US Market Wrap

14th February 2024: Stocks and Bonds rise as Fed downplays impact of one CPI report

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: Powell told Congress CPI report was "consistent with what they had been anticipating"; Goolsbee said Fed is still on track; Larger than expected EIA crude build; Cooler-than-expected UK CPI; Israeli warplanes fly over Beirut; Inaugural UBER buyback; LYFT surges despite reporting error.
- **COMING UP**: **Data**: Australian Employment, UK GDP Estimate, US NY Fed Manufacturing, US Export & Import Prices, IJC, Philly Fed data, US Retail Sales **Events**: IEA OMR **Speakers**: ECB's Lagarde, Lane; BoE's Greene, Mann; RBNZ's Orr; Fed's Waller **Supply**: Spain, France, US **Earnings**: Airbus, Pernod Ricard, Stellantis, Renault, Commerzbank, Deere

MARKET WRAP

Stocks and bonds traversed higher throughout the session aside from a knock in stocks around the cash equity open. The post-CPI extremes had pared somewhat although T-Notes remained well below pre-CPI levels and E-Mini S&P futures reclaimed 5k, albeit still off the pre-data highs. The Fed appear to be downplaying the impact of the hot January CPI report with Powell in a closed-door meeting telling Congress the inflation data was consistent with what they had been anticipating and they will be looking to the PCE report to give them more intel. Goolsbee also stated it is still clear that inflation is coming down. There was little reaction to the US PPI revisions which saw the headline revised down but the core left unchanged. In FX, the Dollar was sold after the post-CPI rally but GBP underperformed after cooler-than-expected inflation data while the Antipodes outperformed, tracking upside in stocks. USD/JPY remains above 150 despite officials jawboning overnight. Oil prices initially gained throughout the European morning on ongoing geopolitics but the complex tumbled on a much larger build than expected in the weekly DoE inventory report. In Treasuries, the curve bull-steepened in a gradual post-CPI recovery with corporate supply weighing out the curve. Looking ahead, Thursday has a massive slew of US data: Retail Sales, Import/Export Prices, Philly and Empire Fed surveys, Industrial Production, and NAHB index. On Friday, we get the Michigan consumer survey and the Jan PPI figures.

FED

In a closed door meeting, **Fed Chair Powell** told Congress after the CPI report that the inflation data was "consistent with what they had been anticipating" and the Fed would look to the upcoming PCE report to give them more intel, according to Politico citing Representative Stephen Lynch. Meanwhile, Fed's Waller said that one lesson from 2020 is that forward guidance should be more flexible and forward guidance perhaps should also signal the possible path of the policy rate.

Goolsbee (2025 voter, dove) said even if inflation comes in a bit higher over the next few months, it is still consistent with the Fed's path back to target. Goolsbee said he does not support waiting until inflation is already at 2% on a 12mth basis before cutting rates, and added cuts should be tied to confidence in being on a path towards the target rate. The Chicago Fed President added that if the Fed stays restrictive for too long, the Fed will have to worry about the employment side of its mandate, noting current policy stance is quite restrictive. Meanwhile, the supply side may continue to help the Fed this year but higher productivity growth, if it continues, would have a profound implication for Fed policy making. On inflation, Goolsbee said he expects improvements in housing services inflation to resume although acknowledged the January CPI data was puzzling and it is something he is watching.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 12+ TICKS HIGHER AT 110-00+

Treasuries bull-steepened on Wednesday in a gradual post-CPI recovery, with corporate supply weighing out the curve. At settlement, 2s -8.0bps at 4.576%, 3s -7.9bps at 4.383%, 5s -7.1bps at 4.247%, 7s -6.1bps at 4.275%, 10s -4.9bps at 4.267%, 20s -2.7bps at 4.567%, 30s -1.7bps at 4.450%.

INFLATION BREAKEVENS: 5yr BEI -0.6bps at 2.297%, 10yr BEI +0.3bps at 2.310%, 30yr BEI +0.1bps at 2.292%.

THE DAY: T-Notes entered the NY session on Wednesday with modest upside, still well beneath their pre-CPI levels, where the front end led the strength. The beneath-forecast UK CPI figures provided some support out of UK Gilts. Elsewhere, the new Japanese climate 10yr auction saw weak demand and some kneejerk selling in JGBs at the time, but that failed to sustain any selling pressure into USTs, while the German bond auction taps saw solid demand. T-Notes themselves hit new lows in the APAC morning of 109-16+ before recovering to resistance of 109-28+ after the UK CPI data, initially failing to make a run on the 110-02 peak reached in the post-CPI bounce.

