US Market Wrap

20th March 2024: Stocks close at record highs on dovish Fed

- **SNAPSHOT**: Equities up, Treasuries steepen, Crude down, Dollar down.
- **REAR VIEW**: Fed still sees three cuts in 2024; Powell downplays hot inflation data; Soft UK CPI; Hawkish BoJ sources; CMG announce 50-1 stock split; JPM lifts dividend.
- **COMING UP**: **Data**: Japanese PMIs, Australian Employment, French, German, EZ, UK, US PMIs, US IJC, Japanese CPI **Events**: BoE, SNB, Norges, CBRT Policy Announcement **Speakers**: Norges Bank Bache; SNB's Jordan; Fed's Barr **Supply**: Spain, France, US **Earnings**: BMW, Porsche, Talanx, FedEx, Nike, Accenture.

MARKET WRAP

Stocks rallied to new closing highs on Wednesday after the Fed reaffirmed its three rate cuts in 2024 projection, despite higher longer-term dots, and as Powell played down the hot January and February inflation data. The rate-sensitive sectors outperformed, with the small-caps Russell 2k leading the SPX and NDX. Treasuries bull-steepened after the FOMC and Dot Plot, with the higher longer-run dots weighing more out the curve. Fed pricing has seen 2024 total cut pricing ramp up to 80bps from 75bps before the Fed, with the first fully priced cut remaining in July while the implied probability of a June cut has risen to 80% from 70%. The Dollar was sold post-Fed, and the Yen pared a lot of the earlier weakness after a Nikkei sources article released at the time warned of more hikes to come, noting the next hike is seen in July or October, according to the BoJ source. However, the Yen still closed weaker on the session. The Pound was an underperformer earlier in the session on the weak UK CPI figures ahead of Thursday's BoE, but reversed losses after the Fed. Oil prices took a tumble, in lack of an obvious catalyst, as benchmarks retreated from their multi-month peaks gradually through the session.

FED

FED ANNOUNCEMENT: Rates were left unchanged at 5.25-5.50% as expected, with the statement seeing no major changes, maintaining its guidance, "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent." The focus was on the Dot Plot where the 2024 median rate forecast, despite some expectations for a rise, was left unchanged at 4.6% (implying three 25bp rate cuts this year), and there are now nine members who have pencilled in 4.6% vs six in the December release, with the range of forecasts also narrowing. At the same time, the 2025, 2026, and long run ("neutral") dots were all nudged higher to 3.9%, 3.1%, and 2.6%, respectively, from 3.6%, 2.9%, and 2.5%, although the market's immediate focus was on the 2024 dot. The GDP median was hiked to 2.1% from 1.4% for 2024, with the 2025 and 2026 medians both nudged higher to 2% from 1.8% and 1.9%, respectively. The unemployment median was nudged lower to 4.0% from 4.1% for 2024, with the 2025 median unchanged at 4.0% and the 2026 down to 4.0% from 4.1%. Core PCE was hiked to 2.6% for 2024 from 2.4%, with the 2025 and 2026 medians unchanged at 2.2% and 2.0%, respectively. WSJ Timiraos highlights, "Fewer FOMC officials see upside risks to their unemployment forecasts compared with December but more of them see upside risks to their inflation forecasts".

POWELL PRESS CONFERENCE: Powell's presser and Q&A were received dovishly by markets with the Fed Chair largely sticking to the script whilst refraining from taking too much alarm from the above-expected January and February inflation data. In his statement, Powell reiterated that the policy rate is likely at its peak and it will likely be appropriate to dial back rates at some time this year, whilst saying he was prepared to keep rates higher for longer if needed (there was no mention of hiking again if needed as some hawks have alluded to). After Powell said in Congress before the February inflation data that the Fed is "not far" from nearing the confidence to begin rate cuts, he said in his statement that he does not expect to reduce rates until the Fed has greater confidence that inflation is sustainably moving back to target, whilst he still framed inflation as having made notable progress. He also warned in his statement that an unexpected weakness in the labour market could warrant a response too. Powell also announced that participants discussed the balance sheet at this meeting, saying the general sense is to slow the pace of the runoff fairly soon.

POWELL Q&A: The Q&A was fairly benign with no real bombshells from the market's perspective, with the dovish reaction extending gradually throughout. Powell was eager to describe the inflation data as "bumpy", with the overall picture in place, saying also that there are reasons to believe there were seasonal factors at play in the inflation readings so far this year. He did say, however, that the latest data had certainly not improved anyone's confidence, adding that the data proves the Fed was right to be patient before starting rate cuts. After the median long-run rate dot rose, Powell

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said the Fed does not think it knows that rates will be higher in the longer run, saying his instinct is that rates will not go back down to the very low levels we saw before, but there is tremendous uncertainty around that. Powell also clarified that a hot jobs market is not a reason to delay rate cuts.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLE 9+ TICKS HIGHER AT 110-14

Treasuries bull-steepened after the Fed reaffirmed its three cuts this year projection with higher long-run dots, while Powell downplayed the recent hot inflation data. 2s -6.6bps at 4.626%, 3s -6.3bps at 4.414%, 5s -4.5bps at 4.258%, 7s -3.2bps at 4.282%, 10s -1.5bps at 4.281%, 20s +0.7bps at 4.549%, 30s +1.2bps at 4.453%.

