# US Market Wrap

## 12th January 2024: Soft PPI sees market price close to seven Fed cuts for the year

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude up, Dollar up.
- **REAR VIEW**: Soft PPI; Barclays shift first Fed rate cut forecast to March; INTC, NVDA, MU CEOs been asked to testify re. China; ECB's Lane says rate cuts are not a near-term topic; Hawkish BoJ sources; Mixed banking earnings; Houthis vow response to UK/US airstrikes.
- **WEEK AHEAD**: Highlights include PBoC MLF, China activity data, UK jobs & CPI, ECB Minutes and US Retail Sales. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing PBoC MLF, Fed's Waller, ECB Minutes; Reviewing BoK. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [TUES] PNC, GS, MS; [WED] USB, SCHW, PLD; [THURS] TFC, FAST, PPG; [FRI] SLB, TRV. To download the full estimates, please click here.
- **NEWSQUAWK UPDATE**: MLK day holiday schedule for Monday 15th January 2024.

## MARKET WRAP

Stocks were choppy on Friday and ultimately little changed after gyrating between the Middle East conflict and soft US PPI data, whilst Treasuries sustained big bull-steepening. The benchmark equity futures saw losses accumulate in the European morning, coinciding with oil prices hitting their peaks in the aftermath of the US and UK striking targets in Yemen in response to Houthi attacks on shipping vessels. The indices then surged after the December PPI metrics came in beneath expectations, with estimates for the Fed followed PCE data being revised down as a result, seeing Fed cut pricing ramp even further to near 170bps of cuts prices across 2024 vs 150bps before the data, with a March implied cut probability rising to near certainty. The cash open saw better selling develop in stocks, despite yields hugging lows and oil prices unwinding their earlier rip, taking the SPX back to flat later in the NY afternoon. The Dollar Index closed with a mild bid after bouncing off the lows seen in wake of the PPI data. In stocks, the Q4 earnings season got underway with banks largely lower after their results, United Healthcare (UNH) was hit on a rising medical care cost ratio, while airlines were hit after Delta (DAL) gave poor guidance. Luxury names were hit after Burberry (BURB LN) issued a profit warning for a sector that has largely been resilient until now.

## US

**PPI**: PPI was cooler than expected in December. Headline PPI declined 0.1% M/M, despite expectations for a 0.1% gain, matching the prior month's decline. Y/Y was also cooler than expected at 1.00% (exp. 1.3%), but up from the revised down 0.8%. The core measure was also cooler than expected and was unchanged M/M, matching the prior read despite expectations for a 0.2% gain, while the Y/Y rose 1.8%, beneath the 1.9% forecast and 2.0% prior. The super-core (ex food, energy and trade) rose 0.2%, accelerating from 0.1%, while Y/Y rose 2.5%, up marginally from the downwardly revised 2.4% in November. In headline goods, prices fell .4% led by a 1.2% fall in energy and 0.9% fall in food, ex food and energy prices were flat. In services, prices were unchanged, matching the November and October read. The net cooler-than-expected report is another sign of progress in the inflation battle and likely helps offset at least some concerns after the slightly hotter-than-expected CPI on Thursday, although there are still concerns the road back to 2% may be bumpy. On PPI, Oxford Economics notes that "While the potential for supply disruptions from goods and materials traversing the Red Sea or Panama Canal offer upside risk to producer prices, we still forecast a period of subdued gains in H2 2024 as weak goods demand offsets higher services prices". For the Fed-followed PCE data, due Jan 26th, Goldman says "we estimate that the core PCE price index rose 0.17% in December, corresponding to a YoY rate of +2.93%. We expect that the headline PCE price index increased 0.17% in December, or increased 2.60% YoY".

## FIXED INCOME

### T-NOTE (H4) FUTURES SETTLE 8 TICKS HIGHER AT 112-19

**Treasuries saw big bull steepening after soft US PPI saw Fed cut pricing ramp even further, seeing 2s30s leave inversion**. 2s -12.4bps at 4.136%, 3s -9.2bps at 3.922%, 5s -5.6bps at 3.835%, 7s -3.7bps at 3.900%, 10s -2.1bps at 3.954%, 20s -0.1bps at 4.312%, 30s +2.1bps at 4.201%.

**INFLATION BREAKEVENS**: 5yr BEI +3bps at 2.243%, 10yr BEI +3.9bps at 2.278%, 30yr BEI +3.7bps at 2.277%.

**THE DAY**: Treasuries extended their late Thursday bid into the Tokyo handover Friday, with T-Notes marking an interim peak of 112-14+ amid the anxiety around tensions in the Middle East. The lacklustre 30yr JGB auction capped the upside during APAC trade, despite another month of Chinese deflation. There was a renewed bid at the London handover, with some short covering cited with this week's issuance bonanza in the rear view, in addition to some focus on the dovish late Lagarde comments on Thursday. The bid was not sustained, however, nor were the the APAC 112-14+ peaks breached, with contracts drifting lower instead later in the European morning as oil prices extended higher on geopolitical risk.

