newsquawk

US Market Wrap

2nd February 2024: Yields and Dollar soar after forecast-smashing jobs report

- **SNAPSHOT**: Equities up, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: Hot US jobs report; Goolsbee tows a dovish tone; US begins carrying out retaliatory strikes; Stellar META & AMZN reports, while AAPL underwhelms; CBRT Governor Erkan resigns.
- **WEEK AHEAD**: Highlights include RBA, Chinese inflation, US ISM Services PMI and US annual CPI revisions. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing RBA, Banxico, RBI; Reviewing FOMC, BoE, Riksbank and BCB. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: [MON] CAT, MCD, VRTX; [TUES] TM, LIN, LLY, AMGN; [WED] CVS, BABA, UBER, DIS, PYPL; [THURS] AZN, PM, COP, SPGI; [FRI] PEP. To download the full estimates, please click here.

MARKET WRAP

Stocks were firmer Friday after gradually reversing kneejerk losses on the back of the huge 353k new jobs reported in the January BLS report that ignited a broad hawkish reaction. The forecast-beating figures saw the Dollar surge and Treasuries unwind their WTD gains in a big bear-flattener, although curve spreads recovered off lows into the afternoon ahead of next week's Treasury auctions and corporate supply expectations. The market-implied probability of a March cut has fallen to 20% probability from 35% before the data, with the first fully priced cut moving back to June from May; the total amount of cuts priced across 2024 has fallen to 125bps from 140bps. Strong post-earnings gains in META (+20%) and AMZN (+8%), despite weakness in AAPL (-0.5%), saw the NDX outperform, while modest gains in the regional banks (KRE) also provided some support for market sentiment. Meanwhile, oil prices were lower despite geopolitical angst and the solid US jobs data, with the strong Dollar weighing on commodities.

US

NFP: The jobs report was hot on all accounts. The US economy added 353k jobs in January, well above the 180k consensus and accelerating from December's upwardly revised 333k (initially 216k). There was a large increase in private payrolls of 317k, above the expected 155k and prior 278k (revised up from 164k). Manufacturing payrolls rose by 23k, up from the 8k prior and above the 5k forecast while Government payrolls rose by 36k, down from the prior 55k. The unemployment rate was unchanged at 3.7% despite expectations for a rise to 3.8%. Earnings were hotter than expected in January, suggesting the easing wages seen in the Q4 ECI and December Quits rate has not continued into the start of 2024. Monthly earnings rose 0.6% (exp. 0.3%, prev. 0.4%), Y/Y earnings rose 4.5% (exp. 4.1%, prev. 4.4% - revised up from 4.1%). It is worth highlighting the BLS released the annual revisions for the establishment survey (NFP, earnings) while it conducted new methodology on the household survey (unemployment rate). The non-seasonally adjusted revisions were revised up to -187k from -306k for 2023, while the seasonally adjusted print saw a huge revision lower to -266k from +568k. The report speaks for itself with the upward revisions and beats across all major metrics. The hot report coupled with Powell's commentary on Wednesday largely reduces the probability of a March cut with markets now just pricing a 20% probability vs a 35% probability before the data. Powell had also said if there was an unexpected weakening of the labour market, the Fed would be prepared to cut sooner, but this data is anything but weak and supports the Fed taking a cautious approach to future rate adjustments. Note, the next FOMC is on March 19-20th. The January & February CPI reports are due on February 13th and March 12th, respectively, as well as the February jobs report due March 8th and the January PCE due February 29th. All will be key in determining the timing of the Fed's first rate cut and extrapolating the depth of cuts over the year, with the market still priced for nearly five 25bps cuts across the year - vs six 25bps cuts before the data.

