



US Market Wrap

12th February 2024: Small caps outperform after big tech reverses lower ahead of CPI

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude flat, Dollar flat.
- **REAR VIEW:** NY Fed's 3yr consumer inflation expectations ease; Saudi oil jawboning; Israel strikes Rafah; Hawkish RBNZ commentary; Dovish ECB's Panetta; FANG to merge with Endeavor; GILD to acquire CBAY; BTC hits 50k.
- **COMING UP: Data:** Australian NAB Business Conditions, NZ Inflation Forecast, French Unemployment Rate, Swiss CPI, UK Employment, EZ & German ZEW, US CPI **Events:** OPEC MOMR **Supply:** UK, Italy, Germany **Earnings:** Moody's, Marriott, Datadog.
- **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

Stocks were mixed Monday in choppy, Superbowl-thinned trade ahead of the January CPI report on Tuesday. The major indices initially rallied in the NY morning with Bitcoin surging towards USD 50k and NYCB extending its Friday recovery. However, NYCB shares faded their gains later on, while the SPX and NDX saw a big tech-led pullback in the absence of an obvious catalyst, although there was some attention on a Goldman note warning about extended positioning in the tech sector which may have made a mark in otherwise quiet trade. Note the equal-weight S&P 500 and the small-caps Russell 2k indices both held onto gains, particularly the latter. Meanwhile, Treasuries closed slightly firmer, also in very choppy and thin trade, after rejecting a breakout to fresh YTD peaks in yields ahead of the CPI data. The Dollar was flat with no major moves in the G10 pairs. Oil prices were choppy amid Middle East woes, a choppy Dollar, and Saudi jawboning. There was no tier 1 data in the US but we did see the NY Fed's latest survey of consumer inflation expectations, which saw the one-year- and five-year-ahead gauges left unchanged, although the three-year ahead saw another move lower. Little new in today's Fed Speak from Barkin, nor did BoE's Bailey rock the boat in his speech on UK banks, although there was more attention on ECB's Panetta's dovish comments from the weekend.

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NY FED SCE: The NY Fed's survey of consumer inflation expectations saw the one-year- and five-year-ahead gauges unchanged, whilst the three-year-ahead expectations saw a decline, however, the uncertainty over all those expectations did increase "slightly". One-year inflation expectations were unchanged M/M at 3%, which remains the lowest since January 2021 and is nearing the series' pre-2020 average of 2.8% (inception in 2014); the gauge never rose above 3% between August 2014 and February 2021. Three-year expectations fell to 2.4% from 2.6%, now the lowest since March 2020 and comfortably beneath the pre-2020 series average of 2.9%. Five-year expectations, which were introduced in January 2022, were unchanged at 2.5%, the lowest since March 2023 and in the middle of the series' range of 2.00-3.00%. Median year-ahead expected price changes declined for all goods tracked in the survey, where the reading for the expected price change of gas is now at the lowest since December 2022, while those for food and rent were the lowest since March 2020 and December 2020, respectively. Elsewhere in the consumer survey, the share of people who believe their financial situation will be better in a year rose to its highest level since March 2020, whilst those who say it is harder to get a loan fell to its lowest level since May 2022.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLE 4+ TICKS HIGHER AT 110-23

Treasuries close slightly firmer on Monday in very choppy and thin trade ahead of CPI data on Tuesday. 2s -1.8 bps at 4.470%, 3s -2.2bps at 4.257%, 5s -2.5bps at 4.126%, 7s -2.3bps at 4.161%, 10s -1.9bps at 4.168%, 20s -1.3bps at 4.475%, 30s -1.2bps at 4.369%.

INFLATION BREAKEVENS: 5yr BEI -1.7bps at 2.232%, 10yr BEI -1.6bps at 2.253%, 30yr BEI -1.4bps at 2.251%.



THE DAY: T-Notes were choppy/sideways during APAC trade - with most of the region on holiday - before hitting interim resistance at 110-26+ at the London handover before a swift reversal to troughs of 110-18+. However, a gradual recovery since then into the NY handover saw contracts hit session peaks of 110-28. Catalysts had been light ahead of US CPI on Tuesday with some dovish ECB Panetta comments from the weekend being the central bank 'highlight'.

