US Market Wrap

26th January 2024: Stocks mixed and bonds fall after PCE and weak tech earnings

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW**: PCE largely in line with expectations, but Core Services ex-housing accelerated & Personal Income /Consumer Spending were strong; Oil tanker attacked in Gulf of Aden; Weak INTC guidance; V sees slowing US volumes; AXP FY profit outlook beat.
- **WEEK AHEAD**: Highlights include FOMC, NFP, ISM Mfg PMI, BoE, EZ CPI and EZ GDP. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing FOMC, BoE, Riksbank; Reviewing PBoC, BoJ, BoC, Norges and ECB. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [TUES] UPS, DHR, PFE, GOOGL, MSFT, SBUX, MDLZ, AMD, SYK; [WED] TMO, BA, MA, QCOM; [THURS] HON, MRK, AMZN, META, AAPL; [FRI] CVX, XOM, BMY, ABBV. To download the full estimates, please click here.

MARKET WRAP

Stocks were relatively flat aside from the NDX which saw notable underperformance due to tech weakness after weak earning reports from INTC, KLAC and FICO. The Treasury curve bear flattened after the PCE report, which on the face of it was relatively in line with expectations with Core Y/Y at 2.9%, just shy of expectations. However, the Core services ex housing print accelerated in December while Personal Income and Consumer Spending were strong, showing consumer demand is still high. The Dollar saw two-way price action on the data with DXY ultimately flat on Friday, and essentially flat for the week. Oil prices were choppy in initially technically driven trade but a large rally was seen pre- and -post-settlement after it was revealed the Houthis attacked a UK Trafigura oil tanker which caught alight, seeing both Brent and WTI settle at the highest levels since late November. Attention next week turns to the FOMC, NFP and ISM Manufacturing report to gauge when the Fed's first rate cut will occur. Across the pond, the BoE takes the limelight, while Eurozone CPI and GDP will also be in focus.

US DATA

PCE: Overall, the PCE data was in line with expectations with the headline M/M rising 0.2%, up from the prior -0.1%, with Y/Y matching the prior 2.6%. Core M/M rose by 0.2% up from November's 0.1% while the Core Y/Y eased to 2.9% from 3.2%, a touch beneath the 3.0% forecast. Looking into the report, however, the Fed eyed Core PCE Services ex housing rose 0.3%, accelerating from the prior 0.1% while core prices ex housing rose 0.1%, up from the 0.0% in November. There was a lot of attention on the annualized metrics too however, the 6mth annnualized rate eased to 1.9% with the 3mth at 1.5%, both beneath the Fed's 2% target. Overall, money market pricing was little changed in wake of the data with markets pricing in the first cut by May with a c. 50% probability of an earlier cut in March. Analysts at Oxford Economics write that " By late April, we expect the Fed will have enough confidence to begin cutting interest rates at its late April/early May meeting, although the backdrop of a strong economy means it is likely to only cut rates gradually this year." Elsewhere in the report, consumer spending was strong, rising 0.7% in December, above the 0.4% forecast while the prior was revised up to 0.4%. Personal income rose 0.3%, in line with expectations, although the US savings rate declined to 3.7% from 4.1% - the lowest since 2022.

PENDING HOME SALES: Pending Home Sales were hot, the headline rose 8.3% taking the index to 77.3 from 71.4, well above the expected 1.5% rise and more than offsetting November's 0.3% decline. "The housing market is off to a good start this year, as consumers benefit from falling mortgage rates and stable home prices," said Lawrence Yun, NAR chief economist. "Job additions and income growth will further help with housing affordability, but increased supply will be essential to satisfying all potential demand."

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 9 TICKS LOWER AT 111-01

Treasuries bear flattened in wake of the PCE report which saw prices ease as expected but the core services ex housing prices accelerated while consumer spending and income were strong. At settlement, 2s +4.5bps at 4.359%, 3s +3.4bps at 4.158%, 5s +3.3bps at 4.051%, 7s +2.8bps at 4.114%, 10s +1.7bps at 4.149%, 20s +0.9bps at 4.495%, 30s +0.0bps at 4.381%

INFLATION BREAKEVENS: 5yr BEI +1.8bps at 2.295%, 10yr BEI +0.5bps at 2.293%, 30yr BEI +0.5bps at 2.310% =.

