US Market Wrap

13th March 2024: Bonds and Tech stocks slide ahead of more key US data

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude up, Dollar down.
- **REAR VIEW**: More BoJ sources point to March hike; Russian oil facilities hit by Ukraine; Bullish US inventory data; Strong 30yr bond auction; Biden against US Steel deal; Cautious MCD commentary; ADBE AI concerns.
- **COMING UP**: Data: Spanish CPI, US IJC, PPI, Retail Sales, NZ Manufacturing PMI Events: IEA OMR Speakers: ECB’s Elderson; Schnabel; Knot; de Guindos; Japan's Top Currency Diplomat Kanda Supply: Japan & US Earnings: Dollar General, RWE, Rheinmetall.

MARKET WRAP

Stocks were subdued on Wednesday in a quiet US session in the aftermath of Tuesday's hot CPI figures. There was no US data to shape the narrative ahead of Thursday's retail sales and PPI figures, while the Fed remains in its FOMC blackout period. The mega-cap names were mixed, although Tesla (TSLA) was a notable underperformer amid a bearish Wells Fargo note. Commodities and related stocks generally did well for various reasons, with energy surging amid refinery outages in Russia after a fresh set of drone attacks from Ukraine and bullish US inventory data. Copper prices surged amid Reuters reports on production cuts from China's top copper smelters as they seek to cope with a shortage of raw materials. Elsewhere, the Treasury sell-off extended post-CPI, with the solid 30yr auction results failing to ignite a meaningful reversal. The Dollar saw some marginal weakness, with activity currencies seeing marginal outperformance, whilst the Yen saw some weakness despite more momentum around a BoJ hike next Tuesday with the upcoming wage negotiation results to be the deciding factor.

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PREVIEW - US PPI (12:30GMT/08:30EST): Analysts expect headline PPI to rise +0.3% M/M in February, matching the increase seen in January, while the annual rate of headline PPI is expected to rise to 1.1% Y/Y from 0.9% previously. Core PPI is expected to rise +0.2% M/M in February, cooling from the +0.5% rise in January, while the annual rate of core PPI is seen easing to 1.9% from a prior 2%. Now that we have the CPI data for February (core CPI +0.4% M/M vs an expected +0.3%; headline CPI +0.4% vs an expected +0.4%), analysts will use the PPI reading to model what the PCE and core PCE measures of inflation will look like in February (the Fed's preferred gauge of inflation). "We can’t finalize our February core PCE forecast until after the release of Thursday’s PPI report, because many core PCE components are driven by the PPI rather than the CPI, including healthcare services and airline fares," Pantheon Macroeconomics says, "the PPI and CPI measures can diverge substantially month-to-month, but we can be reasonably confident that a repeat of January’s 0.42% jump in the core PCE is unlikely." On inflation, Fed Chair Powell last week told lawmakers that while it remains above 2%, it has eased substantially of late. Still, Powell stated that it would not be appropriate to reduce the policy rate until policymakers had greater confidence that inflation was moving sustainably towards 2%, adding that they were not looking for inflation to move all the way down to 2%, instead, the sustainability of the move was more important in assessing the outlook. He also said that the Fed was not looking for 'better' inflation readings than we have had recently, but was looking for more of what we have seen. Currently, money markets are pricing three full 25bps rate cuts by the Fed this year, with some probability of a fourth. Rate cuts are expected to start in June.

PREVIEW - US RETAIL SALES (12:30GMT/08:30EST): Headline retail sales are expected to rise +0.8% M/M in February (prev. -0.8%), while the ex-autos measure is seen rising +0.5% M/M (prev. -0.6%). Analysts said the January disappointment could be looked through; after that release, Oxford Economics said "much of the decline in retail sales in January is noise, with a price-related fall in gas station sales, a large drop in auto and building materials sales attributable to weather, while weakness in non-store and general merchandise sales is payback following a strong holiday shopping season," Adding that "the one bright spot in the report was a solid advance in bar and restaurant spending." Looking to the February data, BofA's consumer checkpoint report for the month noted that credit and debit card spending per household rose 2.9% Y/Y in February (prev. -0.2% in January). The bank said that the February jump offsets January weakness. "In February, services spending rebounded after a weather-impacted January, but this partly offset a renewed weakening in retail sales," adding that "overall, the data suggests that underlying consumer spending momentum in 2024 is soft, but stable."

FIXED INCOME

T-NOTE (M4) FUTURES SETTLE 7+ TICKS LOWER AT 110-30

Treasury sell-off extends, with a solid 30yr auction failing to ignite a meaningful reversal. 2s +3.1bps at 4.630%, 3s +3.6bps at 4.379%, 5s +3.8bps at 4.193%, 7s +3.9bps at 4.203%, 10s +3.9bps at 4.194%, 20s +3.5bps at 4.449%, 30s +3.5bps at 4.347%.

INFLATION BREAKEVENS: 5yr BEI +1.4bps at 2.350%, 10yr BEI -0.5bps at 2.311%, 30yr BEI -0.2bps at 2.266%.

