US Market Wrap

21st February 2024: NVDA sold into earnings; bonds tumble on awful 20yr auction

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude up, Dollar flat
- **REAR VIEW**: NVDA sold again; Fed Minutes echo recent Fed Speak, gives nod to balance sheet discussion; Woeful 20yr bond auction; Software stocks hit on weak PANW earnings.
- **COMING UP**: **Data**: Japan, EZ, UK, US PMIs, EZ CPI (Final), US IJC **Events**: ECB Minutes, CBRT Policy Announcements **Speakers**: RBA's Bullock; Fed's Jefferson, Bowman, Harker, Kashkari, Cook **Supply**: US **Earnings**: Lloyds, Anglo American, WPP, Hays, Hikma, Rolls Royce, Axa, Engie, Heidelberg Materials, Mercedes Benz, Hochtief, Nestle, Zurich Insurance, BE Semiconductor, Telefonica, Iberdrola, Repsol, Pioneer Natural Resources, Moderna, Intuit, Booking

MARKET WRAP

Stocks were choppy on Wednesday with Nvidia (NVDA) down again ahead of its much-anticipated earnings release after hours with options market implying a c. 10% move. There was no US data again to digest with muted FX vol. However, Treasuries were sold through the US session with another slew of corporate debt - including USD 13.5bln from Cisco (CSCO) - and an awful 20yr auction, which tailed 3.3bps, the largest on record; note that Bunds saw much greater weakness to fresh YTD lows in lack of an obvious catalyst ahead of the Flash PMIs on Thursday. The FOMC minutes were a typical non-event, echoing the broader tone of Fed Speak seen in wake of the January Fed meeting, cautioning about the risks of cutting too soon. Oil prices were firmer in lack of much change in the fundamentals ahead of inventory figures, although there was a brief dip (which was swiftly bought) after an Israeli official said there are signs indicating a possible hostage deal. Nat Gas futures surged higher off of multi-year lows with the sector rejoicing on the back of Chesapeake slashing its production guidance. In stocks, nat gas producers benefitted from the price rise. Homebuilders outperformed after Toll Brothers (TOL) earnings report. Software was hit after Palo Alto Networks (PANW) slashed its billings guidance. China stocks are on watch Thursday on the back of Bloomberg reports China is said to be tightening its grip on stocks with a net sale ban at the open and close.

US

FOMC MINUTES: The latest minutes were very in fitting with recent FOMC commentary. The minutes confirmed that most policymakers were cognizant of the risks of easing too quickly although a couple pointed to downside risks from maintaining an overly restrictive stance for too long. Officials also highlighted the uncertainty around how long a restrictive policy stance would be needed for. Officials had judged that the policy rate is likely at its peak for this cycle, while several emphasized the importance of communication clearly about their data-dependent approach. On inflation, the minutes noted that while risks to achieving dual-mandate goals were in better balance, officials noted they remained 'highly attentive' to inflation risks. Policymakers generally noted they did not forecast it as appropriate to lower the funds rate until gaining 'greater confidence' in inflation moving sustainably toward 2%, a line that has been heard numerous times from several Fed officials recently. Some officials also cautioned that progress on inflation could stall. Some more details on the balance sheet were revealed, the minutes said that reductions in the overnight RRP usage saw many officials state it would be appropriate to start in depth balance sheet discussions at the next meeting (as expected). A few had said a balance sheet runoff could continue after rate cuts began and some said slowing the pace of the balance sheet runoff could help smooth the transition to ample reserves, and could allow the balance sheet runoff to continue for longer. Within the minutes, the staff's economic outlook was slightly stronger than what was seen in December while staff placed "some weight" on the chance that further progress on lowering inflation could take longer than expected. Staff also characterized the US Financial system vulnerabilities as notable, adding that risks to the economic forecast were skewed to the downside. On the release, Morgan Stanley quipped the "FOMC minutes revealed policymakers strayed far from focusing solely on near term policy and discussed a range of macro topics... This is a Committee with plenty of time on its hands to determine its next move".

