US Market Wrap

8th March 2024: Stocks and bonds chop to mixed NFP, semis take a hit

- **SNAPSHOT**: Equities down, Treasuries steepen, Crude down, Dollar flat.
- **REAR VIEW**: Hot headline NFP was offset by soft wage figures; Tech sees weakness in NY afternoon; Further hawkish BoJ reports; ECB policymakers reportedly overwhelmingly favour June for the first rate cut; AVGO semi solutions revenue light; MRVL Q1 guidance disappoints
- **COMING UP**: **On Sunday, 10th March US clocks change from EST to EDT. As such, the New York to London time gap narrows to four hours for two weeks. Reverting back to the usual five hour gap when UK clocks change on Sunday, 31st March**. **Data**: Japanese GDP (Revised), M2 Money Supply, US Employment Trends, Japanese Corporate Goods Price **Events**: ECB Survey of Monetary Analysts; NY Fed Survey of Consumer Expectations **Supply**: US **Earnings**: Oracle, Leg Immobilien.
- **WEEK AHEAD**: Highlights include US CPI and Retail Sales, Japan Rengo 1st tally, UK GDP and Labour Market Report. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing PBoC MLF; Reviewing BoC and ECB. To download the report, please click here.

MARKET WRAP

Stocks saw two-way price action on Friday with an initial rally post-NFP which ultimately was a "dovish" report, where although the headline beat, it was offset by downward revisions, soft wages and rising unemployment. The release saw two-way price action in stocks, bonds and the Dollar. As the dust settled stocks ground higher after the equity open while bonds had more-or-less returned to pre-data levels, although long-end post-NFP yields (30yr) remained firmer on the session with the curve steepening ahead of supply next week, as well as US inflation data. The post-NFP upside to stocks sharply faded as Europe shut up shop for the week and extended into the US close in a move driven by a sharp drop in chip shares, particularly NVDA which fell sub-USD 900/shr (started the week at c USD 850/shr), on seemingly little news, with some citing profit taking into the weekend or even 0DTE action. On top of this, it is worth noting disappointing Broadcom (AVGO) and Marvell (MRVL) earnings. In FX, the Dollar was ultimately flat while Yen outperformed on more hawkish BoJ sources ahead of key wage negotiations next week. The Euro was also little changed on Friday as Reuters sources reveal that ECB policymakers overwhelmingly favour June for the first rate cut, in fitting with signalling from Lagarde on Thursday. Crude prices sold off throughout the session with the downbeat risk tone in the US session also weighing while gold prices saw continued gains to see a peak at USD 2,195/oz. Bitcoin also continued its ramp to briefly rise above USD 70k.

US

NFP REVIEW: Overall, the February jobs report was a dovish one. Although the headline beat at 275k (exp. 200k), the prior saw a chunky revision lower to 229k from 353k. The unemployment rate saw a notable move higher to 3.9% from 3.7% despite expectations for this to be left unchanged, while the participation rate was left unchanged at 62.5%. The move higher in the unemployment rate sees the data move closer in line with the Fed year-end median forecast of 4.1%, but this is set to be updated in March. After hot wages in January (supported by one time impacts, weather & minimum pay boosts), wages eased in February to just a gain of 0.1% M/M with the Y/Y wage gains easing to 4.3% from 4.4% (revised down from 4.5%), with both beneath expectations of 0.3% and 4.4%, respectively. The data gives credence to some of the seasonality concerns observed with the January prints, which largely were all hotter than expected - suggesting it may be a one off impact but the February CPI report due next week will help either support or push back on this assumption. Regarding Fed implications, money markets have moved more dovish and are now pricing in 100bps of easing throughout 2024 vs 93bps priced in pre-data, while money markets now fully price a 25bp cut in June. Market pricing for May is little changed, suggesting markets are still more confident on the first cut taking place in June, in fitting with the majority of analyst forecasts pre-data.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 2+ TICKS HIGHER AT 111-23+

Treasuries steepened ahead of next week's auctions and CPI after the hot headline NFP was offset by soft wage figures. 2s -2.6bps at 4.488%, 3s -2.3bps at 4.262%, 5s -2.3bps at 4.061%, 7s -1.5bps at 4.080%, 10s -0.3bps at 4.089%, 20s +1.1bps at 4.362%, 30s +1.7bps at 4.263%

INFLATION BREAKEVENS: 5yr BEI -0.3bps at 2.318%, 10yr BEI +0.6bps at 2.294%, 30yr BEI +0.7bps at 2.253%.

