trade post-Williams, T-Notes bounced into the APAC Thursday session to hit resistance at 111-31. That held until the London handover, where a more sustained bid arrived with JGBs firming into their close with BoJ hike expectations continuing to recede (30yr JGB auction due Friday). T-Notes hit interim resistance at 112-05+ later in the European morning, where the upside in oil - after an oil tanker was boarded by Iranians in the Gulf of Oman - capped the bid in govvies. But, contracts continued to edge higher as stateside trade got underway, led by Bunds, ahead of US CPI and with a thinning debt supply calendar.

The in-line to slightly firmer (than expectations) set of CPI figures and another week's data of low jobless claims figures saw kneejerk, two-way flows in T-Notes, spiking from 112-06 to session peaks of 112-16 (above the post-ISM Services peak of 112-10) before hitting lows of 111-23 a few minutes later, stretching to session lows of 111-19+ as the dust settled (above the post-NFP low of 111-06+). Ahead of the 30yr auction, T-Notes failed to recover much past 112-00, although Fed pricing and front-end USTs closed the gap, steepening the curve into the NY afternoon. There was little major reaction to Fed's Mester (voter) saying a March cut was too soon for her. Note the long-end recovered somewhat later on after the 30yr auction passed without any issues. Note we get a 30yr JGB auction from Japan on Friday as the last sovereign supply hurdle to clear for the week. Heading into settlement, T-Notes continued to pare the post CPI losses with the 10yr rising to c. 112-12 before paring marginally after settlement. Note, Fed's Goolsbee also hit the wires where he noted he has a relatively high bar to changing the Fed's QT formula.

30YR AUCTION: An okay 30yr bond reopening from the Treasury, with USD 21bln sold at 4.229%, with the c. 11bps of richening since December's offering marking a 0.1bp stop-through the When Issued yield, which also marks back-to-back stop-throughs after a string of concerningly large tails (exhibited by the six-auction average tail size of 2.2bps), providing some stability ahead of the Treasury's February refunding where auction sizes are expected to tick higher again. The auction's bid/cover ratio was 2.37x, beneath the prior 2.43x and average 2.39x. Dealers were left with 14.5%, more than the prior 14.2% but beneath the avg. 16.0%, with the increase in Directs participation to 17.7% from 17.3% offset by the fall in Indirects to 67.8% from 68.5%. The average 30yr auction adds to the similarly received 10yr on Wednesday, while the 3yr auction on Tuesday saw a more solid demand reception.

NEXT WEEK'S AUCTIONS: US to sell USD 13bln of 20yr bonds (reopening) on Jan 17th and USD 18bln of 10yr TIPS on Jan 18th; both to settle on Jan 31st.

STIRS:

- SR3H4 +2.5bps at 94.955, J4 +0.0bps at 95.065, K4 +0.0bps at 95.220, M4 +8.0bps at 95.435, Z4 +11.5bps at 95.860, H5 +13.0bps at 96.210, M5 +12.5bps at 96.490, U5 +12.0bps at 96.680, Z5 +10.5bps at 96.775, H6 +9.5bps at 96.800, H7 +7.0bps at 96.715, H8 +5.0bps at 96.590.
- SOFR flat at 5.31% as of Jan 10th, volumes fall to USD 1.660tln from 1.693tln.
- NY Fed RRP op demand at USD 0.626tln (prev. 0.680tln) across 76 counterparties (prev. 79).
- EFFR flat at 5.33% as of Jan 10th, volumes flat at USD 91bln.
- US sold USD 80bln of 1-month bills at 5.280%, covered 3.78x; sold USD 80bln of 2-month bills at 5.275%, covered 2.98x.
- US leaves 6-, 13-, and 26-week bill auction sizes unchanged at USD 70bln, 75bln, and 68bln, respectively; all sold on Jan 16th; all to settle on Jan 18th.

CRUDE

WTI (G4) SETTLES USD 0.65 HIGHER AT 72.02/BBL; BRENT (H4) SETTLES USD 0.61 HIGHER AT 77.41/BBL

The crude complex initially saw strong gains through the European morning amid heightened Middle East tensions, before paring a large part through the US afternoon. WTI and Brent peaked at USD 73.91/bbl and 79.10/bbl, respectively, as geopolitical worries continued to escalate after Iran seized an oil tanker' off the coast of Oman, which later source reports pointed it towards a US tanker. In addition, but separately, the US Military said Iranian-backed Houthis fired an anti-ship ballistic missile into international shipping lanes in the Gulf of Aden on Thursday, but there were no injuries or damage reported. However, as mentioned, through the NY session with the risk events (such as US CPI) in the rear view oil retraced from highs, albeit on thin headline newsflow while the dollar sold from peaks. Looking ahead, participants will remain cognizant of any further geopolitical updates, as well as Chinese inflation and trade data (Dec), US PPI (Dec), the beginning of US earnings season, and the weekly Baker Hughes rig count.

EQUITIES

CLOSES: SPX -0.07% at 4,780, NDX +0.17% at 16,820, DJI +0.04% at 37,711, RUT -0.75% at 1,955.

SECTORS: Utilities -2.34%, Real Estate -0.96%, Financials -0.41%, Materials -0.32%, Communication Services -0.26%, Industrials -0.2%, Health -0.11%, Consumer Discretionary -0.03%, Consumer Staples -0.02%, Energy +0.16%, Technology +0.44%.

