



US Market Wrap

29th January 2024: Stocks and bonds extend gains after Treasury slashes financing estimates

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW:** Three US troops killed by drone strike in Jordan; US prepares a 'significant military response'; Treasury financing estimates reduced; Dovish ECB Centeno remarks; AMZN terminates IRBT acquisition.
- **COMING UP: Data:** Australian Retail Sales, French, German, Spanish & EZ GDP, Swiss KOF Indicator, UK Mortgage Lending, EZ Consumer Inflation Expectations, US JOLTS, Consumer Confidence, Japanese Retail Sales **Events:** BoJ SOO **Speakers:** ECB's Lane, Nagel; SNB's Jordan **Supply:** Japan, UK, Italy, Germany **Earnings:** Diageo, SSP, Entain, BBVA, UPS, Pfizer, Marathon Petroleum, Microsoft, Alphabet, Starbucks, AMD.
- **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](#).
- **DAILY US EARNINGS ESTIMATES:** Tuesday's highlights include UPS, DHR, PFE, GOOGL, MSFT, SBUX, MDLZ, AMD, and SYK. To download the full estimates, please click [here](#).

MARKET WRAP

Stocks and bonds were firmer on Monday in a quiet US session, with the Russell 2k and Nasdaq 100 outperforming the S&P 500 - gains accelerated in late trade after the Treasury financing estimates for the quarter ahead were reduced. Geopolitics were in the limelight following the death of three US servicemen in Jordan amid a reported drone strike by Iran-affiliated groups, although oil prices reversed lower through the session amid the liquidation order for China's Evergrande and reports that negotiators from Israel, the US, Egypt and Qatar have agreed on a framework for the release of the remaining American and Israeli hostages. Treasuries saw a notable bid ahead of this week's refunding announcement and FOMC, that's despite another deluge of corporate debt supply on Monday - Bloomberg reported US corporate bond sales have hit USD 176bln in January, a record for the month - with late-session gains made after the cut in the financing estimates. The Dollar Index was little changed with Euro weakness on the back of dovish comments from ECB's Centeno offset by Yen strength on yield differentials. The Hungarian Forint was particularly hit as the country vowed to defy EU pressure to approve a Ukraine aid package, with the FT reporting the bloc has set out plans to sabotage the country's economy in response.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 15+ TICKS HIGHER AT 111-16+

Treasuries saw a notable bid Monday ahead of this week's refunding announcement and FOMC, despite another deluge of corporate debt supply. 2s -4.9bps at 4.316%, 3s -6.5bps at 4.104%, 5s -8.2bps at 3.979%, 7s -9.1bps at 4.035%, 10s -8.8bps at 4.072%, 20s -8.3bps at 4.420%, 30s -7.8bps at 4.312%.

INFLATION BRAKEEVENS: 5yr BEI -0.1bps at 2.296%, 10yr BEI -0.5bps at 2.287%, 30yr BEI -0.3bps at 2.306%.

THE DAY: Treasuries were sideways through APAC trade on Monday, with little major data in the region and focus on the US soldiers killed in Jordan over the weekend, with oil gapping higher on the open. Better govvie buying surfaced during European hours with attention on some dovish ECB's Centeno remarks, although the front end lagged the duration bid - oil prices also faded their initial gains.

T-Notes hit resistance at 111-16 during the NY morning. The fresh deluge of corporate IG supply, including an IBM seven-parter, alongside growing focus on the expected rise in Treasury auction sizes for Wednesday's refunding announcement, capped further gains. However, T-Notes remained supported above 111-10 through the rest of the session and managed to claw out new highs of 111-17+ later on ahead of settlement. Contracts continued to rally after settlement on the release of the financing estimates which were lower for the quarter ahead than the Treasury prior guide.



TREASURY FINANCING ESTIMATES: Treasury announced it expects to borrow USD 760bln in net marketable debt for the January-March period, down USD 55bln from its October 2023 estimate "largely due to projections of higher net fiscal flows and a higher beginning of quarter cash balance", assuming an end-of-March cash balance of USD 750 billion. It also expects to borrow a much smaller USD 202bln in the April-June period, assuming an end-June cash balance of USD 750bln. Additional financing details relating to Treasury's Quarterly Refunding will be released at 08:30EST/13:30GMT on Wednesday, January 31st, 2024.

