US Market Wrap

8th February 2024: Bonds sold on jobless claims and oil prices, SPX nudges 5k

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Jobless Claims marginally below expected, but hovers around 220k; Strong 30yr auction; Israel /Hamas yet to come to a ceasefire agreement; DIS report impresses; ARM beats & lifts guidance; PYPL FY profit view disappoints; Maersk warns on vessel oversupply; Dovish BoJ speak; Larger than expected CNB cut; Fed speak largely sticks to the script.
- **COMING UP**: **Data**: German CPI (Final), Italian Industrial Output, Canadian Employment, US CPI Seasonal Factor Revisions **Events**: BoC SLOOS **Speakers**: ECB's Cipollone; Fed's Logan **Earnings**: Pepsi.

MARKET WRAP

Stocks were largely flat on Thursday with SPX briefly touching 5k but closing marginally beneath the level. The outlier however was the Russell 2k which saw notable gains. The upside was driven by decent gains in the majority of the RUT heavyweights (namely SMCI, ELF, ONTO, FN, SSD, FIX, RMBS, LNW, CYTK). Energy stocks outperformed, tracking the move higher in crude on geopolitical concerns after no progress was made on the ceasefire proposal on Wednesday while Maersk warned the Red Sea threat has not yet peaked. On the downside, Utilities were the laggard after weak Duke Energy (DUK) earnings. Elsewhere, Disney (DIS) surged on a strong report with a dividend raise, its investment into Epic Games, as well as bringing Taylor Swift Eras Tour to Disney+. Meanwhile, Arm Holdings (ARM) surged nearly 50% after an incredible report with impressive guidance. PayPal (PYPL), however, slumped after weak guidance. T-Notes sold off throughout the session with the move supported by rising oil prices and lower-than-expected claims data ahead of the 30yr auction. The auction was similar to the 10yr, which came in very strong but only provided a brief respite for the T-Note weakness before settling around YTD lows. In FX, the Dollar saw mild gains while the Yen notably underperformed after dovish BoJ commentary overnight with the rise in UST yields also weighing.

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BARKIN (2024 voter) spoke numerous times on Thursday where he largely reiterated what he said on Wednesday. He did note that upcoming inflation data will almost assuredly get even better over the next five months but warned upside inflation risks are still around. He also stated that past rate hikes are still working their way into the economy. Barkin wants to see a broadening in forces lowering inflation and he wants to see rents and service prices cool more. He echoed the current Fed line that confidence to cut will be driven by more inflation abatement. On the January jobs report, Barkin said the jobs market is tight, but not as tight as data suggests, and that he is cautious of the January report due to the size of seasonals. Looking ahead, Barkin said once inflation has returned to 2% he would be comfortable to debate the inflation target, noting it might be good to have a modest range around the inflation target. On deflation, Barkin said the risk of deflation seems quite remote for the US. On commercial real estate, he said the CRE troubles are largely concentrated in office spaces and it is on banks' radar.

COLLINS (2025 voter), in an interview to SiriusXM, said her baseline is similar to the December SEPs for 75bps of cuts in 2024. Collins expects an orderly growth slowdown this year and noted some wage growth exceeding inflation is consistent with the continued move towards 2% inflation, adding higher productivity provides some room for higher wage growth.

JOBLESS CLAIMS: Initial Jobless Claims for the week ending February 3rd fell to 218k from the upwardly revised 227k, a touch short of the consensus at 220k. The 4wk average saw an increase to 212.25k from 208.5k, albeit it still includes the notable decline for the week ending January 13th which fell to 189k, likely on account of the cold weather disruptions in January. Barring a surprise next week, the 4wk average looks set to rise again, with many forecasting jobless claims to continue to rise throughout 2024 as tight policy takes effect. Albeit perhaps by not as much as initially thought, so far the labour market has seen astounding resilience to higher interest rates and the Fed looks well on their way to a soft landing. On the Initial Claims, the seasonal factors had expected a decrease of 22k from the prior week. Continued Claims (w/e January 27th) eased, however, to 1.871mln from the downwardly revised 1.894mln and beneath the expected 1.878mln. The Continued Claims 4wk average rose to 1.85mln from 1.84mln. Pantheon Macroeconomics also highlight that "the upturn in both the Challenger survey's measure of layoff announcements and the official state WARN notices of mass layoff and plant closures point to rising claims over the next few months, while the NFIB survey's hiring intentions index has dropped sharply".

