# US Market Wrap

## 16th January 2024: Fed's Waller tapers aggressive Fed cut expectations

- **SNAPSHOT**: Equities down, Treasuries down, Crude mixed, Dollar up.
- **REAR VIEW**: Fed's Waller says cuts should be done "methodically and carefully"; Dismal NY Fed Manufacturing survey; Heightening geopolitical tensions amid Red Sea strikes; Slew of ECB Speak at Davos; GS earnings beat but breakdown mixed; SNPS to acquire ANSS; iPhone discounts in China; JBLU/SAVE deal blocked; Chinese stimulus reports.
- **COMING UP**: **Data**: Chinese House Prices, Retail Sales, GDP, UK CPI, EZ HICP (Final), US MBA, Import Prices, Retail Sales, Industrial Production, Japanese Machinery Orders **Events**: Fed Beige Book **Speakers**: ECB's Knot, Lagarde; Fed's Williams, Barr, Bowman **Supply**: Australia, Germany, UK, US **Earnings**: Pearson, US Bancorp, Citizen Financial Group.
- **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.
- **DAILY US EARNINGS ESTIMATES**: 17th January 2024: USB, SCHW, PLD. To download the full estimates, please click here.

## MARKET WRAP

Stocks were subdued on Tuesday with Tech the only sector in the black amid rising yields and recurring geopolitical risk. Fed's Waller tapered expectations for a deep cutting cycle, giving his first set of public remarks since the end of November, where he said rate cuts could occur "in 2024" - a noted lack of explicitness on timing - whilst also saying the strong economic backdrop means rate cuts should be done "methodically and carefully", with "no reason" to cut as quickly as in the past, seeing Treasury yields and Fed rate expectations rise, supporting the Buck, that's despite the lowest NY Fed mfg. survey reading since COVID reported earlier in the session. Despite Waller's comments, a March implied cut remains at c. 70%, although the decline in cuts priced across 2024 is more notable. Oil prices were choppy but ultimately little changed as the surging Dollar and broad risk-averse conditions outweighed escalating geopolitical tensions and further Chinese stimulus reports. In stocks, MS failed to sustain its initial bid after its earnings, while PNC and GS shares traded subdued with neither indicating anything too out of consensus after last Friday's big bank reports. AAPL was weighed on amid reports of iPhone price cuts in China, an unusual move for the Co. BA continues to dip as regulator pressure heightens.

## FED'S WALLER

Governor Waller gave his first remarks since November in a speech at the Brookings Institution, saying the data received in the last few months - citing Core PCE running close to 2% in the past six months - is allowing the Fed "to consider cutting the policy rate in 2024." However, he caveated, "concerns about the sustainability of these data trends [low inflation with strong growth and low unemployment] requires changes in the path of policy to be carefully calibrated and not rushed." Waller previously laid the groundwork for an early 2024 rate cut in November with his comment that there are good economic arguments that if inflation were to continue falling for several more months, then the Fed could lower the policy rate. Thus, his reference here in January to rate cuts being "in 2024" - rather than something more explicit/imminent - was perceived to be a bit of a hawkish backtrack, at least in the immediacy by markets. In addition to his comment that because of the strong economic backdrop, rate cuts should be done "methodically and carefully", with "no reason" to cut as quickly as in the past, tapering expectations on how deep a rate cut cycle could be.

However, some speculate that a March cut could still be in play for Waller, but he is just not tying himself down to it publicly as he awaits the next set of inflation figures, nor to set up a public dissent vs his colleagues - note in his Q&A Waller said the timing of cuts will be up to the deliberations of the FOMC. He said in his speech he will be watching closely the scheduled revisions to the annual CPI inflation due on Feb. 9th, "In mid-February, we will get the January CPI report and revisions for 2023, potentially changing the picture on inflation. My hope is that the revisions confirm the progress we have seen".

