US Market Wrap

7th March 2024: Dollar dips while stocks and bonds surge ahead of US jobs report

- **SNAPSHOT**: Equities up, Treasuries up, Crude flat, Dollar down.
- **REAR VIEW**: ECB leave rates unchanged, as expected, but slashes inflation forecasts; US Unit Labor Costs revised lower; Jobless Claims flat W/W; Hawkish BoJ remarks; Rengo wage demands rise; Powell notes the Fed is 'not far' from having confidence to cut rates this year; Dismal VSCO guidance; KR earnings impress; AXP lifts dividend.
- **COMING UP**: **Data**: German Industrial Output, Producer Prices, Swiss GDP, French Trade, Italian Producer Prices, EZ Employment, US NFP, Canadian Employment **Speakers**: Fed's Williams.

MARKET WRAP

Stocks extended their gains with greater magnitude on Thursday with Tech leading the charge higher. The S&P 500 was back to printing new highs. There were some dovish tailwinds from the macro picture, with the ECB slashing its inflation forecasts, while US Q4 Unit Labor Costs saw a surprise downward revision, and Challenger layoffs rose, with Treasuries rallying in the NY morning, although there was some pullback into the NY afternoon with eyes to Friday's NFP and next week's Treasury auctions. Chair Powell was again in Congress, where he said the Fed is nearing the confidence to cut rates, offsetting some of the more hawkish rhetoric from some of his colleagues in recent days such as Kashkari and Bowman. In FX, the Dollar was sold broadly while the Yen surged higher as the BoJ ramped up expectations for a March hike on rising wage growth figures. Oil prices were little changed in choppy trade with positive China trade data and a softer US Dollar failing to ignite meaningful upside.

FED

POWELL appeared in the Senate on Thursday, repeating his prepared remarks he gave on Wednesday to the House. However, he did say in his Q&A that the Fed is "not far" from having the confidence to cut rates this year. Powell reaffirmed, "the Fed will cut rates when it has confidence that inflation is on track to hit 2%". The Fed Chair also echoed his colleague Waller in saying that he could see a case for shortening the maturity of Fed holdings and would prefer not to hold MBS.

KASHKARI (non-voter, hawkish) gave late comments on Wednesday in a WSJ interview where he said he is now thinking about two rate cuts and potentially one for 2024, that marked a hawkish shift from his Feb 7th appearance on a CNBC where he said he believes two-to-three rate cuts this year seems appropriate. The Minneapolis Fed President posited that if the economy continues to be healthy, why would the Fed cut rates? That was a hawkish deviation from Powell earlier on Wednesday who said that if the economy evolves as the Fed hopes, rates will need to come down significantly over the coming years, highlighting the divergence of views on the Fed.

MESTER (voter) spoke several times on Thursday, noting if the economy meets her forecasts, rate cuts are likely later this year and expects the Fed will be able to cut rates gradually. The Cleveland Fed President noted it is an open question where the neutral rate currently stands and how restrictive policy currently is, adding that she is considering raising her long-term FFR forecast. In a later set of remarks on CNBC, Mester noted a couple more inflation reports could give her the confidence needed on inflation.

BOWMAN (voter) gave a typically hawkish set of remarks, as she said the January inflation data suggests progress in lowering inflation further may be slower going forward but at not yet at the point to cut rates. Moreover, Bowman remains willing to raise the policy rate if data shows progress on inflation has stalled or reversed. Looking ahead, the Governor added should incoming data show inflation moving sustainably to the 2% target, it will eventually become appropriate to gradually lower the policy rate.

US DATA

NFP PREVIEW: The pace of nonfarm payrolls growth is expected to cool in February, though the unemployment rate is likely to be unchanged. Weekly jobless claims that coincide with the BLS survey window ticked up relative to the January period, both on an absolute and average basis; consumers also became more pessimistic about labour market prospects in February, both in terms of the present situation and the outlook; the employment sub-indices within the ISM manufacturing and services PMI data both fell on the month too. Analysts explained away the one-off nature of the bounce in January's average hourly earnings, and expect this month's data will also show a cooling in wage gains, both on a monthly and annualised basis, while workweek hours are seen ticking up – ahead, analysts have been arguing that broader trends and forward-looking indicators suggest wage growth will continue to cool in the months ahead, allowing the Fed to become more confident that inflation is easing sustainably, helping it to pivot to looser monetary policy in the months ahead. To see the full Newsquawk preview, please click here.

