



## US Market Wrap

### 13th February 2024: Stocks and Bonds slide as hot CPI unwinds Fed cut expectations

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** Above-forecast US CPI; Firmer-than-expected UK wage metrics; Soft Swiss CPI; No Gaza ceasefire deal so far; 2024 & 2025 OPEC MOMR world oil demand forecast unchanged; WMT in talks to buy VZIO; Tech earnings from CDNS, ANET & GFS disappointed; Icahn ~10% stake in JBLU.
- **COMING UP: Data:** UK CPI/PPI, EZ Employment, Industrial Production, GDP Estimate, US PPI Seasonal Factor Revisions, Japanese GDP **Speakers:** ECB's de Guindos, Cipollone; BoE's Bailey hearing; Fed's Goolsbee, Barr; BoC's Mendes **Supply:** Australia, Japan, Germany, UK **Earnings:** Heineken, Capgemini, EssilorLuxottica, Telecom Italia, Cisco, Occidental Petroleum.

## MARKET WRAP

Stocks and bonds saw heavy losses while the Dollar ripped on Tuesday after the hot US CPI report for January saw a large pullback in Fed easing expectations. The greatest selling pressure in the indices was in the small caps Russell 2k, where many of the constituents are in need of lower rates to refinance their debt, although losses in the NDX and SPX were still significant as froth came out of the market after the rally YTD, although note a bounce off the lows across stocks into the close. Money markets have seen the March implied cut probability fall to 8.5% from 15% on Monday and a cut by May falling to 40% from 70%, with now just 90bps of cuts priced across 2024 vs 110bps before. The Dollar Index soared to near 105.00, with attention now on Yen with USD/JPY breaching above 150 and now nearing 151, with intervention expectations likely to ramp the more this sustains. The stronger Dollar weighed broadly on metals, although oil prices managed to shake off the currency effects and tread higher, with negotiations on a Gaza ceasefire yet to yield any fruit.

## US

**CPI REVIEW:** Overall, the inflation report for January was hotter than expected on all accounts and has pushed back money market pricing on rate cuts. The March rate cut probability has largely diminished while May is sub 50% with June fully priced for the first 25bp rate cut. The hot report, coupled with a strong January jobs report, shows the final stretch of the Fed's fight to return to the 2% inflation target will likely be bumpy and uneven, and arguably the hardest part of the fight. The Core M/M rose 0.4%, above the 0.3% forecast and prior with the Y/Y maintained at 3.9% despite expectations for a decline to 3.7%. The headline numbers saw the M/M accelerate to 0.3% (prev. & exp 0.2%), with the Y/Y easing to 3.1% from 3.4%, but not as cool as the 2.9% forecast. Within the report, the BLS highlighted "The index for shelter continued to rise in January, increasing 0.6 percent and contributing over two thirds of the monthly all items increase". Meanwhile, Service prices less rent of shelter rose 0.6%, accelerating from the prior 0.4%. For the annualised figures, the US Core CPI 3-month annualised rate rose to 3.9% in Jan from 3.3% (highest since June 2023), 6-month annualised rate rose to 3.5% from 3.2% (highest since September).

## FIXED INCOME

### T-NOTE (H4) FUTURES SETTLED 1 POINT & 3 TICKS LOWER AT 109-20

**Treasury yields rip to new YTD highs after above-forecast CPI figures; Fed cut expectations tumble.** 2s +17.5bps at 4.645%, 3s +19.4bps at 4.451%, 5s +18.1bps at 4.309%, 7s +16.3bps at 4.326%, 10s +14.0bps at 4.310%, 20s +11.5bps at 4.591%, 30s +9.3bps at 4.463%.

**INFLATION BREAKEVENS:** 5yr BEI +6.1bps at 2.297%, 10yr BEI +5.2bps at 2.307%, 30yr BEI +3.9bps at 2.293%.

**THE DAY:** Treasuries had been choppy and rangebound during APAC and European trade on Tuesday ahead of the CPI data despite volatility in global peers. Reflecting that, T-Notes had traded in a pre-CPI 110-18+/110-26+ range. The hot UK labour market data (more jobs than expected and wages above forecast) saw some Gilt-led selling in the European morning, but that failed to lead to any sustained pressure in USTs. Meanwhile, well-received sovereign



auctions in the UK, Germany, and Italy also cushioned the downside. T-Notes had been drifting tentatively higher into the NY handover, with some short-dated OTM T-Note calls seen ahead of the CPI release.