PANTHEON: On the US jobs report, Analysts at Pantheon Macroeconomics write that "head-scratching numbers kill March stone dead, and threaten May too". On the huge NFP beat, Pantheon says it is possible that milder-than-usual weather between December and January survey weeks boosted the numbers a bit, but job growth in construction, the most weather sensitive sector, slowed in January. The desk also adds that although they are left struggling to explain the surge, they highlight "January is the hardest month of the year to forecast because the movement in unadjusted payrolls is more than four times bigger than the average for other months". On wages, Pantheon make the point the Fed is more interested in the ECI than the hourly earnings numbers, but highlights the "the two measures can diverge in the short run, but the ECI is the benchmark, and it is tracking the drop in the quits rate, which points to a further slowing in wage growth in H1, at least." Looking ahead, Pantheon expects the labour market to be much less strong by the May meeting and also expect benign inflation numbers and are currently forecasting a 25bp cut.

UOM FINAL: The final UoM headline sentiment index for January was revised higher to 79.0 from 78.8, above the expected 78.9, while the conditions index was revised lower to 81.9 from 83.3 and the forward-looking expectations index was revised up to 77.1 from 75.9. On inflation expectations, 1yr ahead remained at 2.9% and the longer-term 5-10yr ticked higher to 2.9% from 2.8%. Overall, Oxford Economics notes that past declines in gasoline prices, rising equity prices, and falling realized inflation all helped boost consumer sentiment in January, leaving the index just shy of its long-term average. Despite saying this, the implications for near-term consumer spending are modest. Spending is more dependent on real disposable income growth, which was strong in December.

GOOLSBEE (non-voter, dove) made dovish comments in a WSJ interview late on Friday, when commenting on the notion that stronger hiring could lead some observers to argue the Fed can wait to cut rates, Goolsbee said, “you can’t really do that if there are positive supply shocks working their way through the system" as “that will give you a misleading answer as to what’s happening" in the economy. On the labour market, the Chicago President said continued strength would lessen any worry on the side of Fed's employment mandate. He also played down the hawkishness of the jobs report by saying the weakness in overall hours worked in January jobs data suggests the report was not as strong as the headline suggested. Furthermore, Goolsbee said the longer the US economy continues to grow and add jobs solidly with declining inflation, the more that Fed officials may have to revise their view about the potential for more noninflationary growth due to gains in worker productivity, or output per hour worked.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 1 POINT & 7+ TICKS LOWER AT 111-21

Treasuries unwind their WTD gains after the ebullient payrolls report ignited a large bear-flattener ahead of next week's US supply. At settlement, 2s +17.6bps at 4.370%, 3s +18.2bps at 4.147%, 5s +19.0bps at 3.989%, 7s +18.1bps at 4.013%, 10s +16.3bps at 4.026%, 20s +12.4bps at 4.330%, 30s +11.6bps at 4.219%

INFLATION BREAKEVENS: 5yr BEI +1bps at 2.221%, 10yr BEI +1.3bps at 2.207%, 30yr BEI +1.0bps at 2.232%.

THE DAY: After Thursday's squeeze higher and paring into the close, Treasuries were choppy through APAC and the European morning on Friday ahead of the US payrolls report, trading modestly lower. The front end had pared the majority of Thursday's bounce, although the long end remained much better supported entering stateside trade. T-Notes had found support at 112-19 in the London morning with no major data releases in the region, while some block ultra 10yr buys at the time capped the downside. The NY morning saw another Ultra 10yr block buy and some more T-Note put flow ahead of the data; put open interest across the Treasury complex surged a whopping 18% on Thursday as underlying contracts screamed higher.

Treasuries dived lower, with the front end initially leading, after the well-above-forecast US jobs report and the hot metrics under the hood. T-Notes fell from 112-22 to 112-00 in an immediate reaction, and further pressure later on saw contracts hit session lows of 111-16, with lots of profit taking in puts observed, although the front end didn't sell off much further later on, seeing curve spreads recover off lows. Part of that resteepening is likely set up for next week's refunding auctions and expected corporate IG Dollar supply.

FED PRICING: The implied probability for a March cut has fallen to 20% from 35% before the jobs data, the implied probability for a cut by the May meeting has also fallen to 90% now vs 125% beforehand. Meanwhile, the amount of cuts priced across 2024 has been slashed to 124bps from 140bps.

