US Market Wrap

14th March 2024: Dollar bid as stocks and bonds tumbled after hot PPI

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Hot PPI; Soft Retail sales; Initial jobless claims ticks lower; Continued BoJ source reports around ending NIRP next week; Cooler-than-forecast Swedish inflation; ECB dove Stournaras calls says four 2024 cuts seems reasonable; Atlanta Fed GDP Now cut; AAPL buys AI startup DarwinAI; UA founder returns.
- **COMING UP**: **Data**: German Wholesale Price Index, French & Italian CPI, US Import Prices, Canadian Wholesale Trade, UoM Inflation Expectations **Events**: BoE Inflation Attitudes Survey; Japan's Rengo **Speakers**: ECB's Lane.

MARKET WRAP

Stocks were lower on Thursday with particular weakness in Treasuries after the hot February PPI report further stoked reflationary concerns after the CPI report earlier this week. The weakness in stocks was greatest in the rate-sensitive Russell 2k (small caps index), with the amount of Fed easing priced across 2024 dipping to 75bps from 80bps before the data. We also got the latest retail sales report, which didn't recover as strongly as analysts had expected. although that was overshadowed by the inflation data, not to mention another downside print for the initial jobless claim figures. Big Tech was an area of relative outperformance, as was energy amid oil prices breaking out to fresh multi-month peaks on a fresh wave of bullish momentum. The oil bid came despite the stronger US Dollar. Yen was hit amid the rise in US yields, although there was some fleeting strength on a new JiJi report that the BoJ is looking to hike on Monday dependent on the Rengo wage data due on Friday. Euro was a G10 underperformer with more dovish ECB speak regarding the timing of rate cuts, which was juxtaposed against the US data pushing back the expectations of Fed easing.

US

PPI: PPI came in much hotter than expected in February, adding fuel to the fire after the hot CPI figures earlier in the week. Headline producer prices rose 0.6% vs January, well above the expected and prior 0.3% pace, driven by energy price increases (particularly gasoline) as well as food price inflation accelerating, with the headline Y/Y rising 1.6%, also well above the expected 1.1% and the prior 1.0%, now at the highest rate since September 2023. The core figure (ex-food and energy) rose 0.3% M/M, which was down from January's 0.5% increase but above the expected +0.2%, while the Y/Y rate was unchanged at +2.0% despite expectations for a fall to +1.9%. Transportation & warehouse services, alongside airline passenger services, were notable upward drivers for the core figures. As far as Core PCE is concerned (which is scheduled for release on March 29th), after the CPI and PPI figures (we get the import price data on Friday), the growing consensus appears to be for a 0.3% M/M print, which would mark a slowing from last month's +0.4% print. Analysts note the inputs from PPI into Core PCE were mixed with a reversal back lower from January's spike in inpatient care services and investment-related financial services (which were key drivers for the increase in Jan PCE), although the contribution from insurance prices picked up in February, as did health and medical care insurance, which fell in January.

RETAIL SALES: Retail sales for February rose 0.6% M/M, shy of the expected 0.8% while January was revised lower from -0.8% to -1.1%. Ex-Autos rose 0.3% (prev. -0.8%), light of the forecast 0.8%, and Ex-Gas/Autos also rose 0.3% (prev. -0.8%), with retail control, which feeds into GDP, flat (exp. 0.4%, prev. -0.3%). Within the dataset, outperforming categories included building material/garden (+2.2% M/M), motor vehicles & parts dealers (+1.6%) and electronics /appliances (+1.5%), while underperformers included furniture/home furnishings (-1.1%) clothing/clothing accessories (-0.5%). Overall, the modest rebound suggests that consumer spending growth slowed in early 2024. As such, Oxford Economics notes, "accounting for inflation, we think real consumption growth was flat in February, leaving it on track for growth of 2% annualized in Q1, weaker than our baseline forecast for a 2.4% increase and the 3% rise in Q4." Moreover, the consultancy expects consumption growth to remain close to that pace over the rest of the year as solid labour market conditions keep real disposable income growth strong, and the resilience of households' balance sheets means the saving rate rises only modestly.

JOBLESS CLAIMS: Initial jobless claims (w/e 9th March) marginally fell to 209k (exp. 218k) from the prior, revised lower, 210k, leaving the 4-wk average ticking ever-so-slightly lower to 208.0k from 208.5k. Continued claims (w/e 2nd March) rose to 1.811mln from 1.794mln, but shy of the expected 1.9mln. Note, the seasonal factors had expected a decrease of 13,244 (or -6.2%) from the previous week. Nonetheless, desks will continue to monitor the trend and Citi Economics expects a slight pickup in initial jobless towards 220k, with continuing seeing a pullback towards 1.893mln.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLED 23+ TICKS LOWER AT 110-06+

Treasuries tumble Thursday after hot PPI accentuates the inflationary concerns from the CPI report despite the weak retail sales. 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: Treasuries leaked lower into APAC trade on Thursday, extending the sell-off post-CPI (Barclays, "All told, we think the February inflation data highlight the risks of fewer rate cuts this year"). A weak 20yr JGB auction added some pressure out of JGBs, but otherwise, there were little catalysts of note to shape the narrative ahead of US retail sales and PPI. T-Notes hit interim lows of 110-25 at the London handover before gradually recovering off the lows into the NY handover with some dovish remarks from ECB's Stournaras on Bloomberg, who said the ECB needs to cut twice before the summer break (right after the July meeting), which has provided some mild tailwinds out of EGBs, later followed by Lane on CNBC who said the ECB is getting closer on inflation and didn't want to pick between April or June for a rate cut. Swedish CPI also came in soft.

In combination to the hot PPI, softer than expected retail sales, and fall in jobless claims, T-Notes fell from 110-26 to 110-21 in an immediate reaction before paring the whole move within ten minutes. However, as the dust settled, and similar to the CPI reaction, better selling resumed and the belly of the curve led a strong sell off through the rest of the NY morning to see T-Notes trough for the session at 110-06, just above the March lows of 110-05+, with the cash 10yr yield breaking above 4.25%, which also marks the 100d MA after it breached the 200d MA (c. 4.19%) on Wednesday. Contracts hugged the lows into the close.

Attention is now on the Japanese Rengo wage data during APAC on Friday which is expected to be released between 16:00-16:15 Tokyo time, which follows JiJi reports Thursday that the BoJ is arranging to end NIRP at Monday's meeting where a final decision will be made after confirming the results of the first round of responses. Later on in the US, we have import prices and the Empire survey (which is a first look at the March data), in addition to industrial production (Feb) and Michigan survey of consumer inflation expectations (March). Otherwise, participants will be positioning for next week's FOMC and Dot Plot.

NEXT WEEK'S AUCTIONS: US to sell USD 13bln of 20yr bonds on Tuesday, to settle on April 1st; to sell USD 16bln of 10yr TIPS (reopening) on Thursday, to settle on March 28th. UK is selling 20yr paper on Tuesday. In Europe, Germany is selling 20yr and 30yr paper on Wednesday, while Spain and France are expected to be active selling paper on Thursday, followed by Italy on Friday. Japan is tapping some 10yr, 20yr, and 30yr issues on Thursday for JPY 500bln.

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 -2bps at 96.405.
- Fed pricing now has 75bps of rate cuts priced across 2024 vs 80bps before the PPI.
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.784tln (prev. 1.699tln).
- NY Fed RRP op demand at USD 0.484tln (prev. 0.522tln) across 74 counterparties (prev. 77).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 89bln (prev. 86bln).
- US sold USD 95bln of 1-month bills at 5.280%, covered 2.79x; sold USD 90bln of 2-month bills at 5.275%, covered 2.87x.
- Treasury cut 13-week bill auction size by USD 3bln to 76bln and cut 42-day CMB auction size by USD 5bln to 75bln; 26-week and 52-week bill sizes left unchanged at USD 70bln and 46bln, respectively.
- 13-week and 25-week bills to be sold on March 18th; 42-day and 52-week bills sold on March 19th; all to settle on March 21st.

CRUDE

WTI (J4) SETTLED USD 1.54 HIGHER AT 81.26/BBL; BRENT (K4) SETTLED USD 1.39 HIGHER AT 85.42/BBL

Oil prices rallied further on Thursday despite the rallying Dollar and soft retail sales figures as momentum picked up amid the breakout to multi-month highs. WTI and Brent futures gained through the session and settled just off their peaks of USD 81.62/bbl and 85.67/bbl, respectively, the highest levels seen since November for the front-month futures. There wasn't any major catalyst to explain the latest rally, although we did get the IEA's monthly report, which raised its 2024 oil demand growth forecast by 110k BPD to 1.3mln BPD, saying that if OPEC+ voluntary cuts remain in place through 2024, it sees the market in a slight deficit rather than a surplus. The recovery in energy prices through this year was reflected in the latest US PPI figures for February, where energy prices drove a big beat on the headline figure, and this further bout of strength into March will only maintain that inflationary bias. Elsewhere on Thursday, Russia's Energy Ministry said, via Interfax, that it expects Russian crude oil exports to rise due to unplanned maintenance at refineries; that follows Ukraine drone attacks on Russian refinery facilities earlier in the week.

EQUITIES

CLOSES: SPX -0.29% at 5,150, NDX -0.30% at 18,014, DJIA -0.35% at 38,905, RUT -1.96% at 2,031.

SECTORS: Real Estate -1.61%, Utilities -0.81%, Consumer Staples -0.78%, Financials -0.71%, Materials -0.55%, Consumer Discretionary -0.43%, Health -0.43%, Industrials -0.43%, Technology -0.11%, Communication Services +0.55%, Energy +1.1%.

