US Market Wrap

15th February 2024: Tech lags broader market rally amid soft retail sales figures

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Weak Retail Sales, Regional Surveys beat, Soft initial jobless claims, Disappointing IP, Strong NAHB, soft Import Prices; Japan & UK enter technical recessions; DIS/FOXA/WBD streaming deal faces DOJ antitrust review; AAPL readies AI tool to rival MSFT's Github copilot; WFC says OCC terminated its 2016 consent order.
- **COMING UP**: **Data**: German Wholesale Price Index, UK Retail Sales, French CPI, US PPI, UoM Sentiment **Speakers**: ECB's Schnabel; Fed's Daly, Bostic, Barr; BoE's Pill **Earnings**: Swiss Re, NatWest, Kingspan, Eni.

MARKET WRAP

Stocks saw broad-based gains Thursday with the Nasdaq underperforming and small-caps outperforming, aided by the lower yield environment. Regional banks did very well, potentially taking some additional solace from the solid report /outlook from real estate name CBRE. Meanwhile, a pullback in Nvidia (NVDA) weighed on the NDX and SPX. There was a slew of US data, with particularly weak retail sales the highlight, although we also saw rebounds in the Philly and Empire Fed surveys (with rises in the prices paid components), soft jobless claims figures, falling import price data, a strong NAHB index bounce, and weak industrial production. Treasuries bull-flattened but closed off highs ahead of Friday's PPI and next Wednesday's 20yr auction. Fed pricing is ultimately little changed after some of the ramped rate cut pricing post-retail sales faded through the session with still under 100bps of cuts implied for 2024 by money markets. The Dollar was weighed on by dovish US data, with Yen and Sterling strengthening despite both Japan and the UK entering technical recessions. Oil prices grinded higher with the softening Dollar and sustained Middle East woes providing tailwinds. US Nat Gas futures continued to make new multi-year lows amid the mild winter weather and high production levels. Metals generally enjoyed the softer Dollar.

US

RETAIL SALES: January Retail sales disappointed with a M/M decline of -0.8%, well beneath the -0.1% consensus, reversing the prior (revised down) +0.4%. Retail Sales ex-autos eased 0.6% (exp. +0.2%, prev. +0.4%) and the super core, ex gas and autos, eased 0.5% (prev. +0.6%). The weakness in the core metrics shows that the January downside was widespread and not just related to volatile components. The data, as always, is adjusted for seasonal variation and holiday and trading-day differences but analysts have cautioned on a larger impact to January adjustments. Looking into the report, the largest weakness was seen in building supplies, falling 4.1% while miscellaneous store retailers dropped 3%. Note, although the consensus looked for a -0.1% print, analysts at Bank of America had forecast a -0.6% decline.

INITIAL JOBLESS CLAIMS: Initial jobless claims (w/e 10th Feb) fell to 212k from 220k (exp. 220k), on the lower bound of the forecast range, while the 4wk average rose to 218.5k from 212.75k - the 4wk average now excludes the steep drop in claims during the cold weather. Continued jobless claims (w/e 3rd Feb) lifted to 1.895mln (prev. 1.865mln, exp. 1.88mln). Note, seasonal factors had expected a decrease of 3,523 (or -1.5%). Looking ahead, Pantheon Macroeconomics said "the key leading indicators of initial claims (Challenger layoff numbers, WARN notices of mass layoffs, plant closures, and Google searches for "job cuts"), all point to a clear increase in the spring, or perhaps sooner."

PHILLY FED: Philly Fed Business Index (Feb) printed its first positive reading since August as it surprisingly rose to 5.2 (prev. -10.6, exp. -8.0) and exceeded the -3.0 upper bound of the forecast range. Current indicators were mixed – New orders and shipments improved to -5.2 (prev. -17.9) and 10.7 (prev. -6.2), respectively, but employment fell to -10.3 (prev. -1.8), its lowest since May 2020. On prices, paid jumped to 16.6 (prev. 11.3), while received was more-or-less unchanged at 6.2 (prev. 6.3). Looking ahead, the survey's broad indicators for future activity strengthened, suggesting more widespread expectations for growth over the next six months. Numerically, the 6m index rose back into positive territory reading 7.2 (prev. -4.0), while future new orders and shipments surged to 24.2 (prev. 9.7) and 26.7 (prev. 5.5), respectively. Capex extended to 12.7 from 7.5.

