US Market Wrap

27th February 2024: Markets chop with falling consumer confidence and durable goods orders ignored

- **SNAPSHOT**: Equities mixed, Treasuries mixed, Crude up, Dollar flat.
- **REAR VIEW**: Soft Durable Goods led by Boeing; Richmond Fed improves; Consumer Confidence stalls; Decent 7yr auction; Hot Japanese CPI; BoE's Ramsden says MPC could unwind APF fully; Bowman tows usual line; AAPL cancels electric car effort; HES-CVX merger under threat; ZM impresses; OPEC reportedly to extend production cuts; Scepticism cast on a Gaza truce deal.
- **COMING UP**: **Data**: Australian CPI, EZ Consumer Confidence (Final), US GDP (2nd), PCE Prices Prelim. (Q4), Japanese Retail Sales **Events**: RBNZ Policy Announcement **Speakers**: Fed's Bostic, Collins, Williams; BoE's Mann **Supply**: UK, Italy & Germany **Earnings**: Holcim, Reckitt, Taylor Wimpey; HP.

MARKET WRAP

Stocks were flat Tuesday in a choppy session with US data largely ignored. Initial downside in the indices in the NY morning was unwound later in the session, aided by Apple (AAPL) bouncing on reports it had abandoned its EV venture, shifting its attention to AI ventures. Treasuries saw mild bear-steepening despite a decent 7yr auction, a dip in consumer confidence, and a Boeing-led tumble in durable goods orders. Fed Speak was expectedly familiar, with Bowman (voter) and Schmid (non-voter) cautioning on cutting rates too soon. The Dollar Index was flat with FX vol again very muted. Yen was only marginally firmer, with USD/JPY holding above 150, after the hotter-than-expected Japanese CPI, although wages remain the BoJ's key focus. Oil prices were firmer with reports OPEC is to extend its production cuts providing a rip higher, in addition to scepticism cast on a Gaza truce deal.

US DATA

DURABLE GOODS: January Durable Goods data was soft with the headline dipping 6.1%, deeper than the -4.5% forecast, while the prior was revised down to -0.3% from 0.0%. The sharp drop however was led by a fall in aircraft orders with ex-transport falling 0.3%, albeit still short of the +0.2% consensus while the prior was also revised down from +0.5% to -0.1%. Ex defense tumbled 7.3% with the prior revised down to +0.1% from +0.5%. The super core metric, the nondefense capital goods excluding aircraft, rose by 0.1%, in line with expectations, but also with a notable revision lower to -0.6% from +0.2%. Overall a soft report, where although weak aircraft orders led the downside with supercore in line with expectations, the revisions lower to the December report was soft. Pantheon Macroeconomics highlights that "The only input from the durable goods report that enters into the national accounts is nondefense capital goods shipments ex-aircraft, aka core capital goods shipments, which exclude civilian aircraft and autos". Noting that Core Capital goods shipments rose 0.8% after rising slightly in December, however, they still think that business equipment investment will be fairly weak in Q1. The consultancy also writes that "the ongoing drop in business investment in autos probably means that overall business equipment investment is probably weaker than the real core capital goods shipments numbers suggest."

RICHMOND FED: Richmond Fed composite manufacturing index in February rose to -5 from -15. Of its three component indices, shipments remained firmly negative at -15, while new orders and employment rose to -5 (prev. -16) and 7 (prev. -15), respectively. Moreover, firms were slightly more optimistic about local business conditions, as it lifted to 1 from -8, while the index for future local business conditions eked higher to 3 (prev. 0). Backlog of orders and capacity utilization both remained in negative territory, albeit improving to -15 (prev. -23) and -4 (prev. -27), respectively. Lastly, prices paid, and forward expectations, dipped while prices received slightly lifted.

CONSUMER CONFIDENCE: Consumer confidence in February fell to 106.7 from 110.9 (downwardly revised from 114.8) and beneath the expected 115.0. Present Situation and Expectations fell to 147.2 (prev. 154.9) and 79.8 (prev. 81.5), respectively, with the latter dipping back beneath 80 which often signals a recession ahead. Average 12-month inflation ticked lower to 5.2%, the lowest since March 2020, while on the jobs footing, those who thought jobs were plentiful dipped to 41.3% (prev. 42.7%) and those who thought jobs are hard rose to 13.5% (prev. 11.0%). On the headline, the decline interrupted a three-month rise, reflecting persistent uncertainty about the US economy. Meanwhile, the report adds, "February's write-in responses revealed that while overall inflation remained the main preoccupation of consumers, they are now a bit less concerned about food and gas prices, which have eased in recent months. But they are more concerned about the labor market situation and the US political environment." In addition, "assessments of the present situation weakened as consumers' views of both business conditions and the employment situation became less favorable, while Consumer expectations for the next six months deteriorated, driven by renewed pessimism regarding future business and labor market conditions."

