



US Market Wrap

28th February 2024: Stocks sold and bonds bought as eyes turn to PCE

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW:** US Q4 GDP revised lower, but PCE deflator, sales, PCE and core PCE revised up; Fed Speak tows usual line; Dovish RBNZ hold; Soft Aussie CPI; AAPL met with DoJ to avert antitrust lawsuit; AAPL CEO Cook says it will "break new ground" in generative AI this year.
- **COMING UP: Data:** NZ ANZ Business Outlook, Australian Retail Sales, French, Spanish, German CPI, German Retail Sales, Unemployment, US PCE Price Index, IJC, Chicago PMI, Canadian GDP, Australian PMI, Japanese Unemployment Rate **Speakers:** Fed's Bostic, Goolsbee, Mester; BoJ's Hajime **Supply:** Japan **Earnings:** Beiersdorf, Covestro, Grifols, Merlin, Cellnex, ACS, Leonardo, Prysmian, Saint Gobain, Bath & Body Works, Best Buy, Hewlett Packard.

MARKET WRAP

Stocks ultimately saw mild weakness but were off the European morning lows with underperformance in the Nasdaq and Russell with Communication, Health and Tech names lagging, with the former weighed on by chip names with NVDA closing in the red and weakness in AMAT after it received subpoenas related to China from the SEC and US Attorney's Office. US data ultimately had little sustainable reaction with Q4 '23 GDP revised down but the deflator, sales, PCE and Core PCE were revised up but did little to alter the Fed's narrative with all eyes on the January PCE report due Thursday. T-Notes bull steepened ahead of PCE data with the initial downside on the aforementioned revisions completely pared. Fed speakers saw Williams, Collins and Bostic toe the recent Fed lines while Logan spoke on the balance sheet, stressing that slowing the balance sheet runoff, does not mean stopping QT. In FX, the Dollar was flat as DXY failed to hold above 104 while Antipodes underperformed after a dovish hold from the RBNZ and softer-than-expected Australian CPI. Oil prices were very choppy with morning upside pared on a larger crude stock build, although products saw draws. Bitcoin meanwhile surged to test USD 64k at best levels, the highest since November 2021.

GLOBAL

FED: Logan (non-voter), in an interview that took place on Feb. 15th, said slowing the balance sheet runoff means managing the pace, it does not mean stopping, stressing the need to disconnect the idea of a slower runoff pace and ending QT. The remarks are being made to clarify that she isn't necessarily calling for a halt to QT in the aftermath of her speech on the issue from early January. **Collins (non-voter)** reiterated it will likely become appropriate to start easing policy later this year, and it is premature to say whether the Fed could cut in May. **NY Fed Governor Williams (voter)** echoed colleagues with his data-dependent approach and the Fed is likely to cut rates this year. On this, Williams believes three in 2024 is a reasonable debate. Regarding his forecasts, sees inflation hitting 2%-2.25% this year (prev. saw 2.25% in January) and 2% in 2025 (unchanged); Williams sees GDP growth at 1.5% this year (prev. 1.25% in Jan). He sees unemployment rising to 4% this year (unchanged). **Bostic (voter)** much like his colleagues, did not say much new and noted the Fed still has work to do on inflation.

RBNZ REVIEW: Overnight, the RBNZ kept its OCR unchanged, but slightly lowered its OCR projections to suggest a reduced chance of a rate hike. It added that the OCR needed to remain at a restrictive level for a sustained period, and remains confident that its current level is restricting demand. It noted that headline inflation remains above its 1-3% target band, which limits its ability to tolerate upside inflation surprises. Westpac said the RBNZ was staying the course, and its policy strategy was essentially unchanged, implying that the OCR will remain at 5.5% until 2025 – in line with its own forecasts.

US GDP (2nd estimate): The 2nd estimate of US GDP was revised down to 3.2% from 3.3%, despite expectations for it to be maintained at 3.3%. GDP sales were revised up to 3.5% from 3.2% while the deflator was also revised up to 1.7% from 1.5%. Core PCE was also revised up, to 2.1% from 2.0% in the advance read while headline PCE also saw an upward revision to 1.8% from 1.7%. Consumer spending rose to 3.0% from 2.8% in the advance estimate. Participants will be eyeing the January PCE data on Thursday for a more timely picture on inflation after the hot January CPI and PPI reports. [Newsquawk primer available here](#). On the GDP number, Oxford Economics write "The small downward revision to Q4 real GDP growth is not troubling and mixed details do not warrant an immediate change to the baseline forecast for the economy to keep growing above its potential."



