US Market Wrap

1st February 2024: Stocks and bonds gain on rising claims data ahead of NFP

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Rising initial jobless claims; Strong ISM Manufacturing; Conflicting Gaza ceasefire reports; BoE hold rates, as expected, with a three-way split; Unit labour costs softer than expected but productivity was above expectations; Atlanta Fed GDPnow (Q1) rises to 4.2% from 3.0%; QCOM top expectations; HON guidance light; MRK boosted by Keytruda; Moody's may cut NYCB to junk; KRE sell-off extends.
- **COMING UP**: **Data**: Australian PPI, US NFP, Durable Goods, UoM Inflation Expectations **Earnings**: Unicredit, Regeneron, Gilead, Qualcomm, Exxon, Chevron, Aon, AbbVie.
- **DAILY US EARNINGS ESTIMATES**: Friday's highlights include, CI, CVX, XOM, REGN, BMY, ABBV. To download the full Daily US Earnings Estimates, please click here.

MARKET WRAP

Stocks advanced throughout the majority of the US session with similar gains seen in the SPX, NDX and RUT. The upside was broad-based with the majority of sectors green although Consumer Discretionary, Staples and Industrials outperformed while Energy was the sole sector in the red as it tracked crude prices lower on mixed reporting around a Gaza ceasefire. Treasuries bull-flattened after rising jobless claims and more bank sell-offs despite strong ISM manufacturing. The move lower in yields, rising jobless claims and US banking concerns saw the dollar lower with DXY testing 103 while Yen, Swissy and Gold all saw decent gains but Euro outperformed after inflation data which saw the headline in line with expectations but the super core metric was hotter than forecast. GBP also saw gains in the wake of the BoE rate decision which saw a three-way vote split, removing its tightening bias but suggesting market pricing was too dovish. US data saw initial claims rise above all analyst forecasts, while unit labour costs were softer than expected and productivity above. The ISM Manufacturing PMI was strong, albeit led by a surge in the prices paid component back to expansionary territory as well as a jump in New orders.

GLOBAL

ISM: ISM Manufacturing PMI for January rose to 49.1, above the prior 47.1 and the expected 47.0. Internally, Prices Paid and New Orders soared back into expansionary territory printing 52.9 (prev. 45.2) and 52.5 (prev. 47.0), respectively. Employment ticked lower to 47.1 from 47.5, while Production rose to 50.4 (prev. 49.9) and Supplier Deliveries to 49.1 (prev. 47.0). Inventories and Imports rose, while Backlog of Orders and New Export Orders declined deeper into contractionary territory. Within the release, it noted “The past relationship between the Manufacturing PMI and the overall economy indicates that the January reading (49.1%) corresponds to a change of +1.9 percent in real GDP on an annualized basis”. Moreover, Oxford Economics says, “There was only passing reference to the global shipping disruptions. This is not surprising as shipping costs have only recently jumped, and the headaches caused by shipping delays will take time to be felt by US manufacturers.” Looking to the jobs report, OxEco notes the fall in the employment index does not lend a significant downside risk to its NFP forecast of 205k.

PRODUCTIVITY/LABOUR COSTS: US productivity eased in Q4 to 3.2% from 4.9%, but above the analyst forecasts of 2.5%. Labour costs were softer than expected at 0.5% (exp. 1.6%, but above the prior -1.1%. On productivity, Pantheon Macroeconomics highlights the beat "reflects a 3.7% annualized increase in real nonfarm output, marginally above the 3.3% rise in GDP, while employee hours worked rose at a mere 0.4% rate". The desk highlights the volatility of the data however adding it is subject to revisions - note the prior was revised down from 5.1%. Meanwhile, on the labour costs, the softer than expected print follows what was seen in the softer Q4 Employment Cost Index.

JOBLESS CLAIMS: Initial jobless claims (w/e 27th Jan) rose to 224k (prev. 215k), the highest level since early November and above the expected 212k and the upper end of the forecast range, 220k, meaning the 4-wk average lifted to 207.75k from 202.50k. Continued claims (w/e 20th Jan) lifted to 1.898mln (prev. 1.828mln) surpassing consensus of 1.840mln. Note, the seasonal factors had expected no change in the unadjusted data from the previous week. On the dataset, Pantheon Macroeconomics says, “WARN notices and Challenger layoff announcements signal that claims will

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move higher over the next few months, to around 250." Although, as Pantheon quips, it would still leave claims at an extremely low level by past standards, but the increase would be clearly visible after months of readings at 200-to-220k, raising fears of a meaningful shift in labour market conditions.