EUROPEAN CLOSES: DAX -0.86% at 16,547.03, FTSE 100 -0.98% at 7,576.59, CAC 40 -0.52% at 7,387.62, Euro Stoxx 50 -0.62% at 4,441.25, IBEX 35 -0.62% at 10,004.90, FTSE MIB -0.66% at 30,249.16, SMI -0.91% at 11,152.80.

STOCK SPECIFICS:

- **Citigroup (C)** -1.7%: Faces USD 3.8bln of charges in its Q4 earnings; warned investors of a possible quarterly loss due to the decline of the ARS and restructuring charges. Scheduled to release Q4 earnings results Friday morning.
- **KB Home (KBH)** -1.2%: Profit and net orders missed. After results, was downgraded at Seaport.
- **Apple (AAPL)** -0.3%: US ITC opposed Apple's motion for a stay pending appeal in a case involving sales of Cos. flagship smartwatches.
- **Hertz (HTZ)** -4.3%: To sell roughly 20k EVs from its US fleet and will take a USD 245mln charge. Prelim Q4 revenue view was light and forecasted a surprise EBITDA loss.
- **Netflix (NFLX)** +3%: Advertising President Reinhard said it is seeing strong growth of its ad-based plan and is now over 23mln global MAUs. Note, approx. two months ago it was over 15mln.
- **TechTarget (TTGT)** +12.5%: Agreed to combine with Informa's digital businesses.
- **Southwestern Energy (SWN)** -2.3% **Chesapeake (CHK)** +3.2%: SWN confirmed it will be acquired by CHK for USD 6.69/shr in all stock-transaction worth USD 7.4bln
- **Cytokinetics (CYTK)** -16.5%: **Novartis (NVS)** has backed away in the past day or two from its pursuit of Cytokinetics, according to WSJ sources.
- **Salesforce (CRM)** +2.7%: Upgraded at Baird.
- **Paramount (PARA)** -5.5% **Warner Bros. Discovery (WBD)** -4%: Downgraded at Redburn Atlantic.
- **Verizon (VZ)** -3% **AT&T (T)** -3.8% **Frontier Communications Parent (FYBR)** -6.5%: EPA calls on telecom execs to meet about lead-sheathed phone cables, according to WSJ.
- **Tesla (TSLA)** -3%: Saw weakness prior to the story, but it is forced to suspend vehicle production in gigafactory Berlin-Brandenburg from Jan. 29th-Feb. 11th with exception of a few sub-areas due to red Sea conflict; production will resume in full on February 12th.
- **DocuSign (DOCU)** +9.4%: Bain Capital and Hellman and Freidman reportedly competing to acquire DOCU, according to Reuters citing sources.

US FX WRAP

The Dollar was ultimately flat on Thursday after hotter-than-expected US CPI data, which took DXY to highs of 102.76 although it gradually pared throughout the remainder of the session to unchanged levels. In wake of CPI, Fed's Mester spoke and noted the Fed's job is not done and that March is likely too early for a rate cut in her view. Barkin said he will not prejudge the outcome of the March or other meetings, noting today's CPI was about as expected but he would have more confidence if improvement in inflation was broader.

The Euro saw marginal losses in rather quiet price action aside from the US CPI release. EUR/USD headed towards 1.10 ahead of the release but the hot print saw EUR/USD pare to lows of 1.0931, but gradually recovered throughout the session back above 1.0950.

The Yen was ultimately flat, but similar to the Euro saw notable weakness around US CPI with the initial move higher in US yields weighing on both the Euro and Yen. USD/JPY hit a high of 146.41 in wake of the data before paring to 145.60 throughout the remainder of the session as US yields eased from highs. Note, Jiji reported that the BoJ is considering lowering its price outlook for the FY2024 to the middle 2% range, via Reuters; although Citi analysts highlight there was little reaction given dovish BoJ expectations being well-established.

Cyclical currencies were more mixed. **GBP** posting marginal gains vs. the Dollar ahead of UK GDP on Friday. **AUD** was a cyclical laggard despite posting a wider-than-expected surplus in the trade data. However, Credit Agricole highlighted that it is not a big upside for the AUD given it is more evidence the economy is slowing. **NZD** saw mild gains vs the buck while **CAD** saw mild weakness.

NOK saw decent gains vs. the Dollar and Euro in addition to outperforming the SEK; analysts at Rabobank look for the NOK to find some support and expect EUR/NOK to edge lower to 11.20 on a 3-month view. SEK saw notable weakness against the Buck and single currency. Riksbank's Jansson reaffirmed his dovish stance ahead of Swedish CPI data due Monday. He noted recent outcomes have reinforced his view that inflationary pressures are really on the way down. Analysts also highlight Jansson made no comment on the QT outlook which is what many will be keeping an eye out for at the upcoming meeting.

TRY was flat vs. the Greenback but there was attention on CBRT Governor Erkan comments - he told investors in New York that Turkey is committed to achieving disinflation, noting the disinflation path is a measure of success and the CBRT is determined to achieve it. She also said her job will not be over until sustainable price stability is achieved, according to Reuters citing sources.

Elsewhere, **BRL** saw gains vs. the Buck after hotter-than-forecast Brazil inflation. Note, Argentina's inflation came in beneath expectations at 25.5% (exp. 28%), albeit surging from the prior 12.8%. **CZK** was softer vs. the Euro after cooler-than-expected Czech inflation. **HUF** was softer but off worst levels after the FT reported the European Commission is willing to give in to some of Hungary's demands in order to secure a EUR 50bln support package for Ukraine.