THE DAY: Treasuries drifted slightly firmer through the APAC session and European morning on Friday. There was a slight outperformance in the front end with some dovish remarks from ECB's Lane providing further dovish tailwinds out of EGBs, although note some more hawkish noise out of Japan ahead of the March BoJ capped that to an extent. Aside from some familiar rhetoric from Fed's Williams, who reiterated that the neutral rate is likely still quite low, it was a quiet pre-NFP NY morning. Treasuries across the curve were drifting to session highs right before the data.

There was a kneejerk hawkish reaction to the hot headline jobs added figure, although once the details were digested, including the soft AHE figures, price action reversed. T-Notes themselves fell from 111-27 to 111-08 in the immediate reaction before swiftly reversing higher, hitting session peaks of 112-04+ around 15 minutes after the data. Fed pricing has seen total cuts priced across the year rise to 100bps from 94bps, with a first full price cut moving forward to June from July. However, as the dust began to settle, the long end led a pullback from highs, with participants cautious of set up for next week's auctions, not to mention any steepener flow after the data.

NEXT WEEK: With the FOMC entering its blackout period from Saturday, participants are gearing up for 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 -0.5bps at 94.698, M4 +0.0bps at 94.955, U4 +1.0bps at 95.295, Z4 +2.5bps at 95.640, H5 +3.5bps at 95.955, M5 +4.5bps at 96.210, U5 +4.5bps at 96.390, Z5 +4.0bps at 96.495, H6 +3.0bps at 96.545, H7 +1.0bps at 96.560, H8 +0.0bps at 96.490.
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.793tln (prev. 1.707tln).
- NY Fed RRP op demand at USD 0.445tln (prev. 0.437tln) across 74 counterparties (prev. 72).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 98bln (prev. 99bln).

CRUDE

WTI (J4) SETTLED USD 0.92 LOWER AT 78.01/BBL; BRENT (K4) SETTLED USD 0.88 LOWER AT 82.08/BBL

WTI and Brent ended the day, and week, lower as oil was hit on souring risk sentiment in the NY afternoon which was led by the losses in the tech space (NVDA -6%, NDX -1%). The alteration in risk sentiment did not appear to be driven by any particular headline, but as Europe left for the day the downside began to see WTI and Brent hit lows of USD 77.56/bbl and 81.71/bbl, respectively, before settling just off these levels. Nonetheless, there was little crude-specific newsflow to end the week and the crude complex did not see much reaction of the US jobs report (headline beat offset by downward revisions, rising unemployment and soft wages). Elsewhere, the weekend will gather attention from a geopolitical standpoint as the clock ticks down to Ramadan (March 10th) - the deadline set by Israel before a ground offensive in Rafah. For the record, Baker Hughes Weekly Rig Count (w/e 8th March) say total rigs fall 7 to 622, which was led by oil rigs and natgas declining 2 to 504 and 4 to 115, respectively.

EQUITIES

CLOSES: SPX -0.65% at 5,123, NDX -1.53% at 18,018, DJIA -0.18% at 38,722, RUT -0.10% at 2,082.

SECTORS: Technology -1.84%, Consumer Staples -0.83%, Materials -0.56%, Consumer Discretionary -0.5%, Industrials -0.26%, Health -0.24%, Communication Services UNCH, Financials +0.19%, Utilities +0.21%, Energy +0.4%, Real Estate +1.13%.

EUROPEAN CLOSES: DAX: -0.02% at 17,810.75, FTSE 100: -0.43% at 7,659.74, CAC 40: +0.15% at 8,028.01, Euro Stoxx 50: -0.24% at 4,962.15, IBEX 35: -0.13% at 10,305.70, FTSE MIB: -0.04% at 33,403.80, SMI: +0.62% at 11,647.14.

