US Market Wrap

29th February 2024: Stocks gain after in-line PCE on month-end

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar up.
- **REAR VIEW**: Core PCE in line; Surprise Chicago PMI fall; Soft Pending home sales; Jobless Claims slightly rise; Hawkish BoJ commentary; Mixed EZ inflation figures; Fed speakers stick to the script.
- **COMING UP**: **Data**: Japanese, Chinese, EZ, US and Canadian Manufacturing PMI, Italian and EZ CPI, US UoM Inflation Expectations **Speakers**: RBNZ’s Orr; Fed’s Williams, Barkin, Waller, Logan, Kugler, Bostic, Daly; BoE’s Pill **Supply**: Australia **Earnings**: Daimler Truck, Rightmove, Pearson.

MARKET WRAP

Stocks were bid, with the tech-heavy Nasdaq 100 outperforming amid semisemconductor strength, on the Core PCE data being in line with analyst expectations with the dovish response a reaction to the lack of hawkish surprises like what was seen in the CPI and PPI reports. The Fed Speak since the data sung from the same hymn sheet as before, with 2024 voter Mester noting it does not change her view that inflation is moving downward and she still sees three rate cuts this year. T-Notes were also bought on the PCE data while rising jobless claims and soft Chicago PMI and housing data only supported the bid which was likely accentuated by month-end buying. The Dollar initially sold off on PCE but it managed to pare initial losses with DXY reclaiming 104 although the Yen outperformed on hawkish BoJ commentary overnight and the move lower in UST yields; which also supported gold. Euro was sold on the Dollar strength while regional inflation data was mixed, France and Spain CPI was hot while German inflation was softer than forecast; attention turns to the national print on Friday. Bitcoin continued its ascent higher on Thursday to near 64k. Looking ahead, there is a plethora of Fed speakers on Friday (seven, to be exact) while data highlights look to the US ISM Manufacturing PMI for Feb and the Final UoM survey with PMI data from China and Europe also eyed, as well as the aforementioned EZ inflation.

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PCE: Overall, the January Core PCE price data was in line with expectations for both core and headline figures. Core M/M accelerated to 0.4% from 0.2%, with the headline rising to 0.3% from 0.2%. Core Y/Y eased to 2.8% from 2.9% with the Y/Y headline easing to 2.4% from 2.6%. Although the monthly figures rose, they were in line with expectations which is at odds with the hot CPI and PPI prints seen for January, albeit analysts did revise up their PCE forecasts in wake of the CPI and PPI prints. Meanwhile, the easing of the Y/Y figures is a welcome sign in the Fed's fight against inflation in returning inflation back to 2% but the monthly prints do remind us it will likely be a bumpy ride back to 2%. Nonetheless, there were still some concerning signs - the Fed is also very cognizant of the super-Core PCE measures - Core PCE Services ex housing rose 0.6%, accelerating from December's 0.3% pace. Meanwhile, the Core PCE annualised rates rose with the 3mnth rising to 2.8% from 2%, and the 6mnth rising to 2.6% from 2.2%. There have been concerns with the seasonality effects of the January data, therefore this report likely does little to alter the Fed's current thought process, which is a patient and data-dependent approach - money markets are leaning to either a June or July meeting for the first rate cut, with just 5bps of easing priced for May. Aside from the prices, Personal Income saw a notable 1.0% gain from the prior 0.3%, well above the 0.4% forecast with the upside, according to Pantheon Macroeconomics, boosted by the annual increase to social security and increase in dividends, both one-time events. Consumption, however, was in line with expectations, real consumption fell by 0.1% and adj. spending rose by 0.2%. The spending may have been depressed by the cold weather in January, with retail giants HD, TJX and LOW all noting that weather in January had an unfavourable impact. Pantheon Macroeconomics expect spending to rebound, partly driven by the one-time increase in spending in January.

