US Market Wrap

23rd February 2024: Stocks chop and bonds flatten after hawkish Waller

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW**: Waller was hawkish; Cook and Williams towed the usual Fed line; Disappointing next quarter BKNG outlook; CVNA posted first-ever profit; JPM's Dimon sells shares; US unveil Russian sanctions; US lawmakers reportedly demand a Temu (PDD) shipment ban over forced labour concerns
- **WEEK AHEAD**: Highlights include US PCE, ISM Manufacturing PMI, RBNZ policy announcement, EZ, Australia and Japan CPI. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing RBNZ policy announcement; Reviewing PBoC and minutes from FOMC, ECB and RBA. To download the report, please click here.

MARKET WRAP

Stocks ultimately closed Friday mixed with choppy price action as NVDA saw two-way swings before ultimately closing marginally in the green. Breadth however was decent with the equal weight S&P closing +0.4% with outperformance in the Dow Jones +0.3%, while the S&P and Russell saw gains of 0.2 and 0.1%, respectively. The Nasdaq closed -0.3% with weakness in Consumer Discretionary, Tech and Communication weighing the most, namely shares of AAPL & TSLA. Treasuries saw pronounced flattening Friday with Fed's Waller back to being hawkish and a squeeze higher in the long end. Waller overnight largely stressed the need to wait for more data to build confidence on returning inflation to target, warning cutting too soon could cause harm to the economy, but he did agree he still sees rate cuts later this year. Cook and Willliams also spoke, toeing the usual Fed line, while Williams, although stressing rate hikes are not his base case, said if the economic outlook changes in a material manner, then they would have to rethink the outlook. Energy prices saw pressure throughout the Asian, European and US Friday session to settle at lows with little fresh driving price action and continuing the choppy trade seen throughout the week as it digested a choppy risk tone and geopolitical angst. FX was little changed by the end of hte session but XAU prices jumped on the move lower in UST yields.

FED

WALLER (voter) said that data since his last speech on January 16th has reinforced his view that they need to verify inflation progress from H2 2023 will continue, which means there is no rush to start cutting rates. He stressed it is appropriate to be patient, careful and methodical given the strength in the economy and the recent data (hot January inflation and NFP). Waller said it is unclear if the CPI increase is due to seasonal factors and housing costs, or indicates more persistent inflation. More data is needed to determine if the January data was just noise or if it was significant, which means waiting longer before enough confidence is gathered that starting rate cuts will keep them on the 2% inflation path. Waller reaffirmed that the start of policy easing and number of rate cuts will depend on incoming data, he believes the Fed can wait a little longer before easing policy. Cutting too soon could undermine the inflation progress and pose considerable harm to the economy. Waller stated the economy's output and employment growth show no urgent need to ease policy, still expecting to ease policy within the year. Waller sees a lower risk in waiting to ease policy compared to the risk of acting prematurely. Indications of economic growth slowing are noted, with recent job openings and quits data possibly showing a stall in labour market moderation. Waller acknowledged the progress made in inflation reduction as real and not a mirage, yet sees wage growth as still somewhat elevated for achieving the 2% inflation goal.

COOK (voter) said, after hours on Thursday, she would like to have greater confidence that inflation is converging to 2% before beginning to cut the policy rate. She believes risks towards achieving the employment and inflation goals are moving into a better balance, and moving away from a focus on excessive inflation. She also sees risks as two-sided in considering monetary policy and is weighing the risks of easing too soon which could keep inflation high, vs easing too late and harming the economy. Cook believes the current stance is restrictive and sees an eventual rate cut as adjusting policy to reflect a shifting balance of risks. Cook noted the risk of persistently high inflation has diminished, but it still remains. Cook advocates for moving carefully, maintaining policy restriction to restore price stability while supporting economic growth. She notes the disinflationary process has been and may continue to be bumpy and uneven, highlighted by recent CPI and PPI data. On prices, Cook says that core services excluding housing inflation should ease over time as consumer resistance to price increases grows and labor costs increase more slowly. Meanwhile, core goods inflation is likely to return to a modestly negative pre-pandemic trend. She also warned that consumer spending growth may face headwinds from deteriorating household balance sheets. Meanwhile, there is the potential for Red Sea shipping disruptions to impact supply more than they have so far.

