



US Market Wrap

20th February 2024: NVDA sold ahead of earnings; Soft CAD CPI eases global inflationary fears

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar down
- **REAR VIEW:** Soft Canadian CPI; COF to acquire DFS; WMT earnings beat & to acquire VZIO; HD FY comp. sales guidance disappoints; PBoC slashes 5yr LPR; OXY to sell WES stake.
- **COMING UP: Data:** Australian Composite Leading Index, Australian Wage Price Index, EZ Consumer Confidence, NZ Trade, Australian PMI **Events:** FOMC Minutes **Speakers:** Fed's Bostic, Bowman; BoE's Dhingra **Supply:** Australia, UK, Germany, US **Earnings:** Rio Tinto, Glencore, HSBC, BAE Systems, Fresenius, NVIDIA, Analog Devices, Synopsys.

MARKET WRAP

Stocks were lower Tuesday with Nvidia (NVDA) sold ahead of its earnings on Wednesday, although shares and indices did pare significantly into the close. There is a growing consensus that the Co. needs to print a massive beat to keep the momentum going or we are likely to see another post-earnings period of consolidation akin to what has been seen in recent quarters - the price action Tuesday reflects some front-running of those concerns. Meanwhile, AI bellwether Super Micro Computer (SMCI) also extended Friday's sharp sell-off, although it also trimmed losses significantly heading into the close. Earnings from Walmart (WMT) and Home Depot (HD) were "fine", although there was some concern from Walmart's comment that inflation hadn't fallen as much as anticipated. Treasuries bull-steepened after soft Canadian CPI eased global inflationary concerns ahead of Wednesday's 20yr auction and FOMC minutes. The Dollar was also sold broadly apart from vs CAD given the soft CPI. CNH saw strength against the aforementioned weaker Buck but initially sold off after the PBoC cut the 5yr LPR rate by more than expected to 3.95% from 4.2% (exp. 4.1%).

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 6 TICKS HIGHER AT 109-30

Treasuries bull-steepened Tuesday after soft Canadian CPI eased global inflationary concerns ahead of Wednesday's 20yr auction and FOMC minutes. 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: After T-Note futures troughed on Monday at 109-19 in holiday trade, ahead of the post-PPI low of 109-15, contracts gradually recovered into the Tuesday session, hitting resistance at the NY handover at 109-29, just above the pre-CPI 109-27 level. Ahead of the US' return, we had three solid auctions from Japan, Germany, and the UK, with UST traders beginning to set up for Wednesday's 20yr auction. Meanwhile, the ECB's Euro Area indicator of negotiated wage rates for Q4 fell slightly to 4.46% from 4.69%, in line with analyst expectations; note the Q1 data will be crucial for the ECB rate path with the figures still above the 3% level the ECB is looking for.

The NY handover saw no major macro red flags from Walmart (WMT) and Home Depot (HD) earnings reports, although Walmart did note inflation was stickier than it had expected. A healthy slew of corporate Dollar issuance capped strength at first, but the UST upside caught momentum, led by the front end, after the Canadian CPI data came in substantially on the soft side. That had extra impetus given there was no US data to digest. The strength extended through the NY morning to see T-Notes hit session peaks of 110-04, although that lost momentum into the afternoon with Wednesday's 20yr auction and FOMC minutes on deck.

THIS WEEK'S AUCTIONS: US to sell USD 16bln of 20yr bonds on Wednesday; to sell USD 9bln of 20yr TIPS on Thursday. US also to sell USD 28bln of 2yr FRNs (reopening) on Wednesday. In Europe, UK 5yr and German 10yr taps on Wednesday; IFR reports Euro area government bond auction issuance across the week is likely to total around EUR 13bln, a big drop from the considerable EUR 36.6bln issued at auctions last week. In Japan, a liquidity tap for 5-15.5yr on Thursday.



- 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 16th from 5.31%, volumes fall to USD 1.666tln from 1.746tln.
- NY Fed RRP op demand at USD 0.531tln (prev. 0.532tln) across 90 counterparties (prev. 94).
- EFFR flat at 5.33% as of Feb 16th, volumes fall to USD 110bln from 112bln.
- US sold USD 85bln of 3-month bills at 5.230%, covered 2.84x; sold USD 75bln of 6-month bills at 5.100%, covered 2.96x; sold USD 80bln of 42-day CMBs at 5.290%, covered 2.78x; sold USD 49bln of 52-week bills at 4.695%, covered 2.76x.
- 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 22nd and 17-week bills on Feb 21st; all to settle on Feb 27th.

