US Market Wrap

9th February 2024: SPX closes above 5k for the first time ever

- **SNAPSHOT**: Equities up, Treasuries mixed, Crude up, Dollar flat.
- **REAR VIEW**: US CPI revisions do little to change the narrative; Fed's Bostic and Logan want more evidence on inflation; Netanyahu planning Rafah op to destroy Hamas; Hawkish RBNZ call from ANZ; PEP earnings disappoint; CSCO to cut jobs; NVDA building custom chip to focus on AI; NYCB relief rally.
- **WEEK AHEAD**: Highlights include US CPI, US Retail Sales, Aussie jobs, UK employment/wages, GDP and CPI data. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Reviewing RBA, Banxico and RBI. To download the report, please click here.

MARKET WRAP

The SPX climbed to new ATHs above 5,000 on Friday with the bull ride continuing in lack of an obvious catalyst, gains were even more pronounced in the NDX and RUT, while Bitcoin also surged. However, it is noteworthy that the risk on sentiment has been accompanied by a relief rally in NYCB shares, whose losses earlier in the week had been the macro focus. The highlight on Friday was the US CPI revisions, which on net, leave the inflation picture as it was with 3m and 6m annualised core CPI metrics remaining unchanged after the revisions ahead of next Tuesday's January CPI report. It's possible the lack of any upward surprises in the revisions (unlike last year) supported the equity market, although Treasuries told a different picture, with yields making new YTD highs after the release, and stocks themselves sold off after the data before reaccelerating higher through the cash session. Fed pricing for the year ahead is little changed after the CPI revisions, remaining around a c. 20% implied probability of a Fed cut in March and just over 110bps of cuts priced across the year. The Dollar Index was little changed, although antipodeans, which have a high beta to US stocks, saw notable outperformance, with Kiwi the G10 outperformer, aided by a hawkish RBNZ call by ANZ. Oil prices were firmer, marking five consecutive days of gains, with Israel's rejection of the Hamas ceasefire the latest tailwind.

US

CPI REVISIONS: The annual seasonal adjustments for CPI did little to live up to the market's high expectations after the shock seen in the 2022 revisions. WSJ's Timiraos labelled the revisions a "nothingburger". Looking at the most recent readings, the headline December CPI was revised down to 0.2% from 0.3%, and the November and October prints saw 0.1% revisions higher to 0.2% and 0.1%, respectively. Resulting in the Q4 headline rise at 2.7% on an annualised basis, down from 2.8% initially. On the core metrics, December, November and October were all unrevised, leaving the Q4 (3m) core CPI unchanged at a 3.3% annualised increase. Meanwhile, the 6m annualised Core CPI was also unchanged at 3.2%. Looking within, Pantheon Macroeconomics notes the revisions to subindexes are a little more substantive, but they cancel out at the aggregate level. Pantheon highlights CPI of used cars and trucks fell 4.5% at an annualised rate in Q4, rising from the initially reported fall of 6.7%. The Q4 core goods ex used cars were revised to -1.3% from -1.7%, while the quarterly annualised increase in the Q4 rent of shelter CPI was unchanged at 5.2%. From the rent of shelter number, Pantheon assumes that the pace of increase in Q4 core services ex-rents was revised lower. From the Fed's perspective, while the revisions do not improve the inflation progress seen going into the end of last year, they will provide confidence in the progress reported with some lingering anxiety from last year's spike in the revisions; Fed's Waller said in January, "My hope is that the revisions confirm the progress we have seen." Participants will now be looking to next week's January US CPI data for a timely update on the current pricing situation and to gauge rate cut expectations from the Fed, who have been increasingly pushing back against a March rate cut.

FED'S BOSTIC (voter, hawkish) said there is still a ways to go to return inflation to target and he remains laser-focused on returning it to target, adding data suggests real wage gains will continue for several more months.

FED'S LOGAN (2026 voter, hawk) said she does not see any urgency to adjust rates, echoing the Fed line that she needs to take time to look at data and build confidence on inflation. She acknowledged the progress made on inflation but there is still more work to do. She noted the labour market is very tight, but it is loosening. Logan said the US economy is in a good place and her outlook is for inflation to be sustained near target and for the labour market to loosen but still remain robust. She is paying attention to risks, like geopolitics and China's slowing growth, stressing she is highly focused on possible risks to progress on inflation.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLE 5+ TICKS LOWER AT 110-18+

Treasuries bear-flattened Friday, fading a brief spike on CPI revisions while risk assets surged higher. 2s +2.8bps at 4.484%, 3s +2.9bps at 4.274%, 5s +2.2bps at 4.146%, 7s +1.6bps at 4.177%, 10s +1.1bps at 4.181%, 20s +0.0bps at 4.485%, 30s -0.1bps at 4.379%.

