US Market Wrap

18th January 2024: Tech leads gains as jobless claims hit lows since September '22

- **SNAPSHOT**: Equities up, Treasuries bear-steepened, Crude up, Dollar up.
- **REAR VIEW**: Jobless Claims tumble; Philly Fed improves, albeit less than expected; Housing starts ease but building permits rise; HUM lowered FY outlook; TSM reports better than expected Q4 profits & revenues; Bostic reiterated willingness to cut rates before July if data permits; US Senate stopgap funding bill to avert government shutdown secures enough votes to pass.
- **COMING UP**: **Data**: Japanese Tertiary Index, German Producer Prices, UK Retail Sales, EZ Construction Output, Consumer Confidence (Flash), Canadian Retail Sales, US UoM Inflation Prelim **Speakers**: ECB's Lagarde, Fed's Daly, Barr.

MARKET WRAP

Stocks were firmer on Thursday with big tech leading the gains while jobless claims fell to their lowest level since September 2022. Tech was supported by TSMC's solid earnings; AAPL saw its strongest day in months, finding additional gains from a BofA analyst upgrade. It is worth noting that the indices, particularly the rate-levered Russell 2k, found a notable bout of strength in the NY afternoon, with traders pointing to the passing of the government stopgap funding bill in the Senate but also a post on X from WSJ's Timiraos citing analyst forecasts for next Friday's PCE showing progress on the Fed's inflation battle. However, Treasuries did not react amid the afternoon's stock bounce. Nonetheless, Treasuries did bear-steepen on the session (2s flat, 10yr +4bps) as duration failed to recover after the big drop in US jobless claims in the NY morning. Note alongside the jobless claims, housing starts/permits came in above expectations, while the Philly Fed mfg. survey, despite missing expectations, did not see a drop anywhere near the extent of the Empire survey earlier this week that had piqued recessionary concerns. The Dollar Index was only marginally firmer: Swissy continued its decline; Aussie outperformed with stocks despite the surprise tumble in the employment report; Sterling firmer ahead of the retail sales figures on Friday; Yen was flat ahead of Japanese CPI; Euro flat post stale ECB minutes. Oil prices firmed through the US session amid mixed inventory data, supply headaches, and the widening and deepening of geopolitical risk.

US

PHILLY FED: The Philly Fed Business Index improved to -10.6 in January (prev. -12.8), but not as much as the forecast of -7.0. Internally, New Orders and Employment printed -17.9 (prev. -22.1) and -1.8 (prev. -2.5), respectively, with Capex Index rising to +7.5 (prev. -7.5) and Shipments lifting 5 points to -6.2. On the prices footing, the inflationary gauge of Prices Paid declined to 11.3 (prev. 24.3) while Prices Received fell to 6.3 (prev. 12.3). Looking ahead, the survey's broad indicators for future activity declined, with the Six-month plunging index to -4.0 (prev. 12.6), suggesting less widespread expectations for overall growth over the next six months. In this month's special questions, the outcome was that firms expect smaller cost increases for 2024. Overall, firms continued to indicate overall increases in prices and mostly steady employment, the headline figure was well within recent ranges for the Philly Fed, alleviating some concerns after the Empire survey plunged to the lowest level since COVID earlier this week.

JOBLESS CLAIMS: Initial Jobless Claims, for the week coinciding with the usual BLS survey period, was hot as it fell to 187k from 203k, despite expectations of a rise to 207k and printed outside the lower bound of the forecast range (195k). The number would be the lowest print since September 2022 and outside of recent ranges and some analysts suggest it could be skewed by the recent cold weather. The 187k print is consistent with a hot labour market in the US economy although Oxford Economics highlight that most labour market indicators show progress towards a rebalancing in supply and demand, but that is happening without a rise in layoffs. OxEco add that "Though seasonal factors overstate the drop, the low levels of claims suggest vacancies rather than employment continue to bear the burden of softening labor demand." The dip in the headline took the 4wk average down to 203k from 208k. It is also worth highlighting that within the report, the unadjusted number of claims was 289k and seasonal factors had expected a decrease of 5.6k from the prior week. The continued claims, for the week prior, eased to 1.806mln from 1.832mln, despite expectations for an increase to 1.845mln.

