newsquawk

US Market Wrap

30th January 2024: Stocks and bonds mixed after hot JOLTS ahead of FOMC and Refunding

- **SNAPSHOT**: Equities mixed, Treasuries mixed, Crude up, Dollar flat.
- **REAR VIEW**: JOLTS rise, Quits Rate unchanged; Consumer confidence rises less than forecast; Hot Spanish CPI; Germany avoids technical recession; Nagel shifts tone on inflation; Kataib Hezbollah says it suspends military ops. against US forces; Saudi halts plan to raise maximum oil capacity to 13mln BPD; Strong GM earnings, Weak UPS earnings; TF Intl. Securities cautious on AAPL iPhone shipments.
- **COMING UP**: **Data**: ANZ Business Outlook, CPI, Chinese NBS PMI, German CPI, Retail Sales, French CPI, German Unemployment, US ADP, Employment Wages, Canadian GDP **Events**: Fed & BCB Policy Announcement **Speakers**: Fed Chair Powell **Supply**: Germany, US Treasury Refunding Announcement **Earnings**: Novo Nordisk, H&M, GSK, Novartis, Santander, Boeing, Boston Scientific, Thermo Fisher Scientific, Mastercard, Phillips 66.

MARKET WRAP

Stocks were choppy on Tuesday with the SPX little changed but losses in the Nasdaq 100 and Russell 2k. US data was on the firmer side with a surprise rise in JOLTS job openings and a rise in Consumer Confidence (albeit slightly less than expected), meanwhile, European GDP figures were lacklustre and the Spanish inflation figures came in hot, sending a warning shot ahead of the French and German figures on Wednesday. However, the downbeat growth sentiment was offset after the IMF upgraded its 2024 global growth forecasts on account of an improving outlook for the US and China. Treasuries saw large flattening in a 'twist' (front end sold and long end bid) after the rise in JOLTS job openings and consumer confidence ahead of Wednesday's refunding and FOMC. Oil prices were firmer amid ongoing Middle East tensions, Saudi efforts to reduce its production capacity, and the IMF's growth upgrades. FX vol was very low with the Dollar Index flat and in tight ranges. In stocks, UPS posted a poor report and guidance, weighed on by weak e-commerce (weighing on AMZN), leading it to cut 12k jobs. GM surged higher on a strong quarter and guidance, benefitting from an absence of UAW strikes and cost-cutting measures. Pulte (PHM) lifted homebuilders on its optimistic 2024 commentary amid surging new orders as it benefits from the falling mortgage rates.

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JOLTS: The US JOLTS job openings rose to 9.026mln in December, up from the prior 8.925mln (which was revised up from 8.79mln), despite expectations for a decline to 8.75mln and was also marginally above the highest forecast of 9.00 mln. Analysts at Pantheon Macroeconomics write that the jump in job openings tells us very little, noting the numbers are erratic, frequently revised and provide no real guide to payrolls. However, the quits rate was unchanged at 2.2%, Pantheon put more weight on this, saying it points to wage growth on the Employment Cost Index falling from a 4.5% Y/Y pace in Q3 to around 3.5% by the middle of this year, a level consistent with the Fed's inflation target.

CONSUMER CONFIDENCE: Consumer Confidence for January rose to 114.8, the highest since December 2021, from 108.0 but was short of the expected 115.0. Present Situation and Expectations rose to 161.3 (prev. 147.2) and 83.8 (prev. 81.9), respectively. Average 12-month inflation expectations fell to 5.2%, the lowest since March 2020, while on the jobs footing, those who thought jobs were plentiful rose to 45.5% (prev. 40.4%) and those who thought jobs are hard to get eased to 9.8% (prev. 13.1%). Qualitatively, consumers' assessment of current business conditions was more positive in January, but, on balance, slightly less optimistic about the short-term business conditions outlook. The report further writes, consumers' assessment of the short-term labor market outlook was slightly less pessimistic, as was their short-term income prospects. Overall, the report adds, “January’s increase likely reflected slower inflation, anticipation of lower interest rates ahead, and generally favorable employment conditions as companies continue to hoard labor.” In addition, January's write-in responses revealed that consumers remain concerned about rising prices although inflation expectations fell to a three-year low.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLE 3+ TICKS HIGHER AT 111-20

Treasuries saw large flattening after the rise in JOLTS job openings and consumer confidence ahead of QRA and FOMC. 2s +3.9bps at 4.361%, 3s +3.1bps at 4.147%, 5s +0.3bps at 3.997%, 7s -1.7bps at 4.035%, 10s -3.4bps at 4.057%, 20s -4.9bps at 4.393%, 30s -5.8bps at 4.277%.

INFLATION BREAKEVENS: 5yr BEI -0.3bps at 2.296%, 10yr BEI -1.9bps at 2.270%, 30yr BEI -3.0bps at 2.272%.