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 14 TICKS LOWER AT 110-24

Strong 30yr auction stops Treasuries from making new YTD lows. At settlement, 2s +3.6bps at 4.458%, 3s +5.6bps at 4.248%, 5s +6.3bps at 4.123%, 7s +6.4bps at 4.157%, 10s +6.8bps at 4.166%, 20s +6.5bps at 4.477%, 30s +5.9bps at 4.368%.

INFLATION BREAKEVENS: 5yr BEI +3.0bps at 2.242%, 10yr BEI +2.7bps at 2.262%, 30yr BEI +2.6bps at 2.273%.

THE DAY: Treasuries saw a modest bounce in the Tokyo morning, tracking JGBs, after BoJ Deputy Governor warned that an exit from NIRP would not preface a broader tightening cycle. Chinese CPI and PPI figures, which were mixed, were released at the same time. T-Notes peaked at 111-07+ not long after before finding support in the European morning at 111-00+. There was no major data or supply in Europe to contend with.

At the NY handover, Treasuries began making new session lows, led by the long end, with focus shifting to the approaching 30yr bond auction after the solid 10yr showing on Wednesday. A slightly softer-than-expected set of weekly US jobless claims figures accelerated the move, as did the sustained climb higher in oil prices. Relatively contained losses in NYCB shares also dissuaded the Treasury bid that has been driving price action in recent sessions with a lack of other major catalysts. T-Notes hit an intra-day trough at 110-25 ahead of the 30yr auction, respecting the Monday /YTD lows of 110-22+, the solid auction took T-notes off lows, but it failed to sustain the move and T-Notes reversed into settlement to hit a trough of 110-23, still respecting the YTD low, albeit just.

Participants are now looking towards the CPI revisions on Friday and January CPI next Tuesday, which may or may not go a long way in giving Powell and Co. the "evidence" they need to show inflation has been moving down "sustainably" towards target.

30YR AUCTION: A very strong 30yr bond auction made it three out of three from the Treasury this week after the solid 3yr and 10yr offerings. The ramped size USD 25bln of 30yr bonds were sold at 4.360%, where the cheapening from last month's 4.229% saw a 2bp stop-through the When issued yield, better than January's 0.1bp stop-through and much better than the six-auction average of 1.8bps following the massive tails seen in Q4 last year. The 2.40x bid/cover ratio exceeded the prior 2.37x and avg. 2.38x. Dealers with a relatively small 14.8%, a bit above January's 14.5% but still lower than the average 16.7%, indicative of strong end-user demand. Indirects saw a step-up in demand M/M to 70.7% from 67.8% while Directs declined to 14.5% from 17.7%.

STIRS:

- SR3H4-1.0bps at 94.775, M4 -3.0bps at 95.140, U4 -4.0bps at 95.520, Z4 -4.5bps at 95.860, H5 -5.5bps at 96.140, M5 -6.5bps at 96.340, U5 -7.0bps at 96.460, Z5 -7.5bps at 96.510, H6 -8.0bps at 96.510, M6 -8.5bps at 96.485, U6 -8.0bps at 96.470, Z6 -8.5bps at 96.455, H7 -9.0bps at 96.435, H8 -8.5bps at 96.345
- SOFR flat at 5.31% as of Feb 7th, volumes rise to USD 1.797tln from 1.738tln.
- NY Fed RRP op demand at USD 0.536tln (prev. 0.553tln) across 78 counterparties (prev. 75).
- EFFR flat at 5.33% as of Feb 7th, volumes fall to USD 96bln from 97bln.
- US sold USD 95bln of 1-month bills at 5.280%, covered 2.97x; sold USD 90bln of 2-month bills at 5.270%, covered 2.75x.
- US leaves 13-, 26-, and 6-week bill auction sizes unchanged at USD 79bln, 70bln, and 80bln, respectively; 13- and 26-week to be sold on Feb 12th and 6-week sold on Feb 13th; all to settle on Feb 15th.

