US Market Wrap

6th February 2024: NYCB plunge continues sending yields and the Dollar lower

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Mester still leans towards three cuts in 2024; Further NYCB woes; Decent 3yr auction; Hawkish RBA hold; China stock market stimulus reports; Promising Middle East updates; NXPI & GEHC earnings impress; Yellen has CRE concern.

MARKET WRAP

Stocks were choppy and mixed on Tuesday with the macro focus on the further plunge in NYCB shares, stoking banking /CRE fears and weighing on the regional banks more broadly. Treasury Secretary Yellen was in the Senate, where she said she has concerns over commercial real estate, noting the FSOC is currently focused on it. Meanwhile, China stocks outperformed with more momentum around state support and selling restrictions. Treasuries rallied amid the banking fears in a data-light US session; the decent 3yr auction prefaced the 10yr and 30yr offerings on Wednesday and Thursday, respectively. In FX, the Dollar was sold broadly through the US session as yields fell, with EUR/USD recovering off a fresh YTD low, while the Aussie outperformed after the RBA maintained its hawkish guidance after holding rates unchanged at a time when many central banks are softening their guidance. Oil prices were firmer, aided by the softer Dollar, but settled off highs amid promising geopolitical updates in the Middle East, where Hamas has given a response to a hostage release agreement which intermediaries say gives them confidence an agreement can be reached.

FED

MESTER (voter, hawkish), in a speech, said monetary policy is in a good place, where the strength in the labour market and strong spending data give the Fed the opportunity to keep rates where they are while it gathers more evidence that inflation "truly is on a sustainable and timely path back to 2 percent." The Cleveland Fed President, who retires in June, said if the economy evolves as expected she believes cuts can occur "later this year", albeit her base case is that the cuts are made at a "gradual pace", but potentially at a faster pace "if downside risks materialize". On the other hand, Mester warned that if inflation appears to be stalling above target, "we would have the opportunity to maintain a restrictive stance for longer." In a set of post-speech comments to journalists, Mester said she does not want to offer timing on a rate cut, repeating that she sees no need to rush, but she clarified that she still leans towards three rate cuts in 2024. On the balance sheet, she said the Fed should not rule out asset sales, whilst also saying she expects balance sheet run-off to slow before being stopped.

KASHKARI (non-voter, hawkish) largely just echoed his comments from his essay published on Monday at an event on Tuesday, highlighting the "conundrum" that inflation has come down very quickly but the labour market is very strong. With the election looming, the Minneapolis Fed President towed the party line and said the Fed does not think about politics or the election when it sets rates. He also played down the inverted yield curve as being a reliable indicator of recession as he said the disinflation seen isn't being mostly caused by the Fed. And on the consumer, Kashkari noted household savings are being spent down more slowly than had been expected.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 16 TICKS HIGHER AT 111-09

Treasuries rallied as more banking fears permeated in a data-light US session; decent 3yr auction ahead of 10yr and 30yr offerings. 2s -6.6bps at 4.406%, 3s -7.5bps at 4.190%, 5s -8.4bps at 4.038%, 7s -8.2bps at 4.070%, 10s -7.6 bps at 4.089%, 20s -6.3bps at 4.392%, 30s -5.2bps at 4.293%.

INFLATION BREAKEVENS: 10yr BEI -1.1bps at 2.243%, 30yr BEI -1.2bps at 2.258%.

THE DAY: After Monday's sell-off, Treasuries recovered into the APAC Tuesday session, with Japanese December earnings and household spending figures on the soft side of expectations. The RBA, which held rates unchanged but left optionality for another hike, saw little kneejerk price action at the time, and T-Notes went on to print interim peaks of 111-03 at the London handover.

But selling resumed as European trade got underway. There was a Reuters sources report doing the rounds at the time that the BoJ is on track for a policy shift by April, assisted by the wage outlook. While in data, German industrial orders came in hot, albeit the figures were skewed higher by some large aircraft orders. The latest ECB consumer inflation expectations survey saw declines in the 1yr-ahead reading but the 3yr-ahead rose. T-Notes printed session lows of 110-23+ at the NY handover, holding above Monday's YTD low of 110-22+ with the curve already modestly steeper ahead of US supply.

There was no tier 1 data in the US to digest and the IG debt supply pipeline thinned vs Monday, leaving fears over another plunge in NYCB shares and the regional banking sector to permeate. That saw Treasuries grind higher through the US session, albeit the long end lagged, with T-Notes peaking at 111-12+ ahead of the 3yr auction - which was solid (details below) - and hovering near highs into settlement.