A healthy slew of corporate Dollar debt deals being announced was enough to weigh on Treasuries through the NY morning. There was little immediate reaction to the slight improvement in the NY Fed's consumer inflation expectations, and T-Notes hit a session low of 110-17+ right after the release but managed to hold above the Friday/YTD lows of 110-16 despite long end contracts stretching to new lows. But as Europe closed shop, better buying surfaced, and even a 6.9k T-Note block seller failed to stop the recovery, with contracts drifting back towards the top end of ranges ahead of settlement. Looking ahead, UK employment data, UK supply, and German supply are all due Tuesday ahead of the US CPI release.

THIS WEEK'S AUCTIONS: There are no US coupon auctions this week. But in Europe, IFR reports scheduled fixed supply is set to increase to EUR 34bln from 26.5bln last 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 climate bond ('transition bond') on Wednesday.

STIRS:

- Fed pricing Monday has seen the March implied cut probability dip slightly to 15% from 20% on Friday, with just over 110bps of cuts still priced across 2024.
- SR3H4 -0.5bps at 94.77, M4 -0.5bps at 95.11, U4 -0.5bps at 95.475, Z4 +0.5bps at 95.82, H5 +1.5bps at 96.11, M5 +2.5bps at 96.32, U5 +3bps at 96.45, Z5 +3.5bps at 96.51, H6 +4bps at 96.515, H7 +3.5bps at 96.445, H8 +2.5bps at 96.35.
- SOFR flat at 5.31% as of Feb 9th, volumes fall to USD 1.581tn from 1.669tn.
- EFFR flat at 5.33% as of Feb 9th, volumes flat at USD 96bln.
- US sold USD 86bln of 3-month bills at 5.230%, covered 2.92x; sold USD 76bln of 6-month bills at 5.065%, covered 2.77x.

CRUDE

WTI (H4) SETTLES USD 0.08 HIGHER AT 76.92/BBL; BRENT (J4) SETTLES USD 0.19 LOWER AT 82.00/BBL

Oil prices were choppy on Monday amid Middle East woes, a choppy Dollar, and Saudi jawboning. Futures gradually sold off through the European morning, despite a brief rally after Saudi Aramco's CEO pushed back on peak oil demand calls and said he expects 104mln BPD and 105mln BPD of demand in 2024 and 2025, respectively. WTI (H4) and Brent (J4) futures troughed for the session in the NY morning at USD 75.54/bbl and 80.77/bbl, respectively. Contracts then pared losses as stateside trade got underway, spending some time in the black and peaking at USD 77.09/bbl and 82.19/bbl for WTI and Brent, respectively, in lack of an obvious catalyst. Note some reports later on in the FT that the CIA and Mossad chiefs are to hold talks on Tuesday to revive the Hamas hostage deal, adding some optimism after the recent attacks of the Rafah crossing and Israel's rejection of the current deal.

EQUITIES

CLOSES: SPX -0.1% at 5,022, NDX -0.44% at 17,883, DJI +0.32% at 38,797, RUT +1.75% at 2,045

SECTORS: Utilities +1.14%, Energy +1.05%, Materials +0.73%, Consumer Staples +0.63%, Financials +0.42%, Industrials +0.12%, Health +0.1%, Communication Services -0.18%, Consumer Discretionary -0.28%, Real Estate -0.37%, Technology -0.77%.

EUROPEAN CLOSES: DAX: +0.65% at 17,037.35, FTSE 100: +0.01% at 7,573.69, CAC 40: +0.55% at 7,689.80, Euro Stoxx 50: +0.61% at 4,744.45, IBEX 35: +0.89% at 9,984.70, FTSE MIB: +0.97% at 31,456.73, SMI: +0.79% at 11,179.30.

STOCK SPECIFICS:

- **Tesla (TSLA)** 2.5%: Temporarily lowered Model Y prices in the US following a similar move in Germany.
- **Diamondback Energy (FANG)** +9.5%: US shale rivals Diamondback and Endeavor have finalised a roughly USD 25bln cash-and-stock deal which will create an oil and gas company valued at more than USD 50bln.



