US Market Wrap

11th March 2024: Nasdaq and Russell lag while bonds slide ahead of CPI; BTC pushes fresh highs

- **SNAPSHOT**: Equities down, Treasuries down, Crude flat, Dollar up.
- **REAR VIEW**: NY Fed SCE sees 3yr and 5yr inflation forecasts lifted; Strong US 3yr auction; Hotter-than-expected Chinese CPI, but PPI cooler; META receives negative mention from Fmr. President Trump; LSE to accept Bitcoin and Ethereum ETNs; Japan avoided a technical recession for Q4; EQT and ETRN to re-combine.
- **COMING UP**: **Data**: German CPI, UK Employment Data, US CPI **Speakers**: Japan's Top Currency Diplomat Kanda to speak in Tokyo **Events**: EIA STEO, OPEC OMR **Supply**: Japanese, Netherlands, UK, Germany, US **Earnings**: Generali, Porsche, Wacker Chemie.
- **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.
- **NOTE**: On Sunday, 10th March US clocks changed from EST to EDT. As such, the New York to London time differential narrows to four hours for the next three weeks, reverting back to the usual five hour gap when UK clocks change on Sunday, 31st March.

MARKET WRAP

Stocks were predominantly lower on Monday with the Russell lagging its US peers but the Nasdaq also saw notable weakness amid a slide in semiconductors, although gains in Apple (AAPL) helped limit losses, but Trump's dig at Meta (META) saw the stock tumble. S&P and Dow were flat. Bitcoin meanwhile printed a fresh record high just shy of USD 73k on further financial product euphoria after LSE confirmed they are to accept Bitcoin and Ethereum ETNs. The Treasury curve flattened with downside led by the front-end leading up to the 3yr auction, which ultimately saw strong demand but it was not enough to prevent the slide ahead of US CPI and the 10yr auction on Tuesday, as well as the 30yr supply due Wednesday. The US data highlight was the NY Fed SCE, where the one-year ahead inflation expectations was unchanged at 3% but the three-year-ahead and five-year-ahead rose to 2.7% (prev. 2.4%) and 2.9% (prev. 2.5%), respectively. In FX, the Dollar saw only slight gains but the Yen was the relative G10 outperformer with all eyes on US inflation data and Japanese Wage talks for further direction. GBP lagged, paring Friday's strength ahead of UK labour market data on Tuesday. Meanwhile, the Yuan saw gains after hotter-than-expected CPI data over the weekend, although PPI was beneath expectations. Oil prices were choppy on global economic data and geopolitics, with WTI ultimately flat with Brent seeing only slight gains while there is still no sign of an Israel/Hamas ceasefire as Ramadan commences.

US

NY FED SCE (FEB): Short-term consumer inflation expectations remained low in February's NY Fed survey, whilst the longer-term gauges bounced off multi-year lows. One-year-ahead inflation expectations were unchanged at 3%, which remains the lowest since January 2021 and is nearing the series' pre-2020 average of 2.8% (inception in 2014); the gauge never rose above 3% between August 2014 and February 2021. However, the three-year-ahead figure jumped from 2.4% (which was the lowest since March 2020) to 2.7% but remains beneath the pre-2020 series average of 2.9%. The five-year-ahead expectations, which were introduced in January 2022, jumped from 2.5% (the lowest since March 2023) to 2.9%, back to the top end of the series range of 2.00-3.00%. The survey’s measure of disagreement across respondents (the difference between the 75th and 25th percentile of inflation expectations) decreased at all horizons. Elsewhere in the survey, expected home price increases were flat in February at 3%. February expected year-ahead rent climbs at the lowest since December 2020. Consumers were more downbeat on the job market. Expected income and earnings growth were held steady.