US ADVANCED GOODS TRADE BALANCE: January US advanced goods trade balance saw a deficit of 90.2bln, a deeper deficit than December's 87.89bln which is due to a 1.1% increase in imports vs a 0.2% rise in exports. Analysts at Pantheon Macroeconomics highlight that the real goods trade balance is what matters for real GDP growth, and the desk estimates "that the real goods deficit also widened in January relative to both December and the Q4 average, albeit by a bit less". This suggests to them that, "very tentatively", net trade in goods will be a minor drag on Q1 GDP growth but a lot still hinges on the February trade numbers and BEA assumptions for March.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 9+ TICKS HIGHER AT 110-11

Treasuries were modestly firmer in tight ranges Wednesday, with fleeting pressure seen after upward Q4 PCE revisions ahead of key inflation data on Thursday. 2s -6.6bps at 4.646%, 3s -6.0bps at 4.443%, 5s -5.3bps at 4.269%, 7s -5.0bps at 4.292%, 10s -4.5bps at 4.270%, 20s -3.7bps at 4.537%, 30s -3.2bps at 4.408%

INFLATION BREAKEVENS: 5yr BEI +1.7bps at 2.367%, 10yr BEI +0.6bps at 2.345%, 30yr BEI +0.5bps at 2.291%.

THE DAY: Treasuries had seen tentative gains entering stateside trade on Wednesday. The dovish RBNZ, which held against some expectations of a hike and pared back some of its hawkish language, supported the govvie bid in APAC, as did the soft-leaning January Australian CPI. 110-08 for T-Notes (M4) served as interim resistance before a bit of chop in the European morning. But intraday session peaks of 110-11 were printed at the NY handover, before falling on the upward Q4 PCE revisions although T-Notes reversed higher into settlement to print a fresh high of 110-12+, albeit still beneath the Tuesday and Monday peaks of 110-13 and 110-21+, respectively.

There was a pullback lower as stateside trade got underway, with contracts threatening the APAC lows of 110-02+ (ahead of 109-31+ Tuesday/WTD low), accentuated by upward revisions to Q4 PCE, fresh corporate supply, and perhaps also Fed's Logan, who said in a Bloomberg interview released today, but dated Feb 15th, that slowing the balance sheet runoff means managing the pace, it does not mean stopping QT. 110-03 was the lowest contracts got in the NY morning, however, before drifting higher again into the NY afternoon at a very gradual pace and very much within earlier ranges. The lack of direction comes ahead of the key Eurozone flash inflation figures due on Thursday ahead of the January US PCE, although the former will be a more timely picture of the state of global inflationary pressures.

SUPPLY CALENDAR: Japan is to sell a 2yr note on Thursday in the final major sovereign auction of the week. For next week, there is no US coupon auctions. Globally, so far, the EU is selling up to EUR 3bln 5yr and EUR 2bln 15yr paper on Monday, Germany is selling EUR 4bln 5yr notes on Tuesday, UK is selling 3yr notes on Tuesday, and Japan is selling JPY 2.7tln 10yr notes on Tuesday and 30yr bonds on Thursday.

THIS WEEK REMAINING HIGHLIGHTS: From a US perspective, data highlights remaining this week include PCE on Thursday and ISM mfg. on Friday. Note that a government shutdown could occur on Friday if Congress doesn't pass the 2024 budget. Globally, European state-level flash CPIs on Thursday and Eurozone flash CPI and Chinese PMIs on Friday.

FED SPEAK sees Bostic, Goolsbee, Mester, and Williams on Thursday and Waller, Logan, Bostic, Daly, and Kugler on Friday. The scheduled speaker list next week so far has Harker on Monday, Powell (testifying in House) and Daly on Wednesday, Powell (testifying in Senate) and Mester on Thursday, and Williams on Friday, although we may get more scheduled as we head into the weekend.

