



US Market Wrap

7th February 2024: Stocks rise to see SPX test 5k while yields chop to NYCB and supply

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar down.
- **REAR VIEW:** NYCB cut to junk at Moody's, but issued update & named new exec Chair; Fed Speak largely follows Powell's script; Israel rejects Hamas demands for a ceasefire; Strong US 10yr auction; Strong F earnings; DIS, WBD, FOX announce streaming JV; SNAP share price dives; GILD lower on soft guidance.
- **COMING UP: Data:** UK RICS Housing Survey, Chinese CPI, NZ Inflation Forecasts, US IJC, US Wholesale Inventory, Japanese M2 Money Supply. **Events:** ECB Economic Bulletin; RBI and Banxico Policy Announcements. **Speakers:** BoE's Dhingra, Mann; ECB's Elderson, Lane; Fed's Barkin; RBA's Bullock. **Supply:** US. **Earnings:** Kering, SocGen, L'Oreal, AstraZeneca, BATS, Maersk, Siemens, Take-Two, Philip Morris, ConocoPhillips.

MARKET WRAP

Stocks continued the 2024 upside to see the S&P 500 futures breach above 5k while the cash index failed to rise above the level but it did test the psychological level. The majority of sectors were green but the heavyweight sectors, Tech, Consumer Discretionary and Communication services, all outperformed, attributing to NDX outperformance. Bonds were choppy, however, with T-Note peaks seen early US session on NYCB woes but these eased with a new exec announcement despite the stock trading like a yoyo early on, forcing multiple stock halts. A strong 10yr auction saw some mild support but it quickly faded to see the 10yr settle with mild losses while Fed speak largely stuck to the script. In FX, the Dollar was flat while CHF underperformed on rising sight deposits. Crude prices saw gains throughout the session on geopolitics with Israel rejecting the proposed ceasefire but there will be more negotiations on a new ceasefire proposal in Egypt on Thursday.

FED

Kugler (voter), in her first policy speech since joining the Fed board, said that at some point, the cooling of inflation and labour markets may make it appropriate to cut rates, but if disinflation progress stalls, it may be appropriate to hold policy rate steady for longer. She didn't give any further policy guidance than that in her prepared remarks but did say in her Q&A that every meeting is live. Otherwise, her speech was very similar to many of her colleagues lately, highlighting the progress on inflation whilst at the same time noting that the job is not yet done. Kugler said she sees "reasons for optimism" on services inflation, where there has been less progress. She said core-services ex-housing inflation is "still elevated" but expects improvement. She also said she is paying close attention to upside inflation risks from geopolitics.

Barkin (voter), in an interview with MarketWatch, said it makes sense to be patient on rate cuts, noting the uncertainty in the economy. He also added that his forecast from eight weeks ago (December SEP) has been confused by recent data. He stated that inflation has been coming down nicely over the past seven months, but he is concerned that a significant decline in goods prices might be a head fake and rebound in the coming months. When asked about the timing of rate cuts, he said his focus is on the economy and he needs more confidence in which of the multiple economic outcomes the US is headed for. If inflation continues on its downward path, and if it starts to broaden out into many categories, that is the signal he is looking for to start rate cuts. In a separate interview later, Barkin said the labour market is still tight and the challenge on inflation coming down is that it is not broad based, noting services and rent inflation has stayed more elevated. He said he is in no particular hurry on the policy rate and also said he was surprised by the latest jobs report, adding the Fed must get inflation back to 2%.

Collins (non-voter) said the Fed is likely to cut rates later this year if the economy meets expectations, adding monetary policy is well positioned for the current outlook. Further on cuts, the Boston Fed President said when they start, it should be gradual and methodical, but she does need further data before supporting a rate cut. Note, Powell has recently pushed back on a March cut saying it may be too soon. Collins added the jury is out when it comes to the neutral rate level, and possible future interest rates might be higher than pre-pandemic levels. She concluded that further added economic risks have come into better balance and is important for the Fed to be sure on its path to lower inflation.



FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 3 TICKS LOWER AT 111-06

Treasuries were choppy Wednesday amid sovereign supply and banking fears. At settlement, 2s +1.9bps at 4.427%, 3s +1.7bps at 4.195%, 5s +1.7bps at 4.061%, 7s +1.8bps at 4.093%, 10s +1.7bps at 4.110%, 20s +1.9bps at 4.415%, 30s +2.0bps at 4.316%

INFLATION BREAKEVENS: 5yr BEI +1.2bps at 2.217%, 10yr BEI +0.5bps at 2.241%, 30yr BEI +0.5bps at 2.255%.

THE DAY: After [Tuesday's short-covering](#), with mostly declines seen in OI amid the rally, contracts hovered sideways during APAC trade, with a strong 30yr JGB auction providing support, but desks note a hesitancy to chase the move higher ahead of the BoJ deputy governor's speech on Thursday. Better selling picked up in the European morning, coming on the heels of a hawkish Schnabel speech in the FT and ahead of UK and German supply. The strong results for the Bund and Gilt auctions led to little relief but likely capped the downside at the time.