Waller said, "When the time is right to begin lowering rates, I believe it can and should be lowered methodically and carefully." He concluded, "The healthy state of the economy provides the flexibility to lower the (nominal) policy rate to keep the real policy rate at an appropriate level of tightness. But I will end by repeating that the timing and number of rate cuts will be driven by the incoming data." Thus, Waller remains wedded to his targeting of stable real rates, which he expressed last year, but those will continue to drift higher if the Fed does not cut rates soon, giving the grounds for speculation that Waller could be in favour of a March cut, data permitting.

## US DATA

**NY FED MANUFACTURING**: The NY Fed Manufacturing survey for January saw a huge collapse. The headline manufacturing business conditions fell to -43.7 from -14.5, much deeper than the forecast of -5. The -43.7 print takes it to the lowest reading since May 2020. The downside was led by a huge decline in New Orders and Shipments. New Orders fell to -49.4 from -11.3, while Shipments dropped to -31.3 from -6.4. It is worth noting that the NY Fed Manufacturing survey can be particularly volatile, nonetheless this is still a notable decline. The NY Fed Economic Research Adviser notes that "While the survey's headline index has fluctuated in recent months, this outsized drop suggests January was a difficult month for New York manufacturers, with employment and hours worked also contracting." On employment and prices, the number of employees index saw a marginal increase to -6.9 from -8.4, but still indicating a contraction. The average employee workweek slipped further into negative territory to a reading of -6.1 from -2.4. Prices Paid rose to 23.2 from 16.7, indicating a pick-up in input prices, while Prices Received eased to 9.5 from 11.5, a sign that selling price increases remained modest. Although the headline and general tone of current conditions was poor, the outlook was better, albeit still subdued. The forward-looking indicator for General Business Conditions rose to 18.8 from 12.1, while New Orders and Shipments lifted to 25.2 (prev. 11.3) and 24.6 (prev. 15.8), respectively. However, the Prices Paid saw a notable jump to 40 from 25 while Prices Received rose slightly to 32.6 from 27.1. Both the forward-looking indices for Number of employees and the Average Employee work week saw slight gains.

## FIXED INCOME

**T-NOTE (H4) FUTURES SETTLED 24 TICKS LOWER AT 111-27**

**Treasuries bear-steepened after Fed's Waller tapered expectations for a deep cutting cycle**. 2s +8.8bps at 4.226%, 3s +9.5bps at 4.017%, 5s +10.9bps at 3.941%, 7s +11.2bps at 4.007%, 10s +11.6bps at 4.066%, 20s +11.3bps at 4.421%, 30s +10.8bps at 4.306%.

**INFLATION BREAKEVENS**: 5yr BEI +1.6bps at 2.255%, 10yr BEI +2.9bps at 2.304%, 30yr BEI +3.1bps at 2.307%.

**THE DAY**: Treasuries had been trundling lower alongside other govvies since last Friday's settlement with the front end leading entering stateside trade on Tuesday. The weekend saw familiar hawkish rhetoric from Fed's Bostic (voter) in the FT, who continues to warn about cutting too early (before Q3), while Goolsbee gave a more feeble pushback against market pricing late on Friday in a Fox News interview, saying that "[markets] were getting the cart before the horse". The bearish impetus had mainly stemmed out of EGBs, however, with Chief Economist Lane, an influential dove, pushing back on rate cuts in H1 over the weekend, followed up by a string of other ECB speakers on Monday pushing back on imminent rate cuts. Japan also saw lackluster demand at its 5yr JGB auction on Tuesday, exacerbating the downside. Also note a Bloomberg article on Monday, "Japan Wage Gains of 4% to Pave Way for BOJ Hike: Ex-Official".

T-Notes found interim lows of 112-01+ in the NY morning on Tuesday, although most of the selling up to that point had occurred on Monday, with losses suppressed out of London on Tuesday by firming Gilts after the soft UK wage data, not to mention solid demand seen at the German Bobl and UK inflation linker auctions. However, T-Notes spiked to resistance at 112-11 after the tumble to the lowest reading in the Empire State mfg. survey since COVID. Contracts struggled to sustain the bid at first amid more corporate issuance and hedging ahead of Fed's Waller, but a new interim high of 112-11+ was stretched out late in the NY morning ahead of the Fed Governor's remarks.