CRUDE

WTI (J4) SETTLED (SINCE FRIDAY) USD 1.42 LOWER AT 77.04/BBL; BRENT (J4) SETTLED USD 1.22 LOWER AT 82.34/BBL

Oil prices were lower on Tuesday despite the soft Dollar with the broader risk-off conditions weighing. Even the surprise 25bp cut in China's 5yr LPR rate wasn't enough to sustain any oil bid, and the aggressive move is even being cited as a headwind for commodities in as much as it reflects the size of the problem China's economy is facing. After trading with a mild bid in Monday's holiday-thinned trade, WTI and Brent April contracts reversed to lows of USD 76.80 /bbl and 82.05/bbl, respectively, late in the NY morning on Tuesday, coinciding with the stock market sell-off. Elsewhere, amid Venezuela's threatening of Guyana, an Exxon (XOM) executive was on BBG TV saying Exxon is "not going anywhere" and he expects Guyana to compete with Permian on production. Meanwhile, Russian Foreign Minister Lavrov said on Tuesday, amid his visit to Caracas, that Russia and Venezuela are to broaden their oil production cooperation, that follows Bloomberg reports earlier that Russia had shipped Urals to Venezuela, marking the first (observed) shipment in at least five years. Note the weekly US inventory data is delayed by a day on account of the market holiday on Monday.

EQUITIES

CLOSES: SPX -0.60% at 4,975, NDX -0.79% at 17,546, DJIA -0.17% at 38,563, RUT -1.41% at 2,004.

SECTORS: Technology -1.27%, Consumer Discretionary -1%, Energy -0.95%, Health -0.4%, Financials -0.37%, Industrials -0.35%, Materials -0.22%, Real Estate -0.18%, Utilities -0.13%, Communication Services -0.11%, Consumer Staples +1.13%.

EUROPEAN CLOSES: DAX: -0.14% at 17,068.43, FTSE 100: -0.12% at 7,719.21, CAC 40: +0.34% at 7,795.22, Euro Stoxx 50: -0.07% at 4,759.75, IBEX 35: +0.94% at 10,038.20, FTSE MIB: +0.08% at 31,701.48, SMI: +0.51% at 11,456.96.

STOCK SPECIFICS:

- **Walmart (WMT)** +3.5%: EPS and revenue beat, as did total US comp. sales ex-gas. Lifted quarterly dividend 9% and next quarter guidance topped expectations.
- **Vizio (VZIO)** +16%: Reached a deal to be acquired by Walmart for USD 2.3bln or 11.50/shr. VZIO closed Friday at USD 9.53/shr. Note, WSJ sources earlier in Feb said WMT was in talks to acquire VZIO in excess of USD 2bln.
- **Home Depot (HD)** flat: US comp. sales declined more than expected and surprisingly forecasted FY24 comp. sales to fall. EPS and revenue beat alongside raising quarterly dividend ~8%.
- **Capital One Financial (COF)** flat, **Discover Financial Services (DFS)** +12.5%: Capital One is to acquire Discover Financial Services in an all-stock transaction valued at USD 35.3bln. **V** and **MA** saw downside as a result.
- **Truist (TFC)** -1.5%: To sell its remaining stake in Truist Insurance to a Stone Point Capital led consortium, which values the unit at USD 15.5bln.
- **Apple (AAPL)** -0.5%: Brussels is to impose its first ever fine on the tech giant for allegedly breaking EU law over access to its music streaming services, according to FT; fine is set to be EUR 500mln.
- **Medtronic (MDT)** +1.5%: Topped Wall St. consensus on EPS and revenue alongside raising FY24 organic revenue growth and EPS guidance.
- **Caterpillar (CAT)** -2.5%: Downgraded at Evercore ISI; cited concern over a longer-than-expected outlook for earnings growth.
- **Intel (INTC)** +2.5%: Biden admin reportedly intends to award the chipmaker over USD 10bln in subsidies.