NY FED: After the NY Fed Empire survey headline slumped to -43.7 in January, the February report showed a further contraction but at a much slower pace, with the headline printing -2.4, above the forecast -15.0. There was improvement in new orders and shipments although prices paid accelerated too.

NAHB HOUSING MARKET INDEX: NAHB Housing Market Index rose to 48.0 (prev. 44.0, exp. 46.0), to print its highest since August 2023 as declines in mortgage rates and expectations for Fed rate cuts boosted homebuilders' assessment of current and future home sales. Numerically, Current Single-Family Home Sales rose to 52 (prev. 48), while Home Sales Over Six Months and Prospective Buyers lifted to 60 (prev. 57) and 33 (prev. 29), respectively. Overall, Oxford Economics thinks the improvement in sentiment should support single-family housing starts in the near term, while further ahead notes, “As lower mortgage rates improve homebuying affordability, builders are scaling back their use of incentives to encourage home sales. That could limit future declines in new home prices.”

IMPORT/EXPORT PRICES: Import prices rose 0.8% in January (exp. 0.0%, prev. -0.7%) with the upside led by higher prices for both non-fuel and fuel imports. The rise in Import Prices was the first 1-month increase since September 2023 and the largest monthly advance since the index rose 2.9% in March 2022. Nonetheless, the report highlights import prices fell 1.3% over the past year and have not risen on a 12-month basis since January 2023. Export prices also rose 0.8% (exp. -0.1%, prev. -0.7%) where higher nonagricultural export prices more than offset lower agricultural prices. Similar to import prices, the advance was the first monthly rise since September 2023 and on a Y/Y basis export prices decreased by 2.4%.

To download the full US Data Wrap, please click here.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 5 TICKS HIGHER AT 110-05+

Treasuries bull-flattened but closed off highs with soft retail sales offset by data deluge ahead of PPI and 20yr auction. 2s -1.3bps at 4.566%, 3s -3.1bps at 4.352%, 5s -3.4bps at 4.213%, 7s -3.1bps at 4.242%, 10s -3.3bps at 4.234%, 20s -3.6bps at 4.528%, 30s -3.7bps at 4.411%

INFLATION BREAKEVENS: 5yr BEI +0.4bps at 2.308%, 10yr BEI -0.3bps at 2.314%, 30yr BEI -1.3bps at 2.287%.

THE DAY: Treasuries entered stateside trade in a bull-flattener. Japan entering a technical recession led to little broader market reaction, although rate hike pricing for the BoJ did pare somewhat; Japan stocks rallied. However, the soft Australian employment report supported govvies in the APAC session, with T-Notes hitting resistance at 110-07+. The soft UK GDP figures provided further bullish tailwinds in the European morning, whilst ECB's Lagarde was on wires warning about cutting too soon. T-Notes went on to print new peaks of 110-10.

In reaction to the soft retail sales, fall in jobless claims, rising Philly and Empire Fed surveys (which included prices paid increases for both), and the fall in US import prices, T-Notes rallied from 110-09+ to 110-17+ in an immediate reaction. However, the move above the pre-CPI YTD lows of 110-16 failed to hold and contracts began selling off later in the NY morning. There was some heavy bearish option flow, particularly April T-Note puts, while traders are also casting an eye to next Wednesday's 20yr auction with the US market holiday on Monday reducing the time for set up. T-Notes found support at 110-01+ before recovering somewhat into the NY afternoon. Fed's Waller gave little in the way of policy remarks.

Friday sees the Michigan consumer survey, Jan PPI, and Jan housing starts; we also get Fed's Barkin, Barr, and Daly. Bond participants may also be beginning to set up for next Wednesday's 20yr auction.

NEXT WEEK'S AUCTIONS: US to sell USD 16bln of 20yr bonds on Feb 21st; to sell USD 9bln of 20yr TIPS on Feb 22nd; both to settle on Feb 29th. US to sell USD 28bln of 2yr FRNs (reopening) on Feb 21st; to settle on Feb 23rd.