FED: **Bostic (2024 voter)** spoke again and provided little new information to recent speeches, echoing that it is probably appropriate to reduce the policy rate in the summertime. When asked about the PCE data, he said sometimes different measures point in different directions but it is useful to use a range of approaches to assess inflation. **Daly (2024 voter)** said policy is in a good place and they can cut if they needed but if they cut too quick, inflation can get stuck. She wants to avoid holding rates all the way to 2%, adding there is no imminent risk of the economy faltering while risks of persistent inflation and an economic downturn are even. **Goolsbee (2025 voter)** said even with January PCE showing a month of rebound, the Fed should be careful to extrapolate too much from it, noting the progress made on a long term basis so far. Goolsbee also noted there is a risk of betting against the Fed being committed to doing what it says, adding he still thinks the question is how long does the Fed want to remain this restrictive for. Goolsbee also noted that if the golden path were to continue in 2024, it would rely on lagged effects of past positive supply shocks, adding if the Fed stays quite restrictive, it will eventually have to think about the employment impact. **Mester (voter)**, in a Yahoo Finance interview, said PCE data came in as she expected and it doesn't change her view that inflation is moving down. On data, Mester said the Fed does not want to move on just one data report and right now her baseline forecasts for three cuts in 2024 still feels about right.

JOBLESS CLAIMS: Weekly Initial Jobless Claims rose by 215k, rising from the prior 202k and above the 210k consensus. The 4wk average however eased to 212.5k from 215.5k. The continued claims, for the week that usually coincides with the BLS survey period, rose to 1.905mln from 1.860mln, above the 1.874mln consensus. Given claims data is volatile, however, one should not overly read too much into a report, but by historic standards claims are still relatively low but many do expect the claims numbers to increase throughout 2024. Note, the unadjusted data totalled 194k for initial claims, with seasonal factors expecting a decrease of c. 17k.

CHICAGO PMI: Chicago PMI for February dipped to 44.0 from 46.0, shy of the expected 48.0, taking the headline to its lowest level since last July. As Pantheon Macroeconomics highlights, this release stands in stark contrast to the significant increases in all four of the regional Fed manufacturing surveys published so far. Although, they do add the divergence might reflect how the Chicago PMI also covers sectors outside of the manufacturing sector or perhaps the recent plunge in orders at Boeing.

PENDING HOME SALES: Pending home sales in January unexpectedly fell 4.9% to 74.3 from 78.1 as harsh winter weather may have restrained sales more than anticipated. The headline reversed most of the increase seen in December, when buyers responded to a sharp drop in mortgage rates. On the release, Oxford Economics sees limited upside for existing home sales in the near term, and in January and February, mortgage rates reversed about 30bps of their 2023 Q4 decline and are hovering around 7%. As such, the consultancy adds, “Mortgage rates at that level, still-firm home prices, and a scarce supply of homes for sale will keep a lid on sales. We expect sales to improve later this year when mortgage rates decline.”

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 3 TICKS LOWER AT 110-14

Treasuries firmed after in-line PCE data and soft activity data were accentuated by month-end buying. 2s -0.2bps at 4.646%, 3s -0.3bps at 4.440%, 5s -1.2bps at 4.261%, 7s -2.1bps at 4.276%, 10s -2.4bps at 4.250%, 20s -2.7bps at 4.511%, 30s -3.4bps at 4.376%

INFLATION BREAKEVENS: 5yr BEI +1.9bps at 2.379%, 10yr BEI +0.8bps at 2.348%, 30yr BEI +0.0bps at 2.285%

THE DAY: Treasuries drifted higher into the APAC Thursday session to see T-Notes hit interim peaks at the Tokyo handover of 110-14 before hitting support at 110-09 a few hours later. Japan's IP data was weak, although hawkish commentary from the typically dovish Takata at the BoJ was more in focus, weighing on JGBs. The govvie downside extended in the European morning after the decline in the Eurozone member inflation readings for February was not as large as expected.

T-Notes stretched to a session low of 110-00 at the NY handover, just above the Tuesday/WTD low of 109-31+. That was before the Jan Core PCE came in as expected (0.4% M/M), and a "buy the news" reaction was seen in USTs, potentially also some unwind of hedges for an even hotter print. Before long, T-Notes were marking fresh session peaks, and the bid was given further weight by the surprise fall in the Chicago PMI data and soft pending home sales, not to mention month-end flows where a chunky duration index extension of +0.11yr is expected (via BBG). Contracts ultimately peaked for the session at 110-21 late in the NY morning, just beneath the Monday/WTD peak of 110-21+, but failed to extend higher into the afternoon, with a 3.5k Ultra Bond block seller capping strength. Attention now on Friday's ISM mfg., European CPI, Chinese PMIs and just the six Fed speakers to see us off into the weekend.