US TRADE: US International Trade saw a deficit of USD 67.4bln in January, deeper than the 63.5bln deficit forecasted, and wider than the prior revised 64.2bln deficit. Exports in January rose by USD 0.3bln M/M to USD 257.2bln, while imports rose by USD 3.6bln to USD 324.6bln, showing the wider deficit was driven by increasing imports, particularly goods. The goods and services deficit reflected a USD 3.0bln increase in the goods deficit, and a decrease in the services surplus of USD 0.3bln. Analysts at Oxford Economics highlight that with respect to growth, the resilience of imports will pose a drag on growth this year. The desk also adds the "dollar has rallied since the end of December, which will impact export growth during the months ahead, though we do expect the dollar to weaken over the rest of the year. Global demand remains soft and will weigh on exports".

JOBLESS CLAIMS: Initial Jobless Claims data rose by 217k in the week ending March 2nd, matching the prior week pace and only slightly coming in above expectations of 215k. The 4-wk average meanwhile saw a slight move lower to 212.25k from 213k. The unadjusted data saw claims at 213k, +17k from the prior week while the seasonal factors had expected an increase of 17.5k W/W. The continued claims data, for the week ending February 24th, rose to 1.906mln from 1.898mln (revised down from 1.905mln), above the 1.889mln forecast. The 4wk average of continued claims rose to 1.888mln from 1.878mln. The data will do little to sway Fed thinking but the claims data still remains at a level consistent with a tight jobs market, even in face of the Fed hikes. Looking at the 4wk averages, the resilience of the labour market is evident with claims running at a lower rate currently than 1 year ago, and still well below the June 2023 peaks of c. 256k. Nonetheless, looking ahead, analysts at Pantheon write "The only way is up". The desk highlights that several indicators point to a significant rise in claims in the months ahead, including the Challenger Layoff numbers that increased further in February and the drop in gross hiring flagged by the NFIB survey's hiring intentions index. Pantheon thinks the "labour market will look significantly weaker in a few months' time."

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 5+ TICKS HIGHER AT 111-21

Treasuries bull-steepened Thursday after the ECB slashed its inflation forecasts and US Unit Labor Costs were revised lower ahead of NFP and next week's auctions. 2s -5.4bps at 4.508%, 3s -5.2bps at 4.281%, 5s -4.1bps at 4.078%, 7s -2.9bps at 4.092%, 10s -1.6bps at 4.089%, 20s -0.1bps at 4.350%, 30s +0.9bps at 4.248%.

INFLATION BREAKEVENS: 5yr BEI -2.7bps at 2.329%, 10yr BEI -2.8bps at 2.288%, 30yr BEI -2.6bps at 2.244%.

THE DAY: Treasuries drifted lower into the APAC morning on Thursday on the heels of some late Wednesday hawkish Kashkari comments in a WSJ interview (now sees just two possibly one rate cuts this year) and hot Japanese wage data, with Bloomberg reporting later that Rengo wage demand has risen to 5.85% from 4.49% in 2023. T-Notes hit session lows of 111-11 at the time with a weak 30yr JGB auction weighing, not to mention some hawkishly received comments from BoJ officials adding to the data.

USTs began drifting higher into the European session, supported by weak German industrial orders print, with T-Notes hitting resistance at 111-16, which was the closing price on Wednesday. That level wasn't breached until later in the European morning, with the long end leading after solid demand seen at the French and German auctions.

T-Notes were already at the highs heading into the NY morning and spiked further after the ECB lowered its inflation forecasts. The rally was given additional momentum on the downward revision to the Q4 Unit Labor Costs figures, while initial jobless claims were flat W/W. Contracts peaked for the session at 111-27, marking new MTD peaks and the highest since early Feb, after breaking through Wednesday's 111-23 peak. However, contracts swiftly pared amid some Lagarde comments that suggested a June rate cut for the ECB.

The long end led the pullback lower into the NY afternoon, steepening the curve, with profit taking accentuated by Dealers setting up for next week's Treasury auctions, with a 2.8k Ultra Bond block seller adding pressure. While Ultra Bonds hit new session lows, T-Notes found support at 111-13+, holding firm above the APAC lows of 111-11 with the front end finding better support from Powell's comments in the Senate that the Fed is nearing the confidence required to cut rates and that he agrees with Waller's call for shortening the maturity of the Fed's holdings. The whole curve found a bid into the settlement.

AHEAD: Attention now on Fed's Williams on Friday as the last scheduled speaker before the FOMC blackout. Otherwise, participants are gearing up for Friday's NFP before next week's 3s (Mon), 10s (Tues), and 30s (Weds) Treasury auctions, with February CPI due on Tuesday, followed by Retail Sales and PPI on Thursday.