T-Notes stretched to lows at the NY handover of 111-01 but then found a relief rally as stateside trade got underway. That bid extended after NYCB shares plunged even further with the management conference call doing little to quell concerns, with no major data to move the dial, seeing T-Notes peak at 111-16+ before paring from highs into the NY afternoon ahead of the US 10yr auction. Fed's Collins, Kugler, and Barkin were all on the wires, with all sticking to the Fed party line of taking a patient approach before beginning rate cuts. The strong 10yr auction saw limited follow-through buying for the UST complex.

10YR AUCTION: A strong 10yr new issue auction from the Treasury with the ramped size USD 42bln worth of notes sold at 4.093%, similar yield to last month's 4.024% but marking a 1.2bp stop-through the When Issued yield, much better than the prior 0.5bp tail and six-auction average 0.8bp tail, the first stop-through for a 10yr since February 2023. Within, the 2.56x bid/cover ratio was the same as the prior and above the average 2.52x. Dealers were left with 13.0%, beneath the prior 15.1% and avg. 14.9%, on account of a large step up in Indirects participation M/M to 71.0% from 66.1%, above the avg. 66.4%, indicative of strong end-user demand. Participants now look to the 30yr auction on Thursday.

THIS WEEK'S AUCTIONS: US to sell USD 25bln of new issue 30yr bonds on Thursday; to settle on Feb 15th. Meanwhile, Japan is selling a 5yr note on Friday.

STIRS:

- SR3H4 +0.0bps at 94.785, M4 -0.5bps at 95.165, U4 -1.5bps at 95.555, Z4 -2.0bps at 95.900, H5 -2.0bps at 96.195, M5 -2.5bps at 96.405, U5 -2.5bps at 96.530, Z5 -2.5bps at 96.585, H6 -2.5bps at 96.590, M6 -2.5bps at 96.570, U6 -2.5bps at 96.555, Z6 -2.5bps at 96.540, H7 -2.5bps at 96.525, H8 -1.5bps at 96.435.
- SOFR flat at 5.31% as of Feb 6th, volumes rise to USD 1.738tln from 1.731tln.
- NY Fed RRP op demand at USD 0.553tln (prev. 0.532tln) across 75 counterparties (prev. 71)
- EFFR flat at 5.33% as of Feb 6th, volumes rise to USD 97bln from 96bln.
- US sold USD 60bln of 17-week bills at 5.180%, covered 2.97x.

CRUDE

WTI (H4) SETTLED USD 0.55 HIGHER AT 73.86/BBL; BRENT (J4) SETTLED 0.62 HIGHER AT 79.21/BBL

WTI and Brent were slightly firmer, benefitting from the weaker Dollar and ever-present geopolitical tensions, but saw choppy trade in tight parameters with a lack of fresh fundamentals. On geopolitics, after a slew of back-and-forth (Israel/Hamas) on a potential ceasefire and frameworks, Israeli MoD told Blinken that Hamas' negative response to the hostage deal proposal will push Israel to expand its ground operation in Gaza soon, downplaying any odds of a cease fire soon. Outside of Middle East tensions, the weekly EIA data saw crude stocks show a larger build than expected, at odds with the private inventory metrics on Tuesday, while Distillates drew more than expected and Gasoline stocks saw a surprise draw. Crude production rose 300k to 13.3mln, with Refining Utilisation fell 0.5% (exp. +1.0%, prev. -2.6%).

COMMENTARY: An OPEC executive said they expect global oil demand to grow by 2.2mln BPD this year and to ease to 1.8mln BPD next year. Meanwhile, an IEA exec said they are seeing delays of oil product deliveries impacting European markets in particular due to Red Sea attacks, although global oil markets are comfortable with supply due to growth from Non-OPEC producers and while demand is not as robust due to macroeconomic concerns.



EQUITIES

CLOSES: SPX +0.82% at 4,995, NDX +1.04% at 17,775, DJIA +0.40% at 38,677, RUT -0.17% at 1,950.

SECTORS: Technology +1.43%, Consumer Discretionary +1.12%, Communication Services +0.94%, Materials +0.81%, Financials +0.69%, Industrials +0.64%, Health +0.26%, Energy +0.17%, Utilities +0.05%, Real Estate -0.06%, Consumer Staples -0.08%.

EUROPEAN CLOSES: DAX: -0.65% at 16,921.96, FTSE 100: -0.68% at 7,628.75, CAC 40: -0.36% at 7,611.26, Euro Stoxx 50: -0.29% at 4,677.45, IBEX 35: -1.15% at 9,888.20, FTSE MIB: -0.45% at 30,976.02, SMI: -0.32% at 11,208.90.

