US Market Wrap

25th January 2024: Stocks and Bonds rise after strong GDP with soft inflation and rising claims

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar up.
- **REAR VIEW**: ECB holds rates, as expected, but Lagarde dovishly perceived; Mixed US data, Headline Q4 GDP hot but inflationary metrics cool, Durables mixed, New home sales & Initial jobless claims rose; TSLA profit miss; Strong IBM report; HUM slashes guidance, again; CMCSA impresses; BA downgraded at BofA; Decent US 7yr auction
- **COMING UP**: **Data**: UK GfK Consumer Confidence, Japanese Leading Indicator, EZ M3, US PCE Price Index **Events**: ECB Survey of Professional Forecasters **Earnings**: Volvo, Remy Cointreau, Lonza, American Express.

MARKET WRAP

Stocks were generally bid although NDX underperformed after weak Tesla (TSLA) earnings. The broader equity upside was supported by a much stronger-than-expected Q4 GDP print which was also accompanied by some encouraging signs on PCE for Q4 ahead of the December PCE on Friday. Treasuries saw two-way price action with knee-jerk selling on the hot GDP but it quickly pared, and more, on the PCE and Claims data. There was little reaction to the ECB itself but Lagarde was perceived as dovish. There was a lack of explicit pushback on market pricing from the ECB President alongside encouraging comments on wages, which ultimately saw ECB pricing move more dovishly, despite an attempt by sources later suggesting the first cut could occur in June as opposed to the April meeting that is currently being priced. Nonetheless, upside was seen in European bonds which filtered through to their US counterparts which later extended to settle at highs after a decent 7yr auction. The Dollar firmed despite the move lower in yields as a weaker Euro post-Lagarde helped keep the buck bid. Crude prices also drifted higher throughout the session on the US data and ongoing Middle East concerns while gold saw benefit from the lower US yields.

GLOBAL

ADVANCE GDP: Headline GDP was hot, seeing growth of 3.3% in Q4 '23, above the expected 2.0% and also above the Atlanta Fed tracker of 2.4%, but easing from the Q3 pace of 4.9%. It was also above the forecast range where analysts looked for 0.8-2.8%. Although GDP was hot, the inflationary metrics were cool. The GDP Deflator grew 1.5%, beneath the 2.3% forecast and down from the prior 3.3%. PCE eased to 1.7% from 2.6% while the core PCE printed 2.0%, in line with expectations and the prior. The super core metrics, ex food, energy and housing eased to 1.2% from 1.3% while PCE services ex food, energy and housing eased to 2.6% from 2.9%. Meanwhile, consumer spending eased to 2.8% from 3.1%. The hot GDP and easing price pressures show evidence of a soft landing, although if growth continues at this pace of strength it could slow the process of inflation returning to the 2% target. Nonetheless, the price developments are a welcome development but there will be great focus on the December PCE report due Friday.

DURABLE GOODS: The Durable Goods data for December was mixed, the headline saw a large miss at 0.0% (exp. 1.1%) but the prior was revised up to 5.5% from 5.4%. Ex transport, however, beat expectations at 0.6% (exp. 0.2%), above the prior 0.5% with the miss on the headline due to soft aircraft orders. Ex-defence rose 0.5%, easing from the prior pace of 6.9%, albeit that was revised up from 6.5%. The super core metric, the non defense capital goods excluding aircraft rose by 0.3%, above the 0.1% forecast but beneath the prior, revised up, 1.0%. The super core metric is often used as a proxy for business spending plans. Analysts at Oxford Economics write they "forecast business equipment spending will grow 0.3%, an improvement from the small contraction in 2023. We think the Federal Reserve will begin cutting rates in May, with a sustained loosening in financial conditions providing support to business equipment spending in the second half of the year, as companies usually borrow to fund their purchases of durable goods."

NEW HOME SALES: New home sales rose 8% in December to 664k above the upwardly revised prior, 615k, and the expected 645k, while new home supply fell to 8.2 months' worth (prev. 8.8). Overall, as Oxford Economics illustrates, recent sales are getting a fillip higher from lower mortgage rates, builder incentives, and a lack of supply in the existing home market, and as such the consultancy expects these factors will continue to support sales and new home construction in 2024. In addition, new home prices dipped with Oxford stating the median new home price slipped to its lowest level in two years, with December's decline in prices reflecting builder actions.