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 3 TICKS LOWER AT 110-01+

Treasuries saw mild bear-steepening Tuesday in choppy trade with a decent 7yr auction following a dip in consumer confidence and durable goods orders. 2s -1bp at 4.706%, 3s -0.6bps at 4.497%, 5s +0.4bps at 4.318%, 7s +1bp at 4.34%, 10s +1.2bps at 4.311%, 20s +2.2bps at 4.576%, 30s +2.4bps at 4.442%.

INFLATION BREAKEVENS: 5yr BEI +1.3bps at 2.359%, 10yr BEI +0.7bps at 2.339%, 30yr BEI +1.0bps at 2.288%.

THE DAY: T-Notes (M4) recovered from their 110-02 lows on Monday after the weak 5yr auction into the APAC Tuesday session. There was little spillover reaction from the hotter-than-expected Japanese CPI data, where T-Notes went on to hit resistance at 110-10+ after the data ahead of the new 5yr transition JGB auction, which saw a respectable 3.39x bid/cover ratio. Fed's Schmid (non-voter) gave some copy/paste remarks in late US hours Monday, saying the Fed should be patient. T-Notes only managed to hit new peaks later on in the European morning Tuesday at 110-13, absorbing a 4k/2k ZN/ZB flattener before then.

Contracts hovered near highs into the NY handover before better selling developed as stateside trade got underway ahead of supply, with a 5k block T-Note seller adding pressure. The deeper fall than expected in Durable Goods orders saw a fleeting bid, with earlier peaks not breached, and T-Notes resumed downside soon after, printing fresh lows. The dip in Consumer Confidence also failed to stop the selling and neither did the solid 7yr auction later on, although we did see a notable bid in the aftermath of the auction before contracts reversed back lower again to see T-Notes print session lows of 109-31+ ahead of settlement, with a late 2.6k Ultra Bond block seller adding pressure.

7YR AUCTION: A respectable auction from the Treasury with USD 42bln new issue 7yr notes sold at 4.327%, marking the first stop through (0.2bps) since October, compared to January's 0.3bp tail and the six-auction avg. 0.5bp tail. The bid /cover ratio of 2.58x was just above the prior 2.57x and avg. 2.56x. The breakdown in participation was slightly less impressive with Dealers left with a larger 15.6% this month vs January's 13.9%, above the avg. 14.4%, where the decline M/M in Directs more than offset the slight increase in Indirects participation. The Treasury is now finished with coupon auctions for the week, with the 2s, 5s, and 7s sold without any major hiccups, despite some of the underwhelming results at the 2yr and 5yr on Monday, although that is understandable when taken in the context of ramped size offerings in the backdrop of record corporate issuance to compete with. There are no US coupon auctions next week either, so set-up is not a factor to consider for traders in the immediate future.

STIRS:

- SR3H4 +0.25bps at 94.673, M4 +0.5bps at 94.865, U4 -0.5bps at 95.14, Z4 -1bps at 95.45, H5 -1bps at 95.73, M5 -1bps at 95.955, U5 flat at 96.13, Z5 +0.5bps at 96.235, H6 +0.5bps at 96.285, H7 +0.5bps at 96.32, H8 -1bp at 96.28.
- SOFR flat at 5.31%, volumes rise to USD 1.739tln from 1.736tln.
- NY Fed RRP op demand at USD 0.520tln (prev. 0.525tln) across 84 counterparties (prev. 81).
- EFFR flat at 5.33%, volumes fall to USD 98bln from 103bln.
- US sold USD 80bln 42-day CMBs at 5.290%, covered 2.61x.
- 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 29th and 17-week bills on Feb 28th; all to settle on Mar 5th.