INFLATION BREAKEVENS: 5yr BEI +2.5bps at 2.384%, 10yr BEI +2.5bps at 2.333%, 30yr BEI +2.2bps at 2.285%.

THE DAY: Choppy trade for Treasuries during APAC trade with Japan away. However, bullish momentum arrived during the London session out of Gilts on the back of the softer-than-expected UK CPI data, seeing T-Notes hit pre-Fed peaks of 110-10, beyond the 110-08 peak on Tuesday. ECB's Lagarde was also on the wires, saying that while the bank can't commit to a rate path after the first rate cut, there is sufficient data to project a move into dialling back a phase of restrictive policy.

T-Notes pared back slightly into the NY handover, with contracts finding support at 110-04+ before drifting back towards the top end of earlier ranges heading into the Fed. Contracts spiked from 110-08 to 110-22 after the Fed left rates unchanged and crucially the 2024 median Fed dot remained unchanged, implying three rate cuts, although the 2025, 2026, and long-run dots were all nudged higher, with the long end leading a pullback from highs after the kneejerk spike higher. T-Notes hit session lows of 110-01 as the dust settled, before recovering, led by the front end again, through Powell's presser with the Fed chair playing down the hot January and February inflation data.

THIS WEEK'S AUCTIONS: US to sell USD 16bln of 10yr TIPS (reopening) on Thursday, to settle on March 28th. 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:

- Fed pricing has seen 2024 total cut pricing ramp up to 80bps from 75bps before the Fed, with the first fully priced cut remaining in July while the implied probability of a June cut has risen to 80% from 70%.
- SR3M4 +5.5bps at 94.91, U4 +9bps at 95.21, Z4 +10.5bps at 95.515, H5 +9.5bps at 95.77, M5 +8.5bps at 95.98, U5 +7bps at 96.135, Z5 +6bps at 96.23, H6 +5bps at 96.28, M6 +4.5bps at 96.305, M7 +2.5bps at 96.33, M8 +0.5bps at 96.265.
- SOFR flat at 5.31% as of March 19th, volumes rise to USD 1.813tln from 1.788tln.
- NY Fed RRP op demand at USD 0.496tln (prev. 0.447tln) across 78 counterparties (prev. 70).
- US sold USD 60bln of 17-week bills at 5.215%, covered 2.73x.
- EFFR flat at 5.33% as of March 19th, volumes fall to USD 89bln from 91bln.

CRUDE

WTI (K4) SETTLES USD 1.46 LOWER AT 81.27/BBL; BRENT (K4) SETTLES USD 1.43 LOWER AT 85.94/BBL

Oil prices took a tumble on Wednesday as prices retreated from their multi-month peaks gradually through the session in the run-up to the FOMC. There was no obvious catalyst for the pullback. There may be some ongoing considerations of ramped Russian oil exports amid Ukrainian drone attacks on refineries, highlighted by Reuters updating Wednesday that oil loadings from Russia's western ports is seen above 2.5mln BPD from March 20-31st, at two-year highs. At the same time, some analysts posit that if the attacks/refinery outages are sustained, Russia may reduce oil supply. Note that Russian Energy Minister Shulginov said earlier that there is potential for an increase of fuel production at refineries where output was not halted. Elsewhere, the EIA US energy inventory data was on the bullish side to little effect, where crude stocks drew 2mln bbls in the latest week, coinciding with gasoline drawing 3.3mln and distillates building 0.6mln bbls, with refinery utilisation rising 1% on the week.

EQUITIES

CLOSES: SPX +0.89% at 5,225, NDX +1.15% at 18,240, DJI +1.03% at 39,512, RUT +1.92% at 2,075.

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SECTORS: Consumer Discretionary +1.45%, Communication Services +1.26%, Financials +1.24%, Industrials +1.21%, Technology +1.15%, Materials +0.98%, Real Estate +0.39%, Consumer Staples +0.23%, Utilities +0.13%, Energy -0.09%, Health -0.23%.

EUROPEAN CLOSES: DAX: +0.14% at 18,012.93, IBEX 35: +0.48% at 10,752.50, CAC 40: -0.48% at 8,161.41, PSI: +0.48% at 6,152.21, FTSE 100: -0.01% at 7,737.38, Euro Stoxx 50: -0.19% at 4,998.65, FTSE MIB: +0.09% at 34,293.29, SMI: +0.35.

