US Market Wrap

21st March 2024: Stocks gain, Dollar surges after plethora of CB activity and hot US data

- **SNAPSHOT**: Equities up, Treasuries flatten, Crude down, Dollar up.
- **REAR VIEW**: Surprise SNB cut; Hawkish Norges; Dovish BoE; Surprise 500bp hike from CBRT; Mixed EU PMIs, US PMIs disappoint with hawkish inflation language; Jobless Claims beneath expectations; Philly Fed beat; Strong existing home sales; AAPL sued by DoJ on smartphone monopoly; Stellar MU earnings; RDDT opens well above IPO price
- **COMING UP**: **Data**: UK Retail Sales, German Ifo, Canadian Retail Sales **Events**: Japan's Rengo (2nd tally) **Speakers**: ECB's Lane; Fed's Powell, Barr, Bostic

MARKET WRAP

Stocks were firmer on Thursday albeit the SPX and NDX closed well off best levels with Apple (AAPL) extending losses beyond 4% after the DoJ filed a landmark antitrust lawsuit against it. Micron (MU) was a standout outperformer (+14%) after its solid earnings and AI-friendly guidance, lifting the broader semiconductor space. The equal-weight S&P 500 and the small-caps Russell 2k held up much better. There was a slew of hot US data, including below-forecast jobless claims, a smaller fall than expected in the Philly Fed survey, ebullient existing home sales, and a mixed set of Flash PMIs (solid manufacturing, weaker services) which warned of inflationary pressures in the pipeline. Treasuries twisted flatter on the day, with a strong bid out of Europe after the surprise SNB rate cut and mixed PMI data fading through the US session; curve spreads pulled back after the strong steepening post-FOMC. The Dollar surged on the day, paring its post-Fed losses, while the Swissy tumbled post-SNB. The Pound also saw notable weakness after the BoE left rates unchanged, although the vote split shifted dovishly. There was a slew of other rate decisions in focus too with Norges on hold, CBRT hiking, Banxico cutting, and BCB cutting.

CENTRAL BANKS

BOE REVIEW: As expected, the MPC once again opted to stand pat on rates at 5.25%. The slight surprise came via the vote split which saw Haskel and Mann move into the unchanged camp, leading to an 8-1 split with Dhingra the lone dissenter in opting for a cut. To read the full Newsquawk review, please click here.

SNB REVIEW: A largely unexpected 25bp rate reduction from the SNB, which sparked marked CHF depreciation and a modest broader dovish reaction. To read the full Newsquawk review, please click here.

NORGES REVIEW: A somewhat hawkish announcement from the Norges Bank. The Key Policy Rate was left unchanged at 4.50%; however, the policy path did not formalise a Q4-2024 rate reduction as some had been expecting given the recent moderation of inflation. To read the full Newsquawk review, please click here.

BCB REVIEW: The COPOM voted to cut the Selic rate by 50bps to 10.75%, in line with the consensus. But analysts noted that the central bank tweaked its forward guidance, which might suggest it will lower the rate of reductions in the meetings ahead. For more, please click here.

CBRT REVIEW: CBRT surprised with a 500bps rate hike to 50%, although Goldman Sachs state this was a one off and they expect the CBRT to ease policy from Q3. For more, please click here.

BANXICO REVIEW: Banxico cut rates as expected by 25bps to 11.00% while noting that future decisions will be based upon data. The decision was not unanimous, with Espinosa opting to keep rates unchanged in a hawkish dissent. It did note that the disinflation process is expected to continue but balance of risks to inflation remains biased to the upside. For more, please click here.

US DATA

JOBLESS CLAIMS: Initial claims data, for the week that coincides with the NFP survey window, eased slightly to 210k from an upwardly revised 212k, beneath expectations of 215k, a level that is seen consistent with a tight labour market.

The 4wk average however rose to 211.25k from 208.75k. Looking at the unadjusted data, the total number of initial claims totalled 190k, 12k lower than the prior week; seasonal factors had expected a decrease of 11k. Continued claims, for the week prior, were largely unchanged at 1.807mln, beneath the 1.82mln forecast. Many do forecast an increase in claims ahead while the Fed Chair on Wednesday described initial claims as "very, very low", noting if anything, they have tracked down a bit and it is something the Fed is watching carefully.