CPI PREVIEW: The rate of headline CPI is expected to rise +0.4% M/M in February (prev. +0.3%), with the annual rate remaining unchanged at 3.1% Y/Y; the core rate of inflation is expected to rise +0.3% M/M (prev. +0.4%), with the annual rate of core inflation seen slipping 0.2ppts to 3.7%. For the full Newsquawk preview, please click here.

newsquawk

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 4+ TICKS LOWER AT 111-19

Treasuries were choppy and flatter on Monday ahead of Tuesday's CPI despite a strong 3yr auction. 2s +4.8bps at 4.534%, 3s +3.5bps at 4.296%, 5s +2.5bps at 4.087%, 7s +1.9bps at 4.099%, 10s +1.0bps at 4.098%, 20s +0.3bps at 4.363%, 30s +0.5bps at 4.268%.

INFLATION BREAKEVENS: 5yr BEI -1.2bps at 2.303%, 10yr BEI -1.0bps at 2.284% , 30yr BEI -0.8bps at 2.245%

THE DAY: Treasuries were choppy and rangebound ahead of stateside trade on Monday. The biggest macro updates were out of Japan on the back of a fresh slew of BoJ news from the weekend, which all continue to point towards an exit from NIRP at the March meeting in addition to potential changes on its balance sheet policy. After closing at 111-26 on Friday, T-Notes hit session lows of 111-23 at the globex reopen before recovering to resistance at 111-30 later in the APAC session and then peaking at 111-31 in the London morning, failing a run on the Friday (and since early Feb) highs of 112-04+.

Entering stateside trade, the front end led a pullback from highs, with the 3yr auction in focus, not to mention any set-up for Tuesday's inflation data and 10yr auction, ahead of the 30yr on Wednesday. T-Notes eventually broke beneath their APAC lows, finding support at 111-19 later in the NY morning, aided by a rise in longer-term consumer inflation expectations in the NY Fed's latest survey in addition to fresh corporate supply. The strong 3yr auction briefly capped further downside in the afternoon, but a move lower into settlement saw T-Notes bottom out at 111-16+.

3YR AUCTION: A strong USD 56bln 3yr auction from the Treasury with the ramped size offering still seeing a 1.3bp stop-through the When Issued yield (prev. 0.8bps in February vs six-auction avg. tail of 0.4bps) despite the event risk of Tuesday's CPI data. The high yield of 4.256% was the highest since December last year. The auction was covered 2.60 x, similar to the prior 2.58x and avg. 2.61x. Dealers were left with a relatively small 14.4%, down from February's 15.7% and the avg. 19.7%, with Directs falling to 15.6% from 18.3% in February as Indirects ramped up to 70.1% from 66.0%.

THIS WEEK'S AUCTIONS: US to sell USD 39bln of 10yr notes on Tuesday and USD 22bln of 30yr bonds on Wednesday; all to settle on Friday. In Europe, IFR has sovereign supply at EUR 21bln this week vs last week's EUR 35bln, with Germany selling 2yr on Tuesday and 10yr on Wednesday, Italy will also be active across various tenors on Wednesday. UK is expected to sell a new 30yr Gilt linker via syndicate at some point this week, in addition to a GBP 3.75 bln 10yr Gilt tap scheduled already on Tuesday. Japan is selling JPY 2.5tln 5yr JGBs on Tuesday and JPY 1tln 20yr JGBs on Thursday.

THIS WEEK: With the FOMC now in its blackout period ahead of next Wednesday's announcement, participants are gearing up for this 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, then Industrial Production (Feb), Import Prices (Feb), and Empire survey (March) all on Friday. Globally, we get the UK jobs report on Tuesday and UK GDP on Wednesday, followed by the PBoC MLF and the Japanese Rengo first tally of wages both on Friday.

