US Market Wrap

12th March 2024: SPX at ATH on tech rally but bonds sold on hot inflation

- **SNAPSHOT**: Equities up, Treasuries down, Crude down, Dollar up.
- **REAR VIEW**: US CPI hotter-than-expected; Poor 10yr auction; Citi/YouGov poll sees UK inflation expectations fall; UK jobs data sees soft wages and unexpected uptick in unemployment; Further BoJ sources, remarks from Ueda; Impressive ORCL earnings; FAA's BA audit finds process failures.
- **COMING UP**: **Data**: UK GDP, Services, Industrial Output, Trade Balance, EZ Industrial Production **Events**: ECB Operational Framework Review **Speakers**: ECB's Cipollone; RBNZ's Conway **Supply**: Italy, Germany, US **Earnings**: Dollar Tree, Inditex, Volkswagen, Adidas.

MARKET WRAP

Stock indices ultimately closed primarily in the green with lows seen after the open on the hot CPI (see below for analysis). Equity weakness swiftly pared however with gains being seen throughout the session, led by the Nasdaq with Tech/semis soaring, supporting the SPX to see a record high close. The Russell was the outlier and closed flat. The hot inflation data saw money markets lean (eventually) more hawkish with 83bps of rate cuts priced in throughout the year at time of writing, vs. 88bps pre-CPI. The Dollar and bonds saw two-way price action to the inflation prints but finished the session with a more traditional response to the hawkish data. DXY initially sold off on the report to a low of 102.72 but sharply pared to peaks of 103.17, although it failed to hold above 103.00 heading into APAC trade. Elsewhere in FX, GBP sold off after a dovish labour market report and JPY was sold after remarks from BoJ Governor Ueda noting some weak data recently while Bloomberg sources suggested a March hike is too close to call. T-Notes were lower across the curve with the long end leading the losses ahead of 10yr supply. The auction was weak, taking T-Notes to lows of 111-02+ before paring somewhat into settlement. Crude prices settled marginally lower while gold prices tumbled to find support at USD 2,150/oz and Bitcoin eased off its recent record highs but holds above USD 70k currently.

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CPI REVIEW: Overall, CPI data was hotter than expected with the core CPI rising 0.4% M/M, above the 0.3% consensus, and matching the top end of analyst forecasts. The Core Y/Y rose 3.8%, easing from the 3.9% prior, but not as much as the 3.7% forecast. The headline numbers saw M/M rise 0.4% (exp. 0.4%, prev. 0.3%), with Y/Y rising 3.2% (exp. 3.1%, prev. 3.1%). The annualised measures rose, with the core CPI 3mth annualised rate ticking up to 4.1% from 3.9%, and the 6mth rising to 3.8% from 3.5%. The main concern here is that the hot January report has continued into February, somewhat dismissing the argument that seasonality concerns led to the "one-off" hot print in January. Nonetheless, the BLS exclaims that the rise in shelter and gasoline prices contributed to over 60% of the monthly increase - suggesting the high price rises are largely concentrated in these areas; Pantheon Macroeconomic writes "the bigger picture is fine". There is still plenty of data due before the May and June meetings to help shape expectations. The Fed (and now markets) have already dismissed the probability of a March cut while May also seems highly unlikely. This report therefore likely does little to alter the Fed's near term narrative. We will see three more CPI (April 10th, May 15th June 12th), PCE (March 29th, April 26th, May 31st) and NFP reports (April 5th, May 3rd and June 7th) before the June 12th FOMC. The Fed is now in the March blackout period, therefore the first chance we will hear from them will be in the FOMC statement and then remarks from Fed Chair Powell, who will likely explain that this data supports taking a data dependent and cautious approach to policy. It will be interesting to see if the Fed Chair repeats his line at the semi-annual testimony (post Jan CPI) that the Fed is "not far" from gaining confidence that inflation is on the track to hit the 2% goal, particularly after this latest report. However, he also explained that the Fed is not looking for better inflation readings than what has already been, but for more of what has been seen.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 13+ TICKS LOWER AT 111-05+