PMIs: The S&P Flash PMI composite reading for March fell to 52.2 from 52.5 with divergence between services and manufacturing, whilst warning of renewed inflationary pressures. The manufacturing sector was the strong spot, with the PMI seeing a surprise rise to 52.5 from 52.2 (exp. 51.7), while services fell more than expected to 51.7 from 52.3 (exp. 52.0). The report said the survey data points to another quarter of robust GDP growth accompanied by sustained hiring as companies continue to report new order growth, albeit new orders rose at a slightly softer pace in March. The brightest news came from the manufacturing sector, where production is now growing at the fastest rate since May 2022. Service providers meanwhile reported a slower pace of expansion than factories, with the rate of increase also moderating slightly. The rate of job creation edged up to the strongest in the year. The dark cloud from the release was the commentary on inflation, which noted inflationary pressures showed signs of picking up. Input costs rose at the fastest pace in six months, while firms increased their selling prices to the largest extent since April last year. The steep jump in prices from the recent low seen in January hints at unwelcome upward pressure on consumer prices in the coming months.

EXISTING HOME SALES: US existing home sales in February spiked 9.5% - one the largest M/M rises in the series' history - to 4.38mln from 4mln, now at the highest level since February 2023. Oxford Economics says, "The upside surprises to February housing starts and existing home sales suggest residential investment in Q1 GDP will come in stronger than the 6.9% annualized pace currently in our baseline." However, there are doubts whether the strong pace of sales can continue into March with the pace of mortgage applications losing some momentum in recent weeks. Within the report, the supply of homes for sale rose 5.9% to 1.07mn units in February, although that still remains tight at 2.9 months' worth of supply at the February selling rate (vs 3 months' worth in Jan), a long way beneath the 6 months' worth that is considered in a balanced market. The median price of an existing home rose 1.8% to USD 384,500 M/M, rising 5.7% Y/Y.

PHILLY FED: Headline Philly Fed Business Index posted a surprise expansion at 3.2 but fell from the prior 5.2, above the -2.3 forecast. Within the report, the outlook was very strong at 38.6, surging from 7.2 while CapEx also saw a significant improvement to 23.6 from 12.7. New orders returned to a slight expansion at 5.4 from the prior -5.2. Prices paid saw a welcome decline to just 3.7 from 16.6, indicating only slight price increases in March, although the employment at -9.6 was a similar contraction to the -10.3 in February.

FIXED INCOME

T-NOTE (M4) FUTURES SETTLE 1+ TICKS LOWER AT 110-12+

Treasuries twisted flatter on Thursday amid hot US data and post-FOMC positioning. 2s +3.6bps at 4.641%, 3s +2.5bps at 4.419%, 5s +1.6bps at 4.258%, 7s +1.2bps at 4.281%, 10s +0.4bps at 4.275%, 20s -1.0bps at 4.539%, 30s -1.1bps at 4.444%.

INFLATION BREAKEVENS: 5yr BEI +1.9bps at 2.412%, 10yr BEI +1.4bps at 2.359%, 30yr BEI +0.8bps at 2.303%.

THE DAY: Treasuries were largely sideways through APAC trade on Thursday in the fallout from the FOMC. JGBs saw some pressure with desks citing concerns over the BoJ's scaling back of JGB purchases, meanwhile, the MoF's auction taps saw muted demand. Australian employment also came in very hot, weighing on AGBs, but again, USTs didn't take much notice.

Bull-flattening flow picked up in the London morning. Mixed European PMI data and the surprise SNB rate cut underscored the fixed income bid, although the strength in USTs was being led by the belly, coming after the strong bull-steepening seen on Wednesday. Note that France and Spain both saw solid auction results.

T-Notes peaked at 110-26+ at the NY handover, beyond the Wednesday/FOMC peak of 110-22, right on the heels of the BoE rate decision (unchanged) which saw the hawkish remove their votes to hike again. However, contracts started to pullback as stateside trade got underway, led by the front-end, with the better-than-forecast Philly Fed survey and lower-than-expected jobless claims adding pressure, soon followed by the inflationary warnings in the Flash PMIs and the exuberant existing home sales figures. T-Notes bottomed for the session at 110-08+, hovering near lows through the rest of the sessions, while the long end held onto gains better as curve spreads unwound of some of Wednesday's sharp steepening.

Attention is now on set up for next week's 2s, 5s, and 7s auctions on Monday, Tuesday, and Wednesday, respectively. For Friday, there is no major US data, but we do get Powell, Jefferson, and Bowman all together at a Fed Listens event, with Barr and Bostic also both on the calendar. Globally, we get UK and Canadian retail sales, in addition to the German Ifo survey.