STIRS:

- SR3H4 flat at 94.73, M4 -0.5bps at 95.00, U4 -0.5bps at 95.335, Z4 flat at 95.67, H5 +0.5bps at 95.955, M5 +1.5bps at 96.17, U5 +2bps at 96.31, Z5 +2.5bps at 96.38, H6 +3bps at 96.395, H7 +3bps at 96.345, H8 +3bps at 96.275.
- SOFR falls to 5.30% as of Feb 14th from 5.31%, volumes fall to USD 1.596tln from 1.714tln.
- NY Fed RRP op demand at USD 0.493tln (prev. 0.575tln) across 82 counterparties (prev. 91); large fall accompanied by large settlement across bills and coupons.
- EFFR flat at 5.33% as of Feb 14th, volumes rise to USD 107bln from 98bln.

- US sold USD 95bln of 1-month bills at 5.280%, covered 2.75x; sold USD 90bln of 2-month bills at 5.270%, covered 2.66x.
- US leaves 6-, 13-, 26-, and 52-week bill auction sizes unchanged at USD 80bln, 79bln, 70bln, and 46bln, respectively; all to be sold on Feb 20th; to settle on Feb 22nd.

CRUDE

WTI (J4) SETTLED USD 1.23 HIGHER AT 77.59/BBL; BRENT (J4) SETTLED USD 1.26 HIGHER AT 82.86/BBL

Oil prices grinded higher on Thursday with the softening Dollar and sustained Middle East woes providing tailwinds. WTI (J4) and Brent (J4) peaked in the NY morning at USD 78.07/bbl and 83.25/bbl, respectively, and hovered near highs into the settlement. Meanwhile, the IEA's monthly report saw the 2024 global oil demand growth downgraded by 200k BPD to 1.22mln BPD (prev. 1.24mln), which said global oil demand growth is losing momentum, with the pace of expansion set to decelerate from 2.3mln BPD last year, in part due to China. There was another attack on a vessel in the Red Sea, despite it travelling through the internationally recommended corridor off the coast of Yemen; note that Maersk warned on Wednesday that it didn't expect the resumption of transit until potentially Q3. Meanwhile, Al Arabiya reported that Hamas rejected an Israeli offer for a three-month ceasefire and the exit of its leaders from Gaza, highlighting the gulf between the two sides as negotiators scramble for a solution.

EQUITIES

CLOSES: SPX +0.58% at 5,029, NDX +0.21% at 17,845, DJIA +0.91% at 38,773, RUT +2.45% at 2,061.

SECTORS: Energy +2.48%, Real Estate +2.36%, Materials +1.88%, Financials +1.66%, Utilities +1.54%, Consumer Discretionary +0.88%, Health +0.7%, Industrials +0.69%, Consumer Staples +0.54%, Communication Services +0.08%, Technology **-**0.44%.

EUROPEAN CLOSES: DAX: +0.60% at 17,046.69, FTSE 100: +0.38% at 7,597.53, CAC 40: +0.86% at 7,743.42, Euro Stoxx 50: +0.73% at 4,743.55, IBEX 35: +0.11% at 9,927.30, FTSE MIB: +1.17% at 31,694.44, SMI: +0.61% at 11,281.80.

STOCK SPECIFICS:

- **Cisco Systems (CSCO) -**2.5%: Next quarter and FY guidance was very weak accompanied by downbeat commentary.
- **Twilio (TWLO) -**15.5%: Active consumers missed with Q1 revenue outlook also short.
- **AppLovin (APP)** +25%: EPS and revenue beat, board authorised additional USD 1.25bln to its share buyback authorisation with Q1 guidance also surpassing expectations.
- **Zebra Technologies (ZBRA)** +12%: EPS and revenue topped, whilst Q1 profit view was strong.
- **Albemarle (ALB)** +2.5%: Revenue beat. Posted a surprise adj. EBITDA loss alongside disappointing FY revenue guide.
- **Deere & Co (DE) -**5%: Q4 earnings metrics beat but lowered FY net income view.
- **CBRE Group (CBRE)** +8.5%: EPS, revenue, and adj. EBITDA beat with core EPS midpoint above expected.
- **Penn Entertainment (PENN) -**14%: Much deeper loss per share than anticipated and was light on the top line.
- **Shake Shack (SHAK)** +26%: Exceeded Wall St. consensus on revenue.
- **West Pharmaceutical Services (WST) -**14%: Revenue fell short, and FY24 guidance was way short of expectations.
- **Coinbase (COIN)** +3.5%: Upgraded at JPM on surging Bitcoin prices.
- **Super Micro Computer (SMCI)** +14%: Bank of America initiated coverage with a ‘Buy’ rating.
- **Meta Platforms (META)** +2.5%: Announces new ways for small businesses to boost/avoid Apple (AAPL) service charges, advertisers can now purchases content boosts on instagram.com; avoiding the 30% Apple service charge.
- **Wells Fargo (WFC)** +7%: Said OCC terminated its 2016 consent order which was tied to sales practices misconduct, according to Bloomberg.
- **Toast (TOST)** -4.5%: To cut 550 workers.
- **Disney (DIS)/Fox (FOXA)/Warner Bros (WBD)** : Streaming deal faces DOJ antitrust review, according to Bloomberg.
- **Apple (AAPL)** flat: Readies AI tool to rival Microsoft's (MSFT) Github copilot, according to Bloomberg; also looking to use AI to generate code for testing apps