STIRS:

- SR3H4 +0.8bps at 94.683, M4 +3.5bps at 94.895, U4 +6.5bps at 95.200, Z4 +7.0bps at 95.515, H5 +7.5bps at 95.800, M5 +7.5bps at 96.030, U5 +7.5bps at 96.200, Z5 +6.5bps at 96.295, H6 +6.0bps at 96.340, H7 +3.5bps at 96.350, H8 +3.0bps at 96.310.
- SOFR flat at 5.31% as of Feb 27th, volumes rise to USD 1.741tln from 1.739tln.
- NY Fed RRP op demand at USD 0.570tln (prev. 0.520tln) across 87 counterparties (prev. 84).
- EFFR flat at 5.33% as of Feb 27th, volumes fall to USD 96bln from 98bln.
- US sold USD 60bln of 17-week bills at 5.225%, covered 2.86x.

CRUDE

WTI (J4) SETTLED USD 0.33 LOWER AT 78.54/BBL; BRENT (K3) SETTLED USD 0.51 LOWER AT 82.15/BBL



The crude complex was choppy on Wednesday, albeit eventually lower amid a resilient Dollar and the continued backdrop of geopolitical tensions. On the day, WTI and Brent reversed initial losses in the EZ morning but as US players entered for the day the complex sold off from highs at the cash open of USD 79.62/bbl and 83.13/bbl, respectively. As such, and after a larger EIA crude build than expected, WTI and Brent gradually fell to US session lows of 78.05/bbl and 81.70/bbl before paring some thereafter into settlement. On geopolitics, according to Sky News Arabia, the Israeli delegation returned from Doha after two days of negotiations on the detainee deal without progress. Meanwhile, via Al Arabiya, Russia said protecting the population of Transnistria in Moldova is a priority for us after the Russian controlled area requested protection. On Supply, Russia Deputy PM Novak noted the current Russian oil production is around 9.5mln BPD and the proportional decrease of Russian oil and oil products exports in OPEC+ deal is not so important, main thing is the reduction of 500k BPD. Elsewhere, Trans Mountain Corp said it is working to a Q2 service in date for the pipeline expansion. Looking ahead, all attention will be on US Core PCE (Thurs), while globally, European state-level flash CPIs on Thursday and Eurozone flash CPI and Chinese PMIs on Friday.

EQUITIES

CLOSES: SPX -0.17% at 5,069, NDX -0.54% at 17,874, DJIA -0.06% at 38,949, RUT -0.77% at 2,040.

SECTORS: Communication Services -0.92%, Technology -0.55%, Health -0.51%, Energy -0.18%, Consumer Staples +0.09%, Materials +0.22%, Financials +0.35%, Consumer Discretionary +0.32%, Utilities +0.3%, Industrials +0.3%, Real Estate +1.28%.

EUROPEAN CLOSES: DAX: +0.25% at 17,601.22, FTSE 100: -0.76% at 7,624.98, CAC 40: +0.08% at 7,954.39, Euro Stoxx 50: -0.03% at 4,884.45, IBEX 35: -0.45% at 10,068.60, FTSE MIB: -0.27% at 32,617.96, SMI: -0.25% at 11,411.40.

STOCK SPECIFICS:

- **Apple (AAPL)** -0.5%: Apple representatives engaged in a final meeting with the DoJ to dissuade an impending antitrust lawsuit. In other news, CEO Cook said it will "break new ground" in generative AI this year and will share updates on generative AI plans later this year
- **Applied Materials (AMAT)** -2.5%: Disclosed receiving subpoenas from both the SEC and the US Attorney's Office in February regarding China customer shipments and federal award applications.
- **Amazon (AMZN)** -0.5%: Amazon's lobbyists face a European Parliament ban due to disputes over transparency and labour conditions, FT reports.
- **UnitedHealth (UNH)** -3%: DoJ has opened an antitrust investigation into UnitedHealth.
- **Boeing (BA)** +3%: US FAA tells BA it has 90 days to deliver a comprehensive action plan to fix quality control issues. In response, BA stated it will develop a comprehensive action plan that demonstrates "profound improvements" and it has a "clear picture of what needs to be done".

