US Market Wrap

16th February 2024: Stocks and bonds sold on hot PPI but dollar pares gains on soft UoM

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW**: Hot US PPI; Downbeat UoM, with 1yr inflation expectations rising; BoJ jawboning and source reports; Strong UK retail sales; Stellar AMAT earnings; NKE plans to reduce workforce by 2%.
- **WEEK AHEAD**: Highlights include minutes from the FOMC, ECB and RBA, Flash PMIs and PBoC. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing PBoC, BoK, CBRT and minutes from FOMC, ECB and RBA. To download the report, please click here.

MARKET WRAP

Stocks were lower on Friday with a hot PPI weighing on both stocks and bonds with underperformance in the rate-sensitive Russell 2k amid rising yields, a sharp reversal in Super Micro (SMCI) shares after its recent rally, as well as downside in the regional banking ETF, KRE. The Dollar initially caught a bid on the hot PPI although gains pared, particularly in wake of the downbeat UoM survey. Elsewhere, USD/JPY rose back above 150 despite hawkish source reports and more official jawboning out of Japan. GBP was flat vs. the Buck and Euro despite super strong retail sales data. Both Crude and precious metals advanced on Friday as the dollar eased from its peak while ever-present geopolitical tensions kept the crude space bid.

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PPI: PPI data was the latest hot economic print from the US, adding to the labour market and CPI report seen earlier in the month. Attention will lie heavily on the Fed's preferred gauge of inflation, PCE, due at the end of February. Headline PPI rose 0.3% M/M above the 0.1% forecast and above the prior -0.1%. The Y/Y PPI rose 0.9%, easing from the prior 1.0% pace but above the 0.6% consensus. The core print rose 0.5% (prev. -0.1%, exp. +0.1%) with the Y/Y rising 2.0% (exp.1.6%, prev. 1.8%) while the super core rose 0.6% (prev. 0.2%), with the Y/Y ticking up to 2.6% from 2.5%. The gains in the core prices show signs of broad producer price gains. Looking into the data, BLS highlighted the increase was driven by a 0.6% rise in service prices, while goods eased by 0.2%. Some on the Fed have been cautious of a reacceleration in goods prices but this report helps ease some of those fears, although the gains in services is still a primary concern for the Fed. Additionally, the BLS highlighted a 2.2% increase in the index for hospital outpatient care as a major factor behind the price increase for final demand services. Pantheon Macroeconomics write that they think this is a seasonable problem, noting "The BLS does not adjust the outpatient price series, arguing that the evidence of seasonality is not strong enough, but when we readjust the numbers we find hefty seasonal effects, especially in January". Meanwhile, Pantheon summarises that the data is another disappointment, but there is no change in the trend of the fundamentals. In relation to the PCE, PM adds the PPI data means they can finalize their core PCE forecast for January, at 0.32% - the highest since September. The desk concludes that "nearly a quarter of the January increase will come from the portfolio management component, which just lags the stock market".

UOM: Prelim February UoM Sentiment rose to 79.6 from 79.0, but fell short of the expected 80.0. Current conditions fell deeper than forecasted to 81.5 (exp. 82.0, prev. 81.9), while forward-looking expectations outshone consensus as it lifted to 78.4 from 77.1 (exp. 76.5). On the inflation footing, 1yr ahead ticked higher to 3.0% from 2.9% with the 5-10yr unchanged at 2.9%. Overall, Oxford Economics notes, “The significant improvement in confidence seen in the prior two months is now beginning to wane. While falling inflation should continue to support confidence, we expect a slowdown in durable goods consumption and a slight rise in the unemployment rate will keep a lid on sentiment.”

HOUSING STARTS/BUILDING PERMITS: Housing starts plunged 14.8% in January to 1.331mln, way beneath the prior of 1.562mln and the expected 1.46mln, but Oxford Economics stated they do not read too much into the decline in starts, as the decline was led by the more volatile multifamily sector in addition to harsh winter weather potentially affecting. As such, Oxford thinks that starts may continue to be volatile in the winter months, but expects it to bounce back and average about 1.45mln in 2024. Building permits, the more forward looking indicator or housing activity, dipped 1.5% to 1.47mln (exp. 1.509mln, prev. 1.493mln). However, the consultancy notes single-family permits increased, indicating more momentum in that sector.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 13+ TICKS LOWER AT 109-24