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. Watch out for post-earnings corporate Dollar supply too. 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 -8bps at 94.81, M4 -19bps at 95.19, U4 -22.5bps at 95.595, Z4 -23.5bps at 95.955, H5 -23bps at 96.265, M5 -22.5bps at 96.48, U5 -21.5bps at 96.61, Z5 -20bps at 96.67, H6 -19.5bps at 96.67, H7 -18bps at 96.595, H8 -17.5bps at 96.49.

- SOFR flat at 5.32% as of Feb 1st, volumes rise to USD 1.897tln from 1.874tln.
- NY Fed RRP op demand at USD 0.513tln (prev. 0.504tln) across 80 counterparties (prev. 74).
- EFFR flat at 5.33% as of Feb 1st, volumes rise to USD 81bln from 75bln.

CRUDE

WTI (H4) SETTLED USD 1.54 LOWER AT 72.28/BBL; BRENT (J4) SETTLED USD 1.37 LOWER AT 77.33/BBL

Oil prices were lower on Friday despite geopolitical angst and the solid US jobs data, with the strong Dollar weighing. WTI and Brent futures began selling off at the NY handover and extended after the Dollar ripped higher post-NFP, with contracts troughing at USD 71.79/bbl and 76.85/bbl, respectively, later in the NY morning, hovering near lows into the afternoon and settlement. The benchmarks have seen their largest W/W losses since early October as prices retreat back into their multi-month ranges post-last week's breakout. Reports in Sky News Arabia Friday that the US strikes against pro-Iranian militias may begin within hours failed to ignite any meaningful recovery but perhaps limited further downside; NBC, citing officials, reported that Biden has settled on a counterattack plan that is expected to unfold over multiple days, and possibly weeks. There was also further reporting Friday of Hamas and Israel moving further away from a truce offer, but that again failed to lead to any noticeable price recovery after futures sold off on Thursday's fake news of a ceasefire. In the US, the weekly Baker Hughes rig count saw oil rigs unchanged at 499 while nat gas rigs fell two to 117, leaving the total declining by two to 619. Meanwhile, BP's (BP/ LN) Whiting, Indiana, refinery (435k BPD), following Thursday's blackout, has restored power but currently has no date set for its restart, Reuters reported.

EQUITIES

CLOSES: SPX +1.07% at 4,958, NDX +1.72% at 17,642, DJIA +0.35% at 38,654, RUT -0.59% at 1,962.

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: +0.35% at 16,918.21, FTSE 100: -0.09% at 7,615.54, CAC 40: +0.05% at 7,592.26, Euro Stoxx 50: +0.36% at 4,655.15, IBEX 35: +0.48% at 10,062.50, SMI: +0.23% at 11,239.68.

STOCK SPECIFICS:

- **Meta (META)** +20.3%: Stellar report; top- and bottom-line beats, boosted share buyback, declared its first ever dividend, and Q1 revenue guidance was better-than-expected.
- **Amazon (AMZN)** +7.9%: Was also very impressive – EPS and revenue topped expectations and it lowered its cost-to-serve on a per-unit basis globally for the first time since 2018.
- **Apple (AAPL)** -0.5%: Underwhelming – Greater China revenues, Mac, iPad, Wearables, and Services revenues all missed, although headline metrics beat.
- Health Care giant **Cigna (CI)** +5.4%: Earnings impressed **-** Q4 metrics topped Wall St. consensus, raised quarterly dividend 14% and lifted FY24 outlook.
- **Bristol-Myers Squibb (BMY)** flat: Beat on the top and bottom line, wiith in line to firmer guidance.
- **AbbVie (ABBV)** +0.6%: Surpassed Wall St. expectations on EPS and revenue, with key drug sales from Humira and Rinvoq also beating; FY revenue guide light.
- In the Discretionary space, **Skechers (SKX)** -10.3%: Missed on revenue with light guidance, while **Deckers (DECK)** +14.1% earnings topped in addition to lifting FY24 outlook.
- Staples wise, **Clorox (CLX)** +5.6% and **Post Holdings (POST)** +7.7% EPS and revenue beat, in addition to lifting FY view.
- **Microchip Technology (MCHP)** -1.6%: Q4 guidance was exceedingly soft.
- In the energy space, **Chevron (CVX)** +2.9%: Beat on profit and lifted quarterly dividend 8%, but revenue was light.
- **Intel (INTC)** -1.8%: Postponing its USD 20bln chip-manufacturing project in Ohio due to slow chip demand and slow government grant disbursement, WSJ reports.