EUROPEAN CLOSES: DAX: -0.11% at 17,922.45, FTSE 100: -0.37% at 7,743.15, CAC 40: +0.29% at 8,161.42, Euro Stoxx 50: -0.13% at 4,993.85, IBEX 35: -0.66% at 10,490.50, FTSE MIB: -0.29% at 33,786.18, SMI: -0.54% at 11,726.60.

STOCK SPECIFICS:

- **Apple (AAPL)** +1: Buys AI startup DarwinAI as part of race to add features; has added dozens of DarwinAI staff to its AI division, according to Bloomberg. In other news, supplier Foxconn saw profits jump +33% Y/Y in Q4, topping expectations. The beat was driven by demand for AI servers, and strong holiday sales. While it forecast a slow start to 2024, it sees ending the year with a significant revenue increase.
- **Under Armour (UAA)** -11%: Founder of the Co. Kevin Plank will assume the roles of President and CEO from April 1st, succeeding Stephanie Linnartz.
- **Fisker (FSR)** -53.5%: EV startup faces potential bankruptcy due to sluggish sales in the US.
- **Dick's Sporting Goods (DKS)** +15%: EPS, revenue, and gross margin beat alongside raising annual dividend 10%.
- **Alibaba (BABA)** -4%: EU Commission opens investigation into AliExpress.
- **Lithium Americas (LAC)** +5.5%: Receives USD 2.26bln Thacker Pass project commitment from DOE.
- **Paramount Global (PARA)** -3.5%: India's Reliance Industries will acquire Cos. entire 13.01% stake in Viacom 18 Media for USD 517mln.
- **Robinhood (HOOD)** +4.5%: Said its equity trading volumes in February rose 41% Y/Y.
- **SentinelOne (S)** -16.5%: Greater loss per share than forecasted.
- **Intel (INTC), Qualcomm (QCOM) and Google (GOOG)** say they plan to battle **Nvidia (NVDA)** AI software dominance through UXL Foundation, via Reuters citing sources. To prepare tech specs for software in H1'24.
- **UiPath (PATH)** -7%: Next quarter revenue guidance disappointed.
- **Lennar (LEN)** -7.5%: Top line light.

US FX WRAP

The Dollar was firmer on Thursday and is currently at highs (103.390) after the hotter-than-expected PPI, soft US retail sales, and below-consensus initial jobless claims. PPI added fuel to the fire after the hot CPI figures earlier in the week, while initial jobless claims ticked lower to 209k (exp. 218k, prev. 210k). Following the data, the latest Atlanta Fed GDPnow (Q1) was cut to 2.3% to 2.5%. Looking ahead, UoM Prelim (March) and Empire survey (March) are the highlights on Friday but all attention resides towards Nvidia's GTC Event, FOMC, and BoJ next week.

G10 FX (ex-Dollar) all saw losses against the Buck to similar degrees, with the Aussie the relative underperformer, albeit not by a great deal. All of them were weighed on by the firmer Dollar, in addition to some currency-specific newsflow, which is mentioned below.

The Yen saw some strength in the US morning with USD/JPY hitting a low of 147.44 after a JiJi report, continuing the recent trend, noting the BoJ is reportedly arranging to end NIRP at the March gathering with a final decision made after the Rengo numbers, which remain of paramount importance. Regarding timings, Citi says results expected around 16:00-16:15 Tokyo time (+9 GMT) on Friday with the press release starting at 16:15.

Cable traded between 1.2731-2822, and while there was little new for the Pound, the latest Reuters poll sees BoE cutting rates by 50bps to 4.75% in Q3 (unch vs. Feb. poll).

For the Euro, there was a plethora of ECB speak, but the highlight came from dovish Stournaras remarks – said they have to cut rates twice prior to the summer break, that four cuts in 2024 seems reasonable, and ECB needs to begin cutting soon. EUR/USD saw a peak of 1.0954 vs. a trough of 1.0882, which it currently resides at.

The SEK was pressured after Swedish inflation data surprised to the downside. CPIF printed 2.5% Y/Y (exp. 2.8%, prev. 3.3%) with CPIF Ex Energy coming in at 3.5% Y/Y vs. exp. 3.6%, the prior 4.4%, and Riksbank expectations of 3.7%. For the NOK, the Norges Bank Regional Network Report Q1 2024 expects overall activity to remain virtually unchanged in H1 '24.

EMFX was largely weaker on account of the aforementioned Dollar rip, although CLP and COP managed to eke out gains. In terms of data, Brazilian Retail Sales (Jan) were much hotter than anticipated, with M/M rising 2.5% (exp. 0.2%, prev. -1.3%) with Y/Y 4.1% (exp. 1.3%, prev. 1.3%). Also for Jan, South Africa manufacturing production was hot while Mining Production unexpectedly fell.