US Market Wrap

6th March 2024: Stocks and Bonds rise on soft employment data; Mnuchin saves NYCB

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: Powell sticks to script; JOLTS and Quits rate ease; ADP rises, but misses expectations; UK Budget as expected; NYCB USD 1bln capital raise; Stellar JD & CRWD reports, Weak FL update; Bullish EIA report
- **COMING UP**: **Data**: Australian Trade, Chinese Trade, German Industrial Orders, US Challenger Layoffs, International Trade, Initial Jobless Claims, Canadian Trade, Japanese Household Spending **Events**: ECB Policy Announcement; BoE Monthly Decision Maker Panel **Speakers**: ECB President Lagarde; Fed’s Powell, Mester **Supply**: Japan, Spain, France, US **Earnings**: Lufthansa, Merck, Hugo Boss, Entain, Aviva, Costco, Marvell.

MARKET WRAP

Stocks were firmer on Wednesday but closed off highs with some chunky selling seen in the NY afternoon. Fed Chair Powell gave familiar rhetoric in Congress, expressing caution on cutting rates too early, whilst also saying he still thinks its likely rates are cut this year and we are at the peak Fed rate. NYCB announced in the NY afternoon it had received a capital raise of USD 1bln from former Treasury Sec. Mnuchin's fund, providing support to the stock and broader regional banks after earlier weakness on the reports it was seeing capital, but that failed to prevent the major indices paring their earlier strength. Treasuries rallied after the soft-leaning ADP employment and JOLTS job openings figures were followed by haven demand on the initial media reports that NYCB was seeking a capital raise, although some of the gains were pared into the close amid the bank confirming the USD 1bln raised. The Dollar was sold amid the soft data with attention on Friday's NFP in focus. Within stocks, big tech remained an area of underperformance, although other areas of tech prospered, including software after CrowdStrike (CRWD) surged post-earnings. China stocks prospered after the strong JD earnings report. Bitcoin bounced back higher, albeit it has not yet managed to breach past Tuesday's ATHs at c. USD 69.2k ,while spot gold managed to make a new peak above USD 2,150/oz. Oil prices rallied amid the soft Dollar and bullish EIA energy inventory data.

CENTRAL BANKS

FED CHAIR POWELL: Fed Chair Powell gave a typically cautious/hawkish set of prepared remarks as he testified in the House, in fitting with recent Fed Speak. He said that the Fed does not expect it will be appropriate to reduce the policy rate until they have greater confidence in inflation moving sustainably towards 2%. He also repeated it is likely to be appropriate to begin dialling back policy restraint at some point this year, and that the policy rate is likely at the peak for this cycle. He also repeated that there are risks to both cutting rates too early and too fast, as well as too little or too late, but risks to achieving the Fed's dual goals are moving into better balance. Powell stressed that rate cuts will depend on the path of the economy and data will determine when cuts commence. On inflation, he repeated the Fed is not looking for inflation to go all the way down to 2%, but it does need to see more evidence, and that means some good inflation readings. He explained that the Fed is not looking for better inflation readings than what has already been, but for more of what has been seen. Powell said that if the economy evolves as the Fed hopes, rates will need to come down significantly over the coming years (we get a fresh set of Fed forecasts at the March 20th FOMC). A lot of the Fed Chair's remarks were repeats, showing that little has changed his view since the January FOMC and slew of hot economic prints, but he is yet to commit to when the first rate cut will likely occur, with money markets not fully pricing in a 25bp cut until July, with June at an 80% implied probability.

FED'S DALY: Fed's Daly (2024 voter) said that policy is in a good place but there is still more work to do, although notes that holding on too long with rates could create unforced error and hurt the economy, therefore the Fed is waiting and watching the economy to finetune their decision making. On inflation, she said rising housing costs have been a key driver, and higher rates do raise housing costs temporarily, but they are needed to bring inflation down.

BOC REVIEW: The Bank of Canada left rates unchanged as expected at 5.00%. It largely reiterated its guidance too, disappointing those looking for clues on when the BoC will cut rates. The statement repeated the council is still concerned about the risks to the outlook for inflation, particularly the persistence in underlying inflation. It also repeated it wants to see "further and sustained easing in core inflation and continues to focus on the balance between demand and supply in the economy, inflation expectations, wage growth, and corporate pricing behaviour". Within Governor

Macklem's opening remarks, he stressed it is still too early to consider lowering the policy rate, and they need to give higher rates more time to do their work. He noted the recent inflation data does suggest that policy is working largely as expected, but future progress on inflation is expected to be gradual and uneven, whilst upside risks remain. He also repeated concerns over shelter prices, noting it remains elevated and is still the biggest contributor to overall inflation. Macklem also stated it is unlikely that inflation will return to 2% this year. He repeated that the BoC cannot put the timing of rate cuts on a calendar, adding they will not be lowering rates at the pace the BoC raised them. Overall, there were little dovish inclinations from the BoC despite the softer inflation report which is evident in money-market pricing which is no longer fully pricing a cut by June, but still pricing a c. 80% probability of a cut by then. Looking ahead, c. 80bps of cuts are priced for 2024 in vs the 88bps priced in pre-meeting.