WILLIAMS (voter), in an Axios interview, said his view of the economy hasn't changed after January data and things are moving in the right direction, but he would have to rethink outlook if inflation progress stalls. Looking ahead, the NY Fed President thinks it will be appropriate to pull back on restrictive monetary policy, likely later this year. Moreover, Williams expects consumer spending growth to slow this year and he thinks the fact that they are seeing some of these delinquencies and other issues show that households, or at least some households, are facing some challenges and thus is one of the reasons he expects consumer spending growth to slow this year.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 12 TICKS HIGHER AT 109-28

Treasuries saw pronounced flattening Friday with Fed's Waller back to being hawkish and a squeeze higher in the long end. 2s -2.2bps at 4.692%, 3s -3.0bps at 4.457%, 5s -4.6bps at 4.285%, 7s -6.1bps at 4.289%, 10s -6.9bps at 4.258%, 20s -5.8bps at 4.520%, 30s -8.4bps at 4.378%

INFLATION BREAKEVENS: 5yr BEI -2.9bps at 2.307%, 10yr BEI -2.0bps at 2.310%, 30yr BEI -4.2bps at 2.264%

THE DAY: The front end led a sell-off into the APAC Friday session, with Fed's Waller (voter) walking further away from his relatively dovish stance seen in late 2023. He now stands in line with his colleague on cautioning against moving too fast with rate cuts, where he quipped, "What's the rush?", he also warned of an asymmetry to the upside in the inflation outlook, "I see predominately upside risks to my general expectation that inflation will continue to move toward the FOMC's 2 percent goal."

T-Notes hit session lows of 109-09 at the London handover and then hit interim resistance at 109-15. The ECB's consumer inflation expectations survey for Jan saw the year-ahead gauge rise to 3.3% from 3.2% while the three year-ahead was unchanged at 2.5%. Meanwhile, the German ifo survey improved slightly with some potential indication of a bottoming out of activity, although only minor.

The NY morning saw what began as a front-end-led recovery in USTs, with Bunds also recovering, where there had been little appetite to extend to the downside after this week's sell off. There were few catalysts (bar Waller) from a US perspective, although we did hear from ECB's Lagarde saying the Q4 wage figures were promising. T-Notes hit interim resistance at 109-20, which held until later in the morning before surging higher again in what turned into a long end squeeze higher, peaking for the session at 109-30+ with the curve seeing pronounced flattening; long end yields are now back down into their pre-CPI ranges. There were no fundamental drivers to point to behind the squeeze at the time it occurred, although it certainly had the feel of a large steepener unwind - maybe Waller was the trigger? It's also worth noting that futures roll activity may have exacerbated the moves. Not to mention any set-up for next week's front-loaded auctions.

NEXT WEEK: Aside from the ramped Treasury supply (details below), from a US perspective, data highlights include durable goods and consumer confidence on Tuesday, GDP revisions on Wednesday, PCE on Thursday, and ISM mfg. on Friday. Fed Speak continues with Schmid on Monday, Barr on Tuesday, Williams, Bostic, and Collins on Wednesday, Williams, Bostic, Goolsbee, and Mester on Thursday, and Bostic, Daly, and Kugler on Friday. Globally, Japanese CPI on Monday, RBNZ and Australian CPI on Wednesday, and Chinese PMIs on Friday.

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 -1.0bps at 94.688, M4 +0.0bps at 94.900, U4 +1.0bps at 95.195, Z4 +2.0bps at 95.515, H5 +2.5bps at 95.790, M5 +3.5bps at 96.020, U5 +3.5bps at 96.185, Z5 +4.0bps at 96.285, H6 +4.5bps at 96.325, H7 +8.0bps at 96.345, H8 +9.0bps at 96.310.
- SOFR flat at 5.30% as of Feb 22nd, volumes rise to USD 1.620tln from 1.607tln.
- NY Fed RRP op demand at USD 0.520tln (prev. 0.553tln) across 79 counterparties (prev. 86).
- EFFR flat at 5.33% as of Feb 22nd, volumes at USD 103bln (prev. 101bln).

CRUDE

WTI (J4) SETTLED USD 2.12 LOWER AT 76.49/BBL; BRENT (J4) SETTLED USD 2.05 LOWER AT 81.62/BBL

WTI and Brent ended the day, and week, on the back foot despite a lack of fresh or clear fundamental drivers. Oil saw gradual losses throughout the NY session amid choppy sentiment, with WTI and Brent hitting lows of USD 76.35 /bbl and 83.48/bbl, respectively. In terms of updates, the Paris hostage talks have commenced with the participation of Egypt, Qatar, America and Israel, but there doesn't seem to be much reason for optimism, according to journalists. Meanwhile, BP (BP/ LN) noted they are continuing the phased restart of Whiting, Indiana refinery (440k BPD). Elsewhere, according to Bloomberg, OPEC-watchers predict an extension of oil cuts into the next quarter. Note, in the EU morning, Reuters sources stated that QatarEnergy is due to make an announcement on Sunday that will have "a significant impact" on the industry. Lastly, Baker Hughes oil rigs were up 6 to 503, natgas down 1 to 120, leaving the total +5 to 626.

EQUITIES

CLOSES: SPX +0.03% at 5,088, NDX -0.37% at 17,937, DJIA +0.16% at 39,131, RUT +0.14% at 2,016.