CRUDE

WTI (J4) SETTLED USD 1.29 HIGHER AT 78.87/BBL; BRENT (K2) SETTLED USD 0.99 HIGHER AT 82.66/BBL

Oil prices were firmer on Tuesday with reports OPEC is to extend its production cuts whilst scepticism has been cast on a Gaza truce deal. WTI (J4) and Brent (K4) futures settled at session peaks, coming on the back of Reuters reporting OPEC+ is considering extending voluntary oil output cuts into Q2, which is "likely", and may extend them until year-end, which is "possible". Meanwhile, Israel, Hamas, and mediators have expressed caution about the progress on a truce in Gaza despite President Biden saying a ceasefire could be reached in under a week. Elsewhere, Saudi Aramco announced it had added significant volumes to proven gas and condensate reserves at the Jafurah field, where proven reserves have increased by 15tln cubic feet of raw gas and 2bln stock tank bbls of condensate. Libya's NOC Chair announced oil production is now around 1.25mln BPD, up from 1.212mln BPD on February 12th. Vitol CEO commented that the oil market is less fragile than it has been in recent years, and that the market feels comfortable around USD 80/bbl; Vitol also said the impact of EV sales on oil demand within OECD nations is around 500k BPD, noting that oil demand has a number of years worth of upside to go before hitting a plateau. Traders now look to the weekly US energy inventory data with crude stocks seen building 2.7mln bbls, gasoline drawing 1.5mln bbls, and distillates drawing 2.1mln bbls.

EQUITIES

CLOSES: SPX +0.17% at 5,078, NDX +0.21% at 17,971, DJIA -0.25% at 38,792, RUT +1.34% at 2,056.

SECTORS: Utilities +1.89%, Communication Services +1.03%, Materials +0.35%, Financials +0.27%, Consumer Discretionary +0.19%, Industrials +0.12%, Technology +0.06%, Real Estate +0.04%, Consumer Staples -0.02%, Health -0.27%, Energy -0.43%.

EUROPEAN CLOSES: DAX: +0.76% at 17,556.49, FTSE 100: -0.02% at 7,683.02, CAC 40: +0.23% at 7,948.40, Euro Stoxx 50: +0.48% at 4,887.45, IBEX 35: -0.24% at 10,113.80, FTSE MIB: +0.46% at 32,706.44, SMI: -0.09% at 11,442.70.

EARNINGS:

- **Zoom (ZM)** +8%: Earnings beat and authorised USD 1.5bln share buyback. Q1 and FY profit view surpassed expectations.
- **Macy's (M)** +3.5%: Profit beat with SSS declining not as much as forecasted. Revenue missed, next quarter guidance short, and is to close 150 underproductive locations through 2026.
- **Unity (U)** -6%: Greater loss per share than expected with Q1 adj. EBITDA guidance miles short of consensus.
- **Lowe's (LOW)** +2%: EPS, revenue, and comp. SSS beat, although FY outlook disappointed.
- **AutoZone (AZO)** +6.5%: Top and bottom-line beat.
- **J M Smucker (SJM)** -2%: Next quarter outlook was disappointing. Note, EPS beat and raised the lower end of FY guidance range.
- **Norwegian Cruise Line (NCLH)** +20%: Revenue topped and forecasts a surprise profit per share for the next quarter. In comms, continues to experience healthy consumer demand and is at an all-time high booked position and pricing.

STOCK SPECIFICS:

- **Hess (HES)** -3% **Chevron (CVX)** -1.5%: Chevron's USD 53bln acquisition of Hess faces potential disruption as rivals ExxonMobil (XOM) and CNOOC (883 HK) claim pre-emptive rights over Chevron's stake in the crucial Guyana oil project.
- **Viking Therapeutics (VKTX)** +121%: Phase 2 GLP-1 study meets primary and secondary endpoints. **Eli Lilly (LLY)** -1% **Novo Nordisk (NVO)** -1%.
- **Broadcom (AVGO)** -1%: Paused the sale of security software firm Carbon Black which was reportedly worth USD 1bln.
- **Expedia (EXPE)** +1%: Cutting roughly 9% of its workforce.
- **JPMorgan (JPM)** flat: CFO doesn't expect office loan space within CRE to get better any time soon. Expects IB fees to climb in the low-to-mid teens percentage in Q1 and sees trading revenue declining 5-10% in Q1 vs. a strong quarter last year.
- **Endeavor (EDR)** +5%: Silver Lake is still expected to bid for the Co., according to CNBC.
- **Warner Bros. Discovery (WBD)** +2%: Reportedly halts merger talks with **Paramount (PARA)**, according to CNBC. **Comcast (CMCSA)** is not interested in acquiring PARA assets but would consider commercial partnerships, like bundling or merging Peacock and Paramount+.
- **Intel (INTC)** -0.5%: Aims to deliver chips for 100mln AI PCs by 2025, according to Nikkei; expects to deliver 40mln AI PCs this year and 60mln next year. Working with Microsoft (MSFT) to 'define' the AI PC.
- **American Air (AAL)** +1.5%: Nears deal for about 100 narrowbody jets that tilts more towards **Airbus (AIR FP)** than **Boeing (BA)**; order likely to be finalized within weeks, but deal is still being negotiated, according to Bloomberg.
- **Apple (AAPL)** +1%: Cancelling effort to build electric car and is to shift many car project workers to generative AI effort and some car employees to be cut, according to Bloomberg sources.
- **Microsoft (MSFT)** flat: EU regulators are probing whether MSFT is preventing its customers from buying security software that competes with MSFT, according to The Information citing sources.