Treasuries bear-flattened with hot US PPI prefaced by hot UK retail sales ahead of the long weekend. 2s +8.9bps at 4.657%, 3s +8.0bps at 4.432%, 5s +7.5bps at 4.292%, 7s +6.6bps at 4.312%, 10s +5.5bps at 4.295%, 20s +4.2bps at 4.578%, 30s +2.8bps at 4.449%

INFLATION BREAKEVENS: 5yr BEI +4.4bps at 2.348%, 10yr BEI +3.5bps at 2.347%, 30yr BEI +2.4bps at 2.311%.

THE DAY: Treasuries entered stateside trade already in a bear-flattener, with desks noting a lack of dip buying appetite during APAC and London ahead of US PPI and the long weekend. In Japan, long end JGBs outperformed after some strong auctions, while there were later source reports in Reuters that the BoJ is on track to end negative rates in the coming months despite the economy falling into a recession. The selling extended in the London morning after the solid January retail sales figures, and T-Notes printed fresh lows at the NY handover of 109-28 ahead of the post-CPI/YTD lows of 109-16+.

Contracts crept again to new lows running into the PPI data, which proved timely after the figures came in hot across the board. T-Notes tumbled from 109-27 to new YTD troughs of 109-15 in the immediacy of the release, with the front end leading the weakness. However, contracts soon began to pare through the NY morning, perhaps aided by some analysts quick to dismiss the figures as a temporary blip in the Fed's disinflation progress. T-Notes managed to pare nearly all the post-PPI move as the dust settled, although failed to close the gap for the rest of the session. Instead, contracts gyrated within post-PPI ranges into the close. Traders are now casting an eye to the 20yr auction on Wednesday with no cash trade on Monday.

STIRS:

- SR3H4-1.5bps at 94.710, M4 -4.5bps at 94.955, U4 -7.0bps at 95.265, Z4 -9.0bps at 95.580, H5 -9.5bps at 95.860, M5 -10.0bps at 96.070, U5 -10.0bps at 96.210, Z5 -9.0bps at 96.290, H6 -8.0bps at 96.315, H7 -6.5bps at 96.285, H8 -5.5bps at 96.225.
- SOFR rose to 5.31% as of Feb 15th from 5.30%, volumes rose to USD 1.746tln from 1.596tln.
- NY Fed RRP op demand at USD 0.532tln (prev. 0.493tln) across 94 counterparties (prev. 82).
- EFFR flat at 5.33% as of Feb 15th, volumes rise to USD 112bln from 107bln.

CRUDE

WTI (J4) SETTLED USD 0.87 HIGHER AT 78.46/BBL; BRENT (J4) SETTLED USD 0.61 HIGHER AT 83.47/BBL

The crude complex was choppy to end the week, but ultimately eked out gains amid ever-present geopolitical tensions. In one of the latest updates, via Sky News Arabia, Israeli War Council member Gantz said Either Hamas releases detainees or Israel will expand the military operation to Rafah. WTI and Brent hit highs in the US afternoon of USD 78.44/bbl and 83.66/bbl, respectively, after initially seeing a slight dip lower on a hot US PPI report. Nonetheless, outside of the inflation data, fresh fundamental newsflow for oil was sparse. For the record, Baker Hughes Rig Count saw oil fall 2 to 497, Natgas unchanged at 121 leaving the Total declining 2 to 621.

EQUITIES

CLOSES: SPX -0.48% at 5,005, NDX -0.90% at 17,685, DJIA -0.37% at 38,627, RUT -1.39% at 2,032.

SECTORS: Communication Services -1.56%, Real Estate -0.99%, Technology -0.79%, Industrials -0.6%, Consumer Discretionary -0.42%, Financials -0.29%, Utilities -0.17%, Energy -0.02%, Materials +0.51%, Health +0.29%, Consumer Staples +0.16%.

EUROPEAN CLOSES: DAX: +0.42% at 17,117.44, FTSE 100: +1.50% at 7,711.71, CAC 40: +0.32% at 7,768.18, Euro Stoxx 50: +0.46% at 4,765.15, IBEX 35: -0.41% at 9,886.40, FTSE MIB: +0.12% at 31,732.39, SMI: +0.23% at 11,310.61.

