US Market Wrap

1st March 2024: Dell-induced AI stock surge while soft ISM ramps Fed rate cut pricing

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Surprise ISM Mfg. PMI fall; Final Feb UoM revised lower; Fed Speak sing from the same hymn sheet; Waller on balance sheet twist; Atlanta Fed GDPnow cut to 2.1%; BA reportedly in talks to acquire SPR; Dovish BoJ Ueda; DELL earnings beat & lifts FY guidance amid AI server demand; NYCB replaces CEO as losses rise to USD 2.7bln; GS removes AAPL from Conviction List.
- **WEEK AHEAD**: Highlights include US NFP, ECB & BoC rate decisions, Japan wage data. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing BoC and ECB; Reviewing RBNZ. To download the report, please click here.

MARKET WRAP

Stocks ripped to new highs on Friday, sustaining through the session, with AI-affiliated names leading the charge with particular strength in Dell (DELL) after its earnings report. Although, regional banks were a weak spot after NYCB's (NYCB) (-26%) latest woes. At the same time, Fed rate cut pricing across 2024 ramped up by 10bps to 92bps after the ISM Manufacturing survey saw a surprise fall, including the prices paid component. Treasury yields closed the week at lows after the data, which was accentuated by soft construction spending and downward revisions to the Uni of Michigan's sentiment survey. Note also comments from Fed's Waller who said he would like to shift the Fed's Treasury holdings to shorter maturities. In FX, the Dollar slid lower after the data but Yen still underperformed in the wake of the dovish Ueda comments. Euro was stronger after Eurozone core CPI fell less than expected ahead of next Thursday's ECB. Oil prices rallied, breaking out to multi-month highs ahead of next week's OPEC gathering. The softer Dollar and the lower yield environment saw spot gold rip to YTD peaks at USD 2,088/oz ahead of the December '23 peak of USD 2,135/oz.

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LOGAN AND WALLER ON QT: Dallas Fed's Logan (non-voter) and Fed Governor Waller (voter), speaking at the same event, both gave some expansive comments on QT and the balance sheet as the Fed approaches a decision on reducing the pace of the balance sheet roll off. While Logan's comments echoed her prior remarks on the issue, Waller's comments were perhaps the most interesting after he suggested that he would like to see the Fed's Treasury holdings shift to a larger share of shorter-dated securities, where moving to more T-Bills would shift the maturity structure closer to the policy rate; highlighted that T-Bills today make up less than 3% of the Fed's security holdings vs approximately a third seen pre-GFC. Waller also clarified that the Fed's balance sheet plans "do not imply anything about the stance of interest rate policy".

WILLIAMS (voter), overnight, echoed that the Fed can take time to deliberate on the next policy move, noting the resilience of the economy is remarkable. He expects the Fed to cut rates later this year, stressing there is no sense of urgency to cut. He also noted that a rate hike is not part of his base case.

BARKIN (voter, on inflation, said the Fed are on the back end of regular price hikes, noting price hikes are being offset by declines in some sectors. He also suggested overall inflation numbers are likely to come down over the next few months, but if the monthly numbers come inconsistent with that, the Fed has to take that into account. On the PCE data, he tries not to take too much out of January numbers in general, but the PCE data is consistent with the story he is hearing with regards to services inflation. He is not in a hurry to cut rates, noting "we'll see" if there are rate cuts this year, stressing it all depends on progress in inflation.

ISM: ISM Manufacturing PMI for February unexpectedly fell to 47.8 from 49.1, against the forecasted rise to 49.5. Prices paid remain in expansionary territory but encouragingly dipped to 52.5 (prev. 52.9, exp. 53.0), while new orders fell into contractionary territory to 49.2 from 52.5. Employment and production declined to 45.9 (prev. 47.1) and 48.4 (prev. 50.4), respectively. Supplier delivery times lengthened slightly while the backlog of new orders remained low. Nonetheless, despite the soft report the commentary within was more upbeat, and highlighting this the share of sector

GDP registering a composite PMI calculation at or below 45 percent, a good barometer of overall manufacturing weakness, was 1% in Feb. vs. 27% in Jan. and 48% in Dec. Further still, among the top six industries by contribution to manufacturing GDP in February, none had a PMI at or below 45 percent, compared to two in the previous month. Overall, the past relationship between the Manufacturing PMI and the overall economy indicates that the February reading corresponds to a change of +1.5% in real GDP on an annualized basis. In wake of ISM, and construction spending, Atlanta FedGDP Now Q1 tracker was cut to 2.1% from 3.0%.