10YR TIPS AUCTION: US sold USD 16bln of 10yr TIPS (reopening) at 1.932%, which was a poor showing marked by the 2.2bp tail of the When Issued yield. Dealers were also left with a relatively large 12% (prev. 3.2%; six-auction avg. 9.4%).

NEXT WEEK'S AUCTIONS: US to sell USD 66bln of 2yr notes on Monday, USD 67bln of 5yr notes on Tuesday, and USD 43bln of 7yr notes and USD 28bln of 2yr FRNs (reopening) both on Wednesday; all to settle on April 1st. In Europe, the Netherlands (5yr), UK (4yr), and Germany (1yr, 9yr) are all selling paper on Tuesday, with Germany (7yr) again on Wednesday alongside Portugal and Italy. Japan is tapping maturities in the 1-5yr sector on Monday, selling 40yr bonds on Wednesday, and 2yr notes on Friday.

STIRS:

- SR3M4 -2bps at 94.89, U4 -2bps at 95.19, Z4 -3bps at 95.485, H5 -4bps at 95.74, M5 -4bps at 95.955, U5 -3.5 bps at 96.115, Z5 -2.5bps at 96.215, H6 -1.5bps at 96.275, M6 -1.5bps at 96.30, M7 -1bp at 96.325, M8 flat at 96.26.
- SOFR flat at 5.31%, volumes fall to USD 1.736tln from 1.813tln.
- NY Fed RRP op demand at USD 0.461tln (prev. 0.496tln) across 74 counterparties (prev. 78).
- EFFR flat at 5.33%, volumes rise to USD 91bln from 89bln.
- US sold USD 85bln of 1-month bills at 5.270%, covered 3.00x; sold USD 85bln of 2-month bills at 5.270%, covered 2.93x.
- US cuts 6- and 13-week bill sizes by USD 5bln and 3bln, respectively, to USD 70bln and 73bln, 26-week unchanged at USD 70bln; 13- and 26-week bills sold on March 25th, 6-week sold on March 26th; all to settle on March 28th.

CRUDE

WTI (K4) SETTLES USD 0.20 LOWER AT 81.07/BBL; BRENT (K4) SETTLES USD 0.17 LOWER AT 85.78/BBL

Oil prices were ultimately lower on Thursday with gains during APAC unwound through the rest of the session. Energy newsflow was on the light side although the Middle East remained in focus after an Israeli official said, via Sky New Arabia, that Israeli forces will control Rafah even if it causes a "rift' with Washington". That followed Al-Arabiya sources reporting that there had been pressure put on Israel to postpone the Rafah operation for at least 45 days from mediators. Elsewhere, Reuters reported that Russian refinery throughput was down by 7.5% to 5mln BPD over March 14th-20th from March 1st-13th, following Ukrainian drone attacks on facilities.

EQUITIES

CLOSES: SPX +0.32% at 5,242, NDX +0.44% at 18,320, DJI +0.68% at 39,781, RUT +1.14% at 2,098.

SECTORS: Industrials +1%, Financials +0.85%, Energy +0.54%, Consumer Discretionary +0.46%, Real Estate +0.43%, Materials +0.4%, Technology +0.14%, Health +0.11%, Consumer Staples +0.04%, Communication Services -0.17%, Utilities -0.21%.

EUROPEAN CLOSES: DAX: +0.88% at 18,174, CAC 40: +0.22% at 8,180, PSI: +0.43% at 6,178.82, FTSE 250: +1.32% at 19,741.31, FTSE 100: +1.88% at 7,882.55, IBEX 35: +1.07% at 10,867.50, Euro Stoxx 50: +1.02% at 5,051.55, SMI: +0.73% at 11,703.66

STOCK SPECIFICS:

- **Apple (AAPL) -4.2%**: DoJ filed an antitrust lawsuit against AAPL for monopolization of the smartphone market.
- **Micron (MU) +14%**: Posted a surprise profit per share, beat on revenue, above forecast Q3 EPS, revenue and gross margin guidance.
- **Chewy (CHWY) -10%**: Top and bottom line beat expectations but guidance disappointed.
- **Guess (GES) +20%**: Earnings beat with strong FY revenue guidance, it also declared a special dividend of USD 2.25/shr.
- **Accenture (ACN) -9.5%**: Beat on EPS but missed on revenue with weak revenue guidance.