STOCK SPECIFICS:

- **Broadcom (AVGO) -**6.5%: Semiconductor solutions revenue was light. Looking ahead, maintained FY24 revenue outlook and sees around USD 7bln of AI chip revenue in 2024. Note, EPS and revenue beat expectations.
- **Marvell Technology (MRVL) -**11%: Q1 guidance was light. In Q4 numbers, EPS was in line and revenue marginally topped alongside a USD 3bln stock repurchase authorisation.
- **DocuSign (DOCU)** +4.5%: EPS, revenue, and subscription revenue topped the Wall St. consensus. Q1 revenue and FY billings guidance surpassed expectations.
- **Gap (GPS)** +7.5%: Strong report; EPS, revenue, gross margin, operating margin, and comp, sales all beat. Sees FY24 operating income growth well above analyst forecasts.
- **Eli Lilly (LLY)** -2.5%: US FDA has delayed the decision on the approval of its Alzheimer drug. **Biogen (BIIB)** +2%.
- **Costco (COST)** -7.5%: Weak Revenue & comp sales for February.
- **MongoDB (MDB) -**6.5%: Disappointing Q1 and FY outlook.
- **Samsara (IOT)** +13.5%: Revenue beat with EPS more-or-less in line as guidance for both the next quarter and FY were better-than-expected.
- **Amylyx Pharmaceuticals (AMLX) -**82.5%: Announced its phoenix study did not meet prespecified primary or secondary endpoints.
- **Carvana (CVNA)** +7%: Upgraded at RBC.
- **Amazon (AMZN)** -1%: FTC is reportedly probing Amazon's new controversial fees in its USD 140bln seller business, via Fortune.
- **Macy's (M)** +4.5%: Reportedly cracks the door to an agreement with Arkhouse, according to Axios; Macy's could directly negotiate a sale with activist investor Arkhouse without launching a strategic review. Sources add Arkhouse is reportedly prepared to raise its offer if necessary.

US FX WRAP

The Dollar saw two-way price action on the NFP data which saw a headline beat but a downward revision, upside in unemployment and softer wages, which ultimately saw the Dollar sell off to see the DXY print a low of 102.33 on the dovish implications for the Fed. Nonetheless, the Buck pared off lows, and NFP-induced weakness, as the risk appetite soured throughout the US session.

The Euro was also ultimately flat by the end of the day, although there were several ECB speakers and even some source reports. Villeroy said a rate cut is very likely in the "Spring", which he described as between April-June 21st. Simkus said a June cut is "very likely", but a cut in April cannot be ruled out, although the probability is low. Rehn said risks of a premature cut have substantially decreased. Muller, however, said they need more confidence on prices prior to conducting rate cuts. Reuters sources later confirmed that policymakers overwhelmingly favour June for the first rate cut, in fitting with Lagarde's remarks on Thursday, although some floated the idea of a second cut in July to win over a small group still pushing for an April start.

The Yen was the clear outperformer vs. the Dollar with USD/JPY falling from peaks of 148.11 to lows of 146.49. There were more source reports for the BoJ, where Reuters reported the BoJ is leaning towards ending negative rates in March but a key determinant will be the outcome of the March 13th wage talks. Meanwhile, JiJi reported the central bank is considering a new quantitative policy framework, which would show the outlook of how many JGBs the BoJ is to buy and it would also review YCC. JiJi later revealed the BoJ is considering buying nearly 6tln of JGBs under the new framework.

GBP also saw solid gains with GBP/USD rising from lows of c. 1.2800 to a peak of 1.2893 before the dollar staged its revival, taking cable sub 1.2850 to end the week. EUR/GBP sold off to test 0.8500 but failed to breach the level, albeit it hovers just above it heading into the close.

CAD was weaker vs. the Greenback with USD/CAD testing 1.3500 to the upside despite a stronger-than-expected jobs report which added 41k jobs in February, above the 20k consensus and the top forecast of 33k. The rise in jobs was due to a surge in full-time employment, whereas part-time employment dipped - overall, the unemployment rate rose however to 5.8% from 5.7%, as expected. Despite the strong jobs report, the weakness in oil prices on Friday more than offset any temporary CAD gains to the jobs report.

Antipodes were flat despite some wild swings around the NFP release, but heading into the end of the week AUD sits just north of 0.6600 and NZD/USD sits above 0.6150.

EMFX was mixed. BRL saw notable losses amid downside in Petrobras (PBR) and weak iron ore prices to see USD /BRL test 5.000 to the upside. CLP was the clear outperformer in LatAm, however, after hotter-than-expected inflation data. MXN and COP also saw gains, but not to the same extent as the CLP. Note, PEN saw gains after the Peru central bank unexpectedly left rates on hold despite forecasts for a 25bp cut after rising inflation data. Elsewhere, ZAR saw marginal weakness while TRY was flat. In CEE, HUF saw gains vs. the Euro, despite initially seeing weakness after softer-than-expected inflation data. CZK and PLN were flat vs the Euro.