STIRS:

- SR3H4 +1bp at 94.875, M4 +2bps at 95.30, U4 +3bps at 95.715, Z4 +5.5bps at 96.08, H5 +7.5bps at 96.37, M5 +8bps at 96.565, U5 +9bps at 96.675, Z5 +9bps at 96.705, H6 +9.5bps at 96.695, H7 +9.5bps at 96.58, H8 +10bps at 96.44.
- SOFR flat at 5.32% as of Jan 26th, volumes fall to USD 1.712tln from 1.768tln.
- NY Fed RRP op demand at USD 0.581tln (prev. 0.571tln) across 81 counterparties (prev. 77).
- EFFR flat at 5.33% as of Jan 26th, volumes fall to USD 100bln from 101bln.
- US sold USD 87bln of 3-month bills at 5.210%, covered 2.84x; sold USD 77bln of 6-month bills at 4.985%, covered 3.14x.

CRUDE

WTI (H4) SETTLED USD 1.23 LOWER AT 76.78/BBL; BRENT (J4) SETTLED USD 1.12 LOWER AT 81.83/BBL

Oil prices were lower Monday after gradually reversing initial gains on the back of US casualties reported over the weekend in Jordan. The order to liquidate China's Evergrande was cited as a key factor in Monday's pullback, with the move seen as reflective of broader demand woes in the world's largest oil importer. Those concerns offset the initial supply risk from the deaths of three US servicemen in Jordan by a drone attack from Iran-backed militants, which followed the attack of an oil tanker on Friday. Iran has looked to distance itself from the attacks, whilst the US has promised a "significant military response" to those responsible. The weekend attacks saw WTI and Brent peak on the future reopen at USD 79.29/bbl and 84.17/bbl, respectively, before gradually reversing to lows of USD 76.54/bbl and 81.47/bbl later in the NY morning. Note the push to lows was accompanied by reports in NBC that negotiators from Israel, the US, Egypt and Qatar have agreed on a framework for the release of the remaining American and Israeli hostages.

EQUITIES

CLOSES: SPX +0.76% at 4,927, NDX +1.01% at 17,596, DJIA +0.59% at 38,333, RUT +1.67% at 2,011.

SECTORS: Consumer Discretionary +1.37%, Technology +0.97%, Communication Services +0.89%, Real Estate +0.68%, Health +0.68%, Utilities +0.64%, Industrials +0.64%, Materials +0.52%, Consumer Staples +0.52%, Financials +0.3%, Energy -0.2%.

EUROPEAN CLOSES: DAX -0.12% at 16,941.71, FTSE 100 0.00% at 7,635.28, CAC 40 +0.09% at 7,640.81, Euro Stoxx 50 +0.06% at 4,638.25, IBEX 35 -0.47% at 9,890.30, FTSE MIB -0.48% at 30,233.61, SMI +0.38% at 11,433.60.

STOCK SPECIFICS:

- **iRobot (IRBT) -8.8%: Amazon (AMZN)** terminates pending acquisition. Following this, IRBT is to lay off 31% of workforce with CEO Angle stepping down.
- **Tesla (TSLA) +4.2%:** Plans to buy chips from AMD as part of its AI computing hardware spending. Separately, Tesla expects CapEx to eclipse USD 10bln in 2024, and be between USD 8-10bln (prev. 7-9bln) in 2025 & 2026.
- **Rivian Automotive (RIVN) +5.5%: Apple (AAPL) (-0.4%)** veteran DJ Novotney, former VP of hardware engineering, is leaving to join Rivian as senior VP of vehicle programmes.
- **McGrath RentCorp (MGRC) +10.7%:** To be acquired by WillScot Mobile for USD 3.8bln or USD 123/shr. Note, MGRC closed Friday at USD 111.75/shr.
- **Philips (PHG) ADR -5.4%:** Halts sale of sleep apnea devices in USA after FDA deal. Elsewhere, Q4 revenue was light.
- **SoFi Technologies (SOFI) +20.2%:** Top and bottom-line surpassed Wall St. expectations, as did FY24 EPS view. Note, next quarter revenue outlook was short.
- **Lockheed Martin (LMT) -0.5%:** Plans to cut 1% of its global workforce throughout 2024 to streamline operations and cut costs.



