US Market Wrap

19th March 2024: NVDA and stocks ultimately firmer; bonds gain on BoJ, RBA, & Canada inflation

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar up.
- **REAR VIEW**: BoJ ends NIRP, ETF purchases and YCC, but maintains JGB purchase pace; RBA removes tightening bias; Soft Canada inflation; US Housing Starts and Building Permits beat; Kering warn of soft Gucci sales, particularly in China; NVDA to take large chunk of accelerated computing market; Very strong 20yr bond auction; SMCI share offering.
- **COMING UP**: **Data**: Chinese LPR, UK CPI, PPI, Italian Industrial Output, EZ Consumer Confidence, Australian PMIs **Events**: FOMC, CNB, BCB Policy Announcement; BoC Minutes **Speakers**: Fed Chair Powell; ECB President Lagarde, de Cos, Lane, Schnabel Supply: Germany **Earnings**: Ubisoft, Prudential, General Mills, PDD

MARKET WRAP

Stocks were ultimately firmer on Tuesday after earlier, tech-led weakness reversed into the close. Nvidia (NVDA) managed to close c. 1% firmer with some positive takeaways from its GTC event despite the lack of major surprises. Meanwhile, earlier weakness in tech/indices was catalysed amid Super Micro (SMCI) announcing a c. USD 2bln share offering which saw shares tumble. Nonetheless, the pre-market weakness in the indices gradually pared through the rest of the session. In USTs, The front and belly led a rally amid the soft Canadian CPI figures ahead of Wednesday's FOMC, note that the long end lagged despite the solid 20yr auction. The lower yield environment gave some support to the rate-sensitive areas such as small caps. The DXY was firmer, testing 104, on account of a sell-the-news reaction in the Yen after the BoJ exited NIRP, with USD/JPY hitting four-month highs ahead of 151. Aside from the Fed, luxury names are on watch heading into Wednesday with Kering ADRs and the CAC seeing heavy selling on a negative sales update for its Gucci brand, with cited weakness in APAC, raising concerns on the Chinese consumer.

GLOBAL

BOJ REVIEW: The BoJ ended its era of negative interest rates, as had strongly been guided in recent sourced articles. It raised rates for the first time since 2007 and will keep guiding overnight rates in the range of 0-0.1%, and apply a 0.1% interest to all excess reserves parked at the BoJ. It also abandoned its policy of Yield Curve Control, but said it will continue its current amount of JGB purchases at broadly the same rate. The central bank will also end ETF and J-REIT purchases. Still, it expects to maintain an accommodative monetary environment for the time being, which analysts said was a signal it does not intend to raise rates again any time soon. Capital Economics said that "it seems likely that the BoJ will continue to shrink its JGB holdings, and it will also discontinue its ETF purchases, but that doesn’t mark a major policy change as the Bank has bought very little ETFs over the past year." Ahead, CapEco said that the strength of pay hikes in this year’s spring wage negotiations poses some upside risks to its inflation forecasts. "However, we suspect that wage growth among smaller firms won’t be quite as strong as among those firms participating in the Shunto, and with inflation coming off the boil now, it seems likely that trade unions will push for smaller pay hikes in next year’s talks." CapEco adds that "with wage growth peaking this year, we still expect inflation to fall below the BoJ’s target by the end of the year so the Bank won’t feel the need to lift its policy rate any further."

RBA REVIEW: The RBA kept its Cash Rate Target unchanged at 4.35%, as expected, and reiterated that the Board remains resolute in its determination to return inflation to the target and inflation continues to moderate but remains high. Its statement was dovishly tweaked, removing the tightening bias (it previously said "a further increase in interest rates cannot be ruled out", which has not been replaced with "the Board is not ruling anything in or out"). Westpac said that change was bullish for rates, as many had expected it to remain in the statement. "While the market was already of the view that further hike potentials were falling, and accepted that the RBA was broadly neutral In its policy stance and assessed economic risks as balanced, the new wording that 'the Board is not ruling anything in or out' explicitly makes their neutral stance clear." Ahead, Westpac said that "while inflation and wages data in particular will remain the key to timing, our own expectation for two cuts in 2024, beginning in September, is only supported by message from the RBA." In his post-meeting press conference, Governor Bullock said it was making progress in the fight against inflation, but reiterated inflation remains high, adding that the RBA needs to be much more confident about inflation coming down in order to consider a rate cut.

