US Market Wrap

23rd January 2024: Bonds sold in wake of Ueda with stocks mixed post-earnings

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: BoJ Governor Ueda offers hawkish press conference; China stimulus reports; GE & MMM offer light guidance; Strong RTX & PG earnings; 2yr auction on the screws; Richmond Fed worsens, but within recent ranges.
- **COMING UP**: **Data**: Australian Composite Leading Index, Japanese PMI, French, German, EZ, UK, US PMIs **Events**: BoC Policy Announcement **Supply**: UK, Germany, US **Earnings**: SAP, ASML, Abrdn, AT&T, Tesla, IBM.

MARKET WRAP

Stocks were mixed on Tuesday with NDX outperforming and RUT lagging. The SPX and NDX gradually gained throughout the US session while the DJIA and RUT sold off after the open before paring somewhat throughout the session but failing to close in positive territory. Consumer Staples, Communication Services and Technology outperformed, while Real Estate, Consumer Discretionary and Industrials lagged. Industrials were hit on a steep downside in MMM and GE post earnings but somewhat offset by gains in Airlines after a strong UAL report seeing JETS +2%, as well as a strong report from RTX. Communication was supported by a strong VZ report. Elsewhere, China stocks performed particularly well on a slew of support measures seen overnight. Elsewhere, fixed income was sold globally in the wake of the BoJ press conference which saw Ueda allude towards an eventual exit of NIRP, although the BoJ meeting itself was all as expected. The Yuan outperformed on the aforementioned China measures while the Buck was bid with DXY looking to enter the APAC session at c. 103.50. The Yen gave up its initial Ueda gains as the buck advanced with UST yields firmer across the curve in a steeper fashion with eyes on supply this week; the 2yr auction on Tuesday was in line with averages but with strong indirect demand. Oil prices were choppy but ultimately saw marginal weakness from the surge seen on Monday ahead of inventory data.

NORTH AMERICA

RICHMOND FED: Richmond Fed composite index fell to -15 in December from -11 in January. Of its three component indices, shipments marginally improved to -15 (prev. -17) while new orders edged down to -16 (prev. -14), and employment notably fell to -15 from -1. On the inflationary footing, prices paid slightly improved to 4.19 (prev. 4.24) with prices received more-or-less unchanged at 2.80 (prev. 2.79), while firms expect both to moderate over the next 12 months. The report adds that firms remained somewhat pessimistic about local business conditions, as the index increased slightly but remained in negative territory. The index for future local business conditions increased to 0 (prev. -5). In addition, backlog and capacity utilisation fell further into negative territory, while vendor lead time fell to -3 (prev. +1). Overall, the Richmond Fed, like Philly Fed, declined but was well within recent ranges further alleviating some concerns after the NY Fed survey plunged to the lowest level since COVID.

PHILLY FED NON-MFG: The Philly Fed Nonmanufacturing Business Outlook Survey indicated overall improvement in business activity, edging up to 6.8 from 6.1 in December. The report highlights that "indexes for general activity at the firm level and sales/revenues remained positive, while the new orders index improved and turned positive". Meanwhile, on employment, firms also reported overall increases in full- and part-time, with the former index rising to 13.9 from 8.3, with the latter index rising to 10.2 from -0.5, the highest since June 2022. On prices, both the prices paid and prices received indexes continue to indicate overall price increases. Prices paid rose to 33.8 from 31.8 while prices received fell to 5.1 from 10.3, showing that firms are struggling to pass on the costs to consumers. Looking ahead, firms continue to expect growth over the next six months at their own firms and in the region, at the firm level the index rose by 8 points to 26.8 while at the regional level rose to 13.2 from 10.0.

BOC PREVIEW: The BoC is expected to keep rates on hold at 5% and it will likely maintain language in its statement that it is prepared to raise rates further if required, despite this increasingly becoming unlikely with many expecting rate cuts from April/June. The latest hot core inflation print saw calls for rate cuts pushed back slightly but there are some concerning signs on the labour market and growth. The most recent jobs report was soft with no net jobs added to the economy while the Q4 business outlook survey was rather sombre. Therefore the BoC faces a difficult scenario with inflation still well above target and a weak labor market, RBC Economics write that "economic developments have been soft enough to reinforce that further interest rate hikes won't be needed, but inflation (and wage growth) have also been too sticky to push the BoC to consider starting an easing cycle yet." On the MPR, the recent weak growth data could see downside risks to the near term GDP forecasts, while there will be plenty of attention on the inflation forecasts to help gauge when the BoC may begin their easing cycle. To download the full Newsquawk preview, please click here.