US FX WRAP

The Dollar was weaker on Thursday following a data deluge; DXY hit a low of 104.170, just stopping short of the 100DMA at 104.10 and beneath that the pre-CPI low of 103.96. Thursday saw soft retail sales, where the headline tumbled 0.8% M/M (prev. +0.4%), deeper than the expected fall of 0.1%. Ex-Autos surprisingly fell too, with the supercore falling 0.5% against the prior 0.6% gain. Elsewhere, the Empire Fed survey, despite still negative, and the Philly Fed survey were both better than expected, while initial jobless claims dipped to 212k (exp. & prev. 220k). On the Fed footing, influential Governor Waller spoke but did not say anything of note for policy, while Punchbowl reported Fed Chair Powell is to testify before the House of Representatives Financial Services Committee on March 6th. Participants await PPI (Jan), Michigan prelim survey (Feb), Fed's Daly (v), Barr (v), and Barkin (v) all on Friday; note there is a US market holiday on Monday.

Sterling saw slight gains against the Dollar after initial UK GDP-induced downside for the pound was countered by Dollar selling. Cable hit a low of 1.2543 (just shy of Wed. 1.2536 trough) before recovering to 1.2600. Note that BoE Governor Bailey looked to get in front of the report earlier this week, saying that he "wouldn't put too much weight on whether the UK enters a technical recession" and added that they are starting to see signs of an upturn. BoE's Greene and Mann spoke on Thursday, where the former isn't considering loosening policy, although did suggest she may shift her voting (dovishly) if measures of wage growth weaken.

Yen firmed vs. the Greenback despite soft Japanese GDP metrics, which saw some pullback in BoJ hike pricing. The currency strength could be a combination of technical factors after the pair ran out of steam at 150.88 as well as increased jawboning from Japanese officials. Pair was able to print a low of 149.55. Looking ahead, absent a pick-up in hawkish BoJ comms, focus for the pair will remain on the upside.

Antipodeans saw similar strength against the DXY, aided by strong US stocks. Australian Employment was disappointing while for the Kiwi, Governor Orr said a flexible approach to inflation targeting with a medium-term focus remains appropriate. AUD/USD and NZD/USD hit peaks of 0.6529 and 0.6127, respectively.

Euro profited off the broader Buck's dip in the backdrop of a plethora of ECB speak from the likes of President Lagarde, Chief Economist Lane, accompanied by De Cos and Scicluna. Separately, European Commission Winter Forecasts saw the EZ GDP growth forecast for 2024 cut to 0.8% from 1.2% in November and sees 1.5% growth in 2025. EUR/USD hit a high of 1.0784, with the single currency running out of steam ahead of the 100DMA at 1.0794 and the WTD peak from Monday at 1.0805.

Scandis benefitted from broader risk sentiment and the aforementioned Dollar selling, as opposed to anything currency-specific. Nonetheless, Norges Governor Bache said they won't need more rate hikes if economy develops as expected and must uphold confidence in inflation target, and inflation is coming down.

EMFX was mixed. CLP was sold, in spite of copper strength, RUB, CNH, and BRL were flat, while MXN and ZAR strengthened with the latter supported by rising spot gold prices. Lastly, and although the Crown was unreactive, CNB Vice-Governor Zamrazilova said debate on intervention to strengthen the Crown is not on the table.