- **Tower Semiconductor (TSEM)** +2.5%: Plans an USD 8bln chipmaking facility in India, focusing on manufacturing 65nm and 40nm chips.
- **Trimble (TRMB)** +4.5%: EPS and revenue beat, but Q1 and FY guidance was weak.
- **AbbVie (ABBV)** -0.5%: Completes acquisition of Immunogen; reaffirmed FY24 adj. EPS guidance but downwardly revised Q1 outlook due to a USD 0.04/shr impact.
- **Rivian (RIVN)** -2%: Downgraded at Barclays; cited the slowdown in the EV market and Rivian's implied profit risk among the reasons.
- **Lowe's (LOW)** +3.5%: Upgraded at JPM and added the shares to the firm's adding Analyst Focus List as a value stock idea.
- **Citi (C)** -flat%: Federal Reserve has given Citigroup instructions to fix issues with how it assesses counterparty risk after work on 2020 consent order failed internal auditor test in December.
- **Cymabay Therapeutics (CBAY)** +25.5%: To be acquired by Gilead (GILD) for USD 32.50/shr and a total equity value of USD 4.3bln. With the deal, GILD expands its liver portfolio. Note, CBAY closed Friday at USD 25.69/shr.
- **VF Corp (VFC)** +14%: Activist investor Engaged Capital, which holds a 1.3% stake in VFC, has gained support from descendants of VF's founder (who own around 15% of VF Corp). Engaged Capital looks for board seats, and quicker restructuring at the company.
- **New York Community Bancorp (NYCB)** flat: Shares were choppy to start the week, as it initially continued its ascent higher after gains of 17% on Friday amid insider buying reports. In other news, Bank of America reiterated its neutral rating, while noting that leadership has "the playbook to turn things around."
- **Big Lots (BIG)** -27%: Downgraded at Loop Capital; said the retailer is losing awareness among consumers and has a souring financial standing.

US FX WRAP

The Dollar saw mild gains on Monday with DXY trading either side of 104.00 but looks set to enter the APAC session north of the psychological level. There was little US data released Monday, other than the January budget figures (in line with expectations) and the NY Fed's consumer inflation expectations (1y- and 5yr-ahead unchanged, 3yr-ahead drops further), while relevant Fed Speak was limited. The main focus lies on Tuesday's CPI release which will help market participants and the Fed gauge the timing of the first rate cut.

The Yen was flat vs the buck with Japan away for a holiday. Nonetheless, USD/JPY hit a low of 148.94 but failed to stay beneath 149.00 for long as a rise in US yields in the NY morning weighed on the Yen throughout the rest of the session, despite yields retracing back lower later on. Yuan was flat with China away for holiday.

The Euro saw mild weakness vs the buck falling sub 1.08 after hitting earlier highs of 1.0805 with downside in EUR/USD as the European session started and failed to rise back above 1.08 throughout the rest of the session. Over the weekend, ECB's Panetta stated that the time for a policy reversal from the ECB's policy stance is coming.

The Pound was flat vs the Dollar and Euro ahead of key data this week, including UK CPI and GDP. Ahead of the data, analysts at Rabobank write that surveys are suggesting GDP could confirm a technical recession in the latter part of 2023. It highlights the outperformance of the Pound in 2024 to date, noting "Consequently, weak UK GDP data suggests some potential for profit-taking in long GBP positions". However, Rabo says they would favour buying GBP on dips vs the Euro and see EUR/GBP to move towards 0.84 in the latter part of 2024. UK employment data is due first on Tuesday.

Antipodeans were mixed. AUD was flat vs the buck but the NZD lagged despite hawkish RBNZ commentary. RBNZ Governor Orr said inflation is still too high, which is why they have kept the cash rate at 5.5%. Deputy Governor Hawkesby noted the financial system can cope with high interest rates, it remains strong and prices have stabilised in housing markets over the last six months. Attention turns to the New Zealand inflation expectations and RBA's Kohler both on Tuesday.

Loonie was flat vs the buck with early weakness pared as oil prices gained. **Scandis** saw decent gains vs the Euro with both SEK and NOK performing well but NOK outperformed its Scandi peer which benefited from a turnaround in crude prices.

In EMs, BRL, MXN, and CLP were flat while COP saw gains vs the buck on higher crude prices. In CEE, PLN saw gains vs the Euro but HUF and CZK saw weakness. Elsewhere, the Rouble and Lira softened but Rand strengthened vs the Dollar. INR was flat after Jan CPI came in as expected (5.1% Y/Y) and Dec industrial output data beat expectations (3.8% vs exp. 2.4%). ILS was firmer despite Moody's credit rating downgrade, citing geopolitical risks and institutional quality.



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