JOBLESS CLAIMS: Initial jobless claims (w/e 20th Jan.) rose to 214k from 189k, above the expected 200k and outside the upper bound of the forecast range (210k), but the 4-wk average ticked down to 202.25k (prev. 203.75k). The headline figure is likely to be distorted by the recent extreme cold weather, and as Pantheon Macroeconomics quips, "the rebound likely reflects the unwinding of the hit to claims from the severe weather". Continued jobless claims, for the week that usually coincides with the BLS survey period, jumped to 1.833mln (exp. 1.828mln) from 1.806mln. Note, the seasonal factors had expected a decrease of 71,558 (or 24.6%) from the previous week. Ahead, Pantheon believes "Claims are more likely to rise than fall over the next few months, but the available leading indicators suggest that any increase will be modest."

ECB REVIEW: As was widely expected, the ECB opted to stand pat on all three of its key rates. The initial policy statement passed with little in the way of fanfare with the Governing Council stating that the declining trend in underlying inflation has continued and that past interest rate increases keep being transmitted forcefully into financing conditions. Furthermore, "Incoming information has broadly confirmed its previous assessment of the medium-term inflation outlook". At the subsequent press conference, President Lagarde noted that it is "premature" to talk about rate cuts, adding that the ECB will be data-dependent and not fixated on the calendar. With regards to events in the Red Sea, the President noted that the Bank is being careful given that shipping costs have increased and deliveries have been delayed. On wages, which have been a key source of focus when it comes to the timing of the first rate cut, Lagarde suggested that data is 'directionally good' and the Bank is not seeing second-round effects. However, this was followed up by the judgement that the ECB needs to be further along the disinflation process before it can be confident that inflation is moving back towards target sustainably. Overall, the lack of explicit pushback from the President on current market pricing and positive commentary on wages has allowed market pricing to drift in a more dovish direction with an April cut priced at around 84% vs. circa 68% pre-announcement with a total of 134bps of easing priced by year-end vs. 123bps pre-announcement. In wake of the meeting, Reuters sources reported that ECB policymakers are open to start discussing future rate cuts in March if data points to inflation hitting 2% this year, adding a March pivot would pave the way for a rate cut most likely in June, despite markets pricing in over an 80% probability of a rate cut in April.

FIXED INCOME

T-NOTE FUTURES (H4) SETTLED 11 TICKS HIGHER AT 111-10

Treasuries bull steepened on soft PCE within the strong GDP report, a rise in jobless claims and a dovish leaning Lagarde while a decent 7yr auction helped treasuries settle at highs. At settlement, 2s -6.2bps at 4.316%, 3s -6.2bps at 4.124%, 5s -5.5bps at 4.019%, 7s -5.0bps at 4.092%, 10s -4.4bps at 4.134%, 20s -3.4bps at 4.489%, 30s -2.9bps at 4.384%

INFLATION BREAKEVENS: 5yr BEI +0.7bps at 2.276%, 10yr BEI -0.5bps at 2.285%, 30yr BEI -1.4bps at 2.303%.

THE DAY: T-Notes saw mild upside throughout the APAC session before meandering through the European morning with little impact from more soft German data, which saw a brief move higher in Bunds. Ahead of the US data deluge, the ECB rate decision and statement saw little changes in line with expectations, but the mixed US data shortly after saw an initial move lower on the much stronger than expected GDP print but it was very short lived before T-notes pushed higher on the softer PCE components of the GDP report and a rise in jobless claims. The move extended higher during Lagarde's ECB press conference which saw a lack of explicit pushback on market pricing and encouraging comments on wages to allow ECB pricing to drift more dovishly, seeing BTPs and Bunds outperform their US and UK counterparts, albeit both did move higher in sympathy. T-Notes extended to session highs into the futures settlement with the bid supported by a decent 7yr auction, especially when compared to the dire 5yr supply on Wednesday.

AUCTION: Overall a decent auction, especially when compared to the dismal 5yr supply on Wednesday. Although the auction saw a 0.3bp tail, it was much better than the prior 7yr's 2.2bp tail and beneath the six auction average of a 0.6bp tail. The Bid-to-Cover ratio was in line with the prior and averages, while a decent jump in indirect demand helped support the auction with indirect bidders taking 69.1% of the auction vs the 63.7% prior, slightly above the 68.1% average. Direct demand was in line with the average but beneath the prior, while dealers took just 13.9% of the auction, down from the prior 16.9% and a bit beneath the six auction average. The 7yr is more in line with the average 2yr supply seen on Tuesday, but a marked improvement from what was seen in the 5yr on Wednesday.