However, the upside proved a headfake after above-forecast CPI figures (both headline and core), saw Treasuries tumble in a bear-flattener at 08:30ET. T-Notes saw kneejerk two-way flows as the figures were released, spiking from 110-25+ to 111-07 before swiftly reversing, tumbling through the prior YTD lows of 110-16, and extending to troughs of 109-23+ within five minutes, which held for most of the remaining session. The market accepted the new levels, with the recovery bounce only going as far as 110-02 before paring back down very slowly into the NY afternoon. The front ended selling gained a further spout of momentum in the NY afternoon, which brought T-Notes to new session lows of 109-19+ ahead of settlement.

Once APAC reacts to the latest CPI figures, Gilts are set to provide the next impulse on Wednesday with UK CPI figures due and Bailey speaking later on. There is no major data from the US, although we do get the annual revisions to US PPI and Fed's Goolsbee (nv).

**FED PRICING:** Money markets have seen the March implied cut probability fall to 8.5% from 15% on Monday, and a cut by May falling to 40% from 70%, with now just 90bps of cuts priced across 2024 vs 110bps before.

**THIS WEEK'S AUCTIONS:** There are no US coupon auctions this week. But in Europe, Germany is selling 30yr on Wednesday. In the UK, we get 10yr supply on Wednesday. And in Japan, a 10yr climate bond ('transition bond') on Wednesday.

#### STIRS:

- SR3H4 -4bps at 94.725, M4 -14.5bps at 94.96, U4 -20.5bps at 95.27, Z4 -22.5bps at 95.595, H5 -24bps at 95.87, M5 -24.5bps at 96.075, U5 -24bps at 96.21, Z5 -23bps at 96.28, H6 -21.5bps at 96.30, H7 -18.5bps at 96.26, H8 -15bps at 96.20.
- SOFR flat at 5.31% as of Feb 12th, volumes rise to USD 1.725tln from 1.581tln.
- NY Fed RRP op demand at USD 0.554tln (prev. 0.582tln) across 84 counterparties (prev. 78).
- EFFR flat at 5.33% as of Feb 12th, volumes fall to USD 93bln from 96bln.
- US sold USD 80bln in 42-day CMBs at 5.280%, covered 2.73x.
- US leaves 4-, 8-, and 17-week bill auction sizes unchanged at USD 95bln, 90bln, and 60bln, respectively; 4- and 8-week to be sold on Feb 15th and 17-week bills on Feb 14th; all to settle on Feb 20th.

## CRUDE

**WTI (J4) SETTLED USD 0.74 HIGHER AT 77.56/BBL; BRENT (J4) SETTLED USD 0.77 HIGHER AT 82.77/BBL**

**Oil prices climbed higher on Tuesday despite the strong Dollar, with hot CPI figures and geopolitical angst on the radar.** With fresh negotiations on a Gaza ceasefire deal on Tuesday, local press reported the Israeli delegation left without any indication of progress, although an Egyptian source to Al Arabiya said the atmosphere was positive and negotiations will continue over the next three days. Elsewhere, the monthly OPEC report saw the 2024 and 2025 world oil demand forecasts maintained at 2.2mln BPD and 1.8mln BPD, respectively. IEA chief Birol was on Bloomberg TV, where he said he expects more comfortable oil markets and moderate prices this year, noting that oil supply growth will more than satisfy demand this year. Traders are now looking to the weekly US energy inventory data with the private release due later on Tuesday ahead of the official EIA figures on Wednesday. Current expectations (bbls): Crude +2.6mln, Gasoline -1.2mln, Distillates -1.6mln.

## EQUITIES

**CLOSES:** SPX -1.37% at 4,953, NDX -1.58% at 17,600, DJIA -1.35% at 38,272, RUT -3.996% at 1,964.

**SECTORS:** Consumer Discretionary -1.96%, Real Estate -1.84%, Utilities -1.69%, Technology -1.56%, Materials -1.41%, Communication Services -1.34%, Financials -1.27%, Energy -1.16%, Industrials -1.01%, Consumer Staples -0.98%, Health -0.87%.

**EUROPEAN CLOSES:** DAX: -0.93% at 16,878.59, FTSE 100: -0.83% at 7,510.85, CAC 40: -0.84% at 7,625.31, Euro Stoxx 50: -1.19% at 4,689.85, IBEX 35: -0.59% at 9,925.40, FTSE MIB: -0.98% at 31,146.99, SMI: -0.34% at 11,141.60.