3YR AUCTION: An overall decent 3yr auction from the Treasury that sees a ramped size USD 54bln of notes sold at 4.169%, a bit cheaper than last month's 4.105%, marking a 0.8bp stop-through the When Issued yield; not as strong as January's 1.1bp stop-through but better than the six-auction average tail of 0.5bps. The bid/cover ratio of 2.58x was beneath the prior 2.67x and average 2.66x. Dealers were left with just 15.7%, beneath the prior 17.9% and avg. 18.8%, on account of increased participation vs January from both Directs and Indirects.

THIS WEEK'S AUCTIONS: US to sell USD 42bln of new issue 10yr notes on Wednesday and USD 25bln of new issue 30yr bonds on Thursday; all to settle on Feb 15th. In Europe, the UK is selling 4yr notes on Wednesday and Germany is selling 7yr notes on Wednesday. In Japan, a 30yr bond on Wednesday and a 5yr note on Friday.

FED PRICING: The implied probability for a March cut has risen back to 20% from 15% on Monday, and the implied probability for a cut by the May meeting has risen to 85% from 75%. Meanwhile, the amount of cuts priced across 2024 has risen to 122bps from 115bps on Monday.

STIRS:

- SR3H4 +2bps at 94.79, M4 +5.5bps at 95.175, U4 +7bps at 95.575, Z4 +8bps at 95.925, H5 +8.5bps at 96.22, M5 +9bps at 96.435, U5 +9bps at 96.56, Z5 +9bps at 96.615, H6 +9bps at 96.62, H7 +10bps at 96.555, H8 +10bps at 96.455.
- SOFR fell to 5.31% as of Feb 5th from 5.32%, volumes fell to USD 1.731tln from 1.849tln.
- NY Fed RRP op demand at USD 0.532tln (prev. 0.552tln) across 71 counterparties (prev. 80).
- EFFR flat at 5.33% as of Feb 5th, volumes rise to USD 96bln from 91bln.
- US sold USD 80bln of 42-day CMBs at 5.280%, covered 2.87x.
- US leaves 4-, 8-, and 17-week bill auction sizes unchanged at USD 95bln, 90bln, and 60bln, respectively; 17-week bills on Feb 7th and 4- and 8-week to be sold on Feb 8th; all to settle on Feb 13th.

CRUDE

WTI (H4) SETTLED USD 0.53 HIGHER AT 73.31/BBL; BRENT (J4) SETTLED USD 0.60 HIGHER AT 78.59/BBL

Oil prices were firmer on Tuesday, aided by a softer Dollar, but settled off highs amid promising geopolitical updates in the Middle East. WTI (H4) and Brent (J4) futures hit peaks of USD 73.82/bbl and 79.08/bbl in the US session. However, contracts pared into the afternoon and settlement, particularly after Qatar and the US expressed optimism on an Israel/Hamas hostage deal being reached despite work needed to be done. There was also an Axios article that the US and four European allies hope to announce in the next few weeks a series of commitments made by Israel and Hezbollah to diffuse tensions and restore calm to the Israel-Lebanon border.

RUSSIA: Rosneft's Tuapse oil refinery (240k BPD) will not resume operations this month "at the very least", leading to increased oil exports, according to Reuters sources, although the Volgograd oil refinery (300k BPD) is to maintain output at "broadly steady" levels despite recent drone attacks.

EIA STEO: Raises 2024 forecast for world oil demand growth by 30k BPD, now sees 1.42mln BPD Y/Y increase; raises 2025 forecast for world oil demand growth by 80k BPD, now sees 1.29mln BPD Y/Y increase.

INVENTORIES: Looking to the weekly US energy inventory data, with the private release due later on Tuesday ahead of the EIA figures on Wednesday, analysts expect (bbls): Crude +1.9mln, Gasoline +0.1mln, Distillate -1.0mln.

EQUITIES

CLOSES: SPX +0.23% at 4,954, NDX -0.23% at 17,572, DJIA +0.37% at 38,521, RUT +0.85% at 1,953.

SECTORS: Materials +1.7%, Real Estate +1.49%, Health +1.09%, Industrials +0.89%, Consumer Discretionary +0.37%, Energy +0.32%, Utilities +0.31%, Financials +0.28%, Consumer Staples +0.23%, Communication Services -0.21%, Technology -0.48%.

EUROPEAN CLOSES: DAX: +0.76% at 17,033.24, FTSE 100: +0.90% at 7,681.01, CAC 40: +0.65% at 7,638.97, Euro Stoxx 50: +0.77% at 4,690.95, IBEX 35: +0.62% at 10,003.00, FTSE MIB: +0.53% at 31,116.75, SMI: -0.25% at 11,246.50.