FIXED INCOME

T-NOTE (H3) FUTURES SETTLED 9 TICKS LOWER AT 111-07

T-Notes bear steepened with Treasuries selling off in wake of BoJ Ueda's press conference with weakness extending ahead of 2yr supply which ultimately came in on the screws. At settlement, 2s +0.4bps at 4.381%, 3s +2.0bps at 4.155%, 5s +3.1bps at 4.046%, 7s +3.7bps at 4.100%, 10s +4.2bps at 4.136%, 20s +4.8bps at 4.486%, 30s +5.6bps at 4.372%.

INFLATION BREAKEVENS: 5yr BEI -0.7bps at 2.265%, 10yr BEI -0.8bps at 2.291%, 30yr BEI +0.0bps at 2.316%.

THE DAY: Overnight, T-Notes extended to highs in wake of the BoJ rate decision which left policy settings and guidance unchanged to see T-Notes hit a high of 111-16+. T-Notes meandered throughout the rest of the APAC session to briefly hit a high of 111-17 ahead of BoJ Governor Ueda's press conference. The speech was ultimately hawkish with the governor alluding to upcoming policy changes and thus an end of NIRP. T-Notes drifted lower throughout the European and US session to hit a low of 111-04 ahead of the 2yr auction, which ultimately came in on the screws and saw little price action at the time, but T-Notes did pare off lows heading into Treasury settlement. The steepening extended post-settlement amid a chunky 2s/ultra 10s steepener where 23.7k of the 2yr H4 futures were bought at 102-195 vs 9.8k March ultra 10 futures sold at 115-100.

AUCTION: Overall a relatively in-line auction but with strong indirect demand. The high yield of 4.365% was slightly above the prior auction and came in on the screws, a touch better than the six auction average of a 0.1bp tail but not as strong as last month's 2yr auction which stopped through by 0.6bps. The Bid-to-Cover came in beneath the prior and average at 2.57x. Indirect demand was strong, rising to 65.3% from 61.9%, above the 62.3% six auction average. While the direct demand was in line with the prior and recent averages, the strong indirect take saw dealers (forced surplus buyers) take just 14.8% of the auction, beneath the prior and average.

THIS WEEK'S AUCTIONS: US to sell 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.

STIRS:

- SR3H4 +1.0bps at 94.860, M4 +0.5bps at 95.275, U4 +0.0bps at 95.685, Z4 -1.0bps at 96.035, H5 -1.0bps at 96.325, M5 -1.5bps at 96.520, U5 -1.5bps at 96.625, Z5 -2.0bps at 96.650, H6 -2.5bps at 96.630, H7 -4.5bps at 96.510, H8 -4.5bps at 96.370.
- SOFR unchanged at 5.31% as of Jan 22nd (prev. 5.31%), volumes fall to USD 1.595tln from 1.688tln.
- NY Fed RRP op demand at USD 622bln (prev. 647bln) across 82 bidders (prev. 84)
- EFFR unchanged at 5.33% as of Jan 22nd, volumes fall to USD 92bln from 94bln.

CRUDE

WTI (H4) SETTLED USD 0.39 LOWER AT 74.37/BBL; BRENT (H4) SETTLED USD 0.51 LOWER AT 79.55/BBL

The crude complex was lower, and pared some of Monday's gains, on account of a firmer Dollar with oil-specific newsflow light ahead of the week's major risk events. As such, WTI and Brent hit a high of USD 75.25/bbl and 80.43/bbl, respectively, after the US cash open but slowly retraced throughout the latter part of the session but did not test the earlier lows. As mentioned, energy headlines were light, but exports of four key Nigerian crude oil grades are forecast to jump to 750k BPD in March (prev. 657k BPD M/M), while North Dakota oil output is seen 250-300k BPD lower due to the cold weather. Nonetheless, attention will be on the upcoming pivotal events with some of the highlights including BoC (Wed), ECB, US Q4 GDP (Thurs), US PCE (Fri) and further US earnings, as well as the ever-present Middle East tensions. In the immediacy, the focus will be on private inventory metrics after-hours: Current expectations - Crude -2.2mln, Distillate +0.3mln, Gasoline +2.3mln.

EQUITIES

CLOSES: SPX +0.29% at 4,864, NDX +0.43% at 17,404, DJIA -0.25% at 37,905, RUT -0.36% at 1,976.

SECTORS: Consumer Staples +1.08%, Communication Services +1%, Technology +0.45%, Energy +0.34%, Materials +0.32%, Utilities +0.23%, Financials +0.14%, Health -0.05%, Industrials -0.06%, Consumer Discretionary -0.14%, Real Estate -0.51%.

EUROPEAN CLOSES: DAX -0.34% at 16,627.09, FTSE 100 -0.03% at 7,485.73, CAC 40 -0.34% at 7,388.04, Euro Stoxx 50 -0.31% at 4,466.35, IBEX 35 -1.09% at 9,859.20, FTSE MIB -0.35% at 30,077.46, SMI -1.16% at 11,144.40.