THE DAY: After Tuesday's CPI selloff, T-Notes were sideways through APAC trade in a 111-06/111-08+ range in the absence of major catalysts aside from more evidence of firming wage growth in Japan, with contracts off the 111-02+ lows from Tuesday seen right after the poor 10yr auction. Duration caught a bit of a bid in the London morning, and T-Notes hit session peaks of 111-10+, but that proved a head fake and contracts reversed lower into the NY handover.

With no US data to dictate the narrative, auction set-up was the key driver for USTs, with T-Notes hitting support at 110-30 in the NY morning, breaking beneath the Tuesday lows (111-02+), before stretching to a session low of 110-29+ later in the afternoon. 111-03 was the highest contracts could muster after that, despite a solid 30yr auction (details below). Attention now on Thursday's retail sales and PPI, although note we get a Japanese 20yr auction before then.

30YR AUCTION: A strong USD 22bln 30yr auction from the Treasury with the reopening sold at 4.331%, stopping through the When Issued yield by 2.1bps, even greater than February's solid 2bp stop-through, and much better than the six-auction avg. tail of 1.3bps. The bid/cover ratio rose to 2.47x from 2.40x last month, better than the avg. 2.38x. Dealers were left with 13.9%, beneath the prior 14.8% and avg. 17.0%, with Directs stepping up M/M to 16.8% from 14.5% with Indirects ticking lower to 69.3% from 70.7%. The strong results offset some of the concerns after the poor 10yr offering on Tuesday on the heels of the hot CPI figures.

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 a JPY 1tln 20yr JGB auction on Thursday, then both the PBoC MLF and Japanese Rengo first tally of wages on Friday.

STIRS:

- SR3H4 -0.25bps at 94.67, M4 -1.5bps at 94.885, U4 -3bps at 95.18, Z4 -3.5bps at 95.495, H5 -4.5bps at 95.78, M5 -4.5bps at 96.025, U5 -4.5bps at 96.21, Z5 -4bps at 96.33, H6 -3.5bps at 96.395, H7 -2.5bps at 96.455, H8 -2 bps at 96.405.
- SOFR flat at 5.31%, volumes fall to SUD 1.699tln from 1.804tln.
- NY Fed RRP op demand at USD 0.522tln (prev. 0.477tln) across 77 counterparties (prev. 73).
- EFFR flat at 5.33%, volumes rise to USD 86bln from 85bln.
- US sold USD 60bln of 17-week bills at 5.210%, covered 3.00x.

CRUDE

WTI (J4) SETTLES USD 2.16 HIGHER AT 79.72/BBL; BRENT (K4) SETTLES USD 2.11 HIGHER AT 84.03/BBL

Oil prices rallied on Wednesday amid Russian facility outages, bullish US energy inventory data, and a softer Dollar. WTI and Brent contracts hit session peaks of USD 79.73/bbl and 84.00/bbl, respectively, settling just beneath. The upside momentum began in the European morning, coming on the heels of a fresh wave of Ukrainian drone attacks on Russian refining facilities, creating a fire at Rosneft's largest refinery. There were also strong gains in gasoline prices and crack spreads. The energy bid was underscored by the EIA inventory data which saw crude stocks draw 1.5mln bbls and gasoline stocks draw a massive 5.7mln bbls, while distillate stocks built 0.9mln bbls.

EQUITIES

CLOSES: SPX -0.19% at 5,165, NDX -0.83% at 18,068, DJI +0.1% at 39,043, RUT +0.3% at 2,072

SECTORS: Energy +1.52%, Materials +0.91%, Utilities +0.66%, Financials +0.57%, Industrials +0.24%, Communication Services +0.16%, Consumer Staples +0.13%, Consumer Discretionary -0.11%, Health -0.41%, Real Estate -0.6%, Technology -1.08%.

EUROPEAN CLOSES: DAX: +0.14% at 17,987.00, FTSE 100: +0.31% at 7,772.17, CAC 40: +0.62% at 8,137.58, Euro Stoxx 50: +0.35% at 5,000.55, IBEX 35: +1.65% at 10,560.50, FTSE MIB: +0.39% at 33,885.43, SMI: +0.17% at 11,782.40

STOCK SPECIFICS:

- **Intel (INTC)** –4.5%: Pentagon withdrew from allocating up to USD 2.5bln in chip grants to Intel.
- **Dollar Tree (DLTR) -**14%: EPS and revenue missed alongside taking a USD 1bln+ goodwill impairment charge, as it plans to shut nearly 1,000 stores. Q1 diluted EPS guidance was light of expectations.
- **Archer Daniels Midland (ADM)** +1.8%: Announced a USD 1bln accelerated share buyback programme. In US trade, Reuters reported the US DoJ is reportedly probing accounting practices on ADM's (ADM) ethanol trading desk and is examining whether co. improperly accounted for hedges in its ethanol trading unit, according to sources.
- **Nucor (NUE)** +0.5%: Upgraded at Citi who sees it shares as undervalued.
- **Tesla (TSLA) -**4.6%: Downgraded at Wells Fargo on price, demand, and valuation concerns.
- **GE HealthCare Technologies (GEHC) -**3.5%: Launched a secondary public offering of 13mln shares of common stock.
- **Williams-Sonoma (WSM)** +17%: EPS and revenue topped forecasts and it raised its quarterly dividend 26% alongside announcing a stock buyback authorization of USD 1bln.
- **Johnson & Johnson (JNJ) -**1.2%: US FDA staff flagged safety concerns for car-t therapy.
- **McDonald's (MCD) -**4%: Sees Q1 sales in its international business slightly lower that Q4; continue to deal with impacts of war in the Middle East but are also seeing "a sluggish start" in China this year. In China, business is doing "okay", but the environment continues to be challenging.
- **US Steel (X) -**12%: US President Biden set to voice concerns over Nippon Steel takeover of US Steel (X), according to FT. Biden set to issue a statement about the takeover before Japanese PM Kishida arrives for a state visit on April 18th.
- **Adobe (ADBE) -**0.5%: Adobe Firefly reportedly repeats the same AI blunders as Google (GOOGL) Gemini, according to Semafor.

US FX WRAP

The Dollar saw some marginal weakness on Wednesday with little data to drive price action. The buck pushed to lows after a strong 30yr Treasury auction which took yields off lows, seeing the Dollar Index briefly break beneath the Tuesday low of 102.72. Analysts at ING suggest the Dollar is starting to look cheap in the short term and suspect there is some room for a rebound in the greenback by the end of the week. Attention turns to the Retail Sales, Jobless Claims, and PPI data on Thursday.

The Euro saw decent gains vs the Dollar, managing to break above the Tuesday high of 1.0948. The ECB released its operational framework review but it sparked little reaction. To summarise, the Minimum Reserve Requirements will remain unchanged at 1% (exp. 1-2%), while the spread between the rate on the MROs (Main Refinancing Operations) and DFR (Deposit Facility Rate) is to be reduced to 15bps from 50bps previously, taking effect in September by adjusting the MRO rate. The MLF (marginal lending facility) will also be adjusted to maintain the MRO-MLF spread at 25bps. Note, Goldman Sachs stated that the decisions are technical in nature and see no implications for the monetary policy outlook. Separately, on ECB speak, Villeroy said the ECB is winning the inflation battle, but said cuts are more likely appropriate in June than April. Kazaks said a rate cut decision will come in the next few meetings. Wunsch said the ECB can act before wage inflation drops to 3%.

The Yen was ultimately flat vs the buck but did see weakness where USD/JPY tested 148.00 at the peaks. More source reports from Reuters suggest that early signs suggest a strong outcome in the annual wage talks have heightened the chances that the BoJ will end NIRP next week, adding there seems to be enough factors that justify a policy shift - similar was also reported by Nikkei later. Bloomberg sources also reported the BoJ is considering an end to ETF purchases if their price goal is in sight but they are likely to keep buying bonds to keep the market stable and to intervene in the event of a sharp yield upside. Strength in JPY was observed after the US 30yr auction (also at the same time as the aforementioned Nikkei article) which saw US yields pare off highs, supporting the Yen - the Nikkei article added little new information ahead of the BoJ next week. For a summary of all recent relevant news for the BoJ, please click here.

The Pound saw marginal gains the the Dollar with Cable trading either side of 1.2800 but it failed to match the strength of the Euro, with EUR/GBP rising above 0.8550. UK GDP rose 0.2% M/M, in line with expectations, although the 3M/3M rolling measure continued to contract, but at a lower pace of -0.1% from -0.3%, suggesting the trajectory for the UK appears to be one of a return to growth after the H2 23 technical recession.

The Yuan was flat vs the Dollar but reports during APAC trade suggested that China could cut its RRR and/or MLF rates in Q2 2024, according to the Information Daily citing an analyst.

Antipodes saw decent gains vs the Dollar with the Aussie the relative outperformer on Wednesday. CAD saw strength after USD/CAD tested 1.3500 but a rejection of the level saw USD/CAD move lower throughout the US session, also supported by rising crude prices.

In **LatAm**, MXN, CLP and COP saw strength but BRL was flat. MXN and COP enjoyed the gains in oil while CLP was supported by a rally in copper. In Mexico, Banxico Deputy Governor Mejia said there is still a long way to go on the disinflationary path and believes there is room to adjust the reference rate, noting the balance of risks for inflation is now less adverse, and he does not think it would be premature to think about an adjustment to rates. Reminder, Banxico opened up the door to future cuts at the last meeting as it removed the line about needing to hold the key rate at the current level for some time.

Elsewhere, **ZAR** saw gains on rising gold prices which peaked at USD 2,179/oz on Wednesday. HUF strengthened vs the Euro after the NBH minutes revealed seven members backed a 100bp rate cut at the February meeting, but two opted for a 75bp cut.

The Lira saw marginal weakness vs the Dollar, likely on rising oil prices. Note, Turkish commercial loan interest rates are expected to rise further and some banks have reduced TRY commercial loan limits to TRY 100k, via Reuters citing bankers. Meanwhile, Turkish Finance Minister Simsek met with bankers on Tuesday and discussed recent tightening measures in detail, via Reuters citing three bankers.