NFP PREVIEW: Headline NFP is expected to grow by 180k in January, easing from December's 216k, while the unemployment rate is forecast to tick up to 3.8% from 3.7%. Earnings are seen rising 0.3% M/M in January, easing from the 0.4% pace in December, with Y/Y seen rising 4.1%, in fitting with December's pace. The labour market proxies have been leaning soft with a miss in ADP and a rise in Challenger layoffs. The initial jobless claims data for the week that coincides with the usual BLS survey window saw a notable decline, although it was likely weather-related with more recent initial claims figures rising, whereas the continued claims data rose. However, the December JOLTS data rose above expectations while the quits rate was unchanged. Analysts highlight the unchanged quits rate signals slower wage gains, which was also evident in the softer US Employment Cost Index report for Q4. Note, the BLS will also be releasing annual revisions to the establishment survey, but it will not provide revisions to the household survey despite adopting a new methodology for the January figures, thus, the January household survey data will not be directly comparable with data for December 2023 or earlier periods. Regarding Fed implications, Fed Chair Powell stated the base case is not for a March rate cut but he did add that if the labour market saw an unexpected weakening, the Fed would be prepared to cut sooner. A dire report which takes the Fed off their base case would likely help put a March rate cut in play, providing the disinflation process continues, but there is still plenty of data due between now and March, including another NFP and PCE report, as well as two CPI reports. To download the full Newsquawk preview, please click here.

BOE REVIEW: As expected, the MPC opted to stand pat on rates, keeping the base rate at 5.25%. However, the decision to do so was unexpectedly a three-way split with Haskel and Mann voting for a 25bps hike, whilst Dhingra supported a 25bps cut. The policy statement saw policymakers ditch prior guidance that "further tightening" could be required. However, the MPC maintained the judgement that monetary policy will need to be "sufficiently restrictive" for "sufficiently long" and for an "extended period". The accompanying MPR revealed that the Bank now expects inflation to reach its 2% target in Q2 2024 vs. previous view of Q4 2025. That being said, the two year inflation view is at 2.3% (i.e above target) which suggests that policymakers think the current market pricing is too dovish to be compatible with its inflation mandate. From a growth perspective, the MPC sees GDP as 'broadly flat' in Q4 [unchanged view] and sees 'broadly flat' GDP over the coming quarters. At the follow up press conference, Governor Bailey noted that inflation is heading in the right direction but "is not there yet" when it comes to lowering rates. Despite attempts by journalists, Bailey refused to get drawn into speculation over when the MPC will cut rates and stressed the Bank's data dependency. That being said, the Governor noted that the MPC does not need to see inflation back at target to cut rates, it needs to see evidence that it is heading back to target. With regards to the follow-through of prior actions, Bailey remarked that so far, two thirds of the impact of prior tightening has been felt. When it comes to the MPC eventually lowering rates, Bailey was careful to note that even if rates were cut, policy would still be restrictive. Overall, the BoE is clearly in wait-and-see mode but via its macro projections suggested that market pricing was perhaps too dovish. Despite initially moving in a more hawkish direction, market pricing is pretty much where it was pre-release with the first cut priced by June and around 110bps of easing seen by year-end.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 18 TICKS HIGHER AT 112-28+

Treasuries bull-flattened after rising jobless claims and more bank sell-offs despite strong ISM manufacturing. At settlement, 2s -3.1bps at 4.198%, 3s -5.4bps at 3.965%, 5s -7.9bps at 3.801%, 7s -9.0bps at 3.833%, 10s -10.2bps at 3.863%, 20s -11.5bps at 4.206%, 30s -11.2bps at 4.103%

INFLATION BREAKEVENS: 5yr BEI -5.9bps at 2.205%, 10yr BEI -5.1bps at 2.195%, 30yr BEI -4.2bps at 2.223%.

THE DAY: After peaking at 112-20+ in the wake of the FOMC on Wednesday, T-Notes pared somewhat into the Thursday APAC session. 112-10 held as support with a better than feared 10yr JGB auction providing support. Contracts chopped sideways into the European morning, with pressure in EGBs on the smaller fall than expected in EZ inflation failing to ignite any meaningful pressure in USTs. At the same time, poor earnings reports from BNP Paribas and Japanese bank Aozora, where the latter suffered losses from its US commercial property portfolio, sustained banking concerns after the NYCB report on Wednesday.

Better buying surfaced as stateside trade got underway. The BoE was a copy/paste of the Fed in removing its tightening bias in its statement guidance. The UST bid accelerated after the jobless claims figures saw a surprise rise, with markets particularly tetchy to labour market data now after Powell warned cuts could come earlier (and beyond the "base case"

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three rate cuts from the SEPs) if the employment situation deteriorated. Another tumble in US regional banks saw the Treasury bid rip further, despite a jump in the ISM mfg. survey led by prices paid, although the employment sub-index was weak ahead of NFP. T-Notes peaked at 113-06+ late in the NY morning, paring somewhat into the afternoon.