HOUSING STARTS: US Housing Starts eased 4.3% to 1.46mln in December, albeit above the expected 1.426mln. Single family starts fell 8.6% to 1.027mln while starts for buildings with five units or more rose by 7.5% to 417k. Building Permits rose by 1.9% to 1.495mln, above the 1.48mln forecast. Single#family authorizations rose 1.7% M/M to 994k, while authorizations of units in buildings with five units or more rose 1.4% to 449k in December. The report also highlights that for 2023, an estimated 1.47mln housing units were authorized by building permits in 2023, 11.7% below 2022. Analysts at Pantheon Macroeconomics highlighted the drop in housing starts reflected the partial reversal of a spike in the November single-family starts, while it adds the less-volatile permits data suggests the steady uptrend in single-family construction will continue.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 7 TICKS LOWER AT 111-06+

Treasuries bear-steepened as the long end failed to recover after a big drop in US jobless claims. 2s -0.2bps at 4.352%, 3s +0.3bps at 4.137%, 5s +1.6bps at 4.040%, 7s +2.5bps at 4.099%, 10s +3.2bps at 4.136%, 20s +5.5bps at 4.491%, 30s +5.8bps at 4.370%.

INFLATION BREAKEVENS: 5yr BEI +3.8bps at 2.302%, 10yr BEI +4.1bps at 2.343%, 30yr BEI +4.2bps at 2.341%.

THE DAY: Treasuries had seen a feeble recovery entering the US session on Thursday, with the front end leading and the long end little changed. The poor Australian jobs report kicked things off in APAC trade before the poor Japanese 20yr JGB auction capped the duration bid, coming after the poor US 20yr auction on Wednesday. A slew of block buys were seen in T-Notes as European trade got underway, although that followed some 2yr block sellers. There was no major data or catalyst out of Europe, but on EGB supply, Spain saw strong auction results while France saw a more average demand turnout, although neither had much of a broader impact on govvies.

T-Notes hit a session peak of 111-21 in the London morning, and had been hovering near highs as stateside trade got underway. However, the tumble in initial jobless claims was released alongside the Philly Fed survey (which was not nearly as bad as the Empire survey) and the above forecast housing starts and permits figures, seeing T-Notes fall from 111-15+ to lows of 111-07, with a 5.1k block seller weighing. The front end saw a more notable recovery after the data but duration could not follow, and later in the session, coinciding with oil bouncing higher, T-Notes stretched out to a new January low of 111-04+, breaching past the prior NFP lows of 111-06+. A huge, 25k/15k 2yr/10yr block steepener accentuated the curve's performance. Note the strong 10yr TIPS auction after that capped the losses for duration.

10YR TIPS AUCTION: An overall strong 10yr TIPS new issue from the Treasury with USD 18bln sold at 1.810%, a 1.5 bp stop-through the When Issued yield and similar to the six-auction average. The auction was covered 2.62x, above the prior 2.32x and average 2.49x. Dealers were left with just 3.2%, beneath the average 8%, with Indirects taking a chunky 79.3%.

FRIDAY sees the Michigan consumer survey, existing home sales, TIC flows, and Fed's Barr and Daly. Before then, Japanese CPI, German PPI, and UK retail sales.

NEXT WEEK'S AUCTIONS: US to sell USD 60bln of 2yr notes on Tuesday, USD 61bln of 5yr notes and USD 28bln of 2yr FRNs both on Wednesday, followed by USD 41bln of 7yr notes on Thursday; all to settle on Jan 31st. Globally, the EU is expected to come in with some long-end taps early next week, UK 30yr syndication on Monday, Germany 3yr and 30yr green auctions on Tuesday, UK 4yr and German 15yr auctions on Wednesday, followed by a Japanese 40yr auction on Thursday.

FED PRICING: March implied cut probability little changed since Wednesday at 58%, still significantly down from 86% seen on Friday. 2024 cut pricing as a whole was also little changed at 141bps (139bps on Weds), also significantly down from 157bps priced after Waller on Tuesday and 170bps after PPI on Friday.

STIRS:

- SR3H4 +0.5bps at 94.895, M4 +1.5bps at 95.345, U4 +1bps at 95.75, Z4 +1bps at 96.10, H5 flat at 96.37, M5 -1 bps at 96.55, U5 -1.5bps at 96.635, Z5 -2bps at 96.65, H6 -2.5bps at 96.625, H7 -4.5bps at 96.50, H8 -5.5bps at 96.355.
- SOFR flat at 5.32% as of Jan 17th, volumes fall to USD 1.764tln from 1.854tln.
- NY Fed RRP op demand at USD 0.618tln (prev. 0.590tln) across 81 counterparties (prev. 77).
- EFFR flat at 5.33% as of Jan 17th, volumes rise to USD 88bln from 85bln.