- **Western Digital (WDC)** +2.6%: Bain Capital is in talks with SK Hynix (000660 KS) to restart negotiations to merge memory chip makers Western Digital and Kioxia Holdings, according to Kyodo.
- **Dollar Tree (DLTR)** +0.8%: Upgraded at JPM; cited higher profitability and a larger total addressable market as potential tailwinds.
- **Warner Bros Discovery (WBD)** -1.2%: Downgraded at Wells Fargo; said higher amortization, a less favourable M&A environment, and ad migration as reasons for a flattening multiple.
- **Hollsys (HOLI)** +0.8%: Dazheng-led group reportedly to offer USD 29.50/shr to buy HOLI. Note, previous offer in December for HOLI was USD 29/shr.

US FX WRAP

The Dollar Index was flat to start the week and within tight parameters (103.39-82) in a quiet day, aside from geopolitics, as participants await a week of key risk events, namely FOMC ([preview here](#)), Chair Powell, NFP, Refunding Announcement, and Big Tech earnings. On geopolitics, Middle East tensions etched up a notch after three US troops in Jordan died by a drone attack from Iran-backed militants, where the US has promised a "significant military response" to those responsible. Separately, over the weekend, [WSJ's Timiraos](#) noted the central bank feels pressure to cut interest rates as falling inflation raises the real cost of borrowing. On a separate footing, Credit Agricole's month-end model signals mild USD selling across the board. Note that the Dollar saw some kneejerk selling with falling yields in late trade after the Treasury cut its financing estimates for the quarter.

Euro was the G10 underperformer and was weighed on by dovish remarks from ECB's Centeno (offsetting remarks from hawkish Knot) as he said there is no need to wait for Q1 wage data to make a decision on rates. There was a slew of other ECB Speak, from the likes of De Guindos and Kazimir. In terms of month-end, Credit Agricole points towards EUR buying, and the bank thinks ECB-Fed policy outlook remains the key EUR/USD driver, and it continues to believe that a more aggressive ECB easing cycle could push the cross towards 1.05 in H2 '24. EUR/USD hit a low of 1.0797 on Monday, ever so briefly taking out 1.08, with the next levels to the downside the 100DMA at 1.0776 and the Dec 13th trough at 1.0773 (FOMC day). Looking ahead, attention resides around EZ CPI and GDP on top of any further ECB speech.

Antipodeans were the G10 outperformers and buoyed by general risk sentiment, as opposed to anything currency specific, as AUD/USD and NZD/USD both currently trade at the peaks of Monday's ranges of 0.6571-6615 and 0.6087-6143, respectively. Note, RBNZ Chief Economist Conway spoke but said little to change the dial.

JPY, CHF, CAD, and GBP all saw gains to varying degrees, with the Pound underperforming the rest as traders await the BoE, accompanying MPR and Bailey's press conference on Thursday ([preview here](#)). There was little for the Yen or Loonie – the latter managed to overcome eventual oil weakness while USD/JPY fell with falling US yields, awaiting the FOMC, as markets consider Fed vs. BoJ policy paths. For the Swissy, SNB Chair Jordan spoke (is scheduled to again on Tuesday) and said his expectation is inflation will again rise a little, and the situation has improved and it looks relatively good.

EMFX was predominantly weaker vs. the Greenback, with the HUF one of the clear underperformers. For the EUR/HUF cross, 390 initially offered strong resistance but then breached through the clear level. In terms of catalyst, increasing EU-Hungary tensions ahead of the February 1st EU summit continue to weigh, in addition to dovish expectations for Tuesday's NBH. As traders point out, positioning for the cross suggests further near-term upside. Elsewhere, BRL saw losses ahead of the BCB on Wednesday. Lastly, the Yuan was eventually flat vs. the Dollar and managed to pare its initial weakness, which came after Evergrande received a winding up order from the Hong Kong Court, seemingly fuelling some Yuan jitters.

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