FED'S BARKIN (voter), speaking on Sirius XM, said the big picture of US data on inflation and jobs has been "remarkable", while the recent PPI and CPI has been "less good", showing dependence of disinflation on goods. Further on data, Barkin noted January [data] "made things harder" but one should not put too much weight on it given the seasonal issue. On the economy, the Richmond Fed President added interest sensitive sectors are struggling, but people still have money to spend on services and experiences. Moreover, weaker growth overseas should not have much impact on a US recovery which is being driven by domestic consumption. In addition, US still has ways to go to get to a soft landing and the country is on the back end of its inflation problem, and the question now is how much longer it will take.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLE 10 TICKS LOWER AT 109-20

Treasuries were sold across the curve with corporate debt supply and an awful 20yr auction weighing. 2s +4.1bps at 4.653%, 3s +4.6bps at 4.433%, 5s +4.6bps at 4.297%, 7s +4.7bps at 4.330%, 10s +4.8bps at 4.323%, 20s +4.5bps at 4.613%, 30s +4.1bps at 4.490%.

INFLATION BREAKEVENS: 5yr BEI +2bps at 2.360%, 10yr BEI +1.8bps at 2.358%, 30yr BEI +2.8bps at 2.335%.

THE DAY: Treasuries rose gradually and modestly through the Wednesday session during APAC and European trade. T-Notes hit interim lows of 109-27 at the Tokyo handover, with 110-00 serving as resistance until European trade got underway, where the long-end led a recovery bid with some strong German and UK auctions underpinning govvies in an otherwise quiet session. T-Notes hit session peaks of 110-04 at the NY handover.

A fresh slew of corporate debt deal announcements, including a USD 13.5bln Cisco jumbo deal, capped further strength amid related rate locking flows (Tsy selling/swap paying) and saw contracts begin to pare lower through the NY morning. The front and belly of the curve led a more meaningful selloff later on into the European close, amplified by a massive 35k/14.5k 2yr/Ultra 10yr block flattener - note Bunds were in freefall as they breached to new YTD lows although the spillover to USTs was much more contained. Interestingly, long end Treasuries were relatively outperforming, lagging the move lower despite the approaching 20yr auction. So when the auction tailed at 3.3bps, the largest on record (details below), the curve re-steepened in the afternoon as duration caught up to the downside. T-Notes hit lows of 109-18+ right after the auction, stretching to a session low of 109-18 in the choppy post-FOMC minutes (which were typically mixed and stale) reaction.

Looking ahead, watch out for any spillover troubles from stocks in the US after hours if the Nvidia (NVDA) report proves as much of an event as the 10% implied move options are pricing. Thursday is also a busy one with Flash PMIs (on both sides of the pond) and a slew of Fed Speak the highlights, including Waller and Jefferson.

20YR AUCTION: A poor USD 16bln new issue from the Treasury which saw a tail of 3.3bps, the largest tail on record for the 20yr since its reintroduction, much worse than the 0.8bps tail last month and the six-auction average 0.1bps. The bid/cover ratio was 2.39x, beneath the prior 2.53x and avg. 2.59x. Dealers were left with a chunky 21.2%, above the prior 17.3% and average 12.1%, with Directs stepping down to 19.7% from last month's 20.5%, while Indirects rose to 59.1% from 62.2%. It's likely that a combination of the relative richness of the issue (20s trade rich on the 10s20s30s fly vs its history) and coming on the heels of the upsized February refunding auction has reduced the pool of buyers for the 20yr, not to mention it was also ahead of the FOMC minutes.

THIS WEEK'S AUCTIONS: US to sell USD 9bln of 20yr TIPS on Thursday. No more major sovereign issuance this week in Europe. In Japan, a liquidity tap for 5-15.5yr on Thursday.