- US sold USD 85bln of 1-month bills at 5.285%, covered 2.81x; sold USD 85bln of 2-month bills at 5.275%, covered 3.06x.
- US raised 6-, 13-, 26-, and 52-week auction sizes by USD 5bln, 2bln, 2bln, and 2bln, respectively, to 75bln, 77bln, 70bln, and 46bln; 13- and 26-week bills sold on Jan 22nd and 6- and 52-week bills sold on Jan 23rd; all to settle on Jan 25th.

CRUDE

WTI (H4) SETTLED USD 1.47 HIGHER AT 73.95/BBL; BRENT (H4) SETTLED USD 1.22 HIGHER AT 79.10/BBL

Oil prices were firmer through the US session on Thursday amid mixed inventory data, supply headaches, and the widening and deepening of geopolitical risk. Oil prices were on the front foot out of the Asia session and in the European morning before better selling developed into the NY handover, coming alongside reports in the FT that Arab nations had developed a plan to end the Israel-Hamas war with WTI and Brent March contracts troughing for the session at USD 72.10/bbl and USD 77.33/bbl, respectively, only to recover through the rest of the session to peak at USD 74.19 /bbl and 79.30/bbl ahead of settlement. On the demand side, a very low jobless claims print and improving housing starts /permits provided some tailwinds from the US economy. IEA also upgraded its world oil demand growth forecast for the year by 180k BPD to 1.24mln BPD. While on supply, the EIA reported a 2.5mln bbl crude stock draw last week, including a 2.1mln bbl draw at the Cushing delivery hub, although the products saw a net build of 5.5mln bbls. Crude production remained at 13.3mln BPD, although the latest extreme weather conditions may see that figure dip in the weeks ahead. Meanwhile, Bloomberg reported Chevron's (CVX) huge Kazakh oil expansion may be delayed until 2025.

EQUITIES

CLOSES: SPX +0.88% at 4,780, NDX +1.47% at 16,982, DJIA +0.54% at 37,468, RUT +0.55% at 1,923.

SECTORS: Technology +2.03%, Communication Services +1.38%, Industrials +1.34%, Consumer Discretionary +0.62%, Materials +0.39%, Financials +0.23%, Health +0.01%, Consumer Staples -0.11%, Energy -0.22%, Real Estate -0.61%, Utilities -1.05%.

EUROPEAN CLOSES: DAX +0.82%, at 16,566.03, FTSE 100 +0.18%, at 7,459.45, CAC 40 +1.13%, at 7,401.35, Euro Stoxx 50 +1.15%, at 4,453.85, IBEX 35 +0.10%, at 9,877.50, FTSE MIB +0.84%, at 30,352.00, SMI +0.41%, at 11,194.20.

STOCK SPECIFICS:

- **TSMC (TSM)** +8.6%: Reported better than expected Q4 profits and revenue. Received a boost from demand for Nvidia's AI chips in 2023, offsetting a slump in global smartphones. As such, provided tailwinds to the broader tech/semiconductor space.
- Elsewhere in the tech space, **Apple (AAPL)** +3.3% was upgraded at Bank of America; cited a stronger multiyear iPhone upgrade cycle as well as higher growth in services as Apple better monetises its installed base of customers.
- **Discover Financial (DFS)** -10.8%: Large profit miss driven by higher expenses. Looking ahead, FY24 loans view was light and sees FY net interest income down 2-5% Y/Y.
- **Kinder Morgan (KMI)** -1.4%: EPS and revenue light.
- **Fastenal (FAST)** +7.2%: Headline Q4 numbers marginally topped expectations amid robust demand; said it received a boost to unit sales from growth at on-site locations as well as currency tailwinds.
- **KeyCorp (KEY)** -4.6%: Fell short on profit but was hit by USD 0.22/shr charges related to a FDIC special assessment. FY24 loans and NII guidance was underwhelming.
- **Humana (HUM)** -8%: Lowered FY guidance as it is unable to offset higher than anticipated medical costs, and now sees medical cost ratio rising to 91.4% (exp. 89.1%). Weighed on the broader space - **UnitedHealth (UNH)** (-1.6%), **Centene (CNC)** (-1.8%), and **Elevance Health (ELV)** (-1.4%).
- **Netflix (NFLX)** +1%: Will not launch an app for Apple's Vision Pro headset.
- **Boeing (BA)** +4.2%: India's Akasa Air placed an order for 150 Boeing 737 MAX planes, marking the first significant order for Boeing's MAX programme since the recent cabin panel issue.
- **MDC Holdings (MDC)** +18.4%: Sekisui House is to buy MDC for USD 63/shr. Note, MDC closed Wednesday at USD 53.09/shr.
- **Plug Power (PLUG)** -11.5%: Entered into common stock at-the-market offering of up to USD 1bln.
- **Spirit Airlines (SAVE)** -7.3%: Stated it is not pursuing nor involved in a statutory restructuring. Earlier, WSJ sources suggested SAVE is examining options to address financial challenges after its JetBlue Airways (JBLU) merger was blocked.

