newsquawk

US Market Wrap

22nd February 2024: NVDA triggers market melt up while bonds flatten on falling jobless claims

- **SNAPSHOT**: Equities up, Treasuries flatten, Crude up, Dollar flat.
- **REAR VIEW**: Strong NVDA earnings; US Jobless Claims fall; US PMIs see soft services but strong mfg.; Mixed EZ PMIs - France strong, Germany weak; Strong US Existing Home Sales; Poor 30yr TIPS auction
- **COMING UP**: **Holiday**: Japan, **Data**: UK GfK Consumer Confidence, Chinese House Prices, German GDP, Ifo, NZ Retail Sales, **Events**: ECB Consumer Expectations Survey Results **Speakers**: ECB's Schnabel **Supply**: Italy **Earnings**: Deutsche Telekom, Allianz, BASF, Standard Chartered

MARKET WRAP

Stocks surged higher on Thursday after Nvidia's (NVDA) solid earnings and guidance propelled tech and broader indices. NVDA itself saw a record performance, surging 16%+, with the NDX up c. 3%. The rally was not just limited to tech, however, with around 3/4 of the S&P 500 posting gains. Data and macro was very much second fiddle for stocks, although Treasuries saw pronounced flattening amid a fall in jobless claims and mixed PMI data ahead of the front-loaded auctions next week. The S&P Flash PMIs saw the manufacturing index rise and the services decline, albeit both remain in expansionary territory, while S&P said, "the survey's gauge of selling prices for goods and services continues to run at a level consistent with the Fed hitting its 2% inflation target". However, the Eurozone figures were much more mixed with German manufacturing remaining in a rut, whilst the inflation gauges saw little improvement. In FX, the initial cyclical FX rally pared as the Dollar regained lost ground amid the tumble lower in jobless claims, with the tightening labour market metric coinciding with the survey period for NFP. Fed's Vice Chair Jefferson (voter) and Philly Fed's Harker (non-voter) both towed the party line in opening remarks, calling for caution on cutting rates too early, without getting into specifics on timing beyond an acknowledgement that cuts would likely occur this year. Harker in the Q&A however did suggest a May rate cut is possible, although it is not his base case. Oil prices were ultimately firmer after reversing initial losses in what was similar price action to Wednesday, supported by Red Sea escalation and surging stocks. Nat Gas futures failed to make it three consecutive sessions of gains, with losses accelerating after the weekly inventory data.

US DATA

JOBLESS CLAIMS: Initial Jobless Claims data for w/e 17th Feb, which includes the usual survey period for the BLS NFP jobs report, was hot. Initial claims fell to 201k from 213k, well beneath the 218k forecast and underneath the lowest analyst estimate of 209k. The drop in the latest week saw the 4wk average fall to 215.25k from 218.75k. Continued Claims for the preceding week was also hot, falling to 1.862mln from 1.889mln, beneath the 1.885mln forecast. Although just one week of data, the trend recently has been upwards but this somewhat offsets some of the recent upside in claims data. Many forecast claims to continue to tick up throughout 2024 but given how resilient the labour market has been, the upside in claims may not be as large as initially expected. Within the report, the unadjusted data saw claims fall 26k from the prior week to 198k, while the seasonal factors had expected a decrease of 13.5k. Looking ahead, Pantheon Macroeconomics write "The seasonals for the next few weeks are less favourable and, more importantly, several of the key leading indicators for initial claims are now pointing higher, including Google searches for jobs cuts and the Challenger and WARN data on layoffs".

S&P GLOBAL FLASH PMIs: S&P Global Manufacturing Flash PMI for February rose to 51.5, above the expected 50.5 and the prior 50.7. Services dipped to 51.3 from 52.5 (exp. 52.0), leaving the Composite declining to 51.4 from 52.0. Within the report, it noted that the US economy continued to expand midway through Q1, pointing to annualized GDP growth in the region of 2%. It further adds, "although service sector growth cooled slightly, manufacturing staged a welcome return to growth, with factory output growing at the fastest rate for ten months." Lastly, "the survey's gauge of selling prices for goods and services continues to run at a level consistent with the Fed hitting its 2% inflation target, and a further fall in cost growth to the lowest since October 2020 hints at price pressures remaining subdued in the coming months."