SECTORS: Utilities +0.71%, Materials +0.58%, Industrials +0.5%, Health +0.45%, Financials +0.33%, Consumer Staples +0.3%, Real Estate +0.1%, Communication Services -0.21%, Technology -0.27%, Consumer Discretionary -0.34%, Energy -0.58%.

EUROPEAN CLOSES: DAX: +0.28% at 17,419.33, FTSE 100: +0.28% at 7,706.28, CAC 40: +0.70% at 7,966.68, Euro Stoxx 50: +0.35% at 4,872.25, IBEX 35: -0.08% at 10,130.60, FTSE MIB: +1.03% at 32,688.00, SMI: +0.95% at 11,494.90.

STOCK SPECIFICS:

- **Intuit (INTU)** +0.5%: Top line beat with profit in line. Next quarter EPS guidance light, while it affirmed the FY outlook.
- **Live Nation (LYV)** +2%: Revenue and concert revenue smashed expectations.
- **Booking Holdings (BKNG)** -10.5%: Next quarter outlook disappointed. Note, Q4 EPS, revenue, and gross bookings topped.
- **Block (SQ)** +16%: Revenue beat, as did FY24 EBITDA guidance.
- **Insulet (PODD)** -6.5%: Issued a revenue growth forecast below analyst expectations. Although, it reported a strong top and bottom line.
- **Carvana (CVNA)** +32%: Posted its first-ever profit and guided for stronger-than-expected earnings in its current quarter. Following earnings, was upgraded at William Blair and Raymond James.
- **Warner Bros Discovery (WBD)** -10%: Deeper loss per share than expected in addition to missing on EPS and adj. EBITDA. In commentary, said quarterly TV revenue declined significantly mainly due to the impact of WGA and SAG-AFTRA strikes and some large licensing deals in the prior year.
- **Fox (FOX)** +1%: Upgraded at Citi citing a recent sports joint venture between Fox, ESPN and Warner Bros. Discovery as a catalyst for the upgrade.
- **NIO (NIO)** -7.5%: Downgraded at JPM; said potential downside to consensus volume and revenue estimates, as well as a lack of new models versus competitors.
- **PDD (PDD)** -3%: US lawmakers reportedly demand a Temu (PDD) shipment ban over forced labour concerns, according to The Information.

US FX WRAP

The Dollar saw two-way price action on Friday but ultimately ended the day flat with DXY losing hold of 104.00 despite an attempt above the level when equities started sliding, sparking haven bid with upside in both bonds and gold too. Fed speak saw Waller lean hawkish overnight really stressing that the Fed have to be patient and more data is needed before acting. Cook also stressed the need for patience. Williams said that rate hikes are not his base case but the Fed would have to rethink the outlook if inflation progress stalled. He also noted the economy has not changed after the January data and things are moving in the right direction.

The Euro also finished the day flat with little noteworthy price action despite several ECB speakers and a couple of data points. On the former, President Lagarde acknowledged the Q4 wage numbers were encouraging but that she needs to be more confident that disinflation is sustainable. Holzmann said the main risk to rate cuts is Red Sea tensions, noting it is better to cut later and faster than too early. Nagel also said it is too early to cut rates, noting they will get a key pressure in Q2, then the ECB can contemplate cuts; Nagel favours a gradual process. Simkus said a March cut is out of the question, while April is unlikely. Muller said it would be a mistake to act too soon and have to correct. Meanwhile, EZ consumer inflation expectations rose for the 1yr ahead but were unchanged at 2.5% for the 3yr ahead forecast. German IFO saw a marginal beat on current conditions and expectations.

The Yen was also ultimately flat but off earlier lows with USD/JPY falling from the post hawkish Fed speak peaks of 150.75 to lows of 150.30. The downside in UST yields throughout the US session supported the move lower in USD /JPY. It is worth noting that gold prices saw decent strength, rising from lows of USD 2,016/oz to peaks of around 2,040 /oz - also supported by the move in yields.

The Cyclicals - GBP, CAD, AUD, NZD - saw minor gains vs the Dollar although the NZD was flat with the currency hampered by soft retail sales data overnight. All the aforementioned currencies were off earlier peaks with NZD/USD dipping beneath 0.6200, AUD/USD hovering around 0.6550 from the 0.6580 peak. GBP/USD attempted to rise above 1.27 but was met with strong resistance. Note, the OFGEM price cap adjustment prompted ING to suggest that inflation could slip below 2% in April and remain below the threshold for the rest of the year. CAD hovers around 1.3500 after trading either side of the level on Friday.

EMFX was generally softer vs. the Dollar. Rand saw continued pressure despite gold upside while the Rouble weakened after a slew of sanctions announcements. BRL and COP saw notable weakness but the MXN and CLP were relatively flat.