THE DAY: T-Notes saw slight upside overnight before selling off as Europe arrived amid commentary from several ECB speakers attempting to pushback on some of the dovishness seen on Thursday. T-notes saw two-way price action on the US PCE report, which overall was in line although Core Y/Y was a touch soft at 2.9% although the Fed eyed Core Services-ex housing PCE accelerated in December. Meanwhile, Consumer Spending and Personal Income were stronger than expected showing signs of continued high demand from the consumer. There was little reaction n Fed pricing however which still sees a c. 50% probability of a cut in March and c. 134bps of easing priced throughout 2024. Attention next week looks to the FOMC rate decision where participants will be looking for clues of when the Fed's first rate cut will be. We will also see the key January NFP report on Friday to help gauge rate cut expectations.

STIRS:

- SR3H4 -1.0bps at 94.870, M4 -3.5bps at 95.285, U4 -5.5bps at 95.690, Z4 -6.5bps at 96.030, H5 -7.0bps at 96.305, M5 -7.0bps at 96.495, U5 -6.5bps at 96.595, Z5 -5.0bps at 96.630, H6 -4.0bps at 96.615, H7 -1.5bps at 96.500, H8 -1.0bps at 96.355.
- SOFR rises to 5.32% as of Jan 25th (prev. 5.31%), volumes rise to USD 1.768tln from 1.596tln.
- NY Fed RRP op demand at USD 571bln (prev. 558bln) across 77 bidders (prev. 82).
- EFFR unchanged at 5.33% as of Jan 25th, volumes rise to USD 101bln from 96bln.

CRUDE

WTI (H4) SETTLED USD 0.65 HIGHER AT 78.01/BBL; BRENT (H4) SETTLED USD 1.12 HIGHER AT 83.55/BBL

The crude complex was ultimately firmer on Friday, amid choppy technical-driven trade in light headline newsflow, but saw a late session ramp after an oil tanker was attacked in the Gulf of Aden. Nonetheless, WTI and Brent were exceedingly choppy in the US afternoon as participants attributed the moves to WTI flirting with its resistance at its 200DMA of USD 78.19/bbl. Highlighting this, WTI printed a peak of USD 78.21, but only ever-so-briefly sustained the move above the key level before paring again. In addition to this, oil began its upward trajectory after the UK MTO received a report of an incident 60NM South East of Yemen's Aden, which later was revealed to be a British oil tanker, the Marlin Luanda, which did catch fire. Elsewhere, ahead of the JMMC next week, Reuters sources noted the committee would probably not make any changes to existing policy during the meeting, but one source said the meeting would mainly discuss the group's production levels and that there will be no recommendations at the JMMC. One source added that a decision on whether or not to extend a portion of the group's voluntary oil output cuts into April would likely come at the end of February, although another source said the decision's timing was not yet clear. Lastly, Baker Hughes rig count saw oil rise 2, nat gas fall 1, leaving the total increasing 1 to 621.

NAT GAS: US is pausing the pending decisions of new LNG export projects in order to review economic and environmental impacts. The pause comes with exceptions for unanticipated and immediate national security emergencies. Separately, according to Bloomberg, EU prepares to rule out Ukraine gas transit deal with Russia.

EQUITIES

CLOSES: SPX -0.07% at 4,891, NDX -0.55% at 17,421, DJI +0.16% at 38,109, RUT +0.12% at 1,978.

SECTORS: Energy +0.76%, Health +0.59%, Consumer Discretionary +0.55%, Consumer Staples +0.54%, Communication Services +0.41%, Utilities +0.33%, Financials +0.3%, Materials -0.01%, Industrials -0.14%, Real Estate -0.37%, Technology -1.05%.

EUROPEAN CLOSES: DAX +0.32% at 16,961.39, FTSE 100 +1.40% at 7,635.09, CAC 40 +2.28% at 7,634.14, Euro Stoxx 50 +1.16% at 4,635.35, IBEX 35 +0.20% at 9,936.60, FTSE MIB +0.73% at 30,379.33, SMI +1.61% at 11,389.10.

EARNINGS:

- **Intel (INTC) -**11.9%: Weak Q1 guidance. The CEO said the market reaction was overdone.