Better selling developed in the NY morning with Bristol Myers coming to market with a massive nine-part Dollar debt deal, amongst other issuers. The PPI revisions were a non-event. T-Notes found interim lows of 109-19+ before drifting back higher, with some momentum found after Fed Chair Powell & Goolsbee (nv, dove) played down the hot CPI figures, with Powell telling Congress behind closed doors the Fed will be looking to the PCE data at the end of the month for more intel. Contracts extended past their earlier 109-28+ peaks late in the NY morning, with the gradual bid seeing 110-00 breached, with contracts ultimately peaking at 110-05. Note that the long end lagged the strength in the front and the belly.

There is no more sovereign supply this week to watch out for this week (we could still get more corporate supply) although Thursday has a massive slew of US data: Retail Sales, Import/Export Prices, Philly and Empire Fed surveys, Industrial Production, and NAHB index. And on Friday, we get the Michigan consumer survey and the Jan PPI figures. Meanwhile, Fed Governor Waller is set to speak on Thursday. Bond participants may also be beginning to set up for next Wednesday's 20yr auction.

STIRS:

- SR3H4 +0.5bps at 94.725, M4 +4.5bps at 95.005, U4 +7.0bps at 95.335, Z4 +8.0bps at 95.665, H5 +8.5bps at 95.945, M5 +9.0bps at 96.155, U5 +8.5bps at 96.285, Z5 +8.0bps at 96.350, H6 +8.0bps at 96.365, H7 +6.0bps at 96.315, H8 +5.0bps at 96.245.
- SOFR flat at 5.31% as of Feb 13th, volumes fall to USD 1.714tln from 1.725tln.
- NY Fed RRP op demand at USD 0.575tln (prev. 0.554tln) across 91 counterparties (prev. 84).
- EFFR flat at 5.33% as of Feb 13th, volumes rise to USD 98bln from 93bln.
- US sold USD 60bln of 17-week bills at 5.215%, covered 3.07x.

CRUDE

WTI (J4) SETTLED USD 1.20 LOWER AT 76.36/BBL; BRENT (J4) SETTLED USD 1.17 LOWER AT 81.60/BBL

Oil saw losses on Wednesday on a much greater EIA crude build than expected, despite continued geopolitical angst. WTI and Brent were hovering at session highs of USD 78.43/bbl and 83.60/bbl, respectively, heading into the data but after an unexpected 12.018mln crude build (exp. build of 2mln) the complex reversed and trundled lower throughout the afternoon to settle at lows. Ahead of the data oil was seeing modest gains which were underpinned by geopols, where the latest update saw Israel launch extensive strikes in Lebanon after Hezbollah rocket rife killed a soldier in Israel. Elsewhere, the Iraqi oil minister said they are committed to the voluntary cuts agreed to in the last OPEC+ meeting, and will revise and correct any increases in its crude production if found in the coming four months to abide by the OPEC+ agreement.

EQUITIES

CLOSES: SPX +0.96% at 5,000, NDX +1.18% at 17,807, DJIA +0.40% at 38,424, RUT +2.44% at 2,012.

SECTORS: Industrials +1.67%, Communication Services +1.42%, Technology +1.1%, Consumer Discretionary +1.02%, Financials +0.96%, Health +0.81%, Real Estate +0.7%, Materials +0.66%, Utilities +0.54%, Consumer Staples -0.19%, Energy -0.17%.

EUROPEAN CLOSES: DAX: +0.38% at 16,945.48, FTSE 100: +0.75% at 7,568.40, CAC 40: +0.68% at 7,677.35, Euro Stoxx 50: +0.43% at 4,709.65, IBEX 35: -0.09% at 9,916.60, FTSE MIB: +0.63% at 31,329.38, SMI: +0.65% at 11,215.70.