EXISTING HOME SALES: US existing home sales rose 3.1% in January to 4mln from 3.88mln, the strongest pace August '23, above the consensus of 3.97mln. The inventory of homes for sale lifted M/M and Y/Y, but as Oxford

Economics notes, at three months of supply, it is still quite tight, and it [inventory of homes] is expected to remain scarce, as homeowners with low mortgage rates sit on the sidelines. Looking forward, Oxford Economics expect home sales to trend higher in 2024 to 4.2mln by Q4, although the more recent backup in mortgage rates of about 40bps may limit near-term sales gains. Nonetheless, the consultancy expects rates to resume their decline later in the year as the Fed's rate cuts draw closer. On prices, as OxEco points out, the median home price dipped 0.6% M/M, but seasonal declines in home prices are not unusual in the winter when housing activity is slower. On a Y/Y basis, home prices lifted 5.1%, the strongest gain since October 2022.

FED

Fed Vice Chair Jefferson (voter) largely toed the Fed line, noting it is likely appropriate to start cutting rates later this year but he wishes to see evidence that inflation is heading to target in a sustainable manner. Jefferson said the January CPI data was disappointing and it shows the path down is likely to be bumpy. He does expect core services inflation will continue to moderate however as the labour market cools. He also noted that inflation progress, employment weakening and geopolitical risks remain elevated but the imbalance between labour demand and supply has narrowed. He remains cautiously optimistic about progress on inflation. Jefferson also highlighted three key risks, too resilient consumer spending stalling, inflation progress, and employment weakening and geopolitical risks remaining elevated.

Harker (non-voter) also echoed recent Fed rhetoric. He said the Fed may be near the point of cutting rates but he is unsure of when it will happen, noting the greatest risk is that the Fed cuts rates too early. Harker wants more confidence that inflation is moving back to 2% and he expects progress to be bumpy, with recent CPI showing uneven progress. Harker did acknowledge the disinflation trend has picked up and the Fed are now in the last mile of heading to 2%. He did note he was concerned by the rise in credit card delinquencies, while on the balance sheet he said he supports slowing before halting the balance sheet contraction. He also stated that financial market liquidity remains abundant. In his post-speech Q&A, Harker warned If market loosens financial conditions too much, the Fed will have to weigh that. He also said a May rate cut is possible, and he will not take it off the table, but crucially it is not his current forecast. He said a couple of more months data could change that for him.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLE 4 TICKS LOWER AT 109-16

Treasuries saw pronounced flattening on Thursday amid a fall in jobless claims and mixed PMI data ahead of the front-loaded auctions next week. 2s +5.9bps at 4.712%, 3s +5.1bps at 4.484%, 5s +3.1bps at 4.330%, 7s +1.6bps at 4.347%, 10s +0.2bps at 4.325%, 20s -2.2bps at 4.578%, 30s -3.2bps at 4.460%.

INFLATION BREAKEVENS: 5yr BEI -1.5bps at 2.339%, 10yr BEI -2.2bps at 2.332%, 30yr BEI -2.4bps at 2.307%.

THE DAY: T-Notes recovered to session peaks of 109-24 in the APAC Thursday session with Japan selling some 10yr, 20yr and 30yr JGBs in a liquidity tap saw some support from JGBs at the time. Bear-flattening kicked in after the mixed European PMIs (recovery in services but manufacturing still suppressed), but crucially, included no relent on the price pressure gauges; there was also some post-FOMC minutes focus on what was not said that was considered hawkish on the margin. T-Notes found support at 109-18+ which held until the NY morning.

The NY arrival saw a continuation of the bear-flattening, taking T-Notes to new session lows. The announcement of AbbVie's seven-part debt deal weighed further, which was ultimately upsized to USD 15bln from USD 13bln, coming ahead of the USD 9bln 30yr TIPS auction, not to mention next week's ramped size 2yr, 5yr, and 7yr auctions. Contracts hit their troughs of the session at 109-10 on the heels of the fall in initial jobless claims, although contracts swiftly pared the data move, with the long end leading a bounce off the lows, accentuating the curve's flattening. Not long after, the mixed Flash PMIs with the promising inflation commentary saw T-Notes extend higher to match their APAC peaks of 109-24. However, contracts trundled back lower within ranges through the rest of the session, with the hot existing home sales figures, Fed's Jefferson (who like his colleagues, called for caution on cutting too soon), and poor TIPS auction weighing. Friday has no notable scheduled events in the US, but we do get German Q4 GDP, Ifo survey and UK CBI trends. Japan is on holiday.