US FX WRAP

The Dollar surged on Friday in wake of the hot US jobs report. Briefly recapping, the headline added 353k (exp. 180k, prev. 333k), above the upper bound of 290k, while unemployment was unchanged at 3.7% (exp. 3.8%) and average earnings for M/M and Y/Y printed 0.6% (exp. 0.3%, prev. 0.4%) and 4.5% (exp. 4.1%, prev. 4.4%), respectively. It is worth highlighting the BLS released the annual revisions for the establishment survey (NFP, earnings) while it conducted new methodology on the household survey (unemployment rate). Overall, the hot report coupled with Powell's commentary on Wednesday largely reduces the probability of a March cut with markets now just pricing a 20% probability vs a 35% probability before the data, with the first fully priced cut moving back to June from May. As mentioned, the Dollar saw steep gains and eventually printed a peak at 104.040, with traders eyeing the 100DMA at 104.23 to the upside. Elsewhere, late on Friday trade, Fed's Goolsbee (non-voter) gave an interview to the WSJ, where he towed a dovish line (playing down the inflationary impact of a strong labour market) to little market reaction. Looking ahead, attention turns to Fed Speak next week which begins with Chair Powell on 60minutes on Sunday, although it was filmed Thursday evening before NFP.

G10 FX was all lower against the Dollar, to varying degrees, with the Yen and Kiwi seeing the greatest losses and the Loonie the least; the bulk of the moves were all Dollar-led post payrolls. EUR/USD tumbled to a trough of 1.0781 from a peak of 1.0897 in the European morning. Cable printed a low of 1.2615 against an earlier high of 1.2772, breaking through Thursday's pre-BoE low of 1.2625. On Friday, BoE Chief Economist Pill said UK economic activity had been weak, and the MPC is focused on underlying inflation; said time when rate cuts will be possible is still some way off. Meanwhile, for the single-currency, ECB's Nagel noted it is too early to cut rates and it looks like a soft-landing for the EZ is possible.

Yen was the laggard and given the focus on Fed vs. BoJ policy paths, the strong NFP report wiped out early JPY gains against Greenback which had sent the pair to a low of 146.25, before the cross took out 148.50, to a high of 148.58. Attention on next week's Japanese earnings data.

AUD had been the G10 outperformer pre-NFP in an attempt to recoup recently lost ground, with AUD/USD briefly reclaiming the 0.66 handle. However, such upside was short-lived as the USD rally sent the pair back down to a 0.6503 low, breaking through Thursday's low of 0.6508 trough. NZD/USD also inched higher early doors above the 0.6150 mark, eyeing the weekly high at 0.6173 before USD buying sent the pair to a 0.6060 low, with the Kiwi's losses more acute than the Aussie. The strong rally in stocks failed to lead to any meaningful recovery in the pairs.

EMFX was exclusively lower vs. the surging Greenback. ZAR and CLP were also weighed on by gold and copper, respectively, while the TRY was hit on CRBT Governor Erkan offering her resignation, with Fatih Karahan reportedly being considered for the role, Bloomberg reported. For the BRL watchers, Brazilian Industrial Output smashed expectations – M/M 1.1% (exp. 0.3%, prev. 0.5%) and Y/Y 1.0% (exp. 0.1%, prev. 1.3%).

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