- **Darden (DRI) -6%**: EPS was in line but revenue missed expectations, SSS also posted a surprise decline and it cut its FY SSS view but announced a new USD 1bln buyback.
- **Nvidia (NVDA) +1.3%**: Announced that Q1 2025 earnings would be published on May 22nd, 2024. Separately, the CEO told CNBC that Nvidia has created markets that did not exist before, rather than take share from existing markets. Added that the most important thing for a country is to create its own sovereign AI.
- **Synopsis (SNPS) +2%**: CEO said on Wednesday the co. had narrowed down potential suitors for its security software unit to about half a dozen.
- **Reddit (RDDT) +47%**: Reddit opened at USD 47/shr vs IPO price of USD 34/shr.
- **Paramount (PARA) -5.2%**: Controlling shareholder Shari Redstone is reportedly unconvinced by Apollo's (APO) USD 11bln offer and prefers the deal with David Ellison, according to FT. CNBC's Faber later said that PARA is not expected to sell its studio separately,
- **Amazon (AMZN) +0.3%**: NBC News found more than a dozen companies were marketing devices for online sales that regulators say could severely disrupt communications systems. FCC said it has several ongoing investigations into outlawed products, like jammers, on platforms including Amazon.
- **Li Auto (LI) -7%**: Cut its Q1 delivery forecasts.
- **Capital One Financial (COF) +1.2%**: Told bank regulators the Discover (DFS) deal will be pro-competitive and allow it to take on Visa (V) and Mastercard (MA), via Reuters citing sources. Says the deal will not harm credit card competition based on the share of card purchases.
- **Rush Street Interactive (RSI) +4.2%, DraftKings (DKNG) +4.1%**: Rush Street is reportedly considering a sale and have approached DraftKings (DKNG), according to Bloomberg.

US FX WRAP

The Dollar surged on Thursday, paring the post-Fed downside with DXY reclaiming 104. The DXY upside ensued out of Europe after the SNB surprised with a 25bp rate cut, out-doving the Fed. Upside continued in wake of US data which saw jobless claims slightly beneath expectations, a beat on the Philly Fed, and some inflation-warning commentary in the S&P Flash PMIs. The DXY went on to reclaim the 10, 21, 50, 100 and 200dmas to see a peak of 104.05, testing the Monday peak at 104.14 pre-Fed.

The Franc was the clear laggard on Thursday after the aforementioned SNB rate cut, USD/CHF rose from lows of 0.8840 to a peak of 0.8993 finding resistance at 0.9000 and ahead of the 14th November high of 0.9027.

The Pound was also a laggard after the BoE rate decision which left rates on hold as expected while both hawks switched their votes to unchanged while Dhingra the Dove called for a cut once again, leaving it an 8-1 vote split. The GBP selling pressure picked up after BoE Governor Bailey said that it is reasonable that markets are pricing in rate cuts this year, given the path of inflation, noting he is very hopeful and encouraged by good signs within the economy. Cable hit a low of 1.2654 from a peak of 1.2803.

The Euro was softer amid the Dollar strength while PMI data was mixed; French PMIs were soft, German PMIs were mixed, while the overall EU PMI beat on services and composite but missed on manufacturing. The Dollar strength saw EUR/USD fall from peaks of 1.0942 to a low of 1.0857, remaining comfortably sub 1.09 heading into APAC trade.

Dollar Bloc: Antipodes were both weaker, as was the CAD with AUD and CAD seeing similar losses vs the rampant Dollar but NZD was the relative laggard of the three after a strong Australian jobs report kept the AUD buoyed vs the NZD, particularly after a disappointing GDP report. For the Looney, BoC Deputy Governor Gravelle spoke on the balance sheet, noting the BoC will continue the normalisation process but they are aware there is a risk it could be wrong about the CAD 20-60bln range and there is a risk that QT may need to end earlier than expected.

Scandis were both softer vs the Euro although the NOK was the clear leader on the Viking cross after the Norges Bank left rates on hold in a somewhat hawkish announcement as the policy path did not formalise a Q4-2024 cut as some had been expecting given the recent moderation of inflation. However, some of the NOK strength had pared after Governor Bach said it indicates a cut is most likely in September.

In EMs, BRL saw marginal weakness vs the Dollar after the BCB cut rates by 50bps as expected but altered guidance to suggest perhaps only one more 50bp rate cut at the next meeting, before tapering the amount of easing. MXN saw marginal strength after the Banxico's first rate cut of the cycle, it cut rates by 25bps as expected although the decision was not unanimous with Espinosa opting to leave rates unchanged. TRY saw notable gains vs the Dollar after a surprise 500bp hike from the CBRT where expectations were for the Central Bank to leave rates unchanged. Goldman Sachs, however, says the rate hike is a one-off adjustment, and not the beginning of a hiking cycle, noting they expect the CBRT to start easing policy from Q3 onwards.

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