STOCK SPECIFICS:

- **RTX (RTX)** +5.3%: Q4 earnings beat and expects continued sales and earnings growth in 2024.
- **3M (MMM)** -11%: FY24 and Q1 EPS outlook was light.
- **General Electric (GE)** -1%: Next quarter bottom line guidance was short of expectations.
- **Procter & Gamble (PG)** +4.1%: Exceeded Wall St. consensus on profit alongside an upbeat outlook.
- **United Airlines (UAL)** +5.3%: Top and bottom topped forecasts, while key metrics such as passenger and cargo revenue beat. Q1 EPS view was a greater loss per share than expected amid BA groundings, but FY view was better.
- **Halliburton (HAL)** +2.5%: Profit beat and lifted quarterly dividend 1 cent.
- **DR Horton (DHI)** -9.2%: Bottom line missed.
- **Verizon Communications (VZ)** +6.7%: Reported a strong revenue print and forecasted annual adj. profit above estimates.
- **Paccar (PCAR)** +4%: EPS and revenue topped expectations.
- **Lockheed Martin (LMT)** -4.2%: FY EPS view fell short of Wall St. consensus.
- **Netflix (NFLX)** +1.3%: Key exec Scott Stuber is leaving to establish his own media company.
- **TKO Group (TKO)** +15.8%: Announced a deal to air WWE Raw on Netflix next year. The move marks Netflix’s first major jump into live sports.
- China ADRs performed well with the Golden Dragon China index (PGJ) rising over 5%, supported by a Bloomberg article saying it is to consider an equity market rescue package and is to expand stock selling curbs to insurers. Also, China's gaming regulator has taken down draft rules to control spending in video games from its website, supporting **NetEase (NTES)** +7.9% and **Tencent (TCEHY)** +5.6%.
- **Alibaba (BABA)** +7.8%: Jack Ma has reportedly been buying more shares in Alibaba in recent months, according to New York Times
- **Apple (AAPL)** +0.7%: Now plans its Apple Car launch date for 2028 with less ambitious autonomy goals, according to Bloomberg.

US FX WRAP

The Dollar was firmer on Tuesday and hit a peak of 103.820, breaking through the 200DMA (103.46) as well as last Thursday (103.63) and Friday’s highs (103.54). Newsflow picked up on Tuesday, and the Greenback saw initial weakness in the European morning which emanated from APAC hours amid a firmer post-BoJ Yen. Richmond Fed was the only major US data release, where the Composite index fell to -15 in December from -11, with shipments marginally improving to -15 (prev. -17), new orders edging down to -16 (prev. -14), and employment notably falling to -15 from -1. Overall, like the Philly Fed manufacturing survey, Richmond Fed declined but was well within recent ranges further alleviating some concerns after the NY Fed survey plunged to the lowest level since COVID. Looking ahead, participants await the week’s key risk events in the form of BoC (Wed), ECB, US Q4 GDP (Thurs), US PCE (Fri) and further US earnings.

JPY closed the day with marginal losses against the Buck, despite seeing initial gains after BoJ Governor Ueda delivered a hawkish-leaning press conference. Recapping the BoJ, it maintained policy settings across the board whilst the latest Outlook Report also provided very little to catch markets off guard. In the presser, Ueda said he will certainly foresee further rate hikes when exiting negative interest rate policy (Full remarks available here). USD/JPY printed a high of 148.70 on Tuesday against an earlier low of 147.00.

EUR, **CHF**, and **GBP** fell victim to the firmer Dollar, albeit to varying degrees, with the single-currency underperforming. In terms of currency-specifics, EU Flash Consumer Confidence (Jan) fell to -16.1 from -15.0, and beneath the expected -14.3. Separately, the ECB Bank Lending Survey noted credit standards tightened in Q4 for firms and households, with further tightening expected in Q1. For the Swissy, SNB Chair Jordan speaking at a banking event said he expects some inflationary pressure from rents and the nominal appreciation of the Franc has lowered inflation. Looking ahead, EZ Flash PMIs (Wed) and ECB (Thurs) are the highlights.

Antipodeans and CAD were the G10 outperformers, albeit only seeing very modest gains. NZD and AUD were underpinned by overnight Yuan gains and alongside resilience in commodities. In the APAC session, Australian Business Conditions dipped to 7.0 (prev. 9.0), while Confidence rose to -1.0 (prev. -9.0), but still remained in negative territory. On the calendar slate, Australian Flash PMIs, New Zealand CPI, and BoC are the key events.

EMFX was mixed. BRL, ZAR, and CNH were firmer with the latter aided by overnight reports that China is said to consider an equity market rescue package backed by USD 278bln whilst a firmer-than-expected PBoC fixing provided tailwinds. COP, HUF, and MXN saw losses with TRY and ARS flat. For the latter, Argentinian activity data (Nov) declined marginally more than expected.