30YR TIPS AUCTION: Treasury sold USD 9bln of new issue 30yr TIPS in what was a poor demand reception. The 2.200% high yield, which despite being at multi-month highs, marked a tail of 2.5bps, worse than last August's 2bp tail, and adds to the poor 20yr auction on Wednesday. The bid/cover ratio of 2.43x was above the prior 2.42x and six-auction average (which goes back to February 2021) of 2.39x. Dealers were left with 9% (prev. 4.3%; avg. 12.6%), with declines vs August in both Directs and Indirects.

NEXT WEEK'S AUCTIONS: US to sell its ramped size, new issue USD 63bln of 2yr notes and USD 64bln of 5yr notes both on Monday and USD 42bln of 7yr notes on Tuesday; all to settle on Thursday (in time for month end). Japan is to sell a 5yr transition note on Tuesday and a 2yr note on Thursday. UK is to sell a 15yr inflation linker on Tuesday and a 7yr note on Wednesday. Germany is to sell a 26yr green bond on Tuesday, followed by 15yr bonds on Wednesday.

STIRS:

- SR3H4 -0.5bps at 94.698, M4 -3.5bps at 94.905, U4 -6bps at 95.19, Z4 -7.5bps at 95.495, H5 -8bps at 95.765, M5 -8bps at 95.98, U5 -6.5bps at 96.145, Z5 -5bps at 96.245, H6 -3.5bps at 96.28, H7 -1bps at 96.265, H8 +1bps at 96.22.
- SOFR flat at 5.30% as of Feb 21st, volumes fall to USD 1.607tln from 1.610tln.
- NY Fed RRP op demand at USD 0.553tln (prev. 0.575tln) across 86 counterparties (prev. 96).
- EFFR flat at 5.33% as of Feb 21st, volumes fall to USD 101bln from 104bln.
- US sold USD 95bln of 1-month bills at 5.285%, covered 2.90x; sold USD 90bln of 2-month bills at 5.275%, covered 2.78x.
- Treasury leaves 6-, 13-, and 26-week bill auction sizes unchanged at USD 80bln, 79bln, and 70bln, respectively; 13- and 26-week bills to be sold on Feb 26th and 6-week on Feb 27th; all to settle on Feb 29th.

CRUDE

WTI (J4) SETTLES USD 0.70 HIGHER AT 78.61/BBL; BRENT (J4) SETTLES USD 0.64 HIGHER AT 83.67/BBL

Oil prices were ultimately firmer Thursday after reversing initial losses in what was similar price action to Wednesday, supported from Red Sea escalation and surging stocks. Red Sea angst notched up further after the leader of Yemen's Houthis said attacks in the Red Sea would escalate. At the same time, there have been some more promising in-tone comments from Israeli officials over ceasefire negotiations. Meanwhile, the EIA reported US crude stocks built 3.5mln bbls in the latest week, similar to analyst expectations, although refinery utilisation rates remained suppressed amid some key refinery outages; the products saw a net draw of 4.3mln bbls, deeper than analyst expectations. The Biden administration added 750k bbls to the SPR, marking the 10th straight week of SPR builds. In Russia, Reuters reports its daily oil exports from its Western Ports may decline 6% in March amid higher refinery runs after outages in recent months.

EQUITIES

CLOSES: SPX +2.11% at 5,087, NDX +3.01% at 18,005, DJI +1.18% at 39,069, RUT +0.96% at 2,014.

SECTORS: Technology surged by +4.35%, Consumer Discretionary increased by +2.19%, Communication Services rose by +1.61%, Financials gained +1.33%, Industrials went up by +1.21%, Health improved by +1.21%, Materials grew by +0.96%, Consumer Staples saw a modest rise of +0.37%, Real Estate edged up by +0.24%, Energy slightly increased by +0.12%, while Utilities experienced a decline of -0.77%.

EUROPEAN CLOSES: DAX: +1.47% at 17,370.45, FTSE 100: +0.29% at 7,684.49, CAC 40: +1.27% at 7,911.60, Euro Stoxx 50: +1.69% at 4,855.85, IBEX 35: +0.31% at 10,138.90, FTSE MIB: +1.06% at 32,356.26, SMI: -0.36% at 11,387.90.