THE DAY: Treasuries extended their post-lower financing estimates bid through the APAC session on Tuesday - JGBs were firmer with dealers relaying some month-end front running, while soft Australian retail sales also supported the move - seeing T-Notes extending to highs of 111-27+ at the London handover. A hot-leaning Spanish CPI release ignited concerns ahead of the French and German figures on Wednesday, seeing govvies trim gains through the European session. There was also some German, Italian, and UK supply to digest during the London morning.

T-Notes hit support at 111-18 in the NY morning with the long end strongest on the curve. A light IG debt calendar allowed for a recovery to 111-26 ahead of the US data. However, the surprise jump in JOLTS job openings alongside the rise in consumer confidence (albeit beneath expectations) saw large bear-flattening, taking T-Notes to session lows of 111-11. The long end managed to claw back losses through the rest of the session, although the front end stretched to new lows later on with participants positioning for Wednesday's QRA and FOMC.

STIRS:

- SR3H4 -2bps at 94.855, M4 -4bps at 95.255, U4 -6.5bps at 95.645, Z4 -7bps at 96.00, H5 -7.5bps at 96.285, M5 -7bps at 96.485, U5 -6bps at 96.60, Z5 -4.5bps at 96.65, H6 -3bps at 96.65, H7 +1.5bps at 96.58, H8 +4.5bps at 96.465.
- SOFR falls to 5.31% as of Jan 29th from 5.32%, volumes fall to USD 1.598tln from 1.712tln.
- NY Fed RRP op demand at USD 0.578tln (prev. 0.581tln) across 78 counterparties (prev. 81).
- EFFR flat at 5.33% as of Jan 29th, volumes fall to USD 92bln from 100bln.
- US sold USD 80bln of 42-day CMBs at 5.280%, covered 2.70x.
- US raises 4-week bill auction size by USD 5bln to USD 95bln, leaves 8- and 17-week bill sizes unchanged at USD 90bln and 60bln, respectively; 17-week to be sold on Jan 31st and 4- and 8-week sold on Feb 1st; all to settle on Feb 9th.

CRUDE

WTI (H4) SETTLES USD 1.04 HIGHER AT 77.82/BBL; BRENT (J4) SETTLES USD 0.67 HIGHER AT 82.50/BBL

Oil prices were ultimately firmer on Tuesday in choppy trade amid ongoing Middle East tensions, Saudi production caps, and IMF growth upgrades. The crude benchmarks had been moving lower through the European session amid downbeat European GDP figures, fading a short-lived pop on reports that Saudi Arabia's government has asked Aramco to lower its maximum capacity target by 1mln BPD to 12mln BPD. WTI (H4) and Brent (J4) contracts troughed at USD 75.85/bbl and 80.83/bbl, respectively, in the NY morning, coming on the heels of White House Energy Advisor Hochstein touting a balanced oil market and huge increases in supply from the US, Brazil and Guyana. However, not long after, prices began to reverse higher, gradually sustaining a bid through the rest of the session. There were some tailwinds from the IMF's raising of its 2024 global economic growth forecast to 3.1% from its 2.9% forecast in October. Also, Yemen's Houthi forces announced the group is ready for a long-term confrontation with the US and UK. Furthermore, the US State Department confirmed oil sanctions against Venezuela. There were also more Red Sea shipping cancellations from Maersk, while Reuters reported Kazakhstan has also stopped oil shipments via the Red Sea. Note that the oil bid was capped in late trade after Kataib Hezbollah, the group reportedly responsible for the drone strike on US troops, said it had suspended military operations against US forces, albeit scepticism remains.

INVENTORIES: Energy traders now look to the weekly US energy inventory data, with the private release due later on Tuesday ahead of the official EIA figures on Wednesday. Current expectations (bbls): Crude -0.2mln, Gasoline +1.5mln, Distillates -0.4mln.

EQUITIES

CLOSES: SPX -0.06% at 4,925, NDX -0.68% at 17,477, DJI +0.35% at 38,467, RUT -0.76% at 1,996.

SECTORS: Financials +1.2%, Energy +1.01%, Consumer Staples +0.56%, Materials +0.45%, Health +0.25%, Industrials +0.05%, Utilities -0.04%, Consumer Discretionary -0.22%, Communication Services -0.71%, Technology -0.74%, Real Estate -0.91%.

EUROPEAN CLOSES: DAX: +0.18% at 16,972.34, FTSE 100: +0.44% at 7,666.31, CAC 40: +0.48% at 7,677.47, Euro Stoxx 50: +0.53% at 4,663.95, IBEX 35: +1.51% at 10,039.30, FTSE MIB: +1.29% at 30,623.27, SMI: +0.07% at 11,438.10.