The release of Waller's speech, where he said rate cuts could occur "in 2024" - a noted lack of explicitness on timing - whilst also saying the strong economic backdrop means rate cuts should be done "methodically and carefully", with "no reason" to cut as quickly as in the past, saw T-Notes fall from 112-08 to 111-28+ within a few minutes, stretching to session lows of 111-22+ a few hours later. The curve bear steepened as the dust settled from Waller, with attention on Wednesday's sovereign supply (details below).

**FED PRICING**: March implied cut probability down to 68% from 86% seen on Friday after the misses on PPI with 157bps of cuts priced across 2024 vs 169bps on Friday. Note, before Waller spoke at 16:00ET, a March cut was at 76% implied and 165bps of cuts were priced across 2024.

**THIS WEEK'S AUCTIONS**: US to sell USD 13bln of 20yr bonds (reopening) on Wednesday and USD 18bln of 10yr TIPS on Thursday; both to settle on Jan 31st. Across the pond, we get a German 30yr auction and a UK 10yr auction both on Wednesday. On Thursday, Spain and France are issuing across multiple tenors, and Japan is selling a 20yr.

**STIRS**:

- SR3H4 -7bps at 94.94, M4 -13bps at 95.445, U4 -13bps at 95.895, Z4 -12bps at 96.255, H5 -11bps at 96.535, M5 -10.5bps at 96.71, U5 -10bps at 96.785, Z5 -10bps at 96.79, H6 -10bps at 96.755, H7 -12.5bps at 96.60, H8 -13bps at 96.44.
- SOFR flat at 5.31% as of Jan 12th, volumes fall to USD 1.590tln from USD 1.648tln.
- NY Fed RRP op demand at USD 0.583tln (prev. 0.603tln) across 65 counterparties (prev. 70).
- EFFR flat at 5.33% as of Jan 12th, volumes fall to USD 93bln from USD 96bln.
- US sold USD 72bln of 6-month bills at 4.975%, covered 3.17x; sold USD 79bln of 3-month bills at 5.225%, covered 2.99x; sold USD 70bln of 42-day CMBs at 5.285%, covered 2.89x.
- US raises 4-, 8-, and 17-week bill auction sizes by USD 5bln, 5bln, and 2bln, respectively, at USD 85bln, 85bln, and 58bln; 4- and 8-week to be sold on Jan 18th and 17-week bills on Jan 17th; all to settle on Jan 23rd.

## CRUDE

**WTI (G4) SETTLED USD 0.28 LOWER AT 72.40/BBL; BRENT (H4) SETTLED USD 0.14 HIGHER AT 78.29/BBL**

**The crude complex was choppy on Tuesday, but ultimately little changed as the surging Dollar and broad risk-averse conditions outweighed escalating geopolitical tensions and further Chinese stimulus reports**. In the London morning, WTI and Brent took impetus from the increasingly frequent strikes in the Red Sea, in addition to China mulling USD 139bln of special bonds, printing session highs at the NY handover of USD 73.56/bbl and 79.40/bbl, respectively. Security firm Ambrey said a Malta-flagged and Greek-owned bulk carrier was reportedly targeted and impacted with a missile, while the US carried out a new strike against Houthi anti-ship missiles within Yemen. In response to the growing attacks, according to WSJ citing sources, Shell (SHEL LN) has suspended all Red Sea shipments. As the US session got underway, WTI and Brent gradually pared from highs to hit lows of 71.23/bbl and 77.60/bbl, respectively, as oil couldn't escape the clutches of souring sentiment and the Greenback hitting a one-month high. In addition to this, US oil production has been hit by the freezing conditions gripping the country (more below). Looking ahead, OPEC MOMR and private US energy inventory data are due on Wednesday, with the tape continuing to trade at the mercy of the fluid geopolitical situation.