NEXT WEEK'S AUCTIONS: US to sell USD 54bln of 3yr notes (prev. 52bln) on Tuesday, USD 42bln of new issue 10yr notes (prev. 40bln) on Wednesday, and USD 25bln of new issue 30yr bonds (prev. 24bln) on Thursday; all to settle on Feb 15th. In Europe, the EU is set to tap 10/26 and 4/44 bonds on Monday, the UK is selling 30yr green bonds on Tuesday and 4yr notes on Wednesday, and Germany is selling 7yr notes on Wednesday. In Japan, a 10yr CPI-linker on Monday, a 30yr bond on Wednesday, and a 5yr note on Friday.

STIRS:

- SR3H4-2.5bps at 94.890, M4 -1.0bps at 95.380, U4 +0.5bps at 95.820, Z4 +1.5bps at 96.190, H5 +3.5bps at 96.495, M5 +5.0bps at 96.705, U5 +6.0bps at 96.825, Z5 +7.5bps at 96.875, H6 +8.5bps at 96.870, H7 +9.5bps at 96.780, H8 +11.0bps at 96.670.
- SOFR rises to 5.32% as of Jan 31st, volumes rise to USD 1.874tln from 1.642tln.
- NY Fed RRP op demand at USD 0.504tln (prev. 0.615tln) across 74 counterparties (prev. 82).
- EFFR flat at 5.33% as of Jan 31st, volumes fall to USD 75bln from 92bln.
- US sold USD 95bln of 1-month bills at 5.280%, covered 2.78x; sold USD 90bln of 2-month bills at 5.265%, covered 2.75x.
- US leaves 42-day, 13-week, and 26-week bill auction sizes unchanged at USD 80bln, 79bln, and 70bln, respectively; 13- and 26-week sold on Feb 5th and 42-day CMBs on Feb 6th; all to settle on Feb 8th.

CRUDE

WTI (H4) SETTLED USD 2.03 LOWER AT 73.82/BBL; BRENT (J4) SETTLED USD 1.85 LOWER AT 78.70/BBL

The crude complex was eventually lower on Thursday, despite a very choppy NY afternoon on conflicting Middle East reports. WTI and Brent sank (over USD 3/bbl) to session intraday lows of USD 74.09/bbl and 78.67/bbl, respectively, after Al Jazeera posted on X that Israel agreed to a ceasefire proposal and Hamas gave positive confirmation. However, WTI and Brent pared roughly half the move after Israeli Defence Ministry comments were seemingly at odds with the Al Jazeera reports. Al Jazeera then deleted its post on X before a Qatar official told Reuters there is no ceasefire deal yet for Gaza, noting that Hamas has received the proposal positively but it has not responded yet. Nonetheless, WTI and Brent started to descend once again heading into the energy settlement. Aside from Geopolitics, the OPEC+ JMMC made no recommendation on oil output policy, as expected. However, according to Reuters citing two OPEC+ sources, OPEC+ is to review extending the 2.2mln BPD voluntary cuts due to expire end of Q1'24 early March. Looking ahead, the US jobs report is the main event on Friday, with the weekly Baker Hughes rig count and energy earnings from CVX/XOM also due.

EQUITIES

CLOSES: SPX +1.25% at 4,906, NDX +1.21% at 17,344, DJIA +0.97% at 38,519, RUT +1.39% at 1,974.

SECTORS: Consumer Discretionary +1.98%, Consumer Staples +1.97%, Utilities +1.89%, Real Estate +1.75%, Industrials +1.7%, Materials +1.66%, Technology +1.38%, Health +1.27%, Communication Services +0.88%, Financials +0.09%, Energy -0.06%.

EUROPEAN CLOSES: DAX: -0.26% at 16,859.04, FTSE 100: -0.11% at 7,622.16, CAC 40: -0.89% at 7,588.75, Euro Stoxx 50: -0.51% at 4,638.85, IBEX 35: -0.63% at 10,014.00, FTSE MIB: -0.18% at 30,689.11, SMI: -1.05% at 11,213.91.

EARNINGS:

- **Qualcomm (QCOM)** -5%: Earnings topped expectations but continued the theme of big-tech earnings from Wednesday of seeing weakness on potential elevated expectations.
- **Qorvo (QRVO)** +6%: Metrics beat and raised next quarter outlook.
- **Honeywell (HON)** -2.5%: Revenue light, as was FY and next quarter EPS/revenue guidance.
- **C.H. Robinson Worldwide (CHRW)** -13%, **Landstar System (LSTR)** -0.5%: Q4 metrics fell short alongside concerning comms.
- **Trane Technologies (TT)** +3%, **Eaton (ETN)** +3.5%: Earnings impressed with guidance better-than-expected.
- **Parker-Hannifin (PH)** +7.5%: Bottom line smashed consensus and it raised FY outlook.