US HOUSING STARTS/BUILDING PERMITS: Housing starts surged 10.7% in February to 1.521mln from 1.374mln, paring some of the steep January decline. The jump was above expectations and similar was seen with building permits, a more forward looking indicator, which rose 1.9% to 1.518mln, above the 1.495mln forecast. Analysts at Oxford Economics note that their "baseline assumes that housing starts will average 1.5mn in the second half of this year, but the February increase to 1.521mn may lend an upside risk to that forecast." It also adds that Single-family starts will drive the gains in the start of the year and multifamily starts are likely to decline or meander since supply is more plentiful.

FOMC PREVIEW: The FOMC is set to keep rates unchanged at 5.25-5.50% on Wednesday. The market's focus will be on the accompanying Dot Plot with risks the 2024 median forecast may nudge higher to two cuts from December's three cuts to reflect the recent upside surprises in inflation and growth data. Money markets have pulled back hawkishly this year to align with the Fed's December forecast of three cuts in 2024 and now do not have a rate cut fully priced in until July, although a June cut is implied at 60%, where the majority of analysts expect. There is also a risk the neutral rate forecast moves higher. Given the "bumpy" progress on inflation, Chair Powell is likely to remain coy on specifics of rate cut timing after he said the Fed was "not far" from nearing the confidence to begin rate cuts before the hot February inflation data. We also expect to get a more formal acknowledgement that discussions have begun, but not a decision, on the tapering of the balance sheet runoff. Please click here for the full Newsquawk Preview.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLE 10+ TICKS HIGHER AT 110-04+

The front and belly led a rally on Tuesday amid soft CAD CPI figures ahead of FOMC; long end lags despite solid 20yr auction. 2s -4.2bps at 4.694%, 3s -5.3bps at 4.476%, 5s -5.2bps at 4.304%, 7s -4.5bps at 4.318%, 10s -4.0 bps at 4.301%, 20s -3.1bps at 4.547%, 30s -2.0bps at 4.446%.

INFLATION BREAKEVENS: 5yr BEI -1bps at 2.361%, 10yr BEI -1.7bps at 2.310%, 30yr BEI -1.3bps at 2.263%.

THE DAY: Treasuries entered stateside trade in a bull-steepener after a bullish reaction to the RBA removing its hiking bias and the BoJ ending NIRP and ending its formal YCC programme (but maintaining its JGB purchasing pace). T-Notes hit interim peaks of 110-01 in APAC trade before paring to lows of 109-27 at the London handover.

T-Notes were back near the highs as US trade got underway but saw some selling pressure amid some chunky corporate debt deals being announced, including six-parters from United Health and BAE Systems. However, the notable misses on the Canadian CPI data saw a front end-led bid across the curve, and T-Notes went on to print new peaks. 110-05 served as resistance before the super strong 20yr auction saw contacts peak for the session at 110-08. Traders are now looking to Wednesday's FOMC and Dot Plot where there remains a non-trivial risk that the 2024 and longer run median rate dot both move higher.

20YR AUCTION: A super strong 20yr auction from the Treasury, with the USD 13bln reopening sold at 4.542%, marking a 2bp stop through the When Issued yield, much better than February's 3.3bps tail and the six-auction avg. tail of 0.5 bps. The auction was covered 2.79x, above the prior 2.39x and avg. 2.56x. Dealers were left with just 9.4%, way down from the prior 21.2% and avg. 13.7%, which was on account of a surge in Indirects participation to 73.5% from last month's 59.1% (avg. 66.6%), with Directs down to 17.2% from February's 19.7%. The strong demand comes despite 20s trading near their richest levels on the 10s20s30s fly, and despite the event risk of Wednesday's FOMC and Dot Plot.