STOCK SPECIFICS:

- **Ford (F)** +6%: Q4 top- and bottom-line beat, alongside firm guidance.
- **Yum China (YUMC)** +8%: EPS, revenue, and SSS topped forecasts, it also lifted its dividend.
- **VF Corp (VFC)** -9.5%: Earnings missed, initiated an in-depth strategic review, and CFO is to step down.
- **Bunge Global (BG)** -2.5%: Revenue missed and FY24 adj. EPS view was light.
- **Snap (SNAP)** -34.5%: Slight shortfall in revenues and guided Q1 EBITDA below expectations, and said it was facing headwinds from the Israel-Hamas war. Analysts also noted that recent earnings from META raised the bar for social media stocks like SNAP.
- **CVS (CVS)** +3%: Beat on Q4 metrics and raised FY24 revenue and operating income guidance, but did see initial weakness post-results as it cut FY24 EPS view on rising medical costs.
- **Gilead (GILD)** -4.5%: Missed on profit with FY outlook light.
- **Uber (UBER)** +0.5%: Earnings beat with solid guidance, but some analysts said it was not as strong as expected.
- **Emerson Electric (EMR)** +10.5%: EPS and revenue topped alongside lifting FY24 EPS guidance.
- **Mercury Systems (MRCY)** -11.5% and **Triumph Group (TGI)** -17%: Surprise loss per share, missed on revenue, with topline guide light and the former also withdrew prior earnings forecast.
- **Alibaba (BABA)** -6%: Very choppy post-results, EPS was in line while revenue beat some forecasts but was light on others. The board approved a USD 25bln share buyback.
- **Chipotle Mexican Grill (CMG)** +7%: Topped Wall St. expectations on EPS and revenue, with restaurant margin and comp. sales also strong
- **New York Community Bancorp (NYCB)** +6.5%: Moody's downgraded to junk & NYCB subsequently issued liquidity and deposit information. Named Dinello Executive Chairman. New York Community Bancorp (NYCB) is reportedly in talks to offload mortgage risk and plans to sell RV loans, via Bloomberg citing sources; considering a synthetic risk transfer. RV sale is for circa. USD 1bln
- **Fox (FOX), Disney (DIS), Warner Bros. Discovery (WBD)** are creating a joint streaming platform to share sports assets.
- **Intel (INTC)** flat: German patent court rules against Intel regarding the sale of some of its chips, via FT.
- **Roblox (RBLX)** +10%: Posted a smaller loss per share than expected and beat on bookings.
- **XPO (XPO)** +19%: Q4 metrics surpassed Wall St. expectations.
- **Sonos (SONO)** +17%: EPS and revenue beat, while exec said it was months away from announcing a new product in a multi-billion dollar category.

US FX WRAP

The Dollar was relatively flat on Wednesday amid a choppy yield environment in response to yo-yo price action in NYCB shares amid a junk downgrade at Moody's, downgrades at JPM and BofA, a liquidity update, a new executive and following commentary. Nonetheless, DXY traded within a tight range between 103.93-104.16 with a lack of US data while Fed's Kugler, Collins and Barkin all stuck to the Fed script.

The Euro saw mild gains vs. the Dollar on Wednesday with EUR/USD remaining above 1.0750 throughout the session. In the EZ, German Industrial output data for December was weaker than forecast, while ECB's Schnabel spoke on the inflation risks of lower borrowing costs while commercial lenders are already reducing borrowing rates on mortgages in expectation the ECB will start to cut soon. She also warned the final mile in the ECB's inflation fight could be the hardest part. On the neutral rate, the ECB said that while estimates of the euro area r^* vary widely across a suite of models, the median estimate has risen by about 30 basis points compared with levels prevailing in mid-2019, before the onset of the pandemic.

The Yen saw mild weakness and USD/JPY looks set to head into the APAC session north of 148.00 despite earlier lows of 147.65 seen in wake of NYCB woes while UST yields hit their lows. **The Swissy** was the G10 underperformer after



SNB forex reserves rose for the second consecutive month in January, which sparks potential talk of currency interventions.

Cyclical currencies were mixed. GBP, NZD and CAD saw mild gains while AUD saw marginal weakness. Out of the UK, BoE's Breeden echoed the BoE's latest statement, as she said she has become less concerned that rates might need to be tightened further, stating the focus has shifted to how long rates need to remain at the current level. NZD gains were supported by a hotter-than-expected labour market report while CAD was unreactive to the BoC minutes but was supported by gains in crude. AUD, however, saw marginal weakness with cross-currency flows from AUD/NZD weighing.

CNH saw weakness amidst more support measures out of China, this time to support the EV industry as attention turns to China CPI and PPI overnight.

LatAm FX saw BRL, MXN and COP flat but CLP underperformed on continued weakness in copper prices. TRY also saw notable weakness in a continuation of currency woes.

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