SUPPLY CALENDAR: No more sovereign supply this week. But 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. Dollar corporate supply may also be thinning as we head into March after a record pipeline YTD, JPMorgan notes, "some deals getting pulled forward from March given market strength/resilience earlier this month... Average 4yr March supply has been ~175bn but we are expecting ~130bn for March this year."

FED SPEAK sees Barkin, Waller, Logan, Bostic, Daly, and Kugler on Friday. The scheduled speaker list next week so far has Harker on Monday, Powell (testifying in House), Daly, and Kashkari on Wednesday, Powell (testifying in Senate) and Mester on Thursday, and Williams on Friday.

STIRS:

- SR3H4 +0.0bps at 94.683, M4 +0.0bps at 94.890, U4 -0.5bps at 95.190, Z4 -1.0bps at 95.505, H5 -0.5bps at 95.790, M5 +0.0bps at 96.025, U5 -0.5bps at 96.190, Z5 +0.0bps at 96.290, H6 +0.5bps at 96.335, H7 +1.0bps at 96.355, H8 +1.0bps at 96.310.
- SOFR flat at 5.31%, volumes fall to USD 1.620tln from 1.741tln.
- NY Fed RRP op demand at USD 0.502tln (prev. 0.570tln) across 83 counterparties (prev. 87).
- EFFR flat at 5.33%, volumes flat at USD 96bln.
- US sold USD 95bln of 1-month bills at 5.285%, covered 2.80x; sold USD 90bln of 2-month bills at 5.285%, covered 2.71x.
- Treasury left 42-day, 13- and 26-week bill auction sizes unchanged at USD 80bln, 79bln, and 70bln, respectively; 13- and 26-week sold on Mar 4th and 42-day CMBs on Mar 5th; all to settle on Mar 7th.

CRUDE

WTI (J4) SETTLED USD 0.28 LOWER AT 78.26/BBL; BRENT (K4) SETTLED USD 0.24 LOWER AT 81.91/BBL

The crude complex was choppy on Thursday, but sold off into settlement to end slightly in the red as a firmer Dollar and continued heightened geopolitical worries cancelled each other out for the large part. Fresh oil newsflow was light with specific drivers limited, although there were some punchy remarks from Russian President Putin in the EU morning, despite no reaction, as he said "don't they understand there is danger of nuclear conflict?" and on talk of NATO troops in Ukraine, stated consequences for the intruders will be more tragic and that Russia has weapons which can hit targets on their territory. Regarding prices, in the EU morning WTI and Brent hit lows of USD 77.95/bbl and 81.51/bbl, respectively, before retracing to highs of 79.28/bbl and 82.84 in the NY afternoon. Elsewhere, according to a Reuters survey, OPEC February oil output rose by 900k BPD from January to 26.42mln BPD as Libyan output recovers from outage. Meanwhile. OPEC's nine members making voluntary cuts or subject to quotas reduced output by 20k BPD vs. Jan. to 21.43mln BPD. Looking to Friday, ISM Mfg. PMI, EZ inflation data, a slew of Fed speak and the weekly Baker Hughes rig count are the highlights.

EQUITIES

CLOSES: SPX +0.52% at 5,096, NDX +0.95% at 18,043, DJIA +0.12% at 38,996, RUT +0.71% at 2,054.

SECTORS: Technology +1.3%, Communication Services +1.27%, Consumer Discretionary +0.97%, Real Estate +0.91%, Materials +0.82%, Energy +0.43%, Industrials +0.4%, Utilities +0.09%, Financials +0.06%, Consumer Staples -0.27%, Health -0.68%.

EUROPEAN CLOSES: DAX: +0.44% at 17,678.19, FTSE 100: +0.07% at 7,630.02, CAC 40: -0.34% at 7,927.43, Euro Stoxx 50: -0.10% at 4,878.95, IBEX 35: -0.67% at 10,001.30, FTSE MIB: -0.11% at 32,580.94, SMI: +0.16% at 11,432.50.