US FX WRAP

The Dollar was firmer on Thursday, printing a session high of 103.63, as it received an initial fillip via initial jobless claims and a further pop amid the rise in Treasury yields. Prior to this, the Greenback was subdued through the duration of the London morning but started gaining as US participants entered for the day coupled with the US data. On which, Initial Jobless Claims, for the week coinciding with the usual BLS survey period, tumbled to the lowest since Sep. '22 printing 187k from 203k, despite expectations of a rise to 207k. Meanwhile, Philly Fed improved, albeit less than expected, but alleviated some concerns after the Empire survey plunged to the lowest level since COVID earlier this week. Lastly, housing starts eased but building permits rose. Looking ahead, attention resides around prelim UoM (Jan) on Friday, with Fed's Daly and Barr also scheduled to speak ahead of the January meeting blackout.

CHF was the G10 underperformer and was seemingly a function of the broader sentiment as opposed to anything Swiss-specific. USD/CHF continues to grind higher in 2024 and has now extended its winning streak to six consecutive sessions. That follows the sharp appreciation of the Franc late last year which prompted EUR/CHF to trade at the lowest level since Jan. 2015. EUR/CHF has extended back above the 0.9400 mark, a previous break level that had stoked downside momentum in late December.

AUD and **GBP** both saw slight gains, while **CAD** was flat. The former saw modest strength (against the Buck) as it was cushioned by firmer commodity prices, highlighted by gains in iron ore despite a mixed Australian jobs print. On this, the unemployment rate was unchanged at 3.9%, as expected, while employment change saw a surprise fall of 65k (exp. +17.6k, prev. +72.6k). Since the report, Citi retains its call for a February 25bps hike from the RBA, and while the bar is high, it all depends on quarterly inflation (Jan 31st). The Loonie was flat despite the gains in the crude complex, as USD/CAD traded between 1.3481-1.3527. Cable hit a low of 1.2649 against a peak of 1.2703 as participants await UK Retail Sales (Dec) on Friday.

EUR, **JPY**, and **NZD** all saw losses vs. the Dollar to varying degrees. For the former, ECB Minutes garnered little reaction and gave a stale account of the December meeting and offered little new to investors (full review here). EUR/USD hit a low of 1.0847 with the next level to the downside being the 200DMA (1.0845). Separately, note reports that Germany's construction union has demanded a pay rise of more than 20%, in what could be just a first omen for the ECB which has been harking on the need for lower wage growth before it considers rate cuts later this year. The Yen saw strength during Tokyo trade which was attributed to importers supporting the currency at the Tokyo fix, but later fell victim to overall risk sentiment and the Dollar bid after the US data. In the London morning, Asahi citing sources said, "The possibility of the BoJ being behind the curve in addressing inflationary risks is small; "There's no pressure to rush towards the exit". Onto Friday, participants await New Zealand Manufacturing PMI (Dec) and Japanese CPI (Dec).

Scandis were weaker. **SEK** underperformed the **NOK**, as the firmer oil prices weighed. Separately, Riksbank's Thedeen said inflation risks are relatively unchanged from November and welcomes the slowdown in inflation.

EMFX was mixed. **CLP** saw tailwinds on gains in copper, the **Rand** was supported by firmer gold prices and South African mining production for November rising 6.8%, well above the expected 3.0% and the prior 3.6%. **The Chilean Peso** was also supported by firmer commodity prices, this time copper, while the **Lira** saw headwinds from the gains in oil. **HUF** saw another bout of notable depreciation with a lack of fresh catalysts with desks pointing to the dovish Virag comments on Wednesday who opened the door to faster cuts from the NBH.