- **Ford (F)** -0.5%: Cuts price of Electric Mustang Mach-E by USD 3.1k-8.1k, via Electrek.
- **Occidental Petroleum (OXY)** -1.5%, **Western Midstream Partners (WES)** +5.5%, halted: OXY is exploring a sale of WES, which it has a 49% stake in, at a market value of "more than" USD 18bln, according to Reuters sources.
- **Citigroup (C)** +1%: CFO Mason says expecting consumer spending growth to slow; demand improving for M&A and debt capital markets; client sentiment is "cautiously optimistic".
- **Kroger (KR)** +1%, **Albertsons (ACI)** -1.5%: FTC and states are poised to sue over KR and ACI deal next week, according to Bloomberg; FTC suit expected before Feb. 28th, when timing agreement expires.

US FX WRAP

The Dollar sold off on Tuesday in the holiday-shortened week to see the DXY slip to a low of 103.790, beneath its 100 DMA of 104.030, with the 200DMA at 103.680 the next target. While there was a lack of tier 1 US developments, the Greenback was weighed on by firmer Treasuries as participants await FOMC Minutes, Nvidia earnings (Wed) and a slew of Fed speak on Thursday - the soft Canadian inflation data also supported lower yields. Elsewhere, the Philly Fed Services survey index declined to -8.8 from -3.7, with the internals also falling.

CAD was the G10 laggard and pared pre-data gains after Canadian CPI came in softer than expected, lifting USD/CAD above 1.3500. Money market pricing for the BoC also moved dovish, with c. 75bps of cuts priced throughout 2024 vs 65bps pre-data. Headline CPI in January fell to 2.9% Y/Y from December's 3.4%, beneath the expected 3.3%, marking the first time since June that the headline rate fell within the BoC's control range. BMO notes, "The [BoC] will likely remain cautious in the face of still-strong wage gains, firm services prices, and the reality that core inflation is still holding above 3%."

EUR, NZD, GBP, and AUD all saw similar gains. The Euro benefitted from the weaker Dollar while the ECB Euro Area indicator of negotiated wage rates for Q4 eased, although it had little impact on the single currency, with the figures still north of what is considered consistent with 2%. The Q1 data will be key for the ECB's rate path.

GBP was bid against the Dollar and flat vs. the Euro with Cable rising above 1.2650 to peaks of 1.2668 from lows of 1.2580 while EUR/GBP traded between 0.8546 and 0.8578. On the BoE, Goldman Sachs strats say they expect rate cuts to start in June, vs their prior forecast of May. Meanwhile, Governor Bailey, who was speaking in Parliament, said inflation does not need to fall to the BoE's 2% target before policymakers could back an interest-rate cut, whilst simultaneously playing down the market's rate path and also endorsing potential cuts this year.

AUD saw gains despite the stock sell-off but the currency, alongside **NZD**, was supported by the larger-than-expected cut to the 5yr LPR by the PBoC. Meanwhile, the RBA Minutes noted the central bank considered the case to hike by 25bps or hold steady, but ultimately left rates on hold given balanced risks to the outlook. However, in fitting with the statement, it agreed it was appropriate to not rule out another hike in rates.

CNH saw strength against the aforementioned weaker Buck but initially sold off after the PBoC cut the 5yr LPR rate by more than expected to 3.95% from 4.2% (exp. 4.1%), although it left its 1yr LPR unchanged at 3.45% despite expectations for a 5bps cut to 3.40%. Given the 5yr rate is the reference rate for mortgages, desks are viewing it as a move to support the property sector, a signal of targeted easing, and a dovish policy stance. For the Newsquawk review, please click [here](#). Nonetheless, as previously alluded to, the Yuan reversed initial weakness and USD/CNH ground lower throughout the US session on account of the broader Dollar selling that developed later on.

EMFX was mixed. COP and MXN saw losses, while CLP, BRL, and ZAR all firmed with the former benefitting from strength in copper prices. For South Africa, Q4 unemployment ticked higher to 32.1% (prev. 31.9%) and President Ramaphosa announced the national election is to be held on May 29th. Lastly, for the Zloty, the EU has signalled a potential end to the rule of law dispute with Poland, according to FT citing a plan which sets out several bills that Tusk's coalition will seek to pass in order to reform the judiciary and reverse the overhauls from prior government. Hurdles do remain, however.

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