As stateside trade got underway, the tape absorbed a 5k 5yr block buy with ease and T-Notes dipped to session lows at 112-03 ahead of the PPI data, weighed on by ECB's Lane saying rate cuts are not a near-term topic. That was right before the December PPI figures all came in on the soft side of expectations, with PCE expectations being revised down as a result, sending T-Notes to session peaks of 112-15+ in the immediate aftermath, before breaching the post-CPI peak of 112-16 and marking out a session peak of 112-26+. There was large bull-steepening seen across the curve with 2s30s jumping to +6.7bps, with that spread leaving inversion for the first time since early November 2023 and the steepest level seen since Q3 2022, aided by a block 3.1k Ultra Bond sale. Beyond the inflation data, the supply outlook is likely a supportive driver behind the steepening too with the US 20yr auction next week in addition to the February refunding announcement creeping into view where more auction size increases are expected.

**FED PRICING**: March implied cut probability up to 86% after the misses on PPI vs 72% before the data with 169bps of cuts priced across 2024 vs 152bps before. Note, Fed's Waller, who has been key in driving the late 2023 dovish Fed repricing, is to speak for the first time since November on Tuesday.

**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. In Europe, scheduled supply is set to decline to c. EUR 25bln (Germany auction on Tuesday and Wednesday) from the huge amount this week that totalled EUR 58bln, although that number could rise if more new year syndication comes to the market. The UK is also expected to sell c. GBP 5bln of Gilts across Tuesday and Wednesday. In Japan, JGB auctions are expected on Tuesday (5yr) and Thursday (20yr).

**STIRS**:

- SR3H4 +5bps at 95.01, M4 +13.5bps at 95.575, U4 +15.5bps at 96.025, Z4 +14.5bps at 96.37, H5 +13bps at 96.64, M5 +11.5bps at 96.81, U5 +9bps at 96.88, Z5 +7bps at 96.885, H6 +5bps at 96.85, H7 +1bps at 96.715, H8 -1bps at 96.56.
- SOFR flat at 5.31% as of Jan 11th, volumes at USD 1.648tln (prev. 1.66tln).
- NY Fed RRP op demand at USD 0.603tln (prev. 0.626tln) across 70 counterparties (prev. 76).
- EFFR flat at 5.33% as of Jan 11th, volumes at USD 96bln (prev. 91bln).

## CRUDE

**WTI (G4) SETTLES USD 0.66 HIGHER AT 72.68/BBL; BRENT (H4) SETTLES USD 0.88 HIGHER AT 78.29/BBL**

**Oil prices were firmer Friday after Western powers struck back against Yemen's Houthis, albeit prices faded significantly through the session**. WTI and Brent saw some upside into APAC and through into the European morning on Friday, with front-month contracts peaking at USD 75.25/bbl and 80.75/bbl, respectively. That followed the US and UK conducting a joint strike against Houthi targets in Yemen, to which Yemen's Houthis assured a response, while the US has said it would not hesitate to take further action too. However, contracts pared gains significantly through the rest of the session with WTI and Brent bottoming at 72.36/bbl and 77.97/bbl, respectively, ahead of settlement. There was no catalyst for the pullback, with traders instead pointing to the Houthis story as a rip to fade rather than an opportunity to bake in a more permanent geopolitical risk premium. There has been much commentary that despite the transit issues in the Red Sea, the overall impact on the physical oil market has been minimal, although we did hear from some oil-focused shipping names on Friday about diverting routes. Meanwhile, some analysts suggest that the response from the US and UK could even hasten the normalisation of shipping. Elsewhere, in the US, the Baker Hughes weekly rig count saw oil rigs down two to 499 and nat gas down one to 117.

# EQUITIES

**CLOSES**: SPX +0.08% at 4,784, NDX +0.07% at 16,832, DJI -0.31% at 37,593, RUT -0.23% at 1,951.

**SECTORS**: Consumer Discretionary -1.05%, Health -0.29%, Financials -0.23%, Industrials -0.04%, Materials +0.14%, Consumer Staples +0.35%, Technology +0.35%, Utilities +0.59%, Communication Services +0.62%, Real Estate +0.78%, Energy +1.26%.

**EUROPEAN CLOSES**: DAX +0.95% at 16,704.56, FTSE 100 +0.64% at 7,624.93, CAC 40 +1.05% at 7,465.14, Euro Stoxx 50 +0.84% at 4,479.65, IBEX 35 +0.90% at 10,094.80, FTSE MIB +0.73% at 30,470.55, SMI +0.66% at 11,227.60.