THIS WEEK:

- **Thurs**: Flash PMIs (US & Europe), Chicago Fed, Existing Home Sales, IJC, 30yr TIPS auction, Fed's Jefferson (v), Bowman (v), Harker (nv), Cook (v), Kashkari (nv), and Waller (v), auction announcement (2s, 5s, 7s), in addition to Eurozone final HICP (Jan), ECB minutes, and Canadian retail sales.
- **Fri**: No US data, but we do get German Q4 GDP, Ifo survey, Eurozone money supply, and UK CBI trends. Japan holiday.

STIRS:

- SR3H4 -0.75bps at 94.705, M4 -2.5bps at 94.945, U4 -3bps at 95.26, Z4 -4bps at 95.575, H5 -5bps at 95.85, M5 -5.5bps at 96.065, U5 -5.5bps at 96.215, Z5 -5.5bps at 96.295, H6 -5.5bps at 96.31, H7 -5bps at 96.275, H8 -4.5bps at 96.21.
- SOFR flat at 5.30% as of Feb 20th, volumes fall to USD 1.610tln from 1.666tln.
- NY Fed RRP op demand at USD 0.575tln (prev. 0.531tln) across 96 counterparties (prev. 90).
- EFFR flat at 5.33% as of Feb 20th, volumes fall to USD 104bln from 110bln.
- US sold USD 60bln of 17-week bills at 5.215%, covered 2.97x.

- US sold USD 28bln 2yr FRNs at high discount margin 0.200% (prev. 0.245%), covered 2.99x (prev. 3.61x; avg. 3.10x), Dealers took 34.2% (prev. 16.4%; avg. 35%).

CRUDE

WTI (J4) SETTLES USD 0.87 HIGHER AT 77.91/BBL; BRENT (J4) SETTLES USD 0.69 HIGHER AT 83.03/BBL

Oil prices were ultimately firmer on Wednesday after losses in Europe were reversed gradually through the rest of the session. WTI and Brent April contracts hit lows of USD 76.32/bbl and 81.66/bbl, respectively, in the London morning in lack of an obvious catalyst outside of "global demand woes", that was before recovering gradually through the rest of the session to settle at highs, also in lack of an obvious catalyst outside of "geopolitical angst". There was a brief dip later in the US session, which was swiftly bought, on the back of the Israeli war cabinet member Gantz saying there are initial signs indicating a possible new hostage deal. Elsewhere, and not market moving, Guyana's natural resources minister said in a newswire interview that Guyana will not approve drilling near Venezuela until it hears the international court decision. Meanwhile, nat gas futures surged further off multi-year lows, extending the late Tuesday bounce, after Chesapeake (CHK) cut its production guidance for the year.

EQUITIES

CLOSES: SPX +0.13% at 4,982, NDX -0.38% at 17,479, DJI +0.13% at 38,612, RUT -0.47% 1,995.

SECTORS: Energy +1.86%, Utilities +1.36%, Real Estate +0.72%, Consumer Discretionary +0.72%, Materials +0.57%, Industrials +0.42%, Financials +0.31%, Consumer Staples +0.29%, Health +0.26%, Communication Services +0.19%, Technology -0.76%.

EUROPEAN CLOSES: DAX: +0.29% at 17,118.12, FTSE 100: -0.73% at 7,662.51, CAC 40: +0.22% at 7,812.09, Euro Stoxx 50: +0.27% at 4,773.05, IBEX 35: +0.69% at 10,107.20, FTSE MIB: +1.00% at 32,018.40, SMI: -0.33% at 11,419.30.

EARNINGS:

- **Analog Devices (ADI)** +2%: Next quarter guidance light. EPS and revenue beat alongside lifting quarterly dividend +7%.
- **Palo Alto Networks (PANW)** -28%: Next quarter outlook disappointed in addition to cutting FY24 billings view.
- **Keysight Technologies (KEYS** -7%: Next quarter guidance underwhelmed although top and bottom-line beat.
- **SolarEdge Technologies (SEDG)** -12%: Revenue missed with Q1 outlook massively short.
- **Garmin (GRMN)** +9%: Top and bottom line surpassed Wall St. expectations, announced USD 300mln share repurchase programme, with FY24 outlook also surpassing consensus.
- **Toll Brothers (TOL)** +4%: EPS and revenue beat alongside upbeat commentary.
- **International Flavors & Fragrances (IFF)** -6.5%: EPS and revenue short, cuts dividend 50% and FY24 revenue view light. Disclosed a USD 2.6bln non-cash goodwill impairment charge in the quarter.
- **Teladoc (TDOC)** -22%: Revenue was light, while next quarter it forecasts a greater than loss per share than expected and missed on revenue.
- **Chesapeake (CHK)** +8%: Profit beat and lowered prior CapEx guidance approx. 20% through rig count reductions and deferring completions and turn-in-lines.