NEXT WEEK'S AUCTIONS: US to sell USD 56bln of 3yr notes on Monday, USD 39bln of 10yr notes on Tuesday, and USD 22bln of 30yr bonds on Wednesday; all to settle on Friday.

STIRS:

- SR3H4 +1bps at 94.705, M4 +2.5bps at 94.955, U4 +4.5bps at 95.285, Z4 +5bps at 95.615, H5 +5bps at 95.915, M5 +5.5bps at 96.165, U5 +5.5bps at 96.35, Z5 +5bps at 96.46, H6 +4.5bps at 96.515, H7 +3bps at 96.55, H8 +1.5bps at 96.49.
- SOFR flat at 5.31%, volumes fall to USD 1.707tln from 1.807tln.
- NY Fed RRP op demand at USD 0.437tln (prev. 0.457tln) across 72 counterparties (prev. 68).
- EFFR flat at 5.33%, volumes fall to USD 99bln from 101bln.
- US sold USD 95bln of 4-wk bills at 5.280%, covered 2.76x; sold USD 90bln of 8-wk bills at 5.280%, covered 2.90x. -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 March 11th and 42-day CMBs on March 12th.

CRUDE

WTI (J4) SETTLED USD 0.20 LOWER AT 78.93/BBL; BRENT (K4) SETTLED FLAT AT 82.96/BBL

Oil prices were little changed on Thursday in choppy trade with positive China trade data and a softer US Dollar failing to ignite meaningful upside. China reported a 3.3% increase Y/Y in crude imports, although that pick-up was offset by another grim reading in German industrial orders. WTI and Brent hit session lows of USD 78.02/bbl and 82.07/bbl, respectively, in the NY morning, before recovering to little changed as the Dollar tumbled with yields. In the Middle East, Hamas has said it will continue negotiations to release Israeli hostages and a ceasefire despite its representatives leaving talks without a breakthrough. Meanwhile, IEA's head of oil markets forecasted a relatively balanced market in Q2, saying that is why the impact of the OPEC+ cuts was relatively muted, adding that the IEA sees the oil market to be relatively well supplied this year.

EQUITIES

CLOSES: SPX +1.03% at 5,157, NDX +1.56% at 18,297, DJIA +0.34% at 38,791, RUT +0.81% at 2,084.

SECTORS: Technology +1.89%, Communication Services +1.84%, Materials +1.22%, Consumer Discretionary +0.87%, Industrials +0.83%, Energy +0.78%, Utilities +0.61%, Health +0.49%, Consumer Staples +0.49%, Real Estate -0.05%, Financials -0.15%.

EUROPEAN CLOSES: DAX: +0.14% at 17,868.25, FTSE 100: +0.17% at 7,692.46, CAC 40: +0.77% at 8,016.22, Euro Stoxx 50: +1.19% at 4,974.05, IBEX 35: +1.20% at 10,319.60, FTSE MIB: +0.16% at 33,418.68, SMI: +0.22% at 11,571.30.

EARNINGS:

- **Victoria's Secret (VSCO)** -29.5%: Sees next quarter sales falling more than forecasted with FY outlook also light.
- **Burlington Stores (BURL)** +7.5%: Top and bottom-line surpassed Wall St. consensus with FY adj. EPS also impressing.
- **Kroger (KR)** +10%: Profit beat with SSS ex-gas not as bad as feared. FY bottom line view topped consensus.
- **Infinera (INFN)** -12%: Disappointing next quarter guidance; forecasts a surprise loss per share with revenue also light.
- **Ciena (CIEN)** -14.5%: Cut FY24 revenue view with next quarter light.

STOCK SPECIFICS:

- **Verizon Communications (VZ)** -1%: Transfers pension liabilities.