**STOCK SPECIFICS**:

- **JPMorgan (JPM) -0.5%**: EPS and revenue beat, although revenue breakdown was more mixed. FY24 NII ex-markets guidance topped expectations. Results in 2023 reflect overearning on both NII and credit, but remain confident to continue to deliver very healthy returns even after they normalize.
- **Bank of America (BAC) -1%**: Revenue, trading revenue, and net income fell short. Was hit by USD 3.7bln in combined charges, while net interest income fell 5% due to lower deposit balances and higher deposit costs.
- **Wells Fargo (WFC) -3.5%:** Missed on profit, but results included USD 0.20/shr of severance expense for planned actions.
- **Bank of New York Mellon (BK) +4%**: EPS, revenue, total deposits and net interest margin all surpassed expectations.
- **BlackRock (BLK) +1%**: Profit beat while revenue was line, but fixed income and equity net inflows were light. Raised quarterly dividend by 2%. Is to acquire fund manager **Global Infrastructure Partners (GIP)** in a deal worth USD 12.5bln.
- **Citi (C) +1%**: Profit beat but revenue missed amid the pre-announced charges. FY24 revenue view surpassed Wall St. consensus and expects to cut 20k jobs by 2026.
- **UnitedHealth (UNH) -3.5%**: Weighed on by Medical Cost Ratio rising to 85% from 82.3% Q/Q (exp. 83.9%). Note, EPS and revenue topped expected and affirmed FY24 guidance.
- **Delta Airlines (DAL) -9%**: Weak Q1 revenue guidance.
- **Tesla (TSLA) -4%**: Cut prices by up to 6% on its Model 3 and Model Y EVs in China. Elsewhere, production at the gigafactory Berlin is to stop most output for two weeks due to Red Sea disruption.
- **Boeing (BA) -2%**: FAA is increasing oversight of Boeing production and manufacturing, with a 3rd party overseeing inspections and quality systems.
- **Qualcomm (QCOM) +0.75% Twilio (TWLO) +1.5%**: Upgraded at Citi and Piper Sandler, respectively.
- **Intel (INTC) -1%, Nvidia (NVDA) -0.3%, Micron (MU) -1%**: US House China Committee has asked the CEO's of INTC, NVDA, and MU to testify, via FT citing sources.

# US FX WRAP

**The Dollar** was ultimately firmer on Friday despite cooler-than-expected PPI data. The data saw a knee-jerk reaction where the buck sold off from highs of 102.59 to hit lows of 102.08 before paring to circa 102.50 in the US afternoon despite yields continuing to fall. The reaction is the opposite of what we saw on Thursday to the hot CPI, but in a similar fashion, it saw a knee jerk move higher before completely reversing in the US afternoon.

**The Euro** was lower vs the buck, albeit EUR/USD hit its low of 1.0936 before the PPI data. Elsewhere, focus was on ECB's Lane who noted December's inflation number confirmed their assessment and that on that basis, interest rate cuts are not a near term topic which helped the Euro off lows before US PPI took the single currency higher as the Dollar sold off.

**The Yen** saw gains vs the buck with the narrowing Fed/BoJ policy rate differential supporting the move. USD/JPY fell from peaks of 145.56 to lows of 144.37 with USD/JPY looking set to end the week just under 145.00. Earlier on, Reuters reported that BoJ policymakers expect the economy to make progress towards meeting the threshold of negative rates, but they are divided on the timing. The Yen had little reaction to the reports with the US PPI the biggest driver of the pair.

**Cyclical currencies** were mixed. Aussie was flat while Kiwi saw mild gains with Loonie and Sterling seeing mild losses. For the Pound, UK GDP was hotter than expected with strong growth in services despite a fall in construction, albeit it sparked little reaction to UK assets with the data unlikely to shift the dial for the BoE. The highlight for the antipodes was the China trade data which saw a wider surplus than the prior and forecast led by a larger jump in exports than imports.

**Yuan** was slightly softer vs the Dollar, alongside the trade data mentioned above, China CPI and PPI was also released, which saw CPI decline less than expected Y/Y while PPI declined by more than expected.

**EMFX** was mixed with BRL and MXN seeing gains. Note that in Brazil Reuters reported that the government is discussing with lawmakers the possibility of re-imposing unpopular taxes on imports worth up to USD 50 as it struggles to balance the budget, sources said. CLP was flat vs the buck but note that Chile's Codelco reached a deal with the supervisors union at the Chuquicamata copper mine. TWD is flat heading into the Taiwan elections on Saturday. HUF saw knee-jerk weakness, which soon faded, after Hungarian CPI came in soft.