- **Visa (V) -**1.7%: Exec said it sees slowing US volumes and adjusted its operated expenditures guidance higher. Note, EPS and revenue topped forecasts.
- **T-Mobile US (TMUS)** -0.3%: EPS light, as was the midpoint of 2024 postpaid net additions outlook.
- **American Express (AXP)** +7.1%: Lifted quarterly dividend 17% in addition to FY24 EPS view better than Wall St. consensus.
- **KLA Corp (KLAC) -**6.5%: Fell short on EPS alongside disappointing next quarter outlook.
- **Fair Isaac (FICO) -**6.8%: Continued the poor tech reports, with both top and bottom line short.
- **L3 Harris (LHX)** +2.2%: Pared initial after-hours weakness as Q4 earnings metrics beat, but note FY24 guidance fell short.
- **Booz Allen (BAH)** +13.7%: Impressed; current-quarter metrics topped and lifted FY24 outlook.
- **Autoliv (ALV)** +2.8%: Topped on EPS with FY24 organic sales surpassing forecasts.
- **Colgate-Palmolive (CL)** +2%: EPS, revenue, and organic sales all beat.

STOCK SPECIFICS:

- **JPMorgan (JPM) -**0.4%: CEO Dimon reshuffles top leadership, appoints Jenn Piepszak and Troy Rohrbaugh as co-heads of the expanded commercial and investment bank.
- **JetBlue (JBLU)** +3.6%: Continues to evaluate its options under merger agreement with **Spirit (SAVE) -**13.5%, says the merger pact may be terminated on & after Jan. 28th.
- **Johnson Controls (JCI)** +1.7%: Reportedly weighing a USD 5bln sale of some HCVAC assets, according to Bloomberg.

US FX WRAP

The Dollar was choppy and traded within the 103.140-730 range to end the week, but was ultimately flat, as whilst it saw two-way price action on the US PCE (Dec) report, it quickly pared to pre-announced levels. Briefly recapping the data, PCE data was in line with expectations with the headline M/M rising 0.2% (prev. -0.1%), with Y/Y matching the prior 2.6%. Core M/M rose by 0.2% (prev. 0.1%) while the Core Y/Y eased to 2.9% (prev. 3.2%, exp. 3.0%). The Fed eyed Core PCE Services ex housing rose 0.3% (prev. 0.1%), while core prices ex housing rose 0.1% (prev. 0.0%). There was a lot of attention on the annualized metrics too, the 6mth eased to 1.9% with the 3mth at 1.5%, both beneath the Fed's 2% target. Elsewhere, headline newsflow was light as participants closed out for the weekend ahead of FOMC, NFP, and ISM Mfg. next week.

CHF, **CAD**, and **EUR** saw varying degrees of gains against the Buck with the former outperforming as the Swissy continues to appreciate with fresh drivers limited as participants await SNB Chair Jordan next Tuesday. Loonie was supported by firmer oil prices, in lack of anything else, while the Euro eked out marginal gains (vs. the Buck) but was largely unreactive to numerous ECB speakers – they largely stuck to the Lagarde-line but also pushed back on any notion of dovishness from Thursday. Next on the calendar is EZ GDP Flash (Wed) and EZ Flash CPI (Thurs).

GBP and **AUD** were flat, while the Kiwi saw slight losses vs. the Greenback. With a lack of currency-specific newsflow, the Pound initially derived some support from the weaker Dollar, but as it retraced off worst levels Cable went back to flat on the day. Highlighting this, Cable's weekly range of 1.2649-1.2774 remained in place to end the week. There was a modest divergence between the Antipodeans, as the AUD benefitted from PBoC readacross to the relative detriment of the NZD. Looking to next week, traders await BoE, where the Bank is expected to leave the Bank Rate unchanged at 5.25%.

JPY was a G10 underperformer on Friday, with USD/JPY continuing to tick higher with Fed-BoJ divergence set to become an increasingly important theme ahead. The cross resides marginally above 148.00, at pixel time, but off highs of 148.20.

EMFX was mixed. BRL, MXN, ZAR, and COP all saw strength while HUF, RUB, and CLP seeing losses with the latter weighed on by falling copper prices. For the Brazilian Real watchers, IPCA-15 mid-month CPI was cooler than expected for both M/M and Y/Y. Meanwhile, for the HUF, Hungarian unemployment rate (Dec) marginally rose to 4.4% from 4.3%. Separately, EU leaders are growing inpatient with Hungarian PM Orban as he looks to block EUR 50bln in aid for Ukraine and some want to trigger Article 7 which would block his voting right, according to The Guardian.

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