EARNINGS:

- **NXP Semiconductors (NXPI)** +1%: Beat on the top and bottom line.
- **Palantir (PLTR)** +30.5%: Surpassed St. expectations on revenue and OMs, noting the demand for large language models from commercial institutions in the US continued to be "unrelenting".
- **Fabrinet (FN)** -18.5%: EPS and revenue topped with next quarter guidance more-or-less in line. However, analysts said it did not match the lofty expectations given how much the stock has rallied.
- **Gartner (IT)** -2%: Light FY guidance.
- **GE HealthCare (GEHC)** +11%: Beat on Q4 earnings metrics.
- **Jacobs (J)** +2%: EPS and revenue beat in addition to raising quarterly dividend 11.5%.
- Material names **Crown Holdings (CCK)** -13.5% **FMC Corp (FMC)** -12% issued weak reports – missed on EPS and revenue, guidance fell short, and offered downbeat commentary.
- However, **DuPont (DD)** +7.5% beat on profit, issued a new USD 1bln buyback programme and raised quarterly dividend 6%, and **Linde (LIN)** +4% EPS and revenue topped.
- **Spotify Technology (SPOT)** +4%: Total Premium Subscribers and MAUs beat, with next quarter operating income view strong.
- **Coherent (COHR)** +17%: Exceeded expectations on EPS and revenue, in addition to FY outlook impressing.

STOCK SPECIFICS:

- **New York Community Bancorp (NYCB)** -22%: Chief risk officer Nicholas Munson left NYCB before it disclosed larger-than-expected losses from real estate lending, FT reports. BBG reported NYCB cut its dividend and increased reserves because the OCC pushed management to take urgent steps.
- **Microchip (MCHP)** -2.5%: Cut exec pay.
- **DocuSign (DOCU)** -2%: Announced it would layoff 6% of its workforce as part of a restructuring plan. Expects to “meet or exceed” its previously issued guidance.
- **Alphabet (GOOG)** +0.5%: YouTube said a 'Vision Pro' app was now in its roadmap, The Verge reported.
- **Kohl’s (KSS)** +5%: Vision One Management partners pushes Kohl's to explore a sale, according to Reuters sources.

US FX WRAP

The Dollar was lower on Tuesday, and retraced some of its recent gains on firmer Treasuries in a data-lite session as participants await catalysts, with many pointing towards CPI revisions on Friday. Banking fears were at the forefront on Tuesday as NYCB shares took another tumble. Meanwhile, on the Fed footing, Mester (2024 voter, hawkish) said she does not want to offer timing on a rate cut, seeing no need to rush, and still leans towards three rate cuts in 2024. Elsewhere, the data "highlight" was the NY Fed Q4 Survey, which showed increasing signs of stress at the weaker end of the credit range, though overall delinquency rates were still 1.6% lower than in the last quarter of 2019. On the day, DXY printed a high of 104.590 against a later low of 104.150.

Activity currencies all saw gains against the Dollar, albeit to varying degrees, with the Aussie outperforming in wake of the hawkish RBA hold. On this, the Bank left rates unchanged, as expected, but maintained language that further rate hikes cannot be ruled out, at odds with other global central banks (Fed, BoC, BoE), who recently removed their tightening bias from their statements. AUD/USD printed a high of 0.6525 from an earlier low of 0.6479. Kiwi rode off the coattails of its Antipodean, while GBP and CAD saw tailwinds from the general Dollar weakness, as opposed to much currency specific. Despite not garnering any market reaction, BoE's dovish dissenter Dhingra urged the BoE that now is the time to cut rates, while BoC Governor Macklem after a speech - which largely echoed recent commentary - said the Bank is not working to a timetable when it comes to rate cuts.

Euro and **Franc** were flat on Tuesday. The single currency was unreactive to a sharp rise in German industrial orders, though a deeper dive showed the orders surge largely due to a 110.9% spike in aircraft, while ECB Consumer Inflation Expectations survey saw 12-months ahead fall and 3-year tick higher. Overall, the late-December downtrend continues, as EUR/USD printed a YTD trough at 1.0724 before recovering with the broader Dollar weakness.

Yen saw gains, but was unreactive to Reuters source reports overnight saying the BoJ is on track for a policy shift by April. The piece added that the BoJ is laying the groundwork to end NIRP by April and overhaul other policy framework areas, but is likely to go slow on subsequent action. Meanwhile, nominal cash earnings rose 1.0% in December, which was less than the expected 1.3% but Bloomberg highlighted that the data still shows signs of sufficient underlying momentum to keep the BoJ on track to end NIRP in the coming months.

EMFX was predominantly firmer vs. the floundering Buck. The Yuan saw tailwinds on possible stock market support measures, in addition to US/China talks, which also supported LatAm. Elsewhere in LatAm, Brazilian IGP-DI Inflation Index (Jan) printed a deeper decline than forecasted. Ahead of Banxico on Thursday, a Reuters Poll said 18/22 analysts expect Banxico to hold key rate at 11.25% and the other four expect a 25bps cut.