STOCK SPECIFICS:

- **Super Micro (SMCI)** +3.5%: EPS and rev. beat on top of lifting next quarter and FY24 outlook, which comes after it previously raised guidance in early Jan.
- **UPS (UPS)** -8%: Revenue light as was its FY revenue view. Post-earnings, UPS said it plans to reduce workforce by 12k for USD 1bln cost reduction as demand remains soft.
- **General Motors (GM)** +8%: Top- and bottom-line beat with FY24 guidance impressing.
- **F5 Networks (FFIV)** +1%: Earnings beat, with strong Q2 and FY top and bottom-line guidance.
- **Cleveland-Cliffs (CLF)** -2%: Revenue missed with a greater loss per share than expected.
- **Johnson Controls (JCI)** -4%: Top line fell short on top of cutting FY24 profit view.
- **Woodward (WWD)** -1%: Impressed with strong current quarter metrics in addition to lifting FY guidance but initial stock gains faded.
- **Whirlpool (WHR)** -6.5%: FY24 outlook was very weak, offsetting EPS and revenue beats.
- **Pfizer (PFE)** -2%: Surprise profit per share and re-affirmed FY outlook.
- **HCA Healthcare (HCA)** +5%: Earnings beat, authorized an additional 6bln share repurchase programme and lifted FY outlook.
- **Calix (CALX)** -25%: Dismal next quarter guidance.
- **Sanmina (SANM)** +28%: Bottom line beat accompanied by stellar next quarter outlook.
- **Marathon Petroleum (MPC)** +6% and Helmerich & Payne (HP) +12% after EPS and revenue topped Wall St. consensus.
- **Nucor (NUE)** +7%: Q4 earnings topped expectations.
- **Apple (AAPL)** -2%: TF International Security analysts Ming-Chi Kuo says 2024 iPhone (AAPL) shipments likely to decline significantly by about 15% Y/Y due to structural challenges.
- **Disney (DIS)** -0.5%: Nelson Peltz’s new plan to fix Disney includes bundling ESPN+ with Netflix (NFLX), according to Bloomberg sources. Disney previously rejected Peltz's board recommendations.
- **SLB (SLB)** (-7%),**Halliburton (HAL)** (-1%), and **Baker Hughes (BKR)** (-2%) were all weaker after Saudi Aramco announced it would halt its plan to raise its maximum capacity to 13mln BPD from 12mln BPD.

US FX WRAP

The Dollar Index was flat on Tuesday, trading either side of 103.50 with all eyes turning to the FOMC rate decision on Wednesday ahead of NFP on Friday. Data saw a hot JOLTS print but the quits rate was unchanged while consumer confidence rose, but not as much as forecast.

The Euro rebounded from lows of 1.0812 after the morning data saw Spanish CPI hotter than expected while the German GDP metrics saw Germany narrowly avoid a technical recession. Q4 growth still slumped 0.3%, in line with expectations, but the prior was revised up to 0.0% from -0.1%. Elsewhere, ECB's Vujcic stressed that April or June for a rate reduction is not a big difference; he added that 25bps increments are preferable and that it is not a given that cuts occur at every meeting, adding that pauses are possible. Vujcic also said the data supports the soft-landing scenario. There was a slight change in tone from ECB's Nagel too, where the hawk said he is more confident that the ECB has "tamed the inflation beast". Eyes turn to the German and French CPI figures on Wednesday after the hot Spanish print.

Havens saw little gyrations, with little to say for the Swissy and Yen ahead of the aforementioned key risk events with price action rather mundane in both currencies. There was some political interference with the BoJ though, where the Japan ruling LDP heavyweight Ishiba said the BoJ must immediately end its NIRP.

Cyclical currencies also saw little price action but disappointing Aussie retail sales took the limelight ahead of Australian CPI. In the UK, the BRC annual shop price inflation eased to 2.9% in January from 4.3% in December and rising at the slowest pace since May 2022, which BofA noted was primarily due to discounts following weak consumer demand.

In **EMFX**, HUF saw strength after the NBH surprised with a 75bps cut as opposed to the larger 100bps cut expected, with just 3/18 analysts expecting the smaller cut increment. CNH saw some brief strength after the IMF upgraded its 2024 growth forecasts and left its 2025 forecast unchanged with participants looking to China PMIs on Wednesday. In LatAm, MXN and COP saw decent gains vs the buck as oil prices advanced while in Mexico the deputy finance minister announced expectations for Mexico's economy to grow between 2.5-3.5% in 2024, vs the IMF forecast of 2.7%. CLP and BRL were relatively flat. Note, data in Brazil was dovish: January IGP-M Inflation Index was cooler than expected at 0.07% (exp. 0.24%, prev. 0.74%) while jobs slumped more than forecast.