FED PRICING: A slight dovish move in money market pricing for the Fed was seen in wake of above forecast jobless claims, hot GDP, but coupled with soft PCE components, mixed durable goods and a dovish leaning Lagarde. 13bps of easing are now priced for the March FOMC, vs 10bps on Wednesday. Meanwhile, throughout 2024 140bps of easing is being priced, vs the 130bps on Wednesday.

STIRS:

- SR3H4 +3.5bps at 94.875, M4 +6.0bps at 95.320, U4 +7.5bps at 95.745, Z4 +8.0bps at 96.100, H5 +8.0bps at 96.380, M5 +8.0bps at 96.570, U5 +8.0bps at 96.665, Z5 +7.5bps at 96.685, H6 +6.5bps at 96.655, H7 +5.0bps at 96.515, H8 +4.5bps at 96.365.
- SOFR unchanged at 5.31% as of Jan 24th (prev. 5.31%), volumes fell to USD 1.596tln from 1.686tln.
- NY Fed RRP op demand at USD 558bln (prev. 640bln) across 82 bidders (prev. 83)
- EFFR unchanged at 5.33% as of Jan 24th, volumes fell to USD 96bln from 97bln.
- US sold USD 90bln in 4-week bills at 5.280%, covered 2.86x; sold USD 90bln in 8-week bills at 5.275%, covered 2.85x.

CRUDE

WTI (H4) SETTLED USD 2.27 HIGHER AT 77.36/BBL; BRENT (H4) SETTLED USD 2.39 HIGHER AT 82.43/BBL

The crude complex was firmer on Thursday amid ever-heightening Middle East tensions, continued Chinese stimulus tailwinds, and US economic data showing faster-than-expected growth in Q4. On the former, and continuing to illustrate the vulnerability of the Red Sea attacks, BHP (BHP AT) has been forced to divert shipping from Asia to Europe, adding around nine days to transit time, according to the WSJ. Reuters also reported that Qatar also informed Spain's Endesa of a 10-12 day delay to an LNG cargo while Edison Group in Italy is also experiencing a slowdown in deliveries of Qatar LNG due to Red Sea conflict. On the day, WTI and Brent ground higher throughout the US session to settle at highs, and while oil-specific newsflow was light it seemingly saw support from tier 1 US data (Advanced Q4 GDP), ahead of the pivotal US PCE data and the weekly Baker Hughes rig count data on Friday.

EQUITIES

CLOSES: SPX +0.53% at 4,894, NDX +0.10% at 17,516, DJIA +0.64% at 38,049, RUT +0.71% at 1,975.

SECTORS: Energy +2.23%, Communication Services +1.83%, Utilities +1.79%, Real Estate +1.31%, Materials +1.09%, Industrials +0.98%, Consumer Staples +0.92%, Financials +0.54%, Technology +0.38%, Health -0.23%, Consumer Discretionary -1.05%.

EUROPEAN CLOSES: DAX +0.10% at 16,906.92, FTSE 100 +0.03% at 7,529.73, CAC 40 +0.11% at 7,464.20, Euro Stoxx 50 +0.37% at 4,580.95, IBEX 35 -0.58% at 9,916.60, FTSE MIB -0.60% at 30,157.80, SMI +0.12% at 11,210.50.

EARNINGS:

- **Tesla (TSLA) -**12.1%: EPS, revenue, and gross margin missed alongside noting 2024 vehicle volume growth may be notably lower than 2023 levels as it focuses on its new gen vehicle.
- **Humana (HUM) -**11.6%: Woeful report - profit missed and slashed FY24/FY25 outlook, after cutting FY23 guidance last week as it is unable to offset higher than anticipated medical costs. UnitedHealth (UNH), Cigna (CI), and Centene (CNC) all lower in sympathy.
- **IBM (IBM)** +11.5%: EPS and revenue beat alongside noting client demand for AI was accelerating.
- **Lam Research (LRCX)** +3.5%: Surpassed expectations on the top and bottom line.
- **ServiceNow (NOW)** +1%: Bottom line topped forecasts with strong Q1 and FY24 subscription revenue guidance.
- **Comcast (CMCSA)** +5%: EPS, revenue, and Peacock paid subscribers all beat alongside approving new USD 15bln share buyback programme.
- **American Airlines (AAL)** +8%: Strong Q4 metrics with FY profit view topping consensus.
- **Southwest Airlines (LUV)** +1.5%: Earnings beat.
- **Packaging Corp of America (PKG)** +5.5%: Turned around pre-market weakness as EPS and revenue beat, despite light Q1 profit view.
- **W R Berkley (WRB)** +6%: Solid Q4 numbers.
- **Northrop Grumman (NOC) -**6%: Swung to a surprise loss in the quarter due to a charge on the B21 bomber programme.
- **United Rentals (URI)** +9%: Beat on the top and bottom line, with FY24 revenue guidance slightly better than forecasted.