STOCK SPECIFICS:

- **Akamai Technologies (AKAM) -**8%: Mixed report; profit beat with next quarter guidance more-or-less in line, but revenue was slightly short as was FY24 revenue and adj. EPS growth view.
- **Airbnb (ABNB) -**1.5%: Despite a pretty solid report, especially vs. Expedia on Friday. Revenue, EBITDA, and gross booking margins beat and added USD 6bln to its buyback authorisation. Although, FY24 margin guidance was short of consensus and it sees demand moderating.
- **Kraft Heinz (KHC) -**5.5%: Revenue missed the Wall St. consensus.
- **Global Payments (GPN)** +2%: EPS was in line, revenue beat, and approved increase in buyback capacity to USD 2bln. Note, FY guidance disappointed.
- **Robinhood Markets (HOOD)** +13%: Posted a marginal surprise profit per share and topped on revenue. Exec said 2024 was off to a good start, and it has already seen more Funded Customers and Net Deposits through the first half of Q1 than it did in all of Q4.
- **DaVita (DVA)** +8.5%: Top and bottom line topped, with FY24 profit view also better than expected.
- **QuidelOrtho (QDEL)** -32%: Revenue missed and EPS fell way short of expectations on top of dismal FY24 guidance. In comms, Exec said it had misjudged the Flu and Covid markets, and is actively evaluating its real estate footprint.
- **Lyft (LYFT)** +35%: Profit beat as did next quarter's gross bookings and the adj. EBITDA view. Note, LYFT has come off earlier after-hours highs, excess of 50%, after correcting a ‘reporting error’ on its margin expansion.
- **Allison Transmission Holdings (ALSN)** +14%: Q4 metrics beat with strong FY revenue and EBITDA guidance.
- **Parsons (PSN)** +7.5%: EPS and revenue topped, as did FY top-line view.
- **Uber (UBER)** +14.5%: Announced an inaugural USD 7bln buyback.
- **Lockheed Martin (LMT) -**2%: US President Biden's 2025 defense budget proposed an 18% cut in the number of F-35 jets the Pentagon buys, according to Reuters sources; the order would be a USD 1.6bln drop in spending on jets.

US FX WRAP

The DXY saw mild weakness on Wednesday after the leap higher in wake of CPI on Tuesday, DXY failed to rise above 105 with lows seen at 104.65. The PPI revisions saw little reaction while the Buck was also unphased by a Politico report of Fed Chair Powell downplaying Tuesday's hotter-than-expected CPI to Congress. Fed's Goolsbee also said even if inflation comes in a bit higher over the next few months, it is still consistent with the Fed's path back to target. Nonetheless, he said Tuesday's CPI data was puzzling and it is something he is watching but he expects improvements in housing services inflation to resume.

The Euro saw mild gains, supported by the softer Buck. The latest EU Q4 GDP flash estimate was in line with expectations at 0.1% while the Q4 employment data was stronger than expected. December industrial production saw a notable beat but it was skewed by a particularly strong Irish figure which may well be subject to revisions. Lastly, according to Reuters citing a Government source, the German government expects GDP to grow by 1% in 2025 (prev. forecast 1.5% in October), sees inflation at 2.8% in 2024 and 1.9% in 2025.

The Yen saw mild gains on account of the dollar movements and lower yields across the curve. Nonetheless, with USD /JPY back above 150.00, Japanese Finance Minister Suzuki said he is closely watching FX market moves with a strong sense of urgency and it is important for currencies to move stably reflecting fundamentals, while he won't comment on the FX level and when asked about intervention. The currency diplomat Kanda also noted he is watching FX moves with a high sense of urgency and will take appropriate actions if needed on FX, noting rapid FX moves could have an adverse impact on the economy.

The Pound saw weakness after CPI data came in cooler than forecast with the headline Y/Y maintaining a 4.0% pace, beneath the 4.2% forecasts. The Core CPI Y/Y also matched the December pace at 5.1%, beneath the 5.2% forecast.

The Loonie saw gains against the Greenback despite weaker oil prices as it benefitted from the softer Dollar and a reversal in equities after the steep losses on Tuesday. Note, a call from RBC Capital Markets strategists suggests the BoC is likely to wrap up its QT programme as early as April, sooner than policymakers had previously indicated, according to Bloomberg.

The Antipodes saw gains vs. the Dollar with the upside in equities supporting the risk currencies. For the Kiwi, ANZ bank maintained its hawkish rate outlook for the RBNZ despite softer-than-expected inflation expectations.

Scandis saw gains vs the Euro, paring some of the Tuesday losses, as the risk tone improved although both EUR/SEK and EUR/NOK remain well above pre-US CPI levels.

EMFX was mixed. CLP saw decent gains and was a LatAm FX outperformer despite softer copper prices while COP and MXN saw slight gains but BRL lagged.