INFLATION BREAKEVENS: 5yr BEI -0.1bps at 2.244%, 10yr BEI +0.5bps at 2.267%, 30yr BEI -0.5bps at 2.267%.

THE DAY: After the solid 30yr auction on Thursday, the long end led a bounce into the APAC Friday session. T-Notes hit a peak of 110-30 before a mediocre 5yr JGB auction capped the bid; note BoJ Governor Ueda was on wires not long before reaffirming his colleague from Thursday that chances are high for accommodative conditions to stay even if negative rates are abandoned. The front end led weakness into the European morning with little fresh catalysts and some anxiety ahead of CPI revisions after last year's readjustment higher.

T-Notes hit support at 110-19+ at the NY handover with the curve twisting ahead of the CPI revisions. As details around the revisions crossed newswires, T-Notes spiked to session peaks of 111-01, but as it became clear that the revisions (on net) had done little to shape the general inflation backdrop, contracts reversed lower. T-Notes hit session/YTD lows of 110-16 later in the NY morning, with the equity market rallying, including NYCB shares. A 10k T-Note block seller into the European close was absorbed and the lows were held. Attention now shifts to next Tuesday's Jan CPI report with retail sales, PPI, and Michigan survey all due later in the week.

NEXT WEEK'S AUCTIONS: There are no US coupon auctions next week. In Europe, IFR reports scheduled fixed supply is set to increase to EUR 34bln from 26.5bln this week including Germany selling 5yr on Tuesday and 30yr on Wednesday. In the UK, we get 10yr supply on both Tuesday and Wednesday. And in Japan, a 10yr on Wednesday.

STIRS:

- Fed pricing is little changed post-CPI revisions with a March implied cut probability still c. 20% and just over 110bps of cuts priced across 2024.
- SR3H4 -0.5bps at 94.775, M4 -2.5bps at 95.12, U4 -4bps at 95.485, Z4 -4.5bps at 95.82, H5 -4.5bps at 96.105, M5 -4.5bps at 96.305, U5 -4.5bps at 96.425, Z5 -4bps at 96.48, H6 -4bps at 96.48, H7 -2.5bps at 96.415, H8 -2bps at 96.325.
- SOFR flat at 5.31% as of Feb 8th, volumes fall to USD 1.669tln from 1.797tln.
- NY Fed RRP op demand at USD 0.569tln (prev. 0.536tln) across 80 counterparties (prev. 78).
- EFFR flat at 5.33% as of Feb 8th, volumes flat at USD 96bln.

CRUDE

WTI (H4) SETTLES USD 0.62 HIGHER AT 76.84/BBL; BRENT (J4) SETTLES USD 0.56 HIGHER AT 82.19/BBL

Oil prices were firmer on Friday, marking five consecutive days of gains, with Israel's rejection of the Hamas ceasefire the latest tailwind. WTI (H4) and Brent (J4) futures hit peaks of USD 77.29/bbl and 82.45/bbl, respectively, in the NY morning, coming on the heels of reports that Israel PM Netanyahu had instructed a fresh, broad wave of attacks in Gaza. Israel later confirmed it had rejected the ceasefire agreement in its current form. However, oil prices failed to extend higher into the NY afternoon, with benchmarks chopping back within ranges ahead of the weekend. There were little other catalysts for the energy market on Friday. The latest Baker Hughes US rig count (w/e Feb 9th) saw Oil rigs flat at 499 and Nat Gas rigs up four at 121 (the highest since September). Meanwhile, in Nigeria, the much anticipated Dangote refinery (projected 650k BPD capacity) is set to deliver its first refined fuel to the local market within weeks, Reuters reported citing sources.

EQUITIES

CLOSES: SPX +0.57% at 5,027, NDX +1.01% at 17,962, DJI -0.14% at 38,672, RUT +1.53% at 2,010.

SECTORS: Technology +1.5%, Consumer Discretionary +0.99%, Communication Services +0.74%, Utilities +0.42%, Financials +0.32%, Real Estate +0.28%, Materials +0.26%, Industrials +0.12%, Health -0.06%, Consumer Staples -0.85%, Energy -1.56%.

EUROPEAN CLOSES: DAX: -0.24% at 16,922.56, FTSE 100: -0.30% at 7,572.58, CAC 40: -0.24% at 7,647.52, Euro Stoxx 50: +0.09% at 4,715.05, IBEX 35: -0.09% at 9,896.60, FTSE MIB: +0.28% at 31,150.33, SMI: -0.44% at 11,090.30.