Treasuries ultimately dip after the hot CPI figures and the poor 10yr auction. 2s +6.7bps at 4.601%, 3s +7.2bps at 4.345%, 5s +6.9bps at 4.157%, 7s +6.2bps at 4.166%, 10s +5.3bps at 4.157%, 20s +4.6bps at 4.419%, 30s +4.0bps at 4.316%

INFLATION BREAKEVENS: 5yr BEI +2.7bps at 2.332%, 10yr BEI +2.0bps at 2.309%, 30yr BEI +1.6bps at 2.263%.

THE DAY: Treasuries traded in tight ranges ahead of the key US CPI data on Tuesday. There was some mild UST strength spilling over from UK Gilts, which rallied after the softening UK wage data and employment figures, with strats out warning of the risks of an earlier than expected BoE rate cut. The bid was also supported by a solid 10yr auction tap, supporting the long end more. The auction demand signal was heightened further after the strong German Schatz auction, not to mention the decent 5yr JGB results during APAC trade.

T-Notes marked a session peak of 111-24 right before the US data. Contracts then tumbled to troughs of 111-05 as the hot CPI figures were released. However, and in similar price action to other assets, the kneejerk hawkish reaction immediately unwound to pre-announcement levels in what many pinned on positioning effects given one had to squint to give a dovish spin on the data. However, as the dust settled later in the NY morning, the Treasury selling resumed, although the long end led the weakness ahead of auctions. T-Notes managed to stretch to fresh session lows of 111-02+ after the weak 10yr auction (details below).

10YR AUCTION: A weak 10yr auction from the Treasury with the USD 39bln reopening tailing by 0.9bps despite the sell-off already seen on the day after the hot CPI figures. The 4.166% high yield marked a 0.9bp tail of the When Issued yield, much worse than February's 1.2bp stop-through and more than the six-auction average 0.5bp tail. The bid/cover ratio of 2.51x was beneath both the prior 2.56x and avg. 2.52x. Dealers were left with 17.1%, above the prior 13.0% and avg. 15.5%, with Indirects falling to 64.3% this month vs the prior 71% and avg. 66.2%, more than offsetting the rise in Directs up to 18.7% from 16.1%.

THIS WEEK'S AUCTIONS: US to sell USD 22bln of 30yr bonds on Wednesday; settling on Friday. In Europe, IFR has sovereign supply at EUR 21bln this week vs last week's EUR 35bln, with Germany selling 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. Japan is selling JPY 1tln 20yr JGBs on Thursday.

THIS WEEK: With the FOMC now in its blackout period ahead of next Wednesday's announcement, Retail Sales and PPI are the next US data highlights on Thursday, then Industrial Production (Feb), Import Prices (Feb), and Empire survey (March) all on Friday. Globally, we get UK GDP on Wednesday, followed by the PBoC MLF and the Japanese Rengo first tally of wages both on Friday.

STIRS:

- SR3H4 -1.3bps at 94.673, M4 -3.5bps at 94.900, U4 -5.5bps at 95.210, Z4 -7.5bps at 95.530, H5 -9.5bps at 95.820, M5 -9.5bps at 96.070, U5 -9.5bps at 96.250, Z5 -9.0bps at 96.365, H6 -8.0bps at 96.430, H7 -6.5bps at 96.480, H8 -5.5bps at 96.430.
- SOFR flat at 5.31%, volumes rise to USD 1.804tln from 1.782tln.
- NY Fed RRP op demand at USD 0.477tln (prev. 0.479tln) across 73 counterparties (prev. 73).
- EFFR flat at 5.33%, volumes flat at USD 85bln.
- US sold USD 80bln of 42-day CMBs at 5.285%, covered 2.80x.
- Treasury leaves 4-, 8-, and 17-week bill auction sizes unchanged at USD 95bln, 90bln, and 60bln, respectively; 4- and 8-week to be sold on March 14th and 17-week bills on March 13th; all to settle on March 19th.