STOCK SPECIFICS:

- **Boeing (BA) -**4.5%: Downgraded at BofA after FAA caps 737 MAX production.
- **Apple (AAPL)** : Will impose a new 'core technology fee' to large developers who bypass its App Store; will allow developers to distribute apps through alternative app stores in EU.

- **PayPal (PYPL)** : CEO said it is launching new AI-driven products as well as a one-click checkout feature; revamps Venmo business profiles and offers cash-back rewards. CNBC suggested investors are concerned with the high expense of its new products.
- **Paramount (PARA)** : David Ellison made a preliminary offer to buy National Amusements Inc as a way to take control of Paramount Global, according to Bloomberg.

US FX WRAP

The Dollar was firmer on Thursday in wake of a mixed batch of tier 1 data. In summary, it was a much stronger-than-forecasted Q4 GDP print but was accompanied by softer PCE components within the release. Initial jobless claims rose to outside of the forecast range and Durable Goods was cooler than expected. Nonetheless, participants eagerly await December PCE on Friday, which is of course the Fed's preferred gauge of inflation. The Dollar Index hit a low of 103.110 before hitting a high of 103.680 later in the session supported by Euro weakness.

EUR was lower on Thursday in the wake of the ECB and following President's Lagarde's press conference. Recapping, ECB left rates unchanged, as expected, and the statement added little new while Lagarde was deemed more dovish than anticipated as she did not explicitly push back on market pricing and provided welcome wage-related remarks. In the wake of the ECB, Reuters sources said ECB policymakers are open to start discussing future rate cuts in March if data points to inflation hitting 2% this year and a March pivot would pave the way for a rate cut most likely in June. Elsewhere for the single-currency, German Ifo Expectations was soft accompanied by some downbeat commentary.

CAD was the G10 outperformer, noticing gains against the Greenback, as it was seemingly supported by the upside in oil prices amid ever-heightening Middle East tensions, continued Chinese stimulus tailwinds, and US economic data showing faster-than-expected growth in Q4. As such, USD/CAD reversed to a low of 1.3478 after an earlier peak of 1.3534.

Antipodeans were flat, and managed to prevent any losses on the recovering Buck on the back of firmer commodities amid the recent Chinese RRR cut, on top of BHP also diverting almost all of its shipments from Asia to Europe away from the Red Sea. Regarding the crosses, AUD/USD and NZD/USD traded within narrow ranges of 0.6567-6609 and 0.6101-32, respectively.

GBP and **Yen** both saw slight losses with currency-specific newsflow light this session ahead of Japanese CPI closing out the APAC week.

NOK saw tailwinds from the gains in oil and the Norges Bank rate decision. Overall, it was as expected from the Norges Bank in terms of the policy announcement and guidance for rates to be maintained for some time ahead. However, the language and framing of the economy did have a hawkish element and resulted in some modest NOK strength.

EMFX was pretty mixed against the Dollar. CLP, MXN, and ZAR were flat, while BRL firmed and RUB saw losses. On the day, South African PPI was cooler than expected and the SARB held its repo rate at 8.25%, as expected (more below). For the Lira, CBRT hiked by 250bps as expected to 45.00% and the Committee assessed that the current level of the policy rate will be maintained until there is a significant decline in the underlying trend of monthly inflation. Lastly, the Mexican jobless rate for December dipped to 2.6%, as expected, from 2.7%.

SARB: South African Central Bank, as expected, held its repo rate at 8.25% in a unanimous decision. In the accompanying forecasts, CPI and Core CPI were left unchanged for 2024 at 5.0% and 4.6%, respectively, with 2025 slightly raised to 4.6% (prev. 4.5%) for both metrics. GDP forecasts remained the same, with 2024 seen at 1.2% and 2025 at 1.3%. SARB said that the risks to the medium-term domestic growth outlook are assessed to be balanced, and the return to target in headline inflation has been slow. SARB further added the baseline inflation forecast is of continued gradual moderation and risks are assessed to the upside. Moreover, the Central Bank wants inflation around its 4.5% mid-point before considering cuts, and Governor Kganyaho said as long as there isn't any sustained decline of inflation towards our target, don't expect us to change policy.