GLOBAL

ADP: The US ADP national employment printed 140k in February from 111k in January, and shy of the expected 150k. Within the report, the largest gains were in Leisure & Hospitality (+41k), Construction (+28k), and Trade, Transportation & Utilities (+24k), while the only industries seeing declines were Natural Resources & Mining (-4k) and Information (-2k). Meanwhile, the median change in annual pay showed job-stayers wages eased to 5.1% (prev. 5.2%), and job-changers lifted to 7.6% (prev. 7.2%). In commentary, ADP's Chief Economist said "Job gains remain solid. Pay gains are trending lower but are still above inflation. In short, the labor market is dynamic, but doesn't tip the scales in terms of a Fed rate decision this year." Overall, while the headline jobs added missed the analyst consensus, it was still an increase in the pace of jobs added over the January figures. Furthermore, the uptick in job-changer wage growth to 7.6% from 7.2% marks the first increase in over a year. But, of course, the link between ADP and NFP is spurious, so extrapolating between the two is hard and in some people's eyes, a fool's errand.

JOLTS: US JOLTS in January fell to 8.863mln from 8.889mln, light of the forecasted 8.9mln. Quits rate slowed to 2.1% from 2.2%, which had been as high as 3% in 2022, showing signs of easing wage pressures. As such, the dip lower, as explained by ING, is that while there are still plenty of vacancies out there, they aren't especially attractive and less and less people are interested in taking them. Overall, the JOLTS report is consistent with a labour market that is still quite strong, with job openings falling slightly and layoffs remaining low. Moreover, and as Oxford Economics points out, the ratio of job openings to unemployed workers increased (1.45 from 1.42 in Dec.), pointing to stubborn excess demand for labour. Looking ahead, attention turns to the February US jobs report on Friday where the Refinitiv consensus is 200k, with a range of 125-286k.

UK BUDGET REVIEW: UK pre-election Budget delivers a NI sweetener and front-runs Labour measures alongside aa slightly larger Gilt remit than expected with the headroom near a record low. To see the full Newsquawk analysis piece, please click here.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLE 6 TICKS HIGHER AT 111-15+

Treasuries rallied after soft-leaning ADP and JOLTS figures were followed by haven demand on NYCB headlines. 2s +1.6bps at 4.568%, 3s +0.5bps at 4.338%, 5s -1.2bps at 4.126%, 7s -2.3bps at 4.128%, 10s -2.3bps at 4.114%, 20s -3.6bps at 4.361%, 30s -2.5bps at 4.249%.

INFLATION BREAKEVENS: 5yr BEI -1.8bps at 2.355%, 10yr BEI -2.1bps at 2.317%, 30yr BEI -2.3bps at 2.271%.

THE DAY: After Tuesday's rip higher, there was a bit of a pullback in USTs into the APAC Tuesday session with focus on a Bloomberg article about a large Japanese bank preparing for BoJ rates liftoff at the March meeting. That was followed by reports in early European trade via JiJi that at least one of the BoJ's nine members is in favour of a March hike, although a later Bloomberg article highlighting the differing views at the BoJ tapered some of the hike expectations. T-Notes hit support at 111-03+ in the APAC morning before extending to session lows of 111-02+ in the London morning. Data in Europe was mixed with Eurozone retail sales rising M/M as expected, construction PMIs rising slightly, while German exports surged 6.3% M/M (exp. 1.5%).

T-Notes began rallying into the NY handover, with Gilts also firming ahead of the budget. The smaller rise than expected in the ADP employment report supported the bid, despite some concerns over the rise in job changer wage growth. There was a brief pullback on Powell's text release - accentuated by a 12k 5yr block seller - which was typically cautious on the topic of rate cuts (in line with recent Fed Speak), in addition to the slightly larger than expected UK Gilt issuance plans, but T-Notes soon resumed the uptrend and breached above their Monday peaks of 111-15 ahead of the expected fall in JOLTS job openings. That front running proved prescient with job openings coming in beneath expectations and a dip lower in the Quits Rate. T-Notes hit an interim peak of 111-19 right after the data but failed to extend for a while with some profit taking seen. But contracts spiked to session peaks of around 111-23 at midday on the back of WSJ reports NYCB was seeking a capital raise, that was before drifting off highs mildly into settlement, with some chunky selling flow on the back of an update NYCB had secured a capital raise from former Treasury Secretary Mnuchin.