EARNINGS:

- **Applied Materials (AMAT)** +6.5%: EPS and revenue beat, alongside upbeat commentary with next quarter guidance much better than expected. Note, AMAT report was for Q1 so incorporated January 2024 and has given a strong start to this year for tech names.
- **Dropbox (DBX)** -23%: Q1 and FY24 revenue guidance was light.
- **Roku (ROKU)** -24%: Despite solid Q4 metrics, the Q1 net loss outlook was much greater than expected and it offered downbeat macroeconomic commentary.
- **Trade Desk (TTD)** +17.5%: Top line beat with a strong Q1 outlook.
- **DraftKings (DKNG)** flat: Posted a surprise loss per share and was light on revenue. In comms, co. continues to expect annual operating losses for the next 12 months.
- **DoorDash (DASH)** -8%: Saw a larger loss per share than Wall St. consensus.
- **Coinbase Global (COIN)** +9%: Surprise profit, while revenue and transaction revenue beat. Next quarter subscription and services revenue outlook was better than expected.
- **Digital Realty Trust (DLR)** -8%: Core FFO was marginally light, while FY24 guidance disappointed.

STOCK SPECIFICS:

- **Apple (AAPL)** -1%: Close to completing a new AI tool for app developers, intensifying competition with Microsoft (MSFT) backed OpenAI.
- **Nike (NKE)** -2.5%: Plans to reduce its workforce by 2% to manage costs, according to WSJ. Elsewhere, Oppenheimer downgraded the stock noting it sees no quick fix.
- **HireRight (HRT)** +10%: To be acquired by General Atlantic and Stone Point for USD 14.35/shr which implies a total enterprise value of approx. USD 1.65bln. Note, HRT closed Thursday at 12.87.
- **GE HealthCare (GEHC)** +0.5%: General Electric (GE) plans to reduce its stake.
- **Sarepta (SRPT)** +8%: FDA to do priority review for traditional approval of gene therapy.
- **Paramount (PARA)** -5% has held recent talks with Comcast (CMCSA) about joining forces in streaming through a partnership or JV, among several potential strategic options the entertainment company is pursuing, according to WSJ citing sources.
- **Super Micro (SMCI)** -20% CEO said it to ship more servers if chips available and able to support up to USD 25bln of revenue and the level attainable if chips supplied

US FX WRAP

The Dollar was ultimately flat on Friday despite rising to peaks of 104.67 in wake of the PPI data which came in hotter than expected. Although, the move was short lived with DXY paring gains back to lows of 104.16 after a softer than expected UoM survey with 5yr inflation expectations unchanged but the 1yr rose to 3.0% from 2.9%. Fed speak saw remarks from Barr, Bostic and Daly, but little new was said. Daly, however, did note the real neutral estimate is now between 0.5-1% with a nominal rate between 2.5-3%. On the PPI data, WSJ's Timiraos highlights that "The core PCE index in January is likely to have risen 0.4%, the largest increase in a year, according to the forecasters who translate the CPI and PPI into the PCE. That would hold the 12-month rate steady at 2.9%".

The Euro was also relatively flat, with EUR/USD trading within 1.0733-1.87. The Yen saw marginal weakness vs. the Dollar taking USD/JPY back above 150.00 despite more jawboning and source reports the BoJ is on track to end NIRP in the coming months, but with the caveat that weak data means the BoJ may seek more clues on wages before acting. Swissy was flat while Gold caught a bid despite a move higher in US yields.

The Pound was also flat against the Greenback, with GBP also flat vs. the Euro despite a surprisingly strong January retail sales data report, offsetting some concerns after the UK economy entered a technical recession.

Antipodes outperformed in the G10 FX space while the Aussie outperformed its Kiwi counterpart. NZD was choppy but as the Buck pared post PPI strength the Kiwi managed to reclaim 0.6100 while AUD/USD found support around 0.6500 and looks set to end the week roughly where it started. CAD saw slight weakness vs the Dollar with a downbeat risk tone weighing while the upside in crude likely prevented sharper losses.

EMFX was mixed. BRL saw slight gains despite softer-than-expected inflation data while BCB's Galipolo reiterated data dependence. MXN and COP were flat despite gains in oil while CLP lagged, extending on losses despite notable strength in copper prices.

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