MICHIGAN: UoM final headline for February was revised much lower to 76.9 from expectations of an unchanged print of 79.6. Current conditions and forward-looking expectations were revised down to 79.4 (prev. 81.5) and 75.2 (prev. 78.4), respectively. On the inflation footing, 1yr ahead was unchanged at 3.0%, as was the longer-term 5-10yr at 2.9%. The chunky fall between readings hints at a sizeable dropping off in confidence in the second half of February, but Oxford Economics notes that while one month of decline has not reversed the major improvements made to sentiment recently, it does expect the index to remain subdued. As such, the consultancy's fore

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 19 TICKS HIGHER AT 111-01

Treasuries bull steepened after the surprise fall in ISM Mfg. 2s -10.6bps at 4.540%, 3s -11.1bps at 4.329%, 5s -9.4 bps at 4.166%, 7s -8.2bps at 4.198%, 10s -6.6bps at 4.186%, 20s -5.0bps at 4.457%, 30s -4.3bps at 4.332%.

INFLATION BREAKEVENS: 5yr BEI +0.1bps at 2.371%, 10yr BEI -0.2bps at 2.337%, 30yr BEI flat at 2.283%.

THE DAY: Treasuries chopped sideways through the APAC session on Friday with mixed Chinese PMIs alongside BoJ's Ueda - who said the stable price target is not yet in sight but that he is looking for "positive results" from upcoming wage talks - failing to drive any meaningful direction. T-Notes hit resistance at 110-17 in the APAC afternoon before drifting to an interim low of 110-08 at the London handover, coming on the heels of the hot Spanish HCOB mfg. PMI. However, contracts reversed higher from there with desks citing short covering ahead of the EZ inflation data. The inflation figures fell less than expected, similar to the state-level figure on Thursday, and only saw a fleeting hawkish move out of EGBs before the bid extended.

T-Notes hit interim peaks of 110-23+ at the NY handover, breaching past the Monday/WTD high of 110-21+. However, while the front and belly were making fresh highs for the week, the back end (ZB and UB) didn't manage to and started to pull back in the NY morning, and the rest of the curve soon followed with the expected rise in US ISM mfg. approaching. Furthermore, Fed's Barkin (voter), in a CNBC interview at the time, said "we'll see" on whether there would be rate cuts this year, supporting the UST downside. T-Notes hit session lows of 110-05+ before the data surprised, with the headline ISM and the Prices Paid component seeing surprise falls. That saw T-Notes surge to fresh peaks, with contracts ultimately peaking for the week at 111-02 at settlement after a squeeze on new highs in late trade; note there was a late 19k block 2yr buyer. Meanwhile, Fed's Waller's (v) comments after the data about wanting to reduce the maturity of the Fed's holdings had little noticeable effect on price action.

SUPPLY CALENDAR: There are no US coupon auctions next week. But 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. IFR reports that European scheduled sovereign supply is set to come in around EUR 30bln vs EUR 21bln in this past week. Meanwhile, 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: 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:

- Money market now see 92bps of Fed cuts through 2024 vs 83bps before the ISM data. SR3H4 +1.25bps at 94.6975, M4 +6bps at 94.95, U4 +8bps at 95.265, Z4 +9bps at 95.59, H5 +10bps at 95.885, M5 +10.5bps at 96.125, U5 +10.5bps at 96.295, Z5 +10.5bps at 96.39, H6 +10bps at 96.43, H7 +9bps at 96.44, H8 +7bps at 96.375.
- SOFR rises to 5.32% as of Feb 29th from 5.31%, amid month-end flows, volumes spike to USD 1.951tln from 1.620tln.
- NY Fed RRP op demand at USD 0.441tln (prev. 0.502tln) across 73 counterparties (prev. 83).
- EFFR flat at 5.33% as of Feb 29th, volumes flat at USD 96bln.

CRUDE

WTI (J4) SETTLED USD 1.71 HIGHER AT 79.97/BBL; BRENT (K4) SETTLED USD 1.64 HIGHER AT 83.55/BBL

Oil prices rallied on Friday as prices broke out higher of multi-month ranges ahead of next week's OPEC gathering. There are big expectations heading into next week's OPEC meeting after Reuters reports this week that production cuts through the end of the year were a possibility. That supply backdrop, combined with technical bullish momentum on Friday, saw WTI and Brent contracts peak at USD 80.85/bbl and 94.34/bbl, respectively, the highest since early November. Citi's S&T desk noted, "Our commodities desk has seen no real flows. We are now at the highs so it will be interesting to see if this has any momentum to carry through." Meanwhile, the Baker Hughes US rig count this week saw oil rigs up three at 506 and Nat Gas down one at 119.

EQUITIES

CLOSES: SPX +0.80% at 5,137, NDX +1.44% at 18,302, DJIA +0.23% at 39,087, RUT +1.05% at 2,076.

SECTORS: Technology +1.78%, Energy +1.17%, Real Estate +1.08%, Health +0.97%, Communication Services +0.51%, Materials +0.39%, Consumer Discretionary +0.38%, Industrials +0.36%, Consumer Staples -0.04%, Financials -0.22%, Utilities -0.72%.

EUROPEAN CLOSES: DAX: 0.00% at 17,735.00, FTSE 100: +0.69% at 7,682.50, CAC 40: +0.09% at 7,934.17, Euro Stoxx 50: +0.33% at 4,894.05, IBEX 35: +0.63% at 10,064.70, FTSE MIB: +1.08% at 32,934.29, SMI: +0.45% at 11,490.30.