CRUDE

WTI (H4) SETTLED USD 2.36 HIGHER AT 76.22/BBL; BRENT (J4) SETTLED USD 2.42 HIGHER AT 81.63/BBL

The crude complex saw strong gains on Thursday amid broadening concerns of a widening Middle East conflict as Israel and Hamas have yet to come to a ceasefire agreement. Outside of geopols, fresh fundamental newsflow was thin, and in spite of the recovery in the Buck, WTI and Brent rose throughout the US session to settle at highs. For the record, BP (BP/ LN) stated it is making progress on restoring Whiting, Indiana refinery (435k BPD) to normal operations, and Iraq sets March Basrah medium crude official selling price to Asia at USD -0.80/bbl to Oman/Dubai average; Europe: USD -5.54/bbl vs dated Brent, and North & South America: USD -1/bbl. In the US, in fitting with prior plans, the US DoE announced it is looking to buy 3mln bbls of oil for the SPR for July delivery. Looking ahead, participants await CPI Revisions and the weekly Baker Hughes rig count on Friday.

EARNINGS: ConocoPhillips (COP) beat on profit and adj. net income, and in terms of production guidance, sees 2024 between 1.91-1.95 MBOED and Q1 1.88-1.92 MBOED, with the latter including 20k BPD headwind from Jan. weather impacts.

EQUITIES

CLOSES: SPX +0.06% at 4,997, NDX +0.16% at 17,783, DJIA +0.13% at 38,726, RUT +1.50% at 1,979.

SECTORS: Energy +1.09%, Real Estate +0.56%, Communication Services +0.39%, Consumer Discretionary +0.29%, Technology +0.14%, Industrials +0.05%, Consumer Staples -0.04%, Health -0.17%, Materials -0.18%, Financials -0.48%, Utilities -0.83%.

EUROPEAN CLOSES: DAX: +0.25% at 16,963.83, FTSE 100: -0.44% at 7,595.48, CAC 40: +0.71% at 7,665.63, Euro Stoxx 50: +0.65% at 4,709.25, IBEX 35: +0.17% at 9,905.40, FTSE MIB: +0.28% at 31,064.15, SMI: -0.64% at 11,138.50.

STOCK SPECIFICS:

- **Disney (DIS)** +11.5%: Profit topped, boosted cash dividend 50%, FY EPS view better-than-expected and is to invest USD 1.5bln in Epic Games.
- **Arm Holdings (ARM)** +48%: Exceeded earnings expectations and lifted next quarter and FY guidance.
- **PayPal (PYPL)** -11%: FY adj. EPS view underwhelmed.
- **Axcelis Technologies (ACLS)** -7%: Q1 guidance disappointed.
- **FleetCor Technologies (FLT)** -9%: Missed on headline metrics accompanied by weak guidance.
- **Confluent (CFLT)** +34% **Monolithic Power Systems (MPWR)** +14%: Earnings topped with solid guidance, with the latter boosting dividend.
- **Philip Morris (PM)** -2.5%: EPS missed with FY profit guide short.
- **Kenvue (KVUE)** -6%: Revenue missed and FY profit view disappointed.
- For Discretionary names, **Wynn (WYNN)** +6%, **Tapestry (TPR)** +6.5%, **Under Armour (UAA)** flat%, **Ralph Lauren (RL)** +17% earnings impressed.
- **O'Reilly (ORLY)** -4%: Short on revenue/comp. sales and FY profit view.
- **BorgWarner (BWA)** -7%: Headline metrics missed with FY outlook short.
- **Masco (MAS)** +4%: Headline metrics topped with strong FY profit view for the former.
- **S&P Global (SPGI)** -5%: Missed on bottom line with weak FY outlook.
- **Allstate (ALL)** +2% & **Globe Life (GL)** +2% beat on Q4 metrics.
- **Spirit Airlines (SAVE)** +3.5%: Working with advisers to address its debt maturities after a proposed acquisition by JetBlue Airways (JBLU) was blocked last month, according to WSJ citing sources.
- **Hess (HES)** +0.5%: Venezuela promises 'forceful' response in the disputed region of Guyana, according to Bloomberg. Note, HES generates a quarter of its revenue in Guyana.

