US Market Wrap

24th January 2024: Rise in yields knocks stocks off ATHs

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude up, Dollar down.
- **REAR VIEW**: Stellar US Flash PMIs; Dovish BoC hold; Dismal US 5yr auction; US crude production falls 1mln BPD amid cold weather; PBoC cut its RRR; Mixed European Flash PMIs; NFLX impresses; T and TXN disappoint; ASML tops expectations; Light FY ABT profit outlook.
- **COMING UP**: **Data**: French Business Climate Manufacturing, Italian Trade, German Ifo, US Building Permits, Durable Goods, GDP Advance, PCE Prices Advance, KC Fed Manufacturing, Tokyo CPI **Events**: ECB, Norges Bank, CBRT, SARB Policy Announcement **Speakers**: ECB President Lagarde Press Conference; Norges Bank Governor Bache Press Conference **Supply**: Japan, Italy, US **Earnings**: Nokia, STMicroelectronics, LVMH, Intel, Visa, Blackstone.

MARKET WRAP

Stocks pushed higher on Wednesday with record highs being made once again in both the SPX and NDX. The NDX outperformed led by gains in big tech with Microsoft (MSFT) crossing the USD 3tln market cap and Meta (META) rising above USD 1tln market cap, a fresh record high for both the tech behemoths. Treasuries meanwhile initially saw a gradual bid throughout the APAC and Europe session before peaking just before the stronger than expected US PMI data, weighing on the curve. T-Notes pushed to session lows in the US afternoon after a dismal 5yr auction which also marked the top for stocks with the rise in yields taking the indices off highs to see the SPX close relatively flat but NDX still green while RUT and DJI were red. Crude prices settled in the black on the collapse in US crude production within the inventory data due to the recent cold weather while ongoing geopolitical tensions were also supportive. In FX, the Dollar sold off but was off lows thanks to the strong PMI data and weak US auction but CAD underperformed after a dovish BoC rate decision. CHF and JPY outperformed. The Yuan was flat vs. the softer Dollar but China stocks were supported once again after the PBoC announced a cut to its RRR, while regulators reportedly asked funds to restrict short selling in the stock index futures market.

GLOBAL

BOC REVIEW: The overall tone of the BoC rate decision was dovish. The Central Bank left its interest rate unchanged at 5.00%, as was widely expected. The main tweak was the removal of the language that it is prepared to raise rates further if needed. However, within Governor Macklem's speech he did suggest that the BoC has not ruled out further policy rate hikes, noting if new developments push inflation higher, the BoC may still need to hike, although stressed that this is not their base case. Macklem also noted that if the economy evolves broadly in line with their projections, he expects future discussions will be about how long the BoC maintains the policy rate at 5%. He also stated that the Governing Council's discussion about future policy is shifting from whether monetary policy is restrictive enough, to how long to maintain the current restrictive stance. The dropped language and commentary from Macklem opens the BoC up to rate cuts in 2024, albeit Macklem did not want to commit to any specific dates when easing might occur (analysts and markets look for either April or June for the first cut). The statement, speech and MPR all made clear however that the BOC is still concerned that upside risks in inflation could materialise, noting how shelter services price inflation is high and expected to put upwards pressure on inflation for some time. Although, the BoC did acknowledge that risks to the outlook are balanced. There had been some outside suggestions the BoC could alter language on their quantitative tightening language to ensure liquidity is not dried up, but they refrained from making any changes to the language. The Governor and Senior Deputy Governor were quizzed on QT during the Q&A, but Macklem in response said the BoC will take things one decision at a time, adding they are certainly not there yet when it comes to ending QT. It will be interesting to see if the BoC starts to lay the groundwork for tapering their balance sheet normalisation in the future, like the Fed has done recently. Within the MPR, the BoC lowered their 2024 inflation forecast to 2.8% from 3.0% in October, while the 2025 forecast was unchanged at 2.2%. The MPR also noted that it sees inflation returning to the 2% target in 2025, vs the October MPR which said the end of 2025. Growth forecasts were cut across 2023-2025, while the estimates of the neutral range were unchanged at 2-3%, but it lowered the output gap estimate to -0.25% and -1.25% from -0.75% and 0.25%. Looking ahead, money markets are assigning a near 50% probability of a rate cut in April with the first 25bp cut priced in by June - this is in fitting with analyst expectations pre-BoC.