STOCK SPECIFICS:

- **Nvidia (NVDA)** +16%: Earnings impressed, despite lofty expectations, and many sell-side brokers havesince upgraded PTs. All major metrics beat, it raised the next quarter revenue outlook alongside very welcoming commentary. CEO said demand far exceeds supply and it cannot keep up with demand.
- **Rivian (RIVN)** -26%: FY production and adj. EBITDA guidance was dismal and it announced it is to lay off 10% of its workforce.
- **Lucid (LCID)** -17%: Missed on revenue with soft production.
- **Royal Caribbean Cruises (RCL)** +7%: Lifted its FY profit outlook, just weeks after it raised its outlook.
- **Moderna (MRNA)** +13.5%: Posted a surprise profit per share and beat on revenue, although the former was due to unexpected deferred revenue of USD 600mln and 300mln of cost savings.
- **ETSY (ETSY)** -8.5%: Missed on profit with Q1 adj. EBITDA margin guidance light of consensus.
- **Synopsys (SNPS)** +7%: FY profit view exceeded expectations with the rest of the report mixed.
- **Five9 (FIVN)** -13.5%: Top-line guidance for the next quarter and FY was light.
- **ANSYS (ANSS)** +3.5%: Earnings beat.

- **Mosaic (MOS)** +6.5%: Beat on the top line and EBITDA while it sees ' robust' potash demand for North America in 2024 but it is struggling to keep up with demand. Stock was upgraded at Scotiabank post-earnings.
- **Remitly Global (RELY)** +18%: Topped on revenue with FY guidance also impressing.
- **Quanta Services (PWR)** +10%: EPS, Revenue, and AFFO beat while FY24 guidance topped analyst consensus.
- **AT&T (T) -**2.5%: Grapples with wireless disruptions across the US.

US FX WRAP

The Dollar was ultimately flat on PMI day with DXY printing a low in the European morning of 103.43 before paring throughout the session to a peak of 104.13 in wake of the US data. Jobless claims came in beneath analyst expectations, resulting in a drop in the 4wk average in a sign of a still tight labour market in the week that coincides with the NFP survey period. Meanwhile, the Flash February PMIs from S&P Global saw the composite ease with a fall in Services but a rise in Manufacturing, however, the inflation commentary was promising. DXY meandered throughout the rest of the session to end the US session just beneath 104. Fed Speak largely stuck to the script on Thursday with Vice Chair Jefferson calling for caution on cutting rates too soon.

The Euro was also flat. EUR/USD hit a high in the wake of the stronger-than-expected French PMI data but pared the gains on weak German PMI data. However, the overall EU composite PMI ticked up to 48.9 from 47.9, above the 48.5 forecast, although note the inflationary gauges saw little improvement. EUR/USD found support at 1.08. The ECB minutes had little impact, where it confirmed that there was a broad consensus among members that it was premature to discuss rate cuts at present.

The Yen was softer vs the Dollar with USD/JPY rising from lows of 150.02 to highs of 150.68, with the pair residing around 150 heading into APAC trade. BoJ Governor Ueda said that Japan's trend inflation is heightening and will make appropriate monetary policy decisions, adding that service prices continue to rise moderately. There were also remarks from a former BoJ policymaker Sakurai said the BoJ could end negative rates in March if this year's pay hikes exceed 4%, although there's an equal chance it may wait until April, according to Reuters. Separately, analysts at Rabobank revised their USD/JPY forecast. They now see USD/JPY at 140 on a 12-month view vs the 135 forecast previously. Shorter term, Rabo expects the November high just below 152 to act as strong resistance as the market approaches the March and April BoJ policy meetings.

Cyclical currencies - CAD, GBP, AUD and NZD - saw notable strength throughout the European session with gains tracking the upside in the equity space in wake of the strong NVDA earnings. All activity currencies were off highs however as the Dollar staged a reversal after the strong jobless claims data. All the aforementioned currencies managed to post slight intraday gains vs the buck, aside from the Aussie, which was flat. In Canada, retail sales data was mixed with the headline beating but the core missing estimates. Meanwhile, the UK flash PMI saw a miss in manufacturing but beat in services, taking the composite to 53.3 from 52.9, above the forecast of 52.9. Before the data, BoE's Greene said the tick-up in PMI data offers some grounds for optimism on 2024 growth, although she needs to see more evidence that UK inflation is not entrenched before she votes for a cut.

In **EMFX**, ZAR tumbled, reversing its post-Budget upside. BRL, MXN, CLP and COP were all weaker, with CLP the relative underperformer once again. The Lira also saw weakness while the CBRT maintained its Weekly Repo rate at 45% as expected; it also reiterated the current level of the policy rate will be maintained until there is a significant and sustained decline in the underlying trend of monthly inflation. Out of Mexico, half-month inflation data for February was softer than forecasted while GDP was stronger than expected, a welcome sign for the Banxico.