STIRS:

- SR3H4 -1.5bps at 94.683, M4 -2.5bps at 94.930, U4 -3.0bps at 95.265, Z4 -4.0bps at 95.605, H5 -5.0bps at 95.910, M5 -5.0bps at 96.160, U5 -4.5bps at 96.345, Z5 -4.0bps at 96.455, H6 -3.5bps at 96.510, H7 -1.5bps at 96.545, H8 +0.0bps at 96.490.
- SOFR flat at 5.31%, volumes fall to USD 1.782tln from 1.793tln.
- NY Fed RRP op demand at USD 0.479tln (prev. 0.445tln) across 73 counterparties (prev. 74).
- EFFR flat at 5.33%, volumes fall to USD 85bln from 98bln.
- US sold USD 79bln of 3-month bills at 5.250%, covered 2.53x; sold USD 70bln of 6-month bills at 5.100%, covered 2.95x.

CRUDE

WTI (J4) SETTLED USD 0.08 LOWER AT 77.93/BBL; BRENT (K4) SETTLED 0.13 HIGHER AT 82.21/BBL

Oil was choppy to start the week but eventually settled flat, albeit well off lows, with firmer-than-expected Chinese inflation data, Dollar strength, general risk aversion, and continued geopolitical tensions all pushing and pulling the crude complex. On the latter, no cease-fire agreement has been reached between Israel/Hamas despite the start of Ramadan, which was deemed the deadline, while Ukrainian military intelligence cited by Al Arabiya said they are preparing to launch serious offensive operations in Crimea. On the day, WTI and Brent hit lows of USD 76.79/bbl and 81.08/bbl, respectively, as US equity futures were at lows and the Dollar was at highs. Elsewhere, there was commentary from Saudi Aramco (details below) and, according to Reuters sources, Saudi Arabia plans to reduce Arab heavy crude supply to term customers in Asia next month due to oil field maintenance. Looking ahead, US CPI (Tues) is the main macro event in addition to monthly oil market reports from OPEC, EIA and IEA.

SAUDI ARAMCO: Saudi Aramco CEO said FY23 saw lower crude oil prices and lower volumes sold but noted that global oil demand reached record levels despite geopolitical tensions and they expect the global oil market to remain healthy in 2024, while he considers supply and demand to be in reasonable balance. CEO Nasser also put 2024 demand at 104mln BPD, vs. an average of 102.4mln BPD in 2023.

EQUITIES

CLOSES: SPX -0.11% at 5,117, NDX -0.37% at 17,951, DJIA +0.12% at 38,769, RUT -0.81% at 2,065.

SECTORS: Real Estate -0.49%, Consumer Discretionary -0.49%, Industrials -0.53%, Technology -0.38%, Communication Services -0.23%, Health -0.05%, Financials +0.2%, Utilities +0.51%, Consumer Staples +0.58%, Energy +1%, Materials +1.13%.

EUROPEAN CLOSES: DAX: +0.05% at 17,755.45, FTSE 100: +0.12% at 7,669.23, CAC 40: -0.10% at 8,019.73, Euro Stoxx 50: -0.63% at 4,930.65, IBEX 35: +0.19% at 10,325.70, FTSE MIB: -0.27% at 33,315.07, SMI: +0.28% at 11,680.10.

STOCK SPECIFICS:

- **Boeing (BA) -**3%: DoJ opens a probe investigating the mid-air door panel blowout on an Alaska Airlines (ALK) flight two months ago. In response, Boeing said "in an event like this, it's normal for the DoJ to be conducting an investigation," adding that it was "fully co-operating and do not believe we are a target of the investigation."
- **Comcast (CMCSA)** +2.5%: Comcast's Universal Pictures unit dominated at the Academy Awards, with "Oppenheimer" earning seven Oscars.
- **EQT (EQT)** -8% **Equitrans Midstream (ETRN)** +1.5%: To combine in a big natural-gas deal, where EQT will buy back its old unit for approx. USD 5.5bln or USD 12.50/shr, via WSJ.
- **Choice Hotels (CHH)** +5.5% **Wyndham Hotels & Resorts (WH)** +2.5%: CHH terminated its hostile bid for WH and authorized an increase of 5mln shares to its repurchase programme.
- **Meta (META) -**4.5%: Negative mention from GOP Presidential candidate Trump.
- Crypto-exposed names (**COIN, MARA, MSTR**) are seeing gains on account of the Bitcoin strength while the latter purchased 12k Bitcoins for USD 821.7mln in cash.
- **Apple (AAPL)** +1%: Reportedly testing AI-powered ad products for its App Store, according to Business Insider.
- **Tesla (TSLA)** +1.5%: Raised the price of its Model Y to USD 43,990 (prev. 42,990) in the US and Model Y Long Range to USD 48,990 (prev. 47,990). Meanwhile, its Berlin gigafactory could regain power from today.
- **Procter & Gamble (PG)** +1%: Upgraded at Truist.
- **Advance Auto Parts (AAP)** +3.5%: Third Point has a stake in AAP and is close to a settlement that will add three new directors to its board, according to WSJ citing sources.