THIS WEEK'S AUCTIONS: US to sell USD 16bln of 10yr TIPS (reopening) on Thursday, to settle on March 28th. 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 -0.25bps at 94.663, M4 +1.5bps at 94.85, U4 +1.5bps at 95.115, Z4 +2.5bps at 95.405, H5 +4bps at 95.67, M5 +5.5bps at 95.89, U5 +7bps at 96.065, Z5 +7.5bps at 96.175, H6 +7bps at 96.23, H7 +6bps at 96.31, H8 +5bps at 96.28.
- SOFR flat at 5.31%, volumes fall to USD 1.788tln from 1.803tln.
- NY Fed RRP op demand at USD 0.447tln (prev. 0.441tln) across 70 counterparties (prev. 70).
- EFFR flat at 5.33%, volumes rise to USD 91bln from 90bln.
- US sold USD 75bln of 42-day CMBs at 5.280%, covered 2.90x; sold USD 46bln of 1yr bills at 4.810%, covered 2.88x.
- US cuts 4- and 8-week bill sizes both to USD 85bln from 95bln and 90bln, respectively, whilst leaving the 17-week unchanged at USD 60bln; 4- and 8-week sold on March 21st, 17-week on March 20th; all to settle on March 26th.

CRUDE

WTI (J4) SETTLES USD 0.75 HIGHER AT 83.47/BBL; BRENT (K4) SETTLES USD 0.49 HIGHER AT 87.38/BBL

The oil rally kept on chugging on Tuesday with simmering geopolitics in the background. WTI (J4) and Brent (K4) hit session peaks of USD 83.85/bbl and 87.70/bbl, respectively, not long before settlement. Israel/Gaza remains a hot spot, with PM Netanyahu insisting Tuesday that Israel will launch a ground assault on Rafah despite US pressure not to. Meanwhile, Russian press TASS reported that France is preparing a military contingent of 2k troops to be sent to Ukraine, where the Russian spy chief said the unit would be a priority target for Russia, although a French source to Reuters later put some cold water on the claims. Note that following Ukrainian drone attacks on Russian energy facilities, the Russian Energy Minister said there are plans to defend oil and gas facilities with missile systems. Russian oil exports have risen in the near term as a result of the attacks, where JPMorgan's analysts note that the attacks are likely cutting Russian crude runs by an additional 300k BPD beyond scheduled maintenance closures. Attention is now on the weekly US crude inventory data, with crude stocks seen flat W/W, gasoline stocks drawing 1.4mln bbls, and distillate stocks drawing -0.1mln bbls.

EQUITIES

CLOSES: SPX +0.56% at 5,179, NDX +0.26% at 18,032, DJI +0.83% at 39,111, RUT +0.54% at 2,036.

SECTORS: Energy +1.08%, Utilities +0.92%, Consumer Discretionary +0.86%, Industrials +0.82%, Health +0.67%, Technology +0.64%, Financials +0.48%, Consumer Staples +0.35%, Materials +0.03%, Real Estate unchanged, Communication Services -0.17%.

EUROPEAN CLOSES: Euro Stoxx 50: +0.48% at 5,006.55, FTSE 100: +0.20% at 7,738.30, FTSE 250: -0.28% at 19,432.81, IBEX 35: +0.99% at 10,701.40, FTSE MIB: +0.95% at 34,262.36, SMI: -0.39% at 11,577.80, CAC 40: +0.65% at 8,201.05, DAX: +0.31% at 17,988.13.

STOCK SPECIFICS:

- **Nvidia (NVDA)** +1%: NVDA introduces the B200 plus a ton of partnerships with other companies, including, AMZN, DELL, GOOGL, META, MSFT, ORCL, TSLA, and many more. Sell-side commentary all remains very bullish on NVDA but they note there were no big surprises at the event. For more sell-side commentary, please click here. NVDA opened in the red but ultimately closed green with positive takeaways from the analyst call. Exec said the Blackwell chip will be priced between USD 30-40k (predecessor was USD 30k), and they plan to start shipping the chips later this year. The CEO also noted that the total addressable market for accelerated computing could cost a total USD 250bln per year, and NVDA is to get a larger chunk of that.
- **Super Micro Computer (SMCI) -9%**: Filed for a stock shelf offering of up to 2mln shares of common stock, raising the total common stock outstanding to 58.55mln. It later delayed the share sale until after the market close.
- **Kering (KER FP/PPRUY) -9.5%**: The French luxury name warned that Gucci comp revenues in Q1 are expected to be down nearly 20% Y/Y, with weakness in APAC markets, which will see group revenue -10% Y/Y vs Q1 23.
- **Apple (AAPL) +1.4%, Meta (META) -0.2%**: EU's Vestager, via Reuters, said Apple's new fee structure is the kind of thing she will be investigating, and when she was asked about Meta's new fees, said there are different ways to monetise its services.
- **Macy's (M) +1.4%**: Macy's reportedly agrees to open its books to Arkhouse and Brigade Capital, according to Reuters.
- **Blackstone Mortgage Trust (BXMT) -2%**: Muddy Waters' Block says the firm is 'more bearish' on Blackstone Mortgage Trust.
- **AstraZeneca (AZN) flat/ Fusion (FUSN) +99%**: AstraZeneca will acquire Fusion for USD 21/shr (vs prev. close 10.64/shr) in cash, plus a non-transferable CVR of USD 3/shr in a USD 2.4bln deal.
- **International Flavors & Fragrances Inc. (IFF) -1%**: IFF is to sell its pharma solutions business to Roquette in France in a deal valued at USD 2.85bln.
- **Ford Motor (F) +1%**: NHTSA is investigating a fatal Texas crash involving Ford's assisted-driving technology.
- **KLA Corporation (KLAC) -1.4%**: Announces the exit from the flat panel display business by the end of this year.
- **TSMC (TSM) -1.3% / Intel (INTC) -1.6%**: At least five suppliers to TSMC and Intel have delayed construction of facilities in Arizona, according to Nikkei.
- **Nordstrom (JWN) +10%**: JWN is reportedly working with Morgan Stanley and Centerview partners in an attempt to go private, according to sources via Reuters.
- **Gildan Activewear (GIL) +10%**: Co.'s board has put it up for sale amid prolonged battle for control of the company, according to Globe and Mail.

US FX WRAP

Yen was the FX highlight, seeing notable weakness in wake of the BoJ rate decision, which as alluded to by Nikkei on Monday, ended NIRP, ETF purchases and YCC, although the BoJ also announced its JGB purchase schedule which is at a similar pace to what it was beforehand. With the decision largely as expected, Yen saw notable weakness to see USD/JPY peak at 150.95 from lows of 149.04.

The Dollar Index was bid thanks to the Yen weakness to see DXY briefly rise above 104.00 to a peak of 104.06 in the European morning before ultimately easing back beneath the level during the US session as eyes turn to the FOMC on Wednesday.

CAD was softer after inflation data was cooler than expected and reinforced near term rate cuts from the BoC with headline inflation now slipping further beneath the top end of the BoC's 1-3% range, although the core measure (average of median, trim and common) still sits above, but that also eased in February to 3.13% from 3.33%. Analysts at OxEco "continue to expect the BoC will hold the policy rate steady at 5.0% until June when it will begin to gradually ease to 4.25% by year-end."

The Aussie was softer after the RBA rate decision which left rates on hold as expected and reiterated it remains resolute in its determination to return inflation to target. Although, there was a slight language tweak where it said the board is not ruling anything in or out on interest rates (it had previously said further increase in interest rates cannot be ruled out). NZD saw weakness in sympathy of the Aussie although AUDNZD saw marginal gains but failed to test 1.08 with a peak of 1.0793.

The Euro was relatively flat vs the Dollar with EUR/USD trading between 1.0835-76. The German ZEW economic sentiment was much stronger than expected while on the ECB, Kazaks said that he is comfortable with the current market pricing on rates and that moving at forecast meetings is "more straightforward" but said it will take some time to get to the neutral rate. De Guindos stressed data dependence, while de Cos said they could cut in June but it is conditional on the data. An Econostream ECB insider article also noted that data is yet to be made available when determining the frequency of rate easing after the first move in June, but the magnitude of 25bbps is a given absent any major surprises.

EMFX was mixed. In LatAm, BRL and MXN were flat but CLP saw notable weakness while COP saw some strength. COP was buoyed by continued upside in oil prices of late while CLP weakness was seen as copper prices were hit. There were also remarks from the Chile Central Bank Chief who said they will continue to unwind tight monetary policy if the economy and inflation remain stable.