AHEAD: In the US, attention now on Thursday's jobless claims, international trade, and productivity data ahead of Friday's NFP, with Fed's Powell back in the Senate and Mester on the economic outlook both on Thursday ahead of Williams on Friday, which marks the last scheduled speaker ahead of the blackout period this weekend. Dealers may also be beginning to prepare for next week's 3s, 10s, and 30s auctions. Meanwhile, we get the ECB meeting on Thursday which comes after Chinese trade data, a Japanese 30yr auction, French and Spanish supply, and German industrial output figures.

STIRS:

- SR3H4 -0.25bps at 94.6925, M4 -1bps at 94.925, U4 -1.5bps at 95.235, Z4 -2bps at 95.56, H5 -1.5bps at 95.86, M5 -1.5bps at 96.105, U5 -1bps at 96.29, Z5 flat at 96.405, H6 +0.5bps at 96.465, H7 +2.5bps at 96.52, H8 +3bps at 96.475.
- SOFR flat at 5.31%, volumes fall to USD 1.807tln from 1.858tln.
- NY Fed RRP op demand at USD 0.457tln (prev. 0.444tln) across 68 counterparties (prev. 74).
- EFFR flat at 5.33%, volumes rise to USD 101bln from 91bln.
- US sold USD 60bln of 17-week bills at 5.205%, covered 2.84x.

CRUDE

WTI (J4) SETTLES USD 0.98 HIGHER AT 79.13/BBL; BRENT (K4) SETTLES USD 0.92 HIGHER AT 82.96/BBL

Oil prices were higher on Tuesday, benefitting from the weaker Dollar and peaking on the heels of the bullish US energy inventory data. WTI and Brent futures hit highs for the session at USD 80.67/bbl and 84.05/bbl, respectively, late in the NY morning after the EIA reported a crude stock build of 1.4mln bbls that was more than offset by the net draw of 8.6mln bbls in the products. That drawdown of the products came despite refinery utilisation surging 3.4% in the latest week. The crude benchmarks then faded somewhat into the NY afternoon as the Dollar selling lost momentum. Elsewhere, Saudi Arabia announced price increases for its sales to Asia for April earlier in the session. Also for Saudi, Reuters reported Aramco and UAE's ADNOC are in talks to invest in a US LNG project, stepping up competition with oil majors and regional rival Qatar.

EQUITIES

CLOSES: SPX +0.51% at 5,105, NDX +0.67% at 18,018, DJI +0.20% at 38,661, RUT +0.70% at 2,068.

SECTORS: Utilities +0.97%, Technology +0.91%, Consumer Staples +0.8%, Materials +0.75%, Health +0.71%, Real Estate +0.55%, Industrials +0.5%, Financials +0.41%, Energy +0.34%, Communication Services -0.17%, Consumer Discretionary -0.39%.

EUROPEAN CLOSES: DAX: +0.06% at 17,726.65, FTSE 100: +0.43% at 7,679.31, CAC 40: +0.28% at 7,954.74, Euro Stoxx 50: +0.47% at 4,916.15, IBEX 35: +0.79% at 10,197.20, FTSE MIB: +0.66% at 33,363.84, SMI: +0.68% at 11,541.80.

STOCK SPECIFICS:

- **Salesforce (CRM)** +1.5%: Launched Einstein 1 studio, a low-code AI tool for customizing Einstein Co-pilot and embedding AI into any CRM app.
- **CrowdStrike (CRWD)** +11%: EPS, revenue, and ARR beat with next quarter and FY guidance better-than-expected.
- **Palantir (PLTR)** +10%: Received a contract from the US Army worth USD 178.4mln to develop ten AI-powered ground stations. It is also to unveil 20+ new customers and partners at its upcoming AIPCon on March 7th.
- **Ross Stores (ROST)** -0.5%: FY24 profit view disappointed Wall St. consensus. Although, in Q4, top and bottom line and comp. sales beat alongside raising quarterly dividend 10%.
- **JD.com (JD)** +16%: Top and bottom line beat alongside a new USD 3bln share buyback programme.
- **Thor Industries (THO)** -15%: EPS, revenue, and gross margin light of expected; also cut FY guidance.
- **Foot Locker (FL)** -30%: Reported a holiday-quarter loss, issued weak guidance and said it's behind on meeting its profitability goals. Note, EPS, revenue, and SSS were much better-than-feared
- **DexCom (DXCM)** +10%: FDA cleared DexCom's prescription-free glucose biosensor, Stelo.