CRUDE

WTI (J4) SETTLED USD 0.37 LOWER AT 77.56/BBL; BRENT (K4) SETTLED USD 0.29 LOWER AT 81.92/BBL

The crude complex was choppy on Tuesday, albeit within relatively narrow ranges, but eventually settled lower as oil saw downside in the US afternoon after hotter-than-expected US CPI and the firmer Dollar. The macro highlight was the aforementioned hotter-than-expected US CPI, while the OPEC MOMR was backwards-looking and did not add anything new. Meanwhile, the EIA STEO noted US crude oil production is to rise by 260k BPD to 13.19mln BPD in 2024 (prev. rise of 170k) and by 460k BPD to 13.65mln in 2025 (prev. rise of 390k BPD). Geopolitical updates did not add much new, but the attacks in the Middle East continue with no signs of a deal. Although, CIA Director Burns said there is "still a possibility" of a Gaza ceasefire deal, there are many complicated issues still to be worked through. In terms of prices, WTI and Brent traded between USD 77.34-78.73/bbl and 81.69-83.01/bbl, respectively, and hovering just off lows into settlement. Looking ahead, attention resides on the weekly private inventory data after-hours before the EIA data on Wednesday. Current expectations for the former are: Crude (exp. +1.3mln), Gasoline (exp. -1.9mln), Distillate (exp. -0.2mln).

EQUITIES

CLOSES: Technology +2.54%, Communication Services +1.17%, Consumer Discretionary +0.99%, Consumer Staples +0.63%, Health +0.48%, Industrials +0.45%, Financials +0.44%, Materials -0.06%, Energy -0.16%, Real Estate -0.37%, Utilities -0.99%.

SECTORS: SPX +1.12% at 5,175, NDX +1.49% at 18,219, DJIA +0.61% at 39,005, RUT -0.02% at 2,065.

EUROPEAN CLOSES: DAX: +1.15% at 17,960.45, FTSE 100: +1.04% at 7,749.26, CAC 40: +0.84% at 8,087.48, Euro Stoxx 50: +1.03% at 4,981.55, IBEX 35: +0.49% at 10,376.50, FTSE MIB: +1.33% at 33,757.00, SMI: +0.69% at 11,765.80.

STOCK SPECIFICS:

- **Oracle (ORCL)** +11.5%: EPS and cloud revenue beat and said demand for Gen2 AI infrastructure substantially exceeds supply. Oracle said it is set to make a joint announcement with Nvidia (NVDA) in the coming week.
- **Disney (DIS)** flat: Outlines investment plan and pushes back against activists.
- **New York Community Bancorp (NYCB)** +6%: Completed a USD 1bln capital infusion deal with an investor group, and also announced a one-for-three reverse stock split.
- **3M (MMM)** +5%: Named William Brown, former CEO at L3Harris Tech (LHX), as CEO while Michal Roman will move from CEO to Exec Chair of the board.
- **Southwest Airlines (LUV)** -15%: Plans to cut 2024 capacity amid Boeing (BA) challenges and expects a net loss in Q1, but still expects to return to profitability in March.
- **American Airlines (AAL) -**4.5%: Reaffirmed FY24 guidance but sees Q1 adj. EPS coming in at the low-end of the prior range.
- **Kohl's (KSS)** -6.5%: Comp. sales declined more than expected and the FY SSS view disappointed.
- **ACADIA Pharmaceuticals (ACAD)** -17%: Phase 3 Pimavanserin study did not meet its endpoints.
- **Boeing (BA) -**4.5%: FAA Audit of Boeing’s 737 Max production found dozens of issues.
- **Apple (AAPL)** +0.5%: To let developers distribute apps directly from their sites from this Spring as part of changes required by new EU rules.
- **Asana (ASAN) -**12.5%: Forecasted a surprise loss per share for the next quarter, while FY revenue guide was also light.
- **IBM (IBM)** +3%: Tells employees it’s cutting jobs in marketing and communications, according to CNBC