US FLASH PMIs: The S&P Flash manufacturing PMI for January rose back into expansionary territory, printing a 15-month high of 50.3 (exp. & prev. 47.9). The Services metrics remained in expansionary territory accelerating to 52.9

from the prior 51.4, also above expectations (51.0), printing a 7-month high. The composite rose to 52.3 from 50.9. Overall, the release is deemed a ‘Goldilocks’ report for the Fed, as it shows strong growth and cooling inflation, as a “broad based improvement in demand” was reported as output growth hit the highest level in seven months. Highlighting the aforementioned point, the report adds, “An encouraging start to the year is indicated for the US economy by the flash PMI data, with companies reporting a marked acceleration of growth alongside a sharp cooling of inflation pressures.” On the inflationary footing, it concludes “With prices rising in January at the slowest rate since the initial pandemic lockdowns of early 2020, companies report that selling price inflation is now below the pre-pandemic average and consistent with consumer price inflation dropping below the Fed’s 2% target”.

ECB PREVIEW: Expectations are for the ECB to stand pat on all three of its key rates. In terms of recent economic developments, headline EZ HICP rose to 2.9% in December (vs. prev. 2.4%) amid unfavourable energy base effects from Germany. Note, the uptick is set to be a temporary one and therefore the disinflationary process is still judged to remain in place. On the growth front, the prelim. Q4 EZ release is not due until 30th January. The EZ-wide composite PMI for January printed at 47.9 vs. Exp. 48.0 (prev. 47.6). Despite the slowing trend for inflation and subdued growth, January is seen as too soon for the ECB to commence its rate cutting cycle with policymakers attempting to dampen market expectations for an aggressive path of reductions. On which, President Lagarde has noted that too optimistic markets do not help the ECB in its inflation fight. Adding that, it is likely that the ECB will cut rates by the summer. Looking beyond the current meeting, the recent dovish repricing has seen markets assign a circa 76% chance of a cut in April with a total of 130bps of cuts seen by year-end vs. circa 160bps in the aftermath of the ECB’s December meeting. To download the full Newsquawk preview, please click here.

FIXED INCOME

T-NOTE FUTURES (H4) SETTLED 8 TICKS LOWER AT 110-31

Treasuries were sold on Wednesday in wake of hot US PMIs and a dismal 5yr auction. At settlement, 2s +3.2bps at 4.380%, 3s +3.1bps at 4.189%, 5s +3.9bps at 4.090%, 7s +4.2bps at 4.147%, 10s +4.0bps at 4.182%, 20s +3.4bps at 4.527%, 30s +3.6bps at 4.415%.

INFLATION BREAKEVENS: 5yr BEI +2.4bps at 2.282%, 10yr BEI +2.0bps at 2.303%, 30yr BEI +1.6bps at 2.328%.

THE DAY: Treasuries saw marginal gains throughout the APAC and European session, supported by a PBoC RRR cut and mixed European PMI data. T-notes hit highs of 111-19+ just ahead of the US Flash PMI data which ultimately came in stronger than expected across all metrics, seeing Treasuries fade earlier gains to an intraday low of 111-02+. T-Notes pared off the lows heading into the 5yr auction but a dire result of that saw T-Notes push even lower to settle at lows with the 10yr yield testing 4.20%, the high seen on 19th January and 13th December, before the dovish December FOMC.

AUCTION: Overall, a poor 5yr note auction as it tailed the When Issued by 2bps, in contrast to the prior auctions' 1.3bps stop-through and the six-auction avg. of 0.1bps tail. A much worse reception than the 2yr on Tuesday. Bid-to-cover was 2.31x, shy of the previous, and six auction avg., 2.5x. Direct bidders took up 18.7%, more than the prior (15.4%) and the avg. (18.3%), although Indirects saw a notable decline to 60.9% (prev. 70.6%, six-auction avg. 66.8%), with Dealers, forced surplus buyers, taking up a chunky 20.4% of the auction, greater than the prior 14.0% and the six-auction avg. 14.8%. Attention now turns to the 7yr auction on Thursday.

FED PRICING: Fed pricing moved hawkish in response to the US PMI data. Markets now pricing in 10bps of easing by the March FOMC, which implies a 40% probability of a 25bp cut, down from the 44% probability seen beforehand. Throughout year-end, however, there is still over 130bps of cuts being priced in vs the 135bps seen on Monday. May is still pricing in c. 30bps of easing.