US FX WRAP

The Dollar saw mild gains on Thursday, trading between 103.95 and 104.16 and north of 104 heading into the APAC session with the buck supported by a rise in UST yields ahead of Friday's US CPI revisions. The US highlight was the jobless claims data which were marginally beneath expectations at 218k, falling from the prior 227k, although Continued Claims rose. Elsewhere, there was more Fed speak from Barkin and Collins, very much towing the Fed line but Barkin alluded the jobs market is not as tight as data suggests, stating he is cautious on the January jobs report due to the size of seasonals.

The Euro was flat vs the Dollar and traded either side of 1.0750 heading into APAC trade. ECB speak saw Wunsch state he sees some indications, not strong ones, that wage growth is softening, and that there is value in waiting to get more comforting data, adding that wage rises are holding up rate cuts. Meanwhile, Holzmann suggested there is a certain chance the ECB will not cut rates this year. Chief Economist Lane stressed data dependence once again while also noting that many wage agreements will be renewed in the early months of 2024, suggesting he may want to see that data before cutting rates; the data is due after the April ECB decision. Markets currently price a 52% probability of a 25bp cut in April.

The Yen was softer and the G10 underperformer following commentary overnight from BoJ officials was perceived as dovish, where Deputy Governor Uchida said the BoJ will not aggressively hike rates, even after ending NIRP, seeing participants dial back speculation of continued rate hikes from the BoJ. USD/JPY saw a notable rise from lows of 147.94 to highs of 149.46 with a decent move higher in UST yields also hampering the Yen.

The Yuan was flat vs the Dollar after China CPI data for January came in beneath expectations, although PPI was a touch above forecasts. Meanwhile, ahead of the Chinese New Year, Xinhua reported some remarks from Chinese President Xi, who said China should enhance a positive economic recovery and China is going to comprehensively deepen reforms. Elsewhere, the PBoC quarterly report noted they will keep the CNY basically stable and vowed to keep monetary policy prudent.

Cyclical currencies were mixed. GBP and CAD were flat vs. the Buck while AUD and NZD sold off after the soft China inflation data. For GBP, BoE Hawk Mann said she cannot say if there will be rate cuts this year, noting it is unclear right now what could persuade her to vote to cut rates. However, a durable drop in services inflation could persuade her to vote to hold rates. CAD was fairly unreactive to the non stop rally in crude prices throughout the session.

In EMs, CZK saw extensive weakness after the CNB cut rates by more than consensus with a dovish 6-1 vote split, where 6 members opted for a 50bp cut, and one voted for a 75bp reduction. ZAR was also lower after weak Manufacturing production data. Elsewhere, LatAm's were generally softer vs. the Greenback with rising UST yields keeping the pressure on the currencies. The CLP rut was observed yet again as copper prices continued to slide with a hotter than expected Chile inflation report doing little to prevent the CLP decline. MXN was weaker with some modest weakness seen in wake of the Banxico rate decision which left rates unchanged, as expected, but also removed prior guidance about needing to hold the key rate for some time, opening the door to rate cuts. Meanwhile, January inflation data was largely in line with the expected although the core print was slightly above expectations. BRL also saw weakness despite January inflation being a touch hotter than forecasts, but down from the prior.

BANXICO: The Central Bank of Mexico left rates unchanged at 11.25% in line with the consensus but against outside calls for a 25bp cut. However, Banxico did alter its guidance and removed the line about needing to hold the key rate at the same level for some time, and added that " In the next monetary policy meetings, it will assess, depending on available information, the possibility of adjusting the reference rate", opening the door to rate cuts. Nonetheless, it did maintain language that "The balance of risks for the trajectory of inflation within the forecast horizon remains biased to the upside". Its inflation forecasts saw the bank raise Q1-Q3 2024 headline inflation forecasts but lower its Q124 core inflation view.