US FX WRAP

The Dollar moved higher (eventually) after the hot inflation data despite initial two-way price action on the data. Overall, it was a hot report but likely does little to alter the Fed's near-term narrative given three months' data worth of CPI, NFP and PCE is all still due before the June meeting, which is seen as the most likely rate cut month from the Fed. The data does raise concerns that the hot January data was perhaps not a one-off, putting more onus on the March numbers.

The Yen was softer as yields rose after hot CPI while JPY weakness was also observed after BoJ Governor Ueda said overnight that the economy is recovering moderately but some weak data has been seen. He also stressed the BoJ is focusing on whether a positive wage-inflation cycle is kicking off, in judging whether sustained, stable achievement of their price target is coming into sight. Nonetheless, more source reports suggested the BoJ is mulling a March hike but the outcome is too close to call with officials split between March and April. Meanwhile, Reuters sources said they will offer numerical guidance on how much government bonds it will buy upon ending NIRP and YCC to avoid causing market disruptions. Money Markets currently assign a 47% probability for a 10bp hike to 0.00%.

The Euro saw only mild weakness amid the Dollar strength but EUR/USD found support at 1.09 while the final revisions for German and Portuguese CPI were left unchanged, although Dutch CPI was revised down.

The Pound was weaker on Tuesday vs. both the Euro and the Dollar after the UK Jobs report saw wages rise 5.6% Y/Y, easing from the 5.8% prior and cooler than the 5.7% forecast. Meanwhile, the unemployment rate also ticked up to 3.9% despite expectations for another 3.8% print. Morgan Stanley also suggested that the chances of a UK rate cut in Q2 looks "severely under-priced"; noting their base case is for a cut in May. In addition, the latest Citi/YouGov Poll saw UK 1yr ahead inflation expectations and 5-10yr fall to 3.6% (prev. 3.9% M/M) and 3.5% (prev. 3.6%), respectively.

Antipodes sold off with underperformance in the Kiwi. Fundamentally, little local updates affected either currency with all the focus on US CPI for the crosses. RBA Assistant Governor Hunter said the Q4 GDP is largely in line with forecasts and recent inflation data is consistent with forecasts. However, he stressed that inflation is the biggest drag on household consumption and households are clearly struggling at the moment. Meanwhile, NAB Business conditions rose to 10 from 7 but business confidence eased to 0 from 1. Meanwhile, New Zealand Electric card retail sales data fell 1.8% M/M, paring a large part of the prior 2% jump, but Y/Y they rose by 2.5%, accelerating from 1.6%.

Scandis were mixed with notable weakness in the NOK vs. the Euro but SEK was flat. The weakness in Brent crude prices weighed on the NOK while dovish commentary from the Riksbank had little impact. Riksbank's Theeden said they cannot rule out the possibility of an H1 cut while Jansson said the risk of high inflation becoming entrenched has diminished, and that demand side activity suggests limited upside to inflation.

In LatAm, BRL saw marginal gains after CPI was hotter than expected in February. MXN saw slight weakness despite stronger than forecast IP data Y/Y while M/M was in line. ARS strengthened vs. the USD after the Argentina Central Bank cut its benchmark interest rate to 80% from 100% overnight. Inflation data released later was cooler than expected at 13.2% M/M (exp. 15.0%, prev. 20.6%) and 276.2% for 12mth inflation (exp. 282.1%, prev. 254.2%)

In CEE, CZK saw slight gains against the Euro after the CNB Vice Governor said the Bank should avoid "jumbo" cuts but Kubieck said he is likely to back another 50bps rate cut at the March 20th meeting and that he sees the repo rate around 4% at year-end (currently 6.25% after a larger than expected cut in February from 6.75%).