EARNINGS:

- **Bumble (BMBL)** -15%: Deeper loss per share than expected and missed on revenue. Intends to reduce global workforce by approx. 350 with next quarter's revenue guide light.
- **eBay (EBAY)** +8%: Profit, revenue, op. margin and GMV all beat. Authorised an additional 2bln share repurchase programme, and raised quarterly cash dividend +8% to 0.27/shr.
- **First Solar (FSLR)** +3%: Profit beat, with FY guidance better-than-expected.
- **Urban Outfitters (URBN)** -12.5%: Revenue, comp. sales, gross margin and operating margin missed.
- **TJX Companies (TJX)** +1%: EPS in line while revenue and comp. sales beat. Expects to raise dividend by 13% and buyback 2-2.5bln of stock in FY25. FY and Q1 guidance was short.
- **Beyond Meat (BYND)** +30.5%: Revenue beat, and while adj. EBITDA loss was greater than expected, said it was driven by one-time items.
- **Agilent Technologies (A)** +3.5%: Top and bottom line surpassed Wall St. consensus.
- **Republic Services (RSG)** +1%: Q4 metrics topped expectations as did FY outlook.
- **Novavax (NVAX)** -27%: Posted a larger-than-expected loss, missed revenue estimates and expects 2024 sales to be flat or lower. Believes, given significance of uncertainties, substantial doubt exists about ability to continue as a going concern through 1-year from today.

US FX WRAP



The Dollar saw a slight bid on Wednesday with peaks seen in the morning on downbeat risk tone but DXY failed to hold above 104.00. The Q4 GDP saw a slight revision lower but the PCE metrics were revised up. As the risk tone recovered throughout the US session, the dollar continued to move from the earlier peaks. Attention turns to January PCE on Thursday.

The Euro saw mild weakness vs. the Buck with plenty of ECB speak to digest but data saw Consumer Confidence unchanged, as expected, and industrial sentiment was slightly worse than unexpected, alongside economic sentiment and services sentiment with the overall business climate unchanged. ECB speak saw de Guindos state the inflation outlook has been very positive and if new data confirms their recent assessment, the ECB will modify policy. Kazimir said that he prefers a June rate cut and then a smooth and steady easing cycle. Nagel said it would be a mistake to cut too early only for inflation to reaccelerate.

The Yen saw mild weakness despite lower Treasury yields with USD/JPY remaining above 150. **The Swissy** was flat on Wednesday against both the Dollar and the Euro. Note that focus on the Swissy is picking up ahead of the European inflation data this week ahead of Swiss CPI on Monday, which will be critical in determining whether or not the SNB cuts on March 21st. Goldman's FX desk notes the data has "a lot riding on it" given that CHF shorts are one of the larger positions out there, with EURCHF sat just below its 200d MA (c. 0.9560) that hasn't been breached since June last year.

Antipodes were the laggards after the dovish RBNZ hold overnight and softer than expected Australian inflation data. Although, both currencies look to head into the APAC session around session lows despite a slight improvement in the risk tone from the EU morning. AUD fell from a peak of 0.6549 to a trough of 0.6490 while NZD/USD fell from a high of 0.6177 to a low of 0.6083. NZD was the clear laggard, however, with AUD/NZD rising from lows of 1.0602 to peaks of 1.0685 in wake of the RBNZ before ultimately paring to c. 1.0650.

In **CEE**, HUF and PLN saw weakness although the CZK was flat after hotter than expected M/M PPI. Although the PLN was weaker on the session, EUR/PLN briefly dipped beneath 4.3000 for the first time since December with recent strength coming ahead of the expected inflow of EU funds after EC President von der Leyen said Poland would gain access of up to EUR 137bln in funds that had been previously blocked under the prior government in a dispute. HUF was the clear laggard with EUR/HUF rising to highs of 394, the first time since September 2023.

In **LatAm**, BRL and MXN were the relative laggards with CLP outperforming after the jobless rate fell to 8.4% from 8.5% despite expectations of a rise to 8.6%. BRL weakness ensued after another softer than expected inflation print, the IGP-M inflation index for February declined -0.52% vs exp. -0.5%, easing from the prior +0.07%. COP was flat. MXN was unreactive to the latest Banxico QIR, which saw 2024 GDP growth downgraded but inflation forecasts rose to match the latest Banxico forecasts in the statement. Commentary from officials saw Governor Rodriguez note that any adjustments would be gradual, while deputy Governor Heath said that it is very important they do not commit the error of lowering the policy rate too early.

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