- **United Health (UNH)** -2.5%: US antitrust probe examining ties between UnitedHealth insurer and healthcare units, according to WSJ

US FX WRAP

The Dollar index was flat on Tuesday and within tight parameters, highlighted by a trough of 103.60 and a peak of 103.92, as participants await the Fed’s preferred gauge of inflation of US PCE (Jan) on Thursday, not to mention the flash European inflation figures (Feb) also on Thursday. Tuesday saw Durable Goods orders fall 6.1% (prev. -0.3%, exp. -4.5%), which was largely due to a plunge in aircraft orders, while the Richmond Fed survey improved, albeit still remaining in negative territory, and Consumer Confidence saw a chunky fall, which interrupted a three-month rise, reflecting persistent uncertainty about the US economy. Fed’s Bowman (voter) reiterated she will remain cautious on monpol, while Barr (voter) said nothing of note. Regarding month-end, Credit Agricole points to USD selling across the board with the strongest sell signal in the case of the USD vs CAD and AUD. Citi are also flagging Dollar selling into month-end.

G10 FX was pretty flat across the board against the Buck, with the JPY and CAD marginally out and underperforming, respectively. For the Yen, it was firmer after hotter-than-expected CPI, although core figures still saw declines, which saw USD/JPY hit a low of 150.09, but unable to break 150.00 to the downside. For the Sterling watches, even though Cable was subdued, BoE’s Ramsden said the MPC could unwind the Asset Purchase Facility fully, in what would mark a shift from the Federal Reserve, if it judged necessary for policy reasons.

Antipodeans were flat. AUD/USD hit a high of 0.6558, but failed to hold above its 100DMA at 0.6555 and was unable to test its 200DMA at 0.6561. NZD/USD was between 0.6152-78 as participants await the RBNZ decision Wednesday, where markets price in a 70% probability for no change and a 30% chance of a 25bps hike. On the rate decision, Credit Agricole expects a hawkish hold and due to market pricing the knee-jerk reaction would be a weaker NZD. Nonetheless, then the main focus will be the MPS and Governor Orr’s stance in his press conference.

EUR was subdued on Tuesday as it traded between 1.0833-65, Goldman's FX spot desk believes vol could shake up when we get the European inflation data this Thursday, "After the position cleanse in both rates and FX we find ourselves at much more attractive levels to short EURUSD... Our bias would be to lean short EURUSD at a level better than the 200 DMA (1.0820) looking for acceleration through 1.0790 should the figures miss." The desk does caveat that month-end flows could muddy the picture on the Dollar side, where it suggests shorting EURAUD above 1.65 as an alternative, "should you wish to insulate a Euro short over US PCE and month end Dollar gyrations."

EMFX was largely firmer vs. the Greenback. ZAR, BRL, MXN, and CLP all saw gains, CNH was flat, while TRY and HUF were lower. The former was hit by higher oil prices and the latter by the unexpected 100bps O/N Deposit rate cut to 8%, with expectations for a 75bps cut. On the rate decision, the NBH said the reduction was done at a "temporarily faster pace" and CPI is expected to return to target on a sustained basis in 2025. Moreover, NBH’s Virag stated management was unanimous in backing 100bps cut and that 100bps had a large majority. For the Rouble, CBR stated the Board considered to hold at 16% or hike to 17% at Feb meeting and opted to hold because tighter policy could have seen inflation fall below target in '25. Looking ahead, most members expect rates to start coming down in H2 and some think it could be earlier. Lastly, for the Yuan, China says it will prevent fluctuations in the housing market, according to CCTV; says localities should promote balance between supply and demand in the real estate market.