- **American Express (AXP)** +2.5%: Board approves 17% dividend increase to USD 0.70/shr (prev. 0.60/shr).
- **Chemours (CC)** +15%: Following Internal Review results - findings will not affect the prelim result estimates for year ended Dec. 31st
- **Cigna (CI)** +1%: Raised long-term annual adj. EPS growth target to 10-14%.
- **Apple (AAPL)** flat: EU antitrust regulators requested further explanation from Apple after it blocked Epic Games in the EU. Following this, Apple snapped back saying it exercised its right.
- **Novo Nordisk ADR (NVO)** +9%: Reported positive Phase 1 trial data for its new experimental obesity drug, amycretin.
- **Avangrid (AGR)** +13%: Received 'take private' proposal from Iberdrola for USD 34.25/shr.
- **Intel (INTC)** +3.5%: US government is poised to invest USD 3.5bln in the chipmaker so it can produce advanced semiconductors for military and intelligence programmes.
- **HP Inc. (HPQ)** +1%: Announced selection of new AI PCs containing Intel (INTC), AMD (AMD), and Nvidia (NVDA) chips.
- **Rivian (RIVN)** +13.5%: Had its R2 event; Deliveries are expected to start in H1 2026 and pricing begins around USD 45k. Also announced R3 sibling vehicle and higher-performance R3X model. Total savings estimated to be over USD 2.25bln vs. original forecast of launching the first line of R2 production at Georgia site. Pauses plans for new EV factory in Georgia.
- **ADM (ADM)** flat: FBI agents delivered grand jury subpoenas to current and former ADM (ADM) employees in Illinois this week as accounting investigation escalates, according to Reuters sources. Prior to this, ADM said it is going to release Q4 results and file 10-k form on March 12th.

US FX WRAP

The Dollar Index was lower on Thursday, ahead of the pivotal jobs report on Friday (preview here), largely on the back on Yen strength (more below) and general risk-on sentiment. In addition to this, initial jobless claims were higher than expected (217k, exp. 215k) and Q4 unit labor costs saw an unexpected revision lower (0.4%, prev. 0.5%, exp. 0.6%). On the speaker footing, Chair Powell appeared before the Senate Banking Committee and while he largely reiterated his remarks to the House, he did say in his Q&A that the Fed is "not far" from having the confidence to cut rates this year whilst also expressing a preference for shortening the maturity of the Fed's Treasury holdings. The DXY hit a low of 102.80.

JPY saw strong gains against the Dollar, albeit is now well-off best levels, on the back of hawkish BoJ Speak from Governor Ueda and Board Member Nakagawa, on top of reports some Japanese government officials are said to support a near-term BoJ liftoff. Further still, Rengo wage demand was lifted to 5.85% (prev. 4.49%) and Japanese labour cash earnings were way above the prior and expectations. As such, USD/JPY hit a low of 147.59 against an earlier peak of 149.39, but hovers around 148.00 at pixel time. A March (19th) hike at the BoJ is now seen as nearly a coin toss by money markets with 28bps of hikes priced across the whole year.

EUR saw slight gains vs. the Greenback with EUR/USD hitting a high of 1.0948 against an earlier low of 1.0869 as it benefitted from the Dollar selling in the NY session. Prior to this, the single currency was worst G10 performer (outside of the Dollar) as the ECB maintained its rates, as expected, whilst slashing its inflation forecasts which now sees 2025 headline inflation at the 2% target. Lagarde suggested they do not need to wait until 2% to cut, but the Governing Council did not discuss cuts at this meeting. Lagarde indicated that a cut could be at the June meeting (Newsquawk ECB review here). Elsewhere, German industrial orders for January plunged 11.3%, deeper than the expected 6% fall and vs. the prior +12.0%.

Activity currencies, AUD, NZD, GBP, and CAD, all firmed to varying degrees against the Dollar as in the NY afternoon they were aided from the Dollar sell off and improvement in risk sentiment. Despite saying this, Antipodeans were already benefiting from the **Yuan** read across after constructive Chinese trade data. For the record, AUD/USD and NZD/USD currently sit at session highs at circa 0.6625 and 0.6175, respectively. For the Sterling watchers, in the BoE Monthly Decision Maker Panel the one-year ahead CPI inflation expectations declined further to 3.3% in February, down from 3.4% in January.

EMFX was almost exclusively firmer vs. the Dollar, with only the TRY seeing weakness. While it didn't drive the price action, Finance Minister Simsek said he sees Turkey's inflation rate falling by 20-25ppts as of this summer and that excessive domestic demand will disappear around Q2-Q3 this year. CLP and ZAR benefitted from the strength in copper and gold prices, respectively, while for the former the trade valance fell to USD 1.52bln from USD 2.62bln though copper exports remain stable. Core Mexican inflation M/M for February was in line while headline was marginally light, but the Y/Y core and headline were slightly hot and cool, respectively. For Brazil, IGP-DI Inflation Index reported a deeper decline than consensus. Lastly, the CNB cuts the CCyB to 1.75% (prev. 2.0%) from 1st April, primarily due to the ongoing reduction in cyclical systemic risks in the banking sectors balance sheet.

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