US FX WRAP

The Dollar saw mild upside on Monday but DXY found resistance just shy of 103. There was little reaction to the NY FED SCE which saw both the 3yr and 5yr inflation expectations raised, although the 1yr was left unchanged. Looking ahead, a note from Citi strategists stated that "rallies in the coming weeks are an opportunity to add to shorts."

The Euro was flat vs. the Dollar trading between 1.0915 and 1.0947. Commentary from Kazimir and Makhlouf did little to change the dial with the former noting the ECB should wait until June for the first rate cut while Makhlouf was pushing for a gradual change in the policy stance.

The Yen was ultimately flat against the Dollar but still a relative outperformer to other currencies. Some strength was observed overnight after GDP revisions saw Japan avoid a technical recession, albeit still missing analyst expectations. USD/JPY hit a low of 146.49 but looks to end the US session around 147.00; technicians at Citi highlight that USD/JPY "is closing in on major resistance at 145.90-146.22 (Feb high, 200d MA)." Attention will turn to the US CPI data on Tuesday, but also the first tally of the Rengo wage negotiations. JiJi reported that many Japanese firms are offering big pay hikes in the 2024 Shunto talks. Meanwhile, Japan's Keidanren Chair says they are feeling greater momentum for wage hikes at this year's spring labour talks vs the prior year.

The Pound was lower vs. both the Dollar and the Euro ahead of the jobs report on Tuesday. The weakness in the Pound was simply a reversal from the strong gains on Friday with Cable briefly breaking beneath the Friday low of 1.2797 to 1.2792, before paring back above 1.2800. There was little fresh news fundamentally from the UK, with BoE's Mann repeating hawkish remarks although UBS pushed back their BoE rate cut forecast to August from May.

The Yuan saw gains after stronger-than-expected CPI data, but PPI was cooler than expected over the weekend.

NOK saw weakness after cooler-than-expected CPI data ahead of the Norges Bank rate decision next week, alongside fresh forecasts.

BRL saw marginal gains with Petrobras (PBR) stocks paring marginally from the sharp downside on Friday. USD/BRL saw a high on Monday of 4.996 and analysts at Citi suggest 5.00 should hold. The desk writes that, re PBR, "While lower dividends means a less attractive Petrobras stock and thus potentially fewer BRL inflows, our trader Gabriel notes that Ibovespa has been underperforming against global equities for some time now. Thus we are biased to fade the move given scope for more equity inflows".

TRY was weaker on Monday despite the upgrade from Fitch, who noted the government's return to orthodox economic policy reduces financial stability risks.

CZK saw slight weakness vs the Euro after softer than expected inflation data while PLN saw marginal strength. NBP's Kochalski said they can only assume that CPI will be in the target range, but there are reasons to be cautious about interest rates, noting rates are likely to stay on hold until thee end of the year. Meanwhile, the NBP gave a list of potential inflation projections. In a scenario where anti-inflation measures are extended by the government, it sees CPI at 3.0% in 2024, 3.4% in 2025 and 2.9% in 2026. However, if these measures are note extended, it sees CPI at 5.7%, 3.5% and 2.7%, in 2024, 25 and 26, respectively.