**WEATHER CONDITIONS**: Amid the deep freeze across America, North Dakota oil production is down roughly 600-650k BPD and gas output off 1.6-1.8 BCF per day due to freezing weather, via state pipeline authority. Exxon (XOM) Beaumont, Texas refinery (366k BPD) stated impact to multiple units and associated equipment, while Flint Hills Corpus Christi Refinery (230k BPD) reported certain equipment experienced a significant impact, and TotalEnergies (TTE FP) noted the Port Arthur platform (238k BPD) has lost external power supply to the facility.

## EQUITIES

**CLOSES**: SPX -0.37% at 4,765, NDX -0.01% at 16,830, DJIA -0.62% at 37,361, RUT -1.21% at 1,927.

**SECTORS**: Energy -2.4%, Materials -1.19%, Utilities -1.05%, Industrials -0.98%, Financials -0.64%, Real Estate -0.61%, Health -0.55%, Consumer Staples -0.48%, Communication Services -0.42%, Consumer Discretionary -0.2%, Technology +0.39%.

**EUROPEAN CLOSES**: DAX -0.33% at 16,568.18, FTSE 100 -0.50% at 7,556.90, CAC 40 -0.18% at 7,398.00, Euro Stoxx 50 -0.22% at 4,444.85, IBEX 35 -0.83% at 9,993.08, FTSE MIB +0.05% at 30,344.00, SMI +0.20% at 11,229.90.

**STOCK SPECIFICS**:

- **Morgan Stanley (MS)** -4.2%: Post-earnings MS saw gains but pared into US cash open. Revenue beat helped by strong Wealth Management and IB businesses, although profit missed. CEO Pick warned of geopolitical risks and the possibility the US economy could weaken.
- **Goldman Sachs (GS)** +0.7%: Surpassed Wall St. consensus on EPS and revenue but missed on NII with revenue breakdown mixed - FICC, IB, Global Banking & Markets all light.
- **PNC Financial (PNC)** +0.1%: EPS and revenue topped, but for the next quarter it sees sales down 3-4% and NII down 2-3%, with FY24 NII expected to be 4-5% lower.

- **Ansys (ANSS)** -5.5%: To be acquired by **Synopsys (SNPS)** for USD 35bln or USD 390.19/shr in a cash-and-stock deal. Note, the deal had previously been touted at around USD 400/shr.
- **Apple (AAPL)** -1.2%: In a highly unusual move, is reportedly offering iPhone discounts in China. Separately, US Supreme Court rejected the request from Apple for Epic App Store review.
- **Broadcom (AVGO)** +0.7%: Private equity firms EQT, KKR, Thoma Bravo are considering acquiring AVGO's end-user computing unit, valued around USD 5bln.
- **Microsoft (MSFT)** +0.5%: Rolled out AI subscription service.
- **Boeing (BA)** -7.9%: US regulators impose additional requirements on Boeing's 737 Max 9 before it can resume flights. Elsewhere, BA was downgraded at Wells Fargo.
- **Carrols Restaurants (TAST)** +12.5%: To be acquired by Burger King for USD 9.55/shr in cash, according to Bloomberg. Note, TAST closed Friday at USD 8.42/shr.
- **PayPal (PYPL)** -4.2%: Downgraded at Mizuho.
- **Disney (DIS)** +3%: ESPN and the NFL are in advanced talks for a potential agreement that may involve the league acquiring an equity stake in ESPN, NY Post reports.
- **Applied Digital (APLD)** -26.2%: Missed on EPS and revenue alongside lowering guidance.
- **AMD (AMD)** +8.3%: PT was lifted at Barclays, KeyBanc, and Susquehanna. Analysts have been upbeat about the potential for AI to boost demand for semiconductors.
- **Spirit Airlines (SAVE)** -47.1%: **JetBlue (JBLU)** and Spirit Airlines (SAVE) deal blocked by judge on antitrust grounds, according to Bloomberg.