EARNINGS

- **PepsiCo (PEP)** -3.5%: Beat on EPS but missed on revenue with FY24 organic revenue short. Plans to buyback around USD 1bln in shares and raises annual dividend by 7% to 5.42/shr.
- **Cloudflare (NET)** +20%: Top and bottom line beat accompanied by solid guidance.
- **Pinterest (PINS)** -9%: Revenue light as was next quarter guidance. Pared some of its steep pre-market losses as it announced a Google app.
- **Take-Two (TTWO)** -8.5%: Lowered next quarter and FY24 outlook.
- **Newell Brands (NWL)** -19%: Q1 and FY profit outlook disappointed. Note, Q4 headline metrics beat.
- **Capri Holdings (CPRI)** -1.5%: Missed on EPS and revenue.
- **Expedia (EXPE)** -18%: Bookings fell short, “largely driven by a reduction in average ticket prices” for air travel, while CEO Kern also unexpectedly resigned.

STOCK SPECIFICS

- **United Airline (UAL)** +1.5%: Upgraded at Evercore.
- **Nvidia (NVDA)** +3.5%: Said customer chip unit held talks with large cloud computing companies and OpenAI. NVDA is building customer design unit to focus on AI data centre chips and other markets.
- **Masonite (DOOR)** +35%: To be acquired by **Owens Corning (OC)** for USD 133/shr in cash. Note, DOOR closed Thursday at USD 96.61/shr.
- **Children's Place (PLCE)** -36%: Has hired Centerview Partners to look at ways in which Co. can bolster its cash reserves. Also, lowered Q4 revenue view.

US FX WRAP

The Dollar was flat on Friday with the highly anticipated CPI revisions doing little to change the dial but the downward revision to December was encouraging and sparked a brief dovish reaction. DXY hit lows of 103.95 in response to the revisions but looks set to end the week hovering around 104. Both Fed's Logan and Bostic stressed there is more work to do to bring inflation back to target. The S&P 500 hit new ATHs above 5,000, capping strength against high-beta currencies outperformed.

The Euro was also relatively flat vs the buck, also was flat vs the Pound. Bloomberg sources reported the ECB warned banks of capital charges if CRE risk is not well managed, although officials do not see a big hit to banks' capital on CRE losses. ECB's Kazaks spoke, noting this will be a year of rate cuts but hopes for easing at one of the next two meetings might be too aggressive. Sterling was also flat vs the Dollar where it found support at 1.2600 but failed to clip 1.2650. Remarks from BoE hawk Haskel largely echoed fellow dissenter Mann by noting signs of lower inflation are encouraging but more evidence is needed on reduced inflation persistence to stop voting for higher rates. He also stated the February decision was finely balanced.

The Yen, also flat, traded between 149.02 and 149.57 with Governor Ueda also towing the line that chances are high for accommodative conditions to stay, even if negative rates are abandoned, echoing deputy governor Uchida on Thursday.

Antipodeans saw a bit more life in line with the rally in stocks, with NZD a clear outperformer on Friday after ANZ bank announced it forecasts the RBNZ to hike in February and April. AUD also saw decent gains vs the buck, albeit it sold off vs the Kiwi. RBA Governor Bullock stressed Australia's inflation challenge is not over and at this stage, the board has not ruled out a further hike in rates, but it has neither ruled it in - in fitting with the RBA statement earlier this week. Bullock also stated inflation does not need to be in the 2-3% range for them to think about rate cuts, and if consumption slows faster than thought, it will be an opportunity to cut rates.

CAD was flat vs the buck despite the jobs report coming in above expectations at 37k jobs added (exp. 15k), rising from the upwardly revised 12.3k. The unemployment rate also dropped to 5.7% from 5.8% despite an expected rise to 5.9%, although the participation rate also dropped to 65.3% from 65.5%. Although an encouraging report, the breakdown of jobs was soft with full time jobs declining 11.6k whereas the part time jobs rose by 48.9k.

Scandis saw gains vs both the Euro and the Dollar but NOK outperformed after a firmer than expected inflation print.

EMFX saw strength in BRL, MXN and COP but CLP saw further pressure on continued weakness in copper. Elsewhere, TRY and ZAR were all softer with rising oil prices weighing on the Lira and falling gold prices weighing on the ZAR. In CEE, HUF firmed vs the Euro despite a softer-than-expected inflation print. CZK and PLN were flat.