#### EARNINGS:



- **Cadence Design (CDNS)** -4%: Next quarter guidance light.
- **Arista Networks (ANET)** -5.5%: While it topped expectations in Q4, its guidance was judged as somewhat soft given the hype surrounding AI names.
- **ZoomInfo (ZI)** +14.5%: Revenue beat and announced 'ZoomInfo Copilot', a GenAI-powered solution which delivers AI-powered recommendations.
- **GlobalFoundries (GFS)** -2%: Q1 outlook short of expectations.
- **Datadog (DDOG)** -2.5%: Next quarter EPS view light, as was FY24 outlook.
- **Siltronic (WAF GY)** was lower in European trade and weighed on the broader tech sector, highlighted by weakness heavyweight ASML, after it issued a profit warning and cut its dividend.
- **Coca-Cola (KO)** -0.5%: Top line beat helped by higher prices, with FY adj. organic revenue growth surpassing expectations. Although, sees 8% currency headwind to Q1 adj. EPS growth.
- **Marriott International (MAR)** -5.5%: Revenue light, as was FY top and bottom line guidance.
- **Hasbro (HAS)** -1.5%: Disappointing report.
- **Wesco (WCC)** -31%: Fell short on both EPS and revenue.
- **Zoetis (ZTS)** -6.5%: Top and bottom-line light, as was FY outlook.
- **Ecolab (ECL)** +9%: Top and bottom light marginally topped, while FY guidance was much better-than-expected.
- **Biogen (BIIB)** -7.5%: Missed on EPS and revenue with midpoint for FY profit view short.

## STOCK SPECIFICS:

- **JetBlue (JBLU)** +21.5%: Activist investor Carl Icahn reports a stake of almost 10% and said the stock is undervalued.
- **TripAdvisor (TRIP)** +14%: Formed a special committee to evaluate proposals that may result in a deal.
- **VIZIO (VZIO)** +24.5%: **Walmart (WMT)** is reportedly in talks to buy TV maker Vizio, according to WSJ citing sources; deal would be in excess of USD 2bln that would boost WMT's advertising business in battle with Amazon. **Roku (ROKU)** -9%.
- **Regional banks** were in focus after heaving selling in wake of the hot US CPI report. Closely watched **New York Community Bancorp (NYCB)** -5% with the regional banking ETF **KRE** -4%.

## US FX WRAP

The Dollar soared on account of a hot US CPI report which pushed back money market pricing on rate cuts, highlighted by a now 8% chance of a March 25bps rate cut vs 13.5% pre-data, with 88bps of cuts now priced across 2024 (113bps before CPI). Core M/M rose 0.4% (exp. & prev. 0.3%) with Y/Y unchanged at 3.9% (exp. 3.7%). Headline M/M accelerated to 0.3% (prev. & exp. 0.2%), with the Y/Y easing to 3.1% from 3.4% (exp. 2.9%). For the annualised figures, US Core CPI 3-month annualised rate rose to 3.9% in Jan from 3.3% (highest since June 2023), 6-month annualised rate rose to 3.5% from 3.2% (highest since September). As such, a broad-based hawkish reaction was seen across markets and the Dollar lifted throughout the duration of the US afternoon to top out at 104.96 (vs. an earlier low of 103.960) with 105 the next hurdle. Looking ahead, Goolsbee and Barr speak on Wednesday, ahead of a slew of data, Fed's Waller, and Bostic all on Thursday, before concluding the week with the Michigan survey and Fed's Daly on Friday.

All G10 peers fell foul to the soaring Dollar just to varying degrees. **GBP** and **EUR** fared relatively better compared to peers, with the former seeing some policy-induced support by firmer-than-expected UK wage metrics. Cable made a pre-US CPI peak of 1.2683 before slumping lower to 1.2574, but stopped shy of the 8th February low at 1.2571. Traders await UK inflation data on Wednesday. Meanwhile, the single currency's losses were capped by technical factors as EUR/USD printed a low of 1.0701 and matched it on numerous occasions, as the psychological 1.07 clearly offered support. Elsewhere, according to a Reuters source, Germany's federal government is to lower its 2024 growth forecast to 0.2% from October's 1.3% forecast, worsened by the constitutional court ruling and global growth woes.

**Swissy** and **Antipodeans** were the underperformers. The Kiwi was initially noticing greater losses in wake of the inflation expectation survey data, but this later proved futile as AUD and NZD saw similar losses, if anything the AUD more. In addition to the US CPI report, the Swissy had added headwinds of soft Swiss CPI metrics which boosted the odds of a March SNB cut to over 50% from 28%. For the record, AUD/USD and NZD/USD printed lows of 0.6443 and 0.6050, respectively.

**CAD** saw losses, albeit not as deep as the above as it was supported by firmer oil prices amid the geopolitical angst. **USD/JPY** hit a high of 150.88, breaching the Nov. 17th peak of 150.77, and now the pair will require a more decisively hawkish BoJ or failing that, either verbal or physical intervention by Japanese authorities to stop its ascent.



**EMFX**, unsurprisingly, was almost exclusively lower vs. the Greenback with the BRL and CLP outperforming. Aside from the heavily mentioned CPI report, ZAR was hit by tumbling spot gold prices, which dropped back beneath USD 2k/oz, while the TRY saw headwinds from higher oil prices.

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