## US FX WRAP

**The Dollar** was firmer on Tuesday, in the holiday truncated week, amid firmer Treasury yields in broad risk-off sentiment on account of the ever growing geopolitical tensions and hawkish central bank comms. The key scheduled event was Fed's Waller (voter), who gave his first set of public remarks since the end of November, where he said rate cuts could occur "in 2024" - a noted lack of explicitness on timing - whilst also saying the strong economic backdrop means rate cuts should be done "methodically and carefully", with "no reason" to cut as quickly as in the past, seeing Treasury yields and Fed rate expectations rise, supporting the Buck. Elsewhere on the data docket, NY Fed Manufacturing for January saw a huge collapse and printed the lowest since May 2020, with new orders and shipments very weak. The Dollar Index reached a one-month high of 103.42, briefly eclipsing the 200DMA of 103.41, as participants await US Retail Sales, earnings and further Fed speak on Wednesday (Williams, Bowman, Barr), although the speech titles indicate a lack of policy or outlook-related remarks.

**G10 FX** saw losses across the board against the surging Buck. **Antipodeans** underperformed amid the aforementioned risk aversion and rate differentials, with AUD/USD and NZD/USD hitting lows of 0.6577 and 0.6127, respectively. Aside from risk, **GBP** was hit by wage data in the UK morning, as the headline fell to 6.6% (prev. 7.2%, exp. 6.6%) and the broader metric including bonuses printed someway cooler than expected. Cable printed a low of 1.2620 with downside targets being the Jan. 5th low at 1.2612 and the 50DMA at 1.2608. **CAD** was the G10 'outperformer', albeit still saw losses vs. the Greenback, as the Loonie was initially boosted by Canadian inflation data, before resuming its ascent higher. For the record, M/M fell 0.3% (prev. +0.1%) as expected, while Y/Y rose 3.4% (exp. 3.4%, prev. 3.1%). Oxford Economics says, "we believe the economy has slipped into a moderate recession," and in its view, "growing slack from the deepening downturn, alongside an easing of global oil and world food prices will help return headline CPI inflation to the Bank of Canada's 2% target by late 2024."

**USD/JPY** hit a high of 147.31, matching the Dec. 7th peak, as the USD strength continued to weigh on the Yen. As a result, JPY needs data/BoJ to turn hawkish to claw back losses, although we are expected a Japanese 20yr auction on Thursday which could affect yield differentials. **EUR** lost 1.09 status against the Dollar to see the cross hit a low of 1.0863 despite hawkish ECB speak, with soft consumer expectations weighing. There has been a plethora of ECB speak at Davos, and too much to recount, but Villeroy said next move should be a cut this year, Centeno noted the ECB needs to be prepared for all topics, including rate cuts, and Simkus added cuts may begin around the summer. ECB Consumer Inflation Expectations (Nov) cooled to 3.2% (prev. 4.0%) and 2.2% (prev. 2.5%) for the 12-months and 3-year ahead metrics, respectively. Meanwhile, German ZEW Economic Sentiment (Jan) improved to 15.2 (exp. 12.0, prev. 12.8), with Current Conditions more or unless unchanged at -77.3 (exp. -77.0, prev. -77.1).

**EMFX** was exclusively lower against the Dollar. **ZAR** was weighed on by falling gold prices. For the **HUF**, Economy Minister Nag said the central bank (NBH) is on a good path with rate cuts but the bank is too cautious, could be bolder, citing his curiosity about its next move given the 5.5% Dec inflation reading. Lastly, for the **Yuan**, it saw losses on the mentioned Dollar themes, but according to Bloomberg sources, China is mulling more stimulus with USD 139bln of special bonds. Meanwhile, Chinese Premier Li noted China's economy is making steady progress and rebounded in 2023 and had an estimated growth of 5.2%, higher than the 5% target. Note, this comes ahead of the Chinese GDP and activity data on Wednesday.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com