EARNINGS:

- **Salesforce (CRM)** +3.5%: EPS and revenue beat with next quarter profit view better-than-expected. Raised share repurchase authorisation by USD 10bln. Q1 and FY revenue guidance was short. Note, CRM mgmt spent a lot of time on the call speaking positively about the demand outlook for AI-related products
- **Snowflake (SNOW)** -18%: CEO is retiring with Q1 and FY product revenue guidance short.
- **C3.ai (AI)** +25%: Shallower loss per share than expected and beat on revenue. FY revenue outlook surpassed expectations.
- **HP (HPQ)** -1.5%: Top line missed expectations.
- **Okta (OKTA)** +23%: EPS and revenue topped, with strong FY and next quarter guidance.
- **Best Buy (BBY)** +1.5%: Profit and revenue beat, with comp. sales largely not declining as much as expected.
- **Hormel Foods (HRL)** +15%: Earnings beat and reaffirmed FY guidance.
- **Duolingo (DUOL)** +22%: EPS and revenue surpassed expectations with a strong FY and Q1 outlook.
- **Paramount Global (PARA)** -0.5%: Posted a slight, unexpected, profit per share and Paramount+ added 4.1mln subscribers in the quarter to end above forecasts. Although, revenue fell short.

STOCK SPECIFICS:

- **Alibaba (BABA)** -1%: Cloud unit has cut prices by an average 20%, and by as much as 55% on a wide range of core cloud products.
- **Boeing (BA)** -1.5%: DoJ will probe Boeing's recent midair door blowout.
- **Sterling Check (STER)** +26%: To be acquired by First Advantage (FA) for USD 2.2bln or USD 16.73/shr in a cash and stock deal. STER closed Wednesday at 12.42/shr.
- **Chemours (CC)** -31.5%: Appointed a new interim CEO and CFO after it placed the current CEO and CFO on admin leave. CC further delayed reporting its quarterly and FY results.
- **Electronic Arts (EA)** -0.5%: Will reduce the size of its workforce by 5% and as part of its overhaul has cancelled the Star Wars game.

US FX WRAP

The Dollar saw two-way price action and initially sold off in wake of the in-line PCE, rising jobless claims, a miss in Chicago PMI and a miss in Pending Home sales. DXY hit a low of 103.65 just after the housing data before reversing higher to peaks of 104.20 a few hours later with the upside coinciding with some weakness in equities and coming off highs.

The Euro was ultimately weaker vs. the Dollar amid the slew of EZ and US data. EZ inflation was on net, mixed, with inflation in France and Spain hotter than forecasts but Germany was in line on the HICP but softer than expected on CPI. Attention will be on the national prints released on Friday.

The Yen saw decent gains supported by the initial dollar weakness and hawkish BoJ commentary overnight. USD/JPY fell sub 150 overnight, before rising back above it, but once the PCE numbers hit the level was taken out once again to see USD/JPY hit a low of 149.22. As the Dollar recouped ground, however, the Yen gains eased albeit it looks set to head into APAC trade sub 150 at pixel time.

Swissy was weaker against the Buck and the Euro with the Dollar revival hitting the Swissy. **Gold** prices surged on the move lower in UST yields in wake of the PCE data.

Antipodes were flat/down. **NZD** saw some upside overnight after Governor Orr suggested that the easing of rates will not happen anytime soon, but the dovish RBNZ overhang from earlier in the week still weighed with the Kiwi selling off into US data. The initial PCE reaction saw NZD/USD surge to test the overnight highs of 0.6110. AUD price action mimicked the Kiwi with soft Aussie retail sales having little impact but AUD managed to finish the day flat vs. the Greenback.

The Pound saw weakness vs. the Buck but was flat vs. the Euro in quiet trade. The only real update was the next BoE Deputy Governor announcement, Clare Lombardelli, who apparently leans hawkish. CAD was flat with USD/CAD testing 1.3600 pre-PCE before falling to lows of 1.3542 but the dollar reversal wiped out any early CAD gains.

EMFX was mixed. BRL and COP were flat, MXN saw slight gains but CLP was the notable outperformer after recent weakness throughout 2024. In Mexico, the jobless rate came in at 2.9%, above the 2.8% forecast and prior 2.6%. In Brazil, the unemployment rate of 7.6% was beneath the 7.8% forecast, but up from the prior 7.4%. Elsewhere, in South Africa, ZAR saw gains as it tracked gold higher although PPI data was softer than expected Y/Y, but in line M/M.