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- **Merck (MRK)** +4.5%: Posted a surprise profit per share, with a beat on revenue and Keytruda sales, in addition to lifting FY EPS guidance.
- **Align Technology (ALGN)** +2.5%: Numbers surpassed consensus alongside raising Q1/FY24 revenue forecasts.
- **Aflac (AFL)** -9.5%: Missed on EPS and revenue.
- **MetLife (MET)** -5.5%: Profit was light but the top line beat.
- **AvalonBay (AVB)** -0.5%: Guidance disappointed.
- **Royal Caribbean Cruises (RCL)** +3%: Beat on EPS and lifted Q1/FY profit view alongside upbeat commentary.
- **Altria (MO)** +4%: Beat on the top line, and marginally on the bottom line, and authorised a new USD 1bln share buyback programme.
- **Corteva (CTVA)** +19%: Profit beat.
- **Shell (SHEL)** +2%: Strong earnings and announced a USD 3.5bln share buyback programme.

STOCK SPECIFICS:

- **Disney (DIS)** +1%: Is reportedly set to sell 60% of its India business to Viacom18 at a valuation of USD 3.9bln.
- **Paramount Global (PARA)** +0.5%: Board has formed an independent committee to consider strategic alternatives, including a potential auction.
- **New York Community Bancorp (NYCB) -**11%: Moody's said it may cut NYCB to junk, with credit ratings on review for a downgrade.
- **Etsy (ETSY)** +9%: Named Elliott Investment's Marc Steinberg to the board.
- **Ford (F)** +3.5%: Named a top pick at Morgan Stanley.

US FX WRAP

The Dollar was sold on Thursday with the Buck tracing yields lower while regional banking concerns were also rife with KRE falling another 2.5% after Powell's pushback of early rate cuts on Wednesday. US data was mixed with jobless claims rising above all analysts forecasts while unit labour costs were softer than expected but productivity was above expectations. The ISM Manufacturing PMI was stronger than expected with a notable jump back into expansionary territory in the Prices Paid and New Orders components. Construction spending was also above analyst forecasts. DXY tested lows of 103.00 with support found at the psychological level with technicians also eyeing Wednesday's low of 102.94 with US NFP due on Friday.

The Euro benefitted from the weaker dollar with EUR/USD rising above 1.0850 from lows of 1.0780 to hover around 1.0880 heading into APAC trade with lower US yields supporting the move. On data, EU flash HICP was in line with expectations dipping to 2.8% from 2.9%. There were several ECB speakers, Herodouto said he expects rates to start to decline this year but noted it must be a data-based approach and any move must not be too fast or too late. ECB Centeno also spoke on the normalisation of rates. Meanwhile, on inflation, ECB Chief Economist Lane said wage increases are still expected to drive a rebound and that the Red Sea issues are fairly contained given a small contribution of shipping costs to inflation.

The Yen also benefited from the softer dollar and falling US yields, while the regional banking concerns kept the haven currency supported with USD/JPY falling from highs of 147.11 to lows of 145.90, but it failed to stay sub 145.00 heading into APAC trade. Note, SocGen released a note and they now expect the BoJ to raise the policy rate to 0% and abolish YCC in March. Gold and Swissy also saw decent gains vs the buck but the Franc was relatively flat vs the Euro.

Cyclical currencies were mixed. **AUD** was flat vs. the softer Dollar but **NZD**, **CAD** and **GBP** saw decent gains. GBP was the outperformer in the wake of the BoE rate decision which left rates unchanged, as expected, but with a clear divergence of views on the MPC which saw a three-way vote split, Haskel and Mann opted for a 25bp hike, while Dhingra opted for a 25bp cut. It also ditched prior guidance that further tightening could be required but maintained the judgement that policy will need to be sufficiently restrictive for sufficiently long and for an extended period. Moreover, the MPC removed its tightening bias but accompanying projections suggested that market pricing is too dovish to be consistent with the Bank's inflation mandate. AUD underperformed on dismal building approvals data.

SEK was flat against the Dollar and softer vs. the Euro after the Riksbank held rates at 4.00%, as expected, and announced an increase to its bond sale programme. However, the increase was to just SEK 6.5bln/month (prev. 5.0bln) shy of the SEB 7-8bln consensus.

EMFX was mixed. BRL saw gains after the BCB cut rates by 50bps, as expected, and repeated guidance it expects further reductions of the same magnitude in the next meetings. MXN also saw notable gains while COP was flat and CLP was softer. KRW saw gains vs the Buck after BoK Governor Rhee said the BoK's pivot to interest rate cuts may be delayed should US rate cuts get delayed.

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