- **Morgan Stanley (MS)** +11%: Laying off 9% of staff at its China asset management unit amid shrinking assets and operating losses.
- **Mobileye (MBLY)** +11%: Would see an increase of at least 100% in Q2 vs. Q1 and at that point the vast majority of the excess inventory would be cleared out. On track to achieve their 2H 2024 accelerated growth.
- **New York Community Bancorp (NYCB)** +8%: Whipsawed on reports it was seeking to raise equity capital in efforts to shore up confidence in the bank; which it later confirmed, where it will raise over USD 1bln in equity led by former Treasury Secretary Mnuchin's firm, Liberty Capital. After sources, NYCB saw losses of near 50%, triggering a stock halt, but when the details emerged the stock rallied back to positive territory.
- **Exxon (XOM) +1.1%, Chevron (CVX) -0.8%, Hess (HES) -2.3%**: Filed for arbitration to protect Guyana ROFR rights, claiming **Chevron (CVX)** attempted to circumvent the contract rights; Exxon-Chevron Guyana arbitration to take place through ICC.
- **Bank of America (BAC)** +0.1%: CFO is confident that NII will be in the upper end of the range for Q1, and does note expect a change to the NII outlook, feeling good about NII overall.

US FX WRAP

The Dollar ultimately sold off through the session to see the DXY hit a low of 103.19 before rebounding marginally into the US close. There was a lot to digest on Wednesday, including Fed Chair Powell's Testimony, which largely repeated what was said in January (cautious on rushing into rate cuts), while the latest JOLTS fell by more than expected and the quits rate also eased, showing signs of easing wage pressures. ADP Employment rose less than expected.

The Euro was supported by the softer buck to see the single currency peak above 1.0900 at 1.0915, albeit dipping beneath the round level as the dollar moved from lows, but holding above the 40dma and 22nd Feb high at 1.0860 and 1.0888, respectively. Data in Europe was mixed with Eurozone retail sales rising M/M as expected, construction PMIs rising slightly, while German exports surged 6.3% M/M (exp. 1.5%). Attention now on Thursday's ECB and German industrial output figures.

The Yen saw notable gains vs the Dollar on a slew of hawkish source reports for the BoJ which helped USD/JPY fall sub 150.00 to lows of 149.10. On the reports, JiJi said that at the March BoJ meeting, some attendees are likely to say that lifting negative rates is reasonable, and at least one of the nine BoJ members argues that lifting in March is appropriate, however, if there is no majority, then the policy change will not be made until April or later. Separately, Bloomberg sources reported the BoJ is having differing views among members on the timing of a rate move, and officials are reportedly gaining confidence on stronger wage growth. The report also added the BoJ will reach its decision at the last minute.

Cyclical currencies were the outperformers on Wednesday with the Antipodes leading the way as stocks rebounded from the Tuesday weakness and as the Dollar was sold. Remarks from the PBoC Governor that there is room to cut banks RRR may also have supported the China-exposed currencies. In Australia, GDP rose by 1.5% Y/Y in Q4, above the 1.4% estimate, but just 0.2% Q/Q, beneath the 0.3% consensus. GBP was bid vs the Dollar but sold vs the Euro, with the UK's budget ultimately having little sway on the Pound, with the chancellor reducing national insurance by 2p, as was touted, to avoid an inflationary reaction to a personal income tax cut. CAD saw notable gains after the BoC held pat and gave little fresh impetus on upcoming rate cuts, and instead maintained a data-dependent approach.

The EMFX highlight was in the Egyptian Pound where USD/EGP surged to a record of 50.75 from c. 31.80 after the Central Bank of Egypt announced it will allow the market to determine the exchange rate, and at the same time hiked rates by 6%. Analysts at Citi note that the devaluation of the EGP was widely expected, but the timing and magnitude is significant. Nonetheless, the EGP moved off lows as the devalued currency allowed Egypt to tap a USD 8bln deal with the IMF. Elsewhere, the ZAR saw continued gains on gold upside, while BRL, MXN and COP benefitted from the weaker buck. Note, in Brazil, Industrial production beat Y/Y but missed M/M. CLP was a LatAm laggard however despite gains in copper prices. In CEE, PLN saw gains vs the Euro after the NBP left rates on hold as expected, but HUF and CZK saw marginal weakness vs the single currency.

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