STOCK SPECIFICS:

- **Huawei**: US mulls sanctioning Huawei's chipmaking network by including them in its entity list, according to Bloomberg.
- **Intel (INTC)** +2.4%: The Biden administration has awarded Intel (INTC) almost USD 20bln in grants and loans to subsidize chip production in the US.
- **JPMorgan (JPM)** +1.3%: Hikes its dividend to USD 1.15/shr (prev. USD 1.05/shr).
- **Amazon (AMZN)** +1.3%: Developing a new AI search tool that can create images based on shopper queries and product photos, according to Business Insider.
- **Super Micro (SMCI)** +1%: Super Micro priced its sale of 2mln shares at USD 875/shr, below an earlier marketed range of USD 900-1,000.68.
- **Mobileye (MBLY)** +7.5%: Volkswagen's (VOW3 GY) intensified its partnership with MBLY.
- **Broadcom (AVGO)** +3.5%: Reportedly announced a relationship with a third customer in the consumer AI space.
- **Equinix (EQIX)** -2.3%: Named a new short at Hindenburg.
- **Tesla (TSLA)** +2.5%: Raises Model Y prices in China.
- **Nasdaq (NDAQ)** -2.5%: Borse Dubai to sell shares in Nasdaq worth USD 1.6bln, reducing its stake to 10.8% from 15.5%.
- **Boeing (BA)** +3.6%%: Boeing is looking into how it can sever Spirit AeroSystems' ties with Airbus to facilitate Boeing's bid to reacquire its former subsidiary, Reuters reported. Separately, the CFO expects FCF usage of USD 4-4.5bln this quarter after the door plug blowout crisis, Co. has also made the decision to keep 737 production below 38/mth.
- **Chipotle (CMG)** +3.5%: The board has approved a 50 **-** 1 stock split, shareholders vote on the proposal on June 6th.
- **Topgolf Callaway (MODG)** +8.8%: Announced it is not aware of any talks of a sale of the business after media speculation earlier.
- **Rockwell Automation (ROK)** +1.3%: Expects FY results to track around the low end of its current guidance for both sales and EPS.
- **TKO (TKO)** +7.8%: Reached settlement agreements with all claims asserted in both class action lawsuits (Le and Johnson) for an aggregate amount of USD 335mln, payable by the Co. and its subsidiaries in instalments over an agreed-upon period of time.

EARNINGS:

- **General Mills (GIS)** +1.2%: Beat on EPS and revenue whilst it reaffirmed guidance.
- **PDD Inc. (PDD)** +3.5%: Saw huge beats on EPS and revenue although guidance was mixed.
- **Signet Jewelers (SIG)** -12%: EPS beat but revenue missed while revenue guidance was light of expectations.

US FX WRAP

The Dollar was lower after the Federal Reserve 2024 median dot was left unchanged despite some hawkish risks for a revision higher. Meanwhile, Fed Chair Powell downplayed the hot January and February CPI numbers noting they are not going to overreact to two months of data, but he did note they will not ignore it either and they are examining whether it is a bump in the road, or perhaps more.

The Yen was ultimately lower but well off earlier troughs in wake of the dovishly perceived FOMC as well as hawkish BoJ source reports in Nikkei that suggested another hike could come in July or October amid the recent Yen slide. USD /JPY hit a high of 151.85 ahead of the FOMC and Nikkei report with many cognizant of any Japanese intervention as it tests multi-year highs just shy of 152; (November 2023 high @151.92, October 2022 high @ 151.94). There is also speculation if the Yen weakness were to continue the BoJ/MoF could step in; ING note that local accounts felt that 155 would be the level at which the BoJ would intervene to sell FX and protect the Yen. There were Nikkei reports earlier in the session that said the Yen's decline appears to be raising little alarm at the BoJ for now, It "was to be expected" given that Ueda is maintaining an accommodative stance on policy, citing a BoJ source, which added that some at Japan's Finance Ministry are wary of rapid fluctuations.

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The Pound saw gains vs the Dollar and the Euro although inflation data in the UK came in softer than expected as eyes turn to the BoE on Thursday. Analysts said the headline metrics will be welcomed by the BoE, but it is still unlikely to mark a deviation from the 'Table Mountain' approach. Capital Economics said the data probably won't make the BoE sound any more dovish when it leaves interest rates at 5.25% tomorrow, but its economists see UK inflation falling below 2% in April, and then easing towards 1%, and it said that this would suggest that the BoE may have to start cutting rates in the summer.

The Euro saw gains vs the Softer Dollar with the majority of gains seen in the wake of the FOMC policy announcement to see EUR/USD rise above 1.09 as Powell spoke.

Similar was seen in the **Looney and Antipodes**, which saw notable gains benefitting from the softer Dollar and equity upside during the FOMC rate decision and conference. For the CAD, the BoC minutes had little impact given it was an account of the meeting before the soft February inflation data. Nonetheless, the minutes noted that members had differing views about when there would likely be enough evidence to judge whether conditions for cuts were in place.

EMFX was generally supported by the weaker buck post Powell with ZAR also enjoying the gold gains while South African CPI also came in hotter than expected. In LatAm, BRL outperformed ahead of the BCB rate decision late on Wednesday while COP was flat vs the buck amid a slide in oil prices. The Yuan was flat vs the buck after the PBoC maintained its 1yr and 5yr LPR rates as expected.

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