STOCK SPECIFICS:

- **Intel (INTC) -2.5%** : Launches world’s first systems foundry designed for the AI era; Microsoft (MSFT) will use Intel to manufacture home-grown processor and MSFT will produce chip using Intel's 18a technology.
- **PNC Financial (PNC)** (flat): Reserved aggressively last year for CRE and 'a little bit less' on NII guidance now expected. Forecasts NII for Q1 down 3-5%.
- **Regions Financial (RF)** -0.5%: CFO forecasts pressure in office and CRE; sees slowing loan growth in 2024. Real challenge is managing deposit costs. Forecasts tailwinds in repricing of balance sheet. NII will bottom out soon before going back up.
- **Amazon (AMZN)** +1% **Walgreens Boots Alliance (WBA)** -2.5%: AMZN will replace WBA in the Dow Jones Industrial Average.

US FX WRAP

The Dollar was flat on Wednesday with the FOMC minutes doing little to alter the narrative given it was largely a repeat of recent Fed comms. The minutes highlighted that most policymakers noted the risks of easing too quickly and that they stressed the importance of being data-dependent, they also judged the policy rate is likely at its peak for this cycle. On the balance sheet, it stated it would be appropriate to start in depth balance sheet discussions at the next meeting. DXY managed to keep hold of 104 throughout most of the session although two-way price action over the FOMC minutes saw DXY hit a low of 103.94.

The Euro saw mild gains but did briefly touch a low of 1.0791 in the European morning in a day of light newsflow before EGBs reversed initial strength and tumbled throughout the session. EUR/USD looks set to enter the APAC session north of 1.08 ahead of the Flash PMIs on Thursday.

The Yen saw mild weakness vs the buck on account of upside in UST yields which saw the pair rise above 150.00 again.

Antipodes were mixed, AUD saw mild weakness while NZD saw mild gains, taking AUD/NZD sub 1.06. Out of New Zealand, PPI outputs for Q4 eased to 0.7% from 0.8% while inputs also eased to 0.9% from 1.2% Q/Q. Meanwhile, in Australia, the Q4 wage price index was hotter than expected, rising to 4.2% despite expectations for an unchanged print at 4.1% (prior was revised up from 4.0%).

GBP and **CAD** saw mild gains vs the Dollar despite the downbeat risk environment ahead of NVDA earnings this evening. Oil prices saw two-way price action but that had little impetus on the Looney on Wednesday.

In EMFX, TRY and ZAR saw weakness in response to the downbeat risk tone. The ZAR did see initial strength on the latest budget which saw SA announce the government is to draw down ZAR 150bln over three years from its gold and FX contingency reverse account, but any gains then pared by the end of the US session. Note, South African CPI was mixed with the headline M/M rising 0.1% in line but the core M/M was hotter at 0.3% (exp. 0.2%, prev. 0.2%). The Y/Y metrics saw the headline beneath expectations at 5.3% (exp. 5.4%), but rising from the prior pace of 5.1%. Core was hot at 4.7%, above the prior and forecast 4.5%. MXN was flat vs the buck despite disappointing retail sales in December, which declined 0.9%, short of the +0.2% forecast and easing from the prior +0.1%. BRL and CLP were also softer in response to the risk tone. Elsewhere, THB saw strength after Nikkei reported the Bank of Thailand resisted calls for a special rate meeting. The BoT chief has denied the economy is in crisis after the PM urged rate cuts.