US Market Wrap

15th March 2024: Stocks and bonds sell off further into the weekend ahead of BoJ and FOMC

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar flat.
- **REAR VIEW**: Strong RENGO wage data; NY Fed plunges; UoM inflation expectations unchanged & headline ticks lower; IP slightly exceeds consensus; Netanyahu approves plans for operations in Rafah; MU named top pick at Citi; Light next quarter ADBE guidance; China urges EV makers to buy local chips.
- **COMING UP**: **Data**: Chinese Retail Sales, Urban Investment, Norwegian GDP, EZ CPI (F) **Earnings**: Hannover Re **Event**: Nvidia GTC
- **WEEK AHEAD -** Highlights include: FOMC, BoJ, RBA, BoE, SNB, China activity data, PBoC LPR & Nvidia GTC. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing FOMC, BoJ, RBA, BoE, PBoC, SNB, Norges, BCB & CBRT. To download the report, please click here.

MARKET WRAP

The stock sell-off extended on Friday with losses greatest in the NDX. Adobe (ADBE) sold off hard after a lacklustre guide that failed to live up to the lofty expectations of its AI-fiending investor base, that applied pressure elsewhere in the space. At the same time, on a technical level, it was quarterly option expiry on Friday for stocks, which may have emphasized the magnitude of the selling in the indices. Nvidia (NVDA) was little changed ahead of its GTC event on Monday. Bitcoin flirted back above USD 70k only to lose the level into the close. Treasuries sold off again into the weekend in absence of a fresh catalyst, more just a continuation of the strong selling seen this week as participants prepare for next week's BoJ, FOMC (and Dot Plot), and 20yr auction, although the front and belly led selling, which points more to positioning ahead of central bank events. Data was mixed with a retreat lower in the Empire mfg. survey and another rise in import prices, while the above-forecast industrial production was offset by another set of downward revisions. However, the stable consumer inflation expectations in the Michigan survey (against expectations for a slight rise) did coincide with the lows in T-Notes. The Dollar Index was little changed on the session. Oil prices were choppy but closed the week near highs after Thursday's breakout higher with catalysts on the light side.

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NY FED: The NY Fed Manufacturing survey saw a notable decline in March, falling to -20.9 from -2.9, deeper than the -7.0 forecast - it is worth remembering this data can be extremely volatile. The downside was led by a decline in New Orders (-17.2 from -6.3), while employment also eased deeper into contractionary territory (-7.1 from -0.2). The price paid component also eased but remains expansionary at 28.7, down from February's 33.0. Looking ahead, the six month business conditions index was broadly unchanged at 21.6 (prev. 21.5). The report summarises "Demand softened as new orders declined significantly, and shipments were lower. Unfilled orders continued to shrink, and delivery times were little changed. Inventories declined. Labor market indicators weakened, as employment and hours worked both decreased. The pace of input price increases moderated somewhat, while the pace of selling price increases held steady. Firms expect conditions to improve over the next six months, though optimism remained subdued."

IMPORT/EXPORT PRICES: Import prices rose 0.3% in February, matching the consensus but easing from the prior 0.8% pace. The February and January advances were the first consecutive increases since September and August 2023. However, despite the recent advances, prices for US imports fell 0.8% Y/Y. The M/M increase was led by higher prices for both non fuel and fuel imports, nonfuel imports advanced 0.2% in February following a 0.7% increase the previous month. Prices for nonfuel imports last declined on a monthly basis in October 2023. Higher prices for consumer goods; foods, feeds, and beverages; capital goods; and automotive vehicles in February more than offset lower prices for nonfuel industrial supplies and materials. Export prices rose 0.8% (prev. 0.9%), well above the 0.2% forecast with higher nonagricultural and agricultural prices contributing to the February advance; no-nags export price rose 0.8% (prev. 1.1% M/M), with agricultural export prices rising 0.8% (prev. 1.0%). On finished goods, export prices rose 0.4% in Feb, easing from the 0.8% gain in January. The increase was led by higher prices for industrial and service machinery; computers, peripherals, and semiconductors; and telecommunications equipment. The price indexes for consumer goods and automotive vehicles were unchanged in February, after consumer goods prices fell 1.2% in Jan. and automotive vehicles prices rose 0.4%. The easing import prices in Feb is a welcome sign for the Fed after the hot

January inflation prints, Oxford Economics write that this report "lends some confidence that the impact on goods prices from recent supply disruptions and higher shipping costs may not be as severe as January's report signaled".