STOCK SPECIFICS:

- **Apple (AAPL)** -0.5%: Goldman Sachs has removed Apple from its Conviction List.
- **Dell Technologies (DELL)** +31.5%: EPS and revenue beat alongside lifting annual dividend +20%. FY25 guidance surpassed expectations on AI server demand.
- **Autodesk (ADSK)** +2.5%: Top and bottom-line beat. Exec said underlying demand for its products and services was robust, and it is leading again in 3D generative AI.
- **NetApp (NTAP)** +18%: Profit and revenue surpassed expectations, alongside lifting FY24 adj. EPS outlook.
- **B. Riley (RILY)** -8%: Cut its quarterly dividend to USD 0.50/shr (prev. USD 1.00/shr).
- **New York Community Bancorp (NYCB)** -26%: Appointed a new CEO, identified material weaknesses in internal controls and expects to file 10k late. Elsewhere, it has completed goodwill impairment assessment in February, and losses rise to USD 2.4bln.
- **Fisker (FSR)** -34%: Deeper loss per share, missed on revenue, intends to reduce workforce by roughly 15% and has substantial doubt about ability to continue as going concern.
- **Cooper Companies (COO)** +9%: Earnings topped Wall. St consensus and lifted FY outlook.
- **GoodRx (GDRX)** +7%: Upgraded at JPM; said concerns about a shifting pharmacy reimbursement model are overdone. GoodRx's 2024 guidance is a positive inflection point and proof of credibility.
- **Boeing (BA)** -2% **Spirit AeroSystems (SPR)** +15.5%: Tells suppliers it is delaying 737 production increases; new Boeing supplier schedule calls for 737 output to reach 42 per month in Jun (previous target Feb) and 47/m in Jan 2025 (prev. Aug 2024), according to Reuters sources. In other news, Boeing is in talks to buy Spirit AeroSystems, considering selling European operations which makes parts for Airbus (AIR FP), according to WSJ.

US FX WRAP

The Dollar was lower to the end the week as the soft US ISM manufacturing and UoM revisions sparked a broad-based dovish reaction, continuing throughout the rest of the session, seeing the Dollar index hit a low of 103.840. There was a slew of Fed speak (Williams, Barkin, Goolsbee, Logan, Waller, Bostic, Kugler) and they all largely sang from the same hymn sheet that we won't go over again, however, Waller suggested that he would like to see the Fed's Treasury holdings shift to a larger share of shorter-dated securities, where moving to more T-Bills would shift the maturity structure closer to the policy rate.

G10 FX broadly benefitted from the aforementioned pullback in the Greenback, but the Yen still saw marginal losses after the dovishly perceived Ueda remarks. The BoJ Governor noted inflation is easing at a quick pace and wage negotiations will offer a tailwind, but they are not yet in a situation where sustained achievement of 2% inflation can be foreseen. As such, USD/JPY hit a high of 150.71 before reversing to a low of 149.97, albeit only briefly dipping back beneath the key 150 level, but heavy focus is on the YTD peak at 180.88, and a breach would likely prompt verbal jawboning and speculation over intervention. AUD outperformed, while EUR, NZD, and GBP all saw similar gains vs. the Buck.

EUR was initially a touch firmer after the smaller fall than expected in the inflation metrics which followed in the footsteps of hot Spain and French prints but cool German numbers on Thursday. EUR/USD usurped its 100DMA at 1.0824 to print a high of 1.0843 ahead of next Thursday's ECB.

Regarding the Kiwi, Governor Orr said that the economy is evolving as expected and inflation expectations have declined but inflation is still too high, although it is declining. The Governor also noted policy needs to stay restrictive for some time and he expects to start normalising policy next year. Deputy Governor Hawkesby noted the RBNZ are not in a mindset to cut rates now and will be cutting some time down the track.

Cable saw contained trade as the cross held above the 1.26 handle. After testing 1.26 to the downside in the NY morning, the soft US ISM figures saved the Pound, as it settled towards highs of circa 1.2660. Attention now turns to next week's UK Budget.

CAD and **CHF** saw marginal gains, and while headline newsflow was light the key takeaway was that SNB Chair Jordan is to step down at the end of September. Note, he will Chair three meetings before then. Swiss inflation is due next week. CAD S&P Global Manufacturing PMI rose to 49.7 from 48.3.

EMFX was mixed vs. the Buck. ZAR, BRL, MXN, and CLP firmed, while CNH was flat, and TRY, RUB, and COP saw losses. The Rand was supported by firmer gold prices, while the Brazil Finance Ministry continues to estimate a 2.2% increase in GDP in 2024. On the data docket, China's NBS Manufacturing PMI was in line but services saw a beat as did the Caixan manufacturing. Lastly, for the Czech Krona, GDP matched the prior quarter pace while the CNB said the new data indicate a somewhat earlier onset of gradual recovery phase than predicted. It also said the observed decline in inflation and decline in saving rate will lead to an increase in households' real consumption expenditure.