STIRS:

- SR3H4 -1.5bps at 94.845, M4 -2.0bps at 95.255, U4 -1.5bps at 95.670, Z4 -2.0bps at 96.020, H5 -2.0bps at 96.305, M5 -2.5bps at 96.495, U5 -3.0bps at 96.590, Z5 -3.5bps at 96.615, H6 -3.5bps at 96.595, H7 -4.5bps at 96.465, H8 -4.5bps at 96.320.
- SOFR unchanged at 5.31% as of Jan 23rd (prev. 5.31%), volumes rose to USD 1.686tln from 1.595tln.
- NY Fed RRP op demand at USD 640bln (prev. 621bln) across 83 bidders (prev. 82).
- EFFR unchanged at 5.33% as of Jan 23rd, volumes rose to USD 97bln from 92bln.

CRUDE

WTI (H4) SETTLED USD 0.72 HIGHER AT 75.09/BBL; BRENT (H4) SETTLED USD 0.49 HIGHER AT 80.04/BBL

The crude complex was firmer on Wednesday on account of broader risk appetite, heightened Middle East tensions, and a chunky fall in weekly EIA crude production. WTI and Brent began the European session on a positive footing as it was helped by risk-on sentiment (PBoC RRR cut coupled with positive stock earnings and Dollar weakness). Then, as US participants joined for the day, WTI and Brent continued their upward trajectory and rose to session highs of USD 75.83/bbl and 80.73/bbl, respectively, after the EIA data where Production fell 1mln BPD to 12.3 mln BPD amid the winter storms impact. Elsewhere, all in fitting with the private inventory metrics, crude posted a deeper draw than expected, gasoline was a larger build than forecasted and distillates was a surprise draw. However, in wake of a dismal US 5yr note auction (which hampered sentiment, boosted US yields, and supported the Dollar), oil prices retraced off aforementioned highs. On the geopolitical footing, Middle East tensions continue to escalate with an Israeli government spokesperson noting there will be no Gaza ceasefire and it will not give up on destroying Hamas and returning all hostages. There was also some fears of a widening conflict after the Israeli Economy Minister told The Telegraph that Iran is now a legitimate target for Israeli missile strikes. Looking ahead, participants await ECB, US Q4 GDP (Thurs), PCE (Fri) and a slew of earnings.

NAT GAS: Nat Gas saw upside into settlement after New York Times citing sources said the White House is reportedly delaying decision on enormous natural gas export terminal before deciding whether to approve it. DoE will analyze the climate impacts of CP2, one of 17 proposed LNG export terminals.

EQUITIES

CLOSES: SPX +0.08% at 4,868, NDX +0.55% at 17,499, DJIA -0.26% at 37,806, RUT -0.73% at 1,961.

SECTORS: Energy +1.43%, Communication Services +1.17%, Technology +0.77%, Financials +0.46%, Consumer Discretionary -0.24%, Industrials -0.64%, Health -0.91%, Consumer Staples -1.23%, Real Estate -1.36%, Utilities -1.38%, Materials -1.4%.

EUROPEAN CLOSES: DAX: +1.58% at 16,889.92, FTSE 100 +0.56% at 7,527.67, CAC 40 +0.91% at 7,455.64, Euro Stoxx 50 +2.17% at 4,562.85, IBEX 35 +1.16% at 9,974.00, FTSE MIB +0.87% at 30,338.35, SMI +0.41% at 11,194.50.

EARNINGS:

- **Netflix (NFLX)** +10.7%: Added more subscribers than expected, topped revenue estimates amid its membership push gaining momentum with next quarter EPS guidance better-than-expected.
- **ASML (ASML)** ADR +8.9%: Strong report, with Q4 metrics impressing, though the Q1 net sales view was extremely light.
- **General Dynamics (GD)** +4.9%: Revenue rose on strong defense demand. However, FY24 EPS view was short.
- **AT&T (T)** -2.9%: Missed on profit with FY24 outlook light, contrasting Verizon's (VZ) stellar report on Tuesday.
- **Texas Instruments (TXN)** -2.5%: Fell short on revenue, and its Q1 outlook was disappointing.
- **TE Connectivity (TEL)** +6.8%: Bottom line surpassed expectations as did the next quarter outlook.
- **Elevance Health (ELV)** +0.3%: Revenue beat, boosted quarterly dividend by 10% and raised FY24 profit view.
- **Textron (TXT)** +7.9%: Profit beat alongside a strong FY24 forecast.
- **Dupont (DD)** -14%: Offered a dismal prelim Q1 preannouncement, weighing on peers such as Eastman Chemical (EMN) and Dow (DOW).
- **Abbott (ABT)** -2.8%: Q4 metrics were solid but is weighed on by disappointing FY adj. EPS guidance.
- **Freeport-McMoRan (FCX)** +4%: EPS and revenue topped Wall. St expectations.
- **SAP (SAP)** ADR +6.8%: Topped bottom line metrics and announced job cutting plans which may affect around 8k jobs.
- **Progressive (PGR)** +4.8%: Reported strong Q4 EPS upside with the beat driven by strong net premium growth and a huge combined ratio improvement.
- **Kimberly-Clark (KMB)** -5.5%: Missed on profit and operating margin fell Y/Y, due in part to currency exchange costs.

STOCK SPECIFICS:

- **AMD (AMD)** +5.9%: Upgraded at New Street Research.
- **Tesla (TSLA)** -0.6%: Aims to commence production of a new affordable EV, codenamed "Redwood," in mid-2025, which is being described as a compact crossover.
- **eBay (EBAY)** +0.5%: Plans to reduce its workforce by around 9%.
- **BlackBerry (BB)** -17.6%: Plans a private offering of USD 160mln convertible senior notes due 2029.

US FX WRAP

The Dollar was lower on Wednesday, albeit well off worst levels at pixel time, as it was initially heavily weighed on by broad risk-on sentiment which saw the Greenback hit a low of 102.77. However, the Buck came off worst levels after strong S&P Global Flash PMIs for January. Briefly recapping, Manufacturing rose back into expansionary territory, printing a 15-month high of 50.3 (exp. & prev. 47.9), while Services and Composite lifted to 52.9 (prev. 51.4, exp. 51.0) and 52.3 (prev. 50.9), respectively, with the report showing strong growth and cooling inflation. Thereafter, the Dollar revival accelerated in wake of a dismal US 5yr auction, supporting yields. Looking ahead, attention resides around Q4 GDP (Thurs) and PCE (Fri).

CAD was the distinct G10 underperformer, and saw losses against the Greenback, in the aftermath of the BoC. In short, the Bank held rates at 5.0%, as expected, and while it sounded cautious on inflation, the Bank's decision to omit language that it is prepared to raise rates further if needed saw upside in USD/CAD. USD/CAD hit a high of 1.3523, against an earlier trough of 1.3431.

GBP and **EUR** saw similar gains vs. the Buck, but currently sit well off strongest levels on account of the aforementioned Dollar pullback. On the day, Europe saw mixed Flash PMIs for January, as headline Manufacturing for EU, Germany, and France all beat, but Services and Composite fell short. Meanwhile, the Pound saw strength in the aftermath of strong PMIs, as manufacturing, Services, and Composite all topped expectations. EUR/USD and Cable traded between 1.0846-0932 and 1.2679-2774, respectively, and reside around the middle of the days ranges. Traders await the ECB meeting on Thursday, followed by President Lagarde’s press conference.

JPY and **CHF** were the G10 outperformers, with the Yen seeing continued tailwinds from the hawkish BoJ. USD/JPY hit a low of 146.66 and went through several key levels on the way, such as the 100DMA at 147.46, but has seen a big bounce off the lows.

Antipodeans were initially buoyed as it held onto an upward bias amid the broader market risk tone coupled with a PBoC RRR cut aimed at releasing liquidity to bolster the Chinese economy. However, note, CNH was unreactive on the news. As such, as sentiment soured the Aussie pared all gains, while the Kiwi still managed to eke mild strength.

EMFX largely saw gains on account of the buoyant risk sentiment, as opposed to much currently specific. ZAR, MXN, BRL, and COP all firmed while TRY, CLP and HUF were flat. On the data docket, South African headline and core CPI for M/M and Y/Y were all cooler than anticipated, as Rand watchers turn their attention to SARB on Thursday. Meanwhile, core Mexican inflation was in line for M/M and Y/Y, but the headline was above consensus for both M/M and Y/Y timeframes.