INDUSTRIAL PRODUCTION: Industrial Production data in February rose 0.1%, above the 0.0% forecast and vs. the prior revised -0.5% (initially -0.1%). Downward revisions are becoming quite common with IP data, ZeroHedge points out that is the 10th monthly revision lower in the last 11 months and 14th of the last 17. Similar was seen in manufacturing output, which rose by 0.8% in Feb, above the 0.3% forecast but the prior was revised down to -1.1% from -0.5%. Analysts at Pantheon Macroeconomics note that the rebounds in February reflect an incomplete unwinding of the January weather related disruptions. Looking ahead, Pantheon Macroeconomics think "the combination of a pick-up in domestic investment on the back of lower rates and a bit more support from external demand will lift manufacturing over the coming quarters, but we see few signs of this happening in either the hard activity data or the surveys for the time being, so the near-term outlook is the manufacturing is likely to flatline for a while yet.

MICHIGAN: The prelim March UoM consumer sentiment survey marginally dipped from February. Headline sentiment eased slightly to 76.5 from 76.9, despite expectations for it to be left unchanged. The downside was led by the forward looking expectations index, which fell to 74.6 from 75.2, deeper than the expected decline to 75.1. The current conditions component was unchanged at 79.4, despite forecasts for a slight decline to 79.2. Although a slight decline, the report highlights the 0.4 point decline is well within the margin of error, and therefore sentiment has been steady and essentially unchanged from February. Small improvements in personal finances were offset by modest declines in expectations for business conditions. Meanwhile, after strong November 2023 - January 2024 gains, views have stabilised where consumers perceived few signals that the economy is currently improving or deteriorating. However, UoM highlights many are withholding judgement about the economy ahead of the November election.

FIXED INCOME

TT-NOTE (M4) FUTURES SETTLED 4 TICKS LOWER AT 110-02+

Treasuries sell off again into the weekend ahead of next week's BoJ and FOMC. 2s +3.4bps at 4.725%, 3s +4.2bps at 4.507%, 5s +3.3bps at 4.327%, 7s +2.1bps at 4.329%, 10s +1.0bps at 4.308%, 20s +0.0bps at 4.551%, 30s -1.2bps at 4.431%

INFLATION BREAKEVENS: 5yr BEI +0.7bps at 2.369% 10yr BEI +0.7bps at 2.326% 30yr BEI +0.1bps at 2.275%

THE DAY: During the APAC session and European morning on Friday, T-Notes were hovering at and just above the 110-06 lows printed on Thursday after the PPI sell-off. Japan's Rengo 1st wage tally printed 5.28%, above the expected 4.1% and above the 2023 final figure of 3.6%, leaving Monday's BoJ meeting very much in play with money markets leaning towards a hike, although it is far from certain with analysts split.

T-Notes stretched to a session peak of 110-11 at the NY handover, marking just a fraction of a recovery of the week's tumble (highlighted vs the 111-26 close from last Friday), before better selling picked up again into the NY morning in absence of an obvious catalyst, led by the front and belly, seeing contracts tumble to hit new session/WTD lows of 109-31 later in the morning. Data was mixed (and the Treasury moves were already in play before such) with a retreat lower in the Empire mfg. survey and another rise in import prices, while the above-forecast industrial production was offset by another set of downward revisions. However, the stable consumer inflation expectations in the Michigan survey (against expectations for a slight rise) did coincide with the lows in T-Notes. Contracts failed to recover any further than 110-05 for the remainder of the session. Participants are now gearing up for next week's BoJ and FOMC, with the 20yr auction on Tuesday.

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.

STIRS:

- SR3H4 -0.5bps at 94.6625, M4 -1.5bps at 94.85, U4 -1.5bps at 95.125, Z4 -2.5bps at 95.405, H5 -3.5bps at 95.66, M5 -5bps at 95.865, U5 -6ps at 96.02, Z5 -6.5bps at 96.125, H6 -6bps at 96.19, H7 -3bps at 96.285, H8 -1.5bps at 96.265.
- SOFR flat at 5.31%, volumes fall to USD 1.782tln from 1.784tln.
- NY Fed RRP op demand at USD 0.414tln (prev. 0.484tln) across 68 counterparties (prev. 74).
- EFFR flat at 5.33%, volumes rise to USD 95bln from 89bln.

CRUDE

WTI (J4) SETTLED USD 0.22 LOWER AT 81.04/BBL; BRENT (K4) SETTLED USD 0.08 LOWER AT 85.34/BBL

Oil prices were choppy on Friday but closed the week near highs after Thursday's breakout higher. There were few market-moving energy sector updates on Friday, although there was some upside seen earlier in the session on the back of reports from the Israeli government that PM Netanyahu had approved plans for operations in Rafah", saying that Hamas' demands in its latest offer were "still unreasonable", marking another stumbling block for a ceasefire in the region. Elsewhere, the latest Baker Hughes US rig count saw oil rigs up six at 510 and nat gas rigs up one at 116. In the east, Reuters reported the amount of Russian oil refining capacity shut down due to drone attacks in Q1 has totalled 4.6 mln metric tons (370.5k BPD), or 7% of the total. JPMorgan's strats believe that Russia can maintain its oil exports at the current levels through June, even as it cuts crude production by 0.5mln BPD. JPM noted that a drop in Russian exports could spur price pressures of an additional USD 5/bbl to its forecast of USD 88-90/bbl by May and the mid-80/bbl region in H2 2024.

EQUITIES

CLOSES: SPX -0.65% at 5,117, NDX -1.15% at 17,808, DJIA -0.49% at 38,714, RUT +0.40% at 2,039.

SECTORS: Technology -1.29%, Communication Services -1.18%, Consumer Discretionary -1.14%, Health -0.37%, Consumer Staples -0.11%, Real Estate -0.09%, Financials -0.05%, Industrials +0.08%, Materials +0.08%, Utilities +0.12%, Energy +0.23%.

EUROPEAN CLOSES: DAX: -0.08% at 17,923.15, FTSE 100: -0.20% at 7,727.42, CAC 40: +0.04% at 8,164.35, Euro Stoxx 50: -0.10% at 4,988.95, IBEX 35: +1.02% at 10,597.90, FTSE MIB: +0.46% at 33,940.03, SMI: -0.48% at 11,664.80.

STOCK SPECIFICS:

- **Adobe (ADBE)** -13.5%: Next quarter EPS and revenue guidance were light, putting a dampener on any upside to its FY guidance. Note, top and bottom line beat alongside a new USD 25bln share repurchase programme.
- **PagerDuty (PD)** -7.5%: Next quarter and FY outlook disappointed.
- **Jabil (JBL)** -16.5%: Top line missed with weak next quarter and FY guidance.
- **Ulta Beauty (ULTA)** -5%: FY adj. EPS and comp. sales growth view fell short of Wall St. expectations. Note, EPS, revenue, and comp. sales beat alongside a USD 2bln stock buyback programme.
- **Intuitive Surgical (ISRG)** +3%: Fifth-generation robotic system, da Vinci 5, received FDA clearance.
- **Madrigal (MDGL)** +11%: Announces FDA accelerated approval of Rezdiffra. In wake of the positive update, it had its PT lifted at numerous brokerages, with a highlight from Piper Sandler noting Madrigal label for Rezdiffra is 'best case scenario'.
- **Steel Dynamics (STLD)** +4.5%: Next quarter EPS guidance surpassed consensus and says Q1 profitability from steel operations are expected to be meaningfully stronger than sequential Q4 results.
- **Rivian (RIVN)** +3.5%: Upgraded at Piper Sandler after R2 unveiling.
- **Micron Technology (MU)** +2%: Named a top pick at Citi and raised its PT to USD 150 (prev. 95); believes MU's stock should get a premium given its increasing exposure to AI.
- AI names such as **NXP Semiconductor (NXPI), and ON Semiconductor (ON)** saw weakness after China urges EV makers to buy local chips as US clash deepens.
- **Spotify (SPOT)** -1%: Said its iPhone app updates in the EU were getting held up by Apple.
- **Housing names (RDFN, Z, LMND, OPEN, RMAX, COMP)** : US National Association of Realtors has agreed to cut commissions in order to settle lawsuis, via NY Times; group to pay USD 418mln in damages/amend housing rules, which could drive-down housing costs.

US FX WRAP

The Dollar was flat to end the week and within very tight ranges (103.30-49) as it held onto Thursday's PPI-induced gains as traders await key macro risk events next week, namely FOMC, Nvidia GTC, and BoJ, amongst others. Nonetheless, NY Fed Manufacturing (Mar) was soft, and printed outside of the forecast range, while Prelim UoM (Mar) saw the headline marginally miss with 1yr and 5yr consumer inflation expectations unchanged at 3.0% and 2.9%, respectively, despite expectations for a slight rise.

Antipodeans and the Yen were the G10 losers against the Buck on Friday. The latter failed to garner any impetus from the much-awaited RENGO wage data which secured its largest wage hike in 33 years and set the stage for next week's BoJ as money markets are now tilting towards an exit of NIRP. The latest BoJ sources, via Nikkei, said the central bank is expected to end its negative interest rates. Despite participants awaiting the RENGO, USD/JPY did not see much reaction as on the day it saw a high of 149.17 and a low of 148.04. For the Antipodes, the Kiwi underperformed amid cross-related buying in AUD/NZD as currency-specific newsflow remains light ahead of the RBA next Tuesday.

EUR, CHF, CAD, and GBP were all more-or-less flat vs. the Greenback in light newsflow as traders likely keep their powder dry ahead of next week's bonanza. For the record, there was plenty of ECB speak (Rehn, Vujcic, Lane, Makhlouf, Villeroy) while BoE/Ipsos Inflation Attitudes Survey saw 1yr inflation expectation slip to 3% from 3.3%. Highlighting the narrow parameters on Friday, Cable saw a peak of 1.2758 vs. a trough of 1.2726 while EUR/USD 'chopped' between 1.0874-99.

Scandis saw weakness against the Dollar. The Sweden SA unemployment rate (Feb) unexpectedly ticked lower to 8.0% (prev. 8.2%, exp. 8.3%), while after the inflation data, Riksbank's Bunge said the fact that inflation in February continues to fall in line with forecasts provides greater confidence that inflation can be stabilized at target, but there are still risks. Note, Riksbank appoints Anna Seim to the Executive Board of the Riksbank; succeeds Martin Flodén, whose term of office expires on 21st May 2024.

EMFX was largely weaker against the Dollar, although the COP saw gains and BRL was a LatAm underperformer amid broad weakness in miners. Elsewhere for the Real, January service sector growth exceeded expectations and the Treasury estimates zero fiscal deficit for the Central Government accounts in 2024, +0.2% of GDP in 2025, and +0.7% in 2026. CLP was lower on Friday, but ended the week with circa 2% gains vs. the Dollar amid the rally in copper prices. The Lira was flat on Friday, but Goldman notes the increasingly precarious situation regarding the TCMB's underlying